23 October 2020

VIA E-FILING

Reply to: Leigha Worth
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Ph: 604-687-3034

Our File: 7800.110

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

Dear Ms. Tresoglavic,

Re: Shannon Estates Utility Ltd. - Levelized Rate Application for the Shannon Estates Thermal Energy System ~ Project No. 1599113
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 FortisBC 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

For/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")

Shannon Estates Utility Ltd. - Levelized Rate Application for the Shannon Estates Thermal Energy System ~ Project No. 1599113

BCOAPO Final Argument

October 23, 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 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 Shannon Estates Utility Ltd.' residential ratepayers.

INTRODUCTON

On June 30, 2020, Shannon Estates Utility Ltd. (SEUL, the Applicant) filed an application (the "Application"[1]) with the British Columbia Utilities Commission ("BCUC") for approval of rates for the Shannon Estates Thermal Energy System (SETES) for a ten-year period effective January 1, 2021, as well as the continuation of the Regulatory Deferral Account and the Revenue Deficiency/Surplus Deferral Account. SEUL is also requesting approval to establish an Unplanned Sustainment Capital and Maintenance Deferral Account, an Energy Costs Deferral Account, and associated rate riders that recovers from, or distributes to, customers balances in these account.

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

BCOAPO's final submissions are set out below.

[1] Exhibit B-1
[2] Exhibit A-2

SUBMISSIONS

Return on Rate Base

SEUL has used an estimate of the cost of debt that it would incur as a "standalone" utility[3]. However, it is BCOAPO's view that in general, "standalone" cost is best used as an indicator as to the maximum charge that a regulated utility should pay for affiliate services and not necessarily an indicator of the most appropriate charge.[4]

Capital Structure

In its Final Argument[5] SEUL states that it has used a deemed capital structure of 57.5% debt and 42.5% equity with an RoE of 9.50% and a cost of debt equal to the "standalone" cost estimate provided by its parent company Wall Financial Corporation (WFC), for ratemaking.

BCOAPO notes that in fact, the costs of equity and debt are based on the deemed equity and the deemed debt, and on estimates of the debt costs provided to SEUL by WFC. The actual capital structure is 100% debt and 0% equity financing[6]. The actual cost – to the utility – of debt is the carrying cost of $0 per year since, per Exhibit B-4 BCOAPO 1.7.1, it is WFC policy to charge 0% interest on inter-company loans. The actual cost – to the utility – of equity is $0 per year since actual equity is 0. So, the actual cost of capital to the utility is 0.

BCOAPO does not, generally, take issue with the use of deemed capital structure or use of deemed capital costs in ratemaking where appropriate; BCOAPO just wishes to comment on the current proposal which is unlike any other that we can recall in terms of its deviation from typically encountered deemed versus actual structures and costs.

From its review of the record, it appears to BCOAPO that:

- WFC has loaned SEUL full capital cost financing using 100% debt at 0% - as is their practice for intercompany loans[7];
- The utility in fact enjoys this "free" capital financing for all its capital requirements – it is free in the sense that the utility does not actually pay anything to WFC directly for carrying this debt (either in interest, dividends, disbursement of retained earnings, etc.,);

[3] Exhibit B-1, page 26
[4] Exhibit B-4, BCOAPO IR 1.7.4 and Exhibit B-8 BCOAPO IR 2.14.1
[5] Page 20
[6] Exhibit B-4, BCOAPO 1.7.6 and Exhibit B-8, BCOAPO 2.15.1
[7] Exhibit B-4, BCOAPO 1.7.1

- But ratepayers are charged in rates by the utility as if there was 57.5% debt at deemed interest and deemed 42.5% equity at 9.50% RoE;
- It appears WFC intercompany debt supplied to SEUL at 0% interest ends up earning a return on equity and debt much greater than 0% from ratepayers.

In BCOAPO's view, 100% debt funding to the utility at 0% provides a ratepayer funded return on (non-existent) equity and a (zero cost to the utility) market estimated debt to the ultimate recipient of the flow of interest charges and equity charges: in BCOAPO's view it appears that by actually issuing "free" debt to the utility, ratepayers are paying more for capital costs to the lender, than the lender could have otherwise been achieved had it loaned the same funds to a third party at market rates.

To reiterate, BCOAPO does not, generally, take issue with the use of deemed capital structure or use of deemed capital costs in ratemaking – it just appears to BCOAPO that this is a rather extreme case of issuing fairly safe debt, along with no equity, ultimately generating a much higher return than could be achieved had these been market transactions between unrelated parties for debt at market rates.

