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April 18, 2018

VIA ELECTRONIC MAIL

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Attention: Patrick Wruck, Commission Secretary and Manager, Regulatory Support

Dear Sirs/Mesdames:

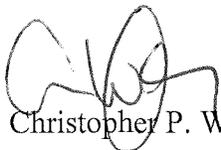
Re: Creative Energy Vancouver Platforms 2018 – 2012 Revenue Requirements ~ Project No. 1598938 – Submissions on Scope of Information Requests

We are counsel to the Commercial Energy Consumers Association of British Columbia (the “CEC”). Attached please find the CEC’s Submissions on the scope of Information Requests.

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

Yours truly,

OWEN BIRD LAW CORPORATION



Christopher P. Weafer

CPW/jj
 cc: CEC
 cc: Creative Energy
 cc: Registered Interveners

**COMMERCIAL ENERGY CONSUMERS
ASSOCIATION OF BRITISH COLUMBIA**

SUBMISSIONS ON SCOPE OF INFORMATION REQUESTS

**Creative Energy Vancouver Platforms Inc. 2018-2022 Revenue Requirements
Application - Project No. 1598938**

April 18, 2018

Commercial Energy Consumers Association of British Columbia

**Creative Energy Vancouver Platforms Inc. 2018-2022 Revenue Requirements Application -
Project No. 1598938**

Submissions on Scope of Information Requests

April 18, 2018

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**COMMERCIAL ENERGY CONSUMERS ASSOCIATION
OF BRITISH COLUMBIA**

Submissions on Scope of Information Requests

**Creative Energy Vancouver Platforms Inc. 2018-2022 Revenue Requirements Application -
Project No. 1598938**

On March 26, 2018 Creative Energy Vancouver Platforms Inc. (“Creative Energy”) issued a letter identifying concerns with the certain Information Requests provided by the Commercial Energy Consumers Association of BC (the “CEC”) and others with regard to its 2018-2022 Revenue Requirements application.

By letters dated April 3, 2018 and April 4, 2018 the BC Utilities Commission (the “Commission” or “BCUC”) issued a Request for Submissions on Scope of Information Requests.

In particular the Commission identified that the scope of this proceeding would include, but not necessarily be restricted to, the following areas/issues:¹ (underlining in original):

- Evidence to determine the appropriate “base” for operating & maintenance (“O&M”) and capital expenses;
- Evidence as to the reasonableness of utilizing an IBR mechanism, including why IBR is more appropriate than the status quo approach of Cost of Service;
- Whether the design of the IBR as proposed by Creative Energy is appropriate and protects the interests of ratepayers and the utility, or whether modifications are required; and
- The overall impact to ratepayers of moving to an IBR mechanism, including whether both the interests of ratepayers and the utility are sufficiently safeguarded.

The Commission also requested interveners to provide written submissions with supporting rationale on whether the IRs specifically identified by Creative Energy in its March 26, 2018 letter should be considered as falling within the scope of the proceeding as set out above. In particular the Panel requested CEC to consider and explain the necessity of its requests regarding historical information spanning ten years or more and how data reaching this far back in time would be of probative value for determining the appropriateness of present day or future forecasts. Creative Energy expresses concerns with 27 of the CEC information requests. Creative Energy indicates that they will respond to 2 of those identified.

The Commission also requested interveners to consider whether any of their IRs could be modified to reduce the breadth of information requested.

The CEC provides the following submissions in response to the Commission request.

¹ NB: A-7, underlining included as part of amended letter

INTRODUCTION

1. Cost of Service ratemaking has been the foundation of Creative Energy's, and previously Central Heat's ratemaking for many years.
2. We have until recently had no reason to expect that this would change, nor in fact even be of concern.
3. Creative Energy references its small size as reason to move away from Cost of Service ratemaking.²
4. The CEC does not consider utility 'size' to be of particular relevance in the appropriateness of formulaic rate-setting; Cost of Service ratemaking can be conducted cost effectively if the utility is managed transparently, consistently and cost-effectively, perhaps even more so if done in smaller utilities.
5. The CEC does not consider Cost of Service regulation to be, by necessity, overly costly or unnecessarily burdensome, but rather is heavily influenced by the quality of the utility's applications.
6. The CEC submits that there is a long history of cost effective Cost of Service regulation under Central Heat ownership. To the extent this has changed under Creative Energy, there is greater requirement for review of what has changed under the Creative Energy administration.
7. A key intention of regulation is to provide ratepayer protection from monopoly power. Cost of Service regulation has provided that ratepayer protection to date. The CEC submits that benefits should be enjoyed by the ratepayers for any transition away from Cost of Service.
8. The CEC notes that Creative Energy undertook, on its own volition, to request a form of ratemaking that is untested, has no jurisdictional basis, has no Cost of Service comparators and provides a significant reduction in oversight with no ratepayer recourse.
9. This occurs within a very short period following its purchase, significant changes to its business, increases in costs, the expansion into new district energy systems and other upheavals.
10. The CEC submits that Creative Energy should reasonably expect to answer a substantial number of questions from ratepayers and the Commission and other parties seeking to understand the potential costs and benefits of such a proposal.
11. It is the CEC's preliminary view that Creative Energy's Application is flawed and may not be in ratepayers' interests. Certainly, at this point there is insufficient evidence to support the proposal.

