13 October 2020

VIA E-FILING

Reply to: Leigha Worth
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Our File: 7200.111

Acting Commission Secretary
Marija Tresoglavic
BC Utilities Commission
6th Floor 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Tresoglavic,

Re: Corix Multi-Utility Services Inc. (Corix) - Application for Approval of a Corporate Cost Allocation Methodology
BCOAPO Final Argument

We represent the BC Old Age Pensioners' Organization, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, and Tenant Resource and Advisory Centre, known collectively in Corix's regulatory processes as "BCOAPO et al." ("BCOAPO").

Enclosed please find the BCOAPO's Final Argument with respect to the above-noted Application.

If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,
BC PUBLIC INTEREST ADVOCACY CENTRE

Original on file signed by

Leigha Worth

Executive Director | General Counsel

Encl.

BC OLD AGE PENSIONERS' ORGANIZATION, COUNCIL OF SENIOR CITIZENS' ORGANIZATIONS OF BC, DISABILITY ALLIANCE BC, AND TENANT RESOURCE AND ADVISORY CENTRE ("BCOAPO")

Corix Multi-Utility Services Inc. (Corix) - Application for Approval of a Corporate Cost Allocation Methodology

BCOAPO Final Argument

October 13, 2020

Please be advised that we provide the following final argument regarding the above noted application on behalf of our client groups known in this and other Corix regulatory processes as BCOAPO or BCOAPO et al. The constituent groups of BCOAPO et al. represent the interests of residential energy consumers in British Columbia generally but in this process specifically the interests of Corix's residential ratepayers.

INTRODUCTION

On June 5, 2020, Corix filed an application (the "Application"[1]) with the British Columbia Utilities Commission ("BCUC") pursuant to Sections 59 and 60 of the *Utilities Commission Act* ("UCA") for a methodology for allocating corporate costs ("Cost Allocation Methodology").

The BCUC established[2] a process for reviewing the Application that consisted of two rounds of information requests followed by Corix's final argument, submissions by intervenors and a Utility reply.

BCOAPO's final submissions are set out below.

BACKGROUND AND APPROVAL REQUESTED

Corix owns and operates rate-regulated utilities, utilities governed by contracts and unregulated utilities throughout British Columbia[3]. The BCUC regulates eight Corix utilities (listed in Table 2 of the Application):[4]

[1] Exhibit B-1
[2] Orders G-171-20; G-229-20 & 20A
[3] Exhibit B-1, page 5
[4] Exhibit B-1, Section 2.1, Table 2, page 5

Table 2: Corix utilities regulated by the BCUC

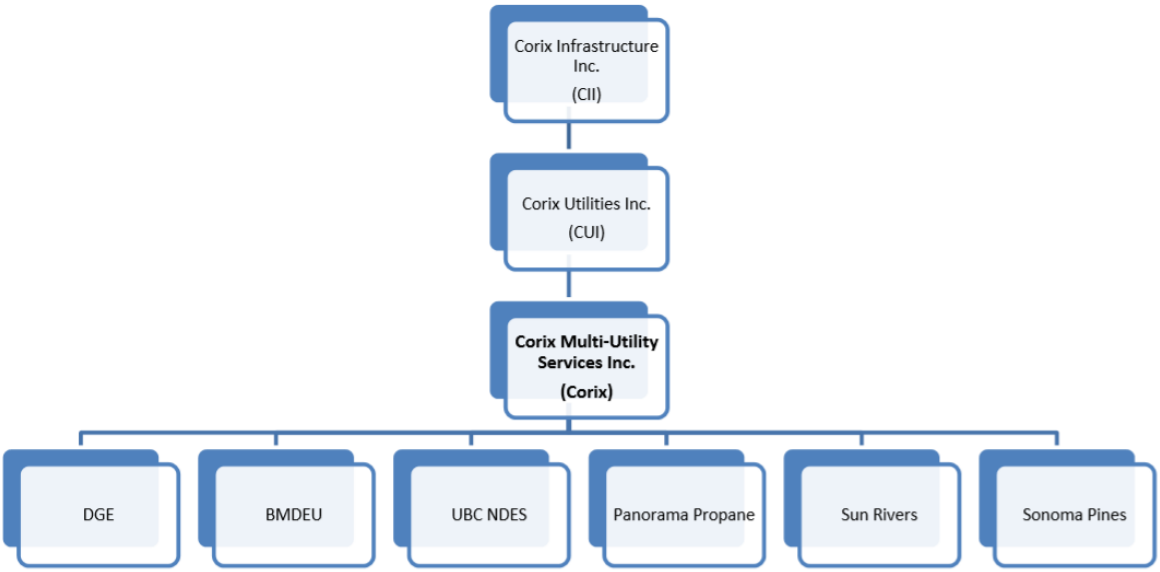
No.	Utility	No. of Customers at Dec 31, 2019
1	Dockside Green Energy Utility ("**DGE**")	7 customers *(serving 341 units)*
2	Burnaby Mountain District Energy Utility ("**BMDEU**")	11 customers *(serving 1,053 units)*
3	Neighbourhood District Energy System ("**NDES**") at the University of British Columbia ("**UBC**")	8 customers *(serving 1,176 units)*
4	Sun Rivers ("**SR**") Gas	640 customers
5	Sun Rivers Electric	935 customers
6	Sonoma Pines ("**SP**") Gas	496 customers
7	Sonoma Pines Electric	498 customers
8	Panorama Propane	240 customers

