CREATIVENERGY

July 26, 2018

Via Email

Mr. Patrick Wruck
Commission Secretary
BC Utilities Commission
Sixth Floor, 900 Howe Street, Box 250
Vancouver, BC V6Z 2N3

Dear Mr. Wruck:

Re: Creative Energy Application – 2018-2022 Revenue Requirements Application Final Argument

With this letter, Creative Energy files its Final Argument in the above noted proceeding.

Yours truly,

(Original Signed)

Krishnan Iyer
President & CEO
Creative Energy Vancouver Platforms Inc.

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.

2018 - 2022 REVENUE REQUIREMENTS

FINAL ARGUMENT OF CREATIVE ENERGY

JULY 26, 2018

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PART 1 – INTRODUCTION

1. On December 1, 2017 Creative Energy Vancouver Platforms Inc. ("Creative Energy") filed a 2018 - 2022 Revenue Requirements Application with the Commission seeking, among other things, approval of a multi-year index based ratemaking mechanism (the "IBR mechanism") to be applied to setting Creative Energy's steam rates ("Steam Rates") for the years 2018 - 2022, including interim and final approval to increase Steam Rates effective January 1, 2018 (the "Application").

2. Creative Energy operates in a competitive market for thermal energy. Existing and new buildings in the downtown core can reduce or avoid service from Creative Energy by installing their own on-site thermal solutions, including on-site natural gas boilers. As a result, Creative Energy has continuous pressure to minimize costs, maximize reliability and provide excellent customer service. In the context of this competition pressure, the Application and the IBR mechanism seeks to provide customers with a level of rate stability and predictability over five years and to reduce the cost and burden of active cost of service rate regulation by the Commission during this period.

3. In this regard, the IBR mechanism follows the rate-setting principles set out by the Commission for Stream B utilities in its Guidelines for Thermal Energy Systems[1] by establishing a rate-setting mechanism other than a regulated cost of service and by:

   a) providing an equitable balance of risk and cost between the utility and ratepayers;
   b) using the least deferral mechanisms possible;
   c) restricting the ability of the utility to pass controllable costs onto ratepayers;

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[1] Thermal Energy System Regulatory Framework Guidelines attached as Appendix A to Order G-27-15, Section 2.4.3, p. 22. The Guidelines provide that rates based on a regulated Cost of Service rate-setting mechanism "will be considered as a method of last resort" (Section 2.4.4, p. 23).

d) using the least amount of regulatory oversight to protect ratepayers (by minimizing the regulatory burden and costs on the utility, ratepayers and the Commission); and

e) avoiding rate shock.

4. The IBR mechanism for setting Steam Rates is simple and transparent. It begins with Creative Energy's approved 2017 Revenue Requirement. Certain necessary adjustments are made to the approved 2017 Revenue Requirement and that base amount (the "IBR Base Revenue Requirement") is then divided by Creative Energy's approved 2017 load forecast. The resulting rates are then increased in each of the five years covered by the Application by an inflation index factor. Under this mechanism Creative Energy will assume cost and throughput risk and be responsible for managing these risks over the five-year period. The proposed mechanism covers spending on normal course capital maintenance but excludes major capital items which would be subject to an application by Creative Energy for a Certificate of Public Convenience and Necessity ("CPCN").

5. The specific approvals that Creative Energy seeks in the Application are as follows:

a) approval of the IBR mechanism for setting Stream Rates for the years 2018 to 2022, including the IBR Base Revenue Requirement of $8,133,060;

b) final approval of an increase in Steam Rates of 1.77% effective January 1, 2018;

c) approval of the method to allocate Sales, General & Administrative ("SG&A") costs between Steam Service and Other Projects based on the Massachusetts formula, as described in Appendix 4 to the Application;

d) approval to amortize the Pension Expense Deferral Account balance of $162,563 as of December 31, 2017 over three years commencing in 2018[2];

e) approval of a Third Party Regulatory Costs Deferral Account balance of $521,098 as of December 31, 2017 (inclusive of Long Term Resource Plan expenses), and approval to amortize this balance over three years commencing in 2018[3]; and

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[2] As discussed in paragraph 31 below, Creative Energy is now proposing that the deferral balance be amortized over three years rather than two years.

