



SIXTH FLOOR, 900 HOWE STREET, BOX 250
VANCOUVER, B.C. V6Z 2N3 CANADA
web site: <http://www.bcuc.com>

BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-67-00

TELEPHONE: (604) 660-4700
BC TOLL FREE: 1-800-663-1385
FACSIMILE: (604) 660-1102

IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by Port Alice Gas Inc.
for Approval of 2000 Revenue Requirements

BEFORE: P. Ostergaard, Chair)
L.R. Barr, Deputy Chair)
P.G. Bradley, Commissioner)
B.L. Clemenhagen, Commissioner) July 6, 2000
K.L. Hall, Commissioner)
N.F. Nicholls, Commissioner)

O R D E R

WHEREAS:

- A. On February 9, 2000, Port Alice Gas Inc. ("Port Alice Gas", the "Utility") filed a 2000 Revenue Requirements Application ("the Application"), pursuant to Sections 58 and 89 of the Utilities Commission Act ("the Act"), for approval to increase rates on an interim and final basis, effective January 23, 2000; and
- B. The Application proposed to increase rates to all customers to recover a cost of service revenue deficiency, excluding the cost of propane, for the 1999/2000 fiscal year ending October 31, 2000; and
- C. The Application also requested approval, effective January 23, 2000, of an unbundling of Port Alice Gas' propane rate to charge the monthly contract cost of propane per gigajoule as a separate item from the Utility cost of service per gigajoule; and
- D. The Commission reviewed the Application and issued Order No. G-18-00 approving an interim rate increase, effective January 23, 2000, subject to refund with interest, and approving the proposed unbundling of the propane rate as requested in the Application; and
- E. Port Alice Gas provided customers with a notice describing the Application and held a town hall information meeting on February 16, 2000; and

- F. The Commission established a Regulatory Agenda for a written public hearing by Order No. G-41-00, requiring the Utility to post a copy of the Order in various Village centres and give notice through other community resources, in order to adequately notify its customers; and
- G. The Applicant and Registered Intervenor complied with the scheduled deadlines as set out by the Commission:

“Intervenor and Commission staff may submit information requests about issues that concern them to Port Alice Gas Inc., with copies to all other intervenors and to the Commission by Wednesday, May 10, 2000. Port Alice Gas Inc. shall respond to all information requests no later than Wednesday, May 24, 2000. Intervenor may submit written submissions to the Commission and to Port Alice Gas Inc. by Friday, June 2, 2000. Port Alice Gas Inc. shall respond to the written submissions of Intervenor by Friday, June 9, 2000.”

NOW THEREFORE the Commission orders Port Alice Gas as follows:

1. The Commission approves, with Reasons attached as Appendix A, a Test Year revenue deficiency of \$24,686 resulting in final rates for all customers of \$6.00 per month basic charge and a \$7.3156/GJ facilities charge commencing January 23, 2000.
2. Port Alice Gas shall inform all customers of the new rates and is to refund all customers of record on January 23, 2000 the difference between the interim rates and the permanent rates, plus interest at the short-term bank lending rate applicable to Port Alice Gas on consumption from January 23, 2000 to the billing date at time of refund.
3. Port Alice Gas shall file amended Gas Tariff Rate Schedules that are in accordance with the terms of this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 13th day of July 2000.

BY ORDER

Original signed by:

Lorna R. Barr
Deputy Chair

PORT ALICE GAS INC.
2000 Revenue Requirements

REASONS FOR DECISION

Background

Port Alice Gas Inc. (“Port Alice Gas”, the “Utility”) operates a propane gas distribution system serving 269 residential and commercial customers in the Village of Port Alice and is regulated by the British Columbia Utilities Commission. Port Alice Gas is owned by Haywood Energy Corp., which purchased the shares of the Utility from Centra Gas Inc. in 1997.

The last rate increase for Port Alice Gas occurred in 1995 and was based on the cost of operations for 1994-1996. After a series of public information meetings in Port Alice and a negotiated settlement process between the Utility and a customer representative, the Commission approved the negotiated settlement agreement in Order No. G-34-95. The settlement also requested that the Utility set municipal taxes at the 1994 level and defer the costs of conducting a study to determine the condition of the old copper service lines. Subsequently, a “service and main betterment” project was conducted and costs of some \$166,726 were incurred and deferred for future recovery from customers, with interest. The accumulated total as at October 31, 1999 stood at \$197,989. This amount is not included in Rate Base and is not being depreciated. The consequence of the negotiated settlement agreement is that customers are not currently paying for the system betterment or the existing municipal taxes and the recovery of this liability must be reflected in future rates.

