BRITISH COLUMBIA UTILITIES COMMISSION
IN THE MATTER OF THE UTILITIES COMMISSION ACT, R.S.B.C. 1996, CHAPTER 473

AND

AN APPLICATION BY CREATIVE ENERGY VANCOUVER PLATFORMS INC.

2015-2017 REVENUE REQUIREMENTS

SUBMISSION OF CREATIVE ENERGY

APRIL 27, 2015

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Part 1 - Introduction

1) On November 28, 2014, Creative Energy Vancouver Platforms Inc. (Creative Energy) filed an application with the Commission which sought approval for revenue requirements for utility operations for three years: 2015-2017, subject to certain deferral accounts and updated load forecasts for 2016 and 2017. Requesting approval of revenue requirements for a multi-year test period is a significant departure from past regulatory practices of Creative Energy.

2) The detailed approvals that Creative Energy seeks in the Application, updated in accordance with the Evidentiary Update (Exhibit B-1-1) filed on February 27, 2015 and by the subsequent second round of information requests filed on March 30, 2015 together with the "Summary to BCUC IR2" (Exhibit B-5), are as follows:

   a) 2015-2017 RRA

   i) approval of a final steam tariff rate increase of 13.3%, effective January 1, 2015 with any difference between the interim rates effective January 1, 2015 pursuant to Order G-198-14 dated December 15, 2014 (the "Interim Order") and final rates to be refunded to or collected from customers by way of a one time bill adjustment for each customer based on each customer's consumption during the interim period**;**

   ii) pursuant to section 59 to 61 of the *Utilities Commission Act* R.S.B.C. 1996, c. 473(the "UCA"), approval or acceptance of the following items:

      (1) the revenue requirements in the amount of $8,547,604 in 2015, $8,874,854 in 2016, and $8,793,908 in 2017, as set out in "Summary to BCUC IR 2",

      (2) charges between the core customers and the NEFC customers regulated by the Commission based on the allocation of $20,000 and $90,000, as set out in Table 1.3.1 of the "Summary of BCUC IR 2", which is to be the subject of a deferral account noted below;

      (3) the establishment and amortization of deferral accounts as set forth in the "Summary BCUC IR2", and repeated below for ease of reference:

         i. $333,012 – "GCOC Deferral Account 2013/2014" be recovered over 2 years commencing in 2016 through to 2017;

         ii. $301,177 – "After-Tax Pension Asset" to be recovered over 3 years commencing in 2016 through to 2018;

         iii. "Pension Expense" - Approval for a deferral account for the difference when actuals are available for the years 2015-2017; and

iv. "NEFC Cost Allocation" – Approval for a deferral for any difference that may arise between the forecast amount and actuals for the years 2016 to 2017

(4) approval of $402,283 for inclusion in rate base for 2015 as set out in the response to Exhibit B-5 BCUC IR 2.26.1 and the "Summary to BCUC IR 2".

b) 2015-2017 Capital Expenditure Plan

i) Pursuant to section 44.2(3) of the UCA, approval that the expenditures and projects of programs for which the expenditures are requested are in the public interest.

ii) Approval that Creative Energy's 2015-2017 Capital Expenditure Plan meets the requirements of section 45(6) of the UCA.

3) It is respectfully submitted that the evidentiary record, including Creative Energy's response to information requests confirms that the order sought should be granted.

Part 2 - Overview

4) The Application is comprised of parts that can be considered independently. However, this Part sets out certain themes which underlie the Application as a whole.

5) The procedural background to the Application will then be addressed in Part 3, and the detailed elements of the Application will be addressed in Part 4 (2015-2017 RRA), and Part 5 (Capital Expenditure Plans and Rate Base)

6) Creative Energy (formerly Central Heat) was acquired in March 2014. This change in ownership was soon followed by a change in management and the appointment of a new Board of Directors. Both the change in ownership and the change in management were significant and necessary steps in the evolution of Creative Energy. The appointment of a new Board of Directors reflected the shareholder's philosophy in which governance of the utility should be on a stand-alone basis.

7) This Application reflects decisions of the new Board and new management. It is clear that previous ownership and management did not have the desire, nor the competencies necessary to implement the changes necessary to meet the ever

evolving and current expectations of local governments and ratepayers. Some of those changing expectations now form significant commitments made by the new Board and management team found in the NEFC CPCN Application filed on April 17, 2015, which is now before the Commission for review.

8) Soon after the new Board was constituted, the Board decided that a new management team was required to meet the expectations of stakeholders for core customers and for the expansion of district energy services in the City of Vancouver. This Application reflects the expense of establishing that new management team. In particular, the increase in O&M expenses, which are attributable to transition costs and the hiring of new employees, all were incurred in order to enable Creative Energy to meet customer and stakeholder expectations. In this Application, Creative Energy is now asking the Commission to support those changes by approving some of the associated costs, excluding those transition costs already incurred in 2014 which is already being absorbed by Creative Energy's shareholder.

9) The primary objectives of the Company continue to include delivering safe and reliable energy at a reasonable cost. The new ownership and management group's philosophy is grounded in a focus on delivering value to customers while meeting the increasing expectations of district energy companies.

10) Creative Energy is now uniquely positioned to meet expectations of both core customers and customers in areas of the downtown core and elsewhere in Vancouver not formerly served by Creative Energy. Those expectations define the objectives of the Company, and are consistent with Creative Energy's obligations under the UCA.

11) The transition from being a district energy company that was not ready to meet the expectations of customers and governments to one that is comes with costs. Understandably, transition costs were the subject of several information requests and will be addressed in more detail in Part 4.

12) The Application achieves a balance between core customers and growth. As evidenced in the NEFC CPCN Application, growth offers the possibility to reduce costs and risks for the core through economies of scale, shared overheads, and lower stranded investment risk for existing assets. Some senior management time included in the current RRA will be used to identify and cultivate strategic growth opportunities, both organic growth within the core (e.g. retrofits of existing buildings not connected to Creative Energy) and major new expansions such as NEFC. That said, considerable staff time and resources dedicated to specific growth initiatives such as NEFC, South Downtown and the Cambie Corridor are not included in the RRA, but are being tracked separately as project development for future recovery in existing or new tariffs, as applicable. For that reason, Creative Energy is seeking approval for the NEFC Deferral Account, and may seek approval for other project specific deferral accounts in the future.