[3] Ibid.

f) approval to change the amortization period of the Fuel Cost Stabilization Account ("FCSA") from two years to one year[4].

6. The IBR mechanism does not affect the separate Fuel Cost Adjustment Charge ("FCAC") which, apart from a change in the amortization period for the FCSA, will continue to be determined under the existing Commission approved methodology.

PART 2 – OVERVIEW OF THE APPLICATION

Determination of IBR Base Revenue Requirement and Rate

7. The IBR mechanism uses Creative Energy's 2017 Revenue Requirement and load forecast approved by the Commission in its 2016 - 2017 RRA Decision issued concurrently with Order G-167-16 on November 18, 2016 (the "2016 - 2017 RRA Decision") in the determination of the base Steam Rates that are the starting point for the five-year period covered by the Application.

8. To arrive at the IBR Base Revenue Requirement, three adjustments were made to the approved 2017 Revenue Requirement[5]:

a) First, the SG&A costs included in the approved 2017 Revenue Requirement were adjusted to remove costs that have been allocated to Other Projects using the cost allocation study set out in Appendix 4 to the Application;

b) Second, the revenue deficiency that was carried over from 2016 to 2017 and included in the approved 2017 Revenue Requirement was removed; and

[4] As set out in response to BCUC IR 46.4.1 (Exhibit B-12), Creative Energy is amenable to the Commission reviewing the specific amortization period upon a Fuel Cost Adjustment Charge rate change application.

[5] Exhibit B-1, Application, Section 2.1, pages 7 and 8.

c) Third, the deferral account amortization amounts that were included in the approved 2017 Revenue Requirement were removed.

9. As confirmed in its response to Panel IR 3.1[6], Creative Energy is proposing a fourth adjustment to the approved 2017 Revenue Requirement to account for the significant increase in Creative Energy's 2018 property tax assessment received subsequent to filing the Application. The actual property tax assessment for 2018 associated with the steam system is $595,160, which is $237,360 (66%) higher than the 2017 base amount for property taxes initially assumed in the Application. This adjustment is necessary otherwise Creative Energy's rates will be understated in each year of the five year period by this significant increase in property taxes. While Creative Energy believes that it can manage its business and costs within the approved 2017 forecast, the property tax increase is a significant departure from that forecast outside of Creative Energy's control that will endure each year over the five-year period.

10. After accounting for these four adjustments and for the revisions and corrections identified during the Information Request process, the resulting IBR Base Revenue Requirement is $ 8,133,060. Creative Energy has provided in response to Panel IR 3.2 a revised Exhibit B-1-1 which shows of the IBR Base Revenue Requirement after incorporating the four adjustments and the revisions and corrections identified during the Information Request process.[7]

11. The IBR Base Revenue Requirement is then divided into the approved 2017 load forecast of 1,098,513 M#'s, resulting in an 2017 average adjusted base rate of $7.40/M#, which is 4.06% lower than the approved 2017 average Steam Rate of $7.72/M#.

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6 Exhibit B-15.

7 Ibid.

2018 Steam Rates and Subsequent Rates

12. In order to determine the 2018 Steam Rates, the 2017 average base rate of $7.40/M# is then increased by the 2018 index factor of 1.84%[8], resulting in a 2018 base average rate of $7.54/M#. This base rate is then adjusted by the amount of the deferral account balances to be amortized in 2018[9], by dividing the aggregate amortization amount by the 2017 approved load forecast. The resulting average Steam Rate for 2018 is $7.85M#, which represents a 1.77% increase over the average Steam Rate for 2017 of $7.72/M#. As noted in its response to BCUC IR 43.1[10], Creative Energy is amenable to using a rate rider to recover the deferral account amortizations rather than adjusting the IBR rates.

13. Under the IBR mechanism, the Steam Rates for each of the four remaining years covered by the Application are then calculated by adjusting the Steam Rates for the prior year by the index factor for such year and then adjusting the rate by the net amount of the deferral account balances to be amortized in that year (again using the approved 2017 load forecast to calculate the per unit adjustment). Again, Creative Energy is amenable to using a rate rider to recover the deferral account amortizations rather than adjusting the IBR rates.

