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E-Filed

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
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Attention: Mr. Patrick Wruck, BCUC Secretary

Dear Sir:

Re: Creative Energy Vancouver Platforms Inc.
Fuel Cost Adjustment Charge (FCAC) Rate Rider Application
Project No. 1598995

On behalf of Creative Energy, we enclose Creative Energy's Final Argument for filing in accordance with the regulatory timetable established by BCUC Order No. G-126-19.

Yours very truly,

LAWSON LUNDELL LLP

Ian Webb

Ian Webb

Encl.

BRITISH COLUMBIA UTILITIES COMMISSION

Creative Energy Vancouver Platforms Inc.

Fuel Cost Adjustment Charge (FCAC)
Rate Rider Application

Project No. 1598995

Creative Energy Vancouver Platforms Inc.

Final Argument

June 27, 2019

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1. Introduction

1. On February 28, 2019 Creative Energy filed with the British Columbia Utilities Commission (**Commission, BCUC**) its Application for a Fuel Cost Adjustment Charge (**FCAC**) Rate Rider (**Application, Exhibit B-1**) requesting approval of a FCAC Rate Rider of $4.80 per one thousand pounds of steam (**M#**), effective March 1, 2019.

2. By Order G-52-19, the Commission approved the FCAC Rate Rider of $4.80/M# on an interim basis and established a written hearing process to review the Application.

3. Three interveners registered to participate in the proceeding of which two are actively participating, the British Columbia Old Age Pensioners at al. (**BCOAPO**) and the Commercial Energy Consumers Association of British Columbia (**CEC**). Two letters of comment from other parties were received.

4. The record of the written hearing includes Creative Energy's Application (Exhibit B-1) and response to two rounds of information requests (**IRs**) at Exhibits B-2 (Response to BCUC IR No. 1), B-3 (Response to BCOAPO IR No. 1), B-4 (Response to CEC IR No. 1), B-6 (Response to BCUC IR No. 2) and B-7 (Response to CEC IR No. 2).

5. By Order G-126-19, the Commission established that the hearing will proceed to final written arguments.

6. As this argument will elaborate, the essential facts and circumstances underpinning Creative Energy's Application are:

    - Creative Energy's fuel costs are recovered from customers on a flow-through basis.

    - Unprecedented and unforeseeable high natural gas commodity prices and ensuing high fuel costs were incurred by Creative Energy to provide service during the winter period of November 2018 through March 2019 (**Winter 2018/2019**), resulting in a large excess balance in Creative Energy's Fuel Cost Stabilization Account (**FCSA**).

    - Creative Energy was unable to implement a cost-effective hedging strategy in advance of or during Winter 2018/2019 to mitigate these fuel cost pressures.

    - Creative Energy used its back-up fuel system to moderate the impact of high natural gas commodity prices to the extent possible in the circumstances.

7. The excess fuel costs that Creative Energy incurred during Winter 2018/2019 were unavoidable and there are limited options to recover these costs from customers other than putting in place a FCAC Rate Rider at a level that balances bill impacts with the length of the cost recovery period and associated carrying costs. That is, Creative Energy believes that the Application and the evidence gathered through the hearing confirm that the key determination for the Commission to make on the Application is the fair and reasonable timing (amortization period) of cost recovery from customers.

8. Creative Energy's proposed Rate Rider reflects a balanced consideration of the bill impact to customers, the intergenerational equity issue, carrying costs and the shareholder's opportunity cost that arise from different timing alternatives for the recovery of the extraordinary fuel costs incurred to deliver service.

9. Creative Energy therefore seeks the Commission's approval of the FCAC Rate Rider of $4.80 on a permanent basis, subject to quarterly review by the Commission, until the excess balance in the FCSA is fully recovered, at which time the Rate Rider would be cancelled.

