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

Decision
and Order G-205-18

October 25, 2018

Before:
D. A. Cote, Panel Chair
A. K. Fung, QC, Commissioner

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APPENDICES

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1.0 Introduction

1.1 Background

On December 1, 2017, Creative Energy Vancouver Platforms Inc. (Creative Energy, the Company) filed its 2018-2022 revenue requirements application (RRA) with the British Columbia Utilities Commission (BCUC) seeking, among other things, approval of a five-year index based ratemaking (IBR) mechanism to be applied to setting steam rates for the years 2018 to 2022, including interim and final approval to increase steam rates by 2.15 percent, effective January 1, 2018 (Application).

Prior to this Application, Creative Energy's steam rates have been set according to a traditional cost of service (COS) approach to utility rate setting.¹

As a result of various changes made to the Application in response to BCUC and intervener information requests (IRs), Creative Energy amended the steam rate increase sought. Creative Energy's final request seeks permanent approval to increase steam rates by 1.77 percent, effective January 1, 2018.²

1.2 The applicant

Creative Energy is a thermal energy utility that uses gas boilers to produce steam which is distributed to individual buildings through an underground network of distribution pipes. As at the time of the Application, it serves approximately 200 customers in downtown Vancouver and Northeast False Creek (NEFC) neighbourhoods in British Columbia (BC).

Creative Energy is a wholly-owned subsidiary of Creative Energy Platforms Canada Corporation (Creative Energy Corp.). The steam production plant and distribution network operated by Creative Energy were purchased by Creative Energy Corp. in March 2014 from Central Heat Distribution Ltd. (Central Heat). Creative Energy's vision is to build on the existing thermal energy system and create a "network of localized, low carbon neighbourhood energy systems in Metro Vancouver."³

In addition to its core steam business, Creative Energy operates one stand-alone thermal energy system outside of the steam network and is currently developing a number of other similar projects both inside and outside of the province of BC. Creative Energy states that the projects within BC will be regulated by the BCUC, and have, or will be, registered as Stream A utilities under the BCUC's Thermal Energy Systems (TES) Regulatory Framework Guidelines established by Order G-127-14 (TES Guidelines).⁴

Creative Energy's steam business is classified as a Stream B utility under the TES Guidelines.⁵

¹ Exhibit B-1, pp. 1–2; Creative Energy Vancouver Platforms Inc. (Creative Energy) 2016-2017 Revenue Requirements and Rate Design for NEFC Hot Water Service Application (2016-2017 RRA), Decision dated November 18, 2016, p. 9.

² Creative Energy Final Argument, p. 3.

³ <http://creative.energy/about-us/>.

⁴ Exhibit B-9, CEC IR 36.1–36.3; Exhibit B-12, BCUC IR 30.3–30.8, 33.7; Exhibit B-15, Panel IR 1.3–1.5.1.

⁵ Creative Energy 2016-2017 RRA Decision, p. 4.

1.3 Approvals sought

Creative Energy applies for the following, pursuant to sections 59 to 61 of the *Utilities Commission Act (UCA)*:

1. Approval of an IBR mechanism for setting steam rates for the years 2018 to 2022, including an IBR base revenue requirement of \$8,133,060;
2. Approval of a permanent increase in steam rates of 1.77 percent, effective January 1, 2018 (interim steam rates reflecting an increase of 2.15 percent were approved by Order G-200-17, effective January 1, 2018);
3. Approval of a Massachusetts Formula methodology to allocate Sales, General & Administrative (SG&A) costs between steam service and other projects, as described in Appendix 4 to the Application;
4. Approval of the recovery of the balance of the Regulatory Transitional Adjustment Account;
5. Amortization of the Pension Expense Deferral Account balance of \$162,563 as at December 31, 2017 over three years commencing in 2018;
6. Approval of a Third Party Regulatory Costs Deferral Account balance of \$521,098 as at December 31, 2017 (inclusive of Long-Term Resource Plan [LTRP] expenses), and amortization of this balance over three years commencing in 2018; and
7. Approval to change the amortization period of the Fuel Cost Stabilization Account (FCSA) from two years to one year.⁶

1.4 Regulatory process

By Order G-12-18 dated January 17, 2018, the BCUC established a regulatory timetable for the review of the Application, which provided for two rounds of IRs, written final arguments from Creative Energy and interveners and a written reply argument from Creative Energy.

The following four interveners registered and participated in the proceeding:

- British Columbia Old Age Pensioners' Organization *et al.* (BCOAPO);
- Commercial Energy Consumers Association of British Columbia (CEC);
- FortisBC Alternative Energy Services Inc. (FAES); and
- FortisBC Energy Inc. (FEI).

The regulatory timetable was subsequently amended by Orders G-43-18 and G-129-18 and by letter dated August 15, 2018, due to two requests for extensions and one decision on scope from the BCUC with respect to specifically identified IRs filed by interveners in the first round of IRs. Additionally, by letter dated July 20, 2018, the Panel issued IRs requesting Creative Energy provide further clarification on a number of issues. Creative Energy provided responses to Panel IRs on July 25, 2018.

While the proceeding was underway, on June 29, 2018, Creative Energy separately filed with the BCUC an application for a Certificate of Public Convenience and Necessity (CPCN) for the Expo and Beatty plants project and approvals related to reorganization (CPCN and Reorganization Application).⁷ In the CPCN and Reorganization Application, Creative Energy provides an expected construction timeline for the Expo and Beatty

⁶ Creative Energy Final Argument, p. 3; Exhibit B-1, p. 4.

⁷ <http://www.bcuc.com/ApplicationView.aspx?ApplicationId=631>.

plants project of January 2019 to October 2022 (Expo and Beatty Plants Project),⁸ which overlaps with the proposed five-year IBR term of January 1, 2018 to December 31, 2022. Considering the potential implications of the proposed Expo and Beatty Plants Project on Creative Energy’s business and the resulting impact on the revenue requirements and rates within the proposed IBR term, the Panel requested that Creative Energy and interveners address two questions as part of their final and reply arguments:

- (i) Whether, and to what extent, the proposed Expo and Beatty Plants Project raises potential uncertainties associated with Creative Energy’s load and revenues, operating costs, capital costs, rate base and other revenue requirement components during the proposed five-year IBR term; and if so, what their potential impact is on these components within the IBR term; and
- (ii) In consideration of the potential uncertainties identified above, is a reduction in the proposed five-year IBR term appropriate for the Panel’s consideration and, if so, what is the appropriate reduced IBR term and why?

In accordance with the amended Regulatory Timetable established by Order G-129-18 and by the BCUC’s letter dated August 15, 2018, the BCUC received written final arguments from BCOAPO and CEC on August 10, 2018 and Creative Energy’s written reply argument on August 20, 2018.

1.5 Issues arising and organization of the decision

This section of the decision outlines the Panel’s approach in the review and consideration of the evidence filed in this proceeding. In Section 2.0 of the decision, the Panel makes a determination on Creative Energy’s IBR proposal, providing its views on the reasonableness of the proposed IBR approach, including whether it is an appropriate time to depart from the status quo approach of COS. In Section 3.0 of the decision, the Panel examines the issues related to the setting of Creative Energy’s revenue requirements, including operating and maintenance (O&M) costs, rate base, load forecast and the proposed cost allocation methodology for shared sales, general and administration expenses. Lastly, in Section 4.0, the Panel makes determinations on Creative Energy’s deferral account requests.

2.0 Index based ratemaking versus cost of service

Fundamental to making a decision on this Application is reaching a determination on whether to accept the IBR methodology proposed by Creative Energy, some modified form of it, or to deny the proposal and move to an alternative approach to rate-making either as part of the current decision or in a subsequent proceeding. To this end, CEC has argued that the “gold standard” for ratemaking is COS and proposes that Creative Energy’s IBR Application be denied and Creative Energy be directed to provide a COS-based revenue requirement forthwith. Accordingly, this section will examine the proposed IBR mechanism and other alternatives to ratemaking.

2.1 Decision options

The following options for potential decisions have been identified as follows:

1. Approve the proposed IBR as submitted or with some modifications;
2. Reject the proposed IBR and order the filing of a new application; or
3. Reject the proposed IBR and set a rate for 2018 using an alternative mechanism, formula or method.

⁸ Creative Energy Application for a Certificate of Public Convenience and Necessity for the Expo and Beatty Plant Projects and Approvals Related to Reorganization (CPCN and Reorganization Application), Exhibit B-1, pp. 56–57.

A Panel decision to move forward with some form of the proposed IBR model pursuant to option 1 will then focus on how it can best be designed to serve the interests of both the ratepayer and the utility. In the alternative, a Panel decision to reject the IBR proposal but move forward with an alternative ratemaking mechanism for 2018 pursuant to option 3 will focus on the details of the alternative mechanism and over what period it will be applied.

2.2 Creative Energy's proposed IBR mechanism

2.2.1 IBR versus COS

Creative Energy seeks approval of a multi-year mechanism spanning from 2018 to 2022 to increase steam rates by relying upon an inflation factor. In addition to inflation, "rates may increase for reasons unrelated to inflation" but Creative Energy explains these would be limited to a few exceptions. Creative Energy states that the Application follows the principles established for Stream B utilities under the TES Guidelines. Throughout the Application process, Creative Energy has emphasized the magnitude of costs related to COS regulation and asserts its main objective is to establish an alternative mechanism for rate setting purposes and proposes the IBR mechanism. Creative Energy states it believes the establishment of this mechanism will result in predictable and stable rates over a long period. Put simply, the proposed IBR begins by using the approved 2017 revenue requirements (with certain adjustments) and the approved 2017 load forecast and increasing the resulting rates by an inflation factor over a five-year period.

Creative Energy's position is that it is a small utility with approximately 200 customers and any regulatory parameters and processes established should recognize its size and market circumstances as "proportionality is well established and is a broad concept in administrative law."⁹ It believes the IBR mechanism is both reasonable and appropriate and, when in place, will reduce the regulatory burden of the BCUC processes and decisions while still maintaining safe and reliable service. Creative Energy submits the IBR mechanism provides customers with predictable rates over the next five years but at the same time increases risks to the Company as it may result in rate increases that are below what may have been justified under COS regulation. Nonetheless, the IBR mechanism has been proposed and the Company believes it will provide a sound framework for ratemaking purposes permitting it to focus on challenges driven by policy and business environment changes.¹⁰

Creative Energy explains its core system has been operating for close to 50 years and costs have stabilized over this period. Moreover, it is in a steady environment with no changes forecast over the next five years. Creative Energy acknowledges that if costs are not kept down and revenue requirements increase more than inflation, it will not earn its allowed return or may have a net loss. It states that a five-year IBR must confer an opportunity to earn a fair return and having the IBR in place assumes operational costs will be stable over the period and the Company will continue to offer the same or better level of service. Further, given the importance of a loss of even one customer, Creative Energy considers there to be no need for regulatory oversight or regulatory penalties for degradation of service to ensure the level of service continues. It states that it "will respond to customer service requirements, and, if necessary, such response may affect its opportunity to earn a fair return."¹¹

⁹ Exhibit B-9, CEC IR 11.1.

¹⁰ Exhibit B-1, pp. 1–2.

¹¹ Exhibit B-1, p. 2.

2.2.2 Establishing the IBR base

Creative Energy proposes to use the approved 2017 revenue requirements as a base for the IBR mechanism, noting that it had been the subject of a full review by the BCUC. It further proposes to make a number of adjustments (some of which arose during the proceeding) to this amount in order to derive the IBR base. These adjustments are the following:

1. Adjustments for employee benefits that relate to the plant and service employees from the “Employee Benefits” expense;
2. Adjustments to reflect the allocation of SG&A expenses based on the Massachusetts Formula;
3. Removal of the revenue deficiency carry over from 2016;
4. Removal of the amortization of rate base and non-rate base deferral account amounts; and
5. An adjustment to account for the 66 percent increase in Creative Energy’s property tax assessment for the steam system.¹²

Creative Energy’s IBR formula for determining rates for each year from 2018 to 2022 is as follows:

$$\text{Rate} = (\text{Rate } t-1) * (1+I)$$

Where

Rate = Charge to Customer

T = Current Year

I = Inflation factor

Creative Energy states it has calculated an inflation factor of 1.84 percent to determine rates effective January 1, 2018 and a new application will be submitted after five years to set a new base rate and ensure all assumptions and inputs are still relevant.

2.2.3 Handling of capital expenditures

Creative Energy states that the 2017 costs of financing rate base are included in the IBR revenue requirements and the mechanism assumes that 2017 costs of financing rate base, adjusted for inflation, are fair and reasonable based on historical capital expenditures.

Creative Energy asserts the 2017 approved capital expenditures of \$1.27 million adjusted for inflation are fair and reasonable as a basis for determining the IBR base capital. The Company states that it does not expect to incur capital expenditures beyond base capital expenditures. However, it notes that there is the potential for other capital expenditures related to energy sources, including the existing plant, which it describes as “lumpy” and requiring a CPCN. For this reason and because of Creative Energy’s size, base capital criteria are not being proposed. Instead, if a capital project exceeds what Creative Energy considers base capital, it intends to seek BCUC approval before committing to such capital projects.¹³

¹² Exhibit B-1, pp. 7–8; Appendix 2; Exhibit B-15, Panel IR 3.1; Creative Energy Final Argument, pp. 4–5.

¹³ Exhibit B-1, pp. 11–12.

Creative Energy states there are situations where the IBR mechanism will not apply. The IBR model does not take into account major capital projects as it assumes maintenance costs will remain constant “from the base year.” Creative Energy states this could be incorrect where there is an unexpected major project occurring over the five-year period. If, for example, a major piece of equipment needs to be replaced a separate regulatory application will be submitted to address this. This would be included in customer rates for it to be recovered and avoid the Company facing large revenue losses. The base IBR capital amounts in IBR rates are to cover regular capital additions to the system and include items like boiler upgrades to the plant and manholes in the distribution system. Creative Energy also notes that a portion of base IBR capital will be used to allow for proceeding with a five-year remote metering installation program in customer buildings.

Creative Energy proposes that a capital project would require a CPCN if:

1. The project is likely to generate significant public concerns;
2. The project is outside of the “business as usual” capital projects in Creative Energy’s view; or
3. The BCUC deems a CPCN is necessary for that project regardless of the criteria.¹⁴

Under Creative Energy’s proposal, any capital projects which receive CPCN approval during the five-year IBR term would be outside of the IBR mechanism and recovered outside of the IBR rate. Annual costs associated with these excluded capital projects (i.e. depreciation, financing costs, etc.) would be divided by the 2017 load forecast to determine the rate impact.¹⁵

Creative Energy acknowledges the difficulty with handling capital, noting that “defining base capital criteria to determine whether future capital expenditures are base capital has been difficult.”¹⁶ Creative Energy has been clear in stating that the base IBR capital has been left in IBR rates to recover regular system capital additions such as boiler upgrades and distribution system manholes. If capital for a project exceeds base capital, Creative Energy states that prior to committing to the project it will seek approval for such capital expenditures and notes that major capital projects are not accounted for in base IBR capital. Creative Energy has identified CPCNs as the only mechanism to handle major capital projects.¹⁷

However, Creative Energy has not proposed a cost threshold for triggering a CPCN, explaining that “capital projects that require a CPCN will not be the same as past capital projects.”¹⁸ As an example, Creative Energy considers the replacement of a boiler as requiring a CPCN regardless of its cost “because the company has never replaced a boiler.”¹⁹ Creative Energy recently filed a separate application seeking approval for two new boilers in BC Place and a reconfiguration of the existing plant. Because of this, the capital going forward under the proposed IBR mechanism will be primarily focused on the distribution system and customer improvements rather than the boiler plant.²⁰ This CPCN application is more fully described in Section 2.3.

