



**ORDER NUMBER
G-103-18**

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Kyuquot Power Ltd.
Application for Amendments to Revenue Requirements
Along with Certain Rate Matters

BEFORE:

K. A. Keilty, Commissioner

on June 5, 2018

ORDER

WHEREAS:

- A. On December 29, 2017, Kyuquot Power Ltd. (KPL) filed an application pursuant to section 58 of the *Utilities Commission Act* (UCA) with the British Columbia Utilities Commission (BCUC) for amendments to its revenue requirements along with certain rate matters (Application);
- B. In the Application, KPL requests approval to increase its annual depreciation expense on distribution plant assets, including the contribution in aid of construction (CIAC), from 1.0 percent to 2.1 percent on a straight-line basis, effective the date of decision, in order for KPL to earn a return on equity (ROE) for fiscal 2018 which is not exceeding the 9.5 percent confirmed by Order G-158-14. KPL advises that the depreciation rate sought is less than its annual average rate of depreciation for distribution plant assets allowed under International Financial Reporting Standards (IFRS) in order to limit the impact of KPL's depreciation expense on its electric tariffs;
- C. In the reasons for decision accompanying Order G-11-06 dated February 2, 2006, the BCUC accepted the deferral of depreciation expense on distribution plant assets to allow KPL a return on its investment to the extent that its approved ROE is not exceeded. The BCUC also approved a debt to equity ratio of 60/40 for KPL with a risk premium of 75 basis points above the BCUC's low-risk benchmark utility;
- D. By Order G-158-14 dated October 9, 2014, the BCUC approved an annual rate of depreciation of 1 percent, compared to an annual average allowed rate of depreciation of 3.33 percent on a straight-line basis under IFRS for KPL's distribution plant assets, effective from July 1, 2014. The BCUC also confirmed KPL's approved capital structure;
- E. KPL requests the increase in annual depreciation expense because revenue growth has exceeded the increase in expenditures and its interest rate on notional debt has declined, thereby causing its actual ROE

to exceed its approved ROE. The proposed amendment to its depreciation expense will allow KPL to earn its approved return after taxes on notional equity of 9.5 percent, without impacting customer rates;

- F. In the Application, KPL also requests the BCUC's confirmation that it is approved to earn an ROE which is 75 basis points above the BCUC's low-risk benchmark utility. KPL states that its risk factors remain unchanged from 2014; and
- G. The BCUC has considered the Application and supporting material, including KPL's responses to BCUC staff questions on April 24, 2018, and finds that approval is warranted.

NOW THEREFORE pursuant to sections 56 and 59 to 61 of the UCA, the BCUC orders as follows:

- 1. KPL is approved to increase its annual depreciation expense for its distribution plant assets, including the CIAC, from 1.0 percent to 2.1 percent on a straight-line basis, effective from the date of this order.
- 2. KPL is directed to file its next revenue requirements application by December 1, 2020. This application is to include a depreciation study for its distribution plant assets, which includes, but is not limited to, a plan for the recovery of its total deferred depreciation expense over the remaining useful life of the assets. KPL is directed to work with BCUC staff to determine the appropriate form and content of the depreciation study prior to its submission.
- 3. KPL's debt to equity ratio of 60/40 and risk premium of 75 basis points above the BCUC's current benchmark utility, FortisBC Energy Inc., is approved.

DATED at the City of Vancouver, in the Province of British Columbia, this 5th day of June 2018.

BY ORDER

Original signed by

K. A. Keilty
Commissioner