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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-51-04

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

and

An Application by
Princeton Light and Power Company, Limited
for Approval of 2004/05 Revenue Requirements and
Pass-through of Increased Power Purchase Costs

BEFORE: L.F. Kelsey, Commissioner)
and Panel Chair) June 2, 2004
K.L. Hall, Commissioner)

O R D E R

WHEREAS:

- A. Princeton Light and Power Company, Limited ("PLP") filed its 2004/05 Revenue Requirements Application on March 8, 2004 seeking approval of permanent increases in its Service Charges and Energy Charges of 14.7 percent and 0.4 percent, respectively, and seeking approval of an interim increase to its Access Charges of 4 percent, effective April 1, 2004; and
- B. Commission Order No. G-30-04 approved for PLP the requested increase in energy rates on an interim basis, effective April 1, 2004, subject to refund with interest following a decision of the Commission on the Aquila Revenue Requirements Application that establishes the pass-through Energy Charge to PLP; and
- C. Commission Order No. G-30-04 also approved the requested increases to service and access charges on an interim basis effective April 1, 2004, subject to refund with interest following a written public hearing process; and
- D. In accordance with Order No. G-30-04, a written hearing process was conducted from April 2, 2004 through May 14, 2004; and
- E. Commission Order No. G-38-04 approved for Aquila a general rate increase of 4.3 percent for all customer classes effective May 1, 2004; and
- F. The Commission has reviewed the Application and is satisfied that a permanent increase in rates for PLP customers is required and in the public interest, subject to adjustments to PLP's interest rate for its floating and current bank loans and adjustments to its legal costs, as noted in the Reasons for Decision attached as Appendix A to this Order.

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NOW THEREFORE pursuant to Sections 58, 61, 89 and 91 of the Utilities Commission Act, the Commission orders as follows:

1. The Commission approves a permanent overall increase in energy rates of 4.3 percent, effective May 1, 2004.
2. The Commission approves permanent increases to Service and Access charges effective April 1, 2004, subject to the adjustments specified in the Reasons for Decision attached as Appendix A to this Order.
3. PLP is to file revised Electric Tariff pages for Commission approval in accordance with the approved increases. PLP is to also file worksheets that demonstrate the derivation of the new rates in accordance with the adjustments noted in Appendix A.
4. PLP is to refund to customers with interest the difference between interim and permanent rates, as necessary. PLP is to report to the Commission on the results of the refund.
5. PLP is to advise all customers by way of customer notice of the permanent increase in rates.

DATED at the City of Vancouver, in the Province of British Columbia, this 2nd day of June, 2004.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner and Panel Chair

Attachment

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Pass-through of Increased Power Purchase Costs

REASONS FOR DECISION

Interest Rate

Princeton Light & Power Company, Limited ("PLP") has included in its Application a 5.00 percent interest rate for its floating rate and current bank loans. These floating rate and current bank loans have interest charges based on the current Prime Business Rate.

The Bank of Canada lowered its Target for Overnight Rate on March 2, 2004 by ¼ percentage point, which triggered a reduction of the Prime Business Rate to 4.00 percent. On April 13, 2004 the Bank of Canada further lowered its Target for Overnight Rate by ¼ percentage point, which lowered the Prime Business Rate to the current rate of 3.75 percent. The next scheduled date for announcing the overnight rate target is on June 8, 2004.

It appears at this time that the 3.75 percent Prime Business Rate will be the lowest rate for the year. The Bank of Canada has indicated that the April 12, 2004 reduction may be its last reduction. On balance it appears that during the next 12 months the Bank of Canada will be keeping the short term interest rates the same or marginally higher than present rates. The possibility of a further rate reduction is unlikely.

The Commission finds that PLP should use a 4.00 percent interest rate for its floating and current bank loans.

Legal Costs

PLP's revised Application in response to BCUC Staff IR No. 1 includes \$32,500 of Legal costs. The original Application on March 8, 2004 had \$12,300 for Legal costs. The approved 2003/04 Test Year had \$12,000 for Legal costs.

A telephone discussion (May 26, 2004) with John Hall, President and CEO of Princeton Light & Power Company, Limited, revealed that the extra legal costs relate to the Utility's ongoing legal costs pertaining to the lawsuit for illegal bypass of electricity. PLP for 2003/04 expensed \$98,614 of legal costs (most of the expenses relating to the lawsuit in 2003) and included the estimated 2004/05 lawsuit costs in the revised Legal costs. Mr. Hall acknowledged that the normal annual legal costs of PLP were about \$12,000. PLP had decided that, since the winter 2004 revenues were higher than forecast, it would expense the legal costs incurred in 2003/04. PLP acknowledged that if it wanted to include those costs in rates that a deferral account would need to be set up and approved by the Commission.

PLP should only be allowed costs in its revenue requirements for the normal ongoing operations of the utility. The extra legal costs relating to the lawsuit do not qualify as a normal expenditure. If PLP wishes to recover costs relating to the lawsuit PLP may apply in a separate application for a deferral account. The Commission will determine if the lawsuit costs were prudently incurred once a separate application for a deferral account is made.

The Commission determines that Legal costs in 2004/05 should be set at \$12,300, which is the amount that was originally filed on March 8, 2004 and which represents PLP's normal annual Legal costs. The incremental \$20,200 of Legal costs relating to the lawsuit for illegal bypass of electricity is denied.

Energy Rate

Commission Order No. G-30-04 approved an overall energy rate increase of 4.0 percent on an interim basis, effective April 1, 2004. Commission Order No. G-38-04 approved for Aquila a general rate increase of 4.3 percent for all customer classes effective May 1, 2004. The Commission recognizes that PLP was slightly over-collecting energy charges for the month of April (4.0 percent increase versus Aquila 3.6 percent increase) and under-collecting energy charges for the month of May (4.0 percent increase versus Aquila 4.3 percent increase). Given the very small absolute impact of the net change in the context of PLP's entire application, the Commission considers these differences to fairly offset each other. The Commission therefore determines that no adjustment is required in this regard.

Other Matters

The Contracting activities holding (deferral) account was approved by the Commission in Order No. G-35-02 to capture extraordinary income and expenses from PLP contracting work outside of its normal utility activities. The account captures profits in excess of PLP's approved return on equity ("ROE") up to \$100,000 and allows PLP to draw down the account to such an extent that it would boost its income to approved ROE levels.

The Commission notes that Order No. G-35-02 directed PLP to include a detailed report on the effectiveness of the account when filing its 2005 Annual Report. The Commission expects to review the account at that time, including aspects related to the forecast of net income from contracting activities and the exact mechanism that is used to track the deferral account.

As another matter, the Commission still wishes to receive the outstanding information in response to Commission IR No. 1 - Q. 11.6 and Q. 11.7, which PLP noted it would have the resources to provide after it releases its Annual Report in June.