13) Creative Energy's commitment to maintaining safe and reliable service is apparent in the Application. For example, with respect to Creative Energy's 2015-2017 Capital Expenditure Plan, all of the identified projects have been proposed on the basis that they are prudent and required to provide safe and reliable service to customers. The Company has evaluated its expenditures against the fundamental objectives of providing safe and reliable service, and has requested funding for those projects which it believes to be necessary to fulfil that objective.

14) Controlling costs, and by extension rates, was a key consideration in preparing a multi-year Application. In addition, the challenge of implementing significant changes during the test period was also a key consideration. From a risk management perspective, a shorter test period would have been preferred by Creative Energy. But Creative Energy does not believe that with its limited resources that this is the time for annual rate reviews. This also provides some greater clarity and certainty for existing customers regarding transition and ongoing operating costs. The new ownership and management group are willing to assume the risks associated with a multi-year test period so as to be in the best position possible to implement those necessary changes.

15) Unlike other utilities in the province, Creative Energy does not propose deferral accounts for all costs that are not within the control of the Company. In the past and in this Application, Creative Energy endeavoured to limit deferral accounts to only those types of costs that cannot be reasonably forecast for revenue requirements purposes or that can be attributed to unusual or exceptional circumstances. As a result, not only is Creative Energy assuming significant risks related to the multi-year test period, but Creative Energy is also assuming risks of a multi-year test period with the benefit of only a very limited number of deferral accounts.

16) Creative Energy does propose to update the load forecast for each of 2016 and 2017. In that manner, Creative Energy both will ensure that rates are based on current circumstances experienced that are relevant to the load forecast and be consistent with its view that the number of deferral accounts should be limited. Load for a small utility in a very small local market area is difficult to forecast, in particular because it is subject to the decisions of a few large customers and very localized weather conditions. For the winter months of 2014 and 2015, Creative Energy has experienced warmer than normal weather. As a result, returns for 2014 and now returns for 2015 are lower than approved returns to shareholders. Nevertheless, management and the Board continue to be of the view that the load forecast should be updated annually based on most recent information, and the load forecast risk within each year based on the updated load forecast should be borne by the utility.

17) The steam tariff rate increase sought for 2015 is 13.3% and the forecast steam tariff rate increase for 2016 is 4.0% and for 2017 is -0.9%. This reflects a significant change in rates for 2015 as compared to both 2016 and 2017. After

considering options for rate smoothing, including the use of a deferral account to establish a rate smoothing mechanism, the Company decided that such a rate smoothing mechanism was not necessary. The Company works closely with customers and believes that the 2015 increase of 13.3%, especially when considered in the context of the overall steam tariff rate increase to customers of approximately 4.73% after considering fuel costs, is a reasonable and necessary increase.[1] Moreover, the current price (including both meter charges and fuel costs) is less than the price paid 7 years ago[2], and this steam tariff rate increase is expected to be followed by two much lower changes to rates.

18) All of that considered, the Company decided not to seek approval for a rate smoothing mechanism. Another option considered was to request approval for deferral accounts for certain transition costs and/or to seek approval for a shorter test period. Of the alternatives that might be considered, a shorter test period is the alternative least preferred by the Company. The transition costs were in part borne by the shareholder in 2014 and it is only the remaining transition costs that impact rates in 2015.

19) Transition costs have been forecast with considerable certainty. Therefore, the Company did not seek approval of a deferral account for the transition costs, given the Company's view of when deferral accounts should be approved as noted above. Moreover, although the rate variances during the test period might suggest a shorter test period, the Company does not support such an approach. The Company believes that a small utility such as Creative Energy should not be before the Commission every year for approval of rates. This is especially true in Creative Energy's circumstances when it will be seeking approval for large projects, such as the NEFC CPCN. For that reason, the Company strongly prefers the option of a rate smoothing mechanism to that of a shorter test period in the event the Commission is concerned with rate variances during the test period.

[1] Exhibit B-2, BCUC IR 1.1.2
[2] Exhibit B-6, CEC IR 2.1.1.2

20) The consideration of the appropriate allocation of costs across franchise areas within Creative Energy is at an early stage. Further, the Company needs to be careful to proceed in a manner that benefits all customer groups, and must determine how to allocate costs so that the benefits of the expansion into new franchise areas are fairly shared. For that reason, the Company will continue to consider options for cost allocation. Such cost allocation options would be brought forward either as part of the Companies' next revenue requirements application or, if possible, before. The cost allocations in this Application increase risks to the Company because of the inherent uncertainties of recovering revenues from customers that have not yet been identified, and that are in new franchise areas. Nevertheless, the Company has reduced the revenue requirements for the core customer by allocating costs to be recovered in those future revenues.

21) Creative Energy believes that common management of services to those customer groups is necessary and through the benefits of integration is to the advantage of all customers. But developing a new franchise area with a unique set of costs and revenues is a significant step. The scope of this Application includes just the revenue requirements for existing customers, with the exception of the allocation of costs of management personnel that are immediately required to meet the Company's objectives of developing new franchise areas. As noted above, the allocation of those costs is at an early stage, and may be revisited before the end of the test period. Nevertheless, given the immediate needs for the Company to meet stakeholder expectations for district energy services, the Company requests the Commission approve both the revenue requirements for existing customers and the cost allocations to future customers, but subject to deferral account treatment of variances between actual and forecast costs to be allocated.

