

IN THE MATTER OF

The *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Corix Multi-Utility Services Inc.

Application regarding the Corporate Cost Allocation Methodology

for Corix Multi-Utility Services Inc.

Corix Multi-Utility Services Inc.

SUPPLEMENTAL FINAL ARGUMENT

Submitted 10 November 2020

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I. INTRODUCTION

1. On June 5, 2020, Corix Multi-Utility Services Inc. ("**Corix**") submitted an application to the British Columbia Utilities Commission ("**BCUC**") for approval under sections 59 and 60 of the *Utilities Commission Act* ("**UCA**") of:
 - i. A methodology for allocating corporate costs to its utility operations;
 - ii. The creation of a deferral account for Corix to capture the costs associated with the regulatory review of this application; and
 - iii. the subsequent allocation of the final balance in the regulatory cost deferral account, as per request number 2 above, to individual deferral accounts created for each of the utilities regulated by the BCUC, by using the Composite Allocator ("**Application**").
2. 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**").¹ This Application seeks the approval of the methodology used to allocate corporate costs incurred by CII in the provision of service to its subsidiaries.
3. On November 2, 2020, the Panel issued Order G-276-20 which established further regulatory process, including a Panel information request ("**IR**") and supplemental arguments.
4. In accordance with G-276-20, Corix provides this Supplemental Final Argument that only addresses questions raised in the Panel IR² dated November 4, 2020.

II. INDIRECT CORPORATE COSTS PRESENTED IN THE PROCEEDING

5. Corix submits that its responses to the Panel IRs provide additional clarity on indirect costs and directly assignable costs. However, Corix considers it important to reiterate the following points.
6. As stated in the Application, indirect costs are costs that are incurred by the parent or shared services affiliate that are for the benefit of several companies and are not directly assignable to any particular business unit's activity or operation.³ Directly Assignable costs are directly associated with an activity or operation for a particular business unit and can be identified with a specific service or product. Any corporate cost that is incurred and is directly assignable to a specific business unit is charged to that specific business unit using expense reports and job sheets. Any corporate costs that remain are not

¹ Exhibit B-1, Application, Section 2.2, pp. 6-7.

² Exhibit A-9, Panel IR No. 1.

³ Exhibit B-1, Application, Section 3.2, p. 13.

directly assignable and are therefore indirect costs, which must be allocated to the relevant utilities using the proposed corporate cost allocation methodology.

7. Proposals in this Application address the allocation of indirect corporate costs. The indicative corporate cost forecasts presented throughout the Application⁴ are all indirect corporate costs that are determined irrespective of the corporate cost allocation methodology.

III. IMPACT OF THE BURNABY MOUNTAIN DISTRICT ENERGY UTILITY

8. The following paragraphs speak to questions raised by the Panel on the impact of the Burnaby Mountain District Energy Utility's ("**BMDEU**") new central energy plant⁵ to the indirect corporate costs and the Composite Allocators used to allocate these corporate costs.
9. Costs directly associated with specific projects are more likely to be incurred at the regional level (for example Energy Services Canada⁶) or directly at the business unit level, than at the corporate level. Corporate costs are incurred to provide a wide variety of necessary services⁷ to all or large portions of CII affiliates. As such, the indicative corporate costs remain stable from year to year⁸, unimpacted by significant capital additions at its affiliate utility operations, such as BMDEU's new central energy plant.
10. Once accounted for, the significant capital addition of the BMDEU's new central energy plant has a direct impact to (i) Gross Revenue; (ii) Gross Property, Plant and Equipment ("**PPE**"), and (iii) Headcount⁹, the three inputs used to calculate the Composite Allocators which are then used to allocate corporate costs.
11. Corix's response to BCUC Panel IR No. 1, questions 1.5 and 1.5.1 provide detailed information on the impact of the BMDEU's new central energy plant to the Composite Allocators for BMDEU – UniverCity and BMDEU – SFU. The information in tables 1 through 6 shows that before the application of Known and Measurable Changes, there is no change in the Composite Allocators from year to year. Therefore, when combined with relatively stable corporate costs¹⁰ the Composite Allocators would yield a relatively stable corporate cost allocation for the indicative years presented in the Application.
12. However, Corix submits that it would be unjust, unreasonable and unduly preferential of Corix to allocate corporate costs to CII utilities in 2021 while ignoring the significant capital addition and

⁴ Exhibit B-1-1, Confidential Application, Confidential Appendix A, "CII" Column, pp. 1-3.

⁵ Approved through BCUC Order C-5-17.

⁶ Exhibit B-1, Application, Section 3.1, pp. 11-12.

⁷ Exhibit B-1, Application, Section 3.1, pp. 10-12.

⁸ Corix Response to BCUC Panel IR No. 1, Question 1.3.1.

⁹ Exhibit B-1, Section 3.2, pp. 14-15.

¹⁰ Corix Response to BCUC Panel IR No. 1, Question 1.3.1.

associated revenue and incremental headcount of the BMDEU central energy plant, approved through BCUC Order C-5-17.

