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Via E-Filing

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British Columbia Utilities Commission
Suite 410, 900 Howe Street
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Attention: Marija Tresoglavic
Acting Commission Secretary

Dear Ms. Tresoglavic:

**Re: Shannon Estates Utility Ltd.
Levelized Rate Application for the Shannon Estates Thermal Energy System**

On behalf of Shannon Estates Utility Ltd. (SEUL), and in accordance with the regulatory timetable established by BCUC Order No. G-186-20, we enclose for submission to the BCUC SEUL's Reply Argument in the above noted proceeding.

Yours very truly,

LAWSON LUNDELL LLP

Ian Webb

IDW/ns1
Enclosures

cc. Michelle Casey, Lawson Lundell
Joanne Liu, Wall Financial Corporation

Shannon Estates Utility Ltd.

**Levelized Rate Application for the
Shannon Estates Thermal Energy System**

Reply Argument

November 5, 2020

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1. Introduction to SEUL's Reply

Shannon Estates Utility Ltd. (“**SEUL**”) filed its Application for levelized rates for the Shannon Estates Thermal Energy System (the “**SETES**”) with the British Columbia Utilities Commission (the “**Commission**” or “**BCUC**”) on June 30, 2020.¹ After a regulatory review process which included two rounds of information requests (“**IRs**”) from the Commission and participating interveners, SEUL filed its final argument in this proceeding on October 9, 2020.²

The following three interveners filed final arguments on October 23, 2020:

- Gerald F. Duffy (“**Mr. Duffy**”), a resident of the Development and SEUL customer;
- EPS-5056 Hudson & Adera Strata (the “**Strata**”), one of the strata corporations of the Development, itself a SEUL customer as well as a representative of its members who are also SEUL customers; and
- the British Columbia Old Age Pensioners’ Organization, Active Support Against Poverty, Disability Alliance BC, Council of Senior Citizens’ Organizations of BC, and Tenants Resource and Advisory Centre (“**BCOAPO**”)³

(collectively, the “**Interveners**” or singularly an “**Intervener**”).⁴

SEUL’s intent in this reply argument is to respond to those issues raised in the Interveners’ final arguments that are material to the Application and/or that have been raised by more than one of the Interveners. The lack of reply to any of the points made in the Interveners’ final arguments should not be interpreted by the Commission as agreement or acquiescence by

¹ Exhibit B-1.

² See the link titled “SEUL Final Argument” on the BCUC’s webpage for this Application (accessible at <https://www.bcuc.com/ApplicationView.aspx?ApplicationId=783>). Section 4 of SEUL’s Final Argument summarizes the approvals that SEUL seeks in this Application.

³ BCOAPO states, at page 1 of its final argument, that “[t]he 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.” The ratepayers represented by the Strata and BCOAPO appear to be largely the same people.

⁴ See, respectively, the links titled “Duffy Final Argument”, “EPS-5056 Final Argument”, and “BCOAPO Final Argument” on the BCUC’s webpage for this Application, *supra*.

SEUL. In that regard, SEUL refers the Commission to SEUL's final argument and also its Application and IR responses.

2. General Comments on the Interveners' Arguments

SEUL has carefully reviewed and considered the Interveners' final arguments. Before providing its reply to certain of the submissions the Interveners have made, SEUL wishes to comment on two recurring flaws in the Interveners' final arguments.

First, the Strata and Mr. Duffy make broad and unsubstantiated claims throughout their final arguments about alleged shortcomings in SEUL's evidence. For example, in paragraph 3 of its final argument, the Strata asserts that "for a number of components of the Application SEUL has not discharged their obligation of providing persuasive evidence that costs and charges set out in the Application will result in rates which are fair, just, and reasonable." The Strata further asserts at paragraph 15 of its argument that "SEUL has not met its burden of proof to show that costs are reasonable" and, at paragraph 16, asserts that SEUL has provided only a "paucity of evidence to support many of [SEUL's] costs". The Strata further asserts that "SEUL has included an increase in tax rates, with no clear and persuasive evidence in support"⁵ and that "SEUL has provided no persuasive evidence to support the cost of debt used in its financial model".⁶

Mr. Duffy also makes various inapt claims about the evidence used by SEUL in developing its load forecast. For example, at page 8 of his final argument, Mr. Duffy asserts that "the evidence presented is very weak". Mr. Duffy further asserts, at page 8 of his final argument, that the "[t]he '30% vacancy' cannot be supported", "the current demand and revenue forecast is understated" and that "[t]here is no evidence to support this assumption".

SEUL strongly rejects the claims made in the submissions of the Strata and Mr. Duffy about the weight of evidence SEUL has presented in this proceeding. SEUL's Application, thorough

⁵ Strata Final Argument at para. 15.