² B-1, page 1

12. The CEC notes Creative Energy's contradictory submissions that underlie its proposal. Creative Energy claims it needs to focus on the business due to all the recent environmental changes in order to benefit ratepayers, and then spends time justifying its proposed lack of oversight, or potential for cost changes, based on the stability of the business.

Creative Energy's policy and business environment has changed considerably in the past few years. In the long-term, there will be considerably more value to customers if employees have an opportunity to focus on customers service issues and growth opportunities than spending time in regulatory processes. In short, there is a direct benefit to customers related to having the utility employees focus on managing the business rather than the regulatory process. This is especially true in a small utility.³

And

Moving to a five-year application period rather than two or three years would allow more time to be focused on streamlining operations and improving customer service.⁴

And

As noted above, the Company does not expect to achieve meaningful operating efficiencies and is not proposing the IBR in order to provide an incentive to achieve operating efficiencies. Moreover, the Company does not expect customer growth that will result in earnings that deviate in a meaningful way from the levels of earnings associated with the approved ROE.

The reasons outlined in the X-factor paragraph apply to this scenario as well; Creative Energy is a 50-year-old system that has reached steady state. Operations and Maintenance costs are not expected to fluctuate significantly, and if anything, they will increase due to the replacement of equipment as the system ages further. It is unlikely that there is any cost savings to be found in the O&M budget, and therefore a low probability of unexpected overall savings.⁵

13. Creative Energy argues it is facing significant competitive pressure to retain customers.
14. The CEC does not agree that Creative Energy is necessarily facing competitive pressures to retain customers.⁶
15. The CEC considers that proper regulation is necessary for ratepayer protection from utility abuse.

³ B-1, page 2

⁴ B-1 page 3

⁵ B-1, page 13

⁶ B-1, page 1

16. The CEC submits that if Creative Energy is to be awarded a formulaic regulation such as that proposed it should be willing and able to prove the benefits and the appropriateness of such a methodology; which the CEC submits it has not done anywhere close to sufficiently.
17. The CEC provides the following summary table identifying Creative Energy’s key issues and a high level CEC response. Further discussion regarding the individual IRs follows the table.

Creative Energy Concern	CEC High Level Response	CEC Information Request Number
<p>Unrelated to Identified Areas/Issues and is specific to Cost of Service. (7 IRs)</p>	<p>The Commission scope is explicitly NOT⁷ limited to the identified areas/issues and the IRs should not be considered out of scope on that basis.</p> <p>Cost of Service information is the foundation for utility and monopoly regulation and represents the highest standard as well as the status quo regulation. Comparing the proposal to Cost of Service is highly relevant in a determination of the value and potential impacts of moving from Cost of Service ratemaking to formulaic ratemaking.</p> <p>The CEC considers all its IRs related to Cost of Service to have probative value, as well as those of FEI and BCOAPO.</p>	<p>1.4.7; 1.10.3; 1.12.2; 1.12.3; 1.12.4; 1.12.5;1.12.6</p>
<p>Unreasonable amount of historical information; generally with limited or no probative value (11 IRs)</p>	<p>Creative Energy’s proposal requires a full analysis to ensure ratepayer protection. A fair formula presumes that there is a stable trend of cost-effective management that will be continued into the future and can be reasonably captured by the formula; it must not be established on an overly high base, or other improper costs and must be relied upon to change with the parameters selected for the rate change factors.</p> <p>Information related to historical trends is necessary in order to determine whether the formula is established on a cost-effective base, and whether or not recent changes have significantly influenced the starting point or trajectory of costs that will be used to provide formulaic rates and ultimately the impacts that accrue to ratepayers.</p>	<p>1.4.8; 1.5.2; 1.6.2; 1.6.3; 1.14.2; 1.23.2; 1.26.1; 1.34.1; 1.34.5; 1.41.1</p>

⁷ A-7

	<p>Creative Energy acquired Central Heat approximately 5 years ago which has resulted in significant upheaval, cost changes and rate increases although they contend it is now in a stable state in order to justify the significant reduction in oversight. The CEC considers that long-term trend information is crucial to ensure that the mechanism that does not reflect only recent history, but also provides for the benefits customers received under Central Heat. The CEC has identified any areas it believes could be reduced from an information breadth perspective.</p>	
Others	The CEC considers its IRs to provide probative value	

IRS UNRELATED TO IDENTIFIED AREAS/ISSUES AND IS SPECIFIC TO COST OF SERVICE

18. The statements below are provided in response to the Creative Energy’s concerns regarding the following Information Requests:

CEC IRs 1.4.7; 1.10.3; 1.12.2; 1.12.3; 1.12.4; 1.12.5;1.12.6

FEI IRs 1.2.1.3; 1.2.1.3.1

BCOAPO IR 1.11

19. As noted in the CEC’s initial statements the Commission did not limit the scope of the Information Requests to the areas/issued identified.