2. Creative Energy fuel costs are recovered from customers on a flow-through basis

10. Creative Energy's fuel supply portfolio consists of the following components: natural gas supply through Cascadia Energy Ltd (**Cascadia**); natural gas transportation service from FortisBC Energy Inc. (**FortisBC**) under Rate 22; and an on-site fuel oil backup system and fuel oil storage tanks. The portfolio provides a firm physical supply of gas under a low risk of curtailment with the ability to rely on a backup fuel oil system if and when needed due to curtailment of transportation by FortisBC.[1]

11. Creative Energy's total fuel costs are thus comprised of natural gas commodity and transportation costs, fuel oil costs, carbon taxes and other fees, and represent the single largest cost recovered from its steam customers for the provision of heating service.[2]

12. The recovery of fuel costs from customers is established in the Commission's approval of Creative Energy's rates, and the mechanism to record and recover balances in the FCSA is typical and under the Commission's purview.[3]

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[1] Exhibit B-2, Response to BCUC IR 4.2.1.
[2] Exhibit B-1, p. 3.
[3] Exhibit B-1, pp. 3-4; Exhibit B-2, Responses to BCUC IRs 1.5 and 2.3.

13. Creative Energy recovers its fuel expenses from its steam service customers through: i) a FCAC ($/M#) and ii) a FCAC Rate Rider ($/M#) that recovers or distributes positive or negative balances in the FCSA as applicable.

14. The FCAC is approved by the Commission and is set on the basis of forecast annual fuel costs divided by forecast annual load. Positive or negative variances between forecast fuel costs and actual fuel costs are captured in the FCSA. Amounts in the FCSA that exceed plus or minus 5 percent of the most recently approved 12-month forecast of fuel costs are intended to be distributed or collected from customers as applicable in the form of a FCAC Rate Rider set on the basis of a Commission-approved amortization period for the treatment of excess balances.

15. The FCAC and the mechanism to recover excess balances in the FCSA was first approved by the Commission under Order G-167-16 in its November 18, 2016 Decision on Creative Energy's 2016-2017 Revenue Requirements Application (**RRA**).[4]

16. In its October 25, 2018 Decision on Creative Energy's 2018-2022 RRA, issued under Order G-205-18, the Commission confirmed that both the amortization of the FCSA and the setting of forecast fuel costs are issues related to commodity costs, and it is standard BCUC practice to review such commodity cost related information separately from RRAs. Thus, as part of the Order G-205-18 Decision the Commission directed Creative Energy to file for approval of the amortization of the FCSA at the time it files a FCAC rate change application.

17. On October 18, 2018, in response to the pressure on its fuel costs related to high gas commodity prices due to the Enbridge pipeline explosion, Creative Energy applied to increase its FCAC to $13.75/M#. By Order G-213-18, dated November 8, 2018, the Commission approved this higher rate, effective the date of that application, October 18, 2018, set in part on the basis of an updated 12-month fuel cost forecast of $15.5 million.

18. By Order G-213-18, the Commission also directed the filing of a quarterly report that includes review of the FCSA balance, the appropriate amortization of the FCSA and any request to change the FCAC.

19. While acknowledging the established process for periodic compliance filings to review its fuel cost charges, Creative Energy filed the current Application separately outside of the typical practice due to the extraordinary nature of the very high fuel costs incurred during

[4] Exhibit B-1, p. 3.

Winter 2018/2019 up to the date of the Application and anticipated high fuel costs through the remainder of the winter and potentially into the spring and summer.

3. Unprecedented natural gas commodity prices and fuel costs

20. Creative Energy's total fuel costs during Winter 2018/2109 were approximately $12 million higher than over the comparable November-March period of 2017/2018 (~19.5 million versus ~$7.5 million).[5] This incremental amount represents an unprecedented fuel cost increase in comparison to more typical fuel costs in the range of $12 million for an entire year.[6]

21. The increase to Creative Energy's fuel costs was a direct impact of the extraordinarily high natural gas commodity prices during Winter 2018/2019 due to, among other issues in the gas market:[7]

    - The supply constraint arising from the Enbridge pipeline explosion in Northern BC on October 9, 2018 and related pipeline inspection and maintenance activities on the Enbridge system through the winter.

    - Higher than expected customer demand due to the persistence of colder than normal weather beginning in early February 2019, which followed an unexpected shift of the polar vortex into the region.

    - Constraints arising from compression issues at the underground natural gas storage facility at Jackson Prairie, also in February 2019.

