CREATIVEENERGY

30 November 2020

Via E-filing

Ms. Marija Tresoglavic
Acting Commission Secretary
BC Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Tresoglavic:

Re: British Columbia Utilities Commission (BCUC, Commission)
Creative Energy Vancouver Platforms Inc. (Creative Energy)
Order G-227-20 Directive 13 Compliance - Northeast False Creek (NEFC) Rate Proposal and 2021 Revenue Requirements Application (RRA)

1 Introduction and Requested Approval

Creative Energy writes further to Order G-227-20 and the Commission's directive 13 of that Order for Creative Energy to file the following in respect of Creative Energy's NEFC system:

- A proposal for how rates should be set for 2021 by October 31, 2020 (**Rate Proposal**); and
- A comprehensive proposal for an NEFC rate design and for setting 2022 rates by June 30, 2021.

We note that by letter dated September 30, 2020 the Commission extended the deadline for the filing of the Rate Proposal to November 30, 2020, in parallel with granting a concurrent extension to the filing deadline for the RRA for the Core Steam System from November 1, 2020, as directed by Order G-227-20 Item 14, to December 1, 2020.

For the reasons set out in this filing, Creative Energy proposes and seeks Commission approval of:

1. A 10 percent increase in NEFC rates effective January 1, 2021; and
2. An addition to the balance of the Revenue Deficiency Deferral Account (**RDDA**) for the NEFC of $480,745 in 2021.

Correspondingly, Creative Energy requests permanent approval, effective January 1, 2021 and pursuant to sections 58 to 60 of the Act, of the NEFC rates set forth in section 5.2 and in Appendix B attached. A draft Order reflecting the requested approvals is attached at Appendix A. The NEFC RRA Schedules in support of the information reported in this filing are attached electronically as Appendix C.

We consider that review and approval of the NEFC Rate Proposal and 2021 RRA is suitable for an efficient Commission process separate from the Core RRA in view of the merits and ongoing circumstances as discussed below.

Subject to the Commission's review of this Rate Proposal, Creative Energy requests interim approval of the rates set out in the tariff page attached at Appendix B, effective January 1, 2021 and pursuant to sections 58 to 60 and 90 of the Utilities Commission Act (the Act) and section 15 of the Administrative Tribunals Act.

2 Background

NEFC rates consist of a fixed charge per square meter per month (**$/m2/month**) and a variable charge per megawatt hour of hot water consumption (**$/MWh**). The NEFC rate design utilizes an approved RDDA, which allows rates to be levelized over time and better match recovery of the costs of installed system capacity to full build out of new loads.

In the 2019-2020 RRA, Creative Energy set out our intention to file a NEFC rate design application to revisit the allocation and recovery of the costs to serve the NEFC, with particular regard to proposing recovery of the accumulating RDDA balance given that certain direct costs to serve current customers are being improperly deferred for future recovery under the existing rate structure.

As further context to the rate design concern at issue, the City of Vancouver (the **City**) extended their connection bylaw to now include the future development in the NEFC neighbourhood, which means that a municipal utility of the City will provide service to the future developments in NEFC, rather than Creative Energy directly. Creative Energy intends to supply the energy to serve the City's loads in the NEFC as it develops, using the installed capacity and capital expansions as contemplated when the rates and RDDA were established for NEFC service. However, as reviewed in the 2019-2020 RRA and that which remains the current status, the necessary arrangements with the City have not been made yet for Creative Energy to serve that load and are subject to the City's processes. Therefore, it remains the case that Creative Energy does not have a consolidated forecast of load growth in the NEFC neighbourhood and the timing of any required incremental capacity investments to support that load growth is also uncertain.

Upon confirmation with the City of a long-term plan for connecting new load in the NEFC and with a new rate design in place, Creative Energy can renew a current and long-term plan for levelized rates that will reflect a fair allocation of costs between current and future customers and recover the RDDA over a reasonable time frame.