20. The CEC submits that information related to Cost of Service is not only within scope but is necessary to a proper review of the application.

21. In its RRA application Creative Energy seeks approval of a Multi-Year Index Based Ratemaking (“IBR”) mechanism for the years 2018-2022. The proposal represents a significant departure from its current and long-standing history of Cost of Service (“COS”) regulation.

22. In fact, Creative Energy states that their main objective in the application is:

‘to establish a mechanism for rate-setting purposes other than Cost of Service regulation.’⁸

23. Creative Energy proposes to replace COS regulation with a formula based on various indices and virtually no meaningful ratepayer protection but introduces significant ratepayer risks.

⁸ B-1, page 1

24. Creative Energy's new IBR methodology provides for very limited oversight, no service quality indicators, no benefit mechanisms, no annual or mid-term reviews, no assurance of rate fairness nor any apparent significant benefits to ratepayers other than 'predictability and rate stability' which may be unfair based on cost causation principles. At best, Creative Energy makes vague comments regarding the possibility of lower rate increases than that provided under Cost of Service and loose general statements as to the benefits ratepayers will receive if the utility focuses on aspects of the business rather than regulation.⁹ The proposal has no evident basis in other jurisdictions but appears to be derived from Creative Energy's own theories as to how it would like to be regulated.
25. Creative Energy claims that its business is stable. However the CEC notes that Creative Energy has undertaken several significant new projects such as the Northeast False Creek neighbourhood energy system ("NEFC") which are not related to the provision of steam heat to core customers and could potentially result in cross subsidization of labour to the detriment of steam heat core customers.
26. The CEC submits that tried and true ratemaking methodologies with worldwide acceptance should not be dismissed out of hand based on utility preference. Rather, Cost of Service regulation should be considered as the gold standard in the trade-off of the utility's monopolistic position and fairness to ratepayers.
27. The CEC submits that such a significant change in methodology requires careful scrutiny and should not be approved on the basis of the utility in question's theories alone.
28. The CEC submits that evidence related to Cost of Service is necessary as evaluating the status quo and generally best alternative and is highly probative in the assessment of this application.
29. Creative Energy states that it:

'has not provided Cost of Service forecasts with (this) Application, given the Company's commitment that rate increases for five years will not exceed inflation, and given the rates are based on 2017 approved revenue requirements.'¹⁰
30. The CEC does not consider this to be adequate justification. The CEC is aware of no regulatory edict that entitles a utility to annual, inflationary rate increases on a previously approved revenue requirement under any and every circumstance.
31. Rather, the CEC submits that a requirement for careful review by the BCUC is established in the *Utilities Commission Act*. Under Section 24 the Commission must make examination and inquiries necessary to keep itself informed about:
 - a) the conduct of public utility business;

⁹ B-1, page 2

¹⁰ B-1, page 2

- b) compliance by public utilities with this Act, regulations or any other law; and
 - c) any other matter in the commission's jurisdiction.
32. The CEC considers that it is unlikely that Creative Energy would undertake to move to IBR formulaic ratemaking if it did not believe it would be in its shareholders' interests, and thus at ratepayers' expense. The CEC notes that while dismissing its opportunity to increase load, Creative Energy nonetheless preserves to itself the benefits of exceeding the load forecast.¹¹
33. As noted in Commission Letter A-6:
- ‘...the Panel ultimately needs to determine if an IBR approach is appropriate, and given Creative Energy’s regulatory history, if such an approach is more appropriate than the status quo approach of Cost of Service ratemaking’.
34. The CEC submits that from a ratepayer perspective a prudent evaluation of a new ratemaking process by necessity must examine the status quo as an alternative.
35. The CEC submits that a comparison to Cost of Service ratemaking should be identified as not only within scope and probative, but fundamental to the Commission’s determination as to the appropriateness of departing from COS ratemaking.
36. The CEC submits that the CEC IRs 1.4.7; 1.10.3; 1.12.2; 1.12.3; 1.12.4; 1.12.5;1.12.6 will contribute to the body of evidence necessary for the Commission’s determination and should be considered to be within the appropriate scope of this proceeding.
37. The CEC notes that Creative Energy has identified 3 additional IRs from other interveners as being similarly specific to Cost of Service. The CEC has reviewed these IRs and also considers them to be appropriately within scope and to have probative value.
38. The CEC recommends that the Commission require Creative Energy to respond to all Information Requests related to Cost of Service as part of its overall response to Information Requests.