22. These events and impacts were unprecedented and unforeseeable. Actual natural gas market prices were markedly higher than indicative forecasts.[8] In Creative Energy's view, the extraordinary gas prices driven by the ongoing market effects of the pipeline explosion can only truly be regarded as a force majeure-type event and very much out of Creative Energy's control. Furthermore, February 2019 was one of the coldest months on record in Vancouver with load for the month much higher than forecast. Neither the pipeline explosion nor the extraordinary gas prices this winter could have been foreseen by Creative Energy or the Commission.[9]

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[5] Exhibit B-7, Response to CEC IR 9.1.
[6] Exhibit B-1, p. 3.
[7] Exhibit B-1, pp. 4-6; Exhibit B-2, Response to BCUC IR 4.1.
[8] Exhibit B-1, pp. 5-6, 9; Exhibit B-2, Response to BCUC IR 4.1; Exhibit B-4, Response to CEC IR 5.1.
[9] Exhibit B-1, pp. 5-6, 9; Exhibit B-2, Response to BCUC IR 4.1; Exhibit B-4, Response to CEC IR 5.1.

23. Despite a Commission-approved increase to the FCAC to $13.75/M#, effective October 18, 2018, the balance in the FCSA grew to an excessive level, $8.7 million by the end of February 2019 and approximately 56 percent of the most recently approved annual fuel cost forecast of $15.5 million.[10]

24. The excessive balance in the FCSA would continue to persist if a Rate Rider was not put in place. That is, the excess balance in the FCSA would not 'self-clear' within a reasonable time period if ever.[11]

4. Cost-effective hedging was not available

25. Creative Energy was unable to implement a cost-effective hedging strategy in advance of or during Winter 2018/2019 to contend with the extraordinary increase in fuel costs.[12]

26. Creative Energy has taken reasonable and prudent measures on an ongoing basis and under the Commission's oversight to manage its gas supply risk in advance of a Gas Year, defined as the period commencing November 1st through October 31st. Subject to Commission acceptance of a Creative Energy Annual Contracting Plan, Creative Energy can through a 'Schedule A' to its contract with Cascadia specify special terms and conditions to control the mix of prices for gas delivered to it through fixed price hedges or specific contracts for daily index or monthly index volumes, for example.[13]

27. On July 16, 2018, Creative Energy applied to the Commission for approval of a contracting plan that included a proposed hedging strategy to secure advance purchase contracts for up to 30 percent of its overall gas supply requirement for the coming Gas Year. That proposal was ultimately accepted by the Commission; however, acceptance was granted on October 11, 2018, two days after the Enbridge pipeline had failed and therefore too late for Creative Energy to implement a cost-effective hedging strategy in advance of Winter 2018/2019. Even without the pipeline incident, the timing of the Commission acceptance would have been problematic due to its proximity so close to the start of the Gas Year on November 1st.[14]

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[10] Exhibit B-1, p. 6; Exhibit B-2, Response to BCUC IR 3.1.
[11] Refer to Tables 1 and 2 at Exhibit B-2, Response to BCUC IR 3.1.
[12] Exhibit B-1, p. 8; Exhibit B-2, Response to BCUC IR 4.2.1; Exhibit B-3, Response to BCOAPO 3.2.
[13] Exhibit B-1, p. 8; Exhibit B-2, Response to BCUC IR 4.2.1 Exhibit B-6, Response to BCUC IR 7.4.1.
[14] Exhibit B-1, p. 8; Exhibit B-6, Response to BCUC IR 7.4.1.

28. Creative Energy was also unable to secure cost-effective hedging subsequently during Winter 2018/2019. Noting that a decision to enter into a hedge must be made prior to the time period covered by the hedge,

- In December 2018, Creative Energy discussed with Cascadia the potential benefit of a hedge effective for the month of January 2019, but the market was continuing to put a high price on risk transfer hedges and the forecast for January was warmer than normal weather. Based on the information available at the time, placing a hedge effective for the month of January 2019 was regarded as not cost effective.[15]

- In January 2019, prices were moderating following the immediate effects of the Enbridge pipeline explosion and due to warmer than normal temperatures. The average price for January consumption was about $5/GJ, in comparison to approximately $8/GJ and $16/GJ in December and November, respectively.[16] The westward shift of the polar vortex was not forecast at that time. However, there remained a high price on risk transfer hedges given the overall uncertainty that remained in the market. Based on the information available at the time, placing a hedge effective for the month of February 2019 was regarded as not cost effective.[17]

- Toward the end February 2019, as discussed further below, Creative Energy was contending with the effects of the FortisBC Hold to Authorized, cold weather and very high gas prices, deciding to switch to its back-up system for several days beginning on February 27.[18] Creative Energy did not enter into a fixed price hedge for the month of March 2019 due to the expected high prices and overall uncertainty in the market at the time.