Use of the 2017 Approved Revenue Requirement and Load Forecast is Reasonable and Appropriate

14. In Creative Energy's submission, the use of the approved 2017 Revenue Requirement as the starting point for the IBR mechanism is reasonable and appropriate. The approved 2017

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8 See Exhibit B-1, Application, Appendix 5 for the detailed calculation of the index factor used for 2018.

9 The three deferral accounts are the Regulatory Transitional Adjustment Account, the Pension Baseline Expense Deferral Account and the Third Party Regulatory Costs Deferral Account

10 Exhibit B-12.

Revenue Requirement underwent a full public regulatory review process resulting in the Commission's 2016-2017 RRA Decision.

15. As explained in response to BCUC IR 2.1[11], Creative Energy's costs have stabilized over time and the system is operating in a steady state environment. The 2017 Revenue Requirement also reflects the most recent determinations by the Commission of Creative Energy's capital structure and ROE, and Creative Energy expects no material changes in its cost of debt over the five-year period.[12] Under the IBR mechanism, Creative Energy is taking risk on actual debt costs.

16. While there were large rate increases from 2014 to 2016, these were mostly related to one time changes (including a higher allowed equity ratio and ROE arising from the Generic Cost of Capital Decision, adjustments in accounting treatment of pension costs, staff transitions, and some need upgrades in IT) that were unrelated to ongoing operating and maintenance costs and not indicative of the steady state of the steam system itself. There was also a rate decrease in 2017, but this was mainly due to the removal of a portion of the fuel costs embedded in the Steam Tariff and placing those costs into the FCAC pursuant to Order G-167-16.

17. The approved 2017 Revenue Requirement (and hence the IBR Base Revenue Requirement) reflects approved 2017 capital expenditures of $1.27 million[13]. In Creative Energy's submission, this is fair and reasonable amount for the base IBR capital over the 2018 to 2022 period given the age of the system. Capital expenditure between 2011 and 2016 averaged $1.06 million per

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11 Exhibit B-7.

12 Exhibit B-8, BCOAPO 5.1 to 5.5.

13 Exhibit B-1, Application, Section 3.2.3, p. 11; Exhibit B-3, Supplemental Information, Appendix 1, Schedule 4.

year[14] and forecast capital expenditures between 2018 and 2022 average $1.49 million per year[15]. While actual capital expenditures in 2017 were lower, this was due to unexpected delays in some of the major operating projects due to conflicting projects and delays in completing projects due to weather conditions and obtaining City of Vancouver approvals.[16]

18. The base capital amount reflected in the IBR mechanism through the IBR Base Revenue Requirement is for predictable, planned and often reoccurring maintenance to the steam plant or distribution system, such as manhole repairs, PRV rebuilds, remote metering and metering replacement.[17] Any major capital projects beyond these ordinary course maintenance capital projects in the five year period would be subject to a CPCN application by Creative Energy and the manner in which the capital costs would be recovered in customer rates either within the five-year period or beyond, as applicable, would be addressed in the CPCN application.[18]

19. The use of the approved 2017 load forecast of 1,098,514 M#, consisting of both existing steam customers (1,069,572 M#) and NEFC (28,942 M#), in the IBR mechanism is also reasonable and appropriate. The 2017 load forecast was approved by the Commission in the 2016 - 2017 RRA Decision, and incorporates both weather normalization and information obtained by Creative Energy from customers regarding any pertinent changes to their buildings or operations that could impact demand.[19]

20. Weather is the main driver of Creative Energy's system load, and weather variations have already been normalized in the 2017 load forecast approved by the Commission. With regard

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14 Exhibit B-1, Application, Section 3,2.3, page 11; Exhibit B-7, BCUC IR 16.2.

15 Exhibit B-12, BCUC IRs 40.5, and 40.5.1 and 40.11. The focus of capital expenditures from 2018 to 2022 is on the distribution system and customer improvements.