UNREASONABLE AMOUNT OF HISTORICAL INFORMATION; GENERALLY WITH LIMITED OR NO PROBATIVE VALUE

(CEC IRs 1.4.8; 1.5.2; 1.6.2; 1.6.3; 1.14.2; 1.23.2; 1.26.1; 1.34.1; 1.34.5; 1.41.1)

39. Creative Energy identifies 11 CEC IRs which it deems to require an unreasonable amount of historical information, some of which it considers is unlikely to be available. Further, it argues there is limited probative value.

¹¹ B-1, page 17

40. The CEC's view is that Creative Energy's unusual proposal requires a full analysis based on historical evidence in order to properly assess the costs and benefits.
41. Regulation must do a reasonable job of protecting ratepayers, and formulaic rate-setting should not be unfair or detrimental to ratepayers.
42. The CEC submits that fairness in formulaic ratemaking presumes:
 - a) long-term consistency of very cost-effective management that can be relied upon to continue into the future;
 - b) the ability to capably capture that consistent cost effectiveness with a formula; and
 - c) accurately identified cost changes that will necessarily occur with the changes in the parameters selected for the rate change factors.
43. These factors can only be identified and judged based on historical information. The Creative Energy application is flawed in providing inadequate historical support for its proposals.
44. Similarly, a formula base year should not be established on an overly high base, or other improper costs as it must be relied upon to be cost effective.
45. Creative Energy acquired Central Heat approximately 5 years ago which has resulted in significant upheaval, cost changes and rate increases although they contend it is now in a stable state in order to justify the significant reduction of oversight. The CEC does not consider Creative Energy to be stable.
46. The CEC considers that long-term trend information is crucial to prudent decision-making regarding the appropriateness of Creative Energy's proposed formula-based regulation.
47. Confidence from ratepayers presumes trust in the underlying cost-effectiveness of the utility, trust in the stability of behaviour and service provisions, trust in the accuracy and continued influence of the metrics used to adjust revenue requirements and a clear understanding of how costs are affected by circumstances. The CEC submits that evidence of these factors are not only absent from this application, but are proposed to be withheld by Creative Energy.
48. The CEC submits that an expectation of continued cost stability is only to be determined through trend analysis.
49. To the extent that formulaic ratemaking has a benefit, it is only of value to the ratepayer if it can be derived in such a way that ultimately improves the benefit/cost ratio to ratepayers. Creative Energy has not established adequate evidence to support any such proposition.

CEC INFORMATION REQUESTS

CEC 1.4.8 Historical costs of application over the last 5 years by month

50. Creative Energy's application suggests that the regulatory process is overly costly and time consuming for a small utility.¹²
51. The CEC submits the Commission should see evidence to determine the accuracy of this contention.
52. The CEC considers that Cost of Service ratemaking does not need to be overly onerous for a small utility that is well-managed; and the CEC's expectation is that this was the case prior to the purchase of Central Heat by Creative Energy approximately 5 years ago.
53. The CEC submits that there is the possibility that regulatory costs have arisen not as a result of steam heat core customer service, but as a result of Creative Energy pursuing other projects that should not be subsidized by Creative Energy core customers.
54. The CEC requires historical evidence to determine if Creative Energy is essentially the author of its own ratemaking costs and concerns which should not be delivered upon its core customer ratepayers who would otherwise benefit from cost-effective management and standard regulation.
55. The CEC submits the Commission should have an understanding of the timing of Creative Energy's regulatory costs to determine if they are directly related to the Cost of Service Regulatory Requirements applications or if they are more likely a result of other regulatory activities undertaken by the utility but unrelated to Cost of Service ratemaking. Transition to IBR would have no impact on regulatory costs that are not related to Cost of Service RRAs.
56. The CEC recommends that the Commission direct Creative Energy to respond to this information request as part of its overall response to Information Requests.

CEC 1.5.2; 1.5.4; 1.5.6 (Historical labour costs (10 years) plus key terms and comparison to existing labour rates)

57. Creative Energy is renewing its collective bargaining agreement ("CBA") and proposes to receive inflationary based increases in its Revenue Requirements.
58. Creative Energy indicates that it has now agreed to a new CBA which will be filed on the record.
59. The CEC requires an understanding of the fairness of the new CBA from a ratepayers' perspective to determine fairness of the regulatory requirements, and further the likely trend in future increases.

¹² B-1 pages 1-2

60. The CEC requires historical information to understand if the costs of labour are at a high point and/or are reasonable, if they have increased with inflation; and if they are likely to increase with inflation over the proposed 5 year term.
61. The CEC recommends that the Commission direct Creative Energy to respond to this information request as part of its overall response to Information Requests.

