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E-Filed

British Columbia Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, BC V6C 2N3

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 Reply Argument for filing in accordance with the regulatory timetable established by BCUC Order No. G-126-19.

Yours very truly,

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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.

Reply Argument

July 31, 2019

Table of Contents

| | |
|---|---|
| 1. Introduction | 1 |
| 2. The FCAC Rate Rider should be maintained at \$4.80/M# | 2 |
| 3. Other matters raised in the BCOAPO and CEC submissions | 4 |
| 4. Conclusion..... | 5 |

1. Introduction

1. Creative Energy Vancouver Platforms Inc. (**Creative Energy**) filed its Final Argument in this proceeding on June 27, 2019, and Final Arguments were subsequently filed on July 19, 2019 by two interveners: the British Columbia Old Age Pensioners at al. (**BCOAPO**), and the Commercial Energy Consumers Association of British Columbia (**CEC**).
2. The Final Arguments of the BCOAPO and CEC indicate their agreement with the essential facts that form the basis of Creative Energy's Application for a Fuel Cost Adjustment Charge (**FCAC**) Rate Rider (**Application**), namely that:¹
 - 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; and
 - 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.
3. The BCOAPO and CEC agree that the excess fuel costs that Creative Energy incurred during Winter 2018/2019 were unavoidable and that putting in place a FCAC Rate Rider is appropriate to recover the excess balance in the FCSA.²
4. By Order G-52-19 dated March 8, 2019, the Commission approved the FCAC Rate Rider of \$4.80 per one thousand pounds of steam (**M#**) on an interim and refundable basis, effective March 1, 2019 and pending a final decision. As at the time of this Reply Argument, the FCAC Rate Rider of \$4.80/M# has been in place for five months on an interim approval basis.
5. Two letters of comment (at Exhibits E-1 and E-2) were received regarding the rate rider from members of strata councils for buildings served by Creative Energy. The comments express a general concern that the combination of the increase to the FCAC in November 2018 and the FCAC Rate Rider caused their strata corporation budgets to be exceeded, and they request the Commission to ensure that the rate increases are justified, manageable overall and that they are reviewed on a regular basis to ensure that they are cancelled when no longer required.

¹ Creative Energy Final Argument, paragraph 6; BCOAPO Final Argument, section 2, p. 2; and CEC Final Argument, paragraphs 21, 28, 34 and 42.

² BCOAPO Final Argument, section 2, p. 2; and CEC Final Argument, paragraph 18.

6. The BCOAPO and CEC have put forward proposals intended to decrease the level of the FCAC Rate Rider from the \$4.80/M# level currently in place on an interim approval basis.
7. Creative Energy requests final approval to maintain the level of the FCAC Rate Rider at the same level as is currently in place (\$4.80/M#) until the excess balance in the FCSA has been recovered, subject to Commission oversight in the context of ongoing quarterly reporting of fuel costs and with regard also to expected updates to forecast fuel costs upon Creative Energy beginning to obtain natural gas supply from FortisBC Energy Inc. (FEI) under bundled service Rate 7, effective November 1, 2019.

2. The FCAC Rate Rider should be maintained at \$4.80/M#

8. Both the BCOAPO and the CEC propose alternative approaches to setting the level of the FCAC Rate Rider (*e.g.*, longer amortization periods) with the objective to decrease the level of the FCAC Rate Rider and reduce the bill impact to customers.³ Both the CEC and BCOAPO acknowledge that while a longer amortization period will decrease the level of the rate rider, it will also increase the total costs to be recovered from customers because of additional carrying costs.⁴
9. Creative Energy proposes that the FCAC Rate Rider remain at \$4.80/M# until the excess balance in the FCSA has been recovered, subject to Commission oversight in the context of ongoing quarterly reporting of fuel costs.
10. Creative Energy notes that maintaining the FCAC Rate Rider at \$4.80/M# is forecast to recover the excess balance in the FCSA over a period of slightly less than 24 months, as follows:
 - Creative Energy estimates that upon taking bundled service from FEI under FEI Rate 7, its 12-month forecast of fuel costs beginning November 1, 2019 will be approximately \$11.1 million. On that basis (and other things such as the current approved load forecast being equal), effective November 1, 2019 the FCAC would be set in the range of \$10.10/M#, or \$3.65/M# less than the current FCAC of \$13.75/M#.
 - Using the corrected calculation model and proposed method as provided in the response to BCUC IR 1.3.1 (Exhibit B-2), and incorporating an updated balance in the FCSA as at the end of June 2019 (~\$8.5 million) and a model of forecast fuel costs under FEI Rate 7 and recovery effective November 2019, maintaining the FCAC Rate Rider at 4.80/M# is forecast to reduce the balance of the FCSA to 5% of \$11.1 million in 22 to 23 months.

³ The BCOAPO opposes any suggestion of an amortization period of less than 24 months, and the CEC recommends that the Commission direct Creative Energy to file for a FCAC Rate Rider determined on the basis of an amortization period of 2 years. BCOAPO Final Argument, p. 5. CEC Final Argument, paragraphs 4-5, 55.

⁴ BCOAPO Final Argument, p. 4; and CEC Final Argument, paragraph 42.