⁶ *Ibid* at para. 17.

responses to the extensive IRs (including those from the Strata and Mr. Duffy), and final argument provide a full, complete, and reasonable explanation of and justification for SEUL's costs forecast, load forecast, and the approvals SEUL seeks. SEUL's evidence in this proceeding is entirely consistent with the weight of evidence the BCUC routinely accepts as sufficient in other proceedings to support the respective point being made.

Second, all three Interveners, at times, object to certain of SEUL's proposals without providing authorities or relevant evidence to support their objection or the alternative they put forward (if any). For example, and as discussed in further detail in section 3.1 below, BCOAPO challenges SEUL's cost of debt by relying on "its view" about how cost of debt should be determined.⁷ BCOAPO has not, however, provided any reference to regulatory precedent in support of this statement, suggesting that BCOAPO is simply putting forward a personal opinion and not an established regulatory approach. Another example, as discussed in section 3.6 below, are the submissions of Mr. Duffy and the Strata that SEUL's load forecast is wrong because of their observations about the capacity of the Development's parkade and the level of light visible in the Development most nights.⁸ These observations are not only anecdotal but divorced from how SEUL developed its load forecast.

If, over the course of this proceeding, an Intervener took issue with SEUL's evidence, that Intervener had the opportunity to challenge SEUL's evidence through the IR process. If that Intervener continued to be dissatisfied with SEUL's evidence as further developed through the IR process, the Intervener also had the opportunity to request the BCUC's leave to submit intervenor evidence. No Intervener submitted evidence in this proceeding. Accordingly, the Intervener submissions include a number of recurring unfounded claims that are not based on evidence in this proceeding but only on the Intervener's personal opinions.

Unlike the Interveners, SEUL has put forward detailed rationales for the approvals it seeks in its Application supported a large volume of objective, verifiable and detailed evidence. This

⁷ BCOAPO Final Argument at p. 2.

⁸ Mr. Duffy Final Argument at p. 8; Strata Final Argument at para. 20.

evidence has been tested through two extensive rounds of IRs. SEUL has also revised certain of the approvals sought in response to fair points made through the proceeding. When the BCUC or a party pointed out a weakness in SEUL's proposal (such as the fact that SEUL does not know the exact timing and extent of future increases to corporate income tax), SEUL acknowledged that weakness, carefully considered the concern raised about its proposal, and proposed a solution to account for that weakness (such as SEUL's statement that it is open to deferral account treatment for corporate income tax if the Commission considers it appropriate).

In considering what approvals to seek, SEUL has carefully weighed the many and often competing considerations that apply when setting levelized rates for a ten year period. SEUL has, where applicable, explained the trade-offs it has made and why it thinks those trade-offs are just and reasonable for this small Stream B TES. As set out in SEUL's final argument, SEUL's proposals align very well with the requirements of the *Utilities Commission Act*⁹ and the BCUC's rate setting principles for Stream B TES.

3. SEUL's Reply to Certain Issues Raised by the Interveners

3.1 The Commission should not put weight on the Interveners' cost of debt submissions

Each of the three Interveners object to SEUL's proposed deemed debt interest rate, although these objections are made on different bases. Given this, SEUL will address each of the Interveners' objections individually.

First, BCOAPO asserts, as set out at page 2 of its final argument in connection to cost of debt, 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." In reply, SEUL notes that BCOAPO's submission does not reference any authority in support of its claim that for utility rate setting purposes the "standalone" cost

⁹ R.S.B.C., c. 473.

should only serve as an indicator of the maximum, and not most appropriate, charge. This claim, as BCOAPO expressly states, is simply BCOAPO's "view".¹⁰

Contrary to BCOAPO's "view", the Commission, in its Stage 1 Decision in the most recent Generic Cost of Capital proceeding (**GCOC Stage 1 Decision**), "reaffirm[ed] the long history and importance of the stand-alone principle in Canadian utility regulation".¹¹ The stand-alone principle is that each utility should be evaluated on a stand-alone basis because it is the use of the funds invested (in this case, in a small TES with a fixed customer base) and not the source of those funds (in this case, interest free financing from the parent company) which gives rise to the risk of the investment, and therefore the appropriate capital structure, allowed ROE and deemed debt interest rate. The Commission further held that there "is no reason to deviate from this principle even in the case of small utilities or projects whether or not they are part of a larger utility."¹² In that same decision, the Commission recognized that the use of a deemed debt interest rate is acceptable for small utilities, like SEUL, who do not have actual third party debt.¹³ The Commission specifically held that this would be appropriate because it might not be efficient for a small utility to raise third party debt.¹⁴

As stated in section 5.5 of SEUL's final argument, SEUL's ratepayers benefit from SEUL's interest free loan from its parent company as SEUL can operate outside the confines of debt covenants and lender requirements and avoids the financing fees it would otherwise pay to a third party lender. All of the gains from these efficiencies flow to SEUL's ratepayers. In light of this and the above points, SEUL submits that the Commission should place no weight on the BCOAPO submission that is unsupported by any utility rate setting authority, is in fact contradicted by the GCOC Stage 1 Decision, and ignores the benefits that flow to SEUL's ratepayers.