16 Exhibit B-7, BCUC IR 16.1; Exhibit B-12 and BCUC IR 40.9.1

17 Exhibit B-7, BCUC IR 17.1.

18 Exhibit B-1, Application, Section 3.2.3.1, p 12 and 13; Exhibit B-7, BCUC IR 17.1 and 17.2.

19 2016-2017 RRA Decision, page 21.

to existing system customers, Creative Energy does not anticipate any material net changes in load due to customer additions or losses.[20] With respect to NEFC, the 2017 load forecast already reflects the four NEFC hot water customers under contract and Creative Energy does not anticipate any new NEFC customers over the five-year period covered by the IBR mechanism.[21]

21. Creative Energy is assuming load risk under the IBR mechanism and the rate stability and predictability provided by the indexed based rates will help Creative Energy manage this risk. The assumption of this risk by Creative Energy also means that it will have a strong incentive to maintain high levels of steam service reliability and customer service over the five-year period. Apart from extreme weather events, which can cause both increases and decreases in load (Creative Energy has always taken weather risk), it is highly unlikely that there will be any significant increase in load from existing steam customers. With regard to new customers, if Creative Energy were to add any new customers to the system during the five-year period there would be offsetting connection costs.[22] New gas-fired steam load is also limited by new green building requirements in Vancouver that will require substantial sources of low-carbon energy to serve new developments.

The Index Factor is Reasonable and Appropriate

22. Creative Energy is proposing an annual index to adjust Steam Rates that is comprised of two parts, namely, a labour component and a non-labour component. The weighting of the two factors is 53% labour and 47% non-labour.[23] Creative Energy believes it is more appropriate

[20] Exhibit B-7, BCUC IR 24.2.
[21] Exhibit B-10, FEI IR 2.1.
[22] Exhibit B-14, CEC IR 44.2.

to use both a labour and non-labour inflation index in determining the index since this is more reflective of Creative Energy's costs, which consist of both labour and non-labour components.

23. The index was chosen because it is indicative of the overall cost pressures faced by Creative Energy, comprises indexes that are published by independent and reputable sources, is transparent and expected to be reasonably stable over time. The index is applied to the IBR rates, not the Revenue Requirement or individual cost line items, so within the boundaries of the index it will be up to Creative Energy to manage its overall costs while still maintaining a high-level of system reliability and customer satisfaction.

24. For the labour component of the index, Creative Energy proposes to use actual average weekly earnings information for British Columbia (BC-AWE). For the non-labour component of the index, Creative Energy proposes to use actual CPI information for Vancouver (Vancouver-CPI).

25. For each year's rate adjustment, Creative Energy will use the change in the average level of the index over the most recent August to July period, relative to the average level of the index over the prior August to July period. As outlined in its response to BCUC IR 43.1[24], Creative Energy proposes to file a compliance filing with the Commission by October 1 of each year showing the calculation for the upcoming year's index and resulting change in Steam Rates. Because the index is backward-looking, Creative Energy takes risk for the actual level of inflation over the coming year.

The Proposed Allocation of SG&A Costs is Fair and Reasonable

26. In the 2016 - 2017 RRA Decision, the Commission directed Creative Energy to conduct a cost allocation study to address the allocation of SG&A costs among Steam Service, NEFC Service

[23] Exhibit B-7, BCUC IR 15.1.

[24] Exhibit B-12.

and Other Projects. With this directive, the Commission requested that the cost allocation study be conducted in a cost effective manner in keeping with the size of Creative Energy's business. With this in mind, Creative Energy first obtained a quote to conduct the study from a third party consultant, but then based on discussions with Commission staff it was determined that undertaking the study in-house was the most appropriate course of action.

27. In the 2016 - 2017 RRA Decision, the Commission approved the treatment of NEFC as a Steam Service customer to be charged Steam Rates rather than being allocated a share of system costs. Creative Energy proposes to continue to treat NEFC as a Steam Service customer and therefore it is only necessary to allocate SG&A costs between Steam Service and Other Projects. Creative Energy expects SG&A costs for the steam system to be consistent over the IBR period. While further resources will be needed to advance the Other Projects, these additional costs will be outside the current SG&A pool for the steam system.

28. As set out in the cost allocation study attached as Appendix 4 to the Application, Creative Energy is proposing to use the Massachusetts formula to allocate SG&A costs. The Massachusetts formula is used extensively in the industry, and has been previously approved by the Commission. The Massachusetts formula is composed of the arithmetical average of three components, namely, average net book value of capital assets, salaries, and operating revenues.