For three of those eight regulated utilities (DGE; BMDEU; and the UBC NDES), customer rates are set based on their cost of service.[5] For the remaining utilities, customers ' rates are not based on the utilities' cost to serve them.

Corix is a wholly owned subsidiary of Corix Utilities Inc., which itself is a wholly owned subsidiary of a privately held corporation, Corix Infrastructure Inc. ("CII")[6]. The relationship between CII and each of the Corix utilities regulated by the BCUC is shown in Figure 1 of the Application[7], as follows:

[5] Exhibit B-1, pages 32-33
[6] Exhibit B-1, page 6
[7] Exhibit B-1, page 6

Figure 1: Ownership Structure for Corix Multi-Utility Services Inc. and utilities regulated by the BCUC



Corix is proposing a methodology to allocate a portion of its corporate costs to the BCUC regulated utilities and in this Application it is seeking approval from the BCUC pursuant to Sections 59 and 60 of the *UCA* of the following:[8]

1) a methodology for allocating corporate costs to its utility operations;
2) the creation of a deferral account for Corix to capture the costs associated with the regulatory review of this Application; and
3) the subsequent allocation of the final balance in the regulatory cost deferral account, as per request number 2, to individual deferral accounts created for each of the utilities regulated by the BCUC, by using the Composite Allocator.

SUBMISSIONS

Cost Allocation Methodology

The proposed Cost Allocation Methodology allocates indirect corporate costs: costs that are incurred by the parent or shared services affiliate for the benefit of several companies and are not directly assignable to any particular business unit's activity or operations.[9]

CII's indirect costs are allocated to the companies that benefit from these costs in one of two ways:[10]

[8] Exhibit B-1, page 2
[9] Exhibit B-1, page 13
[10] Exhibit B-1, pages 13 – 14, and Table 3

a. Using a functional allocator on the basis of variability in instances where this method is clearly applicable; or
b. Using a composite allocator for all other instances.

Functional allocators are used where the indirect costs can be allocated using an identified cost causation driver, and include the following allocators[11]:

1. Employee headcount – for costs that are directly correlated to the number of employees;
2. Number of customers – for costs that are directly correlated to the number of customers of a particular business unit; and
3. Call volume by business unit – for costs that are directly correlated to the number of calls for each particular business unit.

BCOAPO has no concerns with the use of functional allocators for cost allocation but, as indicated in the Application, the vast majority of CII's indirect corporate costs do not have a direct correlation with any one particular cost causation driver and are instead allocated using a composite allocator.[12]

The proposed composite allocator includes the three equally weighted factors shown in Table 4 of the Application[13] reproduced below:

Table 4: Composite Allocator Factors and Weighting

Factor	WEIGHT
Gross Revenue	33.33%
Gross Property, Plant & Equipment ("**PPE**")	33.33%
Headcount	33.33%

BCOAPO has no issues with factors factorially-driven Composite Allocators in principal and we agree with Corix that the composite allocator used for the methodology is consistent with the

[11] Exhibit B-1, page 14
[12] Exhibit B-1, page 14
[13] Exhibit B-1, page 14

Massachusetts Formula: a widely used and accepted means of allocating costs in the utility industry. We also note that the Massachusetts Formula was approved by the BCUC to allocate corporate services costs for several utilities in BC.[14]

However, BCOAPO would be remiss if we did not point out that what Corix is proposing is not, in fact, the Massachusetts Formula. The Massachusetts Formula uses capital investment as one of its factors instead of Gross PPE as proposed by Corix.