¹⁴ Exhibit B-1, pp. 12–13.

¹⁵ Exhibit B-1, p. 13.

¹⁶ Exhibit B-1, p. 11.

¹⁷ Exhibit B-1, pp. 11–12.

¹⁸ Exhibit B-7, BCUC IR 17.2.

¹⁹ Exhibit B-7, BCUC IR 17.2.

²⁰ Exhibit B-7, BCUC IR 17.3; Exhibit B-12, BCUC IR 40.5.1.

2.2.4 Load forecast and treatment of variances

Creative Energy proposes to use the 2017 load forecast approved by the BCUC by Order G-13-17, totaling 1,098,514 million pounds of steam (M#), for the five-year IBR plan. Creative Energy states that loads and customer growth have been declining in the last five years with the exception of the 2016-17 winter. Moreover, Creative Energy states there are currently no new customers that are expected to connect to the steam system over the next two years and it has no knowledge of any changes to individual loads. Consequently, there is increased incentive to approach new potential customers to maintain or grow the load. Based on its proposal, Creative Energy will bear the load risk and, in its view, this justifies the benefit going to the utility if the load forecast is exceeded.²¹

Creative Energy states that weather is the main driver of its system load and variations in weather have been normalized in the approved 2017 forecast.

As noted earlier, the Company does not anticipate net changes in the load due to customers but adds to this by stating Creative Energy is “at risk of customers leaving the system or customers finding ways to reduce their loads.” Nonetheless, Creative Energy is prepared to take this risk and states that the proposed IBR mechanism puts the Company at risk for both decreases and increases in loads which, dependant on weather, are expected to fluctuate.²²

Creative Energy provided the following table comparing the 2016 and 2017 actual demand and associated revenues with the approved 2016 and 2017 forecasts. Creative Energy attributed the variances to weather and the timing of NEFC customers coming online with steam service.²³

Table 1 – 2016 and 2017 Approved and Actual Steam Demand

	2016 Forecast		2016 Actual		2017 RRA		2017 Actual	
	Steam Demand M#	Revenues \$						
Steam Customers (Excluding NEFC)	1,067,999	\$ 8,030,811	1,053,996	\$ 8,186,075	1,069,572	\$ 8,275,575	1,173,376	\$ 8,969,388
NEFC	5,440	\$ 40,446	-	\$ -	28,942	\$ 201,225	26,028	\$ 184,245
Total Demand (Steam + NEFC)	1,073,439	\$ 8,071,257	1,053,996	\$ 8,186,075	1,098,514	\$ 8,476,800	1,199,404	\$ 9,153,633

When asked if the Company would be amenable to establishing a deferral account to record variances between forecast and actual load if a five-year IBR plan were to be approved, Creative Energy responded as follows:

Creative Energy does not agree with this strategy. If the Commission prefers that Creative Energy true-up at the end of each year, Creative Energy suggests abandoning this proposed 5-year IBR plan, and submitting annual revenue requirements applications that are tried up at the end of each year. Current staff do not have the capacity to comply with such a requirement and would expect two additional staff; a regulatory accountant and a regulatory affairs staff, to be added to the current revenue requirement of the utility.²⁴

²¹ Exhibit B-1, p. 17.

²² Exhibit B-7, BCUC IR 24.1–24.3.

²³ Exhibit B-12-2, BCUC IR 45.1.

²⁴ Exhibit B-12, BCUC IR 45.2.

Creative Energy argues that the use of the 2017 load forecast is reasonable, noting it was approved by the BCUC in the Creative Energy 2016-2017 Revenue Requirements and Rate Design for NEFC Hot Water Service Application Decision (2016-2017 RRA Decision) and incorporated information obtained by the Company from customers regarding any pertinent changes to building requirements that might affect demand. Moreover, Creative Energy restates it does not expect material net load changes due to customer additions or losses and asserts that even if there were, there would be offsetting connection costs. In addition, new gas-fired steam load is also limited by Vancouver's new green building requirements. With respect to the NEFC load, the forecast for 2017 reflects the four hot water customers under contract with no additional NEFC customers expected over the five-year IBR mechanism.²⁵

2.2.5 Earnings sharing mechanism

The proposed IBR approach does not include an earnings sharing mechanism (ESM). Creative Energy states that the purpose of an ESM is to share earnings with customers where there is a meaningful deviation (either positive or negative) from approved return on equity (ROE) earnings. However, as noted previously, the Company does not expect meaningful operating efficiencies to result from an IBR nor does it expect customer growth resulting in a meaningful deviation from approved ROE earnings. Creative Energy states that the current system is 50 years old and has reached a steady state where it is unlikely that savings will be found in the O&M budget; thus, there is a low probability for overall savings.

Creative Energy states it accepts a significant risk related to the IBR program, pointing out that if the mechanism is approved, risks such as load forecast, costs and revenue will all be borne by the Company. Noting that such risks are more commonly covered by deferral accounts, it has not proposed this type of mechanism in part so as to avoid the regulatory costs associated with the administration of such accounts. For reasons similar to why Creative Energy has not proposed deferral accounts, it does not propose an ESM, stating "instead, Creative Energy proposes to continue to absorb incremental risks that would otherwise be partially or fully offset by an ESM."²⁶

2.2.6 Service quality indicators

When asked to identify the top five service quality indicators (SQIs) that it tracks and will continue to track under the IBR, Creative Energy responded that it has 100 percent reliability, receives frequent face to face feedback and has regular contact with its customers with no known complaints to the BCUC. In addition, it internally tracks the annual number of planned outages, number of customer service calls, number of meter repairs and the amount of Code 3 work (described as maintenance work done on customer equipment that is billed directly back to them). The Company reports that it has 100 percent reliability with no unplanned outages and has consistent performance on the balance of these indicators which demonstrates that over time, the level of customer service and maintenance schedules have steadied.²⁷

Creative Energy states it considers reliability to be a better quality indicator and there is no value in suggesting or tracking alternative SQIs and it is unwilling to commit to annually measured and reported indicators. Creative Energy states that customer service has always been a core value and believes its rate-setting mechanisms will not affect its level of customer service, observing that customers are not forced to connect to its system.

²⁵ Creative Energy Final Argument, pp. 8–9.

²⁶ Exhibit B-1, pp. 13–14.

²⁷ Exhibit B-7, BCUC IR 18.3, 18.3.1; Exhibit B-12, BCUC IR 41.1, 41.2.

Creative Energy further states it cannot afford to sacrifice customer service as a way to reduce costs or enhance earnings as it would lead to a loss of customers and related lost earnings.²⁸

2.2.7 Off-ramps

Creative Energy notes that other companies have proposed formal off-ramps that are triggered by both financial and non-financial indicators which generally require a mid-term review of these indicators to determine whether to abandon the IBR mechanism. Creative Energy notes that inclusion of a mid-term review, while offering some value, would require an assessment of the mechanism after a two to three year period. In Creative Energy's view, the financial burden resulting from this required review would eliminate the main incentive of moving to an IBR mechanism which is to reduce the requirement for regulatory work to be completed. Therefore, the potential for an off-ramp was not included as part of its initial proposal.²⁹

In response to BCUC IR 19.3, Creative Energy further explained that the "risks related to earning the approved ROE and the revenue requirement are symmetrical so the Company has not proposed off-ramp triggers." However, it does note that the IBR mechanism can be reviewed in the event circumstances change dramatically during the IBR period without such a mechanism being in place. Notwithstanding these statements, Creative Energy does provide comments on various potential off-ramp options outlined within BCUC IR 19.3. If an off-ramp were based on the dollar variance between actual and allowed ROE, Creative Energy would recommend as a threshold a dollar variance of \$450,000. If an off-ramp were based on a percentage variance, Creative Energy would recommend an off-ramp trigger or threshold based on a four percent variance between actual and allowed ROE. Noting that such a change in the Company's circumstances would likely trigger a full review of the IBR plan, Creative Energy explains that a variance that exceeds the \$450,000 or four percent thresholds would be beyond the expectations of all parties and would suggest that either circumstances have changed or the IBR has rendered unexpected results.³⁰

In response to subsequent IRs, Creative Energy seems to have modified its position, noting that it is "exploring a mechanism that would introduce symmetrical upper and lower bands around achieved ROE to ensure that the long term IBR concept does not result in either excessive over or under earning."³¹ The mechanism will be designed to be consistent with the objective of reducing regulatory burden while achieving off-ramp principles.³² Creative Energy clarifies its proposal by stating that if the BCUC determines such an off-ramp mechanism is appropriate, it would suggest that a rate adjustment would result only if the achieved ROE falls outside a 150 basis point band around Creative Energy's allowed ROE of 9.5 percent and provides details as to how this might work, which can be summarized as follows:

For each year of the IBR the difference between allowed and achieved return on common equity would be calculated. It would then be determined after the first three years of the IBR whether the cumulative difference between allowed and achieved returns over the three years falls outside of the 150 basis point band around the cumulative allowed return. Its choice of a three-year period reflects the variability of achieved return due to factors such as changes in costs, the timing of costs and actual system load. Allowing a three-year period would smooth out these differences. In the event there was a significant positive or negative balance after year three,

²⁸ Exhibit B-1, p. 14.

²⁹ Exhibit B-1, p. 16.

³⁰ Exhibit B-7, BCUC IR 19.3; Exhibit B-12, BCUC IR 42.1.

³¹ Exhibit B-12, BCUC IR 42.1.

³² Exhibit B-12, BCUC IR 42.1.

the BCUC could seek submissions as to how to deal with this balance going forward to years four and five of the IBR term.³³

2.2.8 Material changes in costs

Creative Energy states that the IBR mechanism should be modified in the event there are unexpected changes. Examples of these include changes in government policy, accounting policy or tax rates. To handle such matters, Creative Energy proposes that unexpected changes be addressed by setting a materiality threshold of 15 percent to identify those items that warrant treatment outside of the IBR mechanism. In these circumstances, Creative Energy states it would consider applying for a deferral account.³⁴

2.2.9 Reviews

Creative Energy states that because the main driver of the IBR mechanism is to decrease the regulatory burden associated with rates it does not propose an annual review, viewing it as counterproductive. Assuming that an annual review process would be similar to that adopted for the FortisBC companies as part of their Performance Based Ratemaking (PBR) plans, Creative Energy does not believe there are areas or topics relevant to the IBR that need to be reviewed annually. Nonetheless, it acknowledges that items outside the IBR will require review and approval of the BCUC.³⁵

Creative Energy states it will make rate adjustment filings by October 1 of each year for approval of steam rates effective January 1 of the next year and will also file an annual report and audited financial statements each April. The Company considers these filings sufficient to allow for an appropriate level of review of its rates and operations over the five years. Any extraordinary increase in costs or capital expenditures would be handled outside of these filings.³⁶

2.3 Creative Energy Application for a CPCN for the Expo and Beatty Plant Projects and Approvals Related to Reorganization

On June 29, 2018, Creative Energy filed for BCUC approval of a CPCN for redevelopment of the Expo and Beatty Steam plants and for approval to reorganize by selling a 50 percent interest in the Company to Emanate Energy Solutions Inc. (Emanate Energy). The CPCN application is in the relatively early stages and completion of the review and a decision is not expected until at least the end of the year.

Creative Energy proposes to repurpose unused space at the base of BC Place which is across the street from the existing steam plant by building a new plant (Expo Plant) that will be approximately one-half the size of the existing Beatty Street Plant (Beatty Plant). The plan is to have two boilers at this new Expo Plant that will be interconnected with the existing Beatty Plant and steam distribution network. Once the Expo Plant is operating, it will allow for the Beatty Plant to be closed and renovated during the summer and shoulder seasons. As part of this renovation, the oldest boilers and current office space will be demolished and replaced. Once renovated, the Beatty Plant will be smaller than the existing plant but will have space to accommodate capacity growth in the future. When completed, Creative Energy will have two smaller interconnected plants with significantly greater functional capacity built to modern standards. This project is to be conducted in coordination with the

³³ Creative Energy Final Argument, p. 16.

³⁴ Exhibit B-12, BCUC IR 39.1.

³⁵ Exhibit B-1, p. 16; Exhibit B-7, BCUC IR 19.1, 19.2.

³⁶ Creative Energy Final Argument, p. 15.

redevelopment of the space above and adjacent to the existing Beatty Plant site which is surplus to the utility. Once the redevelopment is complete, the surplus space will include an office tower, retail space and public area improvements.³⁷

Largely independent of the proposed project, Emanate Energy is to acquire an indirect 50 percent interest in Creative Energy. Creative Energy states that the acquisition is “to be completed as part of a series of steps to reorganize Creative Energy to facilitate the project.”³⁸

2.4 Positions of the parties

2.4.1 CEC’s position on the proposed IBR mechanism

CEC does not consider Creative Energy’s recent history to be conducive to formulaic ratemaking. CEC submits the specific IBR proposal has few, if any, benefits to customers and, as a mechanism, has no basis of support in other jurisdictions. CEC does not consider that a case has been made to move away from COS ratemaking and recommends the BCUC deny the proposal and direct Creative Energy to provide a COS proposal.³⁹

CEC states that Creative Energy’s primary rationale in proposing an alternative to COS ratemaking is based on the concept of proportionality, where Creative Energy has argued that the current regulatory regime has resulted in regulatory costs that are disproportional to the size of revenue requirements. CEC argues that Creative Energy has been cost-effectively managed under cost of service. CEC also argues that the amount of regulatory costs: are related to the nature and quality of Creative Energy’s applications since 2014; are largely of the Company’s own making; and have nothing to do with the form of regulation. CEC points out that when Creative Energy purchased Central Heat in 2014, it began to make changes to an organization that had been stable and consistent. Under the current circumstances, an increase in costs is to be expected “given Creative Energy’s significant changes to the utility since 2014 and its deficient and oftentimes adverse approach to regulation.” CEC’s view is that the broad changes to the utility, the increase in IRs and the contentiousness of applications provide justification for continued COS regulation rather than a shift to more light-handed regulation.⁴⁰

CEC states that historical stability in revenue requirements and rates is important when considering whether formulaic ratemaking is appropriate for a utility, noting that it is necessary to establish an appropriate base to serve as a predictor of future revenue requirements stability. For example, CEC notes that from 2014 through 2017, O&M costs rose by 6 percent, 4.7 percent, 2.7 percent and 10.2 percent, respectively. While acknowledging these amounts exceed what is being proposed under the IBR formula, it does not support the use of formulaic rates. CEC identifies some of the areas where actual costs were lower than approved in the last RRA, noting that under formulaic ratemaking, the opportunity to benefit from reduced costs is extended from two to five years. With respect to the increase from two to five years under the proposed formulaic ratemaking mechanism, CEC submits there may be opportunities for Creative Energy to underspend and these may positively impact the shareholder while being detrimental to ratepayer interests. In addition, in response to

³⁷ Creative Energy CPCN and Reorganization Application, Exhibit B-1, pp. 3–4; Exhibit B-2, Slide 11.

