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CANADA

BRITISH COLUMBIA  
UTILITIES COMMISSION

ORDER  
NUMBER G-56-95

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AN ORDER IN THE MATTER OF the Utilities Commission  
Act, S.B.C. 1980, c. 60, as amended

and

An Application by Princeton Light and Power Company, Limited  
for Approval of General Rate Increases for Fiscal 1995/96 and 1996/97

**BEFORE:** M.K. Jaccard, Chairperson; and )  
L.R. Barr, Deputy Chairperson ) June 30, 1995

**O R D E R**

**WHEREAS:**

- A. On May 19, 1995 Princeton Light and Power Company, Limited ("PLP") applied, pursuant to Section 67 of the Utilities Commission Act ("the Act"), for an order approving a general rate increase to its current rate schedules, Electric Tariff No. 4 of 7.5 percent on July 1, 1995 and 4.82 percent on July 1, 1996; and
- B. On June 18, and June 21, 1995 PLP provided additional information to the Commission in support of the application; and
- C. The Commission has reviewed the Application and supporting material and finds that certain adjustments are necessary and in the public interest, as set out in the Reasons for Decision attached as Appendix A to this Order.

**NOW THEREFORE** the Commission orders as follows:

1. The Rate Base and Revenue Requirements for the test year ending March 31, 1996 are set out in the Schedules and Notes attached as Appendix B to this Order.
2. Pursuant to Section 67 of the Act, the Commission approves a general revenue requirement increase of 4.52 percent effective July 1, 1995. The request for a general revenue requirement increase of 4.82 percent for July 1, 1996 is denied at this time.

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3. As set out in the Reasons for Decision, PLP's Return on Equity ("ROE") for fiscal 1995/96 is approved at 12.0 percent. The Commission advises PLP that the ROE for future years will be determined by a decision and formula on what the appropriate premiums will be over a low-risk utility.
4. The Commission will accept, subject to timely filing, amended Electric Tariff rate schedules that conform to the increase approved effective July 1, 1995.
5. PLP will provide all customers with an appropriate notice of explanation of the increase and its effects on monthly electricity bills by way of a bill stuffer and will publish a notice in the Community newspaper.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 5<sup>th</sup> day of July, 1995.

BY ORDER

  
Dr. Mark K. Jaccard  
Chairperson

Attachments

## **REASONS FOR DECISION**

The Application was for a period covering two fiscal years, 1995/96 and 1996/97. The Commission fully supports two or three year applications; however, in the case of the current application, did not have confidence in the forecast for the second year, 1996/97. In particular, the application lacked evidence of what the Commission would consider proper planning concerning capital expenditures and forecasts of customer growth. In addition, there appeared to be no consideration given to the potential of improvements in productivity over the two year period. The Commission would expect to see, prior to the next multi-year application, support that the above concerns have been adequately dealt with. As a consequence of the above omissions in the Application, the Commission is only prepared to award a rate increase as at July 1, 1995.

The Commission finds that the requested Return on Common Equity ("ROE") for 1995/96 is not adequately supported. Recognizing the evolution of the ROE mechanism for regulated utilities in the Commission's June 10, 1994 generic ROE Decision, the Commission determines that the appropriate return for fiscal 1995/96 should be 12.0 percent. This includes a premium over the low risk utility return of .75 percent, based on the mechanism of establishing a forecast long term Canada bond rate plus 3 percent, averaged to the nearest quarter percent. The Commission has provided the .75 percent premium based on the similarities in load profile between PLP and Pacific Northern Gas ("PNG"). Next year, the Commission will want PNG to provide details on the appropriate risk premium above long Canada's recognizing that PNG has an awarded premium of .75 percent while West Kootenay Power ("WKP") has a premium of .25 percent over the low risk utility rate.

The Commission noted that the utility currently pays for the electricity used by its employees. The Commission has recently reviewed a similar issue concerning Employee Rate Schedule 9 in West Kootenay Power Ltd.'s last revenue requirements application. The Commission's Decision of June 17, 1994 ordered the elimination of the preferential Tariff. The Commission continues to believe that such policies are inappropriate for ratepayers to support and as a result, determines that PLP is to phase out its payment of employee electrical use by the end of the current fiscal year, March 31, 1996. The resulting increased revenues should be used to pay the compensation which employees will expect for the loss of the preferential rate.