CEC 1.6.1 Historical rates and revenue requirements (20 years)

62. Creative Energy states that it hopes to ‘restore consistent, stable rates to customers for a five year period’ with the Multi-Year IBR mechanism. Creative Energy also points out that it has received several customer calls regarding rate increases.¹³ The implication is that Cost of Service ratemaking could not provide consistent stable rates, whereas the IBR proposal will offer an improvement and customers can plan with more certainty.
63. The CEC considers that Cost of Service ratemaking can and did provide for many years, consistent stable rates for steam service customers at a reasonable cost to customers. To the extent that Creative Energy anticipates stable activities and provides reasonable access to information over the next 5 years, the CEC believes there is no reason why rates and revenue requirements would fluctuate or rise significantly under Cost of Service ratemaking.
64. Creative Energy states that:

Creative Energy is a 50-year-old system that has reached steady state. Operations and Maintenance costs are not expected to fluctuate significantly, and if anything, they will increase due to the replacement of equipment as the system ages further. It is unlikely that there is any cost savings to be found in the O&M budget, and therefore a low probability of unexpected overall savings. There is also a low probability of new customers connecting to our system and therefore a low probability of unexpected overall savings.¹⁴
65. Cost of Service ratemaking should be a fairly simple matter under such conditions.
66. The CEC requires long term historical information for the revenue requirements and rates in order to determine if Cost of Service ratemaking has resulted in widely fluctuating rates and unacceptable rate increases, or if such issues are a function of the activities undertaken by Creative Energy’s new owners, their approach to regulation and/or their approach to changing their business.
67. To the extent that Cost of Service ratemaking is in and of itself is shown to be reasonably cost effective and does not result in unstable rates Creative Energy’s justification for IBR rate-setting is not necessarily valid.

¹³ B-1, page 3

¹⁴ B-1, page 13

68. To the extent that Creative Energy has introduced significant cost increases without commensurate benefits to its ratepayers over the last several years, the CEC submits that there may be significant justification for a Cost of Service review as opposed to IBR. Such cost increases may also serve as evidence as to the appropriate base year if IBR were to be approved.
69. Creative Energy indicates that this information is unlikely to be available.
70. The CEC would expect that a review of Creative Energy's historical records should yield the necessary information to provide rates and revenue requirements over the history of the company.
71. The CEC recommends that the Commission direct Creative Energy to respond to this information request as part of its overall response to Information Requests.
72. The CEC considers 20 years to be a reasonable time frame to examine Cost of Service ratemaking both before and after Creative Energy's purchase. However, to the extent that the Commission wishes to reduce the information requirements for Creative Energy response, the CEC believes that a shorter time frame could be adopted, with the caveat that it should include sufficient longevity to compare the pattern of rates and revenue requirements between Central Heat and Creative Energy.
73. The CEC submits that a minimum of 10 years of historical Central Heat information is required.

CEC 1.6.2 Request for a graph depicting Central Heat/Creative Energy rates over the last 20 years with an overlay of the cost of natural gas.

74. The CEC notes that the cost of natural gas has declined significantly over the last several years, and that the cost of natural gas is a key component of the Central Heat/Creative Energy rates that customers experience.
75. The CEC requires historical information to determine the appropriateness of Creative Energy's revenue requirements application and whether or not ratepayers are receiving an appropriate benefit from the recent reductions in natural gas costs or if the benefits are being eroded by utility cost increases with no corresponding benefit.
76. The CEC submits that understanding how rates relate to key costs over the long term is important in understanding cost causation and is necessary in utility ratemaking to avoid losing sight of the larger picture of how cost-effectively the utility is providing service and whether or not any key trends are in evidence.
77. The CEC does not consider this information request to be particularly onerous and considers 20 years to be an appropriate time frame for evaluation of long term trends, particularly when addressing gas commodity.

78. The CEC recommends that the Commission direct Creative Energy to respond to this information request in its responses to Information Requests.

CEC 1.6.3 Historical number of customer calls (10 years)