¹⁰ BCOAPO Final Argument at p. 2.

¹¹ BCUC's Generic Cost of Capital Proceeding (Stage 1) Decision dated May 10, 2014 at p. 100 ("**GCOC Stage 1 Decision**").

¹² *Ibid.*

¹³ *Ibid* at pp. 104-105.

¹⁴ *Ibid.*

Second, the Strata, as set out at paragraph 17 of its final argument, asserts that “SEUL has provided no persuasive evidence to support the cost of debt used in the financial model.” SEUL replies that it has, contrary to the Strata’s submission, provided very specific evidence of how it determined the proposed cost of debt (as summarized in section 5.5 of SEUL’s final argument).¹⁵ SEUL further replies that its methodology for determining cost of debt is similar to that accepted by the Commission in its recent decision on the application by Boralex Ocean Falls Limited Partnership (“**Boralex**”) for approval of rates for service to BC Hydro at Ocean Falls (the “**Boralex Proceeding**”).¹⁶

In the Boralex Proceeding, Boralex proposed a 5.5% deemed interest rate on the debt component of its capital structure. In support of this debt interest rate, Boralex relied on two things. First, Boralex had asked its third-party debt lender what rate would be available to Boralex if it were to issue long-term debt on a stand-alone basis in the current market.¹⁷ The lender advised Boralex that its rate would be approximately 5.3%.¹⁸ Second, Boralex relied on the fact that it had long-term third party debt from a single lender that was issued in 2011 at a fixed interest rate of 6.55% per annum.¹⁹ On the basis of these two points, and arguing that there would be upward pressure on the quoted 5.3% interest rate, Boralex submitted that the appropriate deemed interest rate was slightly above that quoted by its lender, at 5.5%.²⁰

The interveners in the Boralex Proceeding took the position that the deemed debt rate should be lower than that proposed by Boralex (for example, in the range of 3.0% to 4.0%).²¹ The BCUC Panel for the Boralex Proceeding, however, accepted Boralex’s proposal of a debt rate of 5.5%.²² The Panel “agree[d] with Boralex that its cost of debt can be observed through its

¹⁵ Also see SEUL’s responses to BCUC IR 13.1 and 13.1.1 (Exhibit B-3 and B-3-1), Duffy IR-2 1.1 (Exhibit B-9), and Strata IR 35.5.1 and 35.3.2 (Exhibit B-10).

¹⁶ Decision and Order G-270-20 dated October 27, 2020 In the matter of Boralex Ocean Falls Limited Partnership’s Application for Approval of Rates and Terms and Conditions for Service to British Columbia Hydro and Power Authority (“**Boralex**”).

¹⁷ *Ibid* at pp. 50-51.

¹⁸ *Ibid* at p. 50.

¹⁹ *Ibid*.

²⁰ *Ibid* at p. 51.

²¹ *Ibid* at pp. 51-52.

²² *Ibid* at p. 52.

existing debt arrangements with its third-party lender” and “place[d] weight on the third-party lender’s advice if Boralex borrows to finance the debt component of its capital structure”.²³ With respect to the appropriate debt rate itself, the Panel held that “Boralex ha[d] provided a reasonable effort to obtain a debt rate that is reflective of Boralex’s current financial situation”²⁴ and held that the slight upward adjustment from the third-party lender’s quote was reasonable.²⁵

In this proceeding, the Strata argues that SEUL’s allowed cost of debt should be in the range of 2.75% to 3.25%.²⁶ SEUL, in reply, submits that the Strata’s submission in regards to cost of debt is flawed for two reasons. First, and assuming that a direct comparison between SEUL and the four utilities the Strata cites is appropriate (which, as discussed below, SEUL does not agree with), the average cost of debt for those four utilities is 4.04% – a number that is 0.79% higher than the upper range of what the Strata suggests SEUL’s cost of debt should be. Second, SEUL submits that the Commission should place no weight on the Strata’s attempt to compare SEUL and its appropriate cost of debt to these utilities, as such a comparison, without further analysis (which SEUL notes the Strata has not provided) does not take into account the unique and differentiating characteristics between SEUL and these other utilities nor the timing at which the rate was obtained. SEUL, on the other hand, has proposed a cost of debt that was determined by lenders specifically for SEUL and its current financial situation.

