BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER NUMBER G-11-06

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

and

An Application by Kyuquot Power Ltd.
for Approval of an Electric Tariff, Terms and Conditions of Service and Rates

BEFORE: L.F. Kelsey, Commissioner
L.A. Boychuk, Commissioner February 2, 2006

O R D E R

WHEREAS:

A. On April 5, 2001, Synex Energy Resources Ltd. ("SERL") applied to the Commission for a Certificate of Public Convenience and Necessity ("CPCN") to provide electricity to Fair Harbour, Chamiss Bay and Kyuquot by means of a 14.4 kV single phase connection to British Columbia Hydro and Power Authority's ("BC Hydro") provincial electricity grid; and

B. On November 15, 2001, the Commission approved by Order No. C-18-01, a CPCN for SERL to construct and operate a 14.4 kV single phase distribution line from BC Hydro's grid at Oclucje to Kyuquot conditional on SERL, or a company formed for the purposes, being a public utility; and

C. In accordance with Order No. C-18-01, SERL founded a wholly-owned subsidiary, Kyuquot Power Ltd. ("KPL"), a public utility for the purpose of operating the distribution line; and

D. On September 14, 2005, KPL applied to the Commission for approval of the Electric Tariff containing terms and conditions of service and rate schedules ("the Application"), pursuant to Section 60 of the Utilities Commission Act ("the Act"); and

E. By Order No. G-123-05 the Commission approved the Electric Tariff on an interim basis effective November 15, 2005 and established a Regulatory Timetable to review the Application by way of a written public process; and

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F. No comments were submitted by the Intervenor or Interested Parties; and

G. The Commission has reviewed the Application along with the supporting material and finds that approval is warranted.

NOW THEREFORE pursuant to Sections 58, 60 and 61 of the Act, the Commission orders as follows:

1. The Commission approves for KPL the Electric Tariff, Terms and Conditions of Service and Rates as permanent effective November 15, 2005, as set forth in the Reasons for Decision attached as Appendix A to this Order.

2. The Commission will accept, subject to timely filing, amended Electric Tariff Rate Schedules in accordance with this Order.

3. KPL is to inform all affected customers of the approval of the Electric Tariff containing terms and conditions of service and rate schedules by way of a customer notice.

DATED at the City of Vancouver, in the Province of British Columbia, this 8th day of February 2006.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner

Attachment

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

and

An Application by Kyuquot Power Ltd.
for Approval of Rates and Electric Tariff

REASONS FOR DECISION

1.0 BACKGROUND

On April 5, 2001, Synex Energy Resources Ltd. ("SERL") applied to the Commission for a Certificate of Public Convenience and Necessity ("CPCN") to provide electricity to Fair Harbour, Chamiss Bay and Kyuquot by means of a 14.4 kV single phase connection to the provincial grid ("CPCN Application").

By Commission Order No. C-18-01, a CPCN was approved for SERL on November 15, 2001 to construct and operate a 14.4 kV single phase distribution line from British Columbia Hydro and Power Authority's ("BC Hydro") grid at Oclucje to Kyuquot conditional on SERL or a company formed for the purposes being a public utility. In accordance with Order No. C-18-01, SERL founded a wholly-owned subsidiary, Kyuquot Power Ltd. ("KPL", "the Company"), a public utility for the purpose of operating the distribution line.

On September 14, 2005, KPL applied to the Commission for approval of an Electric Tariff ("the Application") containing the terms and conditions of service and rate schedules, pursuant to Section 60 of the Utilities Commission Act. By Order No. G-123-05 the Commission approved the Electric Tariff on an interim basis effective November 15, 2005 and established a written public process to review the Application.

2.0 ISSUES

2.1 Capital Cost

The initial cost estimate in April 2001 for this project was $2.75 million (CPCN Application, p. 5) and KPL considered this estimated capital cost as being reliable since it was based on construction figures for the Zeballos-Oclucje extension and on price quotes from contractors experienced in power line construction in the area (CPCN Application, p. 16). KPL also indicated that to mitigate the capital cost being higher than estimated and the impact on rates, the Company would maximize funding from government programs and BC Hydro (CPCN Application, p. 16).

KPL in its response to a Commission Information Request, indicated the estimated capital cost of the project is now $3.6 million (Exhibit B-2, Q1.3, p. 1) with no contribution in aid of construction or other funding to offset the cost of the project (Exhibit B-2, Q1.6, p. 2). The current estimate of $3.6 million for the project exceeds the CPCN estimate by 31 percent. The Company indicated that the increase in the cost of the project is attributed to the following (Exhibit B-3):

- The loss of timber sales revenue resulting from the Ministry of Forests at Campbell River denying KPL the rights to timber.

- A 30 percent increase in the gas, oil, and construction costs since 2001.
- A scope change was made to the routing of the power line to minimize the clearing area and reduce environmental impact, therefore a four kilometer Submarine Cable was used to connect Fair Harbour to Markale instead of an overhead power line.
- An additional one kilometer of Submarine Cable was needed to connect the islands in the vicinity of Walters Cove. This additional cost was not included in the CPCN.
- An increase in project management and engineering effort as a result of the project being delayed for two years.