79. Creative Energy states that it is receiving an increased number of customer calls relating to rate increases¹⁵ with the implication that this is a justification for a change in ratemaking to IBR.
80. The CEC submits that customer calls regarding rates may well be evidence that Creative Energy has been adding expenditures requiring rate increases without concomitant benefits.
81. In addition to requesting ratemaking outside the Cost of Service norm, Creative Energy also proposes to have no Service Quality Indicators embedded into its proposed IBR plans. Management of service standards is key issue in regulation, particularly under light regulation as proposed by Creative Energy.
82. The CEC wishes to understand the types of customer complaints that Creative Energy receives, how they relate to revenue requirements and whether or not these calls reflect a trend in standards or rate increases which could continue or would be resolved under IBR as implied by Creative Energy.
83. The CEC notes that Creative Energy logs all of its customer complaints and solutions, which are distributed monthly throughout the Company in order keep the company accountable and aware of all issues.¹⁶
84. The CEC requested a table for each of the last 10 years identifying the number of customer calls and a summary of the gist of the types of complaints. This will provide an understanding of the types of calls that are being received, and how they have trended.
85. The CEC submits that since Creative Energy has already collected and distributed monthly information with the intention of evaluating it, it should not be an onerous task to summarize. The CEC considers that the results of such a summary should be of value to Creative Energy given their stated commitment to customer accountability.
86. Creative Energy purchased Central Heat approximately 5 years ago.
87. The CEC reiterates the importance of trend information and submits that at the heart this is a revenue requirements application and evidence related to how well the utility provides customer satisfaction is highly important in assessing an appropriate revenue requirement.

¹⁵ B-1, page 14

¹⁶ B-1, page 14

88. The CEC believes that to the extent the information regarding customer complaints is available dating back to the pre-purchase period it is valuable to include in the Information Request responses. The CEC considers it important to be able to identify trends.
89. The CEC recommends that the Commission direct Creative Energy to respond to this information request in its responses to Information Requests.

CEC 1.14.2 Historical capital expenditures broken down by the top five major projects (10 years)

90. Creative Energy's application 'assumes the 2017 costs of financing rate base, adjusted for inflation are fair and reasonable based on historical capital expenditures.'¹⁷
91. Creative Energy also states that 'As the Base Capital has been relatively consistent during the previous 5 years, Creative Energy determines this should be included in the IBR formula.'¹⁸
92. Creative Energy's historical evidence shows a range of \$692,000 to \$1,507,000 annually between 2011 and 2017, and Creative Energy proposes to rely on a single year of 2017 as the base case for inflation, which exceeds the five-year rolling average by over \$100,000.
93. The CEC does not consider 7 years to be sufficient information under such circumstances.
94. The CEC considers a variance of over 50% in the level of capital spending evidence of a need for Cost of Service regulatory approaches and not supportive of simple, formulaic regulation.
95. The CEC requires long term evidence demonstrating the stability of spending to determine the appropriateness of Creative Energy's capital proposal.
96. Capital spending clearly has not varied with inflation over the last 7 years but instead fluctuates significantly.
97. The CEC notes that capital spending has been significant in the last three years.
98. The CEC requires spending by project information to determine if Creative Energy has already completed significant projects and has already established, at ratepayers' expense, the capability to significantly reduce its spending over the future five years proposed. Such a situation would result in significant overpayment by ratepayers to the utility.
99. The CEC does not consider the request to be onerous.
100. The CEC recommends that the Commission direct Creative Energy to respond to this information request in its responses to Information Requests.

¹⁷ B-1, page 11-12

¹⁸ B-1, page 12

CEC 1.23.3 Historical FCAC and FSCA balances (10 years)

101. The CEC considers historical deferral account balances to be relevant to ratepayers in a Revenue Requirements application, particularly one proposing 5 years of extremely limited regulatory oversight.
102. The CEC believes it is necessary to understand the functioning of Creative Energy and the history of the deferral account balances.
103. The CEC does not consider 10 years of deferral account balances to be an onerous request.
104. The CEC recommends that the Commission direct Creative Energy to respond to this information request in its responses to Information Requests.

CEC 1.26.1 Historical evidence for various appendices (10 years)

105. The CEC requested historical information for several appendices in the application. These included:

Appendix 2, RRA Approved detail

Appendix 1

Schedule 3, Plant Continuity

Schedule 6, Contributions in Aid of Construction

Schedule 7, Work in Process

Schedule 8, Non regulatory plant

Schedule 9, Working capital other items

Schedule 14, Energy consumed (8 years is already provided)

Schedule 15, Operating and Maintenance Expense

Schedule 16, Property Taxes

Schedule 21, Revenues

Total units of steam sold M# per year

106. Annual Approved SG&A expenses broken down by Line # as in Appendix 6.
107. Creative Energy notes that it has provided the information requested for 2 years (2016 and 2017 in Exhibit B-3).