The Commission reviewed the Management agreement between PLP and Halco Management Ltd. ("Halco") and noted the provisions in the contract concerning payment of a performance bonus to Halco in the event that certain financial criteria were reached. There was no bonus paid to Halco in 1994/95 nor forecast to be paid in 1995/96; however, the Commission views the bonus as being rewarded by the shareholders. Consequently, the Commission would not expect the bonus expenses to be collected from the ratepayers in any future years that the provision is applied.

Other adjustments to the revenue 1995/96 requirements are set out in Appendix B of this Order.

## PRINCETON LIGHT AND POWER COMPANY, LIMITED

UTILITY RATE BASE SCHEDULE 1	1991/92 REPORT	1992/93 REPORT	1993/94 REPORT	1994/95 REPORT	1995/96 APPLICATION	BCUC ADJUSTMENT	NO.	1995/96 ADJUSTED
ASSETS								
Land	\$17,700	\$17,700	\$17,700	\$17,700	\$17,700			\$17,700
Plant	3,597,836	3,962,735	4,372,539	4,943,003	5,482,798	(79,987)		5,402,811
Buildings	171,994	191,808	191,808	194,045	195,163	9,191		204,354
Furniture, Tools and Equipment	167,527	191,718	198,726	206,838	216,791			216,791
Computer Equipment	35,206	36,906	36,906	39,743	48,432			48,432
Trucks	410,208	417,831	463,078	462,699	462,699			462,699
PLANT IN SERVICE, opening	\$4,400,471	\$4,818,698	\$5,280,757	\$5,864,028	\$6,423,583	(\$70,796)	[8]	\$6,352,787
Additions to plant in service	418,227	462,059	583,271	488,759	251,000	17,000	[9]	268,000
Disposals	0	0	0	0	0			0
PLANT IN SERVICE, closing	4,818,698	5,280,757	5,864,028	6,352,787	6,674,583	(53,796)		6,620,787
Add: Work in progress	0	0	0	0	0			0
Plant held for future use	0	0	0	0	0			0
	4,818,698	5,280,757	5,864,028	6,352,787	6,674,583	(53,796)		6,620,787
Less:								
Accum. Depreciation	(1,734,848)	(1,924,588)	(2,100,234)	(2,274,721)	(2,614,576)	76,301	[1]	(2,538,275)
NET PLANT IN SERVICE, closing	3,083,850	3,356,169	3,763,794	4,078,066	4,060,007	22,505		4,082,512
NET PLANT IN SERVICE, opening	2,799,871	3,083,850	3,356,169	3,763,794	4,077,889	177		4,078,066
NET PLANT IN SERVICE, mid yr.	2,941,861	3,220,010	3,559,982	3,920,930	4,068,948	11,341		4,080,289
WORKING CAPITAL ALLOWANCE	138,954	162,153	172,239	174,761	212,678			212,678
DEFERRED CHARGES	82,180	77,991	105,375	121,893	103,390	(450)	[5]	102,940
CIAC						0		0
DAM PROJECT COSTS	0	0						0
UTILITY RATE BASE, MID YEAR	\$3,162,995	\$3,460,154	\$3,837,595	\$4,217,584	\$4,385,016	\$10,891		\$4,395,907
	=====	=====	=====	=====	=====	=====		=====
RETURN ON RATE BASE	9.14%	10.59%	8.02%	7.41%	T5P2 8.88%	-0.48%		8.40%

NOTES:

## PRINCETON LIGHT AND POWER COMPANY, LIMITED

UTILITY INCOME & RETURN SCHEDULE 2	1991/92 REPORT	1992/93 REPORT	1993/94 REPORT	1994/95 REPORT	1995/96 APPLICATION	BCUC ADJUSTMENT	NO.	1995/96 ADJUSTED
SALES VOLUME MWh	50,589	53,633	52,630	53,781	54,594	0		54,594
RATES								
Existing Revenue: ¢ per kWh	5.435	5.975	6.119	6.290	6.319	0.000		6.319
Rate Increase %	0.00%	0.00%	0.00%	0.00%	7.50%	-2.98%		4.52%
Average after increase: ¢/kWh	5.435	5.975	6.119	6.290	6.793	-0.188		6.604
REVENUE								
At Existing Rates	\$2,749,674	\$3,204,414	\$3,220,422	\$3,382,695	\$3,449,561	\$0		\$3,449,561
Revenue Deficiency					258,717	(102,850)		155,867
Discounts and Interest	(215,251)	(248,588)	(254,472)	(266,601)	(318,579)	34,424	[6]	(284,155)
Other Income	75,726	69,866	92,934	92,151	93,117			93,117
TOTAL REVENUE	2,610,149	3,025,692	3,058,884	3,208,245	3,482,816	(68,426)		3,414,390
Less: PURCHASED POWER	1,436,173	1,655,089	1,747,912	1,822,780	1,947,179	(32,071)	[2]	1,915,108
GROSS MARGIN	1,173,976	1,370,603	1,310,972	1,385,465	1,535,637	(36,355)		1,499,282
% excluding Other Income	46.32%	46.37%	44.20%	44.46%	45.30%	-0.16%		45.14%
OPERATING EXPENSES	836,943	895,745	944,008	1,035,086	1,046,840	(5,554)		1,041,286
Utility income before tax	337,033	474,858	366,964	350,379	488,797	(30,801)		457,996
INCOME TAX EXPENSE	47,972	108,265	59,246	38,027	99,573	(10,729)		88,844
EARNED RETURN	\$289,061	\$366,593	\$307,718	\$312,352	\$389,224	(\$20,072)		\$369,152
RETURN ON RATE BASE	9.14%	10.59%	8.02%	7.41%	8.88%	-0.48%		8.40%

NOTES:

## PRINCETON LIGHT AND POWER COMPANY, LIMITED

INCOME TAXES SCHEDULE 3	1991/92 REPORT	1992/93 REPORT	1993/94 REPORT	1994/95 REPORT	1995/96 APPLICATION	BCUC ADJUSTMENT	NO.	1995/96 ADJUSTED
UTILITY INCOME BEFORE TAX	\$337,033	\$474,858	\$366,964	\$350,379	\$488,797	(\$30,801)		\$457,996
Deduct - interest	(123,487)	(145,164)	(104,777)	(154,806)	(177,187)	15,454		(161,733)
- non deductible	1,600	2,112	1,056	3,508				0
ACCOUNTING INCOME	215,146	331,806	263,242	199,080	311,610	(15,347)		296,263
Timing differences								
Depreciation	186,077	203,847	224,940	245,460	268,882	(5,328)		263,554
Amortization of rate application	11,660	0	0	0	0	0		0
Amortization of computer software	8,373	9,729	11,496	12,727	12,909	(220)		12,689
Capital cost allowance	(200,000)	(198,915)	(211,136)	(219,792)	(268,882)			(268,882)
Amortization of contributions	(20,784)	(22,092)	(24,444)	(27,780)	(29,067)	0		(29,067)
Overhead capitalized	(33,926)	(21,265)	(38,763)	(30,946)	(40,000)	0		(40,000)
Plant removal costs	(5,905)	(5,423)	(8,206)	(13,925)				0
Rate stabilization collections	0	0	0					0
Cost of Service amortization	5,180	0	0	0	0	0		0
Power Sense amortization	1,068	1,068	1,068	1,068	1,068	0		1,068
Refinancing amortization	0	0	11,724	17,598	17,592	(6)		17,586
Dam Project/Refinancing costs	(87,489)		(11,724)	(11,724)	(11,724)			(11,724)
Power Sense costs	(150)	0				0		0
Rate application costs	0	0	0	0	0	0		0
	(135,896)	(33,051)	(45,045)	(27,314)	(49,222)	(5,554)		(54,776)
<b>Adjust to Agree to T2</b>		(5)	(10,827)	(32,925)	0	0		
TAXABLE INCOME	\$79,250	\$298,750	\$207,371	\$138,842	\$262,388	(\$20,901)		\$241,487
Income tax rate - deferred	21.84%	44.84%	22.25%	22.25%	23.00%	-0.75%		22.25%
Income tax rate - effective	21.84%	30.11%	22.84%	22.84%	22.84%	0.00%		22.84%
Income tax rate - on A/C income					31.95%	-1.97%	[3]	29.99%
Income tax expense					N/A			N/A
- Deferred	\$29,881	\$18,754	\$10,261	\$6,316	\$0	\$0		\$0
- Current	17,308	89,960	48,985	31,712	0	0		
Forecast on Accounting Income	783	(449)	0	0	99,573	(10,728)		88,844
INCOME TAX EXPENSE	\$47,972	\$108,265	\$59,246	\$38,027	\$99,573	(\$10,728)		\$88,844