³⁸ *Ibid.*, p. 5.

³⁹ CEC Final Argument, p. 2.

⁴⁰ CEC Final Argument, pp. 3–7.

Creative Energy stating its policy and business environments have changed considerably in recent years, CEC submits the current policy and business environments are not conducive to successful formulaic ratemaking.⁴¹

With respect to the IBR mechanism proposed by Creative Energy, CEC notes there is no evidence that a similar formula has been used in other Canadian jurisdictions. CEC submits the BCUC should take into consideration “whether or not the proposal benefits from other utility experience and could reasonably be found to rely on ‘tried and true’ principles,” adding that this is not the case in this proposal.⁴²

In addition to questioning the potential for lower regulatory costs and whether they are beneficial, CEC responds as follows to the other three benefits of the proposed IBR identified in the Application: (i) stable and predictable rates; (ii) utility incentive to reduce rates; and (iii) focus on business.

i. Stable and predictable rates

CEC acknowledges there has been some variation in revenue requirements over the past five years but submits that prudent cost management could have established lower and more stable revenue requirements.

ii. Utility incentive to reduce rates

CEC acknowledges Creative Energy’s assertion that the IBR mechanism incents the utility to manage costs down to not exceed revenue requirements but also notes that if there are savings, the customer receives no benefit. CEC argues that the IBR is not related to performance nor is it designed to provide significant cost reduction benefits to customers.

iii. Focus on business

CEC states that Creative Energy did not provide a useful response to CEC’s question as to the types of businesses Creative Energy intended to focus on but notes that its growth opportunity was to add additional customers to the steam system, thereby increasing the load and adding to greater load stability. Under these circumstances, CEC asserts that “the utility would collect additional revenues under IBR but would not have concomitant and proportional costs negatively impacting ratepayers and providing a windfall to the shareholder.” In CEC’s view, this is supportive of continuing with COS regulation.⁴³

Submissions on IBR formula and components of the mechanism

Concerning the IBR formula, CEC notes that the proposal has no expectation for productivity improvement or an X-factor and, based on its review, submits the formula is inappropriate and a five-year term excessive given the lack of experience of both the BCUC and the utility with Creative Energy’s proposed IBR mechanism.⁴⁴

With regard to IBR base requirements, CEC submits that while the IBR mechanism is not an appropriate form of regulation, the 2017 approved RRA with proposed adjustments and after a cost of service review may be an appropriate starting point.⁴⁵

⁴¹ CEC Final Argument, pp. 12–16.

⁴² CEC Final Argument, pp. 20–21.

⁴³ CEC Final Argument, pp. 21–24.

⁴⁴ CEC Final Argument, pp. 25–26.

⁴⁵ CEC Final Argument, pp. 26–32.

CEC notes that Creative Energy's capital expenditures averaged \$1.06 million from 2011 to 2016 with forecast capital expenditures between 2018 and 2022 averaging \$1.49 million per year. CEC also notes there have been significant capital addition variances over the past six years with a range of \$769,000 in 2012 to \$1,507,000 in 2016 and submits it is inappropriate to inflate capital expenditures by the IBR formula. CEC also raises concern with Creative Energy's proposed handling of capital, noting that there has been no proposed cost threshold for triggering a CPCN and its approach to exclusion criteria is loose and discretionary, affording inadequate protection to ratepayers. In its view, the BCUC should not accept Creative Energy's capital exclusion criteria and should request a COS application as a basis for rates.⁴⁶

CEC notes that if customer loads increased significantly, Creative Energy would have an increased ROE and ratepayers would not see a benefit until following the conclusion of the IBR. Moreover, Creative Energy is likely aware of the potential for major customer gains or load changes which puts the Company at an advantage. CEC concludes its discussion of load forecast issues by stating that Creative Energy's actual experience with variability in demand forecasts is not conducive to an IBR approach and an inappropriate element of its proposal.⁴⁷

CEC notes that the IBR proposal does not include a rate adjustment mechanism if the IBR mechanism results in excessive under or over earning, but acknowledges that Creative Energy put forward a proposal in its final argument. In CEC's view, having a rate adjustment mechanism provides an important protection for ratepayers when there is a significant deviation from expected earnings under the IBR formula. However, in the event the BCUC were to approve formulaic rates, CEC recommends annual reviews as a mechanism to adjust ROE where there are inappropriate shareholder returns.⁴⁸

CEC notes that the proposed IBR does not include an earnings sharing mechanism, off-ramps, accommodation for annual reviews, a clearly defined exogenous factor adjustment methodology or SQIs. CEC identifies each of these as important elements that need to be in place prior to approval of an IBR.⁴⁹

2.4.2 BCOAPO's position on the proposed IBR mechanism

BCOAPO states that Creative Energy has failed to submit a plan that approaches a reasonable balance between the Company's interests and those of ratepayers. In BCOAPO's view, Creative Energy has been unresponsive and uncooperative on a number of fronts and has made no attempt to engage with stakeholders on what BCOAPO considers to be important issues.⁵⁰

BCOAPO states that on the basis of law, logic or duty owed to the public, it is not persuaded that Creative Energy's arguments against midterm reporting or a review process have merit. Under light-handed regulation, such as that proposed under the IBR, it would be inappropriate to operate without a level of reporting and midterm reviews. Noting Creative Energy's assertion that the information provided in its annual report is enough to allow for sufficient regulatory oversight to assess the ongoing circumstances of the utility during the IBR plan, BCOAPO expresses concern. In its view, there is nothing on the record that supports Creative Energy's proposal

⁴⁶ CEC Final Argument, pp. 32–34.

⁴⁷ CEC Final Argument, pp. 34–36.

⁴⁸ CEC Final Argument, p. 37.

⁴⁹ CEC Final Argument, pp. 37–40.

⁵⁰ BCOAPO Final Argument, p. 9.

for the handling of reviews or reporting during the proposed term of the IBR and no reason to abandon a process that balances the interests of both the utility and the ratepayer.

SQIs are described by BCOAPO as tools used during light-handed regulation periods to help regulators ensure excessive pricing or inadequate quality of service does not occur. BCOAPO states that the lack of a proposal for SQIs distinguishes this Application from other formulaic style proposals and “not in a good way.” SQIs, in BCOAPO’s experience, are a necessary and integral component of any IBR or PBR plan as is subjecting these to reasonable inquiries by its customers.⁵¹

BCOAPO requests the BCUC reject this Application but invites Creative Energy to refile an application with provisions for reporting, reviews and SQI tracking and reporting requirements that the BCUC deems reasonable.⁵²

2.4.3 Creative Energy’s reply argument

In its reply argument, Creative Energy addressed the submissions of CEC and BCOAPO separately and in succession.

Creative Energy reply to CEC

Creative Energy states that CEC’s submissions in support of COS regulation turns the TES Guidelines “on their head.”⁵³ Creative Energy asserts the TES Guidelines specifically state that cost of service as a rate-setting mechanism is considered the “method of last resort” and a utility should use the least amount of deferral mechanisms possible and the least amount of regulatory oversight to protect ratepayers. In Creative Energy’s view, the IBR mechanism achieves these objectives while COS regulation does not.⁵⁴

In contrast to CEC’s submissions concerning benefits, Creative Energy argues that the benefits to ratepayers are significant. Under the proposed mechanism, steam rates will increase 1.77 percent in 2018 with further increases tied to inflation. In addition, for the IBR term, Creative Energy (not ratepayers) will be at risk for the management of its system costs and system load. The mechanism also encourages increased efficiency and, due to its competitive environment, incentivizes the maintenance of high levels of steam service reliability and customer service. Finally, Creative Energy argues that the IBR mechanism supports the reduction of the burden and cost of regulation which is an important rate-making objective and in line with the TES Guidelines.⁵⁵

Creative Energy further takes issue with CEC’s statements concerning the appropriateness of using formulas as a form of alternative regulation. Creative Energy argues that consideration of formulaic ratemaking should have regard for and be commensurate with the nature and size of a utility, pointing out that:

- The steam system is a small stable utility;
- The proposed and projected rates do not differ substantially from current rates;
- Central Heat had similar periods where there were no direct reviews; and

⁵¹ BCOAPO Final Argument, pp. 7–9.

⁵² BCOAPO Final Argument, p. 10.

⁵³ Creative Energy Reply Argument, p. 1.

⁵⁴ Creative Energy Reply Argument, p. 1.

⁵⁵ Creative Energy Reply Argument, pp. 2–3.

- The BCUC has accepted far less oversight for other on-site TES systems.⁵⁶

Creative Energy also takes issue with CEC's submissions concerning various O&M costs, noting that citing under-spending in individual costs while ignoring over-expenditures in others does not constitute evidence unresponsive to formulaic ratemaking. In its view, the issue is whether overall costs and resulting rates are reasonable, and after elimination of the LTRP costs, 2017 actual O&M costs were very similar to what had been approved.⁵⁷

Creative Energy disputes CEC's assertion that ratepayers are at greater risk with an IBR due to the extended time frame and the inability to examine costs and actions that may be undertaken by the utility.⁵⁸ Creative Energy submits that for ratepayers, there is greater rate stability and predictability with the IBR proposal as compared to COS due to the five-year time frame and the tying of rate increases to an inflation index. Further, there is a likelihood that costs will exceed the inflation factor which is a benefit to ratepayers and, absent a change in load, if revenue requirements grow faster than inflation, a lower rate of return will be earned.⁵⁹

Concerning CEC's submission that it is not appropriate to inflate capital expenditures by the IBR formula, Creative Energy responds that this is not the case. The Company explains that under its proposed IBR, the inflation index factor is applied to steam rates of the prior year and does not relate to any particular element of the revenue requirement.

With regard to CEC's submission on the approach to capital exclusion criteria, Creative Energy argues that any such exclusions would be addressed in a CPCN application and be subject to BCUC and ratepayer review. This process would include any prudence issues and would determine how such expenditures would be recovered.⁶⁰

Creative Energy does not agree with CEC's assertions regarding new customer additions and the positive impact on the shareholder, noting that the potential for customer losses has been ignored. Creative Energy explains that new gas-fired steam load is limited by new green building requirements in Vancouver. In addition, the Company faces competition from on-site thermal energy solutions and where there are new customer additions, they will require additional customer connection costs which vary widely based on size and location. Furthermore, Creative Energy argues that while it is not changing its requested approvals, an ROE-based rate adjustment as described in its final argument would address concerns with over or under-earning of its allowed ROE.⁶¹

Creative Energy reply to BCOAPO

Concerning BCOAPO's submissions on annual and midterm reviews, Creative Energy explains it is not proposing there be no reporting during the IBR period. It will continue to make rate adjustment filings each year and will continue to file an annual report and audited financial statements each April. Creative Energy believes these will allow for an appropriate level of review over the IBR period.

⁵⁶ Creative Energy Reply Argument, pp. 8–9.

⁵⁷ Creative Energy Reply Argument, p. 9.

⁵⁸ CEC Final Argument, p. 24.

⁵⁹ Creative Energy Reply Argument, pp. 13–14.

⁶⁰ Creative Energy Reply Argument, pp. 17–18.

⁶¹ Creative Energy Reply Argument, pp. 18–20.

Concerning SQIs, Creative Energy states that “it is difficult to see how SQI’s are necessary to ensure that Creative Energy is not setting rates other than the very rates approved by the Commission under the IBR mechanism.”⁶² It continues by stating its system reliability and customer service have been long-standing differentiators in the marketplace, also noting “it is difficult to see what value statistically-derived SQIs provide over a complaints-driven approach to service quality.” Creative Energy adds to this by stating its customers have received high levels of reliability and customer service with no SQIs in place.⁶³

2.5 BCUC determination on the proposed IBR mechanism

The Panel has reviewed the Application and considered the related evidence and arguments made by the parties from a holistic view as well as from the perspective of the individual IBR mechanism components as proposed by Creative Energy. While we believe there may be some merit to considering some form of index based mechanism in the future, the Panel finds Creative Energy’s proposed IBR mechanism has not been adequately designed and sufficiently thought through to persuade us that approval would be in the interests of its ratepayers. **Therefore, the Panel rejects Creative Energy’s proposal for an IBR mechanism and its application for 2018-2022 revenue requirements and rates.**

Creative Energy describes itself as a small utility, operating in a stable environment with no changes forecast over the next five years. The Company proposes the IBR as a rate-setting mechanism for the next five years to reduce the regulatory burden of the processes related to the current COS ratemaking process. The Panel acknowledges that Creative Energy could be described as a small size utility, especially when compared to some of the larger utilities within the province. Its small size does underline the need to consider regulatory cost impacts and where reasonable, take steps to try to minimize them. However, the Panel notes that while small, Creative Energy is an organization that is complex and has numerous projects underway that are reliant on its resources through the process of their development and completion. In addition, Creative Energy has approximately 200 direct steam customers, most or all of which are buildings; therefore, there are a substantial (if indeterminate) number of indirect customers all of whom rely upon Creative Energy for day to day service. Thus, in spite of there being some justification to try to reduce regulatory costs and burden, this cannot be done without first ensuring the interests of Creative Energy’s customer base are protected and that any alternative to the existing COS ratemaking approach is well thought out and in all parties’ best interests.

The Panel is not persuaded that the IBR mechanism put forward by Creative Energy is in the best interests of its ratepayers. In our view, there are a number of deficiencies with this Application making it unworkable and that need to be addressed before any such IBR mechanism could be considered. Some of these deficiencies are broader or more holistic in nature and go to the development of the IBR and the timing for this dramatic change in ratemaking methodology. Others are more mechanism specific and go to the design components of the IBR mechanism. While many of the concerns related to these deficiencies have been raised within the proceeding, Creative Energy has been consistent in showing little interest in modifying the proposed IBR mechanism to address the concerns that have been raised.

⁶² Creative Energy Reply Argument, p. 29.

⁶³ Creative Energy Reply Argument, pp. 27–30.

Starting with those broader issues, the Panel has concerns with the following:

- The lack of customer consultation undertaken by Creative Energy;
- The lack of experience with Creative Energy's proposed IBR mechanism;
- The lack of historic or forecast evidence to support Creative Energy's expectation that, as a whole, its costs will increase in line with inflation; and
- The timing of this Application given Creative Energy's recently filed CPCN and Reorganization Application.

Given the size of Creative Energy's customer base and the number of people actually affected, the Panel would have expected some level of consultation on the proposed IBR mechanism to be undertaken. However, when asked specifically about ratepayer consultation in the IR process, Creative Energy acknowledged that no formal consultation was undertaken, noting that its "customers have been most interested in changes in rates and how this will impact their budgeting..."⁶⁴ CEC confirms that as a ratepayer representative that participates in regulatory matters, it was not consulted.⁶⁵ Given that both ratepayer groups (CEC and BCOAPO) are against this proposed move away from COS regulation, it appears Creative Energy missed an opportunity to learn from customers and potentially modify the IBR mechanism in response to the feedback it might have received.

