Creative Energy Vancouver Platforms Inc.
2018-2022 Revenue Requirements Application

**Creative Energy Response to BCUC IR 1** **May 30, 2018**

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## A. INTRODUCTION

**1.0 Reference: THE APPLICATION**
**Exhibit B-1, Application, Section 1.1, p. 2**
**Collective Bargaining Agreement**

Creative Energy Vancouver Platforms Inc. (Creative Energy) states the following in its Application:

> The Collective Bargaining Agreement (CBA) expires on December 31, 2017. The union and the Company are currently negotiating the terms of a new CBA, which may include a term that matches the IBR [Index Based Ratemaking] term. The operator's salaries represent one of the largest operational expenses. At the time of filing, the Company does not expect to revise this Application for the new CBA.

1.1 Please provide an update on the status of the CBA negotiations.

1.1.1 If a new CBA has been reached, please describe the changes to the terms and conditions of the CBA and when the new agreement is set to expire.

**Response:** A new CBA has been agreed to with a wage increases of 1.8% each year for the next five years with an expiry date of December 31, 2022. The principle changes to the terms and conditions are enhancements to the Extended Health and Benefit plan, and the Company's obligation to pay 100% of MSP premiums. The percentage increase in costs related changes in terms and conditions, not including wage increases, is a one time increase of 1.56%.

If a new CBA has not been reached, is Creative Energy able to anticipate at this time when a new CBA will be in place? If so, please provide the anticipated timeline.

**Response:** N/A

1.2 Please clarify why Creative Energy does not anticipate that it would be necessary to revise the Application for the new CBA, given that Creative Energy has stated that operators' salaries are one of the largest operational expenses.

**Response:** The Company does not expect material differences in inflation and wage increase, and the IBR term and the CBA term are the same.

1.3 Please provide the number and percentage of employees who are operators. Please provide the calculation for the percentage of operational expenses which is operators' salaries.

**Response:** Of the total FTEs of approximately 25, 18 are union members and all union members are operators.

Union members represent 72% of total FTEs and salary costs of 42% over Total Operational Expenses.

**Operations**

| | # FTEs | | | |
|---|---|---|---|---|
| Union | 18 | 72% | $ 1,901,600 | 42% |
| Total | 25 | | | |
| Total Operational Expenses | | | $ 4,532,800 | |

**2.0 Reference: THE APPLICATION**
**Exhibit B-1, Sections 1.2, 1.5, pp. 3, 5**
**Multi-Year IBR Mechanism**

On page 3 of the Application, Creative Energy states that its "core steam system has been operating for almost 50 years, and costs have stabilized over time" and that its "system is currently operating in a steady state environment, with no large changes forecasted for the next five years."

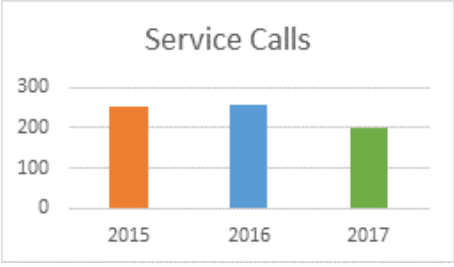
On page 5 of the Application, Creative Energy states the following:

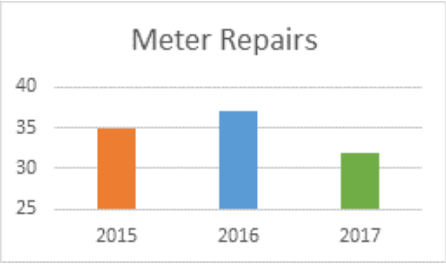
> In 2014, rates increased by 11.3% and in 2015 rates increased by 10%. In 2016, (effective May 1, 2017) rates increased by 6.23% and in 2017 rates decreased by 3.15%. The four-year average annual rate increase of 6% as compared to the five-year average rate increase under the IBR can reasonably be expected to decrease by 4% to approximately 2%.

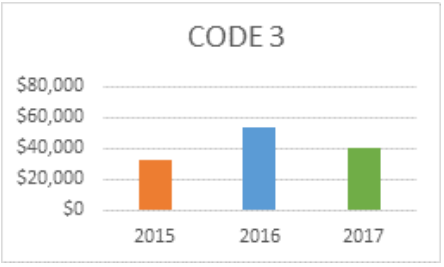
2.1 In consideration of the large rate increases from 2014 to 2016, followed by a rate decrease in 2017, please explain how the past four years' rate changes are indicative of a system that is operating in a steady state environment with stabilized costs.

**Response:**
The large rate increases from 2014 to 2016 were mostly a result of one time changes that were unrelated to the operation and maintenance of the plant. In 2014 the Generic Cost of Capital structure changed according to the BCUC Order G-47-14 which allowed an increase in the rate of return and equity component. This Order also entitled Creative Energy to recover the difference between interim and permanent rates to customers in 2013 and 2014 through a GCOC 2013/14 Deferral Account. Deferral accounts were also created to add the after-tax difference to rate base and align with other utilities such as PNG, BC Hydro, and Fortis, and to manage the difference in Pension Expenses from forecasted to actual. These expenses were one-time changes in accounting structure and strategy and are not indicative of the steady state operation of the steam system itself. The rate decrease in 2017 was also due to a one-time change in accounting structure in accordance with Order G-167-16. This removed the fuel portion of the tariff and placed it into the FCAC instead.

The steady state description refers to the operational activities and budget over the past few years. The main service KPIs over the past years have remained relatively steady, especially with regards to service reliability. We have a 100% reliability status over the past 25 years, which means we haven't had a single unplanned outage in that time. This proves that we have a strong handle on our Operations and Maintenance strategy, as all maintenance events have been planned and scheduled ahead of time. As well, over the past three years we have had a consistent amount of customer service call outs, meter repairs, and Code 3 work (maintenance work on customer equipment that is billed directly back to them), proving that our level of customer service and maintenance schedules have steadied over time. These numbers are summarized in the plots below. Furthermore, the table of SG&A expenses provided in Appendix 4 of the Supplementary Information shows that over the past three years our SG&A costs have been relatively steady, as have our General Plant Maintenance costs. This means that over the past three years our total O&M expenses have been relatively consistent..




2.2 Excluding costs which are captured in deferral accounts, such as fuel costs, pension and third party regulatory costs, please explain whether Creative Energy's Actual Operations and Maintenance (O&M) costs have exhibited increases over the past three years consistent with inflation. Please provide supporting calculations for this response.

**Response:** Actual operations and maintenance costs have exhibited increases over the past three years. The Union Collective agreement has increased in the range of 2% to 2.25%. Maintenance of the general plant has also increased due to exchange rates and increased costs from suppliers (see Exhibit B-3, Appendix 1, Schedule 15 for 2016/2017 actuals). Below is a table showing the percentage increase for some of the O&M Expenses.

The IBR mechanism should be viewed with a holistic approach both in terms of costs and time period. It is expected the costs and load with fluctuate year to year, but throughout the 5-year period of the IBR, Creative Energy will manage costs.

| | 2015 Unaudited | 2016 Actual | 2017 Preliminary | 2016 YOY % | 2017 YOY % |
|---|---|---|---|---|---|
| Plant Salaries | 1,053,872 | 1,075,307 | 1,096,999 | 2.03% | 2.02% |
| Maintenance of General Plant | 25,287 | 30,123 | 35,389 | 19.12% | 17.48% |
| Insurance | 105,466 | 84,458 | 88,828 | -19.92% | 5.17% |

2.3 Please discuss whether Creative Energy's plans regarding fuel switching and development of other projects such as the Northeast False Creek (NEFC) utility will impact the core utility's ability to operate in a "steady state environment."

**Response:** As mentioned in "Section 3.2.3.1 Capital Exclusion" of the Application, the inclusion of major capital projects in the customer rates within the IBR period would be done through the submission of a CPCN application to the BCUC. However, the Fuel Switch project is not expected

to occur within the next five years, and would be dealt with in a future RRA.

NEFC is a separate utility and while it's load is tied to the core utility, there is no significant growth or work currently expected in the IBR period.

## B. IBR BASE

### 3.0 Reference: DETERMINING THE IBR REVENUE REQUIREMENT
**Exhibit B-1, Sections 2.1, 2.1.1, p. 7; Appendix 6**
**Adjustments for employee benefits**

In the Application, Creative Energy states that certain WorkSafeBC (WCB) and employee benefits have been "re-classed so that they are not part of the Allocation amount to the other projects" as they are direct, and not shared, costs of steam production and steam distribution.

3.1 Please explain how Creative Energy determined the amount of WCB and employee benefits to reclassify from allocated selling, general and administration (SG&A) costs (Exhibit B-1, Appendix 6, lines 46 and 47) to supervision and labour costs (Exhibit B-1, Appendix 6, lines 2 and 12). Please provide the calculations for these amounts.

**Response:** These were part of the 2016-17 RRA and the amounts are calculated on an employee basis. WCB costs (Exhibit B-1, Appendix 6, line 46) are calculated based on a forecast of 0.53% of total wages. Employee benefits include pension costs, CPP, EI and extended health benefits (EHB). For Pension, the aggregate costs for pension is 7.5% of the gross salaries. For CPP, EI and EHB, the aggregate costs is 8.6% of gross salaries. CPP, EI, EHB and Pension is aggregated in line 47 of Exhibit B-1, Appendix 6.

**4.0 Reference: DETERMINING THE IBR REVENUE REQUIREMENT**
**Exhibit B-1, Section 2.1.2, p. 7; Appendix 4, pp. 1–6; Appendix 6; Creative Energy 2016-2017 Revenue Requirements Application and Rate Design for NEFC Hot Water Service, Decision and Order G-167-16 dated November 18, 2016 (2016-2017 RRA Decision), pp. 45, 47; Exhibit B-3, Supplementary Information Filing, Appendix 2**
**Cost allocations and allocation methodology**

On page 3 of Appendix 4 of the Application, Creative Energy provides the following table showing the averages of the cost allocator components for Steam service and Other Projects:

| | CORE | NEFC | Proj. 1 | Proj. 2 | Proj. 3 | Proj. 4 | Proj. 5 | Proj. 6 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|
| Capital | 24,219,962 | - | 283,943 | 1,427,592 | 198,503 | 82,950 | 315,912 | 340,785 | 26,869,647 |
| Revenues | 7,887,317 | - | - | - | - | - | - | 142,444 | 8,029,761 |
| Salaries | 1,600,455 | - | 28,860 | - | - | - | - | 30,264 | 1,659,579 |
| Total | 33,707,734 | - | 312,803 | 1,427,592 | 198,503 | 82,950 | 315,912 | 513,493 | 36,558,987 |

4.1 Please provide the source of the data highlighted in the table above, including references to the supporting schedule(s) and an explanation for where in the schedule(s) these amounts can be found. If the amounts cannot be tied to a schedule, please explain why not. Please also provide the year which the amounts relate to and whether they are Actual or Approved amounts.

**RESPONSE:** The source of the data highlighted is from 2016 Actuals and 2017 Forecast.. These can't be tied to a schedule as the numbers above are derived from a combination of actuals and forecast.

In Appendix 6 of the Application, Creative Energy shows the detail calculation of SG&A costs allocated to other projects.

4.2 Please confirm, or explain otherwise, that the "2017 Subtotal" column (Column C) in Appendix 6 includes the NEFC O&M amount of $121,600.

**RESPONSE:**
Confirmed. In a meeting prior to filing the application, Creative Energy was directed by the Commission Staff to go back and adjust the 2017 approved SG&A numbers, starting from the top. All SG&A costs were to be included in the total pool of SG&A to be allocated.

4.2.1 If confirmed, please explain why, for the purposes of allocating SG&A costs using the Massachusetts Formula, Creative Energy has added NEFC O&M expenses to the pool of costs to be allocated to other projects.

**RESPONSE:**
The amount approved in the 2016-2017 decision, to be directly assigned to NEFC, was removed from the total prior to Massachusetts formula being applied. See calculation below:

1. Total SG&A costs (all SG&A costs incurred by Creative Energy) - $35,600 (see response 7.4 for this number) = SG&A to be allocated between steam (with NEFC as a customer) and 6 projects
2. Allocation to the 6 projects, is done using the Massachusetts formula, and the remainder SG&A costs are recovered through the steam tariff.

Because NEFC is treated as a steam customer, it is allocated cost based on the steam tariff rather than the Massachusetts formula.

On page 6 of Appendix 4, Creative Energy compares the cost allocations based on the Massachusetts Formula method and the Cost Drivers Methodology noting that the difference in the total allocation is $2,900.

4.3 Please explain which method Creative Energy considers to more appropriately allocate costs among individual projects and why.

**RESPONSE:**
Please refer to the Cost Allocation Study (Appendix 4) and its conclusion as to the reasons why we prefer the Massachusetts Formula method.

The second table on page 6 of Appendix 4 shows the SG&A cost allocations based on the Cost Drivers Methodology and there is an amount of $5,400 allocated to Project #1 for Account #920 Admin & General Salaries.

4.4 Given that Project #1 is stated to have zero customers in the first table on page 6 of Appendix 4 and the allocator for Admin & General Salaries is "# of customers," please explain why Project #1 has been allocated $5,400 of costs under the Cost Drivers Methodology.

**RESPONSE:**
The allocator was labelled incorrectly. It should have been labelled "Project Costs"

In the first table on page 3 of Appendix 4, Project #2 is shown to have a capital cost of $1,427,592, which is significantly higher than the other five projects.

