BRITISH COLUMBIA
UTILITIES COMMISSION

ORDER
NUMBER G-65-06

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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 2006 Revenue Requirements and
Pass-through of Increased Power Purchase Costs

BEFORE: L.F. Kelsey, Commissioner June 8, 2006
L.A. Boychuk, Commissioner

O R D E R

WHEREAS:

A. On December 14, 2005, Princeton Light & Power Company, Limited ("PLP") filed, pursuant to the applicable provisions of the Utilities Commission Act ("the Act"), and in particular Section 61(4), its 2006 Revenue Requirements Application seeking approval for increases in its Service Charges, Access Charges, and Energy Charges of 0.71 percent, 9.54 percent, and 5.9 percent, respectively, effective January 1, 2006 ("the Application"); and

B. By Order No. G-139-05 the Commission approved for PLP the requested increase in Energy Charges on an interim basis, effective January 1, 2006, subject to refund with interest following a decision on the FortisBC Inc. 2006 Revenue Requirements Application that established the pass-through Energy Charge to PLP; and

C. Commission Order No. G-139-05 also approved the requested increases to the Service Charges and Access Charges on an interim basis effective January 1, 2006, subject to refund with interest following a written public hearing process; and

D. In accordance with Commission Order No. G-139-05, a written hearing process on the Application was conducted from January 6, 2006 through March 16, 2006; and

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E. On March 24, 2006 PLP filed an amended 2006 Revenue Requirements Application ("the Amended Application"). PLP stated that during the review period of the Application critical issues arose that changed the basic outcome of the Application; and

F. On March 31, 2006 the Commission requested further clarification of PLP's Amended Application and additional details on the changes from the original Application; and

G. On April 7, 2006, PLP provided a revised document ("the Revised Application") to replace the Amended Application. The Revised Application requests increases in the Service Charges, Access Charges and Energy Charges of 0.71 percent, 9.54 percent and 5.9 percent, respectively, effective January 1, 2006. The Revised Application also requests that the increase for Access Charges be changed from 9.54 percent to 11.92 percent, effective July 1, 2006. The 2006 calendar year overall effect of the Revised Application would be increases in the Service Charges, Access Charges and Energy Charges of 0.71 percent, 11.68 percent and 5.9 percent, respectively, which produces an overall average increase of 7.64 percent. In its Revised Application, PLP does not expect to achieve its fully allowed 2006 return on equity of 9.55 percent; and

H. Commission Order No. G-58-06 approved for FortisBC Inc. a general rate increase of 5.9 percent for all customer classes effective January 1, 2006; and

I. The Commission has reviewed the Application and supporting documentation and is satisfied that a permanent increase in rates for PLP customers is required and in the public interest.

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

1. The Commission approves a permanent overall increase in Energy Charges of 5.9 percent, effective January 1, 2006.

2. The Commission approves permanent increases to Service Charges of 0.71 percent and Access Charges of 9.54 percent, effective January 1, 2006.

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3. The Commission approves a permanent increase to Access Charges from the 9.54 percent to 11.92 percent, effective July 1, 2006.

4. PLP is to file revised Electric Tariff pages for Commission approval in accordance with the approved increases.

5. PLP is to advise all customers of the permanent increases in rates by way of a customer notice. A draft copy of the notice is to be provided to the Commission in advance of its release.

6. PLP is to comply with all directions specified in the Reasons for Decision attached as Appendix A to this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 18th day of July 2006.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner

Attachment

An Application by
Princeton Light and Power Company, Limited
for Approval of 2006 Revenue Requirements and
Pass-through of Increased Power Purchase Costs

REASONS FOR DECISION

1.0 APPLICATION

Princeton Light and Power Company, Limited ("PLP" or "Utility") filed on December 5, 2005, and amended on December 14, 2005, pursuant to the applicable provisions of the Utilities Commission Act ("the Act") and in particular Section 61(4), its 2006 Revenue Requirements Application seeking approval for increases in its Service Charges, Access Charges, and Energy Charges of 0.71 percent, 9.54 percent and 5.9 percent, respectively, effective January 1, 2006 ("the Application"). By Order No. G-139-05, the Commission approved the requested increases on an interim basis and established a written hearing process to review the PLP Application.