In response to a question from the Village of Port Alice, Port Alice Gas explained that it did not file for earlier rate increases because the management services agreement negotiated with Centra Gas was still in place, the propane prices were lower, and the Mill was operating below capacity.

The Application

On February 9, 2000, Port Alice Gas filed a 2000 Revenue Requirements Application, pursuant to Sections 58 and 89 of the Utilities Commission Act (“the Act”), for approval to recover a cost of service revenue deficiency for the fiscal year ending October 31, 2000. The requested increase is 19.3% on the pre-Application facilities rate of \$6.3929/GJ. Although the costs in the Application are based upon a full year of forecast revenue requirements, the effective date of the rate increase is January 23, 2000. Therefore, a shortfall in the return to shareholders for the current year is unavoidable unless either the contribution margin increases or fixed costs decrease. Port Alice Gas has accepted the likelihood of this shortfall. The

Application also requested approval of an unbundling of Port Alice Gas' propane rate to charge the monthly contract cost of propane per gigajoule as a separate item from the Utility cost of service per gigajoule.

By Order No. G-18-00, the Commission approved for Port Alice Gas an interim rate increase, effective January 23, 2000, subject to refund with interest, to recover the projected cost of service revenue deficiency of \$31,882 identified in the Application. By the same Order, the Commission approved the proposed unbundling of the propane rate as requested in the Application. Most utilities in British Columbia have similarly adjusted their billing practices to identify the commodity portion of the bill separately from the distribution costs of the regulated utilities.

The Hearing Process

The costs of regulatory proceedings are paid by customers and can be onerous, especially for a smaller utility. The Commission recovers its general operating costs by a levy on the utilities it regulates, and the direct costs of oral hearings are charged directly to the utility and the customers affected. A written hearing provides all of the engineering and financial analysis of an oral process, along with the opportunity to ask for information and make submissions to the Commission. For these reasons, Commission Order No. G-41-00 set down the requirements for a written public hearing of the Application. An oral hearing could be set up with the next rate application if the customers are prepared to pay the higher costs that would be involved.

The Regulatory Agenda requested that Intervenors register with the Commission and submit any information requests about issues that concern them to Port Alice Gas, with copies to the Commission by May 10, 2000. Port Alice Gas was required to respond to all information requests no later than May 24, 2000. Intervenors were to provide written submissions to the Commission and to Port Alice Gas by June 2, 2000, after which Port Alice Gas was to reply by June 9, 2000.

Public Participation

One customer, a representative of the Village of Port Alice, sent the Commission Secretary copies of customers' bills, indicating displeasure with the interim rates. Commission staff reviewed the bills and found them consistent with Commission Order No. G-18-00. Other parties registered as intervenors or interested parties, indicating their concern with the increase. A petition was also generated with many of Port Alice Gas Inc.'s customers endorsing the following position:

“We, the undersigned customers and interested parties, protest the recent increase that Port Alice Gas has implemented. A reasonable increase, when justified, is acceptable and understandable. We the users request that our concerns be addressed and that a second look be taken at the new fee structure.”

The Commission is encouraged by the effectiveness with which the community and Port Alice Gas undertook the responsibility of participating in this written public hearing. While it is true that face-to-face meetings are desirable, there are unavoidable rate impacts associated with the fixed costs of oral hearings when the revenue base is quite small. From the Commission's perspective, the community appeared to have identified the issues important to it and to have made it clear why these were important. Port Alice Gas appeared to understand its customers' concerns and was open and candid in its responses. This bodes well for resolution of the challenges faced by this small utility and its customers in the future.

Cost of Propane Commodity Price Increases

Propane is a commodity whose price at wholesale trading points is unregulated. Propane prices have proven to be very volatile, reflecting the dynamics of supply and demand and the ability of propane to substitute for oil products and natural gas in some instances. The monopoly transmission and distribution pipeline operations remain regulated.

Propane commodity prices increased significantly in 1999 and have subsequently risen dramatically in 2000. Port Alice Gas purchases propane from wholesalers and passes on the cost, without markup, to its customers. Any increase or decrease in forecast cost of propane is carried in a separate account to either be credited to customers if propane prices fall, or recovered at a future date from customers if prices turn out to be higher than forecast.

The Commission has an ongoing responsibility under its Act to review the energy supply contracts entered into by utilities under its jurisdiction and to ensure the commodity is acquired at competitive prices for customers. The Commission reviewed the Port Alice Gas propane supply contract and issued Order No. E-3-00 approving the supply for the 2000/2001 gas contract period. Port Alice Gas shareholders do not receive any return related to the commodity costs in customer rates.