On pages 4 and 5 of Appendix 4, Creative Energy explains that under the Cost Drivers Methodology, Account #924 Insurance costs are allocated on the basis of project costs because costs include "general liability insurances, Directors and Omissions insurances, etc." The second table on page 6 of Appendix 4 shows that Project #2 is allocated $6,500 of Insurance costs.

On page 3 of Appendix 4, under the Massachusetts Formula method, Creative Energy shows that Project #2 is allocated $2,200 of Insurance costs.

4.5 Please explain whether Creative Energy considers the Massachusetts Formula method to more appropriately allocate Insurance costs amongst the projects than the Cost Drivers Methodology, and in particular, the appropriateness of the allocation to Project #2.

**RESPONSE:**
Creative Energy considers the Massachusetts Formula to be more appropriate as it is based on an aggregate of three components: Capital, Salaries and Revenues. As the system is in its infancy, the Massachusetts Formula is weighted lower and as the system matures, components of salaries and revenues come into effect and the average will increase, and hence a higher allocation of costs.

As shown on page 3 of Appendix 4, under the Massachusetts Formula method, a total of $6,300 in Insurance costs is allocated amongst the six projects. Under the Cost Drivers Methodology, a total of $10,800 in Insurance costs is allocated as shown on page 6 of Appendix 4.

In the Creative Energy 2016-2017 RRA Decision, the British Columbia Utilities Commission (Commission)

stated the following regarding Insurance costs:

> Given there is no evidence to support a large increase in insurance for the Steam Service and NEFC has been under construction and Creative Energy has six Other Projects underway, the Panel finds that the largest part of these increased costs should be allocated to NEFC and Other Projects rather than to Steam as has been proposed. **Accordingly, the Panel directs Creative Energy to remove Insurance Costs in the amount of…$33,000 for 2017 from Steam Service and allocate them evenly between NEFC and Other Projects.**

4.6 In consideration of the Commission's determination in the Creative Energy 2016-2017 RRA Decision, please explain whether the cost allocation for Insurance costs under either the Massachusetts Formula method or the Cost Drivers Methodology is sufficient and whether the allocation is reflective of Actual costs.

**RESPONSE:**
The cost allocation for insurance costs under either the Massachusetts Formula or Cost Drivers Methodology is sufficient. Over the life of these systems, under the Massachusetts Formula methodology, insurance costs allocated would increase as the system matures and grow. As the system matures, these costs would be allocated based on a more consistent base of capital, revenue and salaries.

As shown on page 3 of Appendix 4, under the Massachusetts Formula method, a total of $2,600 in Directors Fees is allocated amongst the six projects. Under the Cost Drivers Methodology, a total of $2,000 in Directors Fees is allocated as shown on page 6 of Appendix 4.

In the Creative Energy 2016-2017 RRA Decision, the Commission stated the following regarding Directors Fees:

> While the Panel accepts the need for a greater number of board meetings given this transitional period we are not persuaded the bulk of additional costs should be borne by Steam Service customers. The Panel acknowledges that Creative Energy has proposed a small amount of forecasted Director Fees be allocated to NEFC but notes that none of these costs have been allocated to Other Projects. The need for additional board meetings is in our view driven by CE's development of new business projects and the NEFC, as there is little evidence to suggest that the Steam business has changed significantly. Because of this, the Panel believes it more appropriate to allocate costs in excess of historical amounts to its other business activities. **Accordingly, the Panel directs Creative Energy to allocate $16,000 in both 2016 and 2017 to other business activities and split these evenly between NEFC and Other Projects.**

4.7 In consideration of the Commission's determination in the Creative Energy 2016-2017 RRA Decision, please explain whether the cost allocation for Directors Fees under either the Massachusetts Formula method or the Cost Drivers Methodology is sufficient and whether the allocation is reflective of actual costs.

**RESPONSE:**
The cost allocation for Director's Fees under either the Massachusetts Formula or Cost Drivers Methodology is sufficient. Over the life of these systems, under the Massachusetts Formula methodology, Directors Fees allocated would increase as the system matures and grow. As the system

matures, Director Fees would be allocated based on a more consistent base of capital, revenue and salaries.

In Appendix 6 of the Application, line 58 shows that the percentage of O&M expense allocated to capital is 0.43 percent.

4.8 Please explain in detail how the 0.43 percent allocation to capital was determined.

**RESPONSE:**
Please refer to 2016-17 RRA Decision G-167-16, p. 54, regarding Commission determination on capitalized overhead rates.

**5.0 Reference: DETERMINING THE IBR REVENUE REQUIREMENT**
**Exhibit B-1, Appendix 2; Exhibit A2-1, Creative Energy 2016-2017 RRA Compliance Filing to Order G-167-16 (Compliance Filing), Schedules 15B, 22, pp. 38B, 46; Exhibit A2-2, Creative Energy 2016-2017 RRA NEFC Compliance Filing to Order G-167-16 (NEFC Compliance Filing), Schedule 1, p. 4;**
**Creative Energy 2016-2017 RRA Decision, pp. 32, 40, 46–47**
**2017 Adjusted Base O&M**

In Appendix 2 of the Application, Creative Energy has used as the starting point for determining the Adjusted Base O&M the "2017 RRA Approved" Steam O&M expense of $4,427,100.

Schedule 15B of the Compliance Filing shows the 2017 Forecast Regulatory Net O&M Expense of $4,427,100. Schedule 15B also shows an amount of $968,400 for Account #502 "Steam Expenses."

On page 32 of the Creative Energy 2016-2017 RRA Decision, the Commission stated the following:

> **Given the lack of justification the Panel directs CE [Creative Energy] to reduce its actual water cost estimate by 1 percent and reflect a 4 percent increase only. The Panel approves Creative Energy's proposed water related expenses of $904,200 in 2016 and $973,000 in 2017 less the impact to remove the one percent from the water portion of the expense.**

Schedule 22 of the Compliance Filing shows an adjustment of $4,900 to the Steam Expense for 2017.

5.1 Please confirm, or explain otherwise, that the $4,900 adjustment to the Steam Expense is consistent with the Commission's determination in the Creative Energy 2016-2017 RRA Decision.

**RESPONSE:**
Confirmed.

5.1.1 As part of the above response, please provide the calculation for the $4,900 adjustment.

**RESPONSE:**
Please refer to 2016-17 RRA Decision G-167-16, pg 31 re Water expenses, where Creative Energy had forecasted the water expense to be $493,644. The 1% reduction represent $4,900 (rounded).

On page 40 of the Creative Energy 2016-2017 RRA Decision, the Special Services 2017 Forecast expense

is $307,300, which includes $6,100 of allocated costs to NEFC (as explained on page 42 of the decision). On page 46 of the decision, the Commission stated the following:

> **The Panel also notes there is a need to capture all Special Services costs that are directly attributable to NEFC. These need to be identified, removed from Special Services and charged directly to NEFC. Accordingly, Creative Energy is directed to identify all NEFC direct costs within Special Services and move them to NEFC as part of its compliance filing.**

Schedule 15B of the Compliance Filing shows a 2017 amount of $6,100 for Account #923 "Special Services" for NEFC and an amount of $289,200 for Steam, for a total Special Services expense of $295,300.

5.2 Please clarify where the $12,000 allocation to NEFC has been recorded. If this is a direct cost to NEFC, please confirm that this amount is not reflected in Schedule 15B of the Compliance Filing and indicate where the $12,000 is reflected in Schedule 1 of the NEFC Compliance Filing (i.e. where the $12,000 is reflected in NEFC's revenue requirement).

**RESPONSE: Confirmed** that the $12,000 is not included in Sch 15B of the Compliance Filing. Please see Sch 15A of the Compliance Filing G-167-16, under the Regulatory section, where the $12,000 was deducted. The $12,000 was reflected in the NEFC Compliance filing (Doc_48708) in Sch. 2 as part of Development PACA costs.

## 6.0 Reference: 2017 ADJUSTED BASE O&M
**Exhibit B-1, Appendix 6; Creative Energy Compliance Filing, Schedule 15B, p. 38B**
**O&M Expenses**

The following table provides the O&M expenses shown in Appendix 6 of the Application under the column "2017 Subtotal" which do not agree to the 2017 Approved O&M expenses table provided in the Compliance Filing.

| Account # | Account Name | Appendix 6 "2017 Subtotal" ($) | Compliance Filing "2017 Approved" ($) | Variance ($) |
|---|---|---|---|---|
| 910 | Sales Expense | 70,200 | 65,200 | 5,000 |
| 915 | Directors Fees | 49,400 | 41,400 | 8,000 |
| 923 | Special Services | 307,300 | 295,300 | 12,000 |
| 924 | Insurance | 123,900 | 107,600 | 16,300 |

6.1 Please confirm, or explain otherwise, that the variances between the amounts in Appendix 6 of the Application and the Compliance Filing, as shown in the table above, relate to the O&M allocations to other projects/affiliates as directed by the Commission in the Creative Energy 2016-2017 RRA Decision.

**RESPONSE:**
Confirmed.

6.2 Please confirm, or explain otherwise, that the $12,000 variance in Special Services O&M reflects the Commission's direction to directly charge $12,000 of Special Services O&M to the NEFC in

the Creative Energy 2016-2017 RRA Decision.

**RESPONSE:**
Confirmed.

6.2.1 If confirmed, please explain why this amount has been added to the pool of SG&A costs to be allocated to other projects/affiliates.

**RESPONSE:**
The amount was added back in error and will be corrected in the schedule. This is reflected in Appendix A.

**7.0 Reference: DETERMINING THE IBR REVENUE REQUIREMENT**
**Exhibit B-1, Appendix 2; Appendix 4, p. 1, lines 12–13;**
**Creative Energy Compliance Filing, Schedule 15B, p. 38B**
**Adjusted base**

As part of the Adjusted Base column in Appendix 2 of the Application, Creative Energy has made the following adjustments:

- Added "Costs Disallowed in G-167-16 Decision" of $52,800;
- Added the 2017 Approved NEFC O&M of $121,600;
- Added "G-167-16 Decision NEFC (Capital)" costs of $12,000;
- Added "Decision Costs to Other Division/Projects"; and
- Deducted "NEFC Direct Assignment" costs of $33,800.

7.1 Please provide a detailed explanation and breakdown of each of the disallowed costs included in the $52,800.

**RESPONSE:**

*RESPONSE:*

***Disallowed:***

| | |
|---|---|
| *Agency fees* | *20,000* |
| *1% Water Costs* | *4,900* |
| *Admin & General Salaries* | *27,900* |
| | *$ 52,800* |

7.1.1 For each disallowed cost, please explain why Creative Energy has added the amount to the Adjusted O&M Base and why it considers it appropriate recover these costs in future rates.

**RESPONSE:**
Upon further review, these costs should not have been added back and should not be recovered in future rates. This is shown in Appendix A.

7.2 Creative Energy states in Appendix 4 that the proposed approach to cost allocations "does not apply to NEFC and only applies to Other Projects." Considering that no amounts are allocated to NEFC in the cost allocations and that Base O&M is related to the Steam Service only, please explain why the $121,600 2017 Approved NEFC O&M has been added back to the Adjusted 2017

Base O&M in Appendix 2.

**RESPONSE:**
See response 4.2.1. The $121,600 consists of two components: 1. direct assigned costs of NEFC and 2. the general O&M. The amount of $121,600 was added back to the Approved Steam O&M costs of $4,427,100, and the direct assigned costs of $35,600 associated with NEFC, was deducted from the overall O&M costs, leaving a difference of $86,000 which will be part of the IBR Base Cost and Allocation Methodology.

7.3 Please clarify how the $(33,800) NEFC Direct Assignment costs relates to the $121,600 Approved NEFC O&M for 2017, if at all.

**RESPONSE:**
In the Approved NEFC O&M for 2017, the $121,600 comprises of two components:

1. Direct assigned costs associated with NEFC which totals $35,600 (not the $33,800-see Response to IR7.4)
2. General overhead costs of $86,000 which is added back to the remaining costs for general overheads.

7.3.1 If the two amounts are not related, please explain why there is no adjustment to the Base O&M for IBR purposes to reflect the amount of O&M allocated to NEFC.

**RESPONSE:**
Please see response to IR 7.3.2

7.3.2 If the two amounts are related, please explain why there is such a large difference between the amount added back to the Base O&M and the amount being deducted from Base O&M.

**RESPONSE:**
The General Overhead is added back to the remaining General Overhead costs as this represents the total general overhead costs that will be allocated to the other projects (except NEFC), leaving a general overhead costs that will be included in the steam Tariff. As NEFC is a “customer” of the steam system, NEFC’s share of the general overhead costs is being passed on to NEFC through the steam Tariff.