NOTES:

## PRINCETON LIGHT AND POWER COMPANY, LIMITED

RETURN ON CAPITAL SCHEDULE 4	1991/92 REPORT	1992/93 REPORT	1993/94 REPORT	1994/95 REPORT	1995/96 APPLICATION	BCUC ADJUSTMENT	NO.	1995/96 ADJUSTED
Deferred Stabilization proportion	\$75,234 2.38%	\$75,234 2.17%	\$75,234 1.96%	\$75,234 1.78%	\$75,234 1.72%	\$0 -0.01%		\$75,234 1.71%
Deferred Income Taxes proportion	\$98,255 3.11%	\$122,955 3.55%	\$137,462 3.58%	\$150,145 3.56%	\$150,145 3.42%	\$0 0.00%		\$150,145 3.42%
Contributions in Aid proportion	\$435,658 13.77%	\$463,544 13.40%	\$520,274 13.56%	\$569,370 13.50%	\$594,763 13.56%	\$0 -0.03%		\$594,763 13.53%
Capital Loans proportion	\$550,926 17.42%	\$997,575 28.83%	\$408,969 10.66%	\$1,419,519 33.66%	\$1,373,745 31.33%	\$0 -0.08%		\$1,373,745 31.25%
embedded cost	11.25%	11.25%	11.25%	9.00%	9.50%	-0.50%	[11]	9.00%
\$ return	\$61,979	\$112,227	\$46,009	\$127,757	\$130,506	(\$6,869)		\$123,637
Current Debt proportion	\$314,928 9.96%	\$453,868 13.12%	\$366,830 9.56%	\$474,726 11.26%	\$491,384 11.21%	\$0 -0.03%		\$491,384 11.18%
embedded cost	9.96%	7.26%	5.73%	5.70%	9.50%	-0.75%	[4]	8.75%
\$ return	\$31,357	\$32,937	\$21,023	\$27,050	\$46,681	(\$3,685)		\$42,996
Notional (1994 Floating Rate Debt) proportion	\$306,099 9.68%	\$0 .00%	\$643,788 16.78%	(\$3) .00%	(\$2) .00%	(56,001) \$0		(\$56,003) -1.27%
embedded cost	9.85%	9.85%	5.86%	5.70%	9.50%	-0.75%		8.75%
\$ return	\$30,151	\$0	\$37,745	\$0	\$0	(\$4,900)		(\$4,900)
Preferred Shares proportion	\$150,000 4.74%	\$150,000 4.34%	\$150,000 3.91%	\$150,000 3.56%	\$150,000 3.42%	\$0 -0.01%		\$150,000 3.41%
embedded cost	9.00%	9.00%	9.00%	9.00%	9.00%	0.00%		9.00%
\$ return	\$13,500	\$13,500	\$13,500	\$13,500	\$13,500	\$0		\$13,500
Common Equity proportion	\$1,231,896 38.95%	\$1,196,978 34.59%	\$1,535,038 40.00%	\$1,378,593 32.69%	\$1,549,746 35.34%	\$66,892 1.44%	[10]	\$1,616,639 36.78%
ROE	12.34%	17.37%	12.34%	10.45%	12.81%	-0.82%	[12]	12.00%
\$ return	\$152,074	\$207,929	\$189,440	\$144,045	\$198,537	(\$4,618)		\$193,919
UTILITY RATE BASE	\$3,162,995	\$3,460,154	\$3,837,595	\$4,217,584	\$4,385,016	\$10,891		\$4,395,907
TOTAL CAPITALIZATION	\$3,162,995	\$3,460,154	\$3,837,595	\$4,217,584	\$4,385,016	\$10,891		\$4,395,907