The Panel notes that Creative Energy provided no detailed evidence concerning the use of the proposed IBR mechanism in other Canadian jurisdictions. Nonetheless, Creative Energy has applied for the IBR mechanism to be put in place for a five-year period, in spite of neither the BCUC nor the utility having any direct experience with a similar proposal. This is a concern to the Panel, especially when the lack of levers and controls in Creative Energy's proposed IBR mechanism to manage the plan are taken into consideration.

Creative Energy has designed its IBR mechanism based on applying an inflationary mechanism to rates rather than applying the mechanism to revenue requirement components and having the rates result from the application of the inflation mechanism. On the surface this appears a simple approach which, in effect, would have similar results. That is if the rates increase by an inflation factor, then it follows that on average, the same inflation factor could be applied to each revenue requirement component and produce reasonable and predictable results. However, there are certain cost items where applying an inflation factor is reasonable and there are others where inflation is an inadequate predictor of future results. An example from this Application is property taxes. In establishing the IBR base, Creative Energy identified that it had experienced an unanticipated 66 percent increase in its property tax assessment for the steam system. In the Panel's view, there are some expenses, such as property taxes, that may not be appropriately estimated by applying an inflation factor because the expenses vary from year to year in a manner that is difficult to forecast. Where such items can be identified in advance, they can be removed from the formulaic cost base and forecast annually. Variances between forecast and actual results could then be potentially recorded in a deferral account and flowed through to customers in the subsequent year. If such cost items are considered and dealt with in advance of moving forward with an index based mechanism, the requirement for regulatory approvals of exceptional costs, which is contemplated in the IBR, could be avoided.

⁶⁴ Exhibit B-12, BCUC IR 41.3.

⁶⁵ CEC Final Argument, p. 19.

As noted, Creative Energy has described itself as operating in a stable environment with no changes forecast over the next five years. In spite of these assertions, on June 29, 2018, Creative Energy filed an application with the BCUC for a CPCN for a complete redevelopment of the Beatty Plant within a proposed office tower, the building of an Expo Plant with BC Place which is adjacent and a reorganization of the utility by selling a 50 percent interest to Emanate Energy. While the CPCN and Reorganization Application is in the early stages of review, the application and subsequent workshop provided enough information to indicate these proposed projects and activities are of a significant nature and will impact the day to day operation of the utility, its employees and what has been described as a stable environment. The Panel is of the view that due to the planned changes, this is not an optimum time to pursue what might be described as a more light-handed regulatory approach.

While the aforementioned issues have raised concerns and contributed to the Panel rejecting the IBR proposal, there are also issues with the structure and components of the proposed IBR mechanism contributing to this determination. These are as follows:

- Creative Energy's proposal for the handling of load forecasts;
- The lack of measures and processes to review performance of the IBR;
- The lack of clarity with exceptions to the capital mechanism;
- The lack of an off-ramp mechanism;
- The duration of the IBR mechanism; and
- The uncertainties related to the CPCN and Reorganization Application approvals.

These will be addressed in succession with the Panel's recommendations as to how these may be dealt with if there is a similar application filed in the future.

Load forecast proposal

Creative Energy proposes to take the approved 2017 load forecast and apply it for a five-year period ending in 2022. Creative Energy considers use of the approved 2017 load forecast to be reasonable, noting it expects its customer base to remain stable and is prepared to take the risk for weather-related and other variations in actual demand. In its view, bearing this risk justifies the utility having the benefit when the actual load exceeds the forecast, as was the case in 2017.

The load forecast is one of the most important elements in the determination of rates and has a significant impact on those rates. The forecast methodology employed to prepare this forecast was first introduced and approved in the Creative Energy 2016-2017 RRA Decision. At that time, as part of its next application, Creative Energy was directed to provide historical forecast and actual demand information to allow for the efficient review of the performance of this newly approved methodology.⁶⁶ This information, once provided, revealed that while the variance between forecast and actual demand in 2016 was relatively small, the variance in 2017 was approximately 9.1 percent and resulted in a revenue variance in excess of \$675,000 in favour of the Company. While this was primarily attributed to weather, it is nonetheless significant and serves to demonstrate the importance of an accurate forecast. The Panel finds it unreasonable to rely on an identical forecast for a five-year period given the magnitude of the 2017 load variance and the fact that the proposed IBR mechanism is new and has not been tested over time.

⁶⁶ Creative Energy 2016-2017 RRA Decision, p. 21.

As a potential solution, Creative Energy was asked whether it was amenable to establishing a deferral account to record variances between forecast and actual load, thereby allowing variances to be trued up after the fact. This would allow any variances in load forecasts to be corrected and trued up with neither the ratepayer nor the utility having an advantage. Creative Energy's response was negative and if required to do so, Creative Energy indicated it would abandon the proposed IBR mechanism, as it asserts the human resource cost of managing such a deferral account would be too high. While the Panel acknowledges Creative Energy's position, we have difficulty understanding why the management of such a deferral account would entail such tremendous resource requirements from Creative Energy.

With respect to the aforementioned, the Panel recommends that Creative Energy consider options to more effectively manage variances within the load forecast if it comes forward with a variation of the IBR proposal in the future.

Lack of measures and processes to review performance of the IBR

The IBR proposal includes no processes to review the performance of the mechanism nor does it include a methodology to establish and report on SQIs over the five-year period. Creative Energy has been insistent that such components are unnecessary, stating that its annual report and financial statements filed annually with the BCUC are sufficient for review purposes, and it questions the value of SQIs as compared to a complaints driven approach to service quality. The Panel does not agree. An important element of successfully undertaking a more light-handed approach to ratemaking, as suggested by this Application, is that all parties must be confident that there is adequate scrutiny and, if matters arise, there are processes in place to deal with them. In this proceeding, the ratepayer stakeholder groups have all expressed concern with going forward with the proposed IBR without an adequate review process. In the view of the Panel, many of their concerns are warranted. Moving forward with a longer-term index based ratemaking mechanism without including some form of process to review and test its effectiveness and performance would be contrary to the interests of ratepayers and should not be considered. The Panel also notes that Creative Energy's annual report and financial statement filings are compliance filings required of most public utilities in accordance with the UCA, and that these filings would occur irrespective of the form of rate-setting in place for Creative Energy. Additionally, the annual reports are a compliance filing with the BCUC for informational purposes and do not undergo a full review process. The Panel does not therefore consider the annual report filings to be a sufficient alternative to some form of annual review process.

With respect to SQIs, the Panel considers the position taken by Creative Energy to be paradoxical. To state that customer service is a long-standing differentiator and then to argue against the establishment of standards (other than complaints received) against which it can be measured makes little sense. In the experience of the Panel, establishing SQIs to measure key indicators is a common and necessary business practice. To agree to a more light-handed approach without including at least some rudimentary measure to determine how the Company is performing with respect to its customers would be contrary to the interests of ratepayers and should not be considered.

If, in the future, Creative Energy intends to file some form of IBR proposal, the Panel recommends it consider options to measure its performance against service quality standards and consider how a review process can be undertaken. A review process needs to satisfy BCUC and ratepayer stakeholder groups but need not be onerous

and, if well designed, can operate within the spirit of the TES Guidelines. Creative Energy may consider consulting ratepayer groups on these matters.

Lack of clarity with exceptions to the capital system

Creative Energy's approach to handling capital under the IBR mechanism is problematic due to its lack of clarity. As noted in Section 2.2.3 of this decision, Creative Energy acknowledges the difficulty of handling capital under the IBR mechanism but has only identified CPCN filings as a mechanism for handling projects that do not fit into the base capital category.

The Panel agrees that the handling of capital within an index-based mechanism creates significant challenges. It is likely over a medium to long-term period, such as that contemplated in this Application, there will be instances where unplanned events result in there being a need for additional capital requirements. While some of these may be appropriately handled by a CPCN, others may not. A CPCN application as a mechanism is subject to regulatory process. A detailed application must be prepared in accordance with the CPCN Guidelines⁶⁷ and is open to scrutiny with a full hearing and the involvement of various parties. Depending upon the circumstances, this could lead to an increase in regulatory requirements and costs, which Creative Energy has indicated it would like to significantly reduce. In addition, Creative Energy has not offered an alternative mechanism to deal with approval for unforeseen capital requirements which, by circumstance, require expenditures well in excess of the base IBR capital amount. Nor has it adequately defined those items that are included in its base IBR capital. These deficiencies in the Application need to be addressed and the handling of all types of capital expenditures more clearly laid out if an index-based system inclusive of a capital component is to be approved in the future.

Lack of an off-ramp mechanism

The Panel notes that while the initial proposal did not include any form of off-ramp mechanism, Creative Energy did indicate over the course of the proceeding it was exploring such a mechanism but did not describe its proposed mechanism until its final argument. Unfortunately, this was following the IR process and too late to be explored or incorporated properly into evidence. The Panel considers an off-ramp to be an important mechanism to be included in any proposal of this nature. This is because in spite of best efforts to foresee problems with an untried ratemaking mechanism, unforeseen problems can occur and the parties need a defined method to address such occurrences when they do occur.

Duration of the IBR mechanism

As noted previously, Creative Energy has applied for the IBR mechanism to be put in place for a period of five years in spite of the fact there is no "track record" from other jurisdictions clarifying the effectiveness of this approach. The Panel considers this time duration for a new untried program to be far too long and finds a shorter duration more appropriate. If there is to be a future application of this nature, Creative Energy might consider a shorter duration with a built-in option to extend the program if successful.

Uncertainties related to the CPCN and Reorganization Application

Due to the timing of the CPCN for the Expo and Beatty Plant Project and potential amalgamation with Emanate Energy, there are many remaining unanswered questions following the closure of the evidentiary record for this proceeding, including the redevelopment of the Beatty Plant and the development of the new Expo Plant, and the potential impact on ongoing service and customers. Other unanswered questions relate to the

⁶⁷ British Columbia Utilities Commission 2015 Certificate of Public Convenience and Necessity Application Guidelines, Final Order G-20-15 dated February 15, 2015.

amalgamation, with specific reference to how this may change the existing organization and whether there are synergies or cost savings which could result from any reorganization. As noted earlier, the Panel does not consider the current time optimal for a more light-handed regulatory approach. The Panel finds the issues related to this new CPCN application are best clarified and all questions answered prior to proceeding with a longer-term rate-setting mechanism such as that proposed by Creative Energy.

Panel discussion

Creative Energy's IBR mechanism has been rejected by the Panel because of noted deficiencies in the proposed mechanism and other factors which have been explained in the above determination. In spite of the fact the Application has been rejected, the Panel acknowledges there is value in having more predictable rates over time and is not averse to considering longer-term revenue requirement applications or alternative rate-setting mechanisms. As has been stated by Creative Energy, the costs of COS regulation are significant and, in a relatively small organization such as Creative Energy, reducing the regulatory burden could have positive outcomes for both the utility and its ratepayers. However, if such an initiative is to succeed it must be well planned and balanced to ensure that the needs of both the ratepayer and the utility are met. While we are not persuaded by this proposed IBR mechanism, we have made suggestions for what needs to be addressed if a future application of this nature is to be successful. The Panel notes that we are unable to fetter the discretion of any future panel that may hear such an application, but we believe heeding our recommendations will greatly improve the likelihood of a more successful outcome.

The issue the Panel must now address is how to move forward given the rejection of the Application. As stated previously, CEC argues that a new COS application should be filed in order to set 2018 permanent rates. The Panel, however, does not consider it prudent or reasonable for Creative Energy to file a new application for 2018 rates, as the 2018 year is nearly over and such an exercise would create further regulatory costs and process.

The majority of the evidence on the record regarding Creative Energy's load and costs relates to establishing an appropriate IBR "base" which would then be adjusted annually through an inflationary index. While the BCUC and interveners attempted to gain a better understanding of Creative Energy's forecasts for 2018 and for the subsequent years encompassed by the proposed IBR plan, these attempts were somewhat frustrated by Creative Energy's unwillingness and/or inability to provide such information. In the absence of this information, the Panel finds that a reasonable approach is to rely on the most appropriate of the IBR base and proposed inflationary mechanism, the 2018 forecast information and the 2017 actual results to derive the components of an appropriate 2018 revenue requirement and rate. The Panel's determinations on the 2018 revenue requirements and rates are described in detail in Section 3.0 of this decision.

In support of the Panel's approach to determining the 2018 revenue requirement and rate, we point to section 60(1)(b.1) of the UCA, which states that the "commission may use any mechanism, formula or other method of setting the rate that it considers advisable, and may order that the rate derived from such a mechanism, formula or other method is to remain in effect for a specified period."

Given the lack of forecast information and the uncertainties previously identified by the Panel related to the CPCN and Reorganization Application, the Panel does not consider it reasonable to approve rates beyond 2018 in this decision. Creative Energy will therefore need to apply for 2019 interim and permanent rate approval in a separate application subsequent to the issuance of this decision if it intends to adjust rates for 2019.

3.0 Establishing the 2018 revenue requirement

IBR base rate and inflationary factor

In the Application, Creative Energy requested approval of a 2.15 percent rate increase for 2018, which was composed of a 3.27 percent “base” rate decrease offset by a rate increase of 5.42 percent resulting from amortization of deferral accounts.⁶⁸ The BCUC approved the 2.15 percent rate increase on an interim and refundable basis, effective January 1, 2018.⁶⁹

In response to IRs, Creative Energy made a number of adjustments to the IBR base. As a result of the changes identified in IRs, Creative Energy revised the requested 2018 rate increase to 1.77 percent.⁷⁰

The proposed “base” rate is calculated based on Creative’s Energy’s proposed IBR mechanism and includes the following components:

- 2017 “base” revenue requirement, composed of the 2017 approved O&M expenses with various adjustments, 2017 approved municipal access fees (MAF) with adjustment, 2017 actual property taxes, and 2017 approved income taxes, depreciation and costs of financing rate base (Base Revenue Requirement);⁷¹ and
- 2017 approved load forecast.⁷²

The rate derived from the above amounts is then inflated by a combination of the BC Average Weekly Earnings (BC-AWE) index and the Vancouver Consumer Price Index (Vancouver-CPI).

BC-AWE is proposed to be used for the labour component of the rate change factor, which Creative Energy states is consistent with the index and methodology used by FortisBC Energy Inc. (FEI) and FortisBC Inc. (FBC) in these utilities’ PBR plans. Creative Energy states that it will use the change in the average level of the index over the most recent August-July period, relative to the average level of the index over the prior August-July period. Based on this approach, the labour component of the rate change factor for 2018 is 1.71 percent.⁷³

Unlike FEI and FBC, however, Creative Energy proposes to use Vancouver-CPI instead of BC-CPI for the non-labour component of the rate change factor. Creative Energy states that Vancouver-CPI is “more reflective of the unique cost pressures faced by a business which operates entirely in downtown Vancouver.” The non-labour component of the rate change factor for 2018 using Vancouver-CPI is 1.98 percent.⁷⁴ Creative Energy indicates that if it were to use BC-CPI instead of Vancouver-CPI, the non-labour component of the rate change factor for 2018 would be 1.96 percent instead of 1.98 percent.⁷⁵

Creative Energy then proposes to weight the labour and non-labour components based on its company-specific costs, which results in a weighting of 53 percent labour and 47 percent non-labour. The resulting index factor for

⁶⁸ Exhibit B-1, p. 24.