7.4 Please provide the supporting calculations for the $(33,800) Direct Assignment to NEFC deduction.

**RESPONSE:**

| Line # | Acct. # | Account Name | NEFC 2016 Forecast | NEFC 2017 Forecast |
|---|---|---|---|---|
| 1 | | **Steam Production-Operation** | | |
| 2 | 500 | Supervision and Labour | 0 | 0 |
| 3 | 501 | Energy Costs | 0 | 0 |
| 4 | 502 | Steam Expenses | 0 | 0 |
| 5 | | **Total Steam Production-Operation** | 0 | 0 |
| 6 | | | | |
| 7 | | **Steam Production-Maintenance** | | |
| 8 | 506 | Structures and Improvements | 0 | 0 |
| 9 | 512 | Steam Prodution Equipment | 0 | 0 |
| 10 | | **Total Steam Production-Maintenance** | 0 | 0 |
| 11 | | | | |
| 12 | | **Distribution Expenses-Operation** | | |
| 13 | 870 | Supervision & Labour | 15,800 | 16,100 |
| 14 | 874 | Mains & Services | 1,100 | 4,200 |
| 15 | 878 | Removing & Resetting Meters | 0 | 0 |
| 16 | 880 | Other Distribution Operation | 5,000 | 15,300 |
| 17 | 933 | Transportation | 0 | 0 |
| 18 | | **Total Distribution Expenses-Operation** | 21,900 | 35,600 |
| 19 | | | | |

The amount of $33,800 was made in error and should have been recorded as $35,600. This supporting calculations is as per the Compliance Filing Schedule 15B (per Exhibit A2-1).

Schedule 15B of the Compliance Filing shows "Regulatory Net O&M Expense" of $4,548,700 which includes the deductions for O&M Expenses Allocated to Capital ($20,100) and O&M Allocated to Affiliate ($19,500).

7.5 Please provide an explanation and breakdown of the NEFC (Capital) adjustment of $12,000 in Appendix 2 of the Application and explain where this amount is reflected in the Compliance Filing.

**RESPONSE:**
The amount of $12,000 was recorded as part of NEFC capital costs reflected in the NEFC Compliance filing (Doc_48708) in Sch. 2 as part of Development PACA costs.

7.5.1 Please also explain how this amount relates to the $20,100 Capital Allocation shown in Schedule 15B of the Compliance Filing, if at all, and please provide the calculation for the O&M Expenses Allocated to Capital amount of $20,100 shown in Schedule 15B.

**RESPONSE:**
The $12,000 does not relate to the $20,100 Capital Allocation. The $20,100 Capital Allocation relates only to the Steam system.

7.5.2 Please explain why Creative Energy has not included a reduction to Base O&M in Appendix 2 to reflect O&M allocated to NEFC capital going forward during the IBR term.

**RESPONSE:**
As NEFC is a customer of the steam system, the base O&M is recovered through the Steam Tariff.

7.6 Please explain what affiliate the $19,500 O&M allocation in Schedule 15B is related to and how this amount was calculated.

**RESPONSE:**
Please refer to the response in the 2016-17 RRA, BCUC IR 1.18.2. Response is noted below for ease of reference.

> 18.2 Please explain what Appendix 1, Schedule 15, line 63 "O&M Allocated to Affiliate" in 2016 and 2017 relates to and provide details for the calculation.
>
> Response:
> This relates to costs being allocated from the steam division to another division, Main & Keefer. The allocation is based on the Massachusetts formula.

7.7 Please confirm, or explain otherwise, that the $29,500 adjustment in Appendix 2 of the Application reflects the amounts allocated to other projects/divisions as directed by the Commission in Creative Energy 2016-2017 RRA Decision (pages 45 to 47).

**RESPONSE:**
Confirmed.

**8.0 Reference: DETERMINING THE IBR REVENUE REQUIREMENT**
**Exhibit B-3, Appendix 1, Schedule 15; Creative Energy Compliance Filing, Schedule 15B**
**2016 and 2017 Actual O&M expenses**

In Appendix 1, Schedule 15 of the Supplementary Information Filing, Creative Energy provides the Actual 2016 and Preliminary Actual 2017 O&M expenses.

Schedule 15B of the Compliance Filing shows the 2016 and 2017 Approved O&M for NEFC, Steam and combined NEFC and Steam.

8.1 Please confirm, or explain otherwise, that Schedule 15 of the Supplementary Information Filing does not include the amounts related to NEFC.

**RESPONSE:**
Confirmed.

8.2 Please provide the 2016 and 2017 Actual O&M results in the same format as Schedule 15B of the Compliance Filing (i.e. separate columns for: NEFC; Steam; and Combined Steam and NEFC)

**RESPONSE:**

| | | | NEFC | | STEAM | | TOTAL | |
|---|---|---|---|---|---|---|---|---|
| | | | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 |
| Line # | Acct. # | Account Name | Actual | Actual | Actual | Actual | Actual | Actual |
| 1 | | **Steam Production-Operation** | | | | | | |
| 2 | 500 | Supervision and Labour | 0 | 0 | 1,099,551 | 1,203,000 | 1,099,551 | 1,203,000 |
| 3 | 502 | Plant Expenses | 0 | 3,100 | 896,305 | 1,122,000 | 896,305 | 1,125,100 |
| 4 | | **Total Steam Production-Operation** | **0** | **3,100** | **1,995,856** | **2,325,000** | **1,995,856** | **2,328,100** |
| 5 | | | | | | | | |
| 6 | | **Steam Production-Maintenance** | | | | | | |
| 7 | 506 | Structures and Improvements | 0 | 0 | 1,548 | 8,230 | 1,548 | 8,230 |
| 8 | 512 | Steam Prodution Equipment | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 | | **Total Steam Production-Maintenance** | **0** | **0** | **1,548** | **8,230** | **1,548** | **8,230** |
| 10 | | | | | | | | |
| 11 | | **Distribution Expenses-Operation** | | | | | | |
| 12 | 870 | Supervision & Labour | 0 | 24,700 | 443,620 | 447,996 | 443,620 | 472,696 |
| 13 | 874 | Mains & Services | 0 | 0 | 24,664 | 27,677 | 24,664 | 27,677 |
| 14 | 878 | Removing & Resetting Meters | 0 | 0 | 0 | 0 | 0 | 0 |
| 15 | 880 | Other Distribution Operation | 0 | 0 | 0 | 0 | 0 | 0 |
| 16 | 933 | Transportation | 0 | 0 | 18,306 | 21,457 | 18,306 | 21,457 |
| 17 | | **Total Distribution Expenses-Operation** | **0** | **24,700** | **486,590** | **497,130** | **486,590** | **521,830** |
| 18 | | | | | | | | |
| 19 | | **Distribution Expenses - Maintenance** | | | | | | |
| 20 | 885 | Supervision & Labour | 0 | 0 | 0 | 0 | 0 | 0 |
| 21 | 886 | Structures & Improvements | 0 | 0 | 0 | 0 | 0 | 0 |
| 22 | 887 | Mains & Services | 0 | 0 | 44,305 | 51,061 | 44,305 | 51,061 |
| 23 | 889 | Meters & House Regulators | 0 | 0 | 169,963 | 80,944 | 169,963 | 80,944 |
| 24 | 894 | Other Distribution Maintenance | 0 | 0 | 0 | 0 | 0 | 0 |
| 25 | | **Total Distribution Expenses-Maintenance** | **0** | **0** | **214,268** | **132,005** | **214,268** | **132,005** |
| 26 | | | | | | | | |
| 27 | | **Customer Accounts Expenses-Operation** | | | | | | |
| 28 | 901 | Supervision | 0 | 0 | 0 | 0 | 0 | 0 |
| 29 | 902 | Meter Reading & Billing Delivery | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 | 903 | Customer Records & Collection Exp | 0 | 0 | 0 | 0 | 0 | 0 |
| 31 | 904 | Uncollectible Acounts | 0 | 0 | 0 | 0 | 0 | 0 |
| 32 | | **Total Customer Accounts Exp-Operation** | **0** | **0** | **0** | **0** | **0** | **0** |
| 33 | | | | | | | | |
| 34 | | **Sales Promotion Expenses-Operation** | | | | | | |
| 35 | 910 | Sales Expense | 0 | 0 | 41,655 | 69,501 | 41,655 | 69,501 |
| 36 | 911 | Advertising | 0 | 0 | 0 | 0 | 0 | 0 |
| 37 | | **Total Sales Promotion Exp - Operation** | **0** | **0** | **41,655** | **69,501** | **41,655** | **69,501** |
| 38 | | | | | | | | |
| 39 | | **Administrative & General - Operation** | | | | | | |
| 40 | 915 | Directors Fees | 0 | 0 | 49,268 | 24,150 | 49,268 | 24,150 |
| 41 | 920 | Admin & General Salaries | 0 | 0 | 545,469 | 486,180 | 545,469 | 486,180 |
| 42 | 921 | Office Supplies & Exp | 0 | 500 | 101,669 | 132,760 | 101,669 | 133,260 |
| 43 | 922 | Admin & General Exp | 0 | 0 | 6,111 | 5,449 | 6,111 | 5,449 |
| 44 | 923 | Special Services | 11,100 | 7,600 | 386,217 | 798,762 | 397,317 | 806,362 |
| 45 | 924 | Insurance | 0 | 0 | 84,458 | 88,828 | 84,458 | 88,828 |
| 46 | 925 | Injuries & Damages-WCB | 0 | 0 | 17,870 | 14,131 | 17,870 | 14,131 |
| 47 | 926 | Employee Benefits | 0 | 0 | 373,300 | 542,296 | 373,300 | 542,296 |
| 48 | 930.1 | Institutional or Goodwill Advert Exp | 0 | 0 | 0 | 0 | 0 | 0 |
| 49 | 930.2 | Other Admin. And General Exp | 0 | 0 | 0 | 0 | 0 | 0 |
| 50 | | **Total Admin & General-Operation** | **11,100** | **8,100** | **1,564,361** | **2,092,556** | **1,575,461** | **2,100,656** |
| 51 | | | | | | | | |
| 52 | | **Administrative & General - Maintenance** | | | | | | |
| 53 | 932 | Maintenance of General Plant | 0 | 0 | 30,123 | 35,389 | 30,123 | 35,389 |
| 54 | | **Total Admin & General-Operation** | **0** | **0** | **30,123** | **35,389** | **30,123** | **35,389** |
| 55 | | | | | | | | |
| 56 | | **Regulatory Gross O&M Expense** | **11,100** | **35,900** | **4,334,401** | **5,159,811** | **4,345,501** | **5,195,711** |
| 57 | | | | | | | | |
| 58 | | O&M Expenses Allocated to Capital % | | | | | | |
| 59 | | O&M Expenses Allocated to Capital $ | | | (19,700) | (20,100) | (19,700) | (20,100) |
| 60 | | | | | | | | |
| 61 | | O&M Allocated to Affiliate | | | (22,100) | (19,500) | (22,100) | (19,500) |
| 62 | | | | | | | | |
| 63 | | **Regulatory Net O&M Expense** | **11,100** | **35,900** | **4,292,601** | **5,120,211** | **4,303,701** | **5,156,111** |

**9.0 Reference: DETERMINING THE IBR REVENUE REQUIREMENT**
**Exhibit B-3, Appendix 1, Schedule 15; Creative Energy Compliance Filing, Schedule 15B**
**Actual O&M Allocated to Capital**

In Appendix 1, Schedule 15 of the Supplementary Information Filing, Creative Energy shows an amount of zero for Actual 2016 O&M Expenses Allocated to Capital.

Schedule 15B of the Compliance Filing shows an Approved 2016 O&M Expenses Allocated to Capital amount of $19,700.

9.1 Please explain why the Actual O&M allocation to capital in 2016 was zero in Appendix 1, Schedule 15 of the Supplementary Information Filing.

**RESPONSE:**
This was an oversight in 2016 and will be corrected in the supplemental filing

9.1.1 If the amount was not zero, please provide the Actual 2016 amount.

**RESPONSE:**
If this was done, the amount that should have been allocated to Capital in 2016 is $18,638

**10.0 Reference: DETERMINING THE IBR REVENUE REQUIREMENT**
**Exhibit B-3, Appendix 1, Schedule 7**
**Work-in-progress**

Creative Energy provides the following information with respect to its work-in-progress in Appendix 1, Schedule 7 of the Supplementary Information Filing:

| Line # | Item | 2016 Audited | 2017 Preliminary | 2017 Forecast | Reference |
|---|---|---|---|---|---|
| 1 | Work-in-Progress Not Earning AFUDC | | | | |
| 2 | Opening | 1,011,496 | 37,214 | 1,186,496 | |
| 3 | Closing | 37,214 | 529,527 | 1,086,496 | |
| 4 | Mid-year Average | 524,355 | 283,370 | 0 | |

10.1 Please provide a reconciliation of opening to closing Actual work-in-progress for 2017 on a project by project basis.

**RESPONSE:**

| | 2016 | 2017 | Expected Completion in 2018 | Type of Capital IR 10.2 |
|---|---|---|---|---|
| Vancouver Community College | 13,833 | - | | |
| Vancouver Art Gallery | 3,286 | - | | |
| Land & Land Rghts | 18,642 | 18,642 | | Operating Capital |
| Remote Metering | 1,452 | - | | |
| Sofame Pipe replacement | | 13,166 | Q1 2018 | Operating Capital |
| Building Metering Overhaul | | 47,809 | Q1 2018 | Operating Capital |
| BC Place Plant Project | | 62,757 | Dec-20 | Operating Capital |
| Softener Upgrade | | 41,928 | Sep-18 | Operating Capital |
| Customer x - Drainage Overhaul | | 32,286 | Q4 2018 | Operating Capital |
| Manhole Restoration/Overhaul | | 227,125 | Apr-18 | Operating Capital |
| Remote Metering Project | | 31,674 | 2018 | Operating Capital |
| Expansion Joint Overhaul | | 12,187 | Jun-18 | Operating Capital |
| Cordova Pipe Replacement | | 1,483 | Q1 2018 | Operating Capital |
| Boiler 2 UPS | | 6,330 | Q1 2018 | Operating Capital |
| Delta V Upgrade | | 34,139 | Q1 2018 | Operating Capital |
| | 37,214 | 529,527 | | |

10.2 Please indicate when each work-in-progress project is expected to go into service and what type of capital project it is (i.e. Sustainment Capital, Growth Capital, or Other Capital).

**RESPONSE:**
Creative Energy only classifies capital into two categories: Operating and Growth Capital. Please refer to table above for expected service date.

10.3 Please explain why closing Actual work-in-progress for 2017 is $556,969 less than Forecast work-in-progress for 2017.

**RESPONSE:**
The Table from Schedule 7 for the 2017 Forecast column should be zero. In the 2016/17 RR Application decision, generally operating capital tends to complete within the calendar year. With that, the closing Actual WIP will be greater than the zero WIP in 2017 Forecast and that is due to the timing of some of the projects being completed in Q1 2018 and some projects not being started at all.

## 11.0 Reference: DETERMINING THE IBR REVENUE REQUIREMENT
**Exhibit B-3, Appendix 4, Table 11**
**SG&A expenses**

In Appendix 4 of the Supplementary Information Filing, Creative Energy provides the following explanation for the variance between Actual and Forecast 2017 Directors Fee: "Reduction of one Board member and fewer meetings."

11.1 Please clarify whether Creative Energy expects to add another Board member or if the reduced number of Board members is likely to remain for the 5-year IBR period.

**RESPONSE:**
Creative Energy anticipates to add an additional 2 Board members: one to replace the Board member that had left and an additional Board member

11.1.1 If Creative Energy is not expecting to add a replacement Board member, please explain whether it would be more appropriate to reduce the Directors Fee expense to reflect this reduction in Base O&M.

**RESPONSE:**
For the additional Board members, Creative Energy is not asking to increase the Director Fees costs

Appendix 4 of the Supplementary Information Filing also shows that Actual 2017 General Plant Maintenance Expense were $35,389 and the average expense for 2015 to 2017 was $30,266, compared to Forecast 2017 expenses of $49,200.

11.2 Given these amounts, please discuss whether it would be more appropriate to adjust the 2017 Base O&M for General Plant Maintenance to an amount closer to Actual 2017 costs.

**RESPONSE:**

Creative Energy is seeking approval for the index increase to rates not revenue requirements or costs. The principal behind the IBR mechanism is that an indexed increase will be applied to rates, and Creative Energy will be responsible for managing costs on a higher level than line-by-line basis, over the period of the IBR. We do not consider it appropriate to adjust for actuals given the nature of the request, especially considering the age of the facility.

In Appendix 4 of the Supplementary Information Filing, Creative Energy states that the negative variance between Actual and Forecast 2017 Admin & General Salaries is because of a "Greater allocation to Capital and other Projects."

11.3 Please elaborate what is meant by the above quote given that the percentage of O&M expenses allocated to capital is a fixed percentage (line 58 of Appendix 1, Schedule 15) and the amount allocated to other projects was determined by the Commission in the Creative Energy 2016-2017 RRA Decision.

**RESPONSE:**
Upon further review of the 2017 YE Audit files, the amount that should have been reported in the Supplementary Information should have included an additional amount of $57K relating to Bonuses. This would bring the 2017 Admin & General Salaries in line with what was reflected in the 2016/17 RRA. Please see Appendix A for correction.

11.4 Would it be appropriate to adjust the 2017 Base O&M for Admin & General Salaries to an amount closer to Actual 2017 costs? Why or why not?

**RESPONSE:**
See 11.3 Response

## 12.0 Reference: DETERMINING THE IBR REVENUE REQUIREMENT
**Exhibit B-3, Appendix 1, Schedule 16**
**Property taxes**

Lines 30 and 38 in Appendix 1, Schedule 16 of the Supplementary Information Filing, show that the allocation percentages to non-regulated projects is 11.4 percent, 24.19 percent and 27.69 percent for utility land, BC Place lease, and utility building property taxes, respectively.

12.1 Please explain how the allocation percentages noted in the preamble were determined.

**RESPONSE:**
Based on the table below, the allocation percentages are calculated as follows:

**Row 30 =** row 28/row 29; row 37 = row 35/row 36; row 46 = row 44/row 45

| | | | | | |
|---|---|---|---|---|---|
| 27 | **Leasable Area - Land** | | | | |
| 28 | Building Leasable Area Sq. Ft. | 5,900 | 5,900 | 5,900 | 5,900 |
| 29 | Total Land Area Sq. Ft. | 51,744 | 51,744 | 51,744 | 51,744 |
| 30 | Allocation % | 11.40% | 11.40% | 11.40% | 11.40% |
| 31 | Land Tax | 277,012 | 300,668 | 299,460 | 299,460 |
| 32 | Allocated to Non-Reg | $ 31,586 | $ 34,283 | $ 34,142 | $ 34,142 |
| 33 | | | | | |
| 34 | **Portion of Land Tax related to BC Place Lease** | | | | |
| 35 | Leasable Area Sq. Ft. | 12,517 | 12,517 | 12,519 | 12,519 |
| 36 | Total Land Area Sq. Ft. | 51,744 | 51,744 | 51,744 | 51,744 |
| 37 | Allocation % | 24.19% | 24.19% | 24.19% | 24.19% |
| 38 | Land Tax | 277,012 | 300,668 | 299,460 | 299,460 |
| 39 | Allocated to Non-Reg | $ 67,009 | $ 72,732 | $ 72,451 | $ 72,451 |
| 40 | | | | | |
| 41 | Leased Area of Building | | | | |
| 42 | Leased Area Sq. Ft. | 5,900 | 5,900 | 5,900 | 5,900 |
| 43 | Leased Area Sq. Ft. | 5,400 | 5,400 | 5,400 | 5,400 |
| 44 | Total Leased Area Sq. Ft. | 11,300 | 11,300 | 11,300 | 11,300 |
| 45 | Total Area of Building | 40,803 | 40,803 | 40,803 | 40,803 |
| 46 | Allocation % | 27.69% | 27.69% | 27.69% | 27.69% |
| 47 | Building Tax | 1,095 | 983 | 1,248 | 1,248 |
| 48 | Allocated to Non-Reg | $ 303 | $ 272 | $ 346 | $ 346 |
| 49 | | | | | |

Line 18 in Appendix 1, Schedule 16 of the Supplementary Information Filing, shows that total Actual property taxes for 2017 was $475,276. Lines 31 and 38 of the same schedule show that the amount of land tax to be allocated is $300,668 and the amount of building tax to be allocated is $1,128 on line 47.

12.2 Please explain why the amount of property taxes to be allocated (i.e. $301,796) is not based on Actual property taxes for 2017 (i.e. $475,276).

**RESPONSE:**
The purpose of the schedule was to determine the portion of tax that relates to the non-regulatory activities. To include the total actual property tax for 2017 of $475,276 would be to unfairly allocate the Utility portion of taxes between the regulatory and non-regulatory activities of the business.

## 13.0 Reference: DETERMINING THE IBR REVENUE REQUIREMENT
**Exhibit B-3, Appendix 1, Schedule 17**
**Municipal taxes**

13.1 Please explain the nature of the $259,400 adjustment to steam revenue which is "Carried over to 2017" in the approved 2017 revenue requirement. Please explain the rationale for including the $259,400 in the calculation of municipal taxes on steam revenue.

**RESPONSE:**
This was an oversight and should not have been included in the calculation of the Municipal taxes. Please see correction in Appendix A.

13.2 Please explain the nature of the $151,200 "Prior Year Flat Fee" shown on line 5 of Appendix 1, Schedule 17 in the Supplementary Information Filing.

**RESPONSE:**
The "Prior Year Flat Fee" was part of the MAA agreement with the City of Vancouver. Per the MAA agreement, the starting base of $100,000 will be increased in the same percentage of increase in the Tariff rates. See 3.2 (a)(ii)

**14.0 Reference: DETERMINING THE IBR REVENUE REQUIREMENT**
**Exhibit B-3, Appendix 1, Schedule 21**
**Other income**

14.1 In Appendix 1, Schedule 21 of the Supplementary Information Filing, please explain the variance in Other income between Actual 2017 income of $29,976 and Forecast 2017 income of $5,000.

**RESPONSE:**
The variance is due to increased interest charge collected on late payment for invoices.

14.2

## C. INDEX BASED RATEMAKING PLAN

**15.0 Reference: COMPONENTS OF IBR MECHANISM**
**Exhibit B-1, Section 3.2, pp. 9–11; Statistics Canada, Consumer Price Index, CANSIM Table 326-0020; Statistics Canada, Statistical classifications, Metropolitan areas – SGC 2006, Vancouver, British Columbia [59933]; Statistics Canada, CANSIM Table 281-0063 Index**

Creative Energy proposes to use an inflation factor based on BC-AWE (Average Weekly Earnings) and Vancouver-CPI (Consumer Price Index) and to apply a 53 percent weighting to BC-AWE and a 47 percent weighting to Vancouver-CPI.

15.1 Please explain and provide the calculations for how Creative Energy derived the 53 percent / 47 percent weighting between labour and non-labour.

**Response:**
**the weighting was calculated taking all salary costs divided by the total O&M expenses.**
Creative Energy states on page 10 of the Application:

> Fortis' approved PBR [Multi-Year Performance-Based Ratemaking] plan uses BC-CPI, not Vancouver-CPI. Creative Energy proposes to use Vancouver-CPI as it is more reflective of the unique cost pressures faced by a business which operates entirely in downtown Vancouver. Vancouver-CPI information is based on data from the entire Vancouver metropolitan area, which is roughly contiguous with the boundaries of Metro Vancouver.

15.2 With respect to "Non-Labour Component (CANSIM 326-0020, All Items, Vancouver BC)," please explain whether Creative Energy considers the Vancouver-CPI to be indicative of the change in input prices it expects to experience over the term of the proposed IBR plan. As part of this response, please explain the types of inputs, how and where these inputs are sourced and what drives the prices of these inputs. In particular, please describe the nature of Creative Energy's non-labour costs and whether these costs are sourced from Vancouver-specific vendors.

**Response:** Creative Energy has provided 5-years of historical actuals, in CEC Response 26.1. It is clear when looking at the year over year changes in costs, that many are rising at a rate higher than CPI or Creative Energy's proposed index. While there are some costs incurred that closely track against CPI, Creative Energy has proposed an index in order to set rates with stable, predictable increases, using an index (CPI and Average Weekly Earnings) that customers would likely be familiar with and is publicly available. As stated in IR response 11.2, the index is applied to the rates and not the revenue requirement and therefore should not be used to predict or track increases in individual line item costs. With many of our costs rising faster than CPI, it is up to Creative Energy as a company to manage our business and costs effectively.

Creative Energy expects the Vancouver-CPI to be reasonably indicative of the change in non-labour input prices it will experience over the term of the proposed IBR plan. Creative Energy submits that Vancouver-CPI and BC-CPI are closely linked, and the intention in using Vancouver-CPI is not to imply that all of Creative Energy's cost inputs are sourced in Vancouver, any more so than the use of BC-CPI by a provincial-scale utility such as FortisBC would imply that they source all costs within BC. Where possible

Ultimately many of CE's non-labour costs are driven by changes in global markets. However, some of Creative Energy's costs – for example, water, power, and property taxes – are driven by

a combination of the underlying cost drivers of the relevant service (e.g. BC Hydro's costs, which in turn are driven by numerous other cost changes), plus policy decisions by government.

15.2.1 Please clarify why Creative Energy selects all products and product groups in the Vancouver-CPI.[1] Did Creative Energy consider other selections, such as "Water, fuel and electricity"? Please also provide the supporting CANSIM table.

**Response:** Creative Energy did consider using "Water, fuel and electricity" but rejected this for several reasons. "Water, fuel and electricity" is a subcategory of "Shelter", and the organization of the CANSIM data suggests that it is meant to capture homeowners' utility costs. Creative Energy's costs do include water and electricity, but also include many other costs not included in this category. Creative Energy's natural gas costs are recovered outside the steam rates through a separate charge.
The other selection considered by Creative Energy was BC-CPI (All Items). Please see the response to BCUC IR 1.15.4.

15.2.2 Please confirm that "Vancouver BC" refers to "Vancouver, British Columbia [59933]."[2] If not confirmed, please explain.

**Response:** Confirmed**.**

15.2.3 Creative Energy's business operates entirely in downtown Vancouver. To the extent possible and if applicable, please restate the non-labour component based on "5915022 – Vancouver" data.[3] Please also provide the supporting CANSIM table. Which is the most appropriate dataset for the IBR plan proposal?

**Response:** 5915022 – Vancouver is the CANSIM statistical area classification for the City of Vancouver only. 59933 – Vancouver is the CANSIM statistical area classification for the Vancouver census metropolitan area. While some Statistics Canada data is available at the level of individual municipalities (as opposed to metropolitan areas), CPI data is not provided at that level of granularity, so 59933 – Vancouver is the only available index.

15.3 Please discuss whether Creative Energy considers the Vancouver-CPI to be more volatile than the BC-CPI and whether volatility should be considered when choosing the appropriate index.

