Shannon Ratepayers Group IR No. 3

1.0 Reference: Exhibit B-1-1 (Application), Section 3.1 Sustainment Capital Fund Rate Rider

Section 3.1 has been amended for both the CRF and ERF such that interest will accrue at a rate of 0.15% per annum rather than the original 1.0% per annum.

1.1 Please clarify if this is interest that would be earned on a positive balance in the CRF or ERF or if it is earnings that would accrue to SWCRA on a negative balance in the CRF or ERF.

1.2 Please provide the rationale and supporting documents to justify the change from 1.0% to 0.15%.

2.0 Reference: Exhibit B-1-1 (Application), Section 3.2 Regulatory Deferral Account

Section 3.2 has been added to the application and discusses a Regulatory Deferral Account and rate rider associated with estimated costs of $303,960.

2.1 What legal/regulatory authority does SWCRA rely on for the recovery of RDA costs generally and specifically from rate payers?

2.2 Please provide details of the remaining work by SCCI that forms the basis of the budget of $52,000.

2.3 Please provide details of the forecasted "Accounting & Legal Services Budget" work that forms the basis of the budget of $60,000.

2.4 What portion of SCCI's fees of $164,970 are attributable to the involvement in this application of Dean Thomas Fox/Shannon Ratepayers Group and other ratepayers?

2.5 What portion of SCCI's fees of $164,970 are attributable to the involvement of Fortis and any other interveners?

2.6 Were any regulatory costs for rate approval anticipated and included in the capital costs for the project submitted in the CPCN Application? If yes, what was the amount? If not, please explain why they were not anticipated?

2.7 Does the fixed rate for SEFC, which is the basis for the SETES fixed rate, include any costs associated with reports, presentations or other materials developed to gain rate approval from the City of Vancouver?

2.8 What would the estimated regulatory costs be if SWCRA would have made residents of its buildings aware of the regulatory process such that they could have been involved in the entire process rather than having to extend the process?

2.9 If this process had not been extended due to the request by residents, how would SWCRA have treated the regulatory costs associated with the Application process? Would they have been a reduction in the earning to SWCRA?

2.10 SCCI makes the following claim: "The use of SCCI is reasonable and prudent due to SCCI's complete knowledge of SETES due to its history as the designer and commissioner of the TES as well as its sufficient capabilities and capacity to execute a rates application." How many TES/DES Rates Applications has SCCI presented to the BCUC prior to this one?

2.11 SWCRA makes the following statement: "The costs SWCRA has incurred are not negligible and SWCRA's management incentive to control its own costs are strong as SETES has only minimal cash assets as a new business and therefore depends on the capital of parent structures." Please provide all details of the "parent structures".

2.12 SWCRA makes the following statement in Exhibit B-1-1, Appendix B1, s. 2: "The applicant, Shannon Wall Centre Rental Apartments Limited Partnership (SWCRA) is a single purpose Limited Partnership established to own and operate the 213-unit rental property known as Shannon Mews & Apartments, and will also own and operate the TES plant. The General and Limited Partner is Wall Financial Corporation. The developer, Wall Financial Corporation (WFC) is a publicly traded real-estate investment and development company incorporated in BC in 1969." Does Wall Financial Corporation own units in Shannon Condominium Developments Unit Trust and if so, how many. Please provide us with a copy of the Shannon Condominium Developments Unit Trust agreement.

2.13 Please provide a breakdown of the "forecasted regulatory expenses" referred to in s. 3.2.

3.0 Reference: Exhibit B-1-1 (Application), Section 3.2 Regulatory Deferral Account

Section 3.2 has described the rate rider for the Regulatory Deferral Account as being designed around a 60-month collection period.

3.1 Does SWCRA expect to file another rate application of the end of the 60-month collection period? If not, when would the next rate application be expected?

3.2 Given that the proposed rates have escalation factors allowing for annual increases in rates, and there are anticipated rate riders for capital repairs and replacements, it may not be necessary to file another rate application over a very long time period. What would the rate rider be if the collection period was changed to 10 years? What would the rate

rider be if the collection period was changed to 20 years? What would the rate rider be if the collection period was changed to 30 years?

3.3 Costs associated with RDA are Capital Costs. Do the weighted average cost of capital (WACC) rules apply?

4.0 Reference: Exhibit B-1-1 (Application), Section 5.1 Financial Model

The Excel financial model referred to in Section 5.1 has estimated sales for space cooling, space heating and domestic hot water (in kWh and GJ), electric usage for both energy (kWh) and demand (kW) and gas usage energy (GJ). Estimates are provided for 2016 (half a year) as well as 2017 and beyond.

4.1 Please provide the monthly sales from the initial start date through January of 2017 for the sales for space cooling, space heating and domestic hot water in kWh and GJ.