3 2020 NEFC Approved Rate Increase

In its Order G-227-20 Decision, the Panel accepted that Creative Energy does not currently have sufficient information to determine the longer-term levelized rate increases needed to recover the RDDA over a reasonable time frame. For instance, the Panel noted that current hot water demand is approximately 40 percent of the hot water load forecast that formed the basis of Creative Energy's NEFC CPCN Application in 2015 and the NEFC RRA in 2016, which indicates that the current levelized rate is not sufficient to recover capital costs incurred to build the system, including as required to serve current customers.

In its Decision, the Panel found that until a comprehensive rate design application is submitted it is appropriate to maintain the existing rate structure. The Panel also accepted Creative Energy's forecast of NEFC hot water load. The Panel found that Creative Energy's methodology is reasonable considering the limited historical data and lack of alternatives. While the Panel expects that Creative Energy will continue to refine its load forecast as more data is available it approved a NEFC hot water load of 19,162 MWh for revenue requirement purposes.

In recognition of these factors and the absence of any better basis on which to determine current rates within a longer-term plan for RDDA recovery, the Commission approved a 10 percent increase to NEFC rates for 2020. The Panel noted specifically that "[t]his level of increase will reduce the addition to the RDDA while keeping the rate below the level typically associated with rate shock."

Coincident with its review and determination of the factors above, the Commission Panel directed Creative Energy to file a proposal for how NEFC rates should be set for 2021 and to file a comprehensive proposal for NEFC rate design and for setting 2022 rates by June 30, 2021.

4 2021 Rate Proposal

Creative Energy infers the following key considerations of the Commission Panel's Order G-227-20 Decision, which together are key considerations for our 2021 NEFC Rate Proposal:

1. The Commission agrees that there is uncertainty about load growth in the NEFC, that cost allocation and recovery as between current and future customers under the existing NEFC rate design and mechanism of the RDDA is sub-optimal, and that some mitigation of excessive additions to the RDDA is prudent;

2. The Commission considers that a 10 percent increase to NEFC rates for 2020 was reasonable overall to limit the addition to the RDDA recovery while avoiding what might be considered an excessive bill impact; and

3. The Commission expects a 2022 rate proposal to be filed in June 2021 to be properly informed by a comprehensive rate design application to be filed at that time also.

Creative Energy confirms that the NEFC rate design application to be filed in June 2021 will address adjustments to the levelized rate necessary to reflect an updated hot water load forecast as well as the recovery mechanisms for the RDDA and Variance Deferral Account.

With a consolidated view of these factors and acknowledging the ongoing uncertainty of NEFC development and forecast hot water demand, Creative Energy sees no reason to propose for 2021 anything different than the balanced approach the Commission Panel considered appropriate just three months ago. And as we set out further below, our Rate Proposal is advantageous as a bridge in the intervening period prior to a comprehensive and longer-term NEFC rate strategy being submitting in seven months' time.

The question is, effectively, what 2021 rate increase should be proposed to maintain a prudent level of cost recovery in view of the accumulating RDDA balance, a status quo cost of service, a stable rate base and a largely formulaic approach to forecasting Operations and Maintenance expenses. The answer, we believe, is that which the Commission also concluded upon review of these factors; namely, a 10 percent increase will prudently limit the additions to the RDDA while keeping rates within a level typically associated with rate shock.

Creative Energy therefore requests approval of a 10 percent rate increase for the NEFC system in 2021 and approval of the noted addition to the RDDA in 2021, for the same reasons as determined appropriate by the BCUC in the Order G-227-20 Decision. The rate design application to be filed in June next year will be informed by a long-term plan for fair cost allocation, RDDA recovery, and rate increases to current versus future customers.

Creative Energy presents the following indicative assessment of the allocated cost to serve current customers in 2021 to put the reasonableness of the 10 percent rate increase proposal into further context as a bridge to the future rate changes that may stem from a rate re-design. The assessment is formed under a simplified approach to: 1) Allocate current period costs directly to current customers where applicable; and 2) Allocate rate-base impacted costs to current customers based on the indicative percentage utilization of the installed capacity of the NEFC hot water system, which is estimated to be approximately 60 percent.