NOTES:

## PRINCETON LIGHT AND POWER COMPANY, LIMITED

OPERATING EXPENSES SCHEDULE A	1991/92 REPORT	1992/93 REPORT	1993/94 REPORT	1994/95 REPORT	1995/96 APPLICATION	BCUC ADJUSTMENT	NO.	1995/96 ADJUSTED
Administrative Salaries	\$88,216	\$94,897	\$96,658	\$122,392	\$177,040	(\$56,287)	R1	\$120,753
Computer Software Amortization	8,373	9,729	11,496	12,727	12,909	(220)	[5]	12,689
Amortization of Contributions	(20,784)	(22,092)	(24,444)	(27,780)	(29,067)			(29,067)
Amortization of Rate Application	11,660	0	0	0	0	0		0
Bad Debts	6,772	6,151	3,801	4,669	4,000			4,000
Bank Charges	2,489	2,723	3,568	3,333	3,434			3,434
Construction Overheads Cap.	(33,926)	(21,265)	(38,763)	(30,946)	(40,000)			(40,000)
Data Processing	0	0	0	0	0			0
Depreciation	186,077	203,847	224,940	245,460	268,882	(5,328)	[7]	263,554
Directors Fees	36,250	39,000	38,999	43,821	38,000			38,000
Employee Benefits	46,225	51,512	56,563	66,485	69,905			69,905
Engineering Consulting	5,528	9,914	30,627	5,500	12,500			12,500
Insurance	11,473	11,979	12,000	17,490	12,423			12,423
Maintenance - Wages	170,952	179,971	203,146	197,796	249,309	(49,200)	R2	200,109
- Other	35,345	29,927	49,644	50,274		49,200	R2	49,200
Miscellaneous	30,992	29,639	16,277	4,629	14,698			14,698
Office Expenses	22,795	29,067	24,591	30,823	31,749			31,749
Pension	44,913	0	0	0	0			0
Professional Services	30,101	41,461	21,728	37,176	32,866			32,866
Provincial Taxes	16,639	21,366	20,907	21,000	21,630			21,630
Regulatory Commission	3,063	3,043	2,581	3,665	34,500	(32,500)	R1	2,000
Transportation	10,845	37,698	27,603	48,382	35,000			35,000
Travel	23,412	27,587	21,768	24,951	19,900	8,500	R1	28,400
Municipal Taxes	31,305	34,025	35,098	39,390	40,572			40,572
B.C. Capital Taxes		10,156	13,428	10,476	10,790			10,790
Management Fees	61,980	64,342	79,000	77,567		80,287	R1	80,287
Power Sense Amortization	1,068	1,068	1,068	1,068	1,068	0		1,068
Cost of Service Survey Amort.	5,180	0	0	0	0	0		0
Refinancing Penalty Amort.			11,724	17,598	17,592	(6)		17,586
DSM Fees			0	7,140	7,140			7,140
<b>TOTAL</b>	<b>\$836,943</b>	<b>\$895,745</b>	<b>\$944,008</b>	<b>\$1,035,086</b>	<b>\$1,046,840</b>	<b>(\$5,554)</b>		<b>\$1,041,286</b>
change from previous year	7.90%	7.03%	5.39%	9.65%	1.14%			0.60%

NOTES:



## PRINCETON LIGHT AND POWER COMPANY, LIMITED

DEFERRED CHARGES	1991/92 REPORT	1992/93 REPORT	1993/94 REPORT	1994/95 REPORT	1995/96 APPLICATION	BCUC ADJUSTMENT	NO.	1995/96 ADJUSTED
Rate Application								
Opening Balance, March 31	\$11,660	\$0						\$0
Costs 1988/89								0
Costs 1989/90								0
Costs 1990/91								0
	11,660	0	0	0	0			0
Amortization 1988/89 - 2 years								0
Amortization 1989/90 - 2 years	11,660							0
								0
	11,660	0	0	0	0			0
Closing Balance, March 31	\$0	\$0	\$0	\$0	\$0			\$0
APPLICATION COSTS midyear	\$5,830	\$0	\$0	\$0	\$0			\$0
Computer Software								
Opening Balance	\$50,109	\$56,725	\$60,558	\$66,796	\$66,337	41		\$66,378
Costs	14,989	13,561	17,673	12,309	12,500			12,500
Amortization	8,373	9,729	11,496	12,727	12,909	(220)		12,689
Closing Balance	\$56,725	\$60,558	\$66,734	\$66,378	\$65,928	\$261		\$66,189
SOFTWARE COSTS midyear	\$53,417	\$58,641	\$63,646	\$66,587	\$66,133	\$151		\$66,284
Cost of Service/Power Sense								
Opening Balance	\$25,981	\$19,883	\$18,815	\$17,747	\$16,679	0		\$16,679
Costs	150							0
Amortization - Cost of Service	5,180							0
Amortization - Power Sense	1,068	1,068	1,068	1,068	1,068			1,068
Closing Balance	\$19,883	\$18,815	\$17,747	\$16,679	\$15,611	\$0		\$15,611
STUDIES midyear	\$22,932	\$19,349	\$18,281	\$17,213	\$16,145	\$0		\$16,145

NOTES:

## PRINCETON LIGHT AND POWER COMPANY, LIMITED

DEFERRED CHARGES [2]	1991/92 REPORT	1992/93 REPORT	1993/94 REPORT	1994/95 REPORT	1995/96 APPLICATION	BCUC ADJUSTMENT	NO.	1995/96 ADJUSTED
Rate Application								
Opening Balance, March 31		\$0						\$0
Costs 1988/89								0
Costs 1989/90								0
Costs 1990/91								0
		0	0	0	0			0
Amortization 1988/89 - 2 years								0
Amortization 1989/90 - 2 years								0
		0	0	0	0			0
Closing Balance, March 31		\$0	\$0	\$0	\$0			\$0
APPLICATION COSTS midyear		\$0	\$0	\$0	\$0			\$0
Bank Refinancing Penalty								
Opening Balance		\$0	\$0	\$46,896	\$29,304	0		\$29,304
Costs			58,620					0
Amortization [40 months]			11,724	17,592	17,586	0		17,586
Closing Balance		\$0	\$46,896	\$29,304	\$11,718	\$0		\$11,718
REFINANCING midyear		\$0	\$23,448	\$38,100	\$20,511	\$0		\$20,511
Cost of Service/Power Sense								
Opening Balance		\$0	\$0	\$0	\$0	0		\$0
Costs								0
Amortization - Cost of Service								0
Amortization - Power Sense								0
Closing Balance		\$0	\$0	\$0	\$0	\$0		\$0
STUDIES midyear		\$0	\$0	\$0	\$0	\$0		\$0

NOTES:

ADJUSTMENTS	
[1] \$76,301	Correct for 1995/96 depreciation plus 1994/95 Accumulated Depreciation balance.
[2] (\$32,071)	Remove 4.5% WKP rate increase assumed in Application and use 5 year average Line Losses.
[3] -1.97%	Adjust for actual income tax rates and changes in earned return.
[4] -0.75%	Adjust floating debt rate to current bank prime.
[5] (\$450)	Correct Deferred Charges to reflect actual 1994/95 Annual Report balances carried forward.
[6] \$34,424	Adjust for actual 1994/95 Annual Report ratios and changes in 1995/96 revenue requirement.
[7] (\$5,328)	Correct for 1995/96 Depreciation.
[8] (\$70,796)	Correct for actual 1994/95 Annual Report balances.
[9] \$17,000	Adjust additions to forecast at Application Tab 5 page 3.
[10] 1.44%	Adjust Equity component to First Revision of Tab 14 page 3.
[11] -0.50%	Adjust long-term debt rate to actual.
[12] -0.82%	Adjust ROE to Commission-approved amount.
R	Reclassifications - no net effect.

NOTES: