



IN THE MATTER OF

HEMLOCK UTILITY SERVICES LTD.

REVENUE REQUIREMENTS – RECONSIDERATION OF ORDER G-66-12

DECISION

OCTOBER 01, 2013

BEFORE:

A.A. Rhodes, Panel Chair / Commissioner

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
1.0 GENERAL BACKGROUND	1
2.0 PROCEDURAL BACKGROUND	2
3.0 PURPOSE OF UTILITY REGULATION	3
4.0 TEST YEAR – RECONSIDERATION RRA	4
5.0 KEY ISSUES	5
5.1 Related Parties	5
5.1.1 Documentation Regarding Related Party Transactions.....	6
5.1.2 Unmetered Customers.....	7
5.2 Capital Expenditures versus Expenses	7
5.3 Hemlock Utility Services Ltd. Divisions.....	7
6.0 F2012 TOTAL REVENUE REQUIREMENT	8
6.1 Total Operating Costs.....	9
6.1.1 General Expenses.....	9
6.1.1.1 Bank Charges and Interest.....	10
6.1.1.2 Dues and Subscriptions	10
6.1.1.3 Office and Miscellaneous	11
6.1.1.4 Office Rent	11
6.1.1.5 Insurance	12
6.1.1.6 Automotive	12
6.1.2 Staff and Management Costs.....	15
6.1.2.1 Professional Fees	15
6.1.2.2 Salaries and Wages	16
6.1.2.3 Management Fees	17

6.1.3	Repairs and Maintenance	23
6.1.3.1	Capitalization Policy	25
6.1.4	Depreciation.....	28
6.1.5	Cost of Energy	29
6.2	Total Operating Costs Summary	31
6.3	Miscellaneous Revenues	31
6.4	Determining Rate Base.....	31
6.5	Determining the Allowed Return on Rate Base (Fair Return Standard)	35
6.5.1	Cost of Capital Rate.....	35
6.5.1.1	Debt Financing	35
6.5.1.2	Cost of Equity	36
7.0	F2012 TOTAL REVENUE REQUIREMENT – APPROVED	37
8.0	DETERMINING PERMANENT RATES	38
8.1	Minimum Charge.....	38
8.2	Kilowatt Hours of Electricity Available for Sale in F2012	39
8.2.1	Unmetered Electricity	39
8.2.2	Kilowatt Hours of Electricity Purchased from BC Hydro in F2012	40
8.2.3	Line Losses	42
8.3	Kilowatt Hours Available for Sale in F2012 - Approved	42
9.0	SETTING PERMANENT RATES	43
10.0	PERMANENT RATE COMPARED TO ORDER G-66-12	44
11.0	OTHER DIRECTIVES.....	45
11.1	Unmetered Operations	45
11.2	Related Party Transactions	45
11.3	Refund	46

11.4	Automatic Rate Adjustment.....	47
11.5	Notice to Reader Financial Statements.....	48
11.6	Annual Reports.....	49
12.0	SUMMARY OF DETERMINATIONS, DIRECTIVES AND RECOMMENDATIONS.....	50

COMMISSION ORDER G-159-13

APPENDICES

APPENDIX A List of Acronyms

APPENDIX B List of Exhibits

EXECUTIVE SUMMARY

This Proceeding involved a Reconsideration of certain provisions of Commission Order G-66-12, which had increased rates payable by customers of Hemlock Utility Services Ltd., a small utility serving approximately 250 customers in the resort community of Hemlock Valley, effective September 1, 2012.

The British Columbia Utilities Commission ordered the Reconsideration after a number of customers of Hemlock Utility Services complained that they had not been notified of the Revenue Requirements Application which resulted in the rate increases. These rates were declared interim on September 25, 2012 by Order G-128-12.

The Commission Panel determined that a comprehensive review by way of a new hearing was required.

Hemlock Utility Services therefore filed a further Revenue Requirements Application on March 8, 2013. This filing did not, however, include revenues and expenses for F2012, but provided forecasts for F2013, F2014 and F2015.

The Reconsideration Revenue Requirements Application proceeded by way of a written hearing. The process included, among other things, two rounds of Information Requests, which were, in part, used to determine revenues and expenses for F2012, the subject period of the Reconsideration. The Information Request process also involved the production by Hemlock Utility Services and review by the Commission of source documents relating to the Utility's purchase of electricity for resale from BC Hydro. That process revealed, among other things, a significant discrepancy between the kilowatt hours of electricity purchased from BC Hydro and the kilowatt hours of electricity sold to customers. It was eventually determined that certain non-arm's length "accounts" of Hemlock Utility Services, namely the Resort [Ski] Lift, Resort Parking Lot, and Resort Run Lights, although consuming electricity, did not have electricity meters. As a result, the interim rates being charged to remaining customers were subsidizing the unmetered operations.

(ii)

The Commission also reviewed other cost items and noted a significant variation in Repairs and Maintenance expenses year over year and also noted that no amounts had been or were planned to be capitalized to the Utility's rate base. In this Decision, the Commission Panel directs the Utility to capitalize many expenses previously reported as Repairs and Maintenance, in accordance with Generally Accepted Accounting Principles, and approves expenditures on Repairs and Maintenance at what the Commission finds to be a reasonable level to ensure the provision of safe and adequate service.

Given that the Reconsideration Revenue Requirements Application provided forecasts for future years, and historic information was also obtained through the Information Request process, the Commission Panel normalized the F2012 costs when making its determinations with a longer time horizon in mind. The Commission Panel recognizes that Revenue Requirements Applications are costly and time-consuming and are ultimately funded by the ratepayer. The Commission Panel therefore attempted to determine appropriate, normalized cost amounts which represent reasonable expenditures necessary for the Utility to provide safe and adequate service for F2012 and on a go-forward basis. Further, in the interest of reducing further regulatory burden, the Commission Panel provided for an "Automatic Rate Adjustment" mechanism to permit the Utility to adjust the Cost of Energy to accord with changes to the rates charged to the Utility by BC Hydro.

The Commission Panel determines that the interim rates in place represent more than what it considers a fair and reasonable charge for the service provided by the Utility. The Commission Panel determines that an Energy Charge Rate of \$0.13 per kilowatt hour with a Minimum Charge of \$20 per month represent just and reasonable rates and declares these rates to be the permanent rates. The Commission Panel directs that all current customers of Hemlock Utility Services be refunded the difference between the interim and final rates by way of a credit to their electricity bills.

1.0 GENERAL BACKGROUND

Hemlock Utility Services Ltd. (Hemlock Utility Services or the Utility) is a privately held corporation which provides electric, water, sanitation and other utility services to the resort community of Hemlock Valley. Only the electric services are regulated by the British Columbia Utilities Commission (Commission). Hemlock Utility Services' current owner (part of the Berezan Group of companies) purchased the Utility out of bankruptcy in 2006. The Utility has approximately 250 customers, the vast majority of which are residential customers. The Utility purchases electricity, for distribution to its customers, from the British Columbia Hydro and Power Authority (BC Hydro) under Large General Service Conservation Rate 1611.

By Order G-66-12 dated May 24, 2012, the Commission approved, among other things, an increase to the Minimum Charge from \$20 per month to \$24 per month for electricity usage up to 124 kilowatt hours (kWh) per month, and an increase from \$0.16[0]5 per kWh to \$0.23 per kWh for electricity consumption above 124 kWh per month. These rate increases were approved pursuant to a Revenue Requirements Application made by Hemlock Utility Services for its Fiscal Year 2012 (F2012). The rate increases were to be effective September 1, 2012. These increases represent a 20 percent increase in the Minimum Charge, and a 40 percent increase in the Energy Charge Rate for usage in excess of 124 kWh per month.

Following the issuance of Order G-66-12, a number of the electricity customers of Hemlock Utility Services complained to the Commission on the basis that they were not notified of Hemlock Utility Services' F2012 Revenue Requirements Application and therefore did not have an opportunity to participate.

As a result, by Letter L-54-12 dated September 25, 2012, the Commission sought comments on whether it should order a Reconsideration of, among other things, the rate increase portion of the Utility's F2012 Revenue Requirements Application which resulted in the rate increases approved by Order G-66-12 discussed above. The Commission also noted that Hemlock Utility

Services had not filed amended tariff sheets to reflect the increased rates approved in Order G-66-12, as required by that Order. Therefore, by Order G-128-12, also dated September 25, 2012, the Commission set the September 1, 2012 rate increases as interim, and subject to refund, pending further determinations relating to the potential Reconsideration.

By Order G-184-12 dated November 30, 2012, the Commission directed, among other things, that a Reconsideration of the rate increase approved in Order G-66-12 would be conducted by way of a new written hearing process. The Commission found that it had erred in law by not ensuring adequate public notice was provided to parties who might be affected by the decision on the Original F2012 Revenue Requirements Application (Original RRA). The Commission directed Hemlock Utility Services to file a complete Reconsideration Revenue Requirements Application (Reconsideration RRA) on or before February 18, 2013.

On February 18, 2013, Hemlock Utility Services requested an extension of the deadline to file its Reconsideration RRA. By Order G-25-13, the Commission extended the deadline until March 8, 2013.

2.0 PROCEDURAL BACKGROUND

Hemlock Utility Services filed its Reconsideration RRA on March 8, 2013, in accordance with Order G-25-13. By Order G-35-13 dated March 13, 2013, the Commission established a Regulatory Timetable which allowed for two rounds of Information Requests from Commission staff and Registered Interveners and final submissions from all parties with a reply submission from Hemlock Utility Services to be filed by June 21, 2013.

Eleven parties registered as Interveners, several of whom made Information Requests and filed final submissions. A further 23 parties registered as "Interested Parties."

3.0 PURPOSE OF UTILITY REGULATION

Utility Regulation has existed in North America for decades as a means to allow monopolies to serve customers in situations where economics dictates that the most efficient allocation of society's scarce resources results from the use of a single service provider as opposed to more than one provider, which would be the case under free market competition.

It is the regulator's function to prevent the abuse of monopoly power, so that customers have access to safe and adequate service at a fair price. At the same time, the utility is to be afforded the opportunity to earn a fair return on its investment so that it can continue to operate and attract the capital required to sustain and/or grow its business.

Thus, the regulator must balance the legitimate interests of both customers and investors (owners) by setting rates which are not unjust or unreasonable.

The *Utilities Commission Act*, RSBC 1996 c. 473 provides that "...a rate is "unjust" or "unreasonable" if the rate is

- (a) more than a fair and reasonable charge for service of the nature and quality provided by the utility,
- (b) insufficient to yield a fair and reasonable compensation for the service provided by the utility, or
- (c) unjust and unreasonable for any other reason."

(ss. 59(5))

In British Columbia, rates charged by a utility are generally set based on the utility's forecast cost required to provide service to its customers over a particular period of time, known as a "test period." Forecast costs include a fair return on the shareholder's invested capital or "rate base." As costs are forecast, there is no guarantee the utility will earn a fair and reasonable return; rather,

it is afforded the opportunity to do so. This form of regulation is known as “Return on Rate Base Regulation.”

In determining the costs, referred to as the “revenue requirements,” for a particular test period, the Commission tends to follow Generally Accepted Accounting Principles (GAAP). These principles, as defined in the Canadian Institute of Chartered Accountants’ (CICA) Handbook, address how costs are to be reported for financial accounting purposes. However, the Commission may deviate from GAAP when it is considered necessary for regulatory purposes.

4.0 TEST YEAR – RECONSIDERATION RRA

Hemlock Utility Services has a fiscal year starting on May 1 and ending on April 30. In the Reconsideration RRA, information is provided for fiscal years ending April 30, 2013, 2014, and 2015 (F2013, F2014 and F2015, respectively). The F2013 information includes nine months’ actual and three months’ forecast while the F2014 and F2015 information is all forecast.

Under normal regulatory rate setting practices, a reconsideration of a rate determination, such as the rate increase approved by Order G-66-12, is based on the same test period as the original determination. In this case, the test period for the Original RRA was F2012 which ran from May 1, 2011 to April 30, 2012. Therefore, the test period for the Reconsideration RRA will also be F2012. As the financial information for F2012 was not included in the materials filed in support of the Reconsideration RRA, it was obtained through the Information Request process.

The Commission has understandably placed significant weight on the F2012 actual results in determining permanent rates for F2012. However, in order to normalize the results, the Commission Panel has also considered the historic and forecast information which was provided with a view to setting a permanent rate that will allow Hemlock Utility Services to recover its annual revenue requirement on a go-forward basis without the need to immediately return to the Commission with a further comprehensive revenue requirements application. The Commission recognizes that revenue requirements applications are time-consuming and costly, particularly in the case of a small utility with a modest customer base over which to spread such costs. Therefore,

where actual F2012 costs do not appear to be representative of “normal circumstances,” the Commission has made the necessary adjustments in an effort to create a stable cost base which is reflective of a longer term view.

Further, since the cost of electricity purchased by Hemlock Utility Services from BC Hydro is the most significant cost which must be recovered in rates, the Commission Panel also provided for an “Automatic Rate Adjustment” mechanism to allow any changes in BC Hydro’s rates to flow directly into Hemlock Utility Services’ rates without the need for a formal revenue requirements application.

The rates established by this Reconsideration RRA proceeding will become the permanent rates until either Hemlock Utility Services makes a further revenue requirements application or the Commission directs it to file one.

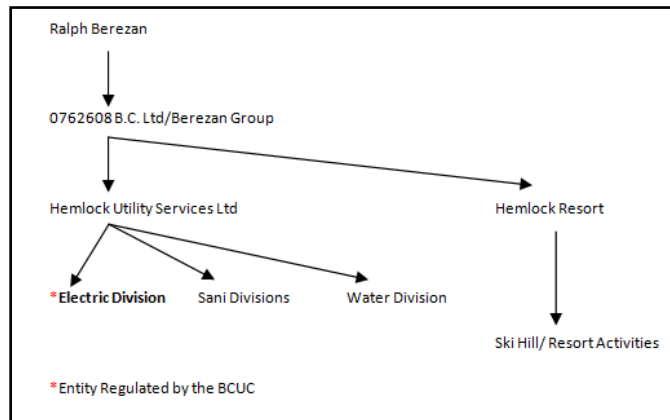
5.0 KEY ISSUES

5.1 Related Parties

Hemlock Resort, which, among other things, operates a ski hill, is owned by the Berezan Group/Ralph Berezan who also owns Hemlock Utility Services, making Hemlock Utility Services and Hemlock Resort related parties.

It is not unusual for regulated utilities to be part of larger organizations and, in such cases, the regulated utility may purchase and sell goods and services to and from other parts of the organization which are not regulated. However, non-arm’s length (related party) transactions can be subject to abuse, if the transfer price is too high or too low. Therefore, the Commission scrutinizes related party transactions to ensure that regulated operations pay no more than a fair price for goods or services received from a related party and receive at least fair compensation for goods or services provided to a related party.

The diagram below depicts the relationship among the various related parties that impact the Utility.



There are numerous related party transactions within this group of companies that impact Hemlock Utility Services. For example, the Berezan Group/Ralph Berezan manages Hemlock Utility Services for a fee. Hemlock Utility Services provides services to and receives services from Hemlock Resort. Further, Hemlock Resort is the landlord for the office space used by Hemlock Utility Services and also performs maintenance and repair work for it. Hemlock Utility Services provides electricity, through its electric division, and other utility services, through its sanitation and water divisions, to the Hemlock Resort. (Exhibit B-5, BCUC IR 2.8.2, 2.9.4.1, 2.9.5.2, 2.12.1.1)

5.1.1 Documentation Regarding Related Party Transactions

Hemlock Utility Services has no formal policies in place, such as a Transfer Pricing Policy, to ensure related party transactions are recorded in the correct entity and charged at fair market value. Rather, Hemlock Utility Services states that “[b]illings from related companies are reviewed in the corporate office before processing. Billing amounts are compared to fair market value of the services provided.” (Exhibit B-5, BCUC IR 2.8.3)

Hemlock Utility Services advises that for related party transactions relating to repairs and maintenance, the fair market value of the billings is determined by comparing quotes from independent contractors for the same service to ensure the charges are fair. (Exhibit B-5, BCUC IR 2.12.3.1)

Hemlock Utility Services states that it determines fair market value for items such as rent and management fees “based on the owner’s ... extensive experience in property management/rental” and “vast experience with operating management companies that provide services to various types of operations/businesses...” (Exhibit B-5, BCUC IR 2.9.6, 2.10.2)

5.1.2 Unmetered Customers

As a result of the Information Request (IR) process, which in this case included a request for production of source documents, the Commission confirmed that Hemlock Resort’s ski lifts, parking lots and run lights did not have electricity meters. Hemlock Utility Services states that it only became aware of the situation in the fall of 2012 and will install meters for these areas in 2013. Hemlock Utility Services also advises that it has invoiced Hemlock Resort for its estimated electricity consumption for F2013. (Exhibit B-2, BCUC IR 1.9.2, Exhibit B-5, BCUC IR 2.19.6.2, 2.19.15.1)

5.2 Capital Expenditures versus Expenses

It also came to light during the IR process that Hemlock Utility Services has not capitalized any amounts to the electric division’s rate base since it purchased the bankrupt utility in 2006. Neither has it forecast any capital additions for F2013, F2014, or F2015. Hemlock Utility Services takes the position that all costs, including the cost of installing new meters, should be classified as Repairs and Maintenance expenses and recovered in rates in the period the costs were incurred.

5.3 Hemlock Utility Services Ltd. Divisions

As noted above, Hemlock Utility Services Ltd. provides not only electric, but water and sanitation services as well. It is therefore necessary to allocate the various costs amongst those divisions.

Hemlock Utility Services advises that where costs can be directly attributed to a division, they are allocated directly to that division. For other costs, the company determines what it regards as a reasonable allocation. Because each division has roughly the same number of customers, costs

that are driven by customer numbers are shared equally among the three divisions and allocated on that basis.

The following operating expenses are shared among the three divisions and allocated to the electric division as identified in the Table below.

Expenses Allocated to the Electric Division	Allocation Methodology
GENERAL EXPENSES	
Bank charges and interest	Direct Allocation
Dues and subscriptions	Combination of Direct Allocation and 33.33% Allocation
Office and Miscellaneous	Combination of 50% Allocation and Direct Allocation
Office Rent	Combination of 33.33% Allocation and 90% Allocation
Insurance	33.33% Allocation
Automotive	33.33% Allocation
STAFF AND MANAGEMENT COSTS	
Professional Fees	33.33% Allocation for External Accounting and Direct Allocation for All Else
Salaries and Wages	33.33% Allocation updated to Combination of 70% Allocation and 10% Allocation
Management Fees	15% of Forecast Gross Revenue
REPAIRS & MAINTENANCE	Direct Allocation

(Exhibit B-2, BCUC IR 1.11.0)

6.0 F2012 TOTAL REVENUE REQUIREMENT

In the Original RRA, Hemlock Utility Services forecasted \$316,082 in Total Operating Costs and the Commission determined that the Utility was entitled to a fair return of \$12,539 on the rate base of the electric division. This resulted in a Total Revenue Requirement of \$328,621. In the Reconsideration RRA, Hemlock Utility Services reports actual Total Operating Costs of \$218,384. Each of the Revenue Requirement components as outlined in the Table will be discussed individually below.

REVENUE REQUIREMENTS			
	Original RRA	Reconsideration RRA	
	Order G-66-12	Requested	
General Expenses	\$ 20,565	\$	16,985
Staff and Management	\$ 14,588	\$	51,003
Repairs and Maintenance	\$ 119,171	\$	7,715
Depreciation	\$ 11,062	\$	9,189
Cost of Energy	\$ 150,696	\$	133,492
Total Operating Costs	\$ 316,082	\$	218,384
Miscellaneous Income	\$ -	\$	-
Total Other Income			
Return on Common Equity	\$ 7,007		
Debt Financing	\$ 5,532		
Total Allowed Return on Rate Base	\$ 12,539		
TOTAL REVENUE REQUIREMENTS	\$ 328,621	\$	218,384

6.1 Total Operating Costs

Operating Costs include all the costs necessary to provide regulated service, except financing costs and any Miscellaneous Income. Hemlock Utility Services divides its Operating Costs for the electric division into the following categories: General Expenses, Staff and Management, Repairs and Maintenance, Depreciation and Cost of Energy.

6.1.1 General Expenses

General Expenses are further separated to include: Bank Charges and Interest, Dues and Subscriptions, Office and Miscellaneous, Office Rent, Insurance, and Automotive costs.

In the Original RRA, General Expenses for F2012 were forecast to be \$20,565. In the Reconsideration RRA, actual General Expenses for F2012 are reported as \$16,985.

			Recosideration RRA				Original RRA	
	Actuals	*Actual	*Actual	*Actual		Forecast	*Forecast	
	F2009	F2010	F2011	F2012	**4 Year Average	F2012	F2013	
GENERAL EXPENSES								
Bank Charges and Interest	\$ 2,820	\$ 3,616	\$ 2,936	\$ 2,952	\$ 3,081	\$ 2,961	\$ 4,253	
Dues and Subscriptions	\$ 1,129	\$ 1,123	\$ 926	\$ 1,120	\$ 1,075	\$ 1,060	\$ 874	
Office and Miscellaneous	\$ 1,650	\$ 2,822	\$ 2,253	\$ 2,321	\$ 2,262	\$ 2,210	\$ 4,042	
Office Rent	\$ -						\$ 5,403	
Insurance	\$ 11,500	\$ 14,290	\$ 7,916	\$ 10,592	\$ 11,075	\$ 11,236	\$ 11,712	
Automotive	\$ 3,700	\$ 3,590	\$ 2,006	\$ -	\$ 2,324	\$ 3,098	\$ 815	
SUB TOTAL	\$ 20,799	\$ 25,441	\$ 16,037	\$ 16,985	\$ 19,816	\$ 20,565	\$ 27,099	
*Actuals agree to Notice to Reader Financial Statements								
** Agrees to BCUC IR 2.7.1								
*** Agrees to BCUC IR 2.3.1								

6.1.1.1 Bank Charges and Interest

In the Original RRA, Bank Charges and Interest were forecast to be \$2,961 for F2012. In the Reconsideration RRA, actual costs for F2012 are reported as \$2,952 and F2013 costs are forecast to be \$4,253.

Allocation of Costs															
Actuals from F/S	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Forecast	Allocation	Allocation
	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%
	F2009	F2009	F2009	F2010	F2010	F2010	F2011	F2011	F2011	F2012	F2012	F2012	F2013	F2013	F2013
Bank Charges and Interest	\$ 5,943	\$ 2,820	47.45%	\$ 5,735	\$ 3,616	63.05%	\$ 4,629	\$ 2,936	63.43%	\$ 4,680	\$ 2,952	63.08%	\$ 6,934	\$ 4,253	61.34%

Bank Charges and Interest costs are directly allocated to the division to which they exclusively relate, such as credit card discounts. In F2012, the electric division's allocation represents 63 percent of the total Bank Charges and Interest paid by Hemlock Utility Services. (Exhibit B-2, BCUC IR 1.11.3, Exhibit B-5, BCUC IR 2.3.1, 2.6.1)

6.1.1.2 Dues and Subscriptions

In the Original RRA, Dues and Subscriptions for F2012 were forecast to be \$1,060. In the Reconsideration RRA, actual costs for F2012 are reported as \$1,120 and F2013 costs are forecast to be \$874.

Allocation of Costs															
Actuals from F/S	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Forecast	Allocation	Allocation
	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%
	F2009	F2009	F2009	F2010	F2010	F2010	F2011	F2011	F2011	F2012	F2012	F2012	F2013	F2013	F2013
Dues and Subscriptions	\$ 2,136	\$ 1,129	52.86%	\$ 1,596	\$ 1,123	70.36%	\$ 2,315	\$ 926	40.00%	\$ 2,316	\$ 1,120	48.36%	\$ 1,948	\$ 874	44.87%

Dues and Subscription costs are allocated one third to each division where they relate to the whole, such as the fee paid to the web host to enable online bill payments, whereas others are directly allocated to the division to which they solely relate, such as the cost of the BC Safety Authority electrical permit. (Exhibit B-5, BCUC IR 2.3.1, 2.6.3, 2.8.2)

6.1.1.3 Office and Miscellaneous

In the Original RRA, Office and Miscellaneous costs for F2012 were forecast to be \$2,210. In the Reconsideration RRA, actual costs for F2012 are reported as \$2,231. Hemlock Utility Services forecasts \$4,042 for Office and Miscellaneous expenses for F2013, with \$1,141 being paid to a related party. (Exhibit B-5, BCUC IR 2.8.2)

Allocation of Costs															
Actuals from F/S	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Forecast	Allocation	Allocation
	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%
	F2009	F2009	F2009	F2010	F2010	F2010	F2011	F2011	F2011	F2012	F2012	F2012	F2013	F2013	F2013
Office and Miscellaneous	\$ 3,451	\$ 1,650	47.81%	\$ 6,166	\$ 2,822	45.77%	\$ 5,691	\$ 2,253	39.59%	\$ 5,701	\$ 2,321	40.71%	\$ 7,796	\$ 4,042	51.85%

Office supplies such as stamps, paper, envelopes etc. are allocated 50 percent to the electric division and 25 percent to each of the water and sanitary divisions, based on billing frequency. The electric division bills its customers monthly, whereas the other two divisions bill quarterly. Other miscellaneous expenses are charged based on which division incurred the particular cost. (Exhibit B-2, BCUC IR 1.11.3)

6.1.1.4 Office Rent

Neither the Original RRA nor the Reconsideration RRA for F2012 included a provision for Office Rent. Hemlock Utility Services advises that its landlord chose not to charge rent for office and inventory storage space in past years, but has decided to do so commencing in F2013. (Exhibit B-2, BCUC IR 1.13.3) As noted above, the landlord is a related party.

Allocation of Costs															
Actuals from F/S	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Forecast	Allocation	Allocation
	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%
	F2009	F2009	F2009	F2010	F2010	F2010	F2011	F2011	F2011	F2012	F2012	F2012	F2013	F2013	F2013
Office Rent	\$ -	\$ -		\$ -	\$ -		\$ -	\$ -		\$ -	\$ -		\$ 6,003	\$ 5,403	90.00%

Hemlock Utility Services forecasts a cost of \$5,403 for Office Rent for the electric division for F2013, which represents an allocation of 90 percent of the total forecast cost of \$6,003. This allocation is based on the use by the electric division of 100 percent of the 567 square feet of storage space,

with the cost of the office space itself of 100 square feet being allocated equally among the three divisions. Hemlock Utility Services advises that there is no formal rental agreement in place and that the rental charge “is based on the owner’s best estimate using his extensive experience in property management/rental...” (Exhibit B-5, BCUC IR 2.3.1, 2.8.2, 2.9.2, 2.9.3, 2.9.4.1, 2.9.6)

6.1.1.5 Insurance

In the Original RRA, Insurance costs for F2012 were forecast to be \$11,236. In the Reconsideration RRA, actual costs for F2012 are reported as \$10,592 and F2013 costs are forecast to be \$11,712.

Allocation of Costs															
Actuals from F/S	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Forecast	Allocation	Allocation
	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%
	F2009	F2009	F2009	F2010	F2010	F2010	F2011	F2011	F2011	F2012	F2012	F2012	F2013	F2013	F2013
Insurance	\$ 34,500	\$ 11,500	33.33%	\$ 42,868	\$ 14,290	33.33%	\$ 23,750	\$ 7,916	33.33%	\$ 31,778	\$ 10,592	33.33%	\$ 35,137	\$ 11,712	33.33%

Hemlock Utility Services advises that its insurance is blanket coverage over all three divisions such that the cost for each division is not readily determinable. The entire cost of the blanket coverage is therefore allocated one third to each division. (Exhibit B-2, BCUC IR 1.11.2, Exhibit B-5, BCUC IR 2.3.1)

6.1.1.6 Automotive

In the Original RRA, Automotive costs for F2012 were forecast to be \$3,098. In the Reconsideration RRA, no Automotive costs are reported for F2012. Hemlock Utility Services states that no Automotive expense was allocated to the electric division in F2012 because the cost was “erroneously missed” and that \$2,000 should have been allocated. (Exhibit B-2, BCUC IR 1.13.2)

Allocation of Costs															
Actuals from F/S	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Forecast	Allocation	Allocation
	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%
	F2009	F2009	F2009	F2010	F2010	F2010	F2011	F2011	F2011	F2012	F2012	F2012	F2013	F2013	F2013
Automotive	\$ 11,102	\$ 3,700	33.33%	\$ 10,760	\$ 3,590	33.36%	\$ 5,986	\$ 2,006	33.51%	\$ -	\$ -	-	\$ 2,445	\$ 815	33.33%

Hemlock Utility Services forecasts that Automotive expense for the electric division will be \$815 in F2013, all of which it indicates is payable to a related party. (Exhibit B-5, BCUC IR 2.8.2) This amount is based on an allocation of 33 percent to each of the electric, water, and sanitation divisions, respectively. (Exhibit B-5, BCUC IR 2.3.1)

Panel Determination – General Expenses

Allocation of Cost

The Panel has reviewed the cost allocation methodologies employed by Hemlock Utility Services and agrees that where a cost can be directly attributed to a division, it is appropriate to allocate it to that division. The Panel further agrees that where a cost is not readily assignable to a particular division, the general allocation which has been used remains appropriate.

Accordingly, Hemlock Utility Services' allocation methodology for General Expenses as proposed in the Reconsideration RRA is approved. The Utility is directed to use the same allocation methodology for General Expenses in all future revenue requirements applications until such time as a change is approved by the Commission.

General Expenses

The Panel approves \$28,000 of General Expenses for recovery in F2012 rates based on the following breakdown:

	Original RRA	Reconsideration RRA	Reconsideration
	Forecast	Actual	Approved
	F2012	F2012	F2012
GENERAL EXPENSES			
Bank Charges and Interest	\$ 2,961	\$ 2,952	\$ 3,500
Dues and Subscriptions	\$ 1,060	\$ 1,120	\$ 1,000
Office and Miscellaneous	\$ 2,210	\$ 2,321	\$ 3,000
Office Rent			\$ 5,500
Insurance	\$ 11,236	\$ 10,592	\$ 11,500
Automotive	\$ 3,098	\$ -	\$ 3,500
SUB TOTAL	\$ 20,565	\$ 16,985	\$ 28,000

The Panel has attempted to determine normalized costs for F2012 General Expenses which can be applied on a go-forward basis as well. The Panel has reviewed the average actual costs from F2009 through F2012 as well as the forecast costs for F2013 in order to obtain expense amounts which are reasonably consistent with prior year actual amounts. It has also attempted to provide a normalized base from which Hemlock Utility Services can operate with a view to maintaining rate stability for its customers into the future.

As such, Bank Charges and Interest expense is approved at \$3,500. Although this amount is above both the four year average for actual Bank Charges and Interest expense of \$3,081, and the actual expense of \$2,952 for F2012, it has been normalized in recognition of the increase forecast for F2013.

Similarly, Dues and Subscriptions expense is approved at \$1,000. This amount is representative of past actual costs, normalized by a modest amount to reflect the lower forecast for F2013.

Office and Miscellaneous expense is approved at \$3,000. Although this amount is in excess of both the four year average actual Office and Miscellaneous expense of \$2,262 and the actual expense amount incurred for F2012 of \$2,210, it has been normalized in recognition of the forecast increase to \$4,042 for F2013.

Office Rent expense is approved in the amount of \$5,500. Although office rent was not originally contemplated as an expense for F2012, this is an example of where the Panel has attempted to normalize costs in order to provide a stable and predictable cost base which can be carried forward to obviate the need for repeated revenue requirements applications. The Panel finds Office Rent to be a cost which is reasonably necessary to operate a utility. The Panel accepts the Utility's F2013 forecast, rounded, to be an acceptable normalized amount to be applied to F2012 and considers \$458 per month to be realistic given the amount of space used by the electric division.

Insurance expense is approved in the amount of \$11,500. Although this amount is slightly higher than both the four year average actual Insurance expense of \$11,075 and the actual Insurance

expense for F2012 of \$10,592, it has been normalized in recognition of the forecast increase to \$11,712 for F2013.

Automotive expense is approved in the amount of \$3,500. This amount is primarily based on actual expense amounts incurred in F2009 and F2010 of \$3,700 and \$3,590, respectively, as well as the forecast Automotive expense for F2012 in the amount of \$3,098. The Commission Panel notes that the actual expense for F2012 of \$2,000 was “erroneously missed” and therefore recorded as \$0.00. The approved Automotive expense is a normalized amount which can be considered reasonable on both a current and go-forward basis. Again this reflects the Commission Panel’s attempt to determine rates that prevent the need for more frequent revenue requirements applications.

6.1.2 Staff and Management Costs

Staff and Management costs include Professional Fees, Salaries and Wages, and Management Fees. In the Original RRA, total Staff and Management costs for F2012 were forecast to be \$14,587. In the Reconsideration RRA, Hemlock Utility Services states that actual costs for its electric division for F2012 are \$51,003, as reported in its unaudited year end financial statements.

						Original RRA	
	Actuals	*Actual	*Actual	*Actual		Forecast	*Forecast
	F2009	F2010	F2011	F2012	**4 Year Average	F2012	F2013
STAFF AND MANAGEMENT							
Professional Fees	\$ 865	\$ 1,640	\$ 7,582	\$ 3,755	\$ 3,461	\$ 3,363	\$ 8,150
Salary and Wages	\$ 8,526	\$ 7,104	\$ 7,758	\$ 7,737	\$ 7,781	\$ 11,224	\$ 27,927
Management Fees	\$ -		\$ 37,522	\$ 39,511	\$ 19,258	\$ -	\$ 68,274
SUB TOTAL	\$ 9,391	\$ 8,744	\$ 52,862	\$ 51,003	\$ 30,500	\$ 14,587	\$ 104,351
*Actuals agree to Notice to Reader Financial Statements							
**Agrees to BCUC IR 2.7.1							
***Agrees to BCUC IR 2.3.1							

Hemlock Utility Services further forecasts Staff and Management costs to rise to \$104,351 in F2013.

6.1.2.1 Professional Fees

In the Original RRA, Professional Fees for F2012 were forecast to be \$3,363. In the Reconsideration RRA, actual costs for F2012 are reported as \$3,755.

Professional Fees increased in F2011 and F2012 due to the preparation of the Original RRA that led to Order G-66-12. Hemlock Utility Services forecasts \$8,150 for Professional Fees for F2013, which is more than double the average expenditure over the previous four years. (Exhibit B-5, BCUC IR 2.7.1, 2.8.2)

Allocation of Costs															
Actuals from F/S	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Forecast	Allocation	Allocation
	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%
	F2009	F2009	F2009	F2010	F2010	F2010	F2011	F2011	F2011	F2012	F2012	F2012	F2013	F2013	F2013
Professional Fees	\$ 2,593	\$ 865	33.36%	\$ 5,600	\$ 1,640	29.29%	\$ 9,353	\$ 7,585	81.10%	\$ 5,662	\$ 3,755	66.32%	\$ 10,215	\$ 8,150	79.78%

Hemlock Utility Services advises that its external accountants' fees are allocated one third to each division since the external accountants spend equal time on each division when preparing the financial statements. Other Professional Fees, which are largely legal fees, are allocated to the division to which the costs specifically relate. (Exhibit B-2, BCUC IR 1.11.3; Exhibit B-5, BCUC IR 2.6.5)

6.1.2.2 Salaries and Wages

In the Original RRA, Salaries and Wages for F2012 were forecast to be \$11,224. In the Reconsideration RRA, actual costs for F2012 are reported as \$7,737 and F2013 costs are forecast to be \$27,927.

Allocation of Costs															
Actuals from F/S	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Forecast	Allocation	Allocation
	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%
	F2009	F2009	F2009	F2010	F2010	F2010	F2011	F2011	F2011	F2012	F2012	F2012	F2013	F2013	F2013
Salaries and Wages	\$ 25,576	\$ 8,526	33.34%	\$ 20,895	\$ 7,104	34.00%	\$ 23,274	\$ 7,758	33.33%	\$ 23,210	\$ 7,737	33.33%	\$ 58,648	\$ 27,927	47.62%

Currently, Hemlock Utility Services has one "office staff" employee on payroll. The office staff employee works in all three divisions. (Exhibit B-2, BCUC IR 1.12.2) Tasks performed for the electric division include: inputting meter readings onto a spreadsheet, posting electrical usages, picking up cheques, processing online payments, recording and posting payments, processing electrical bank deposits, as well as miscellaneous administrative duties. (Exhibit B-5, BCUC IR 2.5.8)

For F2009 to F2012, Salaries and Wages were allocated one third to each division. (Exhibit B-2, BCUC IR 1.11.2)

In the Reconsideration RRA, Hemlock Utility Services proposes to allocate 70 percent of the time of office staff to the electric division. Hemlock Utility Services forecasts office staff expense of \$15,120 to be allocated to the electric division for F2013. If applied in F2012, this allocation will result in a Salaries and Wages expense of approximately \$16,240. (Exhibit B-5, BCUC IR 2.5.1)

In the Reconsideration RRA, Hemlock Utility Services also proposes to allocate a further 10 percent of the time of the Hemlock Resort (a related party) operations manager. If this allocation were to be applied in F2012, it would result in an additional expense of \$11,800. (Exhibit B-2, BCUC IR 1.11.2; Exhibit B-5, BCUC IR 2.5.1) Tasks performed by the Hemlock Resort operations manager on behalf of the electrical division include: billing auditing, financial review, accounts payable and accounts receivable review, executive review and approvals, and expense authorization. (Exhibit B-5, BCUC IR 2.5.6)

6.1.2.3 Management Fees

In the Original RRA, Hemlock Utility Services did not include a forecast for costs related to Management Fees for F2012; however, in the Reconsideration RRA, Hemlock Utility Services included Management Fees of \$39,511 for F2012, consistent with the amount reported in the F2012 Notice to Reader Financial Statements.

Hemlock Utility Services began reporting Management Fees in its Financial Statements in F2011. The F2011 amount was \$37,522. Hemlock Utility Services forecasts Management Fees of \$68,724 for F2013. As noted earlier, Management Fees are proposed to be paid to a related party. (Exhibit A2-1; Exhibit B-5, BCUC IR 2.8.2)

The Management Fees, as proposed by Hemlock Utility Services, are equal to 15 percent of forecast gross revenues and will therefore, by design, increase with any increases in revenues. Hemlock Utility Services takes the position that this model is reasonable, simple and represents a “common

business practice.” (Exhibit B-5, BCUC IR 2.11.6) Hemlock Utility Services also claims that this value is fair, based on “the owner’s vast experience with operating management companies that provide services to various types of operations/businesses...[as well as input from its] independent accountants on what they see as fair market value with various management companies they provide their service to.” (Exhibit B-5, BCUC IR 2.10.2)

Hemlock Utility Services takes the further position that the amount of \$120¹ per hour, which the Commission allowed for “management, regulatory and other executive services” in a 2005 ruling for Stargas Utilities Ltd., is “not reasonable” and suggests the value of \$200 per hour be applied to executive time and \$150 per hour be applied to accounting services. (Exhibit B-5, BCUC IR 2.11.2)

Hemlock Utility Services supports its valuation of Management Fees based on the tasks performed. It describes the accounting/bookkeeping, administrative, and executive hours and tasks as follows:

Accounting/Booking - 384 hours annually

- 384 hours annually (32 hours monthly) on accounting records, bank reconciliations, account reconciliation, GST/HST and PST filing, and accounts payable.

Administrative - 43 to 48 hours annually

- 20 hours annually on year end and review;
- 3 hours annually on budget review;
- 20 to 25 hours annually on miscellaneous items such as preparation of applications for rate increases, government audits, records filing, and other miscellaneous tasks.

Executive – 92 hours annually

- 16 hours annually on budgets and capital expenditure: initial approval (4 hours annually), and monthly review with operations manager (1 hour monthly);
- 12 hours annually on financial review (1 hour monthly);

¹ The \$120 rate allowed by the Commission for Stargas Utilities Ltd. was based on the going rate for a KPMG account manager in or about 2005.

- 12 hours annually on cash flow projections and allocations which are reviewed monthly (1 hour monthly);
- 12 hours annually to manage personnel and schedule work on the Hemlock Utility Books;
- 40 hours annually working with staff, Utilities Commission, and legal counsel regarding the rate increase applications.

(Exhibit B-5, BCUC IR 2.11.3)

As noted above, Hemlock Utility Services forecasts a charge of \$68,724 from the Berezan Group for Management Fees for F2013. Hemlock Utility Services also advises that the actual F2013 hours exceeded the above estimates due to the Commission inquiries for the rate application.

Panel Determination – Staff and Management Costs

The Panel approves \$59,200 of Staff and Management Costs for recovery in F2012 rates as set out in the Table below:

	Original RRA	Reconsideration RRA	Reconsideration
	Forecast	Actual	Approved
	F2012	F2012	F2012
STAFF AND MANAGEMENT			
Professional Fees	\$ 3,363	\$ 3,755	\$ 6,000
Salary and Wages	\$ 11,224	\$ 7,737	\$ 28,000
Management Fees	\$ -	\$ 39,511	\$ 25,200
SUB TOTAL	\$ 14,587	\$ 51,003	\$ 59,200

As discussed below, the Panel finds that \$59,200 represents a normalized assessment of F2012 costs attributable to office management, accounting/bookkeeping, administrative duties, executive functions, and Professional Fees, which the Panel considers are necessary to operate the Utility's electric division in F2012 and on a go-forward basis.

Professional Fees

The Commission Panel approves Hemlock Utility Services' proposed allocation methodology for Professional Fees. External accountants' fees are to be allocated one third to each division and

other Professional Fees are to be directly allocated to the divisions incurring the expenditure. The Utility is directed to use this allocation methodology for Professional Fees in all future revenue requirements applications until such time as a change is approved by the Commission.

The Panel finds the actual amount of \$3,755 for Professional Fees for F2012 to be reasonable. The Panel also considers the forecast expense of \$8,150 for F2013 to be reasonable given this Reconsideration RRA proceeding has taken place in part during that fiscal period and has continued into F2014.

In order to provide some stability for these “lumpy” expenditures, **the Panel approves a normalized expense of \$6,000 for Professional Fees.**

Salaries and Wages

The Commission Panel approves the allocation methodology for Salaries and Wages as follows: the electric division is to be allocated 70 percent of the office staff’s salary and 10 percent of the Hemlock Resort operations manager’s salary. The Utility is directed to use this allocation methodology for Salaries and Wages in all future revenue requirements applications until such time as a change is approved by the Commission. The Panel notes that the office staff spends considerably more time doing administrative tasks for the electric division, in part due to the fact that electricity is billed monthly, whereas water and sanitation services are billed quarterly. (Exhibit B-5, BCUC IR 2.5.8)

Accordingly, the Panel approves an amount of \$16,200 for the time of the office staff and a further \$11,800 for the time of the Hemlock Resort operations manager for a total of \$28,000 for Salaries and Wages.

Management Fees

The Panel does not approve the proposed formula and requested amount for Management Fees. The Panel finds the proposed formula for the calculation of such fees to be unreasonable and inconsistent with the cost-based model used in utility regulation.

In the Panel's view, tying Management Fees to revenues is unlikely to incent efficient behaviour and may also serve to reduce the importance of cost control, which is critical where there is a monopoly provider of an essential service, as here. The Panel is also concerned that these proposed fees, which are not insignificant, are to be paid to a non-arm's length party and are purportedly justified by the "vast experience" of the same non-arm's length party who is to receive the fees. The Panel also finds that many of the tasks described as "management" are not properly management tasks.

The Panel finds that a cost-based approach which considers the reasonably necessary management tasks performed at a reasonable hourly rate is required.

The Panel is of the view that functions such as preparation of GST/PST returns, bank reconciliations, and maintaining accounts payable records are bookkeeping functions, as opposed to accounting functions. Such tasks are often, in large measure, performed by office staff. In this case, the total annual cost for the office staff for all three divisions is in the order of magnitude of \$2,000 per month, which equates to no more than \$15.00 per hour. In the Panel's view, whether or not these tasks are performed by office staff or another individual, they, by their nature, do not support a charge in excess of \$35 per hour.

For other administrative and executive duties which require a higher skill level, such as year end financial statement and budget reviews, and any other managerial duties, the Panel approves a rate of \$150 per hour, which is consistent with the rate approved by the Commission for Stargas Utilities Ltd. for such tasks, as discussed above, adjusted for inflation.

The Panel further finds that there is overlap in the tasks performed by the operations manager, the office staff and management such that the Panel is unable to accept the estimates of time spent by management. For example, as noted above, the duties of the operations manager for Hemlock Utility Services' electric division include: financial review, accounts receivable and accounts payable review, executive review and approvals, and expense authorization.

Accordingly, the Panel approves the following amounts to make up “Management Fees”:

Accounting/Bookkeeping

Hemlock Utility Services estimates that management spends 32 hours a month or 384 hours per year on its accounting records, bank reconciliations, account reconciliation, GST/HST and PST filing, and accounts payable. (Exhibit B-5, BCUC IR 2.11.3) In the Panel’s view, the amount of time claimed is excessive. The Panel finds that 10 hours per month (120 hours per year) is a more reasonable estimate of the time that might be spent conducting these tasks particularly given the size of the company and the apparent overlap with the tasks performed by the office staff and operations manager. It also appears that the time requested is more reflective for the Company as a whole, rather than just the electric division.

Also, and as noted above, the Panel views tasks of this nature as bookkeeping tasks, which do not support a rate greater than \$35 per hour at a maximum.

The Panel therefore approves \$4,200 for accounting/bookkeeping related tasks based on 120 hours per year at an hourly rate of \$35.

Administrative

Hemlock Utility Services estimates that management spends approximately 48 hours per year for administrative tasks other than accounting, such as budget and year end reviews. This represents less approximately half a day per month and the Panel determines this amount of time to be reasonable. **The Panel therefore approves \$7,200 to be included in rates for administrative and related tasks** based on an hourly rate of \$150.

Executive

Hemlock Utility Services estimates that 92 hours per year, or approximately one day per month, are devoted to executive management duties. The Panel notes that there may be

some overlap between the executive and administrative duties especially in the area of the rate increase application. Nevertheless, the Panel is of the view that the time reported to be spent on executive management of the electric division appears to be reasonable. **The Panel approves an amount of \$13,800 for executive time**, based on a rate of \$150 per hour.

In summary, based on the determinations above, the Panel approves \$25,200 in Management Fees for recovery in F2012 rates.

6.1.3 Repairs and Maintenance

In the Original RRA, total Repairs and Maintenance for F2012 were forecast to be \$119,179. In the Reconsideration RRA, Hemlock Utility Services reports that actual costs for F2012 are \$7,715.

						Original RRA	
	Actuals	*Actual	*Actual	*Actual		Forecast	*Forecast
	F2009	F2010	F2011	F2012	**4 Year Average	F2012	F2013
SYSTEM MAINTENANCE							
Repairs and Maintenance	\$ 146,983	\$ 141,375	\$ 34,486	\$ 7,715	\$ 82,640	\$ 119,171	\$ 8,757
*Actuals agree to Notice to Reader Financial Statements							
** Agrees to BCUC IR 2.7.1							
*** Agrees to BCUC IR 2.3.1							

Hemlock Utility Services' actual expenditures on Repairs and Maintenance for the electric division were \$146,983; \$141,375; \$34,486; and \$7,715 for F2009, F2010, F2011 and F2012, respectively. The average expenditure over that period was \$82,640 per year. (Exhibit B-5, BCUC IR 2.7.1) Expenditures for F2011 and F2012 were considerably lower than those for F2009 and F2010. Hemlock Utility Services explains that part of the reason for the higher expenditures in F2009 and F2010 was that the Utility assets had not been adequately maintained during the time leading up to the purchase of the Utility by the current owners. As a result, significant expenditures on Repairs and Maintenance were required in that early period. Hemlock Utility Services also advises that it has recently been able to reduce spending on Repairs and Maintenance by putting proper maintenance procedures into place; thereby lessening the need for expenditures on repairs. Hemlock Utility Services further advises that it replaced its contractor following a Request For

Proposals for repair/improvement services and was able to reduce the contractor's hourly rate by approximately 30 percent, resulting in an overall cost reduction. (Exhibit B-5, BCUC IR 2.13.4) As well, some Repairs and Maintenance efforts, although planned to be performed in certain years, did not proceed as planned due to incompatible weather conditions, such as heavy snowfall. (Exhibit B-5, BCUC IR 2.13.1)

Hemlock Utility Services allocates Repairs and Maintenance costs to each division based on the actual costs directly incurred for each division. (Exhibit B-2, BCUC IR 1.11.3)

Allocation of Costs															
Actuals from F/S	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Actual	Allocation	Allocation	Forecast	Allocation	Allocation
	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%	TOTAL	Electric	%
	F2009	F2009	F2009	F2010	F2010	F2010	F2011	F2011	F2011	F2012	F2012	F2012	F2013	F2013	F2013
Repairs and Maintenance	\$ 279,338	\$ 146,983	52.62%	\$ 243,463	\$ 141,375	58.07%	\$ 129,735	\$ 34,486	26.58%	\$ 142,369	\$ 7,715	5.42%	\$ 105,465	\$ 8,757	8.30%

In F2012, Hemlock Utility Services' electric division incurred expenditures on Repairs and Maintenance in the amount of \$7,715. This amount represents 5.42 percent of the total expenditures on Repairs and Maintenance by the Utility of approximately \$142,369 during that time period. (Exhibit B-5, BCUC IR 2.3.0) Approximately 35 percent of the Repairs and Maintenance expenditures for the electric division for F2012 were paid to the Hemlock Resort, a related party. (Exhibit B-5, BCUC IR 2.8.2)

Further, the F2012 actual expenditure amount of \$7,715 is considerably less than the forecast amount of \$119,171 which was put forward in the Original RRA. Hemlock Utility Services states that Repairs and Maintenance costs in the Original RRA were based on an average of the prior three years. (Exhibit B-2, BCUC IR 1.14.4)

In the Reconsideration RRA, Hemlock Utility Services forecasts expenditures of \$40,000 for Repairs and Maintenance in F2013 with an increase to \$60,000 for each of F2014 and F2015. (Exhibit B-2, BCUC IR 1.14.5) Hemlock Utility Services states that the projection of \$40,000 was derived from specific projects which were to be completed in F2013 in relation to items such as meter

replacement/recertification, replacement of parts of larger capital items and the purchase of arc flash protective gear. (Exhibit B-2, BCUC IR 1.14.5 and Exhibit B-5, BCUC IR 2.13.1)

The F2013 forecast was later updated to \$8,757, which represents an allocation of 8 percent of total forecast expenditures on Repairs and Maintenance of approximately \$105,000 for that period. (Exhibit B-5, BCUC IR 2.3.1) The Utility states that many of the Repairs and Maintenance projects included in the \$40,000 estimate for F2013 were not, in fact, completed during F2013 due primarily to snowfall and other delays. The Utility now expects to complete this work in F2014. (Exhibit B-5, BCUC IR 2.13.1)

Approximately 22 percent of the forecast Repairs and Maintenance expenditure for F2013 is to be paid to the related party, Hemlock Resort. (Exhibit B-5, BCUC IR 2.8.2)

6.1.3.1 Capitalization Policy

Hemlock Utility Services states that most items it expenses can be argued to be an expense under the Canada Revenue Agency (CRA) rules. (Exhibit B-5, BCUC IR 2.13.1) It takes the position that its “capitalization policy” is based on GAAP/CRA rules and reviewed by external accountants at year end. (Exhibit B-2, BCUC IR 1.14.3) However, the year end Financial Statements for Hemlock Utility Services are unaudited “Notice to Reader” statements which expressly state that the statements are compiled on the basis of information provided by management and that no audit or review engagement has been performed. The accountants further “express no assurance” on the financial statements and caution the reader that the statements “may not be appropriate for their purposes.” (Exhibit A2-1) It is therefore unclear what actual input the external accountants provide, particularly in relation to accounting for regulated utility operations.

As noted above, a portion of the Repairs and Maintenance costs relates to meter replacement/recertification. Hemlock Utility Services states that Measurement Canada requires meters to be recertified every eight years, but that it was unaware of this requirement. It further advises that there were no records relating to the recertification of meters provided at the time of the purchase of Hemlock Utility Services and the Hemlock Resort. (Exhibit B-3, Lacey IR 1.2)

Hemlock Utility Services further advises that it has expensed replacement electrical meters in past years. For instance, Hemlock Utility Services expensed 3 meters in F2012 for a cost of \$680 and expensed 17 meters in 2013 for a cost of \$2,816. (Exhibit B-5, BCUC IR 2.13.1; 2.17.3) Hemlock Utility Services also advises that some meters are not in fact replaced, but recertified. Others would appear to be scheduled for actual replacement. (Exhibit B-5, BCUC IR 2.13.1)

Panel Determination – Repairs and Maintenance

Capitalization Policy

As noted above, Repairs and Maintenance expense in F2009 and F2010 was \$146,983 and \$141,375, respectively. The Commission is concerned that these Repairs and Maintenance expense amounts are too high as they represent 20 to 25 percent of rate base. The Panel is of the view that some of the Repairs and Maintenance costs were likely capital in nature and should more appropriately have been added to rate base through “Property, Plant and Equipment” rather than being expensed in the year incurred. The Panel is also of the view that future Repairs and Maintenance expenditures should be carefully reviewed having regard to determining the appropriateness of the accounting treatment, particularly given the significant variation in the expenditures from year to year and the corresponding potential effect on rate stability.

When the Commission determines what expenditures are to be capitalized and what expenditures are to be expensed for rate-making purposes, it places significant reliance on GAAP and does not follow CRA rules. CRA rules must be followed for tax purposes and a regulated utility can, for example, use the CRA’s Capital Cost Allowance to determine depreciation expense for its own financial reporting purposes; however, a regulated utility must expense or capitalize assets in accordance with GAAP for rate-making purposes, unless the Commission otherwise orders.

Accordingly, for regulatory purposes, Hemlock Utility Services is directed to follow the capitalization policies as outlined in the CICA Handbook.

Specifically for meters, the Panel finds both meter replacement costs and meter recertification costs to be capital in nature. When the Utility installs new meters on customers' premises, replaces old meters with new ones, or recertifies existing meters, these costs are to be accounted for as capital assets for regulatory purposes. Hence, **the Panel directs that, for regulatory purposes, new meter and meter recertification costs are to be added to rate base through Property, Plant and Equipment, with depreciation taken over the useful life of the relevant asset, and are not to be charged as an expense in the period incurred. The Panel also directs a depreciation rate of 5 percent per annum be applied to new meters based on a 20 year useful life and a depreciation rate of 12.5 percent per annum be applied to recertification costs based on Measurement Canada's 8 year recertification requirements.**

If Hemlock Utility Services chooses to follow different rules for its own financial reporting purposes than it has been directed to do for regulatory purposes, Hemlock Utility Services is to provide a reconciliation to the Commission as part of its annual report filing.

Repairs and Maintenance Expenses

The Panel approves Hemlock Utility Services' proposed methodology of allocating Repairs and Maintenance costs directly to the division incurring the expense. The Utility is directed to apply this allocation methodology for Repairs and Maintenance expenses in all future revenue requirements applications until such time as a change is approved by the Commission.

The Panel is of the view that the actual reported F2012 Repairs and Maintenance expense of \$7,715 is insufficient to maintain a safe and adequate system on an ongoing basis. Assuming Hemlock Utility Services commences capitalizing a portion of its Repairs and Maintenance costs in accordance with the Commission Direction above, and considering Hemlock Utility Services' explanation that it has been able to reduce the hourly rate paid to its contractor and put proper maintenance procedures into place to reduce costs, the Panel finds that \$30,000 per year represents a more reasonable normalized expense. The Commission would expect year to year fluctuations in actual repairs and maintenance costs but considers an average annual \$30,000

expense adequate to maintain a safe and reliable system, if managed properly. **Accordingly, the Panel determines that a normal level of Repairs and Maintenance expense for F2012 is \$30,000.**

The Commission considers that Hemlock Utility Services will not be adversely affected by capitalizing a portion of its expenditures on Repairs and Maintenance as the reduced expense will be offset by capital additions which will serve to maintain its rate base.

The Commission directs Hemlock Utility Services to include a summary of all rate base additions, as well as all Repairs and Maintenance costs, in its annual report to the Commission and to identify any related party transactions.

6.1.4 Depreciation

In the Original RRA, total depreciation for F2012 was forecast to be \$11,062. In the Reconsideration RRA, Hemlock reports an expense for F2012 of \$9,189.

Under Return on Rate Base regulation, depreciation is the component of the revenue requirement which allows a utility to recoup its investment in utility assets over time. Depreciation expense is only recoverable on those assets which make up rate base.

Hemlock Utility Services uses a straight line depreciation rate of 4 percent per annum for major electric assets, 20 percent per annum for equipment, and 30 percent per annum for automobiles. (Exhibit B-2, BCUC IR 1.17.2; Exhibit B-5, BCUC IR 2.16.1)

Panel Determination – Depreciation

The forecast depreciation expense provided in the Original RRA was slightly higher than actual as the Property, Plant and Equipment balance (rate base) had not been finalized at that time. **The Commission approves the depreciation expense proposed by Hemlock of \$9,189 for F2012.** It also approves the depreciation rates currently in place for major electric assets, automobiles and

equipment and, as stated previously, directs meter recertification costs to be depreciated at a rate of 12.5 percent per annum and new meters costs to be depreciated at 5 percent per annum.

6.1.5 Cost of Energy

Hemlock Utility Services purchases electricity from BC Hydro pursuant to Large General Service Conservation Rate 1611. The Cost of Energy represents the largest operating cost for the Utility.

In the Original RRA, the total Cost of Energy for F2012 was forecast to be \$150,696. In the Reconsideration RRA, Hemlock Utility Services calculates the actual F2012 Cost of Energy to be \$133,492. (Exhibit B-2, Attachment Schedule 1)

The actual Cost of Energy for F2012 (May 2011 to April 2012) can be determined by summing the charges from BC Hydro's invoices for this period. However, in F2012 this was complicated as only one invoice was issued to Hemlock Utility Services for its energy consumption for February, March, April and May,² 2012. Since May, 2012 is not part of F2012, an estimate for the Cost of Energy pertaining to May, 2012 has to be deducted in order to determine the actual F2012 Cost of Energy.

Hemlock Utility Services' electricity purchases for the 13 month period between May, 2011 up to and including May, 2012 totaled \$146,075, net of GST, as shown in the Table below (and as taken from BC Hydro invoices). (Exhibit B-5, BCUC 2.25.3, 2.25.4)

² BC Hydro generally invoices its customers on a monthly basis following a meter reading; however, for Hemlock Utility Services there may be months when there is too much snow for BC Hydro to be able to read its meter. In these circumstances, BC Hydro will wait until a meter reading has been taken before it invoices Hemlock Utility Services as was the case with the February, March, April and May, 2012 invoice.

BC Hydro Invoices				
	Month	Amount	HST	Net of HST
2011	May	\$ 8,216	\$ 880	\$ 7,336
2011	June	\$ 8,929	\$ 957	\$ 7,972
2011	July	\$ 6,360	\$ 684	\$ 5,676
2011	August	\$ 6,861	\$ 735	\$ 6,126
2011	September	\$ 7,425	\$ 795	\$ 6,629
2011	October	\$ 8,807	\$ 944	\$ 7,863
2011	November	\$ 17,744	\$ 1,901	\$ 15,843
2011	December	\$ 23,098	\$ 2,475	\$ 20,623
2012	January	\$ 27,085	\$ 2,902	\$ 24,183
2012	February, March, April, and May	\$ 49,072	\$ 5,251	\$ 43,821
13 Month Total		\$ 163,596	\$ 17,521	\$ 146,075

In the Reconsideration RRA, after backing out \$12,583 to account for May, 2012, Hemlock Utility Services reported an actual Cost of Energy of \$133,492 for F2012. (Exhibit B-5, BCUC IR 2.25,3, 2.25.4)

Panel Determination – Cost of Energy

Hemlock Utility Services' adjustment of \$12,583 for May 2012 represents approximately 29 percent of the total amount of the four month BC Hydro invoice of \$43,821. This calculation appears to be premised on the assumption that daily electricity consumption in May is roughly equivalent to daily consumption in February, March and April. The Commission Panel is of the view that this assumption is unrealistic, given that May temperatures tend to be warmer and there are more daylight hours.

The Commission Panel is of the view that May, 2011 consumption represents a better proxy for May, 2012 consumption such that an adjustment of \$7,336 would be more appropriate.

Accordingly, the Commission Panel approves \$138,739 for the Cost of Energy to be recovered in F2012 rates.

6.2 Total Operating Costs Summary

In summary, based on the determinations above, Total Operating Costs including General Expenses, Staff and Management, Repairs and Maintenances, Depreciation, and Cost of Energy, approved for recovery in F2012 rates are \$265,128.

REVENUE REQUIREMENTS			
	Original RRA	Reconsideration RRA	Reconsideration RRA
	Order G-66-12	Requested	Approved
General Expenses	\$ 20,565	\$ 16,985	\$ 28,000
Staff and Management	\$ 14,588	\$ 51,003	\$ 59,200
Repairs and Maintenance	\$ 119,171	\$ 7,715	\$ 30,000
Depreciation	\$ 11,062	\$ 9,189	\$ 9,189
Cost of Energy	\$ 150,696	\$ 133,492	\$ 138,739
Total Operating Costs	\$ 316,082	\$ 218,384	\$ 265,128

6.3 Miscellaneous Revenues

Hemlock Utility Services receives revenues from customers for miscellaneous items such as interest on late payments and reconnect/disconnect fees. Miscellaneous Revenues collected by the Utility serve to reduce the revenue requirement. On average, the Miscellaneous Revenues collected from customers for F2009 through F2012 were \$615 per year. (Exhibit B-2, BCUC IR 1.3.1)

Panel Determination - Miscellaneous Revenues

The Panel determines that the Revenue Requirement should be reduced by the four year average of annual miscellaneous revenues in the amount of \$615. The four year average is considered to be a normalized amount for F2012 and the best approximation of what can be expected in the future.

6.4 Determining Rate Base

Rate base represents an entity's investment in regulated operations and can include net working capital, deferred assets, and the net book value of Property, Plant and Equipment. It generally excludes construction work in progress.

Because a utility's rate base varies over time, as assets are added or retired and depreciation is taken, an average mid-year rate base is usually used for rate setting purposes. The mid-year rate base for a particular test period is calculated by taking the average of the opening and closing rate base balances. An entity's rate base must be approved by the regulator.

Hemlock Utility Services' rate base consists solely of Property, Plant and Equipment (PP&E). These PP&E assets are included in rate base at their net book value (original or historical cost less accumulated depreciation). Accumulated depreciation is deducted from the historical cost of the assets to arrive at the net book value of rate base, since the depreciation expense which has been taken represents the portion of the cost of the assets that has already been recovered from customers.

Among other things, Order G-66-12 retroactively approved the 2006 sale of the utility assets from the Receiver Manager to 0762608 BC Ltd. and then to Hemlock Utility Services, subject to the following condition:

"The year ending balance of rate base of Hemlock at April 30, 2011, for rate setting purposes is deemed to be \$189,939. This amount was determined using one third of the fixed assets [PP&E] for Hemlock at April 30, 2011, which amounted to \$205,474, less a deemed amortization charge totalling \$15,535, to recognize unrecorded amortization on assets between April 30, 2004 and October 25, 2006."

(Order G-66-12 Directive 1(a))

As noted in the excerpt from Order G-66-12 set out above, the April 30, 2011 year end rate base for the Hemlock Utility Services' electric division was determined by taking the net book value of PP&E for the three Hemlock Utility Services divisions of \$616,422 and allocating one third to the electric division to arrive at \$205,474. From this \$15,535 was deducted to account for the unrecorded amortization for the period from April 30, 2004 to October 26, 2006, which was largely prior to the

purchase of the utility assets by the current owner, to arrive at the year end rate base of \$189,939 for F2011.

During the IR process, Hemlock Utility Services argued that the F2012 rate base for the electric division should be increased to \$692,316, representing 78 percent of what it claimed was the combined PP&E of the three divisions of \$887,342 at the F2012 year end. This proposed PP&E valuation is based on what Hemlock Utility Services describes as the “fair market value [of the electric division’s rate base assets] at the time of purchase.” (Exhibit B-2, BCUC IR 1.16.1)

Panel Determination – Rate Base

As illustrated above, the net book value of PP&E used to determine the April 30 F2011 year end rate base balance, as directed in Order G-66-12, was \$616,422. However, this value of \$616,422 does not accord with the net book value of PP&E found in the unaudited Notice to Reader Financial Statements for Hemlock Utility Services which shows a balance of \$623,396 for the F2011 year end of April 30. (Exhibit A2-1)

As the difference between the net book value per Order G-66-12 (\$616,422) and the unaudited Notice to Reader Financial Statements (\$623,396) is in the order of 1 percent and not material, the Commission Panel determines, for regulatory efficiency going forward, that it will use the net book value from the Financial Statements. In the result, the net PP&E balance at April 30, 2011 is determined to be \$207,799.

The F2011 year end net PP&E balance also represents the starting point for F2012. Based on a beginning of the year balance of \$207,799, less the depreciation adjustment pursuant to Order G-66-12 (which represents unrecorded accumulated depreciation), and an end of the year balance of \$183,075 **the Panel determines the mid-year F2012 Rate Base balance used to determine the F2012 rate is \$187,669**, as set out in the Table below.

F2012 Rate Base	
Account	Electric Division F2012
PP&E Net of Accumulated Depreciation Beginning of the Year	\$ 207,798
Depreciation Adjustment Pursuant to Order G-66-12	\$ 15,535
Net PP&E Beginning of the Year	\$ 192,264
F2012 Additions	\$ -
F2012 Retirements	\$ -
F2012 Depreciation Expense	\$ 9,189
Net PP&E End of the Year	\$ 183,075
Mid-Year PP&E F2012	\$ 187,669
Other Rate Base Items	\$ -
Mid-Year Rate Base F2012	\$ 187,669

The Commission Panel is not prepared to increase the rate base for the electric division to an amount of \$692,316 as proposed by Hemlock Utility Services. Order G-66-12 was clear in its requirement that the Utility would need to apply to the Commission to include additional assets in its rate base. Further, Hemlock Utility Services has provided no evidence in support of its requested revaluation. This proposed revaluation also appears to be based on what Hemlock Utility Services considers to be “fair market value at the time of purchase” and not historic cost as is required by GAAP and used in utility accounting. Moreover, the increased valuation proposed for the electric division’s rate base exceeds the net book value of all cost based Property and Equipment balance reported in the unaudited Notice to Reader Financial Statements for the entire Utility (i.e. all three divisions) in every year for which these statements were produced (i.e. F2009-F2012). (Exhibit A2-1)

The Panel is also concerned with Hemlock Utility Services maintaining its records for PP&E on a consolidated basis. Hemlock Utility Services confirms that it would be possible for it to maintain its records for the electric division’s rate base (PP&E balance) separately in the future. (Exhibit B-5, BCUC IR 2.16.1, 2.16.2)

As such, the Commission Panel directs Hemlock Utility Services to maintain its electric division PP&E records separately from the other divisions and to report the opening and closing balances,

as well as details regarding any additions to, or retirements from, rate base on an annual basis as part of its annual reporting to the Commission.

6.5 Determining the Allowed Return on Rate Base (Fair Return Standard)

A utility is entitled to a reasonable opportunity to earn a “fair return” on its invested capital. The fair return represents the recovery of the cost of both debt and equity financing required to maintain the regulated operations and is calculated by multiplying the particular utility’s “rate base” (as calculated above) by its cost of capital.

6.5.1 Cost of Capital Rate

The cost of capital represents the average cost of financing rate base. It is a function of the interest which the entity pays, or is deemed to pay, and what is determined to be a fair return on the equity invested in the entity, weighted by the entity’s capital structure.

Order G-66-12 Directive 3 states:

For the purposes of rate setting, the Commission accepts Hemlock’s legal structure, which includes assets and operations of both the electrical utility and other non-regulated items. In order to set rates using a cost of service model, the Commission deems Hemlock’s electrical utility to have the following:

- a. A debt to equity structure of 40 percent to 60 percent;
- b. An allowable return on equity at 9.5 percent, consistent with the current rate of return of BC’s benchmark Utility;
- c. A deemed debt financing rate, as determined using the Bank of Canada prime rate for February 2012, of the Canadian prime rate plus a two percent risk premium.

6.5.1.1 Debt Financing

Hemlock Utility Services is entitled to a deemed debt financing rate equal to the prime rate plus 2 percent. The Bank of Canada prime rate for the purposes of this Reconsideration RRA is 3 percent, resulting in a 5 percent debt financing rate. The cost of debt to be recovered in rates is calculated by multiplying the mid-year rate base, which the Panel has determined to be \$187,669 for F2012, by the debt component of the deemed capital structure of 40 percent, and then multiplying that

amount by the deemed financing rate of 5 percent. This results in a cost of debt for F2012 of \$3,753.

6.5.1.2 Cost of Equity

The cost of equity to be recovered in rates is calculated by multiplying the mid-year rate base of \$187,669 by the equity component of the deemed capital structure of 60 percent, and then multiplying that amount by the allowed return on equity of 9.5 percent. This results in a cost of equity for F2012 of \$10,697.

Hemlock Utility Services' 9.5 percent equity return was noted in Directive 3, set out above, to be "consistent with the current rate of return of BC's benchmark Utility." However, in February of 2012, by Order G-20-12, the Commission initiated a proceeding (the Generic Cost of Capital Proceeding) to review, among other things, the appropriate return on equity for the benchmark low-risk utility in British Columbia. One result of the Generic Cost of Capital Proceeding was the determination of a lower return on equity for the benchmark utility of 8.75 percent, effective January 1, 2013.

Stage Two of the Generic Cost of Capital Proceeding will consider individual utilities in relation to the benchmark, and is currently underway.

Panel Determination – Allowed Return on Rate Base

As shown in the Table below, Hemlock Utility Services is entitled to an assumed capital structure made up of 60 percent equity and 40 percent debt. It is allowed a 5 percent cost for debt and a 9.5 percent return on equity. **A mid-year rate base of \$187,669 for F2012 therefore supports an allowed return on rate base of \$14,450.** (Exhibit B-5, BCUC IR 2.18.1)

Allowed Return on Rate Base		
Mid Year Rate Base		\$ 187,669
Deemed Common Equity	60%	\$ 112,601
Allowable Return on Rate Base	9.50%	\$ 10,697
Deemed Debt	40%	\$ 75,067
Allowed Debt Financing Rate	5%	\$ 3,753
Allowed Return on Rate Base		\$ 14,450

The Commission Panel notes that the period for the Reconsideration RRA is F2012, such that the return on equity to be used is unaffected by the Generic Cost of Capital Proceeding. However, the Commission Panel sees no need to recommend an adjustment to the allowed return on equity used to calculate Hemlock Utility Services' Revenue Requirements in future years at this time due to the Generic Cost of Capital Proceeding. It seems likely to this Panel that Hemlock Utility Services, as a small utility, will likely be able to at least maintain the 9.5 percent return on equity to which it has historically been entitled.

7.0 F2012 TOTAL REVENUE REQUIREMENT – APPROVED

Based on the reasons provided above, as shown in the Table below, the calculation of the Revenue Requirement for recovery in F2012 rates is \$278,963.

REVENUE REQUIREMENTS				
	Original RRA	Reconsideration RRA	Reconsideration RRA	
	Order G-66-12	Requested	Approved	
General Expenses	\$ 20,565	\$ 16,985	\$ 28,000	
Staff and Management	\$ 14,588	\$ 51,003	\$ 59,200	
Repairs and Maintenance	\$ 119,171	\$ 7,715	\$ 30,000	
Depreciation	\$ 11,062	\$ 9,189	\$ 9,189	
Cost of Energy	\$ 150,696	\$ 133,492	\$ 138,739	
Total Operating Costs	\$ 316,082	\$ 218,384	\$ 265,128	
Miscellaneous Income	\$ -	\$ -	-\$ 615	
Total Other Income			-\$ 615	
Return on Common Equity	\$ 7,007		\$ 10,697	
Debt Financing	\$ 5,532		\$ 3,753	
Total Allowed Return on Rate Base	\$ 12,539		\$ 14,450	
TOTAL REVENUE REQUIREMENTS	\$ 328,621	\$ 218,384	\$ 278,963	

8.0 DETERMINING PERMANENT RATES

In standard revenue requirements applications, rates are determined by taking the approved revenue requirement, allocating a portion to be recovered through the “minimum charge,” and then dividing the remaining balance by the number of “kWh of electricity estimated to be sold” over the same period. These two components are discussed in more detail below.

8.1 Minimum Charge

Hemlock Utility Services’ Electric Tariff does not include a Basic Charge which typically is intended to recover fixed distribution and billing-related costs; however, the Tariff does include a Minimum Charge. Therefore, even if no energy is consumed in a given month, a minimum charge is imposed to cover some of the utility’s fixed costs.

On average, for F2009 through F2012, the total gross annual revenue Hemlock Utility Services generated through the Minimum Charge was \$16,390 with a related energy component of 45,396 kWh. Revenues net of actual energy costs were, on average, \$9,103 per annum over the same four year period based on an energy rate of \$0.1605. (Exhibit B-2, BCUC IR 1.7.1, 1.7.2, 1.7.3)

Panel Determination - Minimum Charge

The Panel determines that the Revenue Requirement which will be used to determine the kWh rate will need to be adjusted to account for, and therefore reduced by, the average annual net revenues generated by the Minimum Charge.

In this case, the Panel finds the four year average of \$9,103 per annum (rounded to \$9,100) to be an appropriate normalized amount for F2012, as the longer time period provides a more reasonable estimate of what has occurred in the past and can be expected in the future.

8.2 Kilowatt Hours of Electricity Available for Sale in F2012

8.2.1 Unmetered Electricity

As noted earlier, during the IR process, which included the production of source documents relating to the Utility's purchases of electricity from BC Hydro, the Commission noted that Hemlock Utility Services was purchasing significantly more kWh of electricity from BC Hydro than its metered customers were consuming.

Hemlock Utility Services advises that the reason for the discrepancy is that there are unmetered customers. Hemlock Utility Services asserts that neither it nor its owners were aware at the time of the purchase of the utility operations that there was unmetered usage. It further acknowledges the operations have apparently been unmetered since they were purchased by the current owners in October, 2006. Hemlock Utility Services states that it did not become aware of the situation until the fall of 2012; some time after Order G-66-12 was issued, and, as such was unaware of the unmetered operations when the Original RRA was filed. (Exhibit B-5, BCUC IR 2.19.6, 2.19.7)

In the Reconsideration RRA, Hemlock Utility Services reported actual electricity purchased from BC Hydro in F2012 of 2,133,501 kWh. (Exhibit B-2, Attachment Schedule 1) Consumption of electricity has been allocated by the Utility between "Hemlock" and "Non Hemlock" customers. "Hemlock" in this instance refers to the related party companies of Hemlock Resort and Hemlock Utility Services' other two divisions, while "Non Hemlock" refers to any other accounts. (Exhibit B-5, BCUC IR 2.20.2) In F2012, the allocation was 791,387 kWh for "Hemlock" customers and 1,342,114 kWh for "Non Hemlock" customers, based on the Utility's estimate of 2,133,501 kWh. (Exhibit B-5, BCUC IR 2.20.2.1) Thus, "Hemlock" customers accounted for approximately 37 percent of the kWh purchased, while "Non Hemlock" customers accounted for the remaining 63 percent. This estimate does not include any reduction for "line losses."

There are nine related party "Hemlock" accounts: Resort Lodge, Resort Bunkhouse, Resort Cat Shop, Resort Lift Maintenance, Resort Lifts, Resort Parking Lot, Resort Run Lights, Utility Old Gen Shed, and Utility Sanitary Plant. (Exhibit B-5, BCUC IR 2.19.9) Hemlock Utility Services has

identified Resort Lifts, Resort Parking Lot and Resort Run Lights as the unmetered accounts. (Exhibit B-5, BCUC IR 2.19.10.1) Hemlock Utility Services estimates the unmetered electricity for F2012 to be 377,610 kWh, or 47.7 percent of the electricity consumption attributed to “Hemlock” customers. (Exhibit B-5, BCUC IR 2.20.2.1)

In order to calculate an appropriate rate for all of Hemlock Utility Services’ customers, it will be necessary to make an adjustment for the unmetered electricity consumption, as the standard method, which generally involves dividing the revenue requirement by (forecast) sales in kWh, will otherwise produce a skewed result. Because Hemlock Utility Services purchases electricity strictly for resale to its customers (Exhibit B-2, BCUC IR 1.6.2), the F2012 rate can be determined by dividing the Utility’s revenue requirement for F2012 by the total kWh of electricity purchased from BC Hydro in F2012, after adjusting for estimated line losses. This will provide the total kWh Hemlock Utility Services had available for sale in F2012.

8.2.2 Kilowatt Hours of Electricity Purchased from BC Hydro in F2012

In the Original RRA, Hemlock Utility Services forecasted electricity consumption of 1,430,976 kWh for F2012. In the Reconsideration RRA, Hemlock reported actual electricity consumption of 2,133,501 kWh for F2012. (Exhibit B-2, Attachment, Schedule 1)

The most accurate way to determine the actual energy purchased from BC Hydro is to trace the kWh purchased back to the BC Hydro invoices. However, as identified in the Cost of Energy calculation, the May, 2012 energy purchases, which are not part of F2012, were included in a four month billing from BC Hydro, from February, 2012 through May, 2012. In order to obtain a reasonable estimate of kWh purchased in F2012, the amounts shown in the BC Hydro invoices for the 13 month period can be aggregated and then adjusted to eliminate purchases for May, 2012.

For the 13 month period starting in May, 2011, Hemlock Utility Services purchased 2,394,000 kWh of electricity according to the relevant BC Hydro invoices. (Exhibit B-5, BCUC IR 2.25.3)

BC Hydro Invoices		
	Month	Net of HST
2011	May	\$ 7,336
2011	June	\$ 7,972
2011	July	\$ 5,676
2011	August	\$ 6,126
2011	September	\$ 6,629
2011	October	\$ 7,863
2011	November	\$ 15,843
2011	December	\$ 20,623
2012	January	\$ 24,183
2012	February, March, April, and May	\$ 43,821
13 Month Total		\$ 146,075

In arriving at its estimate of actual consumption for F2012 of 2,133,501 kWh, it appears that Hemlock Utility Services did not include some Part II energy purchases in its initial calculation of the 13 month total. This error resulted in the total purchases for the 13 month period being understated by 67,939 kWh. Hemlock Utility Services then adjusted for May, 2012 purchases by subtracting 192,563 kWh from its 13 month total to arrive at 2,133,501 kWh for F2012. (Exhibit B-5, BCUC IR 2.25.3)

Panel Determination – F2012 kWh of Electricity

The Panel does not agree with the Utility's estimate of the May, 2012 purchases. The Panel finds that purchases for May, 2011 are a better proxy for May, 2012 purchases than purchases in other months, due to differences in temperature and daylight hours.

The Commission Panel determines that deducting May, 2011 purchases of 131,400 kWh from the 13 month purchases of 2,394,000 kWh, resulting in total purchases of 2,262,600 for F2012 is more appropriate, and is a better method to estimate F2012 energy purchases. This represents a difference from Hemlock Utility Services' calculation of 129,099 kWh, or approximately 5.7 percent of the total kWh purchased in F2012.

In F2012 Hemlock Utility Services paid BC Hydro on average \$0.06 per kWh in F2012 based on an invoiced amount of \$138,739 for 2,262,600 kWh.

8.2.3 Line Losses

Line losses represent the difference between electricity purchased or generated and electricity sold to customers due to resistance resulting from factors such as the physical make up of the transmission/distribution system and ambient temperature.

Hemlock Utility Services estimates line losses in the order of 8 percent. Hemlock Utility Services advises that this estimate was provided by an independent third party, based on the poor quality of some of the electricity distribution infrastructure. (Exhibit B-3, Lacey IR 1.4)

Panel Determination – Line Losses

The Panel accepts the 8 percent line loss estimate provided by Hemlock Utility Services for the purposes of this Reconsideration RRA. Once all usage is metered, it will be possible to estimate line losses with much greater certainty. **The Panel determines that the appropriate adjustment for line losses for F2012 is 8 percent of 2,262,600 kWh or 181,008 kWh.**

8.3 Kilowatt Hours Available for Sale in F2012 – Approved

Panel Determination – kWh Available for Sale in F2012

In the result, the Panel determines that 2,081,592 kWh of electricity were available for sale by Hemlock Utility Services in F2012 based on 2,262,600 kWh purchased from BC Hydro reduced by 181,008 kWh in line losses.

9.0 SETTING PERMANENT RATES

Panel Determination – Permanent Rates

Energy Charge Rate

The Panel sets the permanent Energy Charge Rate at \$0.13 per kWh for all residential, commercial, and industrial customers.

The permanent Energy Charge Rate is determined by taking the approved Revenue Requirement for F2012 of \$278,963, allocating \$9,100 to be recovered through the Minimum Charge, and then dividing the remaining balance of \$269,862 by 2,081,593 kWh of electricity available for sale in F2012.

The Panel determines that spreading the approved Revenue Requirement for F2012 over the total kWh Hemlock Utility Services has available for sale in F2012 rather than the number of kWh it actually sold will ensure Hemlock Utility Services' metered customers are not paying for any unmetered electricity. This will, in effect, leave Hemlock Utility Services out of pocket for the unmetered electricity which is not inappropriate given that the unmetered electricity was provided to a related party customer.

Minimum Charge

Prior to Order G-66-12, Hemlock Utility Services' Electric Tariff included a Minimum Charge of \$20 per month.

In the Original RRA, Hemlock Utility Services applied for, and was granted approval for an increase in the Minimum Charge from \$20 to \$24 for monthly consumption less than 124 kWh.

The Panel sees no reason to increase the Minimum Charge and therefore sets the permanent Minimum Charge at \$20 per month. This amount is sufficient to provide offsetting revenues and is consistent with the lower approved Energy Charge Rate.

The Commission Panel determines that it is not necessary to specifically state in the Electric Tariff the kWh that will result in a Minimum Charge of \$20 since it is simply the result of an arithmetic calculation and will adjust with any change in the Energy Charge Rate. However, for information purposes, based on an Energy Charge Rate of \$0.13, any consumption under 154 kWh in a given month will result in a Minimum Charge of \$20.

10.0 PERMANENT RATE COMPARED TO ORDER G-66-12

F2012 REVENUE REQUIREMENTS and ENERGY CHARGE				
	Original RRA Order G-66-12	Reconsideration RRA Requested	Reconsideration RRA Approved	Difference (Order G-66-12 and Approved)
General Expenses	\$ 20,565	\$ 16,985	\$ 28,000	\$ 7,435
Staff and Management	\$ 14,588	\$ 51,003	\$ 59,200	\$ 44,612
Repairs and Maintenance	\$ 119,171	\$ 7,715	\$ 30,000	\$ (89,171)
Depreciation	\$ 11,062	\$ 9,189	\$ 9,189	\$ (1,873)
Cost of Energy	\$ 150,696	\$ 133,492	\$ 138,739	\$ (11,957)
Total Operating Costs	\$ 316,082	\$ 218,384	\$ 265,128	\$ (50,954)
Miscellaneous Income	\$ -	\$ -	-\$ 615	\$ (615)
Total Miscellaneous Income			-\$ 615	\$ (615)
Return on Common Equity	\$ 7,007		\$ 10,697	\$ 3,690
Debt Financing	\$ 5,532		\$ 3,753	\$ (1,779)
Total Allowed Return on Rate Base	\$ 12,539		\$ 14,450	\$ 1,911
TOTAL REVENUE REQUIREMENTS	\$ 328,621	\$ 218,384	\$ 278,963	\$ (49,658)
Net Minimum Charge			\$ (9,100)	
			\$ 269,863	
kWh Available for Sale	1,430,976		2,081,592	650,616
PERMANENT ENERGY CHARGE RATE (\$/kWh)	\$ 0.23		\$ 0.13	-\$ 0.10

Revenue Requirement

The approximate \$50,000 reduction in the Total Revenue Requirement from the amount approved in the Original RRA (Order G-66-12) is due in a large measure to a reduction in the approved Repairs and Maintenance and Cost of Energy expenses, offset somewhat by an increase in the amounts approved for Staff and Management expense.

Energy Charge Rate

In the Original RRA, Hemlock Utility Services forecasted a F2012 revenue requirement of \$328,621 and forecast electricity sales of 1,430,976 kWh, which resulted in an Energy Charge Rate of \$0.23 per kWh (i.e. $\$328,621 / 1,430,976 \text{ kWh} = \$0.23/\text{kWh}$).

The Commission Panel has determined that a lower permanent Energy Charge Rate than that approved by Order G-66-12 is warranted. This is primarily the result of adjusting for the unmetered electricity consumption.

11.0 OTHER DIRECTIVES

11.1 Unmetered Operations

Hemlock Utility Services has confirmed that as of June 5, 2013, all the unmetered operations remain unmetered. Hemlock Utility Services states that it is currently waiting for parts from overseas which are required before the meters can be connected. (Exhibit B-5, BCUC IR 2.19.0)

The Commission Panel directs that meters be installed for all unmetered operations as soon as reasonably possible. Hemlock Utility Services is to report on the status of the installation on or before November 1, 2013.

11.2 Related Party Transactions

As noted earlier, the Commission Panel is concerned with the large number of non-arm's length/related party transactions in which the Utility's electric division is involved. The Panel at this time will not require the Utility to prepare a formal Transfer Pricing Policy. Rather, the Panel directs Hemlock Utility Services to report and provide relevant documentation relating to all non-arm's length transactions in its annual report to the Commission.

11.3 Refund

The Commission has determined that permanent rates consisting of an Energy Charge Rate of \$0.13 per kWh and a Minimum Charge of \$20 per month represent just and reasonable rates. These permanent rates are lower than the interim rates established by Order G-128-12 which consist of a Minimum Charge of \$24 plus an Energy Charge Rate of \$0.23 per kWh for consumption above 124 kWh in a month.

Therefore, Hemlock Utility Services is directed to refund the difference between the permanent rates and the previously approved interim rates, with interest at the short term debt rate of Hemlock Utility Services' principal bank, as directed by Order G-128-12. This refund is due to all Hemlock Utility Services' customers that were customers during any time in the interim period which commenced on September 1, 2012.

The Panel directs that, for ease of administration, refunds are to be provided by way of bill credits for all customers of Hemlock Utility Services who are customers on the date of this Order.

For any customers who were customers of Hemlock Utility Services during the interim period, but who are no longer Hemlock Utility Services' customers on the date of this Order, Hemlock Utility Services is to provide the refund by way of a mailed cheque, within 60 days of the date of this Order, subject to forwarding information being available. Hemlock Utility Services is to report to the Commission identifying any customers whose forwarding information is unknown where the amount of the refund owed and outstanding exceeds \$20, within 75 days of this Order.

For any customers who were customers of Hemlock Utility Services during the interim period and on the date of this Order, but who cease to be Hemlock Utility Services' customers prior to receiving the full benefit of the credit to their accounts, Hemlock Utility Services is to provide a refund by way of cheque for the amount of refund still owing within 30 days of closing the account.

11.4 Automatic Rate Adjustment

The Commission Panel has looked at actual F2012 costs as well as historical and forecast costs in an attempt to approve a normalized level of costs for F2012 which it considers reasonable and necessary for the operation of the Utility on both a current and forward-looking basis. The Commission Panel also expects that Hemlock Utility Services' rate base will remain relatively stable as capital additions (from, for example, greater capitalization of costs previously assigned to Repairs and Maintenance expense) will likely serve to offset decreases in rate base from depreciation expense.

However, any change in the Cost of Energy as a result of a change in rates charged by BC Hydro will directly affect Hemlock Utility Services' costs to operate the utility. Since the Cost of Energy represents 50 percent of the total F2012 Revenue Requirement and is the single largest cost for the Utility, the Commission will allow Hemlock Utility Services to have an "Automatic Rate Adjustment" mechanism which will allow Hemlock Utility Services to automatically update the Energy Charge Rate when there is an approved change in BC Hydro's rates. This will ensure that any change in BC Hydro's rates passes directly to Hemlock Utility Services' customers.

The Panel is hopeful that these provisions will reduce the need for Hemlock Utility Services to return to the Commission with further revenue requirements applications which, as previously noted, are time-consuming and expensive, particularly for a small utility, which has fewer customers over which to spread such costs.

Automatic Rate Adjustment Mechanism

Since Hemlock Utility Services' Cost of Energy represents 50 percent of the total F2012 Revenue Requirements, the **Commission Panel approves an "Automatic Rate Adjustment" mechanism for Hemlock Utility Services on the basis of 50 percent of any percentage change in BC Hydro's Rate Schedule 1611 (Large General Service) or Schedule 1901 (Deferral Account Rate Rider) equal to or greater than 2 percent. The effective date for Hemlock Utility Services' rate change will be the same effective date as for BC Hydro.**

If Hemlock Utility Services wishes to utilize the “Automatic Rate Adjustment” and automatically change the Energy Charge Rate it must file an amended Tariff Sheet with the Commission within 21 days of the effective date of the BC Hydro rate change, subject to complaint and subject to review by the Commission to verify the arithmetic accuracy of the rate.

To illustrate the “Automatic Rate Adjustment” mechanism, an assumed increase in BC Hydro rates of 8 percent would allow Hemlock Utility Services to automatically increase an Energy Charge Rate of \$.13, as approved by this Decision, to \$.135.

Automatic Rate Adjustment			
<i>Illustrative Example</i>			
<i>Currently Approved Energy Charge Rate</i>		\$ 0.130	per kWh
BC Hydro Rate Increase	8%		per kWh
Hemlock Automatic Rate Increase (50% X 8%)	4%	\$ 0.005	per kWh
<i>Automatically Approved Energy Charge Rate</i>		\$ 0.135	per kWh

The Panel sets a minimum BC Hydro Rate change threshold of 2 percent since any increase less than that would not present a material cost increase to Hemlock Utility Services.

For additional clarity, a further Commission Order to approve a rate change by means of the “Automatic Rate Adjustment” mechanism as established by this Decision is not required.

11.5 Notice to Reader Financial Statements

As noted earlier, the Financial Statements which relate to Hemlock Utility Services are unaudited, Notice to Reader statements. Although audited financial statements, by their very nature, provide additional assurance, they are considerably more expensive and such costs are eligible to be recoverable from customers through rates. The Panel is satisfied that the Notice to Reader statements available, combined with the thorough Information Request process undertaken, have provided sufficient information to allow the Panel to set rates for F2012. The Panel will not require audited financial statements to be prepared at this time.

11.6 Annual Reports

Pursuant to Order G-66-12, Hemlock Utility Services is required to file its annual report to the Commission within four months of its year end. The Commission has accepted Hemlock Utility Services Notice to Reader Financial Statements and CRA filed tax return as meeting the annual report filing requirements.

The Commission is currently in the process of establishing a more detailed list of requirements for annual reporting pertaining to utilities of different sizes. Once the new annual report requirements have been determined, Hemlock Utility Services will be required to comply with all applicable requirements. However, these new requirements will not relieve Hemlock Utility Services from filing the additional information as directed in this Decision.

In addition to the annual reporting directives already made, **the Commission directs Hemlock Utility Services to file the following as part of its annual report to the Commission:**

- a. Annual data on the following Service Quality Metrics, as identified in the Table below.**

Metric	F2013	F2014	F2015
Number of Power Outages			
Average time of Power Outage			
Billing Accuracy (the percentage of invoices that are accurately calculated based on the customer's consumption and do not require adjustment or rebilling.)			
Customer Complaints to the Utility			
Customer Complaints to the BCUC*			
* Information reflects Commission's March 31 fiscal year end (i.e. data for April 1, 2010 to March 31)			

- b. A map of the Hemlock Valley Lease Area as identified in the Electric Tariff.**
- c. A list of all related party transactions including details of the transactions, the amount of the transactions and the party or parties they were made with.**
- d. Confirmation that no transaction including any related party transaction, has taken place outside the Hemlock Valley Lease Area and been charged to Hemlock Utility Services Ltd.'s electric division.**
- e. A list of all capital expenditures charged to Hemlock Utility Services Ltd.'s electric division including confirmation that such expenditures are within the Hemlock Valley Lease Area.**

12.0 SUMMARY OF DETERMINATIONS, DIRECTIVES AND RECOMMENDATIONS

This Summary is provided for the convenience of readers. In the event of any difference between the Directions in this Summary and those in the body of the Decision, the wording in the Decision shall prevail.

	Directive	Page
1.	<u>6.1.1 – General Expenses</u> Accordingly, Hemlock Utility Services’ allocation methodology for General Expenses as proposed in the Reconsideration RRA is approved. The Utility is directed to use the same allocation methodology for General Expenses in all future revenue requirements applications until such time as a change is approved by the Commission.	13
2.	<u>6.1.1 – General Expenses</u> The Panel approves \$28,000 of General Expenses for recovery in F2012 rates	13
3.	<u>6.1.1 – General Expenses</u> As such, Bank Charges and Interest expense is approved at \$3,500.	14
4.	<u>6.1.1 – General Expenses</u> Similarly, Dues and Subscriptions expense is approved at \$1,000.	14
5.	<u>6.1.1 – General Expenses</u> Office and Miscellaneous expense is approved at \$3,000.	14
6.	<u>6.1.1 – General Expenses</u> Office Rent expense is approved in the amount of \$5,500.	14
7.	<u>6.1.1 – General Expenses</u> Insurance expense is approved in the amount of \$11,500.	14
8.	<u>6.1.1 – General Expenses</u> Automotive expense is approved in the amount of \$3,500.	15
9.	<u>6.1.2 Staff and Management Costs</u> The Panel approves \$59,200 of Staff and Management Costs for recovery in F2012 rates	19

10.	<u>6.1.2 Staff and Management Costs</u> The Commission Panel approves Hemlock Utility Services' proposed allocation methodology for Professional Fees. External accountants' fees are to be allocated one third to each division and other Professional Fees are to be directly allocated to the divisions incurring the expenditure. The Utility is directed to use this allocation methodology for Professional Fees in all future revenue requirements applications until such time as a change is approved by the Commission.	19
11.	<u>6.1.2 Staff and Management Costs</u> The Panel approves a normalized expense of \$6,000 for Professional Fees	20
12.	<u>6.1.2 Staff and Management Costs</u> The Commission Panel approves the allocation methodology for Salaries and Wages as follows: the electric division is to be allocated 70 percent of the office staff's salary and 10 percent of the Hemlock Resort operations manager's salary. The Utility is directed to use this allocation methodology for Salaries and Wages in all future revenue requirements applications until such time as a change is approved by the Commission	20
13.	<u>6.1.2 Staff and Management Costs</u> Accordingly, the Panel approves an amount of \$16,200 for the time of the office staff and a further \$11,800 for the time of the Hemlock Resort operations manager for a total of \$28,000 for Salaries and Wages.	20
14.	<u>6.1.2 Staff and Management Costs</u> The Panel does not approve the proposed formula and requested amount for Management Fees.	20
15.	<u>6.1.2 Staff and Management Costs</u> The Panel therefore approves \$4,200 for accounting/bookkeeping related tasks	22
16.	<u>6.1.2 Staff and Management Costs</u> The Panel therefore approves \$7,200 to be included in rates for administrative and related tasks	22
17.	<u>6.1.2 Staff and Management Costs</u> The Panel approves an amount of \$13,800 for executive time	23
18.	<u>6.1.2 Staff and Management Costs</u> In summary, based on the determinations above, the Panel approves \$25,200 in Management Fees for recovery in F2012 rates.	23
19.	<u>6.1.3 – Repairs and Maintenance</u> Accordingly, for regulatory purposes, Hemlock Utility Services is directed to follow the capitalization policies as outlined in the CICA Handbook.	26

20.	<u>6.1.3 – Repairs and Maintenance</u> The Panel directs that, for regulatory purposes, new meter and meter recertification costs are to be added to rate base through Property, Plant and Equipment, with depreciation taken over the useful life of the relevant asset, and are not to be charged as an expense in the period incurred. The Panel also directs a depreciation rate of 5 percent per annum be applied to new meters based on a 20 year useful life, and a depreciation rate of 12.5 percent per annum be applied to recertification costs based on Measurement Canada's 8 year recertification requirements.	27
21.	<u>6.1.3 – Repairs and Maintenance</u> If Hemlock Utility Services chooses to follow different rules for its own financial reporting purposes than it has been directed to do for regulatory purposes, Hemlock Utility Services is to provide a reconciliation to the Commission as part of its annual report filing.	27
22.	<u>6.1.3 – Repairs and Maintenance</u> The Panel approves Hemlock Utility Services' proposed methodology of allocating Repairs and Maintenance costs directly to the division incurring the expense. The Utility is directed to apply this allocation methodology for Repairs and Maintenance expenses in all future revenue requirements applications until such time as a change is approved by the Commission.	27
23.	<u>6.1.3 – Repairs and Maintenance</u> Accordingly, the Panel determines that a normal level of Repairs and Maintenance expense for F2012 is \$30,000.	28
24.	<u>6.1.3 – Repairs and Maintenance</u> The Commission directs Hemlock Utility Services to include a summary of all rate base additions, as well as all Repairs and Maintenance costs, in its annual report to the Commission and to identify any related party transactions.	28
25.	<u>6.1.4 – Depreciation</u> The Commission approves the depreciation expense proposed by Hemlock of \$9,189 for F2012.	28
26.	<u>6.1.5 – Cost of Energy</u> Accordingly, the Commission Panel approves \$138,739 for the Cost of Energy to be recovered in F2012 rates.	30
27.	<u>6.1.5 – Cost of Energy</u> In summary, based on the determinations above, Total Operating Costs including General Expenses, Staff and Management, Repairs and Maintenances, Depreciation, and Cost of Energy, approved for recovery in F2012 rates are \$265,128.	31
28.	<u>6.3 – Miscellaneous Revenues</u> The Panel determines that the Revenue Requirement should be reduced by the four year average of annual miscellaneous revenues in the amount of \$615	31

29.	<u>6.4 – Rate Base</u> The Panel determines the mid-year F2012 Rate Base balance used to determine the F2012 rate is \$187,669	33
30.	<u>6.4 – Rate Base</u> As such, the Commission Panel directs Hemlock Utility Services to maintain its electric division PP&E records separately from the other divisions and to report the opening and closing balances, as well as details regarding any additions to, or retirements from, rate base on an annual basis as part of its annual reporting to the Commission.	34
31.	<u>6.5 – Allowed Return on Rate Base</u> A mid-year rate base of \$187,669 for F2012 therefore supports an allowed return on rate base of \$14,450.	36
32.	<u>8.1 – Minimum Charge</u> In this case, the Panel finds the four year average of \$9,103 per annum (rounded to \$9,100) to be an appropriate normalized amount for F2012, as the longer time period provides a more reasonable estimate of what has occurred in the past and can be expected in the future.	38
33.	<u>8.2 – F2012 kWh of Electricity</u> The Commission Panel determines that deducting May, 2011 purchases of 131,400 kWh from the 13 month purchases of 2,394,000 kWh, resulting in total purchases of 2,262,600 for F2012 is more appropriate	41
34.	<u>8.2.3 – Line Losses</u> The Panel determines that the appropriate adjustment for line losses for F2012 is 8 percent of 2,262,600 kWh or 181,008 kWh.	42
35.	<u>8.3 – kWh Available for Sale in F2012</u> In the result, the Panel determines that 2,081,592 kWh of electricity were available for sale by Hemlock Utility Services in F2012 based on 2,262,600 kWh purchased from BC Hydro reduced by 181,008 kWh in line losses.	42
36.	<u>9.0 – Permanent Rates</u> The Panel sets the permanent Energy Charge Rate at \$0.13 per kWh for all residential, commercial, and industrial customers.	43
37.	<u>9.0 – Permanent Rates</u> The Panel determines that spreading the approved Revenue Requirement for F2012 over the total kWh Hemlock Utility Services has available for sale in F2012 rather than the number of kWh it actually sold will ensure Hemlock Utility Services' metered customers are not paying for any unmetered electricity.	43

38.	<u>9.0 – Permanent Rates</u> The Panel sees no reason to increase the Minimum Charge and therefore sets the permanent Minimum Charge at \$20 per month. This amount is sufficient to provide offsetting revenues and is consistent with the lower approved Energy Charge Rate.	44
39.	<u>11.0 – Other Directives</u> The Commission Panel directs that meters be installed for all unmetered operations as soon as reasonably possible. Hemlock Utility Services is to report on the status of the installation on or before November 1, 2013.	45
40.	<u>11.0 – Other Directives</u> Therefore, Hemlock Utility Services is directed to refund the difference between the permanent rates and the previously approved interim rates, with interest at the short term debt rate of Hemlock Utility Services’ principal bank, as directed by Order G-128-12. This refund is due to all Hemlock Utility Services’ customers that were customers during any time in the interim period which commenced on September 1, 2012.	46
41.	<u>11.0 – Other Directives</u> The Panel directs that, for ease of administration, refunds are to be provided by way of bill credits for all customers of Hemlock Utility Services who are customers on the date of this Order.	46
42.	<u>11.0 – Other Directives</u> For any customers who were customers of Hemlock Utility Services during the interim period, but who are no longer Hemlock Utility Services’ customers on the date of this Order, Hemlock Utility Services is to provide the refund by way of a mailed cheque, within 60 days of the date of this Order, subject to forwarding information being available. Hemlock Utility Services is to report to the Commission identifying any customers whose forwarding information is unknown where the amount of the refund owed and outstanding exceeds \$20, within 75 days of this Order.	46
43.	<u>11.0 – Other Directives</u> For any customers who were customers of Hemlock Utility Services during the interim period and on the date of this Order, but who cease to be Hemlock Utility Services’ customers prior to receiving the full benefit of the credit to their accounts, Hemlock Utility Services is to provide a refund by way of cheque for the amount of refund still owing within 30 days of closing the account.	46
44.	<u>11.0 – Other Directives</u> Commission Panel approves an “Automatic Rate Adjustment” mechanism for Hemlock Utility Services on the basis of 50 percent of any percentage change in BC Hydro’s Rate Schedule 1611 (Large General Service) or Schedule 1901 (Deferral Account Rate Rider) equal to or greater than 2 percent. The effective date for Hemlock Utility Services’ rate change will be the same effective date as for BC Hydro.	47

45.	<u>11.0 – Other Directives</u> If Hemlock Utility Services wishes to utilize the “Automatic Rate Adjustment” and automatically change the Energy Charge Rate it must file an amended Tariff Sheet with the Commission within 21 days of the effective date of the BC Hydro rate change, subject to complaint and subject to review by the Commission to verify the arithmetic accuracy of the rate.	48																												
46.	<u>11.0 – Other Directives</u> The Commission directs Hemlock Utility Services to file the following as part of its annual report to the Commission: a. Annual data on the following Service Quality Metrics, as identified in the Table below. <table border="1"><thead><tr><th>Metric</th><th>F2013</th><th>F2014</th><th>F2015</th></tr></thead><tbody><tr><td>Number of Power Outages</td><td></td><td></td><td></td></tr><tr><td>Average time of Power Outage</td><td></td><td></td><td></td></tr><tr><td>Billing Accuracy (the percentage of invoices that are accurately calculated based on the customer's consumption and do not require adjustment or rebilling.)</td><td></td><td></td><td></td></tr><tr><td>Customer Complaints to the Utility</td><td></td><td></td><td></td></tr><tr><td>Customer Complaints to the BCUC*</td><td></td><td></td><td></td></tr><tr><td colspan="4">* Information reflects Commission's March 31 fiscal year end (i.e. data for April 1, 2010 to March 31)</td></tr></tbody></table> b. A map of the Hemlock Valley Lease Area as identified in the Electric Tariff. c. A list of all related party transactions including details of the transactions, the amount of the transactions and the party or parties they were made with. d. Confirmation that no transaction, including any related party transaction, has taken place outside the Hemlock Valley Lease Area and been charged to Hemlock Utility Services Ltd.'s electric division. e. A list of all capital expenditures charged to Hemlock Utility Services Ltd.'s electric division including confirmation that such expenditures are within Hemlock Valley Lease Area.	Metric	F2013	F2014	F2015	Number of Power Outages				Average time of Power Outage				Billing Accuracy (the percentage of invoices that are accurately calculated based on the customer's consumption and do not require adjustment or rebilling.)				Customer Complaints to the Utility				Customer Complaints to the BCUC*				* Information reflects Commission's March 31 fiscal year end (i.e. data for April 1, 2010 to March 31)				49
Metric	F2013	F2014	F2015																											
Number of Power Outages																														
Average time of Power Outage																														
Billing Accuracy (the percentage of invoices that are accurately calculated based on the customer's consumption and do not require adjustment or rebilling.)																														
Customer Complaints to the Utility																														
Customer Complaints to the BCUC*																														
* Information reflects Commission's March 31 fiscal year end (i.e. data for April 1, 2010 to March 31)																														