Table 1: Indicative High-Level Allocation of NEFC Cost of Service to Current Customers

Cost Category	Total 2021 COS	High-level Cost Allocation to Current Customers		Indicative Allocation to Current Customers
		%	category	
Fuel	968,739	100%	direct	968,739
Steam Tariff	571,651	100%	direct	571,651
O&M Expense	197,143	100%	direct	197,143
Municipal Taxes	23,143	100%	direct	23,143
Income Tax Expense	26,329	60%	capacity utilization	15,797
Depreciation Expense	210,400	60%	capacity utilization	126,240
Return on Rate Base	297,000	60%	capacity utilization	178,200
Amortization of Financing Fees Deferral	37,757	60%	capacity utilization	22,654
Cost of Service	2,332,161			2,103,568

Table 2: Indicative High-Level Assessment of 2021 Rate Proposal

	Units	2020 Rates	2021 Rate Proposal	Full Recovery of Indicative Allocation - Imputed %
Rate Increase	%	-	10%	25%
Rates	$/MWh	$57.31	$63.04	$71.63
	$/m2/month	$0.30	$0.33	$0.37
Load	MWh	19,162		
	m2	162,481		
Revenues	$	1,683,106	1,851,416	2,103,568
RDDA Addition	$	649,055	480,745	228,593

As shown in the table above, full recovery of a high-level indicative forecast 2021 cost to serve current NEFC customers ($2,103,568) would require a general rate increase in the order of 25 percent in 2021. That increase would not include any recovery of prior year RDDA additions, which will also be the subject of the future rate design application. A 10 percent increase thus balances customer bill impacts at this time with recognition that a plan for future rate increases will need to be considered as part of the future rate design application.

The following section reports the impact of the 10 percent rate increase on the revenue requirements and the incremental RDDA amount that we seek approval of to add to the overall balance in 2021.

5 NEFC 2021 Revenue Requirements

5.1 Hot Water Load Forecast

Projected 2021 NEFC hot water load is set equal to the 2020 approved load of 19,162 MWh. There have no changes to NEFC operations or and no new customers are forecast to connect in 2021. While actual NEFC load in 2020 is lower due to the impact on customers of COVID-19, variances are captured as part of the existing NEFC Variance Deferral Account and will be updated in due course in a future compliance filing when final rates are determined. Due to the ongoing load uncertainty related to COVID-19 and with the variance deferral account in place, forecast 2021 NEFC revenue requirements are established under the current approved load forecast assuming no COVID-19 impact.

5.2 Rates

Creative Energy proposes to increase 2021 rates over the rates currently in effect by 10 percent to the following:

- Fixed Rate of $0.33 per square meter per month; and
- Variable Rate of $63.04 per MWh.

The rate increase of 10 percent is equivalent to a three-cent increase in the fixed charge per square meter per month and a $5.73 increase in the variable charge per MWh.

5.3 Cost of Service, Revenue and RDDA Balance

The following table presents a summary of the NEFC revenue requirements for the 2021 test period and in reference to prior year results. Creative Energy seeks approval to add $480,745 to the RDDA balance in 2021.

Table 3: NEFC Revenue Requirements – Summary

Component	2017 Actual	2018 Actual	2019 Actual	2020 Projected	2021 Test Year
Fuel	282,725	354,737	550,776	918,849	968,739
Steam Tariff	187,360	223,974	257,640	460,074	571,651
Subtotal Cost of Sales	470,085	578,711	808,415	1,378,923	1,540,389
O&M Expense	115,742	243,981	124,113	169,763	197,143
Municipal Taxes	10,601	13,077	18,090	20,471	23,143
Income Tax Expense	16,324	-28,741	6,148	-45,170	26,329
Depreciation Expense	-	162,675	191,400	210,400	210,400
Return on Rate Base	140,508	294,632	311,731	312,494	297,000
Amortization of Financing Fees Deferral	-	-	-	-	37,757
Total Revenue Requirement	753,260	1,264,335	1,459,897	2,046,882	2,332,161
Hot Water Sales Revenues	848,053	1,046,191	1,447,222	1,637,708	1,851,416
2021 Revenue (Surplus)/Deficiency	n/a	n/a	n/a	n/a	480,745

5.4 Fuel Costs

The NEFC System is treated as a customer of the Core Steam system. Fuel costs are charged to NEFC using the same process as other customers of the Core Steam system. Costs are a function of steam load used by the NEFC system and the fuel costs charged to customers. The steam load transfer forecast for 2021 will remain the same as approved in 2021 consistent with hot water sales remaining the same as approved.