22) For a small utility with limited resources, this proceeding has been a significant effort and the focus of senior management efforts since the beginning of the year. Errors have been identified during this process; however, in all cases such errors related to specific accounts and accounting systems that have since been corrected. As the new management team has become more familiar with the accounts and accounting systems the chances of such errors reoccurring is unlikely. In any case, although errors were identified in the Application, such changes have not been material for rate-making purposes. The final steam tariff rate increase sought of 13.3% for 2015 has changed by only 0.2% from the Application in which Creative Energy sought approval for a final steam tariff rate increase of 13.5%.

23) For the period from 2011 to 2014, there has been a decreasing sales trend.[3] Moreover, and of some considerable concern to the utility is the variance between actual and forecast sales for 2013 and 2014 where actual was less than forecast in each year, and by material amounts. Given sales for the first quarter of 2015, unless there is a remarkable recovery in sales between now and the end of the

[3] Exhibit B-2, BCUC IR 1.17.4

year, sales will be materially below forecast for the third year running. It is in this context, that the Commission should consider the utility's decision to not seek to transfer load forecast risk to customers, especially when other utilities in BC have sought and obtained approval for load forecast risk to be borne by customers. The regulation of a small utility must be sensitive to the regulatory burdens that may be imposed. This is especially true when the utility does not have the benefit of mandatory connections and customers and the options are competitive with Creative Energy services.

24) In summary, this Application reflects the change in direction of Creative Energy approved by the acquisition of Creative Energy in March 2014. It does contain major changes in corporate direction while continuing with those regulatory practices of the previous management where considered appropriate such as the limited use of deferral accounts. Creative Energy has and will continue to satisfy acquisition commitments that it has made to all its stakeholders, including core customers, employees, new franchise area customers, local governments, and the Commission.

Part 3- Procedural Background

25) Part 3 of this submission addresses the procedural history leading up to this Application, including the 2007 and 2014 RRA, and the acquisition of Creative Energy. And then addresses three issues that do not need to be considered for revenue requirements purposes, and do need to be considered for rate-making purposes.

(a) Procedural History and Past Decisions

26) On September 17, 2013, Creative Energy applied to the Commission pursuant to section 54 of the UCA for approval to acquire all of the issued and outstanding common shares of CHDL. In the application, Creative Energy said that it would not seek to recover any of the acquisition premium or transaction costs incurred in connection with the acquisition.[4] Creative Energy also said that it would establish a new Board, with the financial and utility expertise to support growth and strategic development initiatives.[5] And noted that it was developing several new projects that may eventually form part of CHDL including major neighbourhood extensions (NEFC) and new energy supply sources. The following are specific comments made by Creative Energy in the proceeding that are relevant to this proceeding:

a) All legal, due diligence, and tax planning costs related to the transaction are deemed to be transaction costs (closing costs)[6];

[4] Order G-190-13, Acquisition Decision, BCUC 1.9.5.1 "Transaction costs incurred by Creative Energy will not be charged to CHDL." See also BCUC 1.9.3
[5] Ibid., BCUC 1.2.1
[6] Ibid, BCUC 1.9.8, see also BCUC 1.9.4

b) NEFC cost allocations will be the subject of a future CPCN application and rate applications[7];

c) Creative Energy will respond to emerging issues such as new building standards (e.g. LEED), new City goals and policies, changing customer expectations, volatile energy prices, and evolving carbon policies;[8]

d) Creative Energy's vision is to grow CHDL's service area significantly, add additional and complementary utility services and pursue alternative generation and distribution technologies and expects that all these activities will be the subject of future rate applications;[9]

e) Creative Energy is exploring new and alternative sources of both steam and hot water to manage costs, lower fuel price volatility, reduce greenhouse gas emissions and liability, increase supply diversity, and meet new building code and certification requirements;[10] and

f) The acquisition will provide numerous benefits to CHDL including growth opportunities and expanded vision of services, technologies and service areas.[11]

27) This was the record upon which the Commission relied when it issued Order G-190-13 in which the acquisition was approved.

28) In the interim decision (Appendix B of Order G-198-14 dated December 15, 2014), the Commission Panel said:

> The Panel determines that Creative Energy's request that the approved revenue deficiency should include increases related to executive compensation is an issue that should be examined in the full review of the Application. Therefore, since some of these costs are discretionary in nature and they all require a full examination, the Panel has excluded them from the approved interim steam tariff rate increase. The Panel sets an interim rate of 7.9 percent, effective January 1, 2015, to cover the components.

Creative Energy respectfully submits that the increases related to "executive compensation" have now been examined in this full review of the Application and should be approved for rate-making purposes.

[7] Ibid., BCUC 1.4.3
[8] Ibid, BCUC 1.6.1
[9] Ibid., BCUC 1.6.1
[10] Ibid, BCUC 1.6.2
[11] Ibid, BCUC 1.13.3

29) The only intervener that participated in this proceeding was the CEC. The CEC asked information requests and did not file evidence.

b) Segregated Issues

In the following section, three issues that are unrelated to revenue requirements but are necessary considerations for rate-making purposes will be considered.

i) Steam Load Forecast

30) Creative Energy asks that the steam load forecast for 2015 be accepted. The 2015 steam load forecast M# to be accepted is 1,106,494 as set forth in "Summary to BCUC IR2". The load forecast has been the subject of several information requests, and the 2015 load forecast has not changed since the Application was filed.[12] Creative Energy is forecasting an increase in sales when in each of the past four years, from 2011 to 2014, actual sales have been lower than the previous year.[13] This is due to the expected addition of several new developments in the core.

31) A good description of Creative Energy's approach to load forecasting was provided in a response to a CEC information request as follows:

> In preparing the load estimate in 2015, all known changes or modification at that point in time have been taken into account. Potential changes as a result of further customer demand changes in 2016 and 2017 would be purely speculative. Creative Energy reiterates that customer upgrades are large and lumpy projects in a very small system (200+ customers, with several large individual customers) these *initiatives cannot be meaningfully forecast statistically. Creative Energy uses information gathered from individual customers on pending projects.* Creative Energy is not aware of any new major initiatives in 2016 and 2017 planned by existing customers. Creative Energy notes again that total system costs are also comparable to total costs 7 years ago so there are no new economic drives for additional upgrades that customers would not have undertaken in the past 7 years. Creative Energy will continue to monitor individual customer plans.[14]

[12] Exhibit B-1, p. 10, Table 1.3.1
[13] Exhibit B-2, BCUC IR 1.17.4
[14] Exhibit B-6, 3.1.2

32) Creative Energy submits that this approach to load forecasting continues to be appropriate and should be accepted by the Commission. Although it may not rely on econometric modeling, it does benefit from information gathered from individual customers. For a utility this size and with a limited number of customers, it is the appropriate approach to load forecasting for Creative Energy.