13. Composite Allocators used to forecast the following year's corporate cost allocations are calculated based on the inputs at June 30th of the current year. This date was chosen as the reference point in order to balance the need to incorporate the most recent actuals with the risk of causing delays to CII's annual budgeting process.¹¹ Known and Measurable Changes for Approved Major Capital Projects will address the situation where major capital projects previously approved by the regulator are reasonably certain to be completed and to start providing service to customers after the June 30th cut-off in the current year (during the last 6 months of the year).¹²
14. As presented in Table 7 in Corix's response to the BCUC Panel IR No. 1, the total BMDEU's indicative Gross PPE before accounting for the new central energy plant would be \$8.4 million at June 30, 2021, all originating from BMDEU-UniverCity. However, total figure increases to \$48.5 million at June 30, 2021 once Corix accounts for the new central energy plant using the Known and Measurable Changes described in Section 3.5 of the Application^{13, 14}. This is an increase of approximately 5.8 times or 480%.
15. The Known and Measurable Changes account for the 6-month gap between the June 30th reference point for the inputs and the end of the year. If a later date was used as the reference point, for example December 31st, then the inputs would account for BMDEU's new central energy plant and Gross PPE would be \$48.5 million without any adjustments due to Known and Measurable Changes.
16. In a similar manner, the incorporation of Known and Measurable Changes would lead to:
 - An increase to the Gross Revenue input of approximately 4 times or 300% from \$1.3 million to \$5.1 million for June 30, 2021 ¹⁵; and
 - The incorporation of 5 additional headcount into the Corporate Cost Allocation Model. ¹⁶
17. While corporate costs are allocated separately to BMDEU-UniverCity and BMDEU-SFU, the above figures provide an indication of the magnitude of the capital addition, incremental revenue and headcount, relative to that which previously existed at Burnaby Mountain.
18. Corix reiterates that the indicative changes in the Composite Allocators¹⁷ are driven by changes in the Gross Revenue, Gross PPE and Headcount inputs. The year-over-year increase in corporate cost allocations to BMDEU-UniverCity and BMDEU-SFU are reflected through higher Composite

¹¹ Exhibit B-1, Application, Section 3.4, p. 17.

¹² Exhibit B-1, Application, Section 3.5, pp. 19-20.

¹³ Exhibit B-1, Application, Section 3.5, pp. 18-20.

¹⁴ Corix Response to BCUC Panel IR No. 1, Question 1.5.1.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Corix Response to BCUC Panel IR No. 1, Question 1.5.

Allocators, which are being driven by the Gross Revenue, Gross PPE and Headcount that appropriately account for the new central energy plant.

IV. DIRECTIONAL IMPACT OF USING NET PPE INSTEAD OF GROSS PPE

19. For the reasons provided in paragraphs 5 through 14 of Corix's Reply Argument, Gross PPE was chosen as an input to the Corporate CAM. Net PPE was considered but was found to be inappropriate for the reasons provided in paragraphs 12 through 14 of Corix's Reply Argument.
20. Since Net PPE is not used in the Corporate CAM, this data is not compiled in a form that can readily be used to conduct a scenario analysis. As a result, Corix is unable to provide the indicative corporate cost allocations if Net PPE was used in place of Gross PPE as requested in the Panel IR.
21. Corix provided a qualitative analysis of the directional impact of using Net PPE versus Gross PPE as one of the inputs to the Composite Allocators in the Corporate CAM. Directionally, if Net PPE was used in place of Gross PPE this would result in a:
 - shift in allocations away from older utilities to newer utilities due to their relative levels of accumulated depreciation;
 - shift in allocations away from utilities that have secured Contributions in Aid of Construction ("**CIACs**");
 - shift in allocations away from utilities acquired at a discount to the seller's asset net book value; and
 - significantly reduce allocations to utilities acquired by Corix for \$1, as the Composite Allocator for these utilities would essentially have a zero-weighted PPE input.
22. Corix's BCUC-regulated utilities would be burdened with an increase in their Corporate Cost Allocation if Net PPE was used instead of Gross PPE, as the corporate cost allocations would shift away from the older utilities with higher levels of accumulated depreciation and/or CIACs and utilities acquired at a discount to the seller's net book value, towards newer utilities with limited accumulated depreciation and CIACs, and/or significant recent capital investments (for example Corix's BMDEU). This increased cost allocation to greenfield utilities would result in unreasonable costs being allocated to the small customer base typically associated with the early years of greenfield utility operations.
23. As it has done in the past, CII continues to acquire bargain acquisition utilities. If Net PP&E were used in the Massachusetts Formula, these bargain acquisition utilities would be allocated significantly less indirect Corporate Costs, which would instead be allocated to other CII utilities with Net PP&E.

V. CONCLUSION

24. The evidentiary record which includes the Application and Corix responses to two rounds of information requests and a Panel IR, provides a comprehensive record that addresses all matters raised in the proceeding. This Supplemental Final Argument addresses the key topics raised in the Panel IR. The evidence shows that Corix's requests are fair, just and reasonable and not unduly discriminatory.
25. Considering all of the above, Corix submits that the requests in Section 1.3, on page 2, of Corix's Application warrant approval by the BCUC.

Langley, BC

November 10, 2020

All of which is respectfully submitted.

A handwritten signature in black ink, appearing to read 'Errol South', followed by a long horizontal line extending to the right.

Errol South
Senior Regulatory & Financial Analyst