In paragraph 19 of its final argument, the Strata states that SEUL has not treated “the deemed interest as an expense”, which the Strata suggests “results in the ratepayers paying the SEUL shareholder’s taxes thereon.” The Strata then “submits that the appropriate way for the Commission to deal with this issue would be to treat the deemed interest expense as if it were a tax deductible item for purposes of the SEUL model.”²⁷

²³ Boralex, *supra*, at p. 52.

²⁴ *Ibid.*

²⁵ *Ibid* at pp. 52-53.

²⁶ Strata Final Argument at para. 19.

²⁷ *Ibid.*

While SEUL agrees that any interest it pays would be tax deductible, the fact that SEUL did not include interest and financing fees components in its Financial Model as cost of service is a significant benefit for ratepayers. Were SEUL to treat the deemed interest on the loan from its parent company as an expense, SEUL would have to record its share of the various financing fees associated with this loan (such as set up fees and annual fees) in the Financial Model. This would result in an increase to SEUL's cost of service and, correspondingly, an increase to SEUL's proposed rates. Instead, and as noted above and in section 5.5 of SEUL's final argument, ratepayers get the benefits from the fact that WFC provides 100% financing on an interest-free basis.

Finally, Mr. Duffy, as set out in page 3 of his final argument, takes issue with the parameters, including the cost of debt, set by the Commission in the last generic cost of capital ("**GCOC**") proceeding and asserts that now may be an appropriate time for the Commission to review these parameters.²⁸ SEUL replies that the GCOC parameters are outside the scope of this proceeding.

3.2 SEUL's capital structure was set by the Commission

BCOAPO, at pages 2 and 3 of its final argument, makes extensive submissions about SEUL's deemed capital structure and suggests that a deemed capital structure is not appropriate for SEUL at all. In reply, SEUL simply points out that the Commission, in Order G-190-17, set SEUL's capital structure for rate-making at 57.5% debt and 42.5% equity, with an allowed return on equity of 9.50% and a return on debt based on SEUL's cost of debt. In this Application, SEUL simply continues the capital structure that the Commission has already determined is appropriate for SEUL.

²⁸ Duffy Final Argument at p. 3.

3.3 Direct comparisons between rates of different utilities is of limited value

Both the Strata and Mr. Duffy claim that SEUL's proposed rates are too high compared to the rates of other selected utilities. For example, the Strata, at paragraph 10 of its final argument, argues that "one important comparison in assessing the reasonableness of SEUL rates is their competitiveness to other utilities". Similarly, Mr. Duffy, at page 1 of his final argument, states that the "proposed SEUL rates are not competitive when compared to our closest DES supplied customers". Notably, the Strata also submits, at paragraph 12 of its final argument, that "competitiveness alone is not a reason to change the rates proposed by SEUL". Rather, the Strata's point is that higher rates relative to other selected utilities might be an indicator that costs and/or assumptions underlying the revenue requirements *might not* be reasonable; that is, an indicator that further inquiry might be warranted.

SEUL does not disagree that comparisons to other comparable utilities and, specifically, comparison to component costs of other utilities' revenue requirements can be of value in assessing whether a cost item of the utility at issue is reasonable. For example, the BCUC will determine a deemed capital structure and allowed ROE for a utility by comparing the risks of the utility to the "benchmark" utility and potentially comparable utilities. Comparison of other cost items such as debt interest rate, capitalized overhead rate, year-over-year increase in employee compensation, etc. can be of value in assessing whether certain costs/assumptions of the utility at issue are reasonable.

SEUL does, however, submit that comparison to other utilities' rates (as opposed to component costs of revenue requirements) is not useful when assessing whether SEUL's proposed rates are just and reasonable. SEUL stresses that the nature and quality of services provided by the SETES is unique and this sort of comparison is of no value in setting a utility's cost of service rates.²⁹

The Strata points out at paragraph 11 of its final argument that comparison of utility rates can be even "starker" when the comparison is between a SEUL monthly invoice (for space heating,

²⁹ See section 5.2 of SEUL's Final Argument.

space cooling and DHW heating) and the monthly invoice of a gas utility (for provision of natural gas commodity only). This is exactly SEUL's point – factors such as the nature and quality of service provided, the source of energy, the carbon intensity of the energy service provided, and the number of customers and classes of the customer base differ substantially between utilities, and all factor into and necessarily determine the rates that are just and reasonable for a given utility to charge for the services it provides. Pursuant to section 59(5) of the *Utilities Commission Act*, a rate is unjust or unreasonable if it is insufficient to yield a fair and reasonable compensation for the service provided by the utility, or more than a fair and reasonable charge for service of the nature and quality provided by the utility. Any rate for the SETES must therefore be based on the services provided by SEUL and the cost to provide those services – not a different service provided by a different utility. Face-value comparisons void of the many qualitative and quantitative factors that differentiate the service provided by SEUL from the services provided by other utilities have limited to no value in assessing whether the rates SEUL has proposed are just and reasonable.

3.4 The proposed Revenue Deficiency/Surplus Deferral Account does not transfer risk

BCOAPO, on page 4 of its final argument, describes the revised Revenue Deficiency/Surplus Deferral Account proposed by SEUL as providing for “any variance from the levelized rates to be booked to the ratepayers account for later recovery” and alleges that there is “little residual forecast, or other risk to [SEUL] in return for the deemed RoE”. BCOAPO then requests clarification from SEUL in the event that BCOAPO's understanding of the revised Revenue Deficiency/Surplus Deferral Account is not correct.

In reply, SEUL states that the understanding set out in BCOAPO's submission of the proposed Revenue Deficiency/Surplus Deferral Account going forward is not correct.³⁰ Under SEUL's proposal, the purpose of the revised Revenue Deficiency/Surplus Deferral Account is to enable SEUL to implement a levelized rate structure over a ten year period while having the

³⁰ SEUL directs BCOAPO to section 5.1(c) of SEUL's Final Argument.

opportunity to earn a fair and reasonable return.³¹ The BCOAPO's submission referenced above is not correct. Under SEUL's proposals, SEUL bears all the risk that could impact net income over the ten year period covered by the Application, except to the extent that such risks are mitigated by the fixed and variable charges rate design and the limited proposed deferral accounts.³² The proposed use of the Revenue Deficiency/Surplus Deferral Account going forward does not allocate risks at all.

3.5 SEUL's proposal for regulatory oversight is appropriate for a Stream B TES

BCOAPO, at page 3 of its final argument, states that it "cannot support approvals which would, in the absence of any further public review, allow for annual bill increases in excess of 10%". The Strata, at paragraph 14 of its final argument, similarly claims that SEUL "is implementing rate shock to its ratepayers". BCOAPO, at pages 4 and 5 of its final argument, goes on to claim that the level of reporting SEUL has proposed "is not adequate" and that, "when appropriate" (which BCOAPO does not define), stakeholders "could be notified of projected rate changes and be given an opportunity to provide input". BCOAPO takes the position that a mid-term high-level review at the end of year five would be of value to stakeholders.³³ (It is unclear to SEUL exactly what BCOAPO proposes such a review entail).

In reply, SEUL first refers to section 5.1(a) of its final argument, in which SEUL detailed its consideration of the rate setting principle of avoiding "rate shock". SEUL further comments that it has already stated that customers will be informed of changes to rates and rate riders through the notes sections of customer invoices.³⁴ Second, SEUL submits that BCOAPO's recommendation for additional regulatory process, through undefined "public review" or a vague mid-term high-level review, is inconsistent with the rate setting principles the Commission has set for Stream B TES utilities (and, in particular, with the principle that the least amount of regulatory oversight should be used to protect the ratepayers of Stream B TES

³¹ As described in section 5.1(c) of SEUL's Final Argument.

³² Please see sections 5.1(a) (specifically, pp. 9-10) and 5.1(c) of SEUL's Final Argument.

³³ BCOAPO Final Argument at p. 5.

³⁴ SEUL Final Argument at s. 7.2. Also see SEUL's response to BCUC IR 4.2 (Exhibit B-3 and B-3-1).

utilities).³⁵ Third, SEUL refers to its submission on reporting during the ten year period of rates, as set forth in section 7.2 of SEUL's final argument.

3.6 Intervener submissions on the load forecast are not correct

In its Application, SEUL made reference to the fact that SEUL has observed that the Development has an "occupancy rate" of 70% to 80%.³⁶ This caused, and continues to cause, significant confusion amongst the participants in this proceeding. SEUL refers all participants to section 5.4 of its final argument, in which SEUL explains how the "occupancy rate" was determined and reiterates that it was not an input into SEUL's load forecast. Despite SEUL's unequivocal explanation, the Interveners continue to misconstrue the import of the "occupancy rate". For example, at paragraph 21 of its final argument, the Strata states that SEUL has "use[d] such a low occupancy rate in developing rates". SEUL does not want to belabour this point in reply, as SEUL has already carefully addressed this in its final argument, but the Strata's statement is wrong. SEUL has not used any occupancy rate in developing its load forecast or the corresponding rates. SEUL's load forecast is based on recent, historical thermal energy consumption data (adjusted and unadjusted, as necessary).³⁷

The issue that SEUL does, however, wish to respond to with respect to the "occupancy rate" is the suggestion that the load forecast should be increased, by some percentage, to reflect the assumed impact of an arbitrarily increased "occupancy rate". For example, the Strata suggests, at paragraph 22 of its final argument, that SEUL should use a load forecast that is at least 10% higher than what SEUL used in the Financial Model. Further, Mr. Duffy, on page 4 of his final argument, suggests that it would be appropriate for SEUL's model to "mov[e] closer to '100% occupancy'".

³⁵ Please see section 5.1(a) of SEUL's Final Argument for a more detailed discussion of how SEUL has considered the Commission's rate setting principles for Stream B TES utilities in its Application.

³⁶ Please see section 3.4 of SEUL's Application (Exhibit B-1).

³⁷ Please see section 5.4 of SEUL's Final Argument.

Apart from the fact that the submissions of the Strata and Mr. Duffy continue to misunderstand the relationship (or lack thereof) between the “occupancy rate” and the load forecast, neither Intervener has provided any evidence to support their assertion that the load on the SETES going forward will be persistently higher than it was in 2019 following completion of the Development and occupation of all units. In this regard, the Strata and Mr. Duffy provide only anecdotal observations about the capacity of the parkade at the Development, the use of the cars in the parkade, and the level of lights visible at night.³⁸ SEUL replies that most importantly it simply does not matter if SEUL’s observation of “occupancy rate” is underestimated, as SEUL did not develop its forecast using the “occupancy rate” as an input. SEUL again refers participants to section 5.4 of its final argument for further detail on the relationship (or lack of relationship) between SEUL’s load forecast and the “occupancy rate” at the Development.

Mr. Duffy, at page 3 of his final argument, submits that the COVID-19 pandemic has increased the need for home energy services. SEUL refers participants to section 4 of its Application, as well as its responses to BCUC IR 2.9 and 32.1,³⁹ in which SEUL describes its decision not to use actual data from March 2020 to May 2020 in its load forecast due to the uncertainty of the impact of the COVID-19 pandemic on energy consumption, and the expectation that the present impact, if any, will not persist through the ten year period of levelized rates.

3.7 SEUL’s cost forecast is reasonable

Both the Strata and Mr. Duffy assert that SEUL should not be allowed to recover certain of the costs that SEUL has included in its Financial Model. The Strata, in section III of its final argument, takes the general position that SEUL’s costs are “too high and are unreasonable”, referencing, in particular, repair and maintenance costs, the corporate tax rate, and management costs.⁴⁰ Mr. Duffy, on page 6 of his final argument, asserts that the corporate

³⁸ Duffy Final Argument at p. 8; Strata Final Argument at para. 20.

³⁹ Exhibit B-3 (or B-3-1) and Exhibit B-7, respectively.

⁴⁰ Strata Final Argument at paras. 15 and 16. Also see Duffy Final Argument at, for example, pp. 3 and 6.

income tax rate should remain at 27% and that legal fees will be closer to \$10,000 than \$30,000.

SEUL has provided extensive evidence of and submissions on its cost forecast.⁴¹ As such, SEUL will not repeat its position on the reasonableness of all aspects of its cost forecast in this reply. SEUL does, however, wish to reply to the Strata's submission, at paragraph 15 of its final argument, that an overhead allocation of \$3,500 per month of two to four hours per week of WFC staff time "is an excessive amount of time on a long-term basis".

This claim appears to be based on the Strata's submission that "actual operations, maintenance and billing are all outsourced".⁴² In reply, SEUL notes that the Strata's submissions do not provide any indication of what the Commission has previously found reasonable, or unreasonable, for management and administration costs in comparable situations.⁴³ Further, while SEUL does engage contractors to perform billing as well as repairs and maintenance functions, for example, WFC management and administration staff on behalf of SEUL oversee the service providers, periodically reviewing information provided such as reconciliations, dealing with collections, discussing changes to procedures when something is not effective, reviewing maintenance proposals and making decisions about repair and maintenance plans, and providing guidance and support to the conduct of work. WFC staff on behalf of SEUL also file GST returns on a monthly basis, pay invoices, prepare financial statements, file corporate tax returns, prepare and file reports to the Commission and deal with income tax auditors. SEUL submits that it is entirely reasonable to forecast two to four hours of WFC staff time per week to complete these necessary and recurring tasks.

SEUL also wishes to comment on the Strata's submission, at paragraphs 28 and 29 of its final argument, that the Commission should reject SEUL's proposal to recover the balance of the RDA, which balance consists of expenses related to SEUL's (then SWCRA's) first rate application.

⁴¹ Please see section 5.8 of SEUL's Final Argument.

⁴² Strata Final Argument at para. 15.

⁴³ *Ibid.*

The Strata bases this submission on its claim that the first application “was a waste of both money and effort”.⁴⁴

SEUL replies that, first, the matter of the amount to be added to the RDA and recoverability of the RDA balance was determined by the Commission in section 3.2 of the Order G-190-17 Decision.