33) As noted in Summary BCUC IR 2, Creative Energy proposes to file updates to the load forecast for 2015 and 2016 by October 31 of the preceding year to be included in the calculation of final rates effective January 1 of the following year. The updates will reflect changes in connected loads and customer building performance. Weather risk will remain with the utility.

iii) Fuel Adjustment and Energy Supply

34) There were many information requests from Commission staff about the fuel adjustment account. This account has been working satisfactorily and to the benefit of customers for almost 40 years[15], with almost no regulatory oversight.[16] The information requests in both IR1 and IR2 suggest that the Commission staff believe that greater regulatory oversight of this account is required.

35) Creative Energy does not object to greater oversight and of course will follow all directions from the Commission regarding this account. There is no doubt that if Creative Energy was a larger utility that regulatory oversight of this account would be appropriate. But Creative Energy is small, and this account has been operating satisfactorily for 40 years. Moreover, there has been no change in circumstances, nor any concerns raised by customers about this account, that would suggest a need for more regulatory oversight.

36) With respect to approval of any change to the Fuel Cost Adjustment charged to its customers, Creative Energy stated in an information request response:

> Creative Energy is a small TES. The time and effort to communicate with the Commission for an Approval would add another bureaucratic layer to running an efficient utility. The Fuel Cost Adjustment has been in place in excess of 40 years and has operated as it was designed to. To the best of our knowledge, there has never been an issue to the Commission about the workings of the Fuel Cost adjustment.

[15] Exhibit B-2, BCUC IR 1.18.4, the Fuel Cost Adjustment was accepted for filing on May 2, 1974
[16] Exhibit B-2, BCUC IR 1.8.3, about 15 to 20 years ago, CHDL were requested by the Commission to cease sending reconciliation schedules

37) Although the reference to "another bureaucratic layer" is overly exuberant, the sentiment expressed should not be overlooked. It was a response from someone who has operated the account as it was intended for almost 35 years. However, in the event the Commission does decide that a change regarding the regulation of this account is necessary, then Creative Energy requests that schedules and reconciliations be filed yearly along with the Utility Commission Annual Report[17], and that changes to the account be filed every 6 months,[18] and that approval of such changes not be required.

iii) Long-Term Resource Plan

38) There were a series of information requests regarding the timing of future regulatory filings. In particular, in this proceeding and in the recent proceeding regarding gas purchase plans, the Commission staff made inquiries regarding the preparation and timing of a long-term resource plan, which the former management had never filed and the Commission had never requested. Creative Energy notes the limited supply options for the steam system, the feasibility work currently underway regarding a possible fuel switch (which is a large and complex project), and the considerable uncertainty in new and multiple expansions (which may or may not be connected to the core in all cases and which will utilize hot water networks that have a greater range of supply options). In the responses, Creative Energy provided comprehensive and responsive answers to those inquiries. The succinct answer to those inquires is as follows:

> "CE would be willing to consider the pros and cons of long-term resource plans in the specific context of the NEFC CPCN Application later this quarter, which will be the first major expansion initiative by Creative Energy."[19]

39) The NEFC CPCN Application has now been filed. Creative Energy respectfully submits that this Commission Panel not consider this issue in this proceeding, and instead leave the filing date of the long-term resource plan for consideration by the Commission Panel reviewing the NEFC CPCN Application.

[17] Exhibit B-2, BCUC IR1 18.3.1
[18] Ibid., BCUC IR 1.11.1
[19] Ibid., BCUC IR 1. 1.1

Part 4- 2015-2017 RRA

40) Part 4 of this submission addresses certain topics specific to the 2015-2017 RRA. Others may need to be addressed in reply. Given that there is only one intervener and there was no evidence from that intervener, these submissions will undoubtedly not include comments on issues that may be raised during intervener submissions. For that reason, topics specific to this Application may be addressed for the first time in reply.

41) As noted at the outset of this submission, Creative Energy seeks approval for the revenue requirements that support a final steam tariff rate increase of 13.3% effective January 1, 2015. While the increased cost of service that underlies this steam tariff rate increase is attributable to a number of factors, there are three key underlying drivers:

1) transition costs and new hires,

2) increases in utility rate base,

3) increases in the costs associated with the financing of rate base. On average, fuel costs (net of fuel recoveries) comprise 8 % of the revenue requirement, financing costs (including cost of debt, equity, and depreciation and amortization) represent approximately 30 % of the revenue requirement.

i) Operating and Maintenance Expense

42) Creative Energy seeks approval for forecast gross O&M expenses of $5,873,946 for 2015, $5,794,297 for 2016, $5,801,215 for 2017. Creative Energy's O&M expenses are required to prudently operate the utility on a safe and reliable basis.

43) Approximately, 39 % of gross O&M expense is comprised of labour costs. Labour costs increase from the approved 2014 budget of $1,988,580 to the application 2015 budget of $2,520,067, 2016 budget of $2,333,973, and 2017 budget of $2,248,285. The year- over-year of gross O&M from 2014 ($5,274,827) to 2015 ($5,873,946) is $599,119 and the year over year increase to labour costs is $531,487 ($2,520,067-$1,988,580), accounting for almost 90% of the increase

in gross O&M[20]. The key driver to this increase is related to transitions costs (which are temporary) and the hiring of three new employees to be addressed in the two subheadings below.

ii) Transition Costs

44) Creative Energy is seeking approval for an increase in the net O&M expense from the 2014 approved amount of $4,940,380 (actual $4,925,788) to the forecast 2015 amount of $5,480,863 for an increase of $540,483 or 11 percent.[21] Understandably, this increase was the subject of both the first and second round of information requests. There is now a full and adequate justification on the record of this increase in O&M expenses.