While BCOAPO does not oppose the Application on methodological grounds, we submit that cost allocation is a subjective exercise and particularly so when allocating indirect costs. There is no cut and dry science to it. There are many "reasonable" ways to allocate indirect costs but differences in the choice of drivers can have a major impact on cost allocations and therefore, ultimately, differing rate impacts.

Because there can be major consequences for a given utility and its ratepayers resulting from a seemingly minor change in inputs, it is an issue that requires our focused attention.

Shift of Costs to BCUC-Regulated Utilities

BCOAPO notes that the major impact of the proposed Cost Allocation Methodology is, overall, to shift corporate costs from its unregulated utilities to its BCUC-regulated ones. Based on the updated Table provided in BCOAPO IR 2.3.1[15], the costs allocated to BCUC-regulated utilities increase from $996,585 in 2021 to $1,321,561 in 2022: a startling increase of 32.6% occurring in a just one year.

Line No.	Utility	2019	2020	2020 Increase	2021	2021 Increase	2022	2022 Increase
		Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
1	Dockside Green Energy	110,000	76,787	-30%	78,868	3%	68,324	-13%
2	UBC NDES	115,928	231,037	99%	213,183	-8%	183,179	-14%
3a	BMDEU - UniverCity	55,756	202,998	264%	299,636	48%	364,790	22%
3b	BMDEU - SFU	--	--	N/A	142,601	N/A	449,197	215%
4	Panorama Propane	66,744	40,714	-39%	37,543	-8%	37,030	-1%
5	Sun Rivers Electric	242,534	156,182	-36%	141,279	-10%	138,131	-2%
6	Sun Rivers Gas	30,307	23,845	-21%	21,396	-10%	20,804	-3%
7	Sonoma Pines Electric	84,642	49,284	-42%	44,216	-10%	42,735	-3%
8	Sonoma Pines Gas	32,529	19,721	-39%	17,863	-9%	17,370	-3%
	Total	**738,440**	**800,568**	**6%**	**996,585**	**23%**	**1,321,561**	**31%**

[14] Exhibit B-1, pages 26-27
[15] Exhibit B-6

So, Corix is seeking a change that would have BCUC-regulated utilities absorbing about $325,000 more in corporate costs in 2022 than they will in 2021. At the same time, there is no evidence on the record that shows that CII's corporate costs will or have increased by 32.6% in a year. Instead, Corix provided the following response to BCOAPO IR 2.3.1:

> **Corix Response**:
>
> In the absence of known and measurable adjustments as described in the Application, the total indicative allocation to Corix's BCUC-regulated utilities would be $803,925, $766,491, and $789,428 in 2020, 2021 and 2022 respectively. These represent 1.65%, 1.61% and 1.60% of CII's total indicative corporate costs for 2020, 2021 and 2022 respectively. Therefore, the annual indicative year-over-year changes are not driven by the growth in the overall CII cost pool that is being allocated to utilities. Instead, the indicative growth is primarily driven by the change in corporate cost allocation methodology between 2019 and 2020, and subsequently by major capital projects previously approved by the BCUC…
>
> [Emphasis added]

This response indicates that CII's total "indicative" corporate cost pool in 2020, 2021, and 2022 are $48.722M, $47.608M, and $49.339M respectively. The difference between the smallest and largest amounts is 3.6%, suggesting no major increases in corporate costs during the three queried test years.

Frankly, the gulf between 32.6% and 3.6% is insurmountable without solid evidence upon which to rely to justify what Corix is proposing and instead we see that the increase in the costs allocated to BCUC-regulated utilities is a result of the discretionary inputs the utility has used in the proposed composite allocator - mainly driven by the utility's choice to use Gross PPE over other more widely used composite allocators like the one found in the Massachusetts Formula.

After a review of the evidence, BCOAPO also noticed that the effect of Corix's proposal is to shift cost decreases from BCUC-regulated utilities operating under cost of service regulation to the those not using CoS to set their rates. The table provided in response to BCOAPO IR 2.3.1, reproduced above, clearly shows this in its pre-2020 corporate allocations actuals and Corix's forecast allocations for 2020 and beyond under the proposal. It has not escaped our notice that under their plan, cost allocations decrease for utilities 4 through 8: utilities whose rates are not set on a cost of service basis and would see no rate impacts unless and until the BCUC approves a change to the setting of rates on a CoS basis.

Also, since DGES, Panorama, Sun Rivers (G&E) and Sonoma Pines (G&E) get a decrease in allocation under Corix's proposal, the allocation increases to the remaining BCUC-regulated

utilities are even higher as they would also be covering the decreases for DGES, Panorama, Sun Rivers (G&E) and Sonoma Pines (G&E).