11. An estimate of a rate rider that would target recovery of the excess balance in the FCSA in precisely 24 months, effective March 1, 2019, would be \$4.25/M#. ⁵
- This estimate assumes that the difference between the interim rate rider of \$4.80/M# and the assumed final rate rider of \$4.25/M# for the period from March through June 2019 is refunded to customers and the total refund amount is added back to the excess balance of the FCSA for future recovery. ⁶
12. As of the time of filing this Reply Argument the FCAC Rate Rider of \$4.80/M# has been in place for five months, from March through July 2019, and minimal customer concern has been noted. The main inquiry of customers in respect of the FCAC Rate Rider has been to seek better understanding of the duration of the FCAC Rate Rider to ensure that the customer's budget forecast properly accounts for these costs. ⁷
13. Creative Energy questions whether it would serve the public interest to decrease the FCAC Rate Rider from the \$4.80/M# in the present circumstances, which may be summarized as follows:
- The FCAC Rate Rider is in place to recover costs already incurred by Creative Energy to provide service during the Winter 2018/2019 period;
 - There is no expectation that the excess balance in the FCSA will 'self-clear' within a reasonable time period or at all;
 - Decreasing the FCAC Rate Rider would increase the total costs to be recovered from customers due to additional carrying costs; and
 - The FCAC Rate Rider has been in place for five months, and limited customer concern has been noted.
14. A practical approach to rate-setting is to maintain the FCAC Rate Rider at the same \$4.80/M# that has been in place for five months.
- In this light, it should also be clear that Creative Energy does not consider its support for quarterly reporting and oversight as intended to justify the continuation of the

⁵ Indeed, it is not the case, as the CEC has estimated, that a rate rider calculated under a 24-month amortization period would be \$3.13/M# (CEC Final Argument, paragraph 59).

⁶ A rate rider targeting recovery of the excess balance in the FCSA in precisely 24 months, but adjusted from the \$4.80/M# going forward only, would be in a similar range.

⁷ Exhibit B-7, response to CEC IR 8.2.2.

\$4.80/M# rate rider, as the CEC suggests⁸, but rather to provide for appropriate oversight of fuel cost recovery going forward.

15. Maintaining the rate rider at \$4.80/M# also obviates any possible need to consider the merits of a customer refund, which might otherwise need to be considered if the Commission was to direct a decrease to FCAC Rate Rider from the interim-approved level. Providing a refund to customers in circumstances where the outstanding recoverable balance in the FCSA is approximately \$8.5 million and where minimal concern exists would similarly be impractical and not supportive of the public interest.

3. Other matters raised in the BCOAPO and CEC submissions

16. The BCOAPO and CEC submissions include some contention that the impact of the proposed FCAC Rate Rider would constitute a form of “rate shock” to Creative Energy’s customers, given the general indications by the Commission in a recent decision that a 10 percent rate increase is a threshold above which “rate shock” could be experienced.⁹ The BCOAPO notes the disproportionate negative impact of “rate shock” on individuals who are living in energy poverty.¹⁰
17. Creative Energy does not believe a Commission determination regarding “rate shock” is required in this proceeding. Creative Energy’s customers may in general be accustomed to the fact that their fuel cost rates change over time sometimes by a large percentage over a relatively short period of time.¹¹ There was indicated customer concern about managing the fuel cost increase of the FCAC increase in November 2018 and the \$4.80/M# FCAC Rate Rider expressed in two letters of comment filed with the Commission. Those comments also align overall with the limited feedback Creative Energy has received from customers, which has been focused on understanding the duration of the rate rider so as to ensure that their budget forecasts properly account for these costs.
18. The FCAC Rate Rider has been in place for five months and any argument that customers may be seeking a lower rate rider that would be in place for a longer time period is unsubstantiated. Moreover, Creative Energy’s customers are building owners, not individual residential customers.
19. Creative Energy reiterates that the Commission has stated in prior decisions that instead of “one size fits all” approach to “rate-shock”, individual applications should be evaluated on

⁸ CEC Final Argument, paragraph 79.

⁹ CEC Final Argument, paragraphs 62-64; BCOAPO Final Argument, p. 6.

¹⁰ BCOAPO Final Argument, p. 5

¹¹ Exhibit B-7, response to CEC IR 8.2.2.

their own merits and that the Commission has a considerable degree of latitude in determining whether a proposed rate is fair, reasonable and not unduly discriminatory.¹²

20. Both the BCOAPO and CEC submit that "intergenerational equity" is not a material issue when comparing the rate rider proposals put forward by Creative Energy vs. by the BCOAPO and CEC.¹³
21. Creative Energy agrees and has acknowledged that it may be too precise to consider there to be a material difference between 18 months and 24 months amortization periods, for example, with respect to intergeneration equity because neither period effectively matches cost causation and recovery.¹⁴ As noted above, maintaining the FCAC Rate Rider at the same \$4.80/M# currently in place is currently forecast to reduce the balance of the FCSA to 5% of \$11.1 million in 22 to 23 months.

4. Conclusion

22. Creative Energy's Application aims to balance timely cost recovery and customer rate impact by putting in place a rate rider for no longer than is necessary to recover the excess balance in the FCSA. Further, the separate approved plan to move to FEI Rate 7 seeks to ensure customers are not subjected to a scenario like Winter 2018/2019 again.
23. Creative Energy submits that it is practical and supports the public interest for the Commission to grant final approval to maintain the level of the FCAC Rate Rider at the same level as is currently in place (\$4.80/M#) until the excess balance in the FCSA has been recovered, subject to Commission oversight in the context of ongoing quarterly reporting of fuel costs and the FCSA balance.

All of which is respectfully submitted this 31st day of July, 2019.

By:



Ian D. Webb

Counsel for Creative Energy Vancouver Platforms Inc.

¹² Exhibit B-4, response to CEC IR 3.1.

¹³ BCOAPO Final Argument, p. 4.

¹⁴ Exhibit B-3, response to BCOAPO IR 3.3.