45) As noted above, the increase can be attributed to two line items: transition costs necessary to meet contractual commitments to two key employees who were long-term senior management employees of CHDL, and the hiring of three new employees. The transition costs were the subject of the first round of information requests and details were filed, including the relevant contracts, on a confidential basis because the transition costs were paid to former employees. The transition costs are a one-time event that will be fully expensed by the end of 2016.[22]

46) The transition costs are discussed and distinguished from transaction costs in response to an information request from the Commission. That response will not be repeated, however, it is relied upon by Creative Energy as support for the recovery of the transition costs from ratepayers.[23]

iii) Three New Employees

47) In the Application, Creative Energy provided information about the business reasons for hiring each of the new employees: New VP Business Development, New PM-Project Management, and New Service Line Manager.[24] The portion of management wages that relate to each of these new employees for the years 2015 to 2017 showing the amounts included with the O&M budget was filed on a confidential basis.[25] By calculating the sum of the 2015 transition and new employee costs, the O&M increase noted above of $540k is almost fully accounted for, the remaining portion of $25k is not material.

48) The business purpose and objectives for each of the three new positions was provided in response to an information request from CEC as follows: [26]

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[20] Exhibit B-5, Summary to BCUC IR2, p.1 and p.3
[21] Exhibit B-5, Summary To BCUC IR 2, p. 3 of 5, Table 1.6.1 –Revised
[22] Exhibit B-2-1, BCUC 1.9.2, where the transition costs for 2014, 2015, and 2016 are provided by employee
[23] Exhibit B-2, BCUC IR 1.9.1, re discussion of differences between transition costs and transaction costs.
[24] Exhibit B-1, p. 32
[25] Exhibit B-2, BCUC IR 1.9.7
[26] Exhibit B-3, CEC IR 1 8.1.1

- VP, Business Development –

Previously, Creative Energy did not have a specific development or customer support position in place, which Creative Energy submits is best practices for any utility. This position will support existing customers and also secure new customers, whether in the form of new development or retrofits of existing buildings in the downtown core. As demonstrated throughout this application, changes in load affect existing customers because of the fixed costs and economies of scale in the business. Securing new loads not only mitigates the impact of lost loads on remaining customers, but will assist Creative Energy in lowering costs further and also securing alternative energy sources. Creative Energy also operates in an increasingly complex environment. In addition to competition and changes in technology, Creative Energy's business is significantly affected by City of Vancouver policies and relationships. This position also encompasses the role of external relations personnel typical of other utilities.

The objective for hiring this position are to develop and implement initiatives to retain and support existing customers and identify and secure new customers, both inside the core and outside the core (new service areas).Only part of this position is being allocated to the core in recognition of efforts outside the core. As noted elsewhere Creative Energy has lost customers and loads in the core. Creative Energy wants to ensure it understands and supports existing customer needs, and also ensure customers understand Creative Energy costs and benefits, including future plans for alternative energy. Since acquiring Central Heat Creative Energy has observed a general lack of understanding among customers, developers and other industry stakeholders regarding costs, system efficiencies, and future opportunities. In addition, changes in building policies within the City of Vancouver have greatly affected the ability and willingness of new development to connect and this has highlighted the need for Creative Energy to understand these policies to collaborate with the City of Vancouver, which has identified district energy as a key means of achieving city goals in high density

and high growth areas of the City, including the downtown core. Some specific activities and attributes for this position include the following. .

1. Strong leadership qualities that will engage customers at both the operational and management level in order to fully expand the benefits and capabilities of the district energy and the flexibility that can be provided to the customer in order to make the customer building operation as energy efficient as possible
2. Develop a Marketing and Informational strategy to be delivered to current and prospective customers about the benefits of a District Energy System.
3. Customer retention strategy - being proactive to ensure current customer base have the appropriate knowledge and information to assist with understanding the benefits of being on our system.
4. Expanding the knowledge within the engineering, property management and development community to the benefits of a district energy system
5. Managing and liaising the multiple relationships required with the various departments with the City of Vancouver regarding Green Building Design, City Policy with regards to Energy, Building and Environmental Codes Managing relationships with the BCUC pertaining to CPCNs and Rate Applications regarding regulatory approvals

- Project Manager –

Creative Energy currently operates as a General Contractor with regards to construction involving the expansion of the distribution system including the installation of a new service to a new customer within the downtown Vancouver Peninsula. With the anticipated growth from the hiring of the new Business Development VP, additional support staff will be required to efficiently manage the new construction. The new project manager will be responsible for the following:

1. Designing the required installation with Auto Cad
2. Managing installation crews working on Creative Energy equipment including contractors involved

with welding, piping, insulation, coring, civil excavation etc

3. Coordinate with Creative Energy Operations for the smooth implementation of the utility service to a new customer. This position is a niche position and will require a unique skill set.
4. Liaising and coordinating with the City of Vancouver Utilities Department with respect to sewers, water, electrical as well as other utilities operating within the downtown Vancouver Peninsula.
5. Coordinating and purchase of construction material and assist with selecting contractors
6. Managing the contract to ensure costs are properly tracked

- Service/Plant Manager –

  Currently, Creative Energy has employees who are close to retirement age and it has become critical for the company to ensure there is a continuity of knowledge and transfer of knowledge in order to provide a safe and reliable service. With the anticipated turn over in existing employees and future growth of our customer base, Creative Energy sees a need to hire a new Service Line/Plant manager for the following reasons:

  1. Succession Planning due to the age of the current chief engineer to provide continuity
  2. Provide back up and transfer of institutional knowledge
  3. Provide continuous preventative maintenance programs on the production facility including manholes and distribution system
  4. Review current processes and implement best practices, if and when required
  5. Investigation and design for the next additional boiler to the production plant, if required
  6. Be more customer centric at the customer Operational level
  7. Be proactive and collaborate with the customer to optimize the efficient use of steam.