KPL indicated that the Ka:'yu:'k't'h'/Che:k:tles7et'h' Nation ("KCN") had requested a delay in the completion of the project in order to solicit grants or other funds from the Federal Government and other government bodies. This request for funding from the Federal Government was submitted by KCN in the summer of 2005 (Exhibit B-2, Q.1.1, p. 1). KPL advised that, "during the early fall of 2004, KPL decided to end the delay and commenced tendering of additional clearing and thereafter construction of the project" (Exhibit B-2, Q1.1, p. 1). Amendment to the CPCN was not made for the increase in cost or the change in scope.

The Commission accepts the capital cost of approximately $3.6 million subject to the recording of any funding received from KCN. KPL is directed to advise the Commission of the final cost of the project including any funding received from KCN that may be used to offset the capital cost of this project in its next Annual Report to the Commission.

2.2 Electric Tariff Rate

KPL's CPCN Application in April 2001 proposed a rate of $0.35 per kWh for all classes of customers because this rate was comparable to the existing energy charges paid by the customers for diesel fuel. The CPCN indicated that, "Electricity users in the Kyuquot area pay a total of approximately $500,000 per year in diesel fuel and operating costs. This works out to an average of roughly $0.33 per kWh for the electricity used, which does not include the significant costs to purchase, repair or overhaul the diesel generators" (CPCN Application, p. 11). In its response to Commission information requests in this proceeding, KPL stated that, "should the electricity charges exceed an amount of $0.35 per kWh, there is a concern that major customers may self-generate on the basis that it is less costly" (Exhibit B-2, p. 4).

The Commission approves the electric tariff rates on a permanent basis effective November 15, 2005.

2.3 Terms and Conditions of Service

KPL requested wording changes to the Electric Tariff on page 20 from, "In addition to payments for electricity" to "In addition to any rates and charges as set out in this Tariff". In addition, the Company also requested changes to Rate Schedule 1101 on page 30 by replacing, "Available to any non-federal government residential customer within the community of Kyuquot, BC, requiring a single phase service in a single family residence or an individual apartment where service is taken through one meter. Not applicable for any commercial or industrial use" to "Available to any residential or commercial customer requiring single phase service where service is taken through one meter" (Exhibit B-2, p. 6).

The Commission accepts the amended wording to the Electric Tariff.

2.4 Depreciation Expense

The CPCN Application of April 5, 2001 provided an estimated project cost of $2.75 million (CPCN Application, p. 20) for constructing this distribution line with deferral of the annual depreciation expense initially at 25 percent declining to 8 percent in the fifth year (CPCN Application, Appendix E, Schedule 2). This deferral would allow KPL to recover its costs and/or a return on its investment while maintaining the energy charge at $0.35 per kWh.

This Application is requesting approval for an energy charge of $0.35 per kWh, even though KPL responded on January 5, 2006 to a Commission Information Request that the final project cost is estimated to be $3.6 million (Exhibit B-2, p. 1). KPL stated, "In the CPCN analysis, deferred depreciation was utilized to limit the energy charge to $0.35 per kWh and this deferral has been increased to be initially nearly 85 percent deferral as shown on Schedule 2." (Exhibit B-2, p. 5). The Commission notes this increase in the deferral of the depreciation expense to maintain the energy charge at $0.35 per kWh effectively postpones the recovery for the cost of the facilities further into future years.

The Commission accepts the deferral of the depreciation expense to allow the Company a return on its investment to the extent that the approved Return on Equity ("ROE") is not exceeded.

2.5 Return on Common Equity

KPL currently does not have a credit rating thus the parent company, Synex Energy Resources Ltd., is providing KPL with inter-company loans (Exhibit B-2, Q.1.5, p. 2). Debt financing is being finalized with the Canadian Western Bank with security provided by the Synex group of companies along with the current assets of the project (Exhibit B-2, Q.1.5, p. 2).

KPL applied in its CPCN of April 5, 2001 and its current Application of September 15, 2005 for a ROE after tax of 10 percent based on a debt to equity ratio of 50/50. By Letter No. L-61-00, the Commission determined the ROE for a low-risk benchmark utility for the year 2001 to be 9.25 percent. The forecasted yield for long Canada bonds has steadily declined since 2001. Hence, the Commission determined by Letter No. L-104-05 dated December 2, 2005 that the current ROE under the automatic adjustment mechanism results in a ROE of 8.29 percent for a low-risk benchmark utility for the year 2006. KPL's request for a 10 percent ROE represents a risk premium of 171 basis points above the low-risk benchmark utility for 2006.

Based on the small customer base and the major capital investment made by KPL, the Commission recognizes the Company is in the higher risk category of the utilities under the Commission's regulatory jurisdiction. Utilities in this category have not generally been awarded a risk premium greater than 75 basis points or a debt to equity ratio greater than 60/40.

The Commission notes that the ROE for a low-risk benchmark utility is currently under review and a Decision is anticipated in the near future.

In considering the business and investment risks of KPL in comparison to other Utilities regulated by the Commission, KPL is approved a debt to equity ratio of 60/40 with a risk premium of 75 basis points above the low-risk benchmark utility, which currently results in a ROE of 9.04 percent for 2006.