29. Outside of Winter 2018/2019, and given that the Enbridge pipeline continues to operate under a Force Majeure declaration, Creative Energy put in place a fixed price hedge for 1000 GJ/day of gas effective for April 2019 through October 2019, considering this to be a reasonable and cost-effective option to insure against an expectation that gas prices may be higher than normal and volatile this summer and fall.[19]

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[15] Exhibit B-6, Response to BCUC IR 7.4.1.
[16] Exhibit B-1, Table 1, p. 5; Exhibit B-2, Response to BCUC IR 4.3; Exhibit B-6, Response to BCUC IR 7.6.
[17] Exhibit B-6, Response to BCUC IR 7.4.1.
[18] Exhibit B-6, Response to BCUC IR 7.4.1.
[19] Exhibit B-6, Response to BCUC IR 7.4.1.

5. Back-up fuel system moderated the impact of high gas prices to the extent possible

30. Although cost-effective hedging was not available, Creative Energy was able to moderate the impact of very high gas prices to customers to the extent possible by switching to its back-up system during certain extreme situations in February and March 2019.[20]

31. With due consideration of the terms of its Municipal Access Agreement with the City of Vancouver,[21] Creative Energy switched to its back up fuel oil systems this winter during periods of both physical curtailments by FortisBC and for economic reasons (that is, to avoid an anticipated very high cost of natural gas even though ample gas supply is available and there is no physical curtailment).

32. In general, the use of Creative Energy's back-up system in February and March 2019 would have been economic when natural gas prices were markedly greater than approximately $30/GJ, which represents the approximate equivalent cost of fuel oil.[22] As discussed below, Creative Energy's decision to switch to its back up fuel oil system for economic reasons was outside of normal business practice and to the knowledge of current staff has only occurred twice in the last ten years – February 13, 2019 and February 27-March 5, 2019.[23]

33. Creative Energy switched to its back up system on February 13, 2019 based on the considerations set out below.

    a. On the afternoon of Thursday, February 7, 2019, Cascadia provided indicative price information to Creative Energy that the daily spot price for Friday, February 8, 2019 could be in the range of $24.62/GJ,[24] which was well below the $30/GJ equivalent cost of fuel oil at that time. The polar vortex had unexpectedly shifted into the region only a few days before.[25]

    b. Gas nominations for the weekend (Saturday February 9, Sunday February 10 and Monday February 11) had to be submitted by 6:00am on the Friday, February 8, 2019 in accordance with standard gas nominating procedure. Creative Energy made the decision to order gas Friday morning for the weekend based on the indicative gas price forecast, heating degree days forecast, available information about

[20] Exhibit B-1, p. 8; Exhibit B-2, Response to BCUC IR 4.2.1; Exhibit B-3, Response to BCOAPO 3.2; Exhibit B-7, Response to CEC IR 9.2.
[21] Exhibit B-2, Response to BCUC IR 4.2.2; Exhibit B-6, Response to BCUC IR 8.1; Exhibit B-7, Response to CEC 9.2.
[22] Exhibit B-7, Response to CEC IR 9.2.
[23] Exhibit B-6, Response to BCUC IR 8.1.
[24] Exhibit B-6, Response to BCUC IR 7.6.
[25] Exhibit B-6, Response to BCUC IR 7.4.1.

Enbridge pipeline capacity and cost of fuel oil.[26] There was no notice at that time of the impending announcement of compression problems at the Jackson Prairie storage facility. Creative Energy's decision to submit on Friday morning its requirements for gas through the weekend was prudent and included consideration of all available information at the time.

c. Notification of the compression problems at the Jackson Prairie storage facility was issued on Saturday February 9 at 10:28pm and the marked impact of this event on natural gas prices persisted through February 13, with prices for Canadian gas at Sumas in the range of CDN$60/GJ during that period.[27]

d. On Monday February 11, 2019, Creative Energy became aware of the compression issues at Jackson Prairie reported over the weekend and had some indication of the price of gas over the weekend.

e. In consultation with Cascadia, Creative Energy considered whether to require any gas for Tuesday February 12 or to switch to its backup fuel oil system. The gas nomination had to be submitted by 6:00am and Creative Energy decided to order gas for February 12 taking a cautious approach to a decision to switch to fuel oil for a very cold winter day and expected high demand.