49) Creative Energy respectfully submits that the reasonable and prudent cost of service is embodied in the hiring of these three new employees. As noted in the Overview section of these Submissions, the utility is undertaking significant changes that are driven by expectations of its stakeholders, including customers and the local government. In order to meet these changing expectations, Creative Energy was required to build a team appropriate for the tasks to be performed. It is for that reason that Creative Energy seeks approval of the costs of these three new positions[27]**.** Note that these individuals, if they work on specific projects, the associated time and charge will be charged to that specific project which will not be part of this RRA. This issue will be addressed in more detail regarding the overhead capitilization policy.

iv) Expenditures on Sales Expense

50) In the reasons for decision to CHDL's 2014 RRA (the "2014 RRA Decision"), CHDL was directed to reduce its 2014 Sales Expense from $60,000 to $23,000. Creative Energy is seeking approval for a Sales Expense $40,000 as compared to an actual Sales Expense of $37,019. Some of the increase is due to a reclassification of other costs. The breakdown of the 2014 Sales Expense and an explanation of management decisions related to this account are provided in three IR responses.[28] Those IR responses highlight that the new management team both appropriately stopped purchasing Canucks tickets with this amount, and was willing to exercise management discretion appropriately to incur costs exceeding those approved by the Commission at the cost of the shareholders.

51) In the event that the Commission does not accept the Sales Expense budget of $40,000, which as noted was approximately the actual for 2014, Creative Energy requests reasons for such a decision. The Sales Expense is a small account (and not unreasonable compared to other utilities as a percentage of overall operating expenses), but with significant advantages to the profile of Creative Energy and district energy generally. The benefits are very difficult to quantify, but the expenditures are not large, and it is management not the regulator that is in the best position to qualitatively assess the benefits of specific expenditures.

52) Given certain expenditures that were not formerly booked to this account that are now being booked to this account, Creative Energy recommends that the Commission consider this account not compared to the amounts approved in the 2014 RRA Decision, but as compared to the 2014 expenditures identified by Creative Energy.[29] In addition, it is noteworthy that approximately one-third of

[27] Exhibit B-2, BCUC IR 1.9.8 re additional reasons for new hires.
[28] Ibid., BCUC IR 1.12.2-1.12.3, and 1.12.3.1.
[29] Ibid., BCUC 12.3

the account costs are for Dues and Memberships, which may be discretionary, but are of a different nature than support for conferences.[30] Similarly, "Advertising", "Promotion" and "Commissions on new connections" supplement opportunities to show how steam will support energy efficiency requirements and support for third parties to secure new retrofit loads. [31] Creative Energy submits that those costs are patently fair and reasonable costs. The remaining portion of those costs that are not as easily justified relate to conferences.

53) Management carefully considers expenditures on conferences and has limited the support for conferences to just two conferences each year during the test period. However, the most likely management response to a Commission decision to not approve the full request of $40,000 for this account would be to not support the two conferences. In part, that is because management believes that the advertising and promotions budgets are necessary to support organic growth within the downtown core, which will benefit all customers, especially existing customers. So the Commission decision regarding this Sales Expense account turns in large part on the view of the Commission regarding whether Creative Energy should support conferences.

54) The only conference supported by Creative Energy in 2014 was Quest of $9,019. This certainly raised the profile in the district energy community of Creative Energy. And as noted the benefits may be difficult to quantify, but in a utility with only 200 customers, conferences provide significant qualitative benefits. Given the success of the Quest conference and the benefits of being a sponsor to Creative Energy, the utility is recommending that two conferences be supported in 2015, 2016, and 2017.

v) Capitalized Overhead

55) Creative Energy does not have a formal capitalization policy.[32] However, management salaries are charged out as direct labour based on estimated time spent on each project. In addition to the direct labour charge, there is a general overhead allocation of office support staff costs to capital projects, and an indirect labour charge for general administration support to capital projects. The indirect general overhead charge is based on a reasonable allocation of costs associated with office, engineering and transportation expenses.[33] Any management salaries related to a capital expenditure project are captured in a Construction in Progress account until such time as the capital project is completed. Moving forward in 2015, Creative Energy has implemented a process to allocate time spent on capital

[30] Exhibit B-5, BCUC IR 2.9.3 where Creative Energy considers accounting and engineering professional dues to be a necessary cost, and memberships in industry organizations as an opportunity with customers
[31] Ibid., BCUC IR 2.9.4 where Creative Energy explains in detail the line items of "Advertising", "Promotion" and "Commissions on new connections"
[32] Ibid., BCUC 1.21.3
[33] Ibid., BCUC 1.9.13

projects within the downtown core region and other projects that are being pursued.[34]

56) The percentage of the new employees wages charged to capital was provided in the Application as Table 6.1.1A. And then in response to a confidential information request[35], the capitalization of actual salaries was provided to support the capitalization of management salaries in Table 1.3.1, which was also corrected to account for general overhead and indirect labour charge.[36]

vi) NEFC Cost Offset

57) The NEFC cost allocations have been provided on a forecast basis for the purposes of calculating the revenue requirements for 2016 and 2017. Details of these estimates have been provided, and are $19,822 in 2016 and $90,424 in 2017.[37] However, Creative Energy is seeking approval for a deferral account to account for variances between these estimates and actual costs to be applied to a subsequent RRA.[38]

vii) Capital Structure and Return on Equity

58) The cost of equity is determined by the Company's investment in rate base, the Company's capital structure, and the allowed return on equity (ROE) as approved by the Commission. For each year of the Application, the revenue requirement incorporates an ROE of 9.50% and an equity component of 42.5%, which is consistent with Order G-47-14. The rate base for each year from 2014 -2015 is provided in the same format as the "Earned Return" for the years 2014-2017.[39] The rate base does not change materially over the fours year reported.