**Response:** Creative Energy does not take a position on whether Vancouver-CPI is more volatile than BC-CPI. Creative Energy does observe that over the August 2011 – July 2017 period, the annual average value of the Vancouver-CPI (All Items) had a greater total increase than BC-CPI (All Items). Please see the response to BCUC IR 1.15.4.

15.4 Please provide a comparison of the past five years' of Vancouver-CPI and BC-CPI with the supporting CANSIM tables.

**Response:** Please see footnotes below for CANSIM tables. Creative Energy is uncertain how providing a comparison of 3rd party data is of value to the analysis. As stated in 15.1, the indexed increases are not

[1] Statistics Canada, CANSIM Table 326-0020, http://www5.statcan.gc.ca/cansim/a26?lang=eng&id=3260020#customizeTab.
[2] Statistics Canada, Metropolitan areas – SGC 2006, Vancouver, British Columbia [59933], http://www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVD&TVD=131862&CVD=139182&CPV=59933&CST=01012006&CLV=2&MLV=3.
[3] Statistics Canada, Metropolitan areas – SGC 2006, Vancouver [5915022], http://www23.statcan.gc.ca/imdb/p3VD.pl?Function=getVD&TVD=131862&CVD=131864&CPV=5915022&CST=01012006&CLV=3&MLV=3.

selected to be reflective of Creative Energy's line by line cost escalation. The below table provides a summary of the past five years of Vancouver-CPI and BC-CPI (All Items).

15.5 Please provide the non-labour component of the rate change factor and the overall rate change factor based on the BC-CPI instead of the Vancouver-CPI. Please also provide the supporting CANSIM table.

**Response:** If Creative Energy uses BC-CPI instead of Vancouver-CPI, the non-labour component of the rate change factor would be 1.96% instead of 1.98% as shown in the response to BCUC IR 1.15.4. The overall rate change factor would be (1.71% x 53%) + (1.96% x 47%) = 1.83%, instead of 1.84%.

15.6 For the "Labour Component (CANSIM 281-0063, BC, Industrial aggregate excluding unclassified businesses)" [11-91N],[4] please discuss the pros and cons of using "Average weekly earnings including overtime for all employees (dollars)" for BC, Utilities [22] only instead. Which is the most appropriate dataset for the IBR plan proposal?

**Response:** The Utilities category captures electric, gas, and water utilities. Creative Energy's staff do have skills that overlap with staff at these types of utilities, but Creative Energy's business is slightly different and some staff have skills and training more similar to staff at industrial facilities, than at power or gas utilities. Because of the similarities between Creative Energy's staff and staff at other types of industrial facilities, Creative Energy submits that the Industrial Aggregate is more appropriate. The below table restates the labour component using BC Utilities data. The labour component increase would be 5.96%. The overall rate change factor would be (5.96% x 53%) + (1.98% x 47%) = 4.09%, instead of 1.84%. In Appendix 1, Creative Energy has provided five years of data on AWE for BC-Utilities. Creative Energy notes that AWE BC-Utilities appears to be more variable, year-to-year, than AWE BC-Industrial Aggregate excluding unclassified businesses.

[4] Statistics Canada, CANSIM Table 281-0063, http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=2810063&&pattern=&stByVal=1&p1=1&p2=-1&tabMode=dataTable&csid=.

| | Labour (AWE, BC Utilities) | |
|---|---|---|
| | 2015/16 | 2016/17 |
| Aug | 1,700.13 | 1,730.02 |
| Sept | 1,577.58 | 1,658.94 |
| Oct | 1,614.48 | 1,727.95 |
| Nov | 1,605.43 | 1,794.96 |
| Dec | 1,567.11 | 1,804.00 |
| Jan | 1,694.18 | 1,726.37 |
| Feb | 1,645.40 | 1,975.76 |
| Mar | 1,822.15 | 1,721.37 |
| Apr | 1,860.00 | 1,662.37 |
| May | 1,781.26 | 1,784.56 |
| Jun | 1,707.11 | 1,931.37 |
| Jul | 1,605.27 | 1,864.29 |
| | | |
| Average | 1,681.68 | 1,781.83 |
| Increase | | 5.96% |

15.6.1 Please restate the labour component column using BC, Utilities [22] data and calculate the corresponding increase and rate change factor. How do Utilities [22] differ in comparison with Creative Energy's original information?

**Response:** Please see the response to BCUC IR 1.15.6.

**16.0 Reference: COMPONENTS OF IBR MECHANISM**
**Exhibit B-1, Section 3.2.3, p. 11; Exhibit B-3, Appendix 1, Schedule 4**
**Capital expenditures**

In the Application, Creative Energy states: "approved capital expenditures of $1.27 million in 2017, adjusted for inflation, are a fair and reasonable basis to determine base IBR capital for the period 2018-2022" because capital expenditures over the past seven years have been, on average, $1.1 million, as shown in Table 1 below:

*Table 1- Average Capital*

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|
| Capital Additions | 1,161,000 | 769,000 | 1,293,000 | 692,000 | 957,000 | 1,507,000 | 1,270,000 |
| 5 Year Rolling Average | | | | | 974,000 | 1,044,000 | 1,144,000 |
| Average of line 2 | | | | | | | 1,054,000 |

In Appendix 1of the Supplementary Information Filing, Creative Energy shows that Forecast capital

expenditures in 2017 were $1,270,000 in the "2017 RRA Approved" version of Schedule 4 and Actual capital expenditures were $399,771 in the "2017 Preliminary" version of Schedule 4.

16.1 Please explain the ($870,229) variance between Forecast and Actual capital expenditures in 2017.

**RESPONSE:** There were unexpected delays in some of the major operating projects that had carried over to 2018 with respect to conflicting projects and delays to completing projects due to weather conditions and City's approval

16.2 Please confirm that the amounts shown for years 2011 to 2016 in Table 1 above are Actual capital expenditures (i.e. only 2017 is a Forecast capital expenditure).

**RESPONSE:** Confirmed that the amounts shown for years 2011 to 2016 are in fact Actual Capital expenditures.

16.2.1 If not confirmed, please clarify which amounts are Actual capital expenditures and which amounts are Forecast capital expenditures. Please also provide an amended table which includes only Actual capital expenditures for years 2011 to 2017.

By Order G-139-14 dated September 15, 2014 and the accompanying decision, the Commission approved a Multi-Year Performance-Based Ratemaking (PBR) Plan for FortisBC Inc. (FBC) for 2014 through 2019. In the decision, FBC defined capital expenditures into three categories as follows:

- "Sustainment Capital – Consists of expenditures for system reinforcements, replacements and upgrades to generation, transmission and distribution assets to ensure safety, integrity and reliability.
- Growth Capital – Consists of expenditures for infrastructure upgrades required to meet customer and associated load growth.
- Other Capital – Consists of expenditures for Information Systems, Vehicles, Metering, Telecommunications, Facilities, and Tools and Equipment."[5]

16.3 Using the definitions for the three categories of capital expenditure in the preamble above, please provide a breakdown of Actual capital expenditures for the years 2011 to 2017 into Sustainment Capital, Growth Capital and Other Capital.

**RESPONSE**: Prior to 2014/15, the accounting records are kept in a manual format. To collate the information required, will be very manual intensive. Please see table that shows Capital Additions for 2015 through to 2017 which were recorded after the manual system had been converted to SAGE 300 ERP system.

**17.0 Reference: COMPONENTS OF IBR MECHANISM**
**Exhibit B-1, Section 3.2.3, pp. 11–12**
**Base capital and capital exclusion**

Creative Energy states in the Application:

> In the future, if a capital project exceeds what Creative Energy considers base capital, then Creative Energy will seek approval for such capital expenditures before committing to the capital project… This inclusion of major capital projects in the customer rates

[5] FortisBC Inc. Multi-Year Performance-Based Ratemaking Plan for 2014 through 2018 Application, Decision dated September 15, 2014, pp. 205–206.

would be done through the submission of a CPCN application to the BCUC.

On page 12 of the Application, Creative Energy defines base capital as regular capital additions to the system. Creative Energy states:

> Regular capital additions include boiler upgrades to the plant and to the manholes within the distribution system. The boiler upgrades include control upgrades, back up and redundancy instrumentations. The distribution capital additions pertain to restoration of several manholes.

17.1 Please clarify what is meant by "if a capital project exceeds what Creative Energy considers base capital…"

**Response:** The base capital is for predictable, planned, and often reoccurring maintenance to the plant or to the distribution system, and the type of projects are predictable. Each year there are approximately 5-10 projects ranging in cost from $5k to $400k. 2017 projects are listed in Response 10.1. Given that these capital maintenance projects are all necessary to maintain the existing steam system, the Company does not believe it is necessary to further define "base capital". Projected projects included in the "base capital" over the next five years include man-hole repairs, PRV rebuilds, remote metering, meter replacements, etc. The majority of the 5-year capital plan is repairs and maintenance to the distribution system.

17.2 What does Creative Energy consider to be an appropriate cost threshold for triggering a Certificate of Public Convenience and Necessity (CPCN) filing requirement? Please discuss.

**Response:** The Company has not proposed a cost threshold for triggering a CPCN. As noted in the previous response, the Company believes that capital projects that require a CPCN will be not be the same as past capital projects. Moreover, viewed against type of past capital projects a new capital project that requires a CPCN will be easily identified as being different from past capital projects. For example, the replacement of boilers would require a CPCN regardless of the cost threshold because the company has never replaced a boiler.

17.3 Does Creative Energy anticipate it will be filing any CPCNs in the upcoming five years? Please generally describe any anticipated large capital expenditures/projects over the upcoming five years and the expected timing of such expenditures/projects.

**Response:** Yes, the Company expects to seek approval to install two new boilers in BC Place, and to reconfigure the existing plant, including the removal of existing boilers. That CPCN application is expected to be filed before the review of this Application is completed. Creative Energy has made the Commission aware of the previously mentioned CPCN, and is not aware of any others at this time. Unexpected events that occur, requiring capital, or maintenance outside the capital plan may seek recovery through future CPCNs.

On page 12 of the Application, Creative Energy states:

> A portion of the Base IBR Capital will be used to proceed with the remote metering installations in customer buildings. As the installation[s] are expected to take place over a period of 5 years, Creative Energy does not intend to seek approval for these installations as it fits within the Base IBR Capital budget for the period of the IBR.

17.4 Please provide the portion (i.e. percentage and amount) of base capital which will be used "to proceed with the remote metering installations in customer buildings" in each of the next five years.

**Response:** The capital includes $100,000/per year for the remote metering project by virtue of the same amount being included in capital expenditures in the 2017 revenue requirements (2016-2017 RRA Proceeding – Exhibit B-1A, Schedule 4, Line # 26) The percentage of capital for this project is approximately 10% of the capital of $1.1 million.

**18.0 Reference: COMPONENTS OF IBR MECHANISM**
**Exhibit B-1, Section 3.2.4, pp. 14–15; Section 1.2, p. 3**
**Continuous customer service quality**

On page 14 of the Application, Creative Energy states:

> Customer service has always and will always be a core value at Creative Energy, and will be unaffected by our rate-setting mechanisms… we cannot afford to sacrifice customer service as a way to reduce costs and increase earnings, as it would lead to a loss of customers and therefore loss of earnings.

On page 3 of the Application, Creative Energy states:

> 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. Creative Energy will respond to customer service requirements, and if necessary, such response may affect the opportunity to earn a fair return. [emphasis added]

Under section 23 of the Utilities Commission Act, the Commission is required to ensure that utilities under its jurisdiction operate in a manner which provides safe and reliable service.

18.1 Please explain what actions Creative Energy will take to ensure that the current level of service for steam customers will be maintained.

**Response**: Creative Energy has gone 25+ years without an unplanned loss of service to customers. This level of service and reliability is Creative Energy's major differentiator against its competition. As well, Creative Energy has a relationship and knows each one of its customers individually, and has often asked to use existing customers as references. With reliability and high customer satisfaction being used as two key selling points of Creative Energy, failing to maintain the current service level would not only result in loss of current customers but harm the reputation and saleability of Creative Energy to potential customers.

18.2 Please elaborate on what is meant by the statement "Creative Energy will respond to customer service requirements, and if necessary, such response may affect the opportunity to earn a fair return." What responses may Creative Energy undertake? Please describe the actions and the cost/benefit analysis that will be made in pursuing these actions.

**Response:**

Creative Energy has a relationship and knows each one of its customers individually, and has often asked to use existing customers as references. With reliability and high customer satisfaction being used as two key selling points of Creative Energy, if we fail to maintain the current service level, dissatisfied customers have many alternative they may switch to and have the option to disconnect from Creative Energy's system.

While there have been no unplanned losses of service to customers in the past 25 years, regular planned maintenance of an aging system often requires portions of the system to be temporarily shut down. Creative Energy plans these shutdowns to the best of our ability to minimize the impact on customers (when no heating is required ie. Summertime, nighttime,

etc.) However, there are instances where Creative Energy has worked with customers who cannot go without service and provided alternative methods of temporary services during the shutdown. Provision of temporary service is not a cost that has ever been included in our cost of service applications, nor is it included in the IBR mechanism but Creative Energy is committed to providing customers with energy at all times.

18.3 Please identify five key service quality indicators that Creative Energy currently tracks which could continue to be tracked under the IBR plan. Please provide the results of these indicators for the past five years, including what was the target result.