    - At that time, the plant had not run fully on the fuel oil system during a cold winter day for at least ten years (for example, the plant ran exclusively on fuel oil on Thursday October 11, 2018 due to a FortisBC curtailment, and in comparison to October 11, 2018, when Heating Degree Days were 8.5 and total load equaled 2,824 M#, on Tuesday February 12, 2019 Heating Degree Days were 20.1 and total load equaled 6,242 M#). Maintaining reliable steam service to the customers was a top priority in the decision.[28]

f. On Tuesday February 12 Creative Energy ordered 50 percent of its full gas requirement and on February 13, Creative Energy met about 50 percent of customer demand with its backup system, deciding at that time to also maintain natural gas for 50 percent of generation during a period of very cold weather and high demand. Plant performance was monitored that day to verify that the backup system can be used to meet high customer demand on a cold winter day.[29]

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[26] Exhibit B-6, Response to BCUC 7.6.
[27] Exhibit B-2, Response to BCUC IR 4.1; Exhibit B-6, Response to BCUC IR 7.5.
[28] Exhibit B-6, Response to BCUC IR 7.6.
[29] Exhibit B-6, Response to BCUC IR 7.6.

34. Creative Energy also switched to its back-up fuel system on February 27, 2019 due to the strong indication of supply limitations and high forecast demand during that period, and the consequent expectation of very high natural gas prices; for example, a FortisBC Hold to Authorized was issued February 25 to be effective February 27. Creative Energy operated under its back-up system for the period February 27 through March 5. Creative Energy was ultimately able to avoid very high natural gas prices from March 2 to March 4 (daily index prices as high as $200/GJ during this period).[30]

35. There were two extreme periods during the Winter 2018/2019 when it might have been beneficial for Creative Energy to switch to its backup fuel oil system to avoid an anticipated very high cost of natural gas. The circumstances of those periods, and Creative Energy's considerations and decisions are set out above. In summary, neither Creative Energy nor Cascadia were able to take any actions to reduce the impact of the high prices for February 9-12 due to external factors beyond their control, the sequence of events relative to gas nomination deadlines, and the need for a cautious approach to fuel switching during very cold (and very high load) winter days given that this had not been done in at least ten years. Creative Energy successfully fuel switched on February 13 (using 50 percent gas) and again on February 27 avoiding very high gas prices from March 2 to March 4, 2019.

6. The proposed rate rider is fair and reasonable

36. The proposed rate rider of $4.80/M#, determined on the basis of an 18-month amortization of the excess balance in the FCSA, strikes a reasonable balance between the bill impact to customers and the timely recovery of the fuel costs that Creative Energy has already incurred to serve customers.[31]

    - The average customer bill impact of the proposed rate rider is approximately 20 percent.[32] The excess balance in the FCSA that the rate rider will recover represents costs that Creative Energy has already incurred to provide steam service to customers. These costs are being financed by a shareholder loan and an additional loan from an existing lender until such time that the excess balance in the FCSA is recovered from customers.

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[30] Exhibit B-2, Responses to BCUC IRs 4.1 and 4.3; Exhibit B-6, Responses to BCUC IRs 7.5, 7.6, 7.9 and 8.1.
[31] Exhibit B-1, pp. 7-8; Exhibit B-2, Response to BCUC IR 2.2.
[32] Exhibit B-1, p. 7.

- The recovery from customers of the excess balance in the FCSA includes carrying costs on the mid-year balance, as approved under Commission Order G-167-17. The costs of financing will therefore be recovered from customers and are included in the calculation of the rate rider.[33]

37. A rate rider of $4.80/M# was proposed upon consideration of the trade-off between customer bill impacts resulting from a relatively shorter amortization period versus the intergenerational equity issue and additional carrying costs resulting from a relatively longer amortization period for the recovery of costs already incurred to deliver service.[34]

    - In general, longer duration amortization periods will worsen any intergenerational equity issue because the gap between the time periods of cost causation and cost recovery by and from the affected customers will increase.