59) Order G-47-14 dated March 25, 2014 was effective January 1, 2013 and the rate impacts for 2013 and 2014 were the subject of a deferral account. Creative Energy seeks approval for the balance in that deferral account to be amortized over two years commencing on January 1, 2016. A two year amortization commencing in 2016 rather than a three year amortization commencing in 2015 is recommended given the steam tariff rate increase in 2015 of 13.3% as compared to the much lower steam tariff rate increases forecast for 2016 and 2017. In this Application, Creative Energy seeks approval for the two year amortization of this

[34] Exhibit B-5, BCUC 1.9.12
[35] Exhibit B-5-1, BCUC 2.7.5
[36] Exhibit B-5, Summary to BCUC IR 2, p. 1
[37] Ibid., BCUC 2.4.1
[38] Ibid., BCUC 2.4.3, and Exhibit B-2, BCUC 1.5.3
[39] Exhibit B -2, BCUC IR1.14.2

deferral account and the carrying costs based on WACC. (see "Summary to BCUC IR2")

viii) Deferral Accounts

60) Creative Energy seeks certain approvals specific to deferral accounts in its Application as listed below.

1.1. Approval of the creation of the following deferral accounts and amortization periods and balances:

1.1.1. "GCOC Deferral Account 2013/2014" with a balance of $333,012 to be amortized and recovered from customers over two years commencing on January 1, 2016. [40]

1.1.2. "After Tax Pension Costs" with a balance of $301,177 to be amortized and recovered from customers over three years commencing on January 1, 2016.[41]

1.2. Approval of the creation of the following deferral accounts:

1.2.1. "Pension Expense" with balances being the difference between the forecast and actual "Pension Expense" as determined by an actuarial valuation, and the amortization and disposition of such balances to be considered in the next revenue requirements application;[42] and

1.2.2. "NEFC Cost Allocation" with balances being the difference between forecast allocations for 2016 of $20,000 and for 2017 of $90,000 and allocations to be approved by the Commission; such balances are to considered in the next revenue requirements application.[43]

[40] Exhibit B-5, Summary to BCUC IR2, Table 1.3.3-Revised, provides the calculation of the balance for this deferral account of $333,012, and the recovery of such balance in 2016 of $187,619 and in 2017 of $177,062, including carrying costs
[41] Ibid., BCUC IR2.26.2
[42] Ibid., BCUC IR2.21.3
[43] Ibid., BCUC IR 2.4.1

ix) Deferred Regulatory Expenses

61) In keeping with past practices of Creative Energy, the Company does not propose deferral accounts for costs associated with participation in regulatory proceedings such as rate setting or other Commission proceedings. This approach is consistent with the view of the Company to limit deferral accounts, but is inconsistent with the practices of other utilities. As long as the Company continues to be able to participate in regulatory proceedings with limited use of external resources, the Company expects to continue to be able to operate without a deferral account for such expenses. However, it should be noted that the management effort to participate in this regulatory proceeding has exceeded any prior regulatory proceedings of Creative Energy or its successor. Nevertheless, the Company is not applying for the disposition of its costs to participate in this proceeding in this Application or any future application, with the single exception of PCAC costs that may be awarded to CEC. Although Creative Energy is expected to grow, it is Creative Energy's view that the cost of regulation should not change significantly. Creative Energy believes that this approach is consistent with the approach supported in the TES decision.

x) Pension Asset

62) In the Application[44], Creative Energy sought approval for recovery of financing costs of its defined benefit pension plan, and proposed that compensation be provided by rate base treatment of the full amount of the After-Tax Pension Asset. During the preparation of responses to information requests, another compensation approach was identified that provides for rate base treatment of a portion of the After-Tax Pension Asset and deferral account treatment of the remaining portion of the After-Tax Pension Asset. Creative Energy believes that this second compensation approach is fair and reasonable.

63) The Application calculated the After-Tax Pension Asset based on 2013 actuarial valuations, and requested that the financing costs be based on the 2014 actuarial valuations when available. During the second round of information requests (IR2), the actuarial valuations for 2014 were made available by the actuary and the final calculation of the After-Tax Pension Asset as of December 31, 2014 is $703,460.[45] In accordance with the second compensation approach the financing portion of the $703,460 that would receive rate base treatment is $402,283 and the portion that would be the subject of a deferral account would be $301,177.

64) Creative Energy is seeking carrying costs for the deferral account based on the WACC for Creative Energy because this would provide the same financing costs

[44] Exhibit B-1,Tab 9
[45] Exhibit B-5, BCUC IR 2.25.1

for both portions of the After-Tax Pension Asset. The justification for such carrying costs has been accepted by the Commission in the PNG decision referred to and quoted in the Application. This is a carrying cost to the utility on an asset that has accumulated since 2004. The After-Tax Pension Asset is a long term asset that must be financed by the utility and the utility should be fairly compensated. For that reason, carrying costs should be calculated based on WACC for Creative Energy.

65) The proposed amortization period for the deferral account is 3 years starting in 2016 and completing in 2018. The revenue requirement for 2016 and 2017 includes the amortization of this deferral account.

Part 5- Capital Expenditures Plans and Rate Base

66) The capital expenditure forecast for 2015-2017 is found in the Application at Tab 7; Table 7.1.2 and Table 7.1.3 identifies the costs of the Capital Program. This capital expenditure plan is being filed pursuant to section 44.2(1) of the UCA. In addition to this Capital Program, on page 9 of the Application, Creative Energy lists four projects that will be the subject of future CPCN applications. The Application includes all projected capital expenditures set forth in the Capital Program, but does not include the costs of the projects that will be the subject of future CPCN Applications.[46]

67) The Application also does not include certain costs such as actual equipment costs[47] that are necessary to meet infrastructure requirement of the core customers. Creative Energy will seek approval for those costs before such costs are recoverable from ratepayers.

68) The Application included Table 7.1.1 showing Depreciated Rate Base. Table 7.1.1 was then revised during in response to information requests and is provided on page 2 of the "Summary to BCUC IR 2."[48] Although necessary, the revisions do not have a significant rate impact. The most significant of those revisions relate to the calculation of working capital and the rate base treatment of the After-Tax Pension Asset, described above.