**Response:** Creative Energy has a 100% reliability, we respond to customer calls in an efficient manner and have regular contact with our customers receiving frequent face to face feedback; Creative Energy is not aware of any complaints from its customers to the Commission. Creative Energy thinks this is a better quality indicator and does not believe there will be value in suggesting or tracking alternative SQI's.

18.3.1 As a condition of approving the IBR mechanism, would Creative Energy be willing to commit that these service quality indicators, as measured annually, will be reported to the Commission?

**Response:** Creative Energy is not willing to commit to annually measured and reported indicators, and does not see value in the time required to report these.

18.3.1.1 If so, what does Creative Energy propose to be the target result or range of results for each of these service quality indicators and why? How many years outside the proposed targets or ranges would be considered acceptable? Why?

**Response**: See response 18.3.1.

**19.0 Reference: COMPONENTS OF IBR MECHANISM**
**Exhibit B-1, Sections 3.2.5, 3.2.6, pp. 15–16**
**Off-ramps and review**

Creative Energy is not proposing any off-ramps as part of the Application and is not proposing any annual reviews.

Creative Energy states on page 16 of the Application: "Items outside of the IBR formula will have to be reviewed annually to adjust the non-IBR portion of the rates."

19.1 Please clarify if the statement in the above preamble is referring to the need for the Commission to review the non-IBR portion of the rates annually. If this is not what the sentence is referring to, please explain how Creative Energy anticipates receiving Commission approval to change rates annually without some form of review and approval process.

**Response:** Items outside of the IBR will require a review by the Commission and will require approval to change rates.

19.2 If the Commission were to determine that some form of annual review were required during the IBR term, please outline the areas/topics which should be included (and excluded) from that review and a proposed process. For instance, please discuss the appropriateness of reviewing load forecast variances and deferral account balances as part of an annual review.

**Response:** The Company does not support annual reviews during the IBR term. Annual reviews would not be consistent with the rate setting principles. In particular, annual reviews would not be consistent with the principle that the Commission should use the least amount of regulatory oversight to protect the ratepayer.

The Company is seeking approval for the IBR mechanism that does not use load forecasts for rate-setting purposes. For that reason, it is not necessary for the Commission to consider or review load forecast variances. The Company does expect to make compliance filings as necessary to meet the regulatory parameters relevant to deferral account balances.

The Company does not believe there are any areas/topics relevant to the IBR mechanism that require an annual review, assuming that an annual review process would be similar to those adopted under PBR Plans. The cost of such an annual review could easily exceed $50k.

19.3 If the Commission determined that one or more off-ramps were required as part of the IBR plan, please discuss which off-ramp(s) Creative Energy considers most appropriate. As part of this response, please discuss and quantify the following ranges for potential off-ramp triggers:

- +/- dollar variance between Actual and Allowed return on equity (ROE);
- +/- percentage variance between Actual and Allowed ROE;
- +/- dollar variance between Actual and IBR-driven annual revenue requirement; and
- +/- percentage variance between Actual and IBR-driven annual revenue requirement.

**Response:** The Company believes that risks related to earning the approved ROE and the revenue requirement are symmetrical so the Company has not proposed off-ramp triggers. If circumstances change dramatically during the IBR test period, then the IBR mechanism could be reviewed without a formulaic off-ramp trigger. Nevertheless, the Company provides the following comments regarding the off-ramp triggers proposed in this information request:

- +/- dollar variance between Actual and Allowed return on equity (ROE);

An off-ramp trigger based on the dollar variance between actual and allowed ROE has the benefit of basing the off-ramp on absolute terms, which avoids the risk of losing sight of the amount of dollars involved. The Company would recommend a dollar variance of $450,000.

- +/- percentage variance between Actual and Allowed ROE;

If this type of off-ramp trigger was established, then the Company would recommend an off-ramp trigger based on a 4% variance between Actual and Allowed ROE.

- +/- dollar variance between Actual and IBR-driven annual revenue requirement;
- +/- percentage variance between Actual and IBR-driven annual revenue requirement.

The Company does not believe an off-ramp trigger based on either the percentage or dollar variance between Actual and IBR-driven annual revenue requirement is appropriate because annual revenue requirements are not an input to the IBR mechanism and, unlike ROE variances, will not be calculated annually.

## D. DEFERRAL ACCOUNTS

**20.0 Reference: DEFERRAL ACCOUNTS**
**Creative Energy 2016-2017 RRA Decision, pp. 48–49**
**Third Party Regulatory Costs Deferral Account (TPRCDA)**

On page 48 of the Creative Energy 2016-2017 RRA Decision, the Commission stated the following:

> **The Panel approves the creation of a TPRCDA specifically limited to capture the annual variance between forecasted and actual third party costs relating to regulatory filings and proceedings required under the UCA, with a one year amortization period at a short term debt carrying cost. The Panel further determines that the TPRCDA will be in effect for a 5 year period from the date of this Decision and concurrent Order, at the end of which period Creative Energy will have to apply to the Commission for renewal of the TPRCDA.**

20.1 Please explain how Creative Energy intends to address the Commission's directive that the TPRCDA will only be in effect for five years and that at the end of this period Creative Energy will have to apply for renewal of the account, given that the proposed IBR plan will be in place until 2022.

**RESPONSE:** The Company proposes that the TPRCDA not be included in base rates of this Application. The Company plans to seek renewal of the TPRCDA before the end of its 5 year effective period.

20.1.1 As part of the above response, please discuss whether Creative Energy would consider requesting an extension of the TPRCDA's term until the next RRA is filed (i.e. presumably until 2022).

**RESPONSE:** The Company does not believe an extension request is necessary, and that the Commission can extend the TPRCDA term in the decision following this proceeding. In the event that the Commission disagrees, then the Company would request an extension of the TPRCDA if directed to do so by the Commission.

**21.0 Reference: DEFERRAL ACCOUNTS**
**Exhibit B-1, Section 6.1.1, Table 2, pp. 19–21; Appendix 1, Schedule 15;**
**Exhibit B-3, Table 6.1**
**TPRCDA and Special Services expense**

Schedule 15 in Appendix 1 shows a 2017 RRA Approved amount for Special Services of $289,200 and a 2017 Adjusted Base amount of $291,700.

21.1 Please explain why the base amount has been adjusted by $2,500 from the approved amount.

**RESPONSE:**
The Schedule 15 in the 2018-22 IBR Application is arrived at after costs allocation based on the Massachusetts Formula which resulted in a $2,500 difference from the 2017 RRA Approved amount.

Creative Energy provides the following table (Table 2) on page 19 of the Application:

| THIRD PARTY REGULATORY COSTS DEFERRAL ACCOUNT | | | | | | | |
|---|---|---|---|---|---|---|---|
| | EXPENSE ITEM | 2016 APPROVED | 2016 ACTUAL | 2016 VARIANCE | 2017 APPROVED | 2017 ACTUAL | 2017 VARIANCE |
| REGULATORY | | | | | | | |
| 1 | BCUC QUARTERLY FEES | 28,000 | 17,622 | 10,378 | 43,000 | 21,684 | 21,316 |
| 2 | STEAM SHARE - NEFC PACA | - | | - | | | - |
| 3 | | | | - | | | - |
| 4 | ANNUAL CONTRACTING PLAN | 5,000 | 0 | 5,000 | | | - |
| 5 | BCUC - REGULATORY REPORTING | - | - | - | - | | - |
| 6 | CONSULTANTS - LTRP | - | | - | 48,000 | 714,880 | (666,880) |
| | | | | - | | | - |
| RRA | | | | | | | |
| 1 | CONSULTANTS - SALARY REVIEW | 12,000 | 10,000 | 2,000 | | | - |
| 2 | CONSULTANTS - RRA | 30,000 | 57,887 | (27,887) | 48,000 | | - |
| 3 | CONSULTANTS - RATE DESIGN | 100,000 | 7,139 | 92,861 | | | - |
| 4 | PACA | 26,250 | 37,386 | (11,136) | 27,200 | | - |
| 5 | BCUC (PROCEEDING COSTS) | 11,250 | 49,518 | (38,268) | 15,000 | | - |
| | TOTAL (DEFICIENCY)/SURPLUS | 212,500 | 179,552 | 32,948 | 181,200 | 736,564 | (645,564) |

21.2 Please confirm, or explain otherwise, that the expense amount included in the 2017 Adjusted Base for Account #923 – Special Services related to the TPRCDA is $181,200.

**RESPONSE:**
Confirmed

21.2.1 As part of this response, please confirm, or explain otherwise, that there are no expense amounts included in the 2017 Adjusted Base O&M for third party costs related to the Annual Contracting Plan, BCUC – Regulatory Reporting, Consultants – Salary Review, or Consultants – Rate Design.

**RESPONSE:**
Confirmed. Currently, there are no third party costs pertaining to Annual Contracting Plan, BCUC (Regulatory Reporting), Consultants (Salary Review) and Consultants (Rate Design)

Table 6.1 of the Supplementary Information Filing provides the following amounts for BCUC Quarterly Fees:

- 2016 Approved = $28,000
- 2016 Actual = $17,622
- 2017 Approved = $43,000
- 2017 Actual = $21,684

21.3 Please discuss whether it would be more appropriate to set the 2017 Adjusted Base amount for BCUC Quarterly Fees at an amount more consistent with actual results.

**RESPONSE:**
It would not be appropriate to set the 2017 Adjusted Base amount for BCUC Quarterly Fees at an amount consistent with actual results. Creative Energy is including an amount in the 2017 Adjusted Base and will be trued up/down to actuals and the difference will be captured in the TPRCDA..

21.3.1 If yes, please propose a revised amount to include as part of the 2017 Adjusted Base O&M.

**RESPONSE:**
Please see response below 21.3.

21.3.2 If no, please explain why not.

**RESPONSE:**
Please see response below 21.3

21.4 Please clarify if the 2017 Approved RRA amounts from Table 2 of the Application are included in the 2017 Adjusted Base O&M (i.e. Consultants – RRA of $48,000, PACA of $27,200 and BCUC [Proceeding Costs] of $15,000).

**RESPONSE:**
Confirmed

21.4.1 If yes, please explain whether it would be more appropriate to remove these expenses from the Adjusted O&M Base due to their non-recurring nature.

**RESPONSE:**
These are forecast numbers and will be trued up/down to actuals and hence not appropriate to remove these expense from the Adjusted O&M base. The difference will be captured in the TPRCDA.

21.5 Please clarify if the 2017 Adjusted Base O&M includes the $48,000 approved amount for Consultants for the Long-Term Resource Plan (LTRP).

**RESPONSE:**
Confirmed

21.5.1 If yes, please explain whether it would be more appropriate to remove this expense from the Adjusted O&M Base since this expense is related to a past Commission proceeding.

**RESPONSE:**
These are forecast numbers and will be trued up/down to actuals and hence not appropriate to remove these expense from the Adjusted O&M base. The difference will be captured in the TPRCDA.

21.5.2

**22.0 Reference: DEFERRAL ACCOUNTS**
**Exhibit B-1, Section 6.1.1, Table 2, pp. 19–20; Exhibit B-3, Table 6.1, pp. 1–2; Exhibit A-3, Appendix B, Supplementary Information List; Creative Energy 2015-2017 Revenue Requirements Application, Decision and Order G-98-15 dated June 9, 2015 (2015-2017 RRA Decision), pp. 11–15; Creative Energy 2016-2017 RRA Decision, p. 48 Long-Term Resource Plan (LTRP)**

Table 2 on page 19 of the Application shows a 2017 Approved amount for "Consultants – LTRP" of $48,000 and a 2017 Actual amount of $714,880.

Table 6.1 of the Supplementary Information Filing shows an updated 2017 Actual amount for "Consultants – LTRP" of $720,232.

On page 20 of the Application, Creative Energy states:

The LTRP Application specifically addressed the Fuel Switch Program. The Application

> was filed following Directive #3 in Commission Order G-98-15 and Decision for the Creative Energy 2015-2017 RRA, and Directive #3 in Commission Order C-12-15 and Decision for the CPCN for a Low Carbon Neighbourhood Energy System for NEFC. By Order G-147-17, the Commission adjourned the review of the LTRP, and directed the Company to file a complete and updated LTRP.
>
> In this Application, the Company seeks recovery of incurred costs of the LTRP Application. The incurred costs include costs that pre-date the approval of the TPRCDA and, in part, were not forecast in accordance with the 2016-2017 RRA Decision.

On page 48 of the Creative Energy 2016-2017 RRA Decision, the Commission directed the following regarding the TPRCDA:

> **The Panel approves the creation of a TPRCDA <u>specifically limited to capture the annual variance between forecasted and actual third party costs relating to regulatory filings and proceedings required under the UCA</u>, with a one year amortization period at a short term debt carrying cost.** [emphasis added]

In Exhibit A-3, Appendix B (Supplementary Information List), the Commission requested Creative Energy to provide, among other things:

- a detailed breakdown and description of the LTRP costs incurred per year (request 4a);
- the number of consultants utilized, the number of hours incurred per consultant, and the rate charged per consultant (request 4b); and
- the amount of time and associated cost spent on the LTRP in the preparation of the application and the amount of time and associated cost spent after the application was filed related to the regulatory proceeding (request 4c).