On March 24, 2006, PLP filed an amended 2006 Revenue Requirements Application ("the Amended Application"). PLP stated that during the review period of the Application critical issues arose that changed the basic outcome of the Application. On March 31, 2006 the Commission requested further clarification of the Amended Application. Subsequently, on April 7, 2006 PLP provided a revised document ("the Revised Application") to replace the Amended Application. The Revised Application requests increases in the Service Charges, Access Charges and Energy Charges of 0.71 percent, 9.54 percent and 5.9 percent, respectively, effective January 1, 2006. The Revised Application also requests that the increase for Access Charges be changed from 9.54 to 11.92 percent, effective July 1, 2006. The 2006 calendar year overall effect of the Revised Application would be increases in the Service Charges, Access Charges and Energy Charges of 0.71 percent, 11.68 percent and 5.9 percent, respectively, which produces an overall average increase of 7.64 percent. In its Revised Application, PLP does not expect to achieve its fully allowed 2006 return on equity ("ROE") of 9.55 percent.

In the Revised Application PLP explains that since the original Application was filed there have been some significant changes in the conditions surrounding the revenue requirements. Three significant items identified by PLP were a higher 2006 PLP rate base of $9.902 million instead of the $9.550 million filed in the original Application; a higher increase in income tax since PLP no longer qualifies for the Canadian small business income tax deductions; and an allowed return on equity of 9.55 percent instead of the 9.04 percent filed in the original Application. The ROE of 9.04 percent was calculated based on the 8.29 percent established by Commission Letter No. L-104-05 for a benchmark low-risk utility plus a 0.75 percent risk premium for PLP.

Subsequently, the Commission, by Order No. G-14-06, approved a 2006 ROE for a benchmark low-risk utility of 8.80 percent and therefore set PLP's 2006 ROE at 9.55 percent.

PLP notified the Commission by letter dated November 16, 2005, of its decision to change its fiscal year-end from March 31 to December 31, effective December 31, 2005.

2.0 ISSUES

2.1 Labour and Management Contract

The Utility explains that the management staff stabilization wage increases allow PLP to obtain and maintain talented personnel. PLP indicated that it would be adjusting the wage levels of the two senior managers starting in January 2006, by an amount which would exceed the normal wage adjustment parameters (Exhibit B-1, Section 4, p. 2). However, PLP later clarified that the wage adjustment applied to three senior department managers (BCUC IR 9.6.1 to 9.6.2.1). The plant superintendent wage level was adjusted upwards by 15 percent and the customer service manager and coordination & communications manager were each adjusted upwards by 10 percent. PLP stated that it did not conduct a formal process to determine these wage adjustments (BCUC IR 9.6.2). PLP stated it had many conversations with its major customers and various senior managers from other industries and was aware of the shortage of qualified and compatible employees. Also, PLP explained that it was being proactive rather than reactive and that it did not make a direct comparison to other utilities, other than general day-to-day conversions with other utilities and by surveying trade journals (BCUC IR 9.6.2.1).

PLP reports that the Collective Agreement ("CA") with the IBEW "provides for semi-annual wage increases of 1.5% with the annual increase equaling the posted CPI [consumer price index] for British Columbia. The annual increase is "piped" at a minimum annual increase of 2.5% and a maximum annual increase of 4.5%." (Exhibit B-1 Section 5, p. 1). Further, PLP stated that it compares IBEW workers wages with other utilities in British Columbia and Alberta every one or two years (BCUC IR 9.6.2.1).

The Utility provided the details of the management and advisory fees that were included in Management Fee and Regulatory Expense (BCUC IR 11.1). The fiscal year total fees were $172,200 (2004), $174,311 (March 31, 2005), $320,600 (Dec. 31, 2005: 9 months), and $200,000 (2006). PLP explained that the Regulatory Expense increase of $22,745 or 43.5 percent was from the portion of the Halco Management Contract applied to the regulatory duties (35 percent of the Halco contract cost) (BCUC IR 9.11.1). PLP also stated that the increase to Regulatory Expense was not work-load driven (BCUC IR 9.11.2).

Commission Determination

The Commission finds that the wage increases for the three senior department managers were not fully justified and therefore determines that the wage increases applied to the wage before January 2000 for the three senior managers should be limited to the maximum 4.5 percent increase provided for in the CA. The wage increases beyond the 4.5 percent maximum are denied in PLP's cost of service. PLP is to file in any future revenue requirements application a full justification, including appropriate comparisons, of any wage adjustment beyond that provided for in the then current CA.

The Commission also finds that the management contract cost of $200,000 charged to Management Fee and Regulatory Expense has not been justified. The Commission determines that the Halco Management Contract expense should be limited to the actual March 31, 2005 costs of $174,311 increased by 4.5 percent for 2006. The resulting $182,155 [$174,311 x (1+4.5%) is allowed to be charged to the 2006 Management Fee and Regulatory Expense accounts. The difference of $17,845 is denied in PLP's cost of service. PLP is to file in any future revenue requirements application a full justification of any contract adjustment beyond that provided for in the then current CA.