⁶⁹ Exhibit A-2, Order G-200-17 dated December 22, 2017.

⁷⁰ Creative Energy Reply Argument, p. 3.

⁷¹ Exhibit B-1, pp. 7, 11.

⁷² Exhibit B-1, p. 16.

⁷³ Exhibit B-1, pp. 9–10.

⁷⁴ Exhibit B-1, pp. 10–11.

⁷⁵ Exhibit B-6, BCUC IR 15.5.

2018 is 1.84 percent, which is applied to the “base” rate to derive the 2018 rate before inclusion of the rate impacts resulting from deferral account amortization.⁷⁶

Base Revenue Requirement

Through the IR process, it was determined by Creative Energy that a number of revisions were needed to be made to the Base Revenue Requirement. Creative Energy therefore provided the following revised 2017 revenue requirement of \$8,133,060 to be used as the IBR base (Revised Base Revenue Requirement):⁷⁷

Table 2 – Revised Base Revenue Requirement

2017 STEAM - SUMMARY		Adjusted Base	REVISED	
1		2017	2017	
2	REVENUE REQUIREMENT - CHANGE SUMMARY	Steam w/ Total SG&A	Steam w/ Total SG&A	
3	Cost Of Service			
4	Fuel			
5	Fuel Recovery			
6	Net Fuel	-		
7		4,427,100	4,427,100	-
	Additional Costs re Bonus per IR 11.3		-	-
8	Costs Disallowed in G-167-16 Decision	52,800	-	(52,800) BCUC IR1 7.1
9	PER 2016/17 NEFC O&M Approved	121,600	35,600	(86,000) BCUC IR2 28.7.1
10	G-167-16 Decision NEFC (Capital)	12,000	-	(12,000) BCUC IR1 6.2
11	G-167-16 Decision Costs to Other Division/Projects	29,500	29,500	-
12	TOTAL O&M before Direct Assignment & Allocation	4,643,000	4,492,200	
13	NEFC Direct Assignment	(33,800)	(35,600)	(1,800) BCUC IR1 7.4
14	Allocation to Other Projects (Mass Formula)	(76,800)	(71,200)	5,600 BCUC IR2 28.4
		4,532,400	4,385,400	
15	O&M	4,532,400	4,385,400	
16	Total Operating and Maintenance	4,532,400	4,385,400	
17	Municipal Access Fees (MAF)	255,100	254,200	(900) BCUC IR1 13.1
18	Total Operating and Maintenance (incl. MAF)	4,787,500	4,639,600	
19	Property Taxes	357,800	595,160	237,360
20	Income Taxes	268,700	268,700	-
21	Depreciation	987,600	987,600	-
22	Amortization of Rate Base Deferred Expenses	-	-	-
23	Amortization of Non-Rate Base Deferred Expenses	-	-	-
24	Actual/Proposed Interest	597,000	597,000	-
25	Actual/Proposed Return on Equity	1,045,000	1,045,000	-
26	Interest on FCSA			
27	Total Revenue Requirement for Year	8,043,600	8,133,060	89,460

⁷⁶ Exhibit B-1, p. 10.

⁷⁷ Exhibit B-15, Attachment 3.2.

In the following sections, the Panel examines the components of the Revised Base Revenue Requirement and makes determinations on each component to derive the appropriate 2018 revenue requirement to set permanent rates for 2018. Included in these sections are the Panel's determinations on the Fuel Switch Study and LTRP costs and on Creative Energy's proposed allocation methodology for shared SG&A expenses, as the Panel's determinations on these issues impact the overall calculation of the 2018 revenue requirement.

3.1 O&M expenses

The Approved 2017 O&M, which is used as the starting point for the Revised Base Revenue Requirement, is \$4,427,100.⁷⁸ This amount is then adjusted for costs which are directly assigned to NEFC and allocations to other projects, resulting in an adjusted base O&M of \$4,385,400.⁷⁹

The largest components of the Approved 2017 O&M are:

- Steam Production – Operations costs, which include Supervision and Labour costs of \$1,158,000 and Steam Expenses of \$968,400; and
- Administrative & General – Operations costs, which include costs such as Admin & General Salaries (\$584,000), Employee Benefits (\$485,100) and Special Services (\$289,200).

Together, the above-two categories of O&M account for approximately 84 percent of Approved 2017 O&M.⁸⁰

When comparing Actual 2017 O&M to Approved 2017 O&M, certain actual costs were lower than approved while other costs were higher than approved. Actual Admin & General Salaries for 2017 totalled \$486,200 compared to the Approved 2017 amount of \$584,000. Creative Energy explained that the reason for the variance was that positions were left vacant for a period of time during 2017 but have since been filled.⁸¹

An example of an actual 2017 cost which was higher than approved is Special Services.⁸² The Approved 2017 amount for Special Services expense was \$289,200. A large component of Special Services costs are "Third Party Regulatory Costs," which are distinguished from the other Special Services costs because the variances between approved and actual Third Party Regulatory Costs are recorded in the Third Party Regulatory Costs Deferral Account (TPRCDA), which was approved by the BCUC in the 2016-2017 RRA Decision. The Actual 2017 Third Party Regulatory Costs exceeded the 2017 Approved amount by \$563,420, primarily due to costs related to Creative Energy's spending on consultants for the LTRP.⁸³ The LTRP costs are discussed in detail in Section 3.1.1 of this decision.

Creative Energy provided the following table summarizing the components of the Third Party Regulatory Costs:⁸⁴

⁷⁸ Exhibit B-15, Attachment 3.2, Line 7.

⁷⁹ Exhibit B-15, Attachment 3.2, Line 16.

⁸⁰ Exhibit B-1, Appendix 1, Schedule 15.

⁸¹ Exhibit B-15, Panel IR 1.1.

⁸² Exhibit B-7, BCUC IR 8.2.

⁸³ Exhibit B-3, Table 6.1.

⁸⁴ Exhibit B-3, Table 6.1.

Table 3 – Third Party Regulatory Costs and Deferral Account Additions

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	a
2 STEAM SHARE - NEFC PACA	-	-	-	-	-	-	
3	-	-	-	-	-	-	
4 ANNUAL CONTRACTING PLAN	5,000	0	5,000	-	-	-	
5 BCUC - REGULATORY REPORTING	-	-	-	-	-	-	
6 CONSULTANTS - LTRP	-	-	-	48,000	720,232	(672,232)	b
RRA							
1 CONSULTANTS - SALARY REVIEW	12,000	10,000	2,000	-	-	-	
2 CONSULTANTS - RRA	30,000	57,887	(27,887)	48,000	2,704	45,296	c
3 CONSULTANTS - RATE DESIGN	100,000	7,139	92,861	-	-	-	
4 PACA	26,250	37,386	(11,136)	27,200	0	27,200	d
5 BCUC (PROCEEDING COSTS)	11,250	49,518	(38,268)	15,000	0	15,000	d
TOTAL (DEFICIENCY)/SURPLUS	212,500	179,552	32,948	181,200	744,620	(563,420)	

Reason for Variance

a - actuals lower anticipated BCUC quarterly fees

b - LTRP costs incurred in the past 3 to 4 years

c - RRA application was done in house with minimal outside consultants

d - No proceedings in 2017 and as such no PACA and BCUC proceeding costs were incurred

Creative Energy was asked whether it would be more appropriate to remove non-recurring expenses, including the RRA and LTRP costs from the Revised Base Revenue Requirement, as these costs are related to past regulatory proceedings. Creative Energy responded it would not be appropriate to remove these expenses because the amounts will be trued up or down to actuals and will be captured in the TPRCDA.⁸⁵

When asked about the appropriateness of adjusting certain O&M expenses in the Revised Base Revenue Requirement to reflect Actual 2017 results, Creative Energy stated it is “seeking approval for the index increase to rates not revenue requirements or costs” and it “will be responsible for managing costs on a higher level than line-by-line basis, over the period of the IBR.” Thus, it does not “consider it appropriate to adjust for actuals.”⁸⁶

Creative Energy was asked through IRs whether, excluding costs which are captured in deferral accounts, O&M costs have exhibited increases over the past three years which are consistent with inflation. Creative Energy responded that the Union Collective agreement has increased in the range of 2 percent to 2.25 percent and maintenance of general plant has increased due to exchange rates and increased costs from suppliers.⁸⁷

Creative Energy provided the following table showing the percentage increase for three of its O&M expenses:⁸⁸

⁸⁵ Exhibit B-7, BCUC IR 21.4.1, 21.5.1.

⁸⁶ Exhibit B-7, BCUC IR 11.2.

⁸⁷ Exhibit B-7, BCUC IR 2.2.

⁸⁸ Exhibit B-7, BCUC IR 2.2.

Table 4 – Historical O&M Expenses

	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%

Creative Energy was asked in a number of IRs to provide forecasts for both 2018 and for the entire five-year IBR term (i.e. 2018 through 2022). Creative Energy stated that it “has not prepared cost of service estimates with respect to the year 2018.”⁸⁹ However, Creative Energy provided its “best” five-year forecast for O&M expenses, which included a forecast gross O&M expense for 2018 of \$4,638,933. This forecast equates to an increase of approximately 1.9 percent for 2018 gross O&M expenses compared to the proposed 2017 base O&M.⁹⁰

With regard to Creative Energy’s future costs, it stated the following:

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. 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.⁹¹

When asked to reconcile Creative Energy’s responses to intervener IRs which forecast 1.8 to 2 percent annual increases to costs over the next five years with the statement that many of its costs are expected to rise faster than CPI, Creative Energy responded as follows:

Creative Energy was asked to estimate its costs to the best of its ability and due to not having completed an extensive cost of service estimate, this was the most appropriate guess for rising costs. Items such as salaries, Creative Energy has certainties on due to the CBA [Collective Bargaining Agreement], municipal access fees are taxes tied to revenue. Items such as property tax have grown at a rate fast[er] than inflation have been adjusted accordingly.⁹²

Creative Energy further submitted: “At this time, the 2018 proposed amount times the proposed inflator is Creative Energy’s best forecast of O&M.”⁹³

Positions of the parties

CEC submits that the Approved 2017 RRA along with the proposed adjustments and any additional reductions after an appropriate cost of service review may be an appropriate starting point for rate setting.⁹⁴

⁸⁹ Exhibit B-8, BCOAPO IR 11.1.

⁹⁰ Exhibit B-9, CEC 12.3.

⁹¹ Exhibit B-9, CEC IR 12.2.

⁹² Exhibit B-12, BCUC IR 38.1.

⁹³ Exhibit B-13, BCOAPO IR 21.1.

⁹⁴ CEC Final Argument, p. 29.

Creative Energy responds that CEC “does not explain what ‘appropriate cost of service information’ it is referring to” and states that the “2017 Adjusted Base *is* the 2017 Revenue Requirement approved the Commission, with the four adjustments outlined in paragraphs 8 and 9 of Creative Energy’s Final Argument, and no further adjustments are required.”⁹⁵

Creative Energy further argues the following:

In the context of an overall budget there will always be individual costs that exceed budget and individual costs that will be lower than budget. The issue is whether the overall costs, and resulting rates, are reasonable. Excluding the LTRP costs, Creative Energy’s actual 2017 O&M costs were virtually the same as the 2017 O&M costs approved by the Commission.⁹⁶

3.1.1 Fuel Switch Study and Long-Term Resource Plan costs

In this Application, Creative Energy requests approval to include \$720,232 of costs incurred on account of its June 9, 2017 LTRP application (2017 LTRP Application) into the TPRCDA and to change the amortization period of the TPRCDA from the currently approved one year to three years, in order to smooth the rate impact of the large 2017 deferral account addition.⁹⁷ This section of the decision deals exclusively with the LTRP costs. The issue of the requested change to the amortization of the TPRCDA as a whole is addressed in Section 4.1 of this decision.

Creative Energy submits that the total sum of \$720,232 was incurred over a period of four years (2013 to 2017). Creative Energy further asserts that the costs were incurred in order to meet the requirements of section 44.1 of the UCA pursuant to BCUC Directive No. 3 in Order G-98-15 and Decision for the 2015-2017 RRA for Creative Energy to file a LTRP “prior to making an investment decision regarding any low carbon fuel switch that may impact the existing steam customers.” That order was made June 9, 2015. The BCUC directive further stated that “The LTRP shall include the information available from the fuel switch feasibility study [Fuel Switch Study].”⁹⁸ The Fuel Switch Study predates the BCUC directive.

In its 2015-2017 RRA, Creative Energy forecast \$0 for LTRP costs for 2015. Similarly, when Creative Energy applied for approval to establish the TPRCDA in its 2016-2017 RRA, it forecast LTRP costs of \$0 in 2016 and \$48,000 in 2017 for “Consultants – LTRP.”⁹⁹ In accordance with the 2016-2017 RRA Decision, the BCUC approved those amounts with a one-year amortization period for inclusion under the Regulatory section of the TPRCDA.

Creative Energy then filed its LTRP, including the Fuel Switch Study, for BCUC approval on June 9, 2017. By Order G-147-17, the BCUC adjourned the review of the LTRP and directed Creative Energy to file a complete and updated LTRP. That updated LTRP remains outstanding to date. When asked in an IR if, based on the BCUC’s determinations in Order G-147-17, Creative Energy considers that it satisfied the requirements of section 44.1 of the UCA, the Company responded: “No, Creative Energy does not believe these requirements have been satisfied.”¹⁰⁰

⁹⁵ Creative Energy Reply Argument, p. 15.

⁹⁶ Creative Energy Reply Argument, p. 9.

⁹⁷ Creative Energy Final Argument, p. 2.

⁹⁸ Creative Energy 2015-2017 RRA Application (2015-2017 RRA), Decision dated June 9, 2015, p. 15; Order G-98-15, Directive 3.

⁹⁹ Exhibit B-1, p. 19, Table 2.

¹⁰⁰ Exhibit B-12, BCUC IR 47.7.

The evidence in this proceeding reveals that between 2013 and 2015, Creative Energy had already spent a total of \$472,148.53¹⁰¹ on the Fuel Switch Study but did not disclose those costs to the BCUC beyond the forecast of \$0 for 2015 in its 2015-2017 RRA. Similarly, after the 2015 BCUC directive to file a LTRP, Creative Energy provided in its 2016-2017 RRA a forecast of \$0 for 2016 and \$48,000 for 2017 for LTRP costs to be recovered in a new deferral account, the TPRCDA, despite the aforementioned spending already incurred totalling over \$472,000. Creative Energy explains that it did not disclose these costs in the 2015-2017 RRA or in the 2016-2017 RRA because the “incurred costs include costs that pre-date the approval of the TPRCDA and, in part, for that reason were not forecast in accordance with the 2016-2017 RRA Decision.”¹⁰² Creative Energy further submits that the \$48,000 forecast in 2017 is for the cost of filing the LTRP itself and not for the costs associated with the Fuel Switch Study. Creative Energy stated that approximately \$15,000 of the LTRP costs were directly related to the preparation and filing of the LTRP.¹⁰³

Creative Energy provided the following rationale for not disclosing the amounts spent on the Fuel Switch Study prior to this Application:

At the time of the last [2016-2017] RRA, Creative Energy was just completing the Fuel Switch study and was actively pursuing mechanisms to address policy and financial gaps for reducing GHG [greenhouse gas] emissions in existing buildings. Creative Energy expected it would capitalize these costs as part of the overall development costs for the Fuel Switch project when it proceeds. Creative Energy continues to pursue mechanisms to support the fuel switch. However, the actual timing of the project remains uncertain. Given the magnitude of costs to date Creative Energy is seeking to recover these costs now rather than wait to capitalize these costs at some unknown future date. Further, the study addressed several planning needs of Creative Energy, including forming the basis of Creative Energy’s LTRP (requested by the Commission) and customer and stakeholder expectations for information on how Creative Energy can reduce GHG emissions.¹⁰⁴

The total costs for which Creative Energy now seeks approval are comprised of consulting fees paid to 15 different firms.¹⁰⁵ The issue is whether it is appropriate to include any or all of those costs in the TPRCDA now for recovery from ratepayers.

Should the Fuel Switch Study Costs be included in the TPRCDA?

The amount that Creative Energy now seeks to include in the TPRCDA on account of LTRP costs is substantial. In respect of the costs claimed, the evidence put forward in this proceeding shows the following:

- The total costs amounted to \$937,232.03 and spanned four years from 2013 to 2017 and comprise fees paid to 15 different firms entailing “hundreds of associated invoices” (no supporting details were provided to the BCUC);¹⁰⁶
- The amount spent of \$937,232.03 is reduced to \$720,232 only after applying offsetting grants of \$217,000 received by Creative Energy from the City of Vancouver and the Federation of Canadian Municipalities on account of the Fuel Switch Study;

¹⁰¹ Exhibit B-3, Response 4a.

¹⁰² Exhibit B-1, p. 20.

¹⁰³ Exhibit B-7, BCUC IR 22.1.

¹⁰⁴ Exhibit B-12, BCUC IR 47.8.

¹⁰⁵ Exhibit B-3, Response 4b.

¹⁰⁶ Ibid.

- Of the net amount spent of \$720,232, Creative Energy had already spent more than \$472,000 on the Fuel Switch Study between 2013 and 2015 before the BCUC directed Creative Energy to file a LTRP by Order G-98-15 dated June 9, 2015;¹⁰⁷
- By the time of the 2016-2017 RRA, Creative Energy was aware of the growing magnitude of the costs but chose not to disclose them or apply for their recovery except for \$48,000 in its forecasts for inclusion in the TPRCDA. Creative Energy now claims that the costs incurred to that time predated the establishment of that deferral account and the \$48,000 forecast only accounted for the LTRP filing costs and did not include any of the Fuel Switch Study costs;
- Creative Energy filed the Fuel Switch Study as Appendix A to its 2017 LTRP Application on June 9, 2017 for BCUC approval, and that application has since been adjourned pending Creative Energy's filing of a completed and updated LTRP; and
- The only costs the BCUC has approved to date in connection with the LTRP are Creative Energy's 2017 forecast amount of \$48,000 which were included in the Approved 2017 forecast for Special Services expenses, with any variances between forecast and actual approved to be added to the TPRCDA, as approved by the BCUC in the 2016-2017 RRA Decision.

In its 2017 LTRP Application, Creative Energy advised the BCUC as follows:

In the next RRA filing, the Company expects to seek recovery of both incurred and future costs of this LTRP, including the costs of the Study, as part of the approved Third Party Regulatory Costs Deferral Account. The incurred costs include costs that pre-date the approval of the Third Party Regulatory Costs Deferral Account and in part, for that reason were not forecast in accordance with the 2016-2017 RRA Decision. However, as noted above, the filing of the Study was contemplated, if not directed, to be filed as part of the LTRP.¹⁰⁸

Creative Energy provided no indication as to the magnitude of those "incurred and future costs" or of the costs of the Fuel Switch Study up to that point. The panel reviewing the 2017 LTRP Application provided no comments on Creative Energy's proposal for cost recovery in its decision to adjourn that application.

In adjourning the 2017 LTRP proceeding until the filing of Creative Energy's 2020-2021 RRA, the BCUC directed Creative Energy "to file a complete and updated LTRP that satisfies all requirements under section 44.1 of the UCA, including Demand-Side Management requirements, and the Commission's Resource Planning Guidelines when filing the RRA for the 2020-2021 test period."¹⁰⁹ In the reasons for decision attached to Order G-147-17, the BCUC stated the following:

The Panel finds that it is not reasonable to review Creative Energy's LTRP at this stage because the Fuel Switch Program, which is central to its LTRP, has not sufficiently progressed and is still in the preplanning stage. Creative Energy is still in the midst of pursuing enabling mechanisms that would advance the Fuel Switch Program and it will continue to pursue the enabling mechanisms for the next two years. However, based on its Application, Creative Energy is currently not in the position to commit to the Fuel Switch Study and thus lacks important information regarding details, schedules and impacts that would normally be reviewed within the LTRP. Absent of the commitments that Creative Energy needs in the next two years, the Fuel

¹⁰⁷ CEC Final Argument, p. 41.

¹⁰⁸ Creative Energy 2017 Long-Term Resource Plan Application (2017 LTRP), Exhibit B-1, p. 27.

¹⁰⁹ Creative Energy 2017 LTRP, Order G-147-17 with Reasons for Decision dated September 25, 2017, Directive 1.

Switch Program may not continue. As such, the Panel does not believe Creative Energy is able to provide the full information required to facilitate a complete review of its LTRP.¹¹⁰

Creative Energy itself acknowledged that it is seeking recovery of the total costs related to the Fuel Switch Study and the LTRP in the TPRCDA at this time because of concerns over the feasibility and future of the Fuel Switch Program and “the magnitude of the costs to date.”¹¹¹

Positions of the parties on the Fuel Switch Study and LTRP costs

Creative Energy Final Argument

In Creative Energy’s view, the amount spent on the LTRP is “not an unreasonable amount for strategic planning given the breadth of questions and depth of analysis and given B.C.[’]s energy objectives and Commission directives regarding long-term resource plans.”¹¹² Creative Energy does not consider the amount of the costs to be unreasonable in relation to the size of the utility and the size of the project, and argues that it has:

...prudently minimized and defrayed costs by building on past studies, staging analysis to ensure that the right things were being studied in more depth, securing a significant grant (the largest possible from the Federation of Canadian Municipalities), using market feedback to gather and confirm input assumptions for the study, and securing in-kind contributions from the City of Vancouver.¹¹³

Creative Energy further submits that the Fuel Switch Study is the “basis of the LTRP and it addresses numerous strategic issues facing the company such as general market trends, GHG policy and regulation, fuel cost outlook (including RNG analysis), customer perspectives of green energy, thermal energy cost benchmarks, steam to hot water conversion, etc.”¹¹⁴

With regard to why Creative Energy is now seeking recovery of the Fuel Switch Study costs in the current Application, it states the following:

Given ongoing uncertainty in the timing of the project and broader value of the LTRP and underlying Fuel Switch Study, the company is now seeking to expense costs to date and recover them via the TPRCDA. Should the Panel decide that these costs not be recovered in the TPRCDA, where appropriate Creative Energy intends to capitalize these costs as part of the fuel switch project if and when it occurs.¹¹⁵

Creative Energy revealed that its original intention was to capitalize those costs as part of the overall development costs when the fuel switch project proceeds. Indeed, Creative Energy emphasizes the magnitude of such a project when compared to the costs of the Fuel Switch Study in these terms:

These costs are also not unreasonable in relation to the size of the fuel switch project. As demonstrated in the Fuel Switch study, the target size of a cost-effective economic switch is about 65MW [megawatts] which reflects the available technologies and siting constraints in downtown Vancouver, as well as Creative Energy’s load duration curve and other economies of scale associated with a project of this type. The CE Fuel Switch project is almost 5 times the size

¹¹⁰ Creative Energy 2017 LTRP, Order G-147-17 with Reasons for Decision dated September 25, 2017, Appendix A, p. 3.

¹¹¹ Exhibit B-12, BCUC IR 47.8.

¹¹² Creative Energy Final Argument, p. 13.

¹¹³ Creative Energy Final Argument, pp. 13–14.

¹¹⁴ Creative Energy Final Argument, p. 13.

¹¹⁵ Creative Energy Final Argument, p. 14.

of Corix's biomass energy project which as recently approved by the Commission to serve SFU and UniverCity. Capital costs of the SFU project are approximately \$30 million (vs. about \$120 million for the CE Fuel Switch).¹¹⁶

CEC Final Argument

CEC argues that the LTRP costs "grossly exceed those approved and should not be approved, and definitely not approved without a prudency review."¹¹⁷

CEC further argues the LTRP costs related to the Fuel Switch Study are more appropriately classed as business development expenses, not regulatory costs, as they do not provide any particular benefit to core steam service ratepayers.¹¹⁸

CEC goes on to submit that "Creative Energy incurred many of these expenditures at its own risk and the ratepayer should not be held accountable" and it recommends that the BCUC disallow all actual costs in excess of approvals by the BCUC or subsequent finding of prudently incurred costs.¹¹⁹

Creative Energy Reply Argument

Creative Energy responds that it "does not understand how the CEC can characterize a study of resource options for existing customers as 'business development'" as the Fuel Switch Study "focussed on low-carbon options for existing load." Creative Energy further states that while the Fuel Switch Study did consider potential additional loads, the study report and records "are clear that the primary focus of the project was existing customers."¹²⁰

Creative Energy "vehemently disagrees with the assertion that the study costs do not 'provide any particular benefit to core steam service ratepayers,'" arguing that all utilities in BC undertake long-term strategic planning and that the associated costs of that planning are recoverable in rates. Creative Energy provides the following arguments to counter CEC's assertion that the Fuel Switch Study does not benefit core steam service ratepayers:

- The existing steam system is over 50 years old and requires various renewals and upgrades;
- The *Clean Energy Act* is clear that utilities in BC must consider carbon reductions;
- All of Creative Energy's customers face carbon taxes, and also the growing prospect of higher carbon taxes or other regulations. Additionally, some customers are public sector entities who already face additional costs associated with purchasing carbon offsets under BC's carbon neutral government requirements;
- Some existing customers have already implemented much costlier low-carbon energy sources in response to their unique market drivers and other customers have expressed interest in low-carbon energy; and
- There are very stringent requirements emerging for new development in Vancouver.¹²¹

¹¹⁶ Exhibit B-12, BCUC IR 47.6.

¹¹⁷ CEC Final Argument, p. 42.

¹¹⁸ CEC Final Argument, p. 42.

¹¹⁹ Ibid.

¹²⁰ Creative Energy Reply Argument, pp. 21–22.

¹²¹ Creative Energy Reply Argument, p. 22.

3.1.1.1 BCUC determination on Fuel Switch Study and LTRP costs

As previously noted, the BCUC review of the 2017 LTRP Application was adjourned pending the filing of a complete and updated LTRP. Even assuming that the Fuel Switch Study forms the basis of the LTRP, the BCUC decision to adjourn the proceeding amounts to a finding that the LTRP as filed does not meet the requirements of section 44.1 of the UCA and necessitates the filing of an updated LTRP. Creative Energy itself admits that it has not met those requirements to date.¹²²

Pending a BCUC review and determination of an updated LTRP filing, it would be inappropriate and premature for this Panel to make any determination as to whether any of the costs claimed on account of the Fuel Switch Study and the LTRP were prudently and reasonably incurred for the benefit of Creative Energy's core customers such that they ought to be approved for recovery in rates. Moreover, there is limited evidence in this proceeding that would substantiate whether the Fuel Switch Study was or will be useful in preparing the LTRP and whether the expenditures for the study were prudent and in the interests of ratepayers. **Accordingly, we make no determination as to whether the costs incurred to date ought to be approved for recovery at this time.**

Generally, the review and recovery of regulatory proceeding costs recorded in deferral accounts are dealt with by an RRA panel as the recovery of these costs form part of the revenue requirements and rates being requested in an RRA. However, in the Panel's view, it would be appropriate for the subsequent panel assigned to review the updated LTRP to assess the reasonableness of the Fuel Switch Study and LTRP costs, as that panel will have a better understanding of the usefulness and applicability of the Fuel Switch Study to the overall LTRP filing. The recovery of any/all of the Fuel Switch Study and LTRP costs (i.e. over what time period these costs should be recovered) could then be determined by a future RRA panel based on the recommendations/determinations of the panel reviewing the updated LTRP.

With regard to the "Consultants – LTRP" costs recorded in the TPRCDA as of the end of 2017, the Panel finds that these costs ought not to be captured in the TPRCDA, as that deferral account is only intended to capture ongoing Third Party Regulatory Costs incurred by Creative Energy in the ordinary course for its regulatory filings, as evidenced by the one-year amortization period approved in the 2016-2017 RRA. The TPRCDA is not meant to capture extraordinary costs of the nature and magnitude currently claimed on account of the Fuel Switch Study and LTRP which span a period of four years. Additionally, separation of the Fuel Switch Study costs from the TPRCDA will allow for greater transparency when these costs are being reviewed by the panel in the future LTRP proceeding.

Accordingly, the Panel directs Creative Energy to establish a new deferral account titled the "Fuel Switch Study and LTRP" Deferral Account and to transfer all the amounts captured on account of "Consultants – LTRP" from the TPRCDA to the new deferral account, including all actual costs incurred on account of the Fuel Switch Study and the LTRP in 2017 and 2018, net of all applicable offsetting grants. Creative Energy is approved to accrue a weighted average cost of debt return on the Fuel Switch Study and LTRP Deferral Account. The ultimate recovery of the Fuel Switch Study and LTRP costs and the appropriate amortization period for the recoverable costs will be determined by a subsequent RRA panel following the completion of the future LTRP proceeding. Creative Energy is directed to include in a compliance filing due to the BCUC within 30 days of the date of this decision (Compliance Filing) the revised regulatory schedules showing: (i) the updated

¹²² Exhibit B-12, BCUC IR 47.6.

balance in the TPRCDA to reflect the removal of the “Consultants – LTRP” costs; and (ii) the newly established Fuel Switch Study and LTRP Deferral Account and associated cost additions.

In the event that contrary to its stated intentions, Creative Energy does not file an updated LTRP by December 31, 2019, the Panel directs Creative Energy to file a proposal with the BCUC no later than January 31, 2020 for reviewing the potential recovery of the balance in the new Fuel Switch Study and LTRP Deferral Account.

The Panel observes that Creative Energy ought to have been more forthcoming and transparent about the extent of the Fuel Switch Study and LTRP expenditures when it applied for and obtained approval for the TPRCDA in the 2016-2017 RRA Decision. In the Panel’s view, it is unreasonable for Creative Energy to withhold relevant information about significant expenditures which it expects ratepayers to bear in subsequent RRAs.