Second, SEUL draws the Panel’s attention to the Commission’s recent approval of regulatory costs in the Boralex Proceeding. In that proceeding, Boralex requested approval of \$682,000 of regulatory costs incurred over the course of approximately one year.⁴⁵ These regulatory costs included both consulting and legal services in relation to the preparation of Boralex’s application for rates as well as support for defending the application in the Commission’s proceeding.⁴⁶ Despite intervener submissions that the claimed regulatory costs were high for a small utility, the Commission held that that the “regulatory costs of \$682,000 associated with developing the Application and supporting material and Boralex’s participation in the current proceeding [were] reasonable”.⁴⁷

In so finding, the Commission relied on several factors which also apply to the costs in the RDA that SEUL seeks to recover. For example, the Commission recognized that this was Boralex’s first application with the Commission to set the particular rates being sought.⁴⁸ Boralex was, in effect, a new utility learning the regulatory ropes. Similarly, the regulatory costs in the RDA were incurred during a period in which SEUL was a brand new utility, learning its obligations to the Commission and its ratepayers. Like Boralex, SEUL (then SWCRA) did not have the benefit of previous materials and knowledge to rely upon.⁴⁹

⁴⁴ Strata Final Argument at para. 29. Mr. Duffy, at page 7 of his final argument, similarly questions the RDA, asserting that “Shannon rate payers have been burdened with excessive RDA charges, going back to 2016...Why the ratepayer are expected to pay the \$316k accumulated in the RDA seems most [sic].”

⁴⁵ Boralex, *supra* at p. 36.

⁴⁶ *Ibid.*

⁴⁷ *Ibid.*

⁴⁸ *Ibid* at p. 37.

⁴⁹ *Ibid.*

In approving the \$682,000 of Boralex's regulatory costs, the Commission also relied on the fact that Boralex's application covered several complex matters often filed as individual applications by public utilities, including revenue requirements, rate design, and cost of service.⁵⁰ SEUL's application similarly seeks approvals of matters often dealt with through discrete applications, including SEUL's revenue requirements and the appropriate rate design for the SETES.

For these reasons, and the reasons set out in section 6.1 of SEUL's final argument, it is just and reasonable for SEUL to recover the full balance of the RDA.

3.8 Levelization of rates over 20 years does not achieve SEUL's rate setting goals

The Strata, at paragraph 25 of its final argument, submits that "it would be more appropriate to levelize costs over a 20-year period" rather than the ten-year period over which SEUL proposes to levelize the SETES rates. Mr. Duffy, at page 4 of his final argument, submits that any rate application for the Development "requires an economic model that incorporates the full life cycle of the assets, and should be no less than 20 years and perhaps even longer". The Strata, at paragraph 27 of its final argument, further submits that the risk created by levelizing rates over 20 years can be "dealt with through deferral accounts and rate riders, or by re-adjusting rates periodically based on actual results."

In reply, SEUL submits that the submissions of the Strata and Mr. Duffy are not consistent, and are in fact inconsistent, with the objective of establishing rates under which the balance of the Revenue Deficiency/Surplus Deferral Account does not get too high at any point over the period for which rate approval is sought.⁵¹ The levelization of rates over 20 years, rather than ten years, significantly extends the period over which rates are inadequate. Under this scenario, the balance in the Revenue Deficiency/Surplus Deferral Account will increase to a balance that places a disproportionately high burden on SEUL. (See, for example, SEUL's response to Strata

⁵⁰ Boralex, *supra* at p. 37.

⁵¹ Please see section 5.1(c) of SEUL's Final Argument for a discussion on SEUL's management of the balance of the Revenue Deficiency/Surplus Deferral Account.

IR 20.1.6,⁵² in which SEUL modeled the levelization of rates over 20 years, rather than ten years, with rates increasing by 2% each year and with a balance in the Revenue Deficiency/Surplus Deferral Account equal or close to zero by Year 20. In this scenario, the balance in the Revenue Deficiency/Surplus Deferral Account increases to \$1,382,452 at the end of Year 11 – a balance that is over four times greater than the maximum balance under SEUL’s Financial Model).

Further, the suggestion in the Strata’s submission that the increased risk from levelizing rates over a 20 year period be dealt with through deferral accounts or periodic rate adjustments is contrary to the Commission’s principles for Stream B TES utilities that such utilities use the least number of deferral mechanisms possible and the least amount of regulatory oversight needed to protect the ratepayer. As the Strata submission demonstrates, levelizing SEUL’s rates over a 20 year period would increase risks for both SEUL and ratepayers, warranting additional deferral accounts and regulatory proceedings.

Finally, the suggestion that rates be levelized over 20 years raises a new issue that has largely not been included in SEUL’s Application or reviewed in this proceeding – capital replacements. As set out in the Financial Model, the first capital replacement for the SETES is scheduled to occur in Year 9, with the majority of the capital replacements scheduled to occur after Year 10. Extending the levelization to 20 years will necessarily mean setting rates based on capital replacement forecasts over the course of 20 years. There would be inherent uncertainty in SEUL forecasting revenue requirement impacts of its first ever round of major capital replacements beginning ten years out, triggering a need for more comprehensive deferral account treatment (again inconsistent with the Commission’s rate setting principles for a Stream B TES).