29. In the cost allocation analysis, Creative Energy compared the allocation of costs to projects outside of the steam system, using the Massachusetts formula versus using cost drivers as an allocation method. While both methodologies resulted in similar allocation amounts (a difference of only $2,900)[25] the Massachusetts formula was selected as the preferred method.

[25] Exhibit B-1 Appendix 4, p.6.

The selection of individual cost drivers is a subjective exercise, whereas the Massachusetts formula is much simpler to implement, is generally accepted and well established for other utilities regulated by the Commission and in other jurisdictions. Creative Energy also submits that whatever approach is selected simplicity is warranted given the size of the utility and competitive pressures in the industry.

Existing Deferral Accounts

30. Creative Energy currently has three existing deferral accounts pertaining to steam service: the Regulatory Transitional Adjustment Account, the Third Party Regulatory Costs Deferral Account ("TPRCDA") and the Pension Baseline Expense Deferral Account ("PBEDA"). The Regulatory Transitional Adjustment Account, which has a balance of $116,619, will be fully amortized by the end of 2018 and subsequently closed.

31. The two remaining deferral accounts (TPRCDA and PBEDA) capture variances between forecast and actual third party regulatory costs and pension expenses, respectively. Creative Energy is now proposing to amortize the balance in these two deferral accounts as of December 31, 2017 over three years commencing in 2018, rather than over two years as originally set out in the Application. Creative Energy is proposing a three-year amortization period to help smooth-out the rate impact associated with the significant increase in property taxes in 2018, which were not factored into the original Application.

32. Forecasts of the costs covered by the TPRCDA and the PBEDA are included in the approved 2017 Revenue Requirement. On a going forward basis, any variance in any year during the five-year period between actual costs and the approved 2017 amounts, increased by the index factor for that year, will be recorded in either the TPRCDA or PBEDA, as applicable, and the

balance amortized in the following year (using the approved 2017 load forecast to calculate the per unit rate adjustment).[26]

33. Creative Energy is seeking approval to include the full costs of its 2017 Long Term Resource Plan ("LTRP") in the TPRCDA, including the Fuel Switch Study which formed the core of the LTRP filing. As outlined in BCUC IR Response 2.47.6[27], the LTRP addresses numerous strategic issues facing the company. Creative Energy submits the amount spent on the LTRP is not an unreasonable amount for strategic planning given the breadth of questions and depth of analysis and given B.C.s energy objectives and Commission directives regarding long-term resource plans. Further these costs were incurred over more than three years of study and planning.

34. Creative Energy's cost of service to date has contained no allowance for long-term planning costs, which are valid utility costs. As noted by the Commission in previous decisions, Central Heat had never filed a LTRP of any other long-term plan prior to the acquisition by Creative Energy. The Fuel Switch Study is the basis of the LTRP and it addresses numerous strategic issues facing the company such as general market trends, GHG policy and regulation, fuel cost outlook (including RNG analysis), customer perspectives of green energy, thermal energy cost benchmarks, steam to hot water conversion, etc.

35. As stated in its response to BCUC IR 47.6[28], Creative Energy submits that the cost of the Fuel Switch Study are not unreasonable in relation to the size of the utility and the size of the project. Moreover, Creative Energy has prudently minimized and defrayed costs by building on past studies, staging analysis to ensure that the right things were being studied in more depth,

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26 Exhibit B-1, Application, Section 6.2, page 22.

27 Exhibit B-12.

28 Ibid.

securing a significant grant (the largest possible from the Federation of Canadian Municipalities), using market feedback to gather and confirm input assumptions for the study, and securing in-kind contributions from the City of Vancouver. As noted in the LTRP, Creative Energy has identified the most technically viable and cost-effective project for significant reductions in GHG emissions given the constraints of steam distribution, limited land, and high land costs. Given the technology and need for a new site, the project exhibits large economies of scale. Creative Energy had hoped to proceed with the project, but the fact remains that there is a financial gap for existing customers served by natural gas that have no legal requirements for reducing GHG emissions. In the absence of adequate customer demand or policy to support a large fuel switch project, Creative Energy continues to pursue grants to defray the costs of the project. Given ongoing uncertainty in the timing of the project and broader value of the LTRP and underlying Fuel Switch Study, the company is now seeking to expense costs to date and recover them via the TPRCDA. Should the Panel decide that these costs not be recovered in the TPRCDA, where appropriate Creative Energy intends to capitalize these costs as part of the fuel switch project if and when it occurs. Recovering these study costs as an expense now is forgoing any future capitalization and therefore an associated return. Creative Energy believes that, due to the uncertainty in the project recovering the costs, now is an appropriate treatment of the costs and a fair and reasonable approach.