108. The CEC does not consider 2 years of information as being sufficient to determine the appropriateness of moving away from Cost of Service and towards formulaic ratemaking.
109. The CEC recognizes that 10 years of historical information might not be required under circumstances in which the management of the utility has been stable.
110. However, management of Creative Energy has not been stable and the transition point between Central Heat management and Creative Energy management is about at the 5 year mark.
111. The CEC believes that longer term analysis is due as a result of the transition.
112. The CEC considers that when a utility is purchased by another party which generates significant changes to costs and business practices, increases revenue requirements and then applies for exceedingly light handed regulation which has no apparent basis in historical activity, all in a five year period, it is to be expected that ratepayers would have significant concerns and request substantive documentation to justify the change.
113. The CEC submits that Creative Energy's concerns regarding the extent of information requests should have been anticipated at the time of purchase and management changes.
114. The CEC recommends that the Commission direct Creative Energy to respond to this information request as part of its overall response to Information Requests.
115. The CEC considers 10 years to be a reasonable time frame to facilitate examination of the information before and after Creative Energy's purchase.
116. However, to the extent that the Commission wishes to reduce the information requirements for Creative Energy response, the CEC believes that a shorter time frame could be adopted, with the caveat that it should include sufficient longevity to compare the pattern of rates and revenue requirements between Central Heat and Creative Energy.
117. The CEC submits that a minimum of 7 years of historical information is required.

CEC 1.31.4 Historical components of steam expenses (10 years)

118. The CEC requested the detail of the steam expenses historically for 10 years.
119. Steam expenses account for nearly \$1 million of the SG&A budget and are not detailed.
120. The CEC submits that the information is valuable in establishing a full picture of Creative Energy's historical business practices and generating trend information for analysis.
121. The CEC is not certain as to the labour-intensiveness of this request.
122. The CEC submits that 10 years is an appropriate amount of information given the circumstances discussed above.

123. The CEC recommends that the Commission direct Creative Energy to respond to this information request as part of its overall response to Information Requests.
124. However, to the extent that the Commission wishes to reduce the information requirements for Creative Energy response, the CEC believes that a shorter time frame could be adopted, with the caveat that it should include sufficient longevity to compare the pattern of rates and revenue requirements between Central Heat and Creative Energy.
125. The CEC submits that a minimum of 7 years of historical information is required.

CEC 1.41.2 Historical Average Weekly Earnings and All Items for Vancouver (10 years)

126. The requested information is proposed to be used in calculation of the Rate Change factor.
127. The CEC requires information to determine the appropriateness of these components.
128. The CEC considers 2 years to be insufficient for these purposes.
129. The CEC does not consider the task to be onerous as the information is simply generated from CANSIM.
130. However, to the extent that the Commission wishes to reduce the information requirements for Creative Energy response, the CEC believes that a shorter time frame could be adopted.
131. The CEC would accept 5 years of information as adequate.

OTHER IR ISSUES

CEC 1.54. and 1.5.6 Information Related to the New CBA

132. Creative Energy is renewing its collective bargaining agreement (“CBA”) and proposes to receive inflationary-based increases in its Revenue Requirements.
133. The CEC has requested information related to the key terms and % increases included in the last CBA.
134. The CEC also requested information comparing the existing labour rates covered under the CBA vs. equivalent positions for Vancouver, BC and Canada.
135. Creative Energy indicates that it has now agreed to a new CBA which will be filed on the record.
136. The CEC requires an understanding of the fairness and cost-effectiveness of the new CBA from a ratepayers’ perspective to determine fairness of the regulatory requirements, and further the likely trend in future increases.

137. The CEC requires information related to the previous CBA to develop an appreciation for the fairness of the new CBA.
138. To the extent that the old CBA provided for superior or inferior increases, the new CBA terms might be compensatory and represent an unreasonable revenue requirement.
139. The CEC recommends that the Commission direct Creative Energy to respond to this information request as part of its overall response to Information Requests.

CEC IR 1.7.1 and 1.7.2 Cost and Practicality of Cost of Service Regulation

140. Creative Energy has agreed to respond to these information requests.

CEC 1.9.3 Costs of Customer Alternatives

141. The CEC requested a quantitative estimate of the costs that an average commercial customer would need to undertake to switch to each alternative for service.
142. Creative Energy notes that the costs of alternatives are customer specific. Creative Energy will provide examples of steps customers have taken to reduce energy consumption without identifying the customer.
143. The rationale for Creative Energy's application for regulation reduction is heavily dependent upon the assumption that customers can readily leave if the service degrades or if costs are excessive. They state:

'Creative Energy has approximately 200 customers, and a loss of even one of those customers, is significant to Creative Energy. As a result there is no need for any regulatory oversight, or regulatory penalties resulting from a degradation of service, to ensure the level of service continues under the IBR.'¹⁹
144. The CEC submits that this question addresses a fundamental issue with regard to this application.
145. Utilities are regulated, generally with Cost of Service regulation, specifically because they have monopoly characteristics which provide a protective moat. Customers may be essentially captive to the utility with significant barriers to change.
146. The CEC requires quantitative evidence of the cost challenges faced by customers who might wish to leave the service.
147. The CEC does not require customer specific information and did not request customer specific information in its Information Request.

¹⁹ B-1, page 3

148. The CEC recommends that the Commission direct Creative Energy to provide quantitative evidence of the average or typical costs likely to be incurred for each alternative option available to a customer.
149. The CEC submits that a well-run business concerned about customer retention would or should have such data.