2.2 Deferral Account for Extraordinary Legal Costs

On November 18, 2005, PLP applied for Commission approval to record in a deferral account extraordinary legal and penalty costs in the amount of $141,062. PLP proposed to amortize the rate base deferral account balance over sixty months, commencing January 2006. By Order No. G-42-06, the Commission allowed the establishment of a deferral account to recover PLP's extraordinary legal fees and disbursements of $59,062 and the compensatory damage award of approximately $20,000, effective November 18, 2005. The Commission approved the amortization of the deferral balance over sixty months, commencing January 2006. The recovery from customers of the punitive damages award of $62,000 was denied.

Commission Determination

PLP included a deferred legal amortization expense of $28,212 (Exhibit B-2, Expenses, p. 13, line 63) for 2006, representing 12 months amortization on the full amount of $141,062. The denied punitive damages award will reduce the amortization expense by $12,400 ($62,000 / 5 years). **The Commission directs PLP to reduce its 2006 cost of service for this adjustment.**

2.3 PASS Energy Management Program

By Order No. G-44-02, the Commission approved an extension of the PASS Energy Management Program for the fiscal years ending March 31, 2003, 2004 and 2005. The related deferral account was first approved by Commission Order No. G-60-00. PLP provided an analysis of the PASS program from 1997 to December 31, 2005 (BCUC IR 6.2). Further, PLP indicated that the PASS program has been scaled back but not discontinued in 2006. The Utility stated that PLP plans to file a proposal for the continuation of the PASS Energy Management Program (BCUC IR 6.1.2).

Commission Determination

The Commission accepts the 2006 PASS costs in the Revenue Requirements Application.

If PLP plans to continue the PASS Energy Management Program beyond December 31, 2006, PLP is to file with the Commission, by September 15, 2006, a proposal for continuation of the PASS program. The proposal will provide a business plan that includes a cost/benefit analysis and the expected payback that would demonstrate the justification for program continuation. The proposal will also include a report on the results of the PASS program from 1997 to projected December 31, 2006, that demonstrates the incremental costs and savings of the program. PLP should not contemplate continuation of the program in 2007 without prior Commission approval.

2.4 Contracting Activities Deferral Account

The Contracting Activities Deferral Account ("CADA") was approved by Commission 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 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.

Commission Order No. G-35-02 directed PLP to include a detailed report on the effectiveness of the account for the years 2003 to 2005 when filing its 2005 Annual Report. In the Reasons for Decision attached as Appendix A to Commission Order No. G-51-04 the Commission noted that it expected to review the deferral account when PLP filed the 2005 Annual Report. PLP filed its March 31, 2005 Annual Report but did not provide the requested report. In response to an Information Request, PLP provided a report detailing the effectiveness of the CADA (BCUC IR 12.5.1). PLP explained the issues associated with the Similkameen Service Agreement and to the effect on the CADA. PLP filed two contracting activities schedules in response to BCUC IR 12.1 and 12.2. These schedules indicate the CADA in a deficit balance at March 31, 2005, of $125,792 and $120,447. The contracting activity net income from 2001 to 2006 has been on a steady decline to where the program has incurred net losses for the last two fiscal years (March 31, 2005 and December 31, 2005) and is projected to have a further loss in 2006. The program is expected to generate an overall total net income of $91,465 since its inception in 2001. However, the net income of $83,423 from 2001 and $42,325 from 2002 accounts for most of the accumulated net income for the program. Contracting activity performance has been poor since 2003. PLP stated that its first choice would be to cancel the CADA (BCUC IR 12.5.1). However, PLP and FortisBC Inc. "are now sincerely trying to sort out the issues" and should that be successful it would be necessary to continue the CACA (BCUC IR 12.5.1).

Commission Determination

The Commission sees the potential merit of PLP's contracting activities. **However, the Commission determines that the CADA should be discontinued effective December 31, 2005.** PLP is to file by August 31, 2006 a final report showing the CADA activity from 2001 to December 31, 2005 in a form similar to previous schedules provided by the Utility. PLP will also provide the necessary supporting details of its calculation of the actual return on equity for each year that were used in the calculation of the deferred activity for each year. Further, PLP will itemize all non-normal expenses (including lawsuit legal costs and professional service costs) affecting the actual ROE in each year. PLP will also include in the final report an indication as to how PLP proposes to dispose of the CADA balance.

The Commission accepts that the contracting activities between PLP and FortisBC Inc. can be beneficial. However, the activities contemplated should be profitable. **The Commission directs PLP to set up a new Contracting Operations Deferral Account, effective January 1, 2006, that captures the annual net income of the contracting operations.** PLP is to propose in future revenue requirements applications the disposal of any forecast balance in the new Contracting Operations Deferral Account. Contracting activity will be reviewed annually in conjunction with the annual revenue requirements filing to consider if this activity continues to be in the public interest.