36. The balances in the TPRCDA (with the inclusion of the LTRP costs) and the PBDEA as of December 31, 2017 are $521,098 and $162,563, respectively. Based on the proposed three year amortization period for these balance, the amounts to be amortized in 2018 are $173,699 for the TPRCDA and $54,188 for the PBDEA.

37. Creative Energy will provide ongoing information regarding the deferral account balances as part of its annual compliance filings with the Commission showing the annual index factors and adjustments to the Steam Rates.

Material Changes in Costs

38. As discussed in response to BCUC IR 39.1[29], if material changes in costs (more than 15%) were to occur during the five-year period IBR period that are beyond Creative Energy's control due to such changes as changes in Government policy, changes in accounting policy, changes in taxes (including property taxes), then Creative Energy may seek Commission approval to establish a deferral account to record the impact of such costs. The nature of such costs to be included in the deferral account, and the proposed disposition of the deferral account balance, would be addressed by Creative Energy at the time of the application for the deferral account.

Annual Reporting is Sufficient and Appropriate

39. Creative Energy submits that no annual or mid-term reviews are necessary or appropriate over the five-year period covered by the IBR mechanism. Creative Energy will make rate adjustment filings by October 1 of each year to seek Commission approval of Steam Rates commencing January 1 of the next year based on the methods proposed in this Application, and will continue to file an annual report and audited financial statements with the Commission in April. Creative Energy submits that these filings will allow for an appropriate level of review of Creative Energy's rates and operations over the five-year period. Creative Energy notes that extraordinary increases in costs or capital expenditures would be handled outside this mechanism, should they occur.

[29] Exhibit B-12.

PART 3 – ROE BAND

40. In response to BCUC 42.1, Creative Energy indicated that it was giving further consideration to a rate adjustment mechanism that would introduce symmetrical upper and lower bands around its allowed ROE to ensure that the IBR mechanism does not result in either excessive over-earning or excessive under-earning over the five year period covered by the Application.

41. Creative Energy is not changing its requested approvals. However, based on this further consideration, if the Commission determines that such a rate adjustment mechanism would be appropriate as part of the IBR mechanism, then Creative Energy would suggest that an appropriate mechanism would be one that only results in a rate adjustment if Creative Energy's achieved ROE falls outside a 150 basis points band around Creative Energy's allowed ROE of 9.5%.

42. Under such an adjustment mechanism, Creative Energy would for each year of the five-year period calculate the difference between its allowed and achieved return on common equity for such year. The allowed return would be equal to the actual mid-year rate base for the year multiplied by Creative Energy's approved equity ratio of 42.5% and the allowed ROE of 9.5%. Creative Energy would then determine after the first three years whether the cumulative difference between the allowed and achieved returns over the three years falls outside a 150 basis point band around the cumulative allowed return. In any given year it is to be expected that Creative Energy's achieved return will vary due to a variety of factors, including changes in individual costs, the timing of when costs are incurred and actual system load. The use of an initial three year period for this review would smooth out these year over year differences.

43. As Creative Energy does not currently expect a significant deviation outside the proposed return band and given the volatility could be positive or negative (largely because there will be

variances in both directions attributable to actual weather) Creative Energy proposes the Commission defer any decision on the disposition of this account for the first three years of the IBR. If there is a significant positive or negative balance in the account after year three, Creative Energy proposes the Commission seek submissions on how to deal with this balance going forward, recognizing there will be ongoing variance in the account for the remainder of the IBR period. Creative Energy submits that any positive or negative balances could be dealt with outside the IBR through a rate rider, if required.