    - In addition, for smaller utilities like Creative Energy the amortization period for recovery of costs incurred ought to consider the utility's ability to access debt at a favourable rate for long periods. In other words, Creative Energy does not have the same ability as BC Hydro, for example, to secure favourable financing for unplanned cost increases for the purpose of smoothing rate impacts over a relatively longer period.[35]

    - While an 18-month amortization period does not effectively match cost recovery to the period in which the fuel costs were caused and incurred, it does reflect the balance Creative Energy has sought in its proposal between bill impacts to customers and intergenerational equity concerns and the additional carrying costs that would arise from further prolonged recovery.

38. The Commission has considered one-year amortization periods for recovery/crediting of fuel cost variances to be reasonable under normal circumstances; however, the fuel costs incurred during Winter 2018/2019 do not reflect normal circumstances.

39. Creative Energy thus considered there to be flexibility to have evaluated a range of amortization periods, including a one-year period, which would hasten the recovery of fuel costs over a shorter period of time but would impose a much greater bill impact to customers (~35 percent), and a two-year period, which would moderate the bill impact to

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[33] Exhibit B-2, Response to BCUC IR 1.1.
[34] Exhibit B-3, Response to BCOAPO IR 3.3.
[35] Exhibit B-4, Response to CEC IR 3.1.

customers (~12 percent) but worsen intergenerational equity concerns and increase the carrying costs to be recovered.[36]

40. An 18-month amortization period will result in a higher monthly customer bill impact (~20 percent) but over a shorter duration in comparison to a 24-month amortization period, which would lower the monthly customer bill impact, but which would persist for a longer duration and would then also include additional carrying costs for recovery.[37]

    - Creative Energy has suggested that it may be too precise to consider there to be a material difference between 18 months and 24 months with respect to intergeneration equity because neither period effectively matches cost causation and recovery.[38] However, Creative Energy does not suggest that moving from an 18-month to a 24-month amortization period would result in unacceptable intergenerational inequity.[39]

41. Creative Energy notified customers of the proposed and interim-approved rate rider on April 3, 2019, and similarly did so upon Commission approval of the current FCAC of $13.75/M# in October 2018. To date, noted customer concern has been limited. The main inquiry of customers in this regard seeks better understanding of the duration of the rate rider (i.e. the amortization period) to ensure that the customer can properly account for these costs in the customer's budget forecast.[40]

7. Quarterly review of the proposed rate rider

42. Creative Energy requests approval of a FCAC Rate Rider equal to $4.80/M# on a permanent basis until the excess balance in the FCSA has been recovered. Creative Energy considers that an ongoing quarterly report, as directed under Order G-213-18, will be an effective mechanism to monitor the FCSA balance and to confirm whether any adjustments to the level of the rate rider would be appropriate and required going forward.[41]

    - The proposed FCAC Rate Rider of $4.80/M# was initially determined on the basis of reducing the excess balance in the FCSA to 5 percent of a rolling 12-month forecast of total fuel costs at the end of 18 months, and given other forecast inputs at the

[36] Exhibit B-1, pp. 7-8.
[37] Exhibit B-3, Response to BCOAPO IR 3.3; Exhibit B-2, Response to BCUC IR 1.2.
[38] Exhibit B-3, Response to BCOAPO IR 3.3.
[39] Exhibit B-6, Response to BCUC IR 10.2.
[40] Exhibit B-7, Response to CEC IR 8.2.2.
[41] Exhibit B-1, p. 8.

time of the Application.[42] Creative Energy corrected the methodology to calculate the proposed rate rider such that it targets reducing the excess balance in the FCSA at the end of 18 months to 5 percent of the most-recently approved 12-month forecast of total fuel costs. As discussed in the section that follows, Creative Energy contemplates that the first quarterly review could be well-timed to coincide with updating its annual forecast of fuel costs effective November 1, 2019 and to therefore review the actual and forecast impacts on the excess balance in the FCSA and the Rate Rider at that time.

- Creative Energy also highlighted that the calculation of the Rate Rider is forward-looking and therefore dependent on forecast natural gas commodity costs, among other factors such as forecast load.[43] For example, Creative Energy acknowledged that the Rate Rider calculation model provided in the response to BCUC IR 3.1 (at Exhibit B-2) computed a rate rider equal to $5.49/M# over an 18-month amortization period, given the actual and forecast inputs in the model dated near the time of filing the responses to BCUC IR No. 1.[44]

- Furthermore, the calculation of Creative Energy's proposed FCAC Rate Rider assumes the FCAC of 13.75/M# remains constant over the amortization period, with only the level of the Rate Rider computed to amortize the excess balance in the FCSA over 18 months. The FCAC of $13.75/M# is expected to recover current fuel costs and also contribute to a reduction in the FCSA balance, and the level of the FCAC may be subject to change also (as of November 1, 2018 for example, as contemplated above).[45]

43. Thus, Creative Energy acknowledges that a quarterly report would include review of the FCSA balance, the FCAC and the FCAC Rate Rider.