In other words, while non-cost of service BCUC-regulated utilities have decreases in their allocations, they will not see any rate impacts until Corix applies for cost of service regulation for these utilities. At the same time, the BCUC-regulated utilities will in general see higher cost allocations and will be exposed to them earlier.

As a result, BCOAPO is concerned that the proposal will cause some potentially unjustifiably large increases in rates or future liabilities for some customers not based on any evidence indicating that this is necessary, but instead on a choice made that dumps the costs disproportionately on one group.

Rate Impacts

We would like to begin by noting that, for Corix's cost of service regulated utilities, the use of a Gross PPE driver means that Gross PPE spending increases rates by increasing rate base, and again by increasing the corporate cost allocation to these utilities.

It goes without saying that to avoid any unexpected and unreasonable rate increases, it would be preferable to have a cost allocation model which allows ratepayers and the Commission to compare the rate impacts of a status quo with those resulting from the Utility's proposal. However, that comparison is impossible in this case because Corix has chosen to advocate for an allocation model that it has said renders it impossible to show the impact on rates of its allocation proposal for those utilities currently operating under cost of service regulation (DGE, BMDEU and UBC NDES). Instead, the Utility has said those impacts must remain undefined until those revenue requirements are filed in the future.[16] In other words, Corix's evidence is that the ultimate rate impacts of its proposal on affected customers will have to remain unknown until the goose is already cooked or the egg is already scrambled. Corix's residential ratepayers take no comfort in that and are instead understandably concerned by their utility's failure to take into consideration their ratepayers' needs for the evidence they need to know they will continue to pay stable, predictable rates in the future.

BCOAPO submits that without knowing the impacts of the proposed Cost Allocation Methodology on all customers and customer classes, it is impossible for this Panel to find that the rates affected

[16] Exhibit B-1, page 32, Exhibit B-2, BCUC 1.8.1

by this proposal will not be unjust, unreasonable, or unduly discriminatory under sections 59 and 60 of the UCA.

Regional Costs

The proposed Methodology does not allocate all costs borne by the utilities, and specifically, it excludes Regional costs. Regional costs include shared operating costs such as building rent, utilities expenses, salaries, travel, vehicle and office expenses.[17]

Corix's evidence is again that Regional costs will be addressed when the "relevant utility" makes a revenue requirement application to the BCUC.[18] In this regard, BCOAPO notes that ratepayers are impacted by the total costs allocated to the utility. The danger of the piecemeal approach is that it could result in various tranches of costs that seem to make sense in isolation but cumulatively add up to unacceptable rate shock. BCOAPO is concerned that, when combined with other external costs, the Corporate Cost Methodology may give rise to unacceptable rate increases when "the bill comes due" and the revenue requirements are calculated.

As a result, BCOAPO submits that, to avoid exposing Corix's ratepayers to the unnecessary risk of deaths by a thousand cuts, we must deal with all cost sources to be allocated to their utilities when they can be defined.

Deferral Account

Corix proposes to capture costs associated with this Application in a deferral account and allocate the total among the utilities using the composite allocation factor. BCOAPO does not oppose this proposal.

CONCLUSION

Overall, BCOAPO's main concern with Corix's proposal is that the ultimate rate impacts of the proposal on affected customers, especially on customers of DGE, BMDEU and UBC NDES, remain a big question mark: like credit card bills left unopened in a drawer until the collection calls begin. Our clients do not accept that they should be required to grasshopper their way into the future without a Bonbright-esque level of certainty that their risk of exposure to unexpected rate changes is minimal or that Corix's unregulated utilities are not enjoying unreasonably preferential rates at their expense.

[17] Exhibit B-1, page 12
[18] Exhibit B-2, BCUC 1.2.3.1

The fact that the Cost Allocation Methodology does not allocate all costs borne by the utilities (e.g. Regional costs), combined with Corix's failure to show an indicative impact to utility rates for DGE, BMDEU and UBC NDES as a result of the proposed Methodology, make it impossible to conclude at this time that utility rates affected by the current proposal will not be unjust, unreasonable, or unduly discriminatory as required by sections 59 and 60 of the UCA.

As a result of the concerns outlined above, we urge this Commission Panel to reject Corix's application in its entirety.

ALL OF WHICH IS RESPECTFULLY SUBMITTED:

Original on file signed by:

Leigha Worth, Executive Director	**Irina Mis**, Staff Lawyer
BC Public Interest Advocacy Centre	BC Public Interest Advocacy Centre