69) During the multi-year test period, Creative Energy proposes to calculate rate base for a year based on the previous year's actual capital expenditures and the forecast capital expenditures as per the capital program costs identified in the above noted Table 7.1.2 and Table 7.1.3 of the Application. For example, rates for 2017 would be based on the 2016 actual capital expenditures and the 2017 forecast capital expenditures. In this manner, Creative Energy is not incented beyond the current test year to reduce capital expenditures. Note that Table 7.1.1 – Revised

[46] Exhibit B-2, BCUC IR 1.21.2
[47] Ibid., third para.
[48] Exhibit B-5, first 5 pages

includes corrections to inputs to the working capital calculations related to "Admin", "City of Vancouver Agreement" and "Property Taxes". [49]

70) During the course of information requests, Creative Energy was asked to explain its extension policies to existing or mainlines and to comment on whether such an extension policy conforms to the Commission's System Extension Test Guidelines and the Commission's Thermal Energy System Guidelines.[50] In response to that information request, Creative Energy has committed to reviewing its existing extension policies in light of the new TES Guidelines and specific initiatives. Creative Energy submits that further consideration of Creative Energy's existing extension policy is unnecessary in this proceeding.

71) The CIAC found in the Application in Table 7.1.4 did not include a connection charge to a customer that is forecast. This oversight was corrected in the Evidentiary Update[51] and has been corrected in the calculation of rate base in Table 1.3.1 found in the Summary BCUC IR 2.[52]

Part 6 - Conclusion

72) Pursuant to sections 59 and 60 of the UCA, the Commission "is required … to allow the utility to recover its reasonable and prudent cost of service." Creative Energy respectfully submits that the reasonable and prudent cost of service is embodied in the Application, and the steam tariff rate increases that the Company is requesting are just and reasonable and should be approved.

73) Creative Energy therefore respectfully submit that the Commission should approve the orders as specified in the attached Draft Order, Appendix A.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated: April 27, 2015

Stacey Bernier,
President and CEO

[49] Exhibit B-5, BCUC IR 2.5.1
[50] Exhibit B-2, BCUC IR 23.3
[51] Exhibit B-1-1, Evidentiary Update, p. 59
[52] Exhibit B-5, first page

Appendix A- Draft Order

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BRITISH COLUMBIA UTILITIES COMMISSION

ORDER NUMBER

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DRAFT ORDER

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

and

An Application by Creative Energy Vancouver Platforms Inc.
For Approval of 2015, 2016 and 2017 Rates

BEFORE:

(Date)

ORDER

WHEREAS:

A. On November 28, 2014, Creative Energy Vancouver Platforms Inc. (Creative Energy) filed an Application (Exhibit B-1) for 2015-2017 Revenue Requirements and for approval of interim and final steam tariff rate increase effective January 1, 2015, pursuant to sections 59 to 61 and 89 of the *Utilities Commission Act* (the Act), with any variance between 2015 interim and final steam tariff rates to be refunded or collected from customer following the approval of 2015 final rates;

B. Creative Energy seeks, amongst other things, approval, pursuant to sections 59 and 61 of the Act, of a final steam delivery rate increase of 13.3 percent effective January 1, 2015

C. On December 15, 2014, the Commission issued Order G-198-14 establishing a Regulatory Timetable for the review of the Application and Order G-33-15 established a written hearing process and Amended the Regulatory Timetable and Order G-56-15 further Amended the Regulatory Timetable;

D. On February 27, 2015, Creative Energy filed an Evidentiary Update (Exhibit B-1-1) and on March 30, 2015 Creative Energy filed a summary of corrections to the Application with revised financial schedules and final rates;

E. The Commission has reviewed and considered the Application, the evidence and the submissions and has determined that the Application should be approved.

NOW THEREFORE the Commission orders as follows:

2. Pursuant to Sections 59 to 61 of the Act, the following approval are granted to Creative Energy subject to the updating of financial schedules with the opening balance of net plant-in-service and rate base deferral accounts:

2.1. Approval of final delivery rates for all steam customers effective January 1, 2015 of 13.3 percent with the difference between the interim rates and final rates to be collected from customers by way of a one time bill adjustment for each customer based on each customer's consumption during the interim period.

2.2. Approval of forecast revenue requirements for 2015 of $8,547,604 for 2016 of $8,874,854 and for 2017 of $8,793,908, as set forth in the calculation and subject to the deferral accounts approved by this Order.

2.3. Approval of the creation of the following deferral accounts and amortization periods and balances:

2.3.1. "GCOC Deferral Account 2013/2014" with a balance of $333,012 to be amortized and recovered from customers over two years commencing on January 1, 2016

2.3.2. "After Tax Pension Costs" with a balance of $301,177 to be amortized and recovered from customers over three years commencing on January 1, 2016

2.4. Approval of the creation of the following deferral accounts:

2.4.1. "Pension Expense" with balances being the difference between the forecast and actual "Pension Expense" as determined by an actuarial valuation, and the amortization and disposition of such balances to be considered in the next revenue requirements application; and

2.4.2. "NEFC Cost Allocation" with balances being the difference between forecast allocations for 2016 of $20,000 and for 2017 of $90,000 and allocations to be approved by the Commission; such balances are to considered in the next revenue requirements application.

2.5. Approval of $402,283 to be included in rate base as of January 1, 2015 as set out in response to Exhibit B-5, BCUC IR 2.26.1 and the Summary to BCUC IR2 (Exhibit B-5)

3. Pursuant section 44.2(3) of the UCA, approval that the capital expenditures and projects in the 2015-2017 Capital Expenditure Plan are in the public interest.

4. Approval that Creative Energy's 2015-2017 Capital Expenditure Plan meets the requirements of section 45(6) of the UCA.

DATED at the City of Vancouver, In the Province of British Columbia, this day of <MONTH>, 20XX.