4.2 Please provide the monthly electric usage from the initial start date through January of 2017 in terms of both kWh and kW.

4.3 Please provide the monthly gas usage from the initial start date through January of 2017 for the electric purchases in terms of GJ.

4.4 Please provide copies of monthly electric bills from BC Hydro and monthly gas bills from Fortis Energy, Inc. from the initial start date through January 2017.

5.0 Reference: Exhibit B-1-1 (Application), Section 5.1 Financial Model

The Excel financial model referred to in Section 5.1 has a performance degradation factor of 1% per year included from 2016 through 2045.

5.1 Please explain how the performance degradation factor was used within the financial analysis and how it impacted the amount of electric and gas purchases.

5.2 Please provide supporting documents to justify the 1% performance degradation per year for the project.

5.3 The 1% annual operating degradation implies that the system will be running at an efficiency approaching 50% in year 30. This, despite the fact that the operator is charging /performing on-going maintenance and spending maintenance capital to the tune of over $100,000 on average per annum over the 30-year horizon. Please provide a detailed explanation of justifying the conclusion that the system will be running at approximately 50% in 30 years under these circumstances?

6.0 Reference: Exhibit B-1-1 (Application), Section 5.1 Financial Model

The Excel financial model referred to in Section 5.1 has a line item "Utility carrying costs (interest payments)" in the amount of $262,500 per year.

6.1 What was the original principal amount, borrowing rate and term associated with the debt that is associated with this line item?

6.2 What is the Capital Cost Avoidance amount realized by not including space heating, cooling and hot water tank/heater within each suite?

6.3 What is the Timing of Capital Cost Outlays relative to the construction of Phases 1, 2 & 3.

6.4 Given that the financial model accounts for these interest payments on the debt portion of the capital, does that mean that the resulting earnings would apply only to the equity portion of capital? If not, why not?

6.5 What is the NPV of the EBITDA line over 30 years discounted at 5.7%?

6.6 In Exhibit B-5, s. 47.1, SWCRA states that the WACC is 8-10%. What is the actual discount rate used in the economic model?

6.7 The Equity shown in the financial model starts at $7.5 million and increases from there. Does that mean that the project was financed with 100% equity? If not, please explain why the full capital cost was listed as equity for purposes of modeling and calculating the ROE.

7.0 Reference: Exhibit B-1-1 (Application) – Financial Model Carrying Costs

7.1 Using the Generic Cost of Capital (GCOC) developed in the Creative Energy application, can the applicant calculate and provide the ROE for this project; the key assumptions are below:

57.5% debt/ 42.5% equity

WACD 3%

WACE 9%

WACC 5.7%

Capital Cost Allowance rate(CCA) 8.0%

Income tax 26%

7.2 Under the above assumptions what is the annual carrying cost of WSCRA debt at the

current long-term interest rate, noting that Fortis Inc. completed a $500 million unsecured bond offering in December, 2016 with a December 16, 2023 maturity and with a coupon of 2.85%.

7.3 The CORIX (NDES) project is forecast to generate a 9.5% ROE. Why is the SETES variable/commodity rate for year 1 set at 0.1036 per kwh when the CORIX(NDES) comparable variable rate is set at 0.038? Why is the SWCRA variable rate almost three times greater than the 9.5% ROE yielding CORIX (NDSE) rate over the entire project life?

7.4 Why is the fixed component rate not set to ensuring a "pure" return against the capital invested?

7.5 Why does the capital levy increase every year when the actual amount of invested capital does not change until year 25?

7.6 Is the term "Capital Levy" a correct description, or is it another revenue line for SWCRA?

7.7 Why has the applicant not calculated a detailed income tax summary, encompassing a CCA into the model?

8.0 Reference: Exhibit B-1-1 (Application) - Capital Cost

8.1 The estimated capital cost of the TES is $7,508,234. How much of this amount has been incurred to date and which legal entity has paid these capital costs? Please provide complete documentary evidence of all capital costs incurred to date.

9.0 Reference: Exhibit B-1-1 (Application), Section 5.1 Financial Model

The Excel financial model referred to in Section 5.1 has a line item "Capital Expenditures (from CRF)" totaling $2,177,835 from 2016 through 2045.

9.1 Is this intended to correspond to the amount of $2.75 million CRF requirements discussed on page 6 of the Application? If so, please explain the difference in the numbers. If not, please explain if they are additive and what is included in each component.

9.2 These expenses are subtracted from revenues in the financial model in order to determine the EBITDA. There are no revenues associated with rate riders in the financial model. Please confirm that the revenues expected before rate riders are deemed to be sufficient to cover these expenses in the financial model.

9.3 Please explain the discrepancy between requesting a rate rider to cover CRF amounts when the financial model appears to subtract these expenses from revenues before any rate riders.