In response to Question 4a of the Supplementary Information List, Creative Energy provided the following table:

| 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|
| $ 29,099.53 | $ 122,270.92 | $ 320,778.08 | $ 374,243.50 | $ (126,160.03) |

22.1 For the costs related to each year in the above table, please provide a breakdown and description of the types of costs incurred, including how much of the costs are directly related to the preparation and filing of the LTRP regulatory application.

**Response:** Approximately $15,000 of the costs were directly related to the preparation and filing of the LTRP. The majority of the costs incurred are from multiple consulting firms that contributed to the feasibility work required to complete the study.

22.2 Please clarify what the grants are related to and who provided the grants.

**RESPONSE:**
The Grants are related to the Feasibility Study for a "Low Carbon Conversion of Central Heat Steam Utility Study for Downtown Vancouver". The City of Vancouver and The Federation of Canadian Municipalities provided the grants.

22.3 Please provide the total costs which were incurred prior to the Commission's directive to file an LTRP.

**Response:** The total costs incurred prior to the Commissions directive were $472,148.53

22.3.1 Please explain why it is appropriate to include these costs in the TPRCDA given that Creative Energy was not directed to file a LTRP with the Commission until 2015. Further, please explain how these costs are reasonably connected to the Commission's directive to file an LTRP Application given that these costs pre-date the Commission's directives.

**Response:** Pursuant to section 44.1 of the UCA, a public utility must file with the Commission a long-term resource plan. In order to satisfy the requirements of s. 44.1, it was necessary for the Company to investigate alternative energy sources. Preliminary efforts to satisfy the requirements of s. 44.1 of the UCA began prior to the costs incurred to prepare the Fuel Switch Study. In any event, s. 44.1 of the UCA required the Company to incur the costs set forth in the above table from 2013-2017. Although the Commission did not direct Creative Energy to file a LTRP until Order G-98-15 dated June 9, 2015, the requirement to file a LTRP is also the subject of section 44.1 of the UCA.

22.4 Please explain why the costs incurred in 2013 through 2015 were not forecast as part of previous revenue requirements.

**Response:** The costs incurred in 2013 to 2015 were not forecast as part of previous revenue requirements because the Company did not seek recover of such costs as part of previous revenue requirements.

On page 11 of the Creative Energy 2015-2017 RRA Decision, the Commission included the following statements made by Creative Energy in response to a Commission IR:

> [Creative Energy] is currently conducting a detailed feasibility study for a larger fuel switch serving both existing customers in the core and growth that may be attached to the core. This is a large and complex project that is intended to address City policy drivers, provincial policy drivers, and market needs. The study is being co-funded by the Federation of Canadian Municipalities (through a grant program) and the City of Vancouver.

22.5 Please explain if costs related to this feasibility study are included in the $720,232 balance in the TPRCDA. If yes, please explain why this is appropriate and how these costs meet the definition of allowable costs to be recorded in the deferral account directed by the Commission in the

Creative Energy 2016-2017 RRA Decision.

**RESPONSE:**
The costs related to this feasibility study are included in the $720,232. The TPRCDA is designed to capture the annual variance between forecast and actual third party costs related to regulatory filings and proceedings required under the UCA. The TPRCDA was approved by Order G-167-16 dated November 18, 2016. Prior to that time, the Company did not have a deferral account for costs such as the costs incurred for the LTRP. For that reason, the Company did not book the costs incurred for the LTRP in a deferral account. Since Order G-167-16, the Company has booked all costs incurred for the fuel switch study in the TPRCDA.

22.6 Please explain if the grants referred to in the above preamble relate to the grants included in the table provided in response to Question 4a of the Supplementary Information Filing. If yes, please explain how much of the $126,160.03 credit is related to the grants described in the preamble.

In response to Question 4b of the Supplementary Information Filing, Creative Energy attached a list of invoices (Appendix A) related to the LTRP and stated that the LTRP was completed over the course of 3-4 years and has "hundreds of associated invoices." Creative Energy also provided a list of 15 consultants used on the project.

**RESPONSE:**
The credit of $126,160 includes the grants and it represents the total grant credit plus any invoices that were incurred during that year.

22.7 Please clarify if all the costs provided in Appendix A to the Supplementary Information Filing relate solely to Creative Energy's core steam business. If not, please distinguish which costs were incurred solely for Creative Energy's core steam business.

**Response:** The fuel switch study investigated a switch from natural gas to clean urban wood waste to produce steam to meet the core steam business thermal energy requirements, including NEFC, with potential connection to other neighbourhoods in downtown Vancouver in the future. Connection to other neighbourhoods would be a benefit to the steam customers in the form of reduced rates. Therefore, all costs for the fuel switch study were incurred solely for Creative Energy's core steam business.

22.8 Please explain why some, if not all, of the costs outlined in Appendix A to the Supplementary Information filing are not more appropriately characterized as business development costs as opposed to regulatory costs.

**Response:** The fuel switch study costs are regulatory costs because such costs were incurred solely for Creative Energy's core steam business, and to switch from natural gas to clean urban wood waste. The principal objective of the fuel switch study was not business development, but to investigate a low carbon energy source for service to the core steam business.

22.9 Of the 15 consultants listed in the Supplementary Information Filing, please indicate which consultants, if any, worked directly on the preparation of the LTRP Application to the Commission.

**Response:** Reshape Strategies worked directly on the preparation of the LTRP Application.

In response to Question 4c of the Supplementary Information List, Creative Energy stated: "The preparation of the LTRP Filing was done internally by Creative Energy to minimize costs. The bi-annual update report was completed February 15th 2018, by Reshape Infrastructure Strategies and Creative Energy incurred a cost of $4,057.00."

22.10 In consideration of Creative Energy's statement that the preparation of the LTRP Filing was done internally by Creative Energy, please explain whether this indicates that none of the $720,232 are directly related to the regulatory filing and therefore should not be included in the TPRCDA.

**Response:** The LTRP Filing was done internally by Creative Energy, but the reference to the LTRP Filing was not intended to include the fuel switch study, and should have expressly excluded the fuel switch study.

On page 22 of the Application, Creative Energy requests approval to accrue carrying charges on the LTRP expenses recorded in the TPRCDA at its Weighted Average Cost of Debt (WACD) and to amortize the balance over two years instead of the approved one year.

22.11 Please explain why WACD carrying charges are appropriate given that the TPRCDA was directed by the Commission in the Creative Energy 2016-2017 RRA Decision to accrue short-term debt carrying charges.

**Response:** The TPRCDA is designed to recover variance between actual and forecast costs during a one year amortization period. Given the one year amortization period, a short term debt carrying cost is appropriate. However, for the reasons noted above, the fuel switch study costs were incurred beginning in 2013 and will not be fully recovered until 2019. For that reason, WACD carrying charges are appropriate.

22.11.1 As part of this response, please clarify if Creative Energy is requesting a reconsideration and variance of Order G-167-16 (i.e. the 2016-2017 RRA Decision).

**Response:**
Creative Energy is seeking approval for carrying charges based on WACD for the fuel switch study costs. Creative Energy does not believe a reconsideration and variance of Order G-167-16 is necessary for approval of WACD for the fuel switch costs.

**23.0 Reference: DEFERRAL ACCOUNTS**
**Exhibit B-1, Section 6.1.2, Table 3, pp. 21–22;**
**Creative Energy 2015-2017 RRA Decision, pp. 43–55**
**Pension Baseline Expense Deferral Account**

Table 3 on page 21 of the Application shows a 2017 approved Pension Expense of $224,000.

23.1 Please confirm, or explain otherwise, that the $224,000 pension expense amount is included in the 2017 Adjusted O&M Base.

Response:
Confirmed
Creative Energy states the following on page 21 of the Application:

> The second item in this account is the Pension Revaluation that occurred in December 31, 2016. Every three years the Pension account is revaluated against the value of Creative Energy itself, and any deficiencies are added to the pension fund to ensure repayment of pension funds in the event of a termination of the business.

On page 54 of the Creative Energy 2015-2017 RRA Decision, the Commission stated that it "approves a Pension Expense Deferral Account to capture the variance between the forecast Pension Expense recovered in rates and the Pension Expense reported in the company's audited financial statements."

23.2 Please confirm, or explain otherwise, that the December 31, 2016 pension revaluation of

$257,600 represents the variance between the Forecast pension expense recovered in rates and the pension expense reported in the company's audited financial statements. Please provide the supporting information for this response, including the pension expense amounts recovered in rates and the pension expense reported in the audited financial statements.

RESPONSE:
The credit of $126,160 includes the grants and it represents the total grant credit plus any invoices that were incurred during that year. Please see attached documentation for the revaluation made in 2017 based on a Dec 31, 2016 date. This amount would be recorded in the 2017 YE financials.

23.3 Please explain what impact, if any, the Pension Revaluation has on the After Tax Pension Asset Rate Base deferral account.

RESPONSE:
There will be no impact to the After Tax Pension Asset Rate Base deferral account

23.4 Please explain how the Pension Revaluation is recorded for accounting purposes.

RESPONSE:
The Pension Revaluation is recorded by Debiting the Pension Expense and Crediting Accrued Liabilities
On page 22 of the Application, Creative Energy requests approval to accrue carrying charges on the pension expense deferral account at its WACD.

23.5 Please explain why WACD carrying charges are appropriate given that the deferral account was directed by the Commission in the 2015-2017 RRA Decision to accrue short-term debt carrying charges.

RESPONSE:
This was an oversight and will correct accordingly. The impact to the IBR is minimal to the tune of $197

23.5.1 As part of this response, please clarify if Creative Energy is requesting a reconsideration and variance of Order G-98-15 (i.e. the 2015-2017 RRA Decision).

RESPONSE:
Creative Energy is not requesting a reconsideration and variance of Order G-98-15

## E. DEMAND FORECAST

**24.0 Reference: DEMAND FORECAST**
**Exhibit B-1, Section 4.0, p. 17; Order G-13-17 dated February 1, 2017;**
**Creative Energy 2016-2017 RRA Decision, Table 6, p. 23**
**Steam demand forecast**

In the Application, Creative Energy states that it proposes to use the 2017 load forecast during the five-year term of the IBR plan because it does not expect significant changes in load.

By Order G-13-17, the Commission approved Creative Energy's 2017 steam service demand forecast, as set out on Table 6 of the Creative Energy 2016-2017 RRA Decision issued concurrently with Order G-167-16. For convenience, this table has been copied below:

**Table 6**
**Total Steam Demand Forecast**

| Steam Demand | 2016 | 2017 |
|---|---|---|
| Existing Steam Customers M# | 1,067,999 | 1,069,572 |
| NEFC M# | 5,440 | 28,942 |
| Total Demand (NEFC + Steam) (M#) | **1,073,439** | **1,098,514** |

24.1 Please confirm, or explain otherwise, that the load forecast for steam and NEFC customers that Creative Energy proposes to use during the five-year IBR plan is the forecast shown above in Table 6 of the Creative Energy 2016-2017 RRA Decision issued concurrently with Order G-167-16.

**Response:** Confirmed.

24.2 Please discuss the likelihood that Creative Energy's load will increase over the next five years.

**Response:** The biggest driver of our current load, is weather. We do not anticipate any material net changes to our load due to customers, we are at risk of customers leaving the system or customers finding ways to reduce their loads. This is a risk to Creative Energy, that we will manage as a company.

24.2.1 In the event that Creative Energy's load increased during the proposed IBR term, how would Creative Energy propose to address this to ensure that rates being charged to customers are not higher than appropriate?

**Response:** The IBR mechanism we have proposed puts the company at risk for decreased load, as well as, increases. Annual loads are highly dependent on weather and are expected to fluctuate.

## F. FUEL COSTS

**25.0 Reference: FUEL COSTS**

**Exhibit B-1, Section 5.0, p. 18**
**Approval sought – amortization period**

Creative Energy states in the Application:

> Creative Energy was directed in Order G-167-16 to amortize the balance of the Fuel Cost Stabilization Account (FCSA) over a 2-year period should the balance exceed +/- 5% of the previous 12-months fuel costs. The balance in the account is to be reviewed bi-annually, and therefore it is unlikely the amount required to be amortized would be greater than $100,000. Due to the relatively small amount, Creative Energy requests a variance the amortization period be shortened to a 1-year period. Other than the shortened amortization period, Creative Energy is not requesting any changed [sic] to the FCAC and will continue to manage the FCAC and the FSCA [sic], as directed in Order G-167-16.

In 2017, in compliance with Order G-167-16, Creative Energy filed information regarding the Fuel Cost Adjustment Charge (FCAC) on January 10, 2017, May 2, 2017 and June 26, 2017, with certain amendments.

25.1 Creative Energy expects that "it is unlikely the amount required to be amortized would be greater than $100,000." Please clarify whether this is at any point in time or referring to the year-end balance only.

**Response:** This is referring to the times when the account must be reviewed, bi-annually.

25.2 Please provide the FCSA balance by month from 2015 to present. How many times did the FCAC change during this period and what were the approved FCACs?