CEC 1.12.1 FortisBC and FortisBC Energy Inc. Performance Based Ratemaking Plan

150. The CEC requested that Creative Energy confirm that Fortis's X factor and other components of its ratemaking formula do not permit (sic) the Company to simply receive an annual rate change adjustment based on inflation and keep any benefits.
151. Creative Energy argues that they cannot confirm or otherwise provide any evidence relevant to the FortisBC PBR plan. Creative Energy directs CEC to refer to Commission decisions relevant to the FortisBC PBR plan.
152. The CEC acknowledges that relevant information is on the public record for the FortisBC and FortisBC Energy Inc. PBR proceeding.
153. The CEC submits that Creative Energy is likely not ill-informed and could indeed confirm the evidence. The CEC submits that the terms and conditions of the FEI and FBC PBR ratemaking speak directly to the appropriate considerations in formula-based regulation.
154. Further, jurisdictional comparisons are not an atypical request.
155. If Creative Energy is uninformed as to other formula-based ratemaking in the province the CEC submits that this is cause for concern.
156. While the CEC can conduct an informed review of Commission decisions and other evidence the CEC submits that it is important for relevant evidence to be on the evidentiary record in this proceeding. Other interveners may not have the benefit of experience in formula-based ratemaking and could be informed by this evidence.
157. The CEC recommends that the Commission direct Creative Energy to respond to the question to ensure the evidence is available to all interveners.

CEC 1.37.5 Literature Search Related to Massachusetts Formula

158. Creative Energy proposes to use the Massachusetts Formula to allocate costs between Steam Service customers and other projects. The Massachusetts Formula has been used before.
159. The CEC requested references to literature regarding the proper use and application of the Massachusetts Formula, and its advantages and disadvantages.
160. Creative Energy responded that CEC can conduct its own literature search.

161. The CEC submits this is reasonable question and points out that it is not in a position to place evidence on the record.
162. The Formula is a proposal by Creative Energy and not the CEC's proposal.
163. The CEC submits that if Creative Energy does not have literature regarding the proper use and application of the Massachusetts formula and its advantages and disadvantages, it is cause for concern.
164. The CEC recommends that the Commission direct Creative Energy to respond to this question.

CEC 1.39.1 Key Issues Affecting Steam Service and Other Projects

165. The CEC requested Creative Energy to identify key issues affecting each of the other projects. They state that key issues for steam service are unrelated to cost drivers of steam service.
166. The CEC disagrees emphatically with Creative Energy's statement.
167. The CEC points out that Creative Energy is proposing a formula-based revenue requirement based on stable operations. The foundation of Creative Energy's proposal is that:

Creative Energy is a 50-year-old system that has reached steady state. Operations and Maintenance costs are not expected to fluctuate significantly, and if anything, they will increase due to the replacement of equipment as the system ages further. It is unlikely that there is any cost savings to be found in the O&M budget, and therefore a low probability of unexpected overall savings. There is also a low probability of new customers connecting to our system and therefore a low probability of unexpected overall savings.²⁰

168. The CEC submits that the key issues related to steam customers, and also to Other Projects are highly important to understand to ensure that costs are not over-recovered from core customer ratepayers and that there is no cross-subsidization from steam customers to other projects.
169. Creative Energy's website indicates that it plans to switch the existing plant to alternative fuels, source new and exciting low carbon technologies, and expand the system and create new energy hubs throughout Vancouver.

²⁰ B-1, page 13



<http://creative.energy/wp-content/themes/creative-energy/assets/img/map/CE-map-overlay.png>

170. Creative Energy identifies a West End Expansion, South Downtown Expansion, North East False Creek Expansion, Chinatown Expansion, Downtown East Side Expansion along with its existing service such that Creative Energy will cover the vast majority of downtown Vancouver. Information is not yet available as to the details of these plans and how these expansions and other projects may ultimately be connected to the Steam Heat revenue requirements.
171. The CEC expects that these plans could have a significant impact on Creative Energy over the five year term of the IBR and requires information as to the issues that are likely to unfold.
172. The CEC recommends that the Commission direct Creative Energy to respond to the question.

CONCLUSION

173. The CEC submits that all its IRs have probative value and should be responded to by Creative Energy.
174. Creative Energy has been embarking on significant changes to its business and is proposing a significant change in regulatory methodology which could potentially be detrimental to core customer ratepayers vis a vis a Cost of Service alternative.
175. The CEC reiterates that a move to IBR is Creative Energy's own undertaking and is being presented immediately following several important changes to the steam heat utility.

176. The CEC considers that the information requested will assist the CEC in reviewing and evaluating Creative Energy's application.

ALL OF WHICH IS RESPECTFULLY SUBMITTED

David Craig

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Consumers Association of British Columbia



Christopher P. Weaver, Counsel for the Commercial
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