DATED at the City of Vancouver, in the Province of British Columbia, this 1st day of October, 2013

Original Signed By

A.A. RHODES

COMMISSIONER

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-159-13

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

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



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

and

Hemlock Utility Services Ltd.
Revenue Requirements Application

BEFORE: A.A. Rhodes, Panel Chair/Commissioner October 1, 2013

O R D E R

WHEREAS:

- A. On November 30, 2010, Hemlock Utility Services Ltd. (Hemlock Utility Services, the Utility) and 0762608 B.C. Ltd. filed an Application with the British Columbia Utilities Commission (Commission) pursuant to sections 59 to 61 of the *Utilities Commission Act* (Act) requesting, among other things, approval of a rate increase for the electricity charges to the ratepayers (the Original RRA);
- B. In particular, the Original RRA sought, among other things, a rate increase for customers who use between 0 and 124 kilowatt hours from \$20 per month to \$24 per month and a rate increase for usage in excess of 124 kilowatt hours (kWh) per month from \$0.16[0]5 per kWh to \$0.18 per kWh, increased to \$0.2644 per kWh in August 2011;
- C. The Original RRA was heard by the Commission through a written hearing process which included one round of Information Requests. The Commission did not provide, nor did it direct Hemlock Utility Services to provide, public notice of the Original RRA; therefore, Hemlock Utility Services' customers did not receive notice of the request for a rate increase;
- D. By Order G-66-12 dated May 24, 2012, the Commission approved, among other things, a rate increase from \$20 per month to \$24 for usage between 0 and 124 kWh per month, and a rate increase from \$0.16[0]5 to \$0.23 per kWh for usage in excess of 124 kWh per month. The Order did not specify an effective date for the rate increase;
- E. Following the approvals granted in Order G-66-12, the Commission received approximately 30 letters from Hemlock Utility Services customers complaining about the rate increase and the process the Commission followed in hearing the Original RRA. Many of the letters requested that a new public hearing be held on the basis that no public notice had been provided for the Original RRA and also requested that the approved rate increase be deferred until such time as the Commission conducted a public hearing;

- F. On September 24, 2012, the Commission issued Letter L-54-12 seeking submissions from Hemlock Utility Services and any interested customer or party regarding a potential Reconsideration;
- G. On September 25, 2012, the Commission issued Order G-128-12 which set rates approved under Order G-66-12 as interim, effective September 1, 2012, pending determination of the potential Reconsideration;
- H. On November 30, 2012, the Commission issued Order G-184-12 ordering a Reconsideration of the rate increase portion of the Original Application pursuant to section 99 of the Act and directing Hemlock Utility Services to file a new Revenue Requirements Application;
- I. Order G-184-12 also established that the Reconsideration would proceed by way of a new written hearing;
- J. On March 8, 2013, Hemlock filed the new Revenue Requirements Application requesting that interim rates established under Order G-128-12 be made permanent (Reconsideration RRA);
- K. On March 13, 2013, by Order G-35-13, the Commission issued a Regulatory Timetable for the review of the Reconsideration RRA which provided for, among other things, two rounds of Commission and Intervener Information Requests (IRs);
- L. On May 2, 2013, by Order G-69-13, the Commission amended the Regulatory Timetable established by Order G-35-13 to allow additional time for the Utility to respond to the Intervener's first round of IRs.

NOW THEREFORE the Commission, for the reasons stated in the Decision issued concurrently with this order, makes the following determinations:

- 1. For all residential, commercial, and industrial customers, effective September 1, 2012, the permanent Energy Charge Rate is \$0.13 per kilowatt hour and the Minimum Charge is \$20.
- 2. Hemlock Utility Services is to file amended Tariff Rate Schedules on or before October 21, 2013 which conform to determinations made in the Decision.
- 3. Hemlock Utility Services is to inform all customers of the permanent rates by way of written notice included with the next customer invoice.
- 4. Hemlock Utility Services is directed to refund the difference between the permanent rates and the previously approved interim rates, with interest at the short term debt rate of Hemlock Utility Services' principal bank. This refund is due to all Hemlock Utility Services' customers that were customers during any time in the interim period which commenced on September 1, 2012.
 - a. The Panel directs that, for ease of administration, refunds are to be provided by way of bill credits for all customers of Hemlock Utility Services that are customers on the date of this Order.

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER** G-159-13

3

- b. For any customers who were customers of Hemlock Utility Services during the interim period, but who are no longer customers on the date of this Order, Hemlock Utility Services is to provide the refund by way of a mailed cheque, within 60 days of the date of this Order, subject to forwarding information being available. Hemlock Utility Services is to report to the Commission identifying any customers whose forwarding information was unknown where the amount of the refund owed and outstanding exceeds \$20, within 75 days of the date of this Order.
 - c. For any customers who were customers of Hemlock Utility Services during the interim period from September 1, 2012 to the date of this Order, but who cease to be a Hemlock Utility Services' customer prior to receiving the full benefit of the credit to his or her account, Hemlock Utility Services is to provide a refund by way of cheque for the amount of refund still owing within 30 days of closing the account.
5. An "Automatic Rate Adjustment" mechanism is approved for Hemlock Utility Services on the basis of 50 percent of any change, equal to or greater than 2 percent, in BC Hydro's Rate Schedule 1611 (Large General Service) or Schedule 1901 (Deferral Account Rate Rider). The effective date for Hemlock Utility Services' rate change will be the same effective date as for BC Hydro.
 6. If Hemlock Utility Services wishes to utilize the "Automatic Rate Adjustment" and automatically change the Energy Charge Rate, it must file an amended Tariff Sheet with the Commission within 21 days of the effective date of the BC Hydro rate change, subject to complaint and subject to review by the Commission to verify the arithmetic accuracy of the rate.
 7. Hemlock Utility Services is directed to install meters for all unmetered operations as soon as reasonably possible and must report on the status of the meter installation on or before November 1, 2013.
 8. Hemlock Utility Services is directed to comply with all other directives in the Decision issued concurrently with this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 1st day of October, 2013.

BY ORDER

Original Signed By:

A.A. Rhodes
Panel Chair/Commissioner

List of Acronyms

BC Hydro	British Columbia Hydro and Power Authority
BCUC, the Commission	British Columbia Utilities Commission
CICA	Canadian Institute of Chartered Accountants
CRA	Canada Revenue Agency
Deferral Account Rate Rider	BC Hydro's Rate Schedule 1901
F2012	Fiscal Year 2012
GAAP	Generally Accepted Accounting Principles
Hemlock Utility Services, the Utility	Hemlock Utility Services Ltd.
IR	Information Request
kWh	kilowatt hours
Large General Service	BC Hydro's Rate Schedule 1611
Original RRA	Original F2012 Revenue Requirements Application
PP&E	Property, Plant and Equipment
Reconsideration RRA	Reconsideration Revenue Requirements Application

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

and

Hemlock Utility Services Ltd. and 0762608 B.C. Ltd.
Revenue Requirements Application

EXHIBIT LIST

Exhibit No.

Description

COMMISSION DOCUMENTS

A-1	Letter dated March 13, 2013 - Appointing the Commission Panel for the review of the Hemlock Utility Services Ltd. Revenue Requirements Application
A-2	Letter dated March 13, 2013 – Issuing Commission Order G-35-13 establishing a Regulatory Timetable
A-3	Letter dated April 9, 2013 - Commission Information Request No. 1
A-4	Letter dated May 2, 2013 – Commission Order G-69-13 Issuing a Revised Regulatory Timetable
A-5	Letter dated May 16, 2013 – Commission Information Request No. 2
A-6	Letter dated June 4, 2013 – Commission granting filing extension
A2-1	Letter dated April 8, 2013 - Commission Staff filing Hemlock Utility Services Ltd. Financial Statements Years ending April 30, 2012, April 30, 2011 and April 30, 2010
A2-2	Letter dated May 16, 2013 – Commission Staff filing Hemlock Utility Services Ltd. Response to Billing Information Request

Exhibit No.	Description
--------------------	--------------------

APPLICANT DOCUMENTS

- | | |
|-----|--|
| B-1 | HEMLOCK UTILITY SERVICES LTD. (HEMLOCK) Letter dated March 8, 2013 - Revenue Requirements Application |
| B-2 | Letter dated April 26, 2013 – Hemlock Response to Commission Information Request No. 1 |
| B-3 | Letter dated May 8, 2013 – Hemlock Response to Interveners Information Request No. 1 |
| B-4 | Letter dated June 3, 2013 – Hemlock requesting extension to file Information Request No. 2 |
| B-5 | Letter dated June 5, 2013 – Hemlock Response to Information Request No. 2 |

INTERVENOR DOCUMENTS

- | | |
|------|--|
| C1-1 | EVANS, DAVID AND NANCY (EVANS) Letter Dated March 26, 2013 and Online Registration – Request for Intervener Status by David and Nancy Evans |
| C2-1 | MURPHY, BRIAN (MURPHY) Letter Dated April 2, 2013 and Online Registration – Request for Intervener Status by Brian Murphy |
| C2-2 | Letter dated April 14, 2013 – Murphy Submitting Information Request No. 1 |
| C2-3 | Letter dated May 20, 2013 – Murphy Submitting Information Request No. 2 |
| C3-1 | LACEY, PHIL (LACEY) Online Registration dated April 4, 2013 and Letter - Request for Intervener Status by Phil Lacey |
| C3-2 | Letter dated April 14, 2013 – Lacey Submitting Information Request No. 1 |
| C3-3 | Letter dated May 20, 2013 – Lacey Submitting Information Request No. 2 |
| C4-1 | McKINNEY, MARTY (McKINNEY) Online Registration dated April 4, 2013 and Letter - Request for Intervener Status by Marty McKinney |

Exhibit No.	Description
C5-1	KINGSBURY, SHIRLEY AND JIM (KINGSBURY) Letter dated April 7, 2013 and Online Registration - Request for Intervener Status by Shirley and Jim Kingsbury
C5-2	Letter dated April 15, 2013 – Kingsbury Submitting Information Request No. 1
C5-3	Letter dated May 18, 2013 – Kingsbury Submitting Information Request No. 2
C6-1	MILTHORP, MAIDA (MILTHORP) Online Registration dated April 8, 2013 and Letter - Request for Intervener Status by Maida Milthorp
C7-1	MAZUR, RICHARD (MAZUR) Letter dated April 7, 2013 and Online Registration - Request for Intervener Status by Richard Mazur
C7-2	Letter dated April 13, 2013 – Mazur Submitting Comments
C7-3	Letter dated May 21, 2013 – Mazur Submitting Information Request No. 2
C8-1	BRKICH, ERNA (BRKICH) Letter dated April 8, 2013 and Online Registration - Request for Intervener Status by Erna Brkich
C9-1	RANDY MOTT (MOTT) Letter dated April 8, 2013 and Online Registration - Request for Intervener Status by Randy Mott
C10-1	NIXON, WRAY Letter dated April 8, 2013 and Online Registration - Request for Intervener Status by Wray Nixon
C11-1	HEMLOCK VALLEY – STRATA CORPORATION NW 1282 Letter dated April 15, 2013 and Online Registration - Request for Intervener Status by David Corrie

INTERESTED PARTY DOCUMENTS

D-1	GREEN, STEWART (SG) Online Registration dated March 14, 2013 and Letter - Request for Interested Party Status by Stewart Green
D-2	MACKIE, MARIE Online Registration dated March 21, 2013 and Letter - Request for Interested Party Status by Marie Mackie
D-3	HEDGES, TOM AND LINDA Letter dated March 25, 2013 - Request for Interested Party Status by Tom and Linda Hedges

Exhibit No.	Description
D-4	MORRIS, SHIRLEY AND GERALD Letter dated March 28, 2013 - Request for Interested Party Status by Shirley and Gerald Morris
D-5	NICK, DAVID Online Registration dated April 4, 2013 and Letter - Request for Interested Party Status by David Nick
D-6	MURPHY, CAROLINE Online Registration dated April 3, 2013 and Letter - Request for Interested Party Status by Caroline Murphy
D-7	BONETTI, DENNY Online Registration dated April 4, 2013 and Letter - Request for Interested Party Status by Denny Bonetti
D-8	GRZESIOK, BEN AND THERESE Letter dated April 7, 2013 and Online Registration - Request for Interested Party Status by Ben and Therese Grzesiok
D-9	HARDY, VICTORIA Letter dated April 7, 2013 and Online Registration - Request for Interested Party Status by Victoria Hardy
D-10	STALEY, MICHAEL Letter dated April 8, 2013 and Online Registration - Request for Interested Party Status by Michael Staley
D-11	NICKEL, DAVE AND JANET Online Registration dated April 4, 2013 and Letter - Request for Interested Party Status by Dave Nickel
D-11-1	Letter dated April 8, 2013 – Nickel Submitting Letter of Comment
D-12	VANDERVEEN, JACQUELINE Online Registration dated April 8, 2013 and Letter - Request for Interested Party Status by Jacqueline Vanderveen
D-13	LILJEDAHL, PETER Letter dated April 8, 2013 and Online Registration - Request for Interested Party Status by Peter Liljedahl
D-14	MCCORMACK, KELLY Letter dated April 8, 2013 and Online Registration - Request for Interested Party Status by Kelly McCormack
D-15	OMAND, ALEXANDER Letter dated April 8, 2013 and Online Registration - Request for Interested Party Status by Alexander Omand
D-16	LEBLOND, REAL Letter dated April 8, 2013 and Online Registration - Request for Interested Party Status by Real LeBlond

Exhibit No.	Description
D-17	HEMLOCK HOMEOWNERS ASSOCIATION Letter dated April 8, 2013 and Online Registration - Request for Interested Party Status by Rob Weiss
D-18	HOOVELD, ELAINE Letter dated April 8, 2013 and Online Registration - Request for Interested Party Status by Elaine Hooiveld
D-19	LEECH, YVONNE Letter dated April 9, 2013 and Online Registration - Request for Interested Party Status by Yvonne Leech
D-20	PRIHODA, PETER AND MARIE Letter dated April 10, 2013 and Online Registration - Request for Interested Party Status by Peter and Marie Prihoda
D-21	HALMAGHI, GELU Letter dated April 10, 2013 and Online Registration - Request for Interested Party Status by Gelu Halmaghi
D-22	WILCOX, DORIS AND STEVE Letter dated April 9, 2013 and Online Registration - Request for Interested Party Status by Doris and Steve Wilcox
D-23	PARILAK, MARTIN Letter dated April 10, 2013 and Online Registration - Request for Interested Party Status by Martin Parilak