Furthermore, it is not in Creative Energy’s interest to thwart the BCUC’s efforts to probe the prudence and reasonableness of such expenditures by dismissing requests for details of the expenditures on the basis that they entail too much work on the part of the utility. In particular, the Panel points to the supplementary information request put forth to Creative Energy at the outset of this proceeding. Creative Energy was asked to provide “A detailed breakdown and description of the costs incurred by year” and to provide “The number of consultants utilized, the number of hours incurred per consultant, and the rate charged by each consultant.”¹²³ These are common requests asked of utilities during RRAs to substantiate large variances in regulatory proceeding costs. Instead of providing the information as requested, Creative Energy provided an annual lump sum amount of costs incurred with no accompanying description and it attached a list of the consultants used and a list of invoices from its accounting system. Creative Energy stated that it “does not have administrative staff to pull this information together” and it does not “believe this is a valuable use of internal staff time.”¹²⁴ The Panel expects Creative Energy to be more forthcoming and cooperative with future panels’ attempts to probe the prudence and extent of the Fuel Switch Study and LTRP costs it wishes to recover from ratepayers beyond what has been demonstrated in this proceeding.

3.1.2 Cost allocation methodology

In the 2016-2017 RRA Decision, the BCUC undertook the review of the handling of cost allocations for NEFC and approved the treatment of NEFC as a Steam Service customer, allowing NEFC to be charged on the basis of steam rates. At that time, the BCUC noted that it remained concerned with the broader issue of shared resources and how they are allocated. Specifically, concerns were raised with the explanation as to how allocations were arrived at and whether all areas that should be allocating costs have been included in the allocations.

In its 2016-2017 RRA Decision, the BCUC accepted that Creative Energy was going through a period of transition from a company with one major product to a more complex entity with new products, a broader project base and more diversified customers. While noting expenses were increasing at a rapid rate, a number of issues were raised with respect to SG&A account forecasts and the amounts allocated to Other Projects in that proceeding. The major issues raised concerning SG&A account items are summarized as follows:

¹²³ Order G-12-18 dated January 17, 2018, Appendix C.

¹²⁴ Exhibit B-3, Supplementary Information Filing, Question 4.b.

Table 5 – Summary of SG&A Allocation Issues Identified in 2016-2017 RRA Decision

SG&A Account Item	Description of Issue
Sales Expense	No amount had been allocated from Sales Expense with reference to Other Projects. The BCUC found that given Creative Energy’s emphasis on expansion and new projects, it is reasonable to allocate at least a portion of Sales Expense costs to Other Projects.
Director Fees	Same issue arises for Director Fee costs which had increased substantially with none of the costs allocated to Other Projects. The BCUC determined that the need for additional meetings was driven by Creative Energy’s development of new business projects and the NEFC, noting there was no evidence to suggest that the Steam business had changed significantly.
Insurance	Noting that since 2014, insurance costs being charged to steam customers had risen dramatically, with no explanation for the increase, the BCUC found that the largest part of the increase was most appropriately allocated to NEFC and Other Projects.

In addition to these areas, the BCUC examined: Special Services; Administration and General Salaries; and Office Supplies and Expenses.

The BCUC noted that Creative Energy was going through a major transformation with a large number of projects in process and determined there was a need to review how these costs are allocated to safeguard against existing steam customers being treated unfairly. Acknowledging the need to proceed in a cost-effective manner reflective of the size of the business, the BCUC directed Creative Energy to conduct a cost allocation study addressing allocations among Steam Service, NEFC Service and Other Projects.¹²⁵

Creative Energy reports that in the ensuing period, it consulted with BCUC staff and developed a cost allocation approach based on NEFC continuing as a Steam Service customer with the result that costs are allocated only to Other Projects. Creative Energy states that because NEFC is treated as a steam customer, it did not apply cost allocations to this entity.

There are six “Other Projects” to which Creative Energy proposes to allocate costs. Creative Energy explains that these projects are thermal energy systems currently under development with one in operation. Creative Energy anticipates that all of those projects will be filed with the BCUC as Stream A TES in accordance with the TES Guidelines.¹²⁶ Creative Energy provided a table showing an additional four projects (Projects 7 through 10).¹²⁷ Creative Energy submitted that it did not include Projects 7 through 10 in its proposed SG&A cost allocation because it has proposed the allocation based on the 2017 forecast, and at the time the forecast was prepared, Creative Energy was only aware of Projects 1 through 6.¹²⁸

¹²⁵ Creative Energy 2016-2017 RRA Decision, p. 17.

¹²⁶ Exhibit B-12, BCUC IR 30.3.

¹²⁷ Exhibit B-12, BCUC IR 33.7.

¹²⁸ Exhibit B-15, Panel IR 1.5, 1.5.1.

As a first step, Creative Energy identified what it describes as the pool of shared costs to which the allocation methodology is to be applied. Creative Energy proposes to use SG&A costs from Table 11 of the 2016-2017 RRA Decision as a starting point. These costs were further adjusted to reflect amounts pertaining to the inclusion of incentives denied in that decision and a re-classification of Pension, Benefits and Workers Compensation Benefit (WCB) costs for employees directly associated with Steam Production Expenses for “supervision and labour” and “steam distribution expenses.” Further adjustments were then made by Creative Energy during the IR process. The final revised SG&A balance used for allocation purposes is \$1,498,000.¹²⁹

Creative Energy states that it considered two alternatives for allocation: the Massachusetts Formula methodology and the Cost Drivers methodology.

Creative Energy notes that the Massachusetts Formula methodology has been approved by the BCUC and is widely used in the industry. It is made up of the arithmetic average of three components: the average net book value of capital assets; salaries; and operating revenues. Average percentages are calculated as outlined in Table 6.¹³⁰

Table 6 – Inputs to Massachusetts Formula

	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
Capital	90.14%	0.00%	1.06%	5.31%	0.74%	0.31%	1.18%	1.27%	100.00%
Revenues	98.23%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.77%	100.00%
Salaries	96.44%	0.00%	1.74%	0.00%	0.00%	0.00%	0.00%	1.82%	100.00%
Average	94.93%	0.00%	0.93%	1.77%	0.25%	0.10%	0.39%	1.62%	100.00%

When applied using this formula, the total allocation to Other Projects is \$71,200, as shown in Table 7 below.¹³¹

¹²⁹ Exhibit B-12, BCUC IR 28.2.

¹³⁰ Exhibit B-1, Appendix 4.

¹³¹ Exhibit B-12, BCUC IR 28.7.

Table 7 – Allocations to Other Projects based on Massachusetts Formula

Line #	Acct. #	Account Name	E = D+C		F		G=E+F		H		I = G+H		0.00%	0.93%	1.77%	0.25%	0.10%	0.39%	1.62%	Total	
			Total Adj For 16/17 Decision	ADJ BCUC IR2 28.4	Subtotal	ADJ BCUC IR2 28.7.1	Total Adj For 16/17 Decision	0.00% NEFC	0.93% Proj. 1	1.77% Proj. 2	0.25% Proj. 3	0.10% Proj. 4									0.39% Proj. 5
1		Sales Promotion Expenses-Operation																			
2	910	Sales Expense	70,200	0	70,200	(15,700)	54,500	0	(500)	(1,000)	(100)	(100)	(200)	(900)	(900)	(2,800)					
3	911	Advertising	0	0	0	0	0	0	0	0	0	0	0	0	0	0					
4		Total Sales Promotion Exp - Operation	70,200	0	70,200	(15,700)	54,500	0	(500)	(1,000)	(100)	(100)	(200)	(900)	(900)	(2,800)					
5																					
6		Administrative & General - Operation																			
7	915	Directors Fees	49,400	0	49,400	(8,000)	41,400	0	(400)	(700)	(100)	0	(200)	(700)	(700)	(2,100)					
8	920	Admin & General Salaries	590,000	0	590,000	(6,000)	584,000	0	(5,400)	(10,300)	(1,400)	(600)	(2,300)	(9,500)	(29,500)	(29,500)					
9	921	Office Supplies & Exp	105,200	0	105,200	(9,200)	96,000	0	(900)	(1,700)	(200)	(100)	(400)	(1,600)	(4,900)	(4,900)					
10	922	Admin & General Exp	11,000	0	11,000	0	11,000	0	(100)	(200)	0	0	0	(200)	(500)	(500)					
11	923	Special Services	307,300	(12,000)	295,300	(6,100)	289,200	0	(2,600)	(5,100)	(700)	(300)	(1,100)	(4,700)	(14,500)	(14,500)					
12	924	Insurance	123,900	0	123,900	(16,500)	107,400	0	(1,000)	(1,900)	(300)	(100)	(400)	(1,700)	(5,400)	(5,400)					
13	925	Injuries & Damages-WCB	6,100	0	6,100	0	6,100	0	(100)	(100)	0	0	0	(100)	(300)	(300)					
14	926	Employee Benefits	197,700	0	197,700	0	197,700	0	(1,800)	(3,500)	(500)	(200)	(800)	(3,200)	(10,000)	(10,000)					
15	930.1	Institutional or Goodwill Advert Exp	0	0	0	0	0	0	0	0	0	0	0	0	0	0					
16	930.2	Other Admin. And General Exp	0	0	0	0	0	0	0	0	0	0	0	0	0	0					
17		Total Admin & General-Operation	1,390,600	(12,000)	1,378,600	(45,800)	1,332,800	0	(12,300)	(23,500)	(3,200)	(1,300)	(5,200)	(21,700)	(67,200)	(67,200)					
18																					
19		Administrative & General - Maintenance																			
20	932	Maintenance of General Plant	49,200	0	49,200	(24,500)	24,700	0	(200)	(400)	(100)	0	(100)	(400)	(1,200)	(1,200)					
21		Total Admin & General-Maintenance	49,200	0	49,200	(24,500)	24,700	0	(200)	(400)	(100)	0	(100)	(400)	(1,200)	(1,200)					
22		Per G-167-16, pg 40, Table 11, Line 14	1,510,000	(12,000)	1,498,000	(86,000)	1,412,000	0	(13,000)	(24,900)	(3,400)	(1,400)	(5,500)	(23,000)	(71,200)	(71,200)					

Under the Cost Drivers methodology, costs are categorized under either number of customers, project costs or no allocation. Based on this methodology, Creative Energy categorized almost all the cost lines under number of customers, with only Insurance being classified based on project costs and Special Services having no allocation. Once applied, Creative Energy calculates the percentage of costs as noted under each driver which are then applied to each corresponding line item. The resultant allocations are outlined in Table 8 below.¹³²

Table 8 – Allocations to Other Projects based on Cost Drivers Methodology

Line #	Acct. #	Account Name	E = D+C		F		G=E+F		H		I = G+H		Cost Drivers - Basis of Allocation	NEFC	Proj. 1	Proj. 2	Proj. 3	Proj. 4	Proj. 5	Proj. 6	Total	
			Total Adj For 16/17 Decision	ADJ BCUC IR2 28.4	Subtotal	ADJ BCUC IR2 28.7.1	Total Adj For 16/17 Decision	0.00% NEFC	0.93% Proj. 1	1.77% Proj. 2	0.25% Proj. 3	0.10% Proj. 4										0.39% Proj. 5
1		Sales Promotion Expenses-Operation																				
2	910	Sales Expense	70,200	0	70,200	(15,700)	54,500	# of Customers	0	0	(800)	(300)	(300)	(300)	(300)	(300)	(2,000)					
3	911	Advertising	0	0	0	0	0	# of Customers	0	0	(800)	(300)	(300)	(300)	(300)	(300)	(2,000)					
4		Total Sales Promotion Exp - Operation	70,200	0	70,200	(15,700)	54,500		0	0	(800)	(300)	(300)	(300)	(300)	(300)	(2,000)					
5																						
6		Administrative & General - Operation																				
7	915	Directors Fees	49,400	0	49,400	(8,000)	41,400	# of Customers	0	0	(600)	(200)	(200)	(200)	(200)	(200)	(1,400)					
8	920	Admin & General Salaries	590,000	0	590,000	(6,000)	584,000	# of Customers	0	(5,300)	(30,300)	(3,600)	(1,500)	(4,700)	(4,100)	(49,500)	(49,500)					
9	921	Office Supplies & Exp	105,200	0	105,200	(9,200)	96,000	# of Customers	0	0	(1,400)	(500)	(500)	(500)	(500)	(3,400)	(3,400)					
10	922	Admin & General Exp	11,000	0	11,000	0	11,000	# of Customers	0	0	(200)	(100)	(100)	(100)	(100)	(600)	(600)					
11	923	Special Services	307,300	(12,000)	295,300	(6,100)	289,200	No Allocation	0	0	0	0	0	0	0	0	0					
12	924	Insurance	123,900	0	123,900	(16,500)	107,400	Project Costs	0	(1,000)	(5,600)	(700)	(300)	(900)	(800)	(9,300)	(9,300)					
13	925	Injuries & Damages-WCB	6,100	0	6,100	0	6,100	# of Customers	0	0	(100)	(100)	(100)	(100)	(100)	(500)	(500)					
14	926	Employee Benefits	197,700	0	197,700	0	197,700	# of Customers	0	0	(2,900)	(1,000)	(1,000)	(1,000)	(1,000)	(6,900)	(6,900)					
15	930.1	Institutional or Goodwill Advert Exp	0	0	0	0	0	# of Customers	0	0	0	0	0	0	0	0	0					
16	930.2	Other Admin. And General Exp	0	0	0	0	0	# of Customers	0	0	0	0	0	0	0	0	0					
17		Total Admin & General-Operation	1,390,600	(12,000)	1,378,600	(45,800)	1,332,800		0	(6,300)	(41,100)	(6,200)	(3,700)	(7,500)	(6,800)	(71,600)	(71,600)					
18																						
19		Administrative & General - Maintenance																				
20	932	Maintenance of General Plant	49,200	0	49,200	(24,500)	24,700	# of Customers	0	0	(400)	(200)	(200)	(200)	(200)	(1,200)	(1,200)					
21		Total Admin & General-Maintenance	49,200	0	49,200	(24,500)	24,700		0	0	(400)	(200)	(200)	(200)	(200)	(1,200)	(1,200)					
22		Per G-167-16, pg 40, Table 11, Line 14	1,510,000	(12,000)	1,498,000	(86,000)	1,412,000		0	(6,300)	(42,300)	(6,700)	(4,200)	(8,000)	(7,300)	(74,800)	(74,800)					

Based on this methodology, the total amount allocated to Other Projects is \$74,800.

Creative Energy notes that the results of both of the allocation methodologies are close with a difference of only \$3,600. Creative Energy proposes to use the Massachusetts Formula, asserting that it is “generally accepted and well established for other utilities regulated by the Commission in other jurisdictions.”¹³³ Creative Energy further

¹³² Exhibit B-12, BCUC IR 28.7.

¹³³ Exhibit B-1, Appendix 4.

states that the Massachusetts Formula is more appropriate than the Cost Drivers method because the former is based on an aggregate of three components (capital, salaries and revenues), and that as the systems mature, components of salaries and revenues will come into effect, thus increasing the allocations to Other Projects.¹³⁴

Positions of the parties on cost allocation methodology

CEC notes that six TES projects (one in operation) are currently under development and are standalone projects outside the boundaries of the steam network. Thus, these projects are not part of the regulated portion of the core steam business. CEC raises two concerns with respect to allocations: first, that there was no alternative methodology on the record; and second, the IBR approach does not take into account future capital projects outside of the projected capital additions.¹³⁵

Creative Energy corrects CEC's assertions with respect to allocation methodologies, pointing out that it compared the allocation of costs under the Massachusetts Formula as well as the Cost Driver methodology. Both methods provided similar results.¹³⁶

3.1.2.1 BCUC determination on cost allocation methodology

In its reply argument, Creative Energy did not respond to CEC's concerns with future capital projects not being taken into account. The Panel agrees that this would have been important had the IBR mechanism covering a five-year period been approved. However, since the IBR mechanism has been rejected and the Panel is only establishing Creative Energy's revenue requirement and rates for 2018, the issue raised by CEC is less of a concern as is the potential impact on revenue requirements.

As to the mechanism itself, the Panel agrees with Creative Energy that it has undertaken to review alternative allocation methodologies and the results produced by each of these are similar. The Panel also agrees that the Massachusetts Formula is in use in many utilities and is a valid methodology commonly used to allocate costs to outside projects or other entities. **Therefore, the Panel finds Creative Energy's recommendation of the Massachusetts Formula to be acceptable and approves this methodology for application in this and future revenue requirements.** The Panel notes that for this methodology to be effective, it must be updated to reflect ongoing changes related to the addition of new projects. As an example, Creative Energy has already commenced development of four new projects (Projects 7 through 10), and there may be even more projects which have commenced development since the close of the evidentiary record. In calculating the costs to be allocated to the Other Projects, Creative Energy proposes to use the Approved 2017 SG&A costs (with adjustments) as opposed to the Actual 2017 costs, and therefore has only included the projects which were in development at the time the 2017 forecast was developed (i.e. Projects 1 through 6). The Panel finds this approach acceptable and more practicable, as Creative Energy may not always have actual cost information available when developing the cost allocations for the upcoming test period(s). However, any future longer-term revenue requirements applications will need to address how the costs and projects can be updated annually to reflect annual cost allocation changes.

¹³⁴ Exhibit B-7, BCUC IR 4.5.

¹³⁵ CEC Final Argument, p. 36.

¹³⁶ Creative Energy Reply Argument, p. 20.

3.2 Municipal Access Fees and property taxes

Municipal Access Fees are calculated by applying 1.25 percent to Creative Energy’s annual steam revenue plus a “flat fee” per an agreement with the City of Vancouver.¹³⁷ The amount included in the Revised Base Revenue Requirement is \$254,200.¹³⁸ Creative Energy provided its “best” 2018 forecast for Municipal Access Fees of \$260,202.¹³⁹ The forecast increase in 2018 Municipal Access Fees compared to the Revised Base Revenue Requirement amount is 2 percent, which is essentially an inflationary increase.

Creative Energy originally included an amount of \$357,800 for property taxes as part of the Base Revenue Requirement, which was the Approved 2017 amount. However, in response to an IR, Creative Energy stated that it has now received the actual property tax assessment value and notice and due to the large increase in the Actual 2017 property tax amount it proposes to adjust the IBR base to reflect the Actual 2017 property tax amount of \$595,160.¹⁴⁰

Creative Energy provided its “best” 2018 forecast for property taxes, which was \$595,160. This 2018 forecast is equal to the Actual 2017 property tax amount.¹⁴¹

Positions of the parties

CEC “does not object to Creative Energy’s ability to recover its taxes” and recommends allowing the increase in property taxes to reflect the actual amount of \$595,160 so that the property taxes are recovered on a “cost of service basis as all other costs should be.”¹⁴²

Creative Energy “believes that it can manage its business and costs within the approved 2017 forecast Revenue Requirement” with the exception of property taxes because “the property tax increase is a significant departure from that forecast outside of Creative Energy’s control that will endure each year over the five-year period.”¹⁴³

3.3 Depreciation, income taxes, interest expense and return on equity

Depreciation, income taxes, financing costs and ROE largely flow from rate base, and in particular, the net property, plant and equipment.

The depreciation expense of \$987,600 included in the Revised Base Revenue Requirement is calculated using the Approved 2017 opening depreciable net plant in service and therefore does not include depreciation expense on current year (i.e. 2017) capital additions.¹⁴⁴ This also means that the base IBR depreciation expense does not include Actual 2016 capital additions. The Approved 2016 capital additions were \$2,005,500.¹⁴⁵ In comparison, the Actual 2016 capital additions were \$1,506,832.¹⁴⁶

¹³⁷ Exhibit B-1, Appendix 1, Schedule 17; Exhibit B-7, BCUC IR 13.2.

¹³⁸ Exhibit B-15, Attachment 3.2.

¹³⁹ Exhibit B-9, CEC IR 12.4.

¹⁴⁰ Exhibit B-12, BCUC IR 38.2.

¹⁴¹ Exhibit B-9, CEC IR 12.6.

¹⁴² CEC Final Argument, p. 32.

¹⁴³ Creative Energy Reply Argument, p. 16.

¹⁴⁴ Exhibit B-12, BCUC IR 40.12, 40.12.1.

¹⁴⁵ Creative Energy 2016-2017 RRA Decision, p. 56.

¹⁴⁶ Exhibit B-12, BCUC IR 40.7.

Creative Energy’s allowed return is calculated based on its approved capital structure and ROE and the mid-year Approved 2017 net rate base, which includes the Approved 2017 capital additions. The amount included in the Revised Base Revenue Requirement is \$1,045,000. The interest expense amount included in the Revised Base Revenue Requirement is equal to the Approved 2017 amount of \$597,000.¹⁴⁷

In the Application, Creative Energy states that the “approved capital expenditures of \$1.27 million in 2017, adjusted for inflation, are a fair and reasonable basis to determine the Base IBR Capital for the period 2018-2022.”¹⁴⁸

Creative Energy confirmed in response to an IR that it uses the terms “capital expenditures” and “capital additions” interchangeably; thus, these terms are used interchangeably in this decision.¹⁴⁹

Creative Energy provided the following breakdown of actual capital additions for the years 2015 through 2017 and the proposed IBR base capital, which is based on Approved 2017 capital expenditures:¹⁵⁰

Table 9 – Breakdown of Capital Additions

<u>Capital Additions</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Proposed IBR</u>
Boiler Plant	189,401	276,503	110,403	-
Distribution line	87,742	305,739	137,325	1,025,000
Building Services	542,176	914,069	142,226	245,000
Electronic Equipment/Website	133,705	2,696	46,740	-
Building Structure	4,077	7,825	-	-
	<u>\$ 957,100</u>	<u>\$ 1,506,832</u>	<u>\$ 436,695</u>	<u>\$ 1,270,000</u>

The variance between Approved and Actual 2017 capital additions was explained as follows:¹⁵¹

¹⁴⁷ Exhibit B-15, Attachment 3.2.

¹⁴⁸ Exhibit B-1, p. 11.

¹⁴⁹ Exhibit B-14, CEC IR 52.1.

¹⁵⁰ Exhibit B-12, BCUC IR 40.7.

¹⁵¹ Exhibit B-12, BCUC IR 40.9.1.

Table 10 – Variance between Approved and Actual 2017 Capital Additions

	<u>2017</u>	Spent	
Forecast Projects			
Blr 3 DBB - steam and FW	50,000	}	110,403 Delayed & substituted by other plant upgrades
UBC Surplus items (parts for purchase)	200,000		Delayed & substituted by other plant upgrades
Abate & Reinsulate MD1	150,000		Delayed & substituted by other manhole repairs
G-Leg, Expansion Loop & 2 Anchors	100,000		Delayed & substituted by other manhole repairs
MJ-3, Repair Walls	200,000		Delayed & substituted by other manhole repairs
Marine bldg Anchor Inspection	20,000		Delayed & substituted by other manhole repairs
Other Manhole repairs		99,251	Substituted for other manhole distribution repairs
MJ-6, Restoration	450,000	1,072	Started late 2017; completed Feb 2018
Building Services / Meters		179,228	Building Services repairs and meter replacement
Remote monitoring	100,000		Started, ongoing, spent \$20,270 in WIP
Office Equipment		46,740	Upgrade billing system; office equipment
Total	<u>\$ 1,270,000</u>	<u>\$ 436,695</u>	

Creative Energy provided the following 2018 forecast for capital expenditures:¹⁵²

Table 11 – 2018 Forecast Capital Expenditures

2018 STEAM Capital Budget

	Total 2018	COMMENTS
Plant	106,500	Refractory rebuild, UPSs, Boiler Maintenance, Delta V upgrades
Distribution	878,596	Manholes repairs, anchor inspection
Bldg Services	553,230	Remote metering, in building maintenance
Other	100,000	Asset Management
	<u>1,638,325</u>	

Positions of the parties

BCOAPO argues the following:

...it is essential to calibrate the first year of any indexed plan, no matter what it is called, with the actual rate base: the actual return on equity and debt and the actual capital depreciation...Absent any information to the contrary, it is more than reasonable to use the 2017 actual closing rate base as 2018's opening one and that is what we submit should be used

¹⁵² Exhibit B-12, BCUC IR 40.10.

to determine the 2018 capital costs and taxes (equity, debt, depreciation, associated income and capital for 2018) rather than a forecast.¹⁵³

CEC’s submissions are more general with respect to capital expenditures. In CEC’s view, it is not appropriate to inflate capital additions/expenditures by the IBR formula because capital expenditures/additions have “varied significantly” over the past six years, pointing out that there has been close to a 100 percent variance in expenditures/additions over the period 2012 to 2016.¹⁵⁴

Creative Energy argues in support of its proposal to use the 2017 Approved capital expenditures as the IBR base capital, stating that these expenditures “were subject to extensive review by the Commission and intervenors in the 2016-2017 [RRA] proceeding.” With regard to the significant variance between Approved and Actual 2017 capital additions, Creative Energy submits: “Actual capital additions in any particular year will vary from forecast for a variety of reasons, including the timing and prioritization of maintenance work, obtaining required permits and the time required to complete a project.” Creative Energy further states that the planned capital projects which were not completed in 2017 will need to be completed in 2018, which is why its projected actual capital for 2018 exceeds the average annual capital additions forecast during the IBR period.¹⁵⁵

3.4 Load forecast

Creative Energy’s Approved 2017 load forecast is 1,098,514 M#. Creative Energy submits that the biggest driver of its current load is weather. Creative Energy further submits that it does 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.”¹⁵⁶

Creative Energy provided the following table comparing the Approved 2016 and 2017 steam demand and revenues to Actual 2016 and 2017 results.¹⁵⁷

Table 12 – 2016 and 2017 Approved and Actual Steam Demand

	2016 Forecast		2016 Actual		2017 RRA		2017 Actual	
	Steam Demand M#	Revenues \$						
Steam Customers (Excluding NEFC)	1,067,999	\$ 8,030,811	1,053,996	\$ 8,186,075	1,069,572	\$ 8,275,575	1,173,376	\$ 8,969,388
NEFC	5,440	\$ 40,446	-	\$ -	28,942	\$ 201,225	26,028	\$ 184,245
Total Demand (Steam + NEFC)	1,073,439	\$ 8,071,257	1,053,996	\$ 8,186,075	1,098,514	\$ 8,476,800	1,199,404	\$ 9,153,633

Creative Energy explained that the variances between approved and actual results were due to weather and in the timing of NEFC customers coming online.¹⁵⁸

In response to IRs, Creative Energy forecasted zero changes to steam demand for years 2018 through 2022 compared to 2017.¹⁵⁹

¹⁵³ BCOAPO Final Argument, pp. 2–3.

¹⁵⁴ CEC Final Argument, p. 33.

¹⁵⁵ Creative Energy Reply Argument, pp. 26–27.

¹⁵⁶ Exhibit B-7, BCUC IR 24.2.

¹⁵⁷ Exhibit B-12-2, BCUC IR 45.1.

¹⁵⁸ Exhibit B-12, BCUC IR 45.1.1.

Positions of the parties

CEC did not provide any specific submissions on Creative Energy's load forecast, other than stating that the variability in demand forecasts is "not conducive to Index Based Ratemaking and an inappropriate element of the Creative Energy IBR proposal."¹⁶⁰

Creative Energy did not respond to CEC's submission; instead, the Company states that it faces more risks during the five-year period from load losses than load increases and it faces considerable weather risk with a 100 percent variable tariff.¹⁶¹

3.5 BCUC determination on 2018 revenue requirement and rates

As stated previously, the Panel considers it reasonable to establish the 2018 revenue requirement using a combination of the Revised Base Revenue Requirement, 2017 Actual results and 2018 forecasts.

The Panel finds that for many revenue requirement items, the evidence gathered on the Revised Base Revenue Requirement is the most fulsome, as the Revised Base Revenue Requirement was tested extensively in this proceeding and many of the expenses are consistent with the Approved 2017 amounts, which were tested extensively in the 2016-2017 RRA proceeding. Therefore, in cases where we find it reasonable to use the Revised Base Revenue Requirement, we will apply Creative Energy's proposed inflationary factor to these amounts in recognition of the inflationary pressures where they can reasonably be expected. As to the inflationary factors themselves, the Panel finds that Creative Energy's proposed weighting of labour and non-labour components is reasonable as it is consistent with the Company's business costs. While the appropriateness of BC-CPI versus Vancouver-CPI was explored in IRs, the Panel is persuaded that the use of Vancouver-CPI is reasonable for the non-labour component as Creative Energy's business operates primarily within Vancouver and the actual CPI results for the BC and Vancouver indices are reasonably comparable.

However, there are expense items where applying the above method to determining 2018 amounts is not appropriate. In such cases, the Panel will rely on actual experience as reflected in the evidence gathered related to Actual 2017 results and the 2018 forecasts, particularly in cases where 2018 costs are unlikely to reflect Approved 2017 amounts.

O&M

The total O&M after direct assignment of NEFC costs and allocations to Other Projects, which was provided by Creative Energy as part of the Revised Base Revenue Requirement, is \$4,385,400.¹⁶² When viewing Creative Energy's O&M expenses on a holistic basis, the Panel finds it reasonable to set Creative Energy's 2018 O&M based on this amount, subject to an adjustment related to the 2017 LTRP costs included in the Approved 2017 Special Services expenses. The total O&M after directly assigned costs, adjusted for 2017 LTRP costs, will then be multiplied by Creative Energy's proposed inflationary factor of 1.84 percent.

In responses to IRs, Creative Energy repeatedly indicated that its best forecast for 2018 and beyond (i.e. the duration of the proposed five-year IBR term) was the 2017 adjusted base O&M escalated by its proposed

¹⁵⁹ Exhibit B-12, BCUC IR 44.2.1.

¹⁶⁰ CEC Final Argument, p. 36.

¹⁶¹ Creative Energy Reply Argument, p. 19.

¹⁶² Exhibit B-15, Panel IR 3.2, Attachment 3.2.

inflationary factor. Operating labour, which is a large component of O&M, is