44. If there is such a cumulative difference between the allowed and achieved returns over the initial three years, then the amount would be recorded in a deferral account. The Commission could then invite submissions from Creative Energy and interested parties on how the difference should be refunded or recovered in customer rates. Creative Energy would also calculate the difference between its allowed and achieved returns for each of years four and five and, if in either year the difference falls outside the 150 basis point band, the amount would be recorded in the deferral account and the Commission could again invite submissions on how the amount should be refund to, or recover from, steam customers.

45. Creative Energy believes that this mechanism, if adopted by the Commission, should allay any concerns that the Commission may have about Creative Energy over-earning or under-earning during the 2018 to 2022 period, while respecting the objective of the IBR mechanism to reduce the regulatory burden for the benefit of ratepayers, Creative Energy and the Commission. Given the volatility in Creative Energy's actual earnings attributable solely to weather, uncertainty in the cumulative value of year over year variances in earned return, and the stability in Creative Energy's customer base, Creative Energy submits that deferring a decision on how to deal with a balance, if any, in this account does not result in any fairness issues.

46. Creative Energy proposes that any positive or negative balances in the deferral account at the end of each year would attract interest (to the benefit of ratepayers or the shareholder, depending on whether the balance is positive (owned to ratepayers) or negative (owned to shareholders) at a rate equal to Creative Energy's WACC.

PART 4 – RESPONSE TO PANEL QUESTIONS

47. By letter dated June 13, 2018, the Panel requested Creative Energy and registered interveners to address in final argument the following two questions in light of the Application for a Certificate of Public Convenience and Necessity for the Expo and Beatty Plants Project and Approvals Related to Reorganization ("CPCN and Reorganization Application") filed by Creative Energy on June 29, 2018:

a) *Whether and to what extent the proposed Project raises potential uncertainties associated with Creative Energy's load and revenues, operating costs, capital costs, rate base and other revenue requirement components during the proposed 5-year IBR term; and if so, what is their potential impact on these components within the IBR term*; and

b) *In consideration of the potential uncertainties identified above, is a reduction in the proposed 5-year IBR term appropriate for the Panel's consideration and if so, what is the appropriate reduced IBR term and why?*

48. The purpose of the IBR mechanism is to reduce regulatory burden and provide a level of rate stability and predictability for a five-year period. Creative Energy contemplated the plant redevelopment in the development of its IBR proposal. The proposed redevelopment requires

a CPCN. As outlined in Section 3.2.3.1 of the Application, Creative Energy has proposed that capital projects approved by a CPCN would be outside the base IBR capital and the IBR mechanism. For reasons set out below, Creative Energy submits there is no need to deviate from the IBR mechanism as a result of the proposed redevelopment because a) the final timing of the project is uncertain, and b) the rate impacts can be dealt with separately from the proposed IBR mechanism via a rate rider, if and when the project is completed.

49. With respect to timing, the CPCN and Reorganization Application depicts an ideal schedule for the proposed project. Full completion is not anticipated until the end of the proposed IBR term. It is highly unlikely that the full project will be completed sooner than that. Indeed, the timeline is contingent on many external factors beyond Creative Energy's control, including the timing of the Commission's decision in that proceeding. There is a reasonable probability that full completion of the project will extend beyond the IBR term.

50. There are two phases to the proposed redevelopment, each of which will have separate impacts on Creative Energy's cost of service. The first phase ends with commissioning of the Expo Plant. This is currently contemplated at the end of 2019, which falls inside the proposed IBR term. However, as noted above, actual completion could occur later. The second phase ends with completion of upgrades at the Beatty Plant and this is not expected to occur until the very end of the proposed IBR term at the earliest.

51. The completion of the Expo Plant would have several effects on Creative Energy's cost of service. Upon commissioning of the Expo Plant, a portion of Creative Energy's contribution to the project costs ($9 million out of a total contribution of $15 million) will be payable and put into rate base. As noted above, this is subject to a CPCN and would fall outside the base IBR capital and IBR mechanism.