2.5 Meter Upgrade Program

By Order No. G-51-04, the Commission approved PLP's 2004/05 Revenue Requirements subject to adjustments for the interest rate and legal costs. PLP did not provide details of its capital program in its 2004/05 Revenue Requirements Application. Consequently, the Commission requested a table of capital additions (2004/05 Revenue Requirements Application, BCUC IR 2.1). PLP included in the table an "RF Meter Program" of $80,000 for controlling power theft. Subsequently, the Utility filed its Annual Reports for years ending March 31 2004 and 2005 providing a description of the Meter Upgrade Program.

PLP stated that the Meter Upgrade Program was listed in the Annual Report to the Commission each year and that in isolation PLP did not consider the program of a magnitude to warrant special approvals such as a Certificate of Public Convenience and Necessity ("CPCN") (BCUC IR 16.3.1 to 16.3.4). PLP indicated that the Utility did not conduct a financial justification before the commencement of the project. Further, PLP provided information that the Utility will have spent $243,102 for the project by the end of 2006 (BCUC IR 5.3.1). However, PLP states in its 2005 Annual Report that though no "materiality limit" for capital projects has been established for PLP and the Utility recommends the limit for CPCN filings be set at approximately $100,000 per project.

Commission Determination

The Commission finds that the Utility provided minimal and potentially misleading information in its 2004/05 Revenue Requirements Application information response related to the Meter Upgrade Program. The description of the program in the Annual Reports appeared after approval of the 2004/05 Revenue Requirements. **The Commission directs that all future revenue requirements applications made by PLP are to include detailed descriptions and costs of its capital plan, and complete plant continuity and depreciation schedules.**

The Commission finds that PLP has not justified the Meter Upgrade Program. **The Commission directs that PLP discontinue forthwith the Meter Upgrade Program**.

PLP is to file with the Commission, a program justification and prudency review of all program costs. Details will include, but not limited to, the budgeted expenditures, actual expenditures, number of meters, and cost per meter. Also, PLP should describe the status of the program, the process of installing the meters, meter inventory balance, total O&M, and total capital costs.

If PLP wishes to continue the project, it must file with the Commission, the program justification and prudency review of all program costs and a business case including full financial justification of the Meter Upgrade Program. The business case will include a business plan, detailed costs (O&M, meter inventory, and capital) including the information detailed in the previous paragraph, detailed tangible benefits, and resulting payback.

If PLP does not file for program continuation, the program justification and prudency review is to be filed at the earlier of the next revenue requirements application or with the 2006 Annual Report to the Commission.

In either case, prior to the end of its 2006 financial year, PLP is to justify why the costs incurred, (to the time the Meter Upgrade Program is discontinued), above the $100,000 CPCN threshold, as suggested by PLP in its 2005 Annual Report, should not be disallowed.

3.0 PERMANENT RATES

PLP in its Revised Application calculates Option #2 Full ROE @ 9.55 percent. Option #2 is PLP's revenue requirements if the Utility fully recovers its allowed ROE of 9.55 percent. Option #2 indicates an overall increase in rates of $494,208, or 9.43 percent. However, PLP is requesting Option #5 ROE @ 6.90 percent. Option #5 is PLP's requested 2006 revenue requirements that the Utility feels is a fair compromise for both the customer and the shareholder. Option #5 requests an overall increase in rates of $400,607 or 7.64 percent. PLP is requesting to set permanent rates for Service Charges, Access Charges and Energy Charges effective January 1, 2006 and to set permanent rates for Access Charges effective July 1, 2006. PLP is requesting a rate increase that it does not expect to achieve fully its allowed ROE of 9.55 percent.

The effect of the Commission disallowed costs will increase PLP's proposed ROE for 2006; however the allowed ROE will not be exceeded.

Commission Determination

The Commission determines that the rates proposed by PLP in Option #5 are acceptable.

4.0 COMPLETENESS AND DEFICIENCIES OF APPLICATION

The Commission has concerns related to the completeness of information in the 2006 Revenue Requirements Application. The information response process uncovered significant facts or information that affected the revenue requirements deficiency. In addition, the Commission has a responsibility to be satisfied that expenditures have not only been made, or are to be made, but also that they are prudent. PLP in its pre-filed evidence should be providing the necessary regulatory schedules and reconciliations to minimize the possibility of errors. In addition, the application should be in sufficient detail to answer the following questions. Why make this expenditure? Why do this project this way? Why do it now? Are the associated costs reasonable and prudent? A complete application would ensure a productive, efficient, and more satisfactory review process.