44. Creative Energy has proposed that third-party regulatory costs, although forecast to be relatively small, be included in the FCSA and recovered through the FCAC Rate Rider given that these costs would not otherwise have been incurred had not the events of this past winter required Creative Energy to file this Application.[46] Creative Energy submits that the first contemplated quarterly report would be an appropriate forum to confirm the total of actual third-party regulatory costs for the Commission's approval for inclusion in the FCSA.

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[42] Exhibit B-1, p. 7.
[43] Exhibit B-2, Response to BCUC IR 3.1.
[44] Exhibit B-6, Response to BCUC IR 6.1.
[45] Exhibit B-2, Response to BCUC IR 2.3.
[46] Exhibit B-6, Responses to BCUC IRs 9.1 and 9.2.

Alternatively, Creative Energy would seek to recover these costs through its existing Third-Party Regulatory Cost Deferral Account (TPRCDA).

8. Future contracting strategy

45. While Creative Energy's contracting strategy as discussed in this hearing has historically provided customers comparable value to bundled service options, with the extraordinary events and market impacts this past winter, Creative Energy's natural gas costs during Winter 2018/2019 were over $12 million higher than an estimate of such costs under FortisBC bundled rates for the same period based on available information respecting FortisBC's rates.[47]

46. Creative Energy aims to provide reliable and cost-effective service to its customers. While the frequency and nature of indicated customer concern with periodic high fuel cost recovery charges has to date been limited, Creative Energy considers that it would not be acceptable to subject its customers to the high fuel costs as experienced during Winter 2018/2019 again.[48]

47. On this basis, Creative Energy wrote to the Commission on May 3, 2019, outside of this proceeding, to request acceptance of a plan going forward to take bundled service from FortisBC under Rate 7, effective November 1, 2019, upon expiry at that time of Creative Energy's three-year contract with Cascadia.

48. On May 30, 2019, by Letter L-22-19, the Commission accepted Creative Energy's proposed contracting plan as being in the public interest; namely, for Creative Energy to obtain natural gas supply from FortisBC under bundled service Rate 7, effective November 1, 2019. Creative Energy confirms that it has provided notice to FortisBC that Creative Energy will be taking natural gas supply from FortisBC under bundled service Rate 7, effective November 1, 2019.

49. On this account, Creative Energy contemplates that the first quarterly review could be well-timed to coincide with updating its annual forecast of fuel costs effective November 1, 2019, and that future review after that time as applicable should align and accord with the Commission's approval of FortisBC rates and the application of its guidelines for gas cost rate setting.

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[47] Exhibit B-7, Response to CEC 9.1.
[48] Exhibit B-7, Response to CEC 8.2.2.

9. Conclusions

50. As a result of unprecedented and unforeseeable high natural gas commodity prices during Winter 2018/2019, Creative Energy incurred unprecedented high fuel costs to provide service to its customers. Creative Energy was unable to implement a cost-effective hedging strategy in advance of or during Winter 2018/2019 to mitigate these fuel cost pressures, but did use its back-up fuel system to moderate the impact of high natural gas commodity prices to the extent possible in the circumstances.

51. The excess fuel costs have been funded by loans and are recorded as a large excess balance in Creative Energy's FCSA. This Application seeks final approval of a FCAC Rate Rider to recover the large excess balance in the FCSA. A rate rider is the typical mechanism to recover excess costs of this nature.

52. Creative Energy requests approval to maintain the level of the FCAC Rate Rider at the same level as is currently in place on an interim approval basis ($4.80/M#) until the excess balance in the FCSA has been recovered, subject to Commission review and possibly adjustment in the context of ongoing quarterly reporting of fuel costs and the FCSA balance.

All of which is respectfully submitted this 27th day of June, 2019.

By: Ian Webb

Ian D. Webb

Counsel for Creative Energy Vancouver Platforms Inc.