Rate shock

In its Final Argument[8], SEUL mentions that to "Avoid rate shock," the proposed Unplanned Sustainment Capital and Maintenance Deferral Account (USCMDA) rate rider would be constrained to having no greater than a 15% overall bill impact if approved.

BCOAPO notes that in addition to a potential rate increase that increases the total bill by 15% due to the proposals as it stands, there will be annual increases in base rates that increase by up to 3% in the last years of the proposal. That is, SEUL is applying to be able to increase rates by up to 18% from just these two items – and that is not including potential increases in recoveries from ratepayers for disposing of Energy Costs Deferral Account (ECDA) balances by rate rider, USCMDA rate rider, and any other potential ratepayer levies/liabilities under the instant proposal.

BCOAPO submits that a total bill impact of 10% or more qualifies as rate shock: as such, we cannot support approvals which would, in the absence of any further public review, allow for annual bill increases in excess of 10%, let alone the 18%+ that the utility seeks to have pre-approved in the event that circumstances would substantiate the claim.

[8] Page 12

With respect to proposed changes to rate riders, an appropriate dead band should be supported by annual financial reporting to the BCUC, rather than sought through a specific application to the BCUC. This approach would save regulatory costs and still allow for more scrutiny should the proposed impact necessitate it. BCOAPO submits that in the event of proposed increases that would constitute rate shock, i.e., a "shocking proposal," some form of public process (preferably, a streamlined public process) should be conducted before the proposal is approved. Failing this, BCOAPO urges the BCUC to require more opportunity for public review in a process should it be in ratepayers' and the public interest.

Revenue Deficiency/Surplus Deferral Account (RD/SDA) Proposal

The proposal with respect to the RD/SDA is that it tracks the difference between the forecast annual revenue requirement and the forecast annual revenues pursuant to the levelized rate design[9].

This seems to provide for annual forecasts for each year of the plan of the annual revenue requirement, with any variance from the levelized rates to be booked to the ratepayers' account for later recovery. There thus little residual forecast, or other risk to the Applicant in return for the deemed RoE.

BCOAPO would appreciate any clarification in this respect in SEUL's Reply Argument in the event that BCOAPO's understanding is not correct.

Term of Plan, Plan Results and Review, Formulaic Increases, and Income Taxes

BCOAPO accepts that a plan longer than one-year or two-years can be appropriate when material adjustments are being made to rates to levelize rates.

BCOAPO also notes that 10 years is a long time to go without any public review process during the plan: the utility is only proposing to provide annual financial reports to the BCUC pursuant to BCUC Orders G-160-18 and G-190-17[10].

BCOAPO submits that this level of reporting is not adequate for a long term plan with (i) preset increases in base rates that cumulatively result in base rates increasing by 24.26% over the

[9] Exhibit B-4, BCOAPO 1.8.1
[10] Exhibit B-6, EPS-5056 IR 19.1,

term[11], (ii) formulaically increased cost components in excess of the expected rate of inflation (e.g., repair and maintenance increases of 4% per year, DEU at 2.5% per year), and (iii) the potential for further significant bill increases through disposition of balances in the proposed USCMDA rate rider, ECDA rate rider, etc.

With respect to the proposal to start with an income tax rate of 27% and increase it by 2% every 3 years, BCOAPO notes that SEUL would accept a deferral account in respect of income taxes[12]: so long as the account books the difference between actual taxes paid by SEUL and actual recoveries from ratepayers in respect of income taxes. BCOAPO supports the creation of this deferral account.

BCOAPO submits that, when appropriate, stakeholders could be notified of projected rate changes and be given an opportunity to provide input when circumstances cause such a review to be in the public interest: this includes the possibility of automatic approval with no further process, notification of ratepayers with the opportunity to provide input via comments, basic clarification requests, etc.

BCOAPO's position is that a mid-term review at the end of year five, a high-level review, streamlined as appropriate under the BCUC's direction, would be of value to stakeholders.

Bill Presentation

The Applicant wishes to "simplify" the invoice by combining the fixed charge for capacity with the fixed meter charge[13].

BCOAPO submits that overall, customers would benefit more from the transparency and information provided by showing these charges separately on the bill and does not support the combination of the proposed fixed charges.

[11] Exhibit B-4, BCOAPO IR 1.9.1
[12] SEUL Final Argument, page 17
[13] Exhibit B-3, BCUC 4.1.1 and 4.2-43

CONCLUSION

Due to several major concerns outlined above, it is BCOAPO's position that SEUL Application should not be approved as filed.

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