5.5 Steam Tariff

Similar to fuel costs, steam tariff costs are a function of steam load used by the NEFC system. These costs increase for the 2021 Test Year due to the forecast increase in the steam rate charged.

5.6 Operation & Maintenance Expense

Please refer to Schedule 14 for details on Operation & Maintenance Expense by category. Supervision and labour costs relate to time directly charged by the distribution team for maintenance and monitoring of the NEFC system. The planned cost for 2021 is in line with actuals from 2019 and projected costs for 2020. It is lower than approved in the 2020 rates.

Administrative and General costs, including related salaries and benefits, office supplies and general legal and audit fees are allocated using the Commission-approved Massachusetts formula. The 2021 allocation is calculated using the approved 3-factor methodology using projected 2021 allocable costs across all systems.

5.7 Municipal Taxes

Municipal taxes are calculated as total revenue multiplied by 1.25 percent.

5.8 Income Tax Expense

A tax rate of 27 percent is used. Please refer to Schedule 18.

5.9 Depreciation Expense

Depreciation is calculated based on Plant-In-Service and depreciation rates by asset category. Please refer to Schedules 3 and 4. Average Plant in Service for the 2021 Test Year is $5,370,007 of which approximately 65 percent is depreciated at 5 percent and the remainder depreciated at 2 percent per year. This is an average depreciation rate of approximately 4 percent.

5.10 Capital Additions

There are no forecast capital additions for 2021.

5.11 Return on Rate Base

Please refer to Schedule 2 for the rate base calculation and Schedule 13 for the interest expense and return on equity calculation. Return on rate base is calculated using the approved capital structure of 42.5 percent equity and 57.5 percent debt and an approved return on equity of 9.5 percent.

5.12 Amortization of Financing Fees Deferral

Creative Energy requests approval for the 2021 Test Year only of a Refinancing Cost Deferral Account (**RCDA**) to record in 2020 and recover in 2021 rates the allocated costs to NEFC associated with the refinancing of our debt facilities on September 17, 2020.

On July 3, 2020 Creative Energy filed an application with the Commission pursuant to sections 50 and 52 of the Utilities Commission Act (UCA) for approval to enter into an agreement for senior secured credit facilities up to $33.8 million (Credit Agreement) with Toronto Dominion Bank and HSBC Bank Canada. The Commission approved the application on July 15, 2020 by Order G-187-20, with reasons for decision issued subsequently on July 23, 2020. The Credit Agreement was executed on September 17, 2020 and filed confidentially with the Commission on September 21, 2020.

The allocated fees reported in Table 3 above reflect an approximately 11.2 percent allocation to the NEFC of total refinancing fees of $320,117. The evidence in support of these fees and allocation will be presented on a single consolidated basis in the 2021 Core RRA expected to be filed on December 1, 2020.

6 Proposed Regulatory Process

Creative Energy submits that the merits of this Rate Proposal are self-evident and consistent with what the Commission recently determined to be appropriate under the same circumstances as reviewed above.

We therefore propose that the 2021 NEFC Rate Proposal and RRA is suitable for efficient review by the Commission in a process separate from the Core RRA, considering also the relatively short intervening period before the rate design filing and 2022 rates proposal to be made in June 2021. A more limited hearing process for this filing will promote regulatory efficiency overall and enable a timely Commission decision on NEFC 2021 rates in support of the rate design application to be filed by June 2021.

We note also that while NEFC rates have been reviewed jointly with a Core RRA filing in prior proceedings given that steam rates are an input to the NEFC RRA, a joint review is not necessarily required due to the mechanism of the approved NEFC Variance Deferral Account that captures differences between forecast and actual steam rates.

Sincerely,

Rob Gorter
Director, Regulatory Affairs and Customer Relations