3.9 Rate structure must balance the level of fixed charges with other considerations

The Strata takes issue with the split that SEUL has proposed between the fixed and variable components of its rate structure, submitting that the “fixed rate [component of SEUL’s rate

⁵² Exhibit B-6.

structure] should be adjusted to move closer to the actual fixed costs of over 70 percent.”⁵³ The Strata asserts that the structure SEUL has presented results in unoccupied units not paying their fair share of costs, creates a potential for excess profits for SEUL, and sends the wrong price signal to customers in terms of energy usage versus variable costs.⁵⁴

SEUL agrees with the Strata’s submission that it is, absent other considerations, preferable for a utility to have a fixed rate component set at a percentage more closely aligned with the percentage of a utility’s costs that are fixed. SEUL is not strictly opposed to the Commission increasing the proposed fixed charge to affect a decrease to the variable charge (and, as SEUL has stated on many occasions,⁵⁵ SEUL does not suggest that the 40/60 split between fixed and variable charges is the only reasonable split). SEUL notes, however, that a rate structure that recovers a higher proportion of costs through variable, rather than fixed costs, allows SEUL’s ratepayers to see a greater bill impact by reducing their energy consumption, furthering the Province’s and the City of Vancouver’s energy goals.

SEUL also notes that the Interveners oppose SEUL’s proposal to nominally move the monthly metering charge into the variable rate component, as described by SEUL in section 5.6 of its final argument. While SEUL has emphasized the simplicity such a change adds to a customer’s invoice,⁵⁶ SEUL also notes that leaving the monthly metering charge as a standalone fixed charge will increase the proportion of fixed charges relative to variable charges. As noted directly above, SEUL does not suggest that its proposed 40/60 split is the only reasonable split but notes the above advantage that a higher proportion of variable costs gives to ratepayers.

⁵³ Strata Final Argument at para. 44.

⁵⁴ *Ibid* para. 40.

⁵⁵ See, for example, section 5.3 of SEUL’s Final Argument as well as SEUL’s responses to BCUC IR 35.1 and 35.2 (Exhibit B-7).

⁵⁶ See sections 5.3(f) of SEUL’s Application.

3.10 Corporate reorganization and customer complaint costs not passed on to ratepayers

In his final argument, Mr. Duffy claims that “SEUL has charged costs associated with the corporate re-organization of SETES into SEUL to the ratepayers”.⁵⁷ In reply, SEUL refers participants to SEUL’s response to Mr. Duffy’s IR-2 5.0,⁵⁸ in which SEUL explained that the costs of the corporate re-organization have not been recovered from SEUL’s customers.

Mr. Duffy also questions why ratepayers should be held responsible for the charges incurred to respond to his complaint regarding measurement of DHW usage.⁵⁹ SEUL refers participants to SEUL’s response to Mr. Duffy’s IR-2 5.0,⁶⁰ in which SEUL explained that, to date, SEUL’s rates have been pegged to the rates of the Southeast False Creek Neighbourhood Energy Utility and are not based on, nor have they been increased on account of, costs that SEUL has incurred. As noted in section 6.2 of the Application and section 4 of SEUL’s final argument, SEUL has decided to write-off the balance of the Revenue Deficiency/Surplus Deferral Account up to January 31, 2021 and is not seeking recovery of this balance from customers.

Finally, Mr. Duffy, at page 2 of his final argument, claims that “there were unreported revenues to SEUL for almost two- and one-half years prior to the installation of the [meter installed at the Mansion swimming pool].” SEUL refers participants to its response to Mr. Duffy’s IR-2 7.0,⁶¹ in which SEUL explained that QMC first issued an invoice in relation to the swimming pool to the applicable strata corporation in July 2019 for the period of June 2018 to July 2019. QMC has subsequently been issuing invoices on a monthly basis. For the same reasons as set out directly above, this matter has had no impact on the rates SEUL has charged to customers.

⁵⁷ Duffy Final Argument at p. 5.

⁵⁸ Exhibit B-9.

⁵⁹ Duffy Final Argument at p. 2.

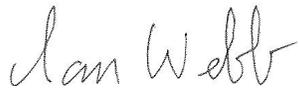
⁶⁰ Exhibit B-9.

⁶¹ *Ibid.*

4. Conclusion

For the reasons set out in its final argument dated October 29, 2020 and in these reply submissions, SEUL submits that the proposals in the Application, as revised in the final argument, are just and reasonable.

All of which is respectfully submitted this 5th day of November 2020.



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