With the dramatic changes in commodity costs, the Commission is convinced that charging the average monthly cost of the propane, and showing it separately from the utility cost of delivering the gas to the meter, is necessary for a clear understanding of the competitive commodity market and utility regulatory dynamics that are driving the two rate components.

However, customers indicated that the bills were too complicated. If it is economical to do so, Port Alice Gas may wish to include in its bill a conversion to cents per litre for the propane component or to show a conversion chart or table comparing propane prices expressed in \$/GJ and ¢/litre for purposes of cost comparison by customers.

Port Alice Gas Inc. Cost of Service

With the acquisition of Port Alice Gas by its current owner in 1997, the Utility could no longer rely upon a subsidization of its administrative costs that Centra Gas Inc. had previously carried on behalf of the Port Alice operations. The Commission has a dual responsibility to allow the utility to recover costs incurred to provide a safe, reliable system and to set rates for customers that are fair, just and reasonable. The financial statements for Port Alice Gas indicate that the Utility made a net profit in 1999. However, at least three costs were not recovered at all, being: a compensatory wage for management; interest on \$91,000 of debt owed to the parent company; and amortization of almost \$200,000 invested in service pipeline upgrading.

Some customers recognized that the basic monthly charge and the facilities charge were designed to recover the Port Alice Gas operating costs except for propane, but felt that the basic monthly charge should be increased to cover all the costs of the Utility's operations. However, as some of the Utility's costs vary with sales volumes, the Commission is concerned that a fixed charge may be unfair to low volume customers.

In its response to Staff Information Request No. 1, Port Alice Gas provided a forecast of its revenue requirements for the last six months of its current fiscal year. This more up-to-date forecast showed that sales volumes were expected to be 18% lower than contained in the Application. While administrative costs tend to be fixed in the short-run and not very responsive to changes in sales volume, Port Alice Gas now expects them to be 11% lower than originally forecast (although provided at a "concessional" level to assist in restraining the rate increase). The taxes paid to the Village of Port Alice in lieu of other municipal taxes are calculated as 1% of revenue and are therefore expected to be lower due to the reduced sales volume.

Another customer pointed out that property taxes have recently been decreased; however, as noted above, the existing customer rates are set to recover only the level charged in 1995, which is 14% less than actually expected for 1999/2000.

Return on Equity

Port Alice Gas seeks to recover a 12.25% return on shareholders' equity to reflect the risks it sees on its investment in these propane operations. However, the Commission's generic rate of return policy provides for the determination of risk premiums over a benchmark utility return on equity to reflect the business risks of a specific utility. The currently-approved low-risk benchmark utility return on equity is 9.5%, and a return for medium-risk utilities of 10.25% indicates that, for this Port Alice Gas Application, an 11.25% return on equity would be appropriate at this time.

Commission Determinations

In order for Port Alice Gas to be a going concern, full cost recovery and a fair return on equity are necessary prerequisites. However, the cost of alternatives to a propane distribution grid system is a constraint on customer rates. The Utility has initiated some discussions with the Village of Port Alice to encourage a reduction in wood burning to reduce air pollution and to reduce costs by supplying services such as billing and collection. Actions which assure Port Alice Gas of a customer base would also reduce the competitive risk of the Utility and lead to a reduction in the return on equity premium. In its next Application for rates or rate design, Port Alice Gas is to address these outstanding issues and the potential impact of higher rates upon demand. Creative and affordable approaches to putting Port Alice Gas on a “sustainable” footing would be welcome by all.

The Commission determines that it is fair to reduce the revenue requirement by \$7,196 to reflect the Utility’s new forecast of administrative costs. However, the prospect of Port Alice Gas recovering a full return on equity in this fiscal year is unlikely, given that the new rates have been in place for only part of the year and that there is an expected shortfall in sales volumes. Therefore, the revenue requirement return on equity in this Application will not be adjusted as the actual return for the period is expected to be below 11.25%. In recognition of this, Port Alice Gas expects to file for another rate increase for the next fiscal year beginning November 1, 2000. However, in any future applications, Port Alice Gas is directed to comply with the Commission’s policy of generic rate of return determination.

The Commission approves a Test Year revenue deficiency of \$24,686 resulting in final rates for all customers of \$6.00 per month basic charge and a \$7.3156/GJ delivery charge commencing January 23, 2000, as set out below.

	<u>Pre-Application Rates</u>	<u>Interim Rates</u>	<u>Approved Final Rates</u>
Basic Charge/month	\$5.00	\$6.00	\$6.00
Facilities Charge/GJ	\$6.3929	\$7.6251	\$7.3156
Commodity Charge/GJ	\$6.2451	Market-based	Market-based