**Response:** Creative Energy has filed compliance filings on the FCAC and FCSA since 2015. The FCAC has changed 11 times in this period.

| Month | | Actual Adj. | FCSA Balance |
|---|---|---|---|
| 2015 | | | 2015 |
| Jan/15 | $ | 12.25 | -719,943 |
| Feb. | | $10.75 | -716,465 |
| Mar. | | $10.50 | -762,770 |
| Apr. | | $10.25 | -861,397 |
| May. | | $9.50 | -900,791 |
| Jun. | | $9.50 | -855,707 |
| Jul. | | $9.50 | -818,047 |
| Aug. | | $9.50 | -794,901 |
| Sep. | | $9.50 | -770,068 |
| Oct. | | $9.50 | -768,382 |
| Nov. | | $9.50 | -922,186 |
| Dec. | | $9.50 | -922,088 |
| 2016 | | | 2016 |
| Jan/16 | | $9.50 | (885,181) |
| Feb. | | $8.75 | (993,227) |
| Mar. | | $8.75 | (964,179) |
| Apr. | | $8.25 | (960,122) |
| May. | | $7.00 | (972,697) |
| Jun. | | $7.00 | (894,350) |
| Jul. | | $7.00 | (720,051) |
| Aug. | | $7.00 | (582,731) |
| Sep. | | $8.00 | (426,803) |
| Oct. | | $8.00 | (201,883) |
| Nov. | | $9.50 | (316,002) |
| Dec. | | $12.00 | (182,560) |
| 2017 | | | 2017 |
| Jan/17 | | $10.85 | (126,435) |
| Feb. | | $10.85 | (234,346) |
| Mar. | | $10.85 | (425,307) |
| Apr. | | $10.85 | (383,833) |
| May. | | $10.85 | (445,998) |
| Jun. | | $10.85 | (431,260) |
| Jul. | | $10.85 | (430,140) |
| Aug. | | $10.85 | (389,894) |
| Sep. | | $10.85 | (274,758) |
| Oct. | | $10.85 | (295,453) |
| Nov. | | $10.85 | (280,339) |
| Dec. | | $10.85 | (475,034) |
| 2018 | | | 2018 |
| Jan/18 | | $10.85 | (748,807) |
| Feb. | | $10.85 | (927,574) |

25.3 Creative Energy proposes a one-year amortization period because it views that the FCSA balance is relatively small. Please state the objective of Creative Energy's proposal (i.e. rate stability, speed of cost recovery/collection, administrative efficiency, etc.)

**Response:** Speed of cost recovery and administrative efficiency.

25.3.1 Please clarify under what conditions Creative Energy would revert back to a two-year amortization period. For example, if the account balance to be amortized exceeds $100,000, would Creative Energy seek further approval from the Commission?

**Response:** Creative Energy would not revert back to a two year amortization period.

25.4 Please provide customer bill samples by rate class (if applicable).

**Response:** Please see response to BCOAPO IR 1, question 1.1 from the 2016 – 2017 Revenue Requirements Application & Rated Design for North East False Creek proceeding.

Rate classes are not applicable.

25.5 Please calculate and compare the customer rate impact if Creative Energy used: (i) existing two-year amortization period; and (ii) the proposed one-year amortization period. Provide calculation details and/or assumptions.

**Response:** There is not currently an amount to be amortized.

25.5.1 Is Creative Energy amortizing the FCSA account balance to zero? If not, please explain.

**Response:** No, Creative Energy was not directed to amortize the balance to zero. The directive by the Commission clearly states any amount in EXCESS is to be amortized.

"Where the balance in the FCSA exceeds plus/minus 5 percent of the most recently approved 12 month forecast total Fuel Cost any amount in excess of this is to be distributed through the FCAC rate rider with an amortization period of two years"[6]

25.6 Please explain why Creative Energy proposes no change to the FCAC. What criteria does Creative Energy use to determine whether a FCAC change is warranted? Please explain.

**Response:** Creative Energy was directed to review the account June 30 and December 31 of each year, as of December 31, 2017 the FCSA is within +/- 5% of the previous 12-month fuel costs; therefore it doesn't require a change.

25.6.1 Please clarify why the FCAC should remain unchanged at this time. Is the FCSA within +/- 5 percent of the previous 12-months fuel costs? Or is there a separate rate rider to refund (collect) any deferral account surplus (deficit)?

**Response:** See response 25.6.

## 26.0 Reference: FUEL COSTS
**Exhibit B-1, Appendix 1, Schedule 14; Appendix 2;**
**Order G-160-17 dated October 19, 2017; Order G-13-17 dated February 1, 2017**
**FCSA and FCAC**

In Appendix 2 of the Application, Creative Energy provides the Revenue Requirement – Change Summary schedule. Line 26 shows the "Interest on FCSA."

26.1 Please confirm that Line 26 – Interest on FCSA is zero. If confirmed, does the zero interest indicate that there is a deficit balance (i.e. Creative Energy would collect from customers)?

**Response:** The FCSA and FCAC are now completely separate from the Tariff, hence why the number is zero. Creative Energy was directed to recover any interest through the FCAC not the tariff.

"The FCSA will have carrying charges at the WACD calculated on the mid-year balance. The carrying charges are to be added to the FCSA and not forecast as a credit to the revenue requirements." [7]

[6] P.30 2016–2017 REVENUE REQUIREMENTS APPLICATION AND RATE DESIGN FOR NEFC HOT WATER SERVICE DECISION
[7] P.30 2016–2017 REVENUE REQUIREMENTS APPLICATION AND RATE DESIGN FOR NEFC HOT WATER SERVICE DECISION

In Schedule 14 of Appendix 1, Creative Energy provides the Fuel Cost – Base Charge schedule. By Order G-160-17, the Commission in Directive 1 stated:

> Creative Energy Vancouver Platforms Inc.'s proposal to remove the 41 cents per one million BTU from its Steam Tariff and include it as part of its fuel costs recovered through the Fuel Cost Adjustment Charge effective January 1, 2017, is approved.

By Order G-13-17, the Commission approved a Fuel Cost Adjustment Charge of $10.85 per one million British Thermal Unit (MM BTU), effective January 1, 2017.

26.2 What is the purpose of Schedule 14 of Appendix 1? Why did Creative Energy only show the $0.41 per MM BTU base charge which was removed by Order G-160-17, instead of the current $10.85 per MM BTU FCAC?

**Response:** Schedule 14 should be removed from Appendix 1. There should be no fuel costs included within Appendix 1. The FCAC is not part of the revenue requirement Creative Energy is seeking approval for.

26.3 Please clarify the cost components behind the FCAC. Why was the $0.41 per MM BTU in place and how did it related to the FCAC of $10.85?'

**Response**: Creative Energy and the Commission have extensively reviewed the FCAC in previous applications. Please see p.24-30 of "REVENUE REQUIREMENTS APPLICATION AND RATE DESIGN FOR NEFC HOT WATER SERVICE DECISION" for discussion on FCAC.

26.4 For the 2016 Forecast column in Schedule 14, how does Creative Energy forecast the $695,000 and $53,000 line items? What do line items $53,000 and $748,000 represent? Please clarify.

**Response:** See response 26.2.

## G. CAPITAL STRUCTURE AND COST OF CAPITAL

**27.0 Reference: CAPITAL STRUCTURE AND COST OF CAPITAL**
**Exhibit B-1, pp. 13, 14; Appendix 1, Schedule 13; Appendix 2; British Columbia Utilities Commission Generic Cost of Capital Proceeding (Stage 2), Decision and Order G-47-14 dated March 25, 2014; Order G-82-15 dated May 20, 2015; InstarAGF Infrastructure website, Creative Energy Developments; InstarAGF Essential Infrastructure Fund Partners with Creative Energy, February 13, 2018 News Release (Globe Newswire) Common equity component and equity risk premium**

On May 1, 2015, Creative Energy filed a report regarding business risks and cost of capital, as directed by Order G-47-14. By Order G-82-15, the Commission determined that the approved return on equity and deemed equity thickness for Creative Energy will continue to be based on the default equity thickness of 42.5 percent and equity risk premium of 75 basis points (bps) for regulated Thermal Energy Systems, as established in Order G-47-14 dated March 25, 2014.

In the Application, as shown in Appendix 2 and Schedule 13 of Appendix 1, Creative Energy applied a 42.5 percent equity thickness and 9.5 percent return on equity, which is 75 bps over the 8.75 percent benchmark.

27.1 On page 13 of the Application, Creative Energy discusses the company will bear the load forecast risk, cost risk, and revenue risk associated with the IBR mechanism. If Creative Energy's proposal is approved, please discuss whether Creative Energy is of the view that the company's capital structure and/or return on equity should change or remain the same.

**Response:** As noted in this information request, Creative Energy is not seeking approval in this proceeding for an increase to the approved return on either the equity or deemed capital thickness, in light of the increased risk presented by the IBR mechanism.

27.1.1 How would Creative Energy assess its regulatory risk (i.e. higher, same or lower) relative to the status quo if the IBR mechanism is implemented?

**Response:** Creative Energy believes approval of the IBR mechanism will not materially change the Company's regulatory risks. For example, the regulatory risks related to approval of fair and reasonable

rates, or the application of the Fair Return Standard should not change. However, business risks such as those related to decreases in loads and increases in the cost of service will change with the IBR mechanism. Given the IBR mechanism does not propose either a deferral account for load variances or adjustments to underlying load forecast assumptions during the IBR period, the Company is assuming greater risks with the IBR mechanism. Nevertheless, the Company is proposing the IBR mechanism primarily for the following reasons: 1) rate stability, 2) simplicity 3) reductions to the cost of regulation, and 4) consistency with the TES Guidelines.

27.2 On page 14 of the Application, Creative Energy discusses its competitive risk, and states that "[t]here is no regulation saying that buildings must connect to Creative Energy's system…" Please discuss whether there are any regulations or bylaws saying that buildings must connect to a specific form of fuel (i.e. electricity, natural gas, steam or other).

**Response:** There are no regulations or bylaws saying that must connect to a specific form of fuel, there are however certain forms of fuel i.e. electricity and natural gas, that buildings only have one choice of provider, BC Hydro and Fortis respectively. For sources of thermal energy there are multiple options for buildings to choose from, including but not limited to steam, on-site gas boilers, electric baseboards, and heat pumps.

27.2.1 Please compare Creative Energy's steam service rates with other competitive fuel options (i.e. electricity rates, natural gas rates and other, if applicable). Please include a discussion and cost comparison factoring in capital costs and connection costs.

**Response:** Creative Energy's steam service rates are approximately $65/MWh compared to natural gas rates of approximately $30-35/MWh (depending on efficiency) and $118/MWh for electricity.

Capital costs and connection costs would be specific to each building depending on size and location of the building, as well as grants available through both Fortis and BC Hydro.

27.3 In a similar format provided in the May 1, 2015 report's Appendix A – Default Standard Group Matrix, please update Creative Energy's risk assessment in terms of competition risk, customer load risk, development cost risk, operating cost risk, rate design risk, regulatory risk, and others.

**Response:** The May 1, 2015 report's Appendix A-Default Group Matrix has been updated as requested in BCUC IR 27.3.1 (Row 5) and in BCUC 27.3.2 (Row 21).

Please see Attachment 27.3 for updated Matrix.

27.3.1 In January 2018, Creative Energy filed an application with the Commission regarding Renewable Natural Gas Purchase. Please include as part of the above risk assessment in terms of new customer and sales growth, as well as potential benefits and risks to existing ratepayers.

**Response:** See Attachment 27.3

27.3.2 In February 2018, Creative Energy and InstarAGF announced a 50/50 equity interest in Creative Energy's existing regulated assets subject to Commission approval.[8] As part of the above risk assessment, please discuss the impact as a result of this partnership announcement.

**Response:** See Attachment 27.3

[8] InstarAGF Infrastructure website, http://www.instaragf.com/en/strategies/infrastructure/investments/creative-energy-developments.html; InstarAGF February 13, 2018 News Release, https://globenewswire.com/news-release/2018/02/13/1340017/0/en/InstarAGF-Essential-Infrastructure-Fund-Partners-with-Creative-Energy.html.

27.4 Line 25 of Appendix 2 of the Application shows "Actual/Proposed Return on Equity" and line 15 of Schedule 13 in Appendix 1 of the Application shows "Cost of Capital % (Actual & Proposed)." Please confirm that the $1,045,000 and 9.5 percent shown on these lines, respectively, reflect the allowed ROE and equity thickness of Creative Energy as established by Order G-82-15. If not confirmed, please clarify.

**Response**: Confirmed

27.4.1 What are Creative Energy's Actual capital structure and Actual ROE? Please provide the Actual amounts from 2011 to present.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|
| Debt | 14,851,401 | 14,997,507 | 16,821,700 | 17,310,463 | 16,085,813 | 17,289,037 | 21,342,946 |
| Total Debt/Equ | 24,184,907 | 24,290,389 | 24,439,235 | 25,611,460 | 25,800,773 | 28,023,287 | 33,300,086 |
| Equity | 38.0% | 35.4% | 36.6% | 32.4% | 37.7% | 38.3% | 35.9% |
| Debt | 61.4% | 61.7% | 68.8% | 67.6% | 62.3% | 61.7% | 64.1% |
| Earned Return | $ 1,263,184 | $ 706,124 | $ 485,597 | $ 543,633 | $ 221,100 | $ 864,026 | $ 1,222,890 |
| ROE | 13.7% | 8.2% | 5.4% | 6.5% | 2.3% | 8.0% | 10.2% |

Note that 2017 is still a forecast number.

27.5 If available, what is Creative Energy's current credit rating? Has its credit rating changed since 2011? If Creative Energy does not have a credit rating, please discuss Creative Energy's financing arrangements.

**Response:** We do not obtain a credit rating. Creative Energy has a financing arrangement with Royal Bank of Canada. Please refer to prior years financing application for financing arrangements.