52. Beyond the effect on rate base, the completion of the Expo Plant will have incremental effects on O&M as follows:

- Electricity costs (the new plant will have higher levels of process electrification);
- Gas costs (the Expo Plant will be base loaded and will increase average system efficiency);
- Property Taxes for the Beatty Plant (the agreement with the Developer transfers a portion of the property taxes associated with the existing Beatty Plant and site to the Developer upon completion of the Expo Plant)
- Carrying costs of land at Beatty Plant (a portion of the land at Beatty will be removed from rate base (at original cost) upon completion of the Expo Plant);
- Expo Plant lease payment (this is a new cost associated with the Expo Plant); and
- Municipal access fees (the Municipal Access Agreement Fee paid to the City is tied to changes in Steam Rates)
- Insurance costs (insurance costs will increase due to the new Expo Plant)

53. Of all of these changes, the largest impact of the Expo Plant on Steam Rates arises from the addition to rate base of the $9 million contribution payment (which gives rise to depreciation, interest, ROE and incremental Municipal Access Fees). The Expo Lease was negotiated to be roughly equivalent to the expected reduction in carrying costs and property taxes associated with the Beatty Plant, although the reduction in property taxes from the redevelopment project could be even larger in light of recent increases in property taxes at Beatty Street. However, there is also a net increase in electricity costs contemplated after commissioning of the Expo Plant. The effect of the Expo Plant on gas costs (a major benefit of the new plant) is already dealt with outside the IBR mechanism because it only affects the FCAC.

54. The second phase of the redevelopment ends with the completion of upgrades at the Beatty Plant. Upon commissioning of the upgrades, Creative Energy would make its remaining contribution to project costs ($6 million). There would also be additional changes in insurance costs and municipal access fees. The second phase of the redevelopment is currently anticipated to occur in late 2022 (the final year of the IBR period) but could easily occur after

the IBR period depending on the construction schedule. If the commissioning of the new Beatty Plant were to occur based on the current schedule (i.e., during the last one or two months of the IBR period), its impacts can be deferred and dealt with in the rate application that Creative Energy will need to file with the Commission for the period after 2022.

55. Moreover, the proposed project does not directly affect Creative Energy's system load. The redevelopment is intended to serve existing load and replaces existing end of life assets. In the CPCN and Reorganization Application, Creative Energy provided indicative incremental rate impacts which incorporated known changes in existing load (a small net reduction overall). This was intended to provide the Commission and customers a conservative view of the possible rate impacts from necessary upgrades to Creative Energy's system. However, the timing of these changes in load is also uncertain and they may occur beyond the IBR term.

56. For the foregoing reasons, Creative Energy is not seeking approval of any recoveries associated with the redevelopment project, which has yet to be approved by the Commission. Creative Energy submits there is no need to reduce the proposed five-year IBR term based on the CPCN and Reorganization Application because a) the redevelopment project has not yet been approved, b) the final timing is uncertain, and c) the effects of the Expo Plant on Creative Energy's cost of service are easily isolated and dealt with separately from the base IBR mechanism proposed in the Application through a separate rate rider if and when the Expo Plant is commissioned. The impacts on gas costs do not require separate treatment as they are automatically dealt with via the FCAC.

57. As outlined in the CPCN and Reorganization Application, Creative Energy expects it will apply for a rate rider closer to completion of the Expo Plant. However, Creative Energy expects such an application would focus solely on the net incremental cost of service impacts from that

project and would therefore not require a full rate case during the five-year IBR term. Creative Energy submits this approach preserves the intent of reducing regulatory burden.

PART 5 – CONCLUSION

58. The Application and the IBR mechanism responds to the competitive pressures faced by Creative Energy by providing its steam customers with a level of rate stability and predictability over a five-year period, while significantly reducing regulatory burden to the benefit of all stakeholders.

59. The principle behind the IBR mechanism is that an inflation index will be applied to Steam Rates, not to revenue requirements or costs, and Creative Energy will be at risk for managing its overall costs and system load over the five year-period. The mechanism encourages increased efficiency and, given the competitive environment in which it operates, Creative Energy will continue to have every incentive to maintain high levels of steam service reliability and customer service.

60. The IBR mechanism is an innovative approach to rate-setting that follows the Commission's Guidelines for Thermal Energy Systems for Stream B utilities. In Creative Energy's submission, the IBR mechanism is fair, reasonable and appropriate and will produce just and reasonable Steam Rates over the 2018 to 2022 period.

61. Creative Energy requests that the Commission approve the Application and grant the approvals set out in paragraph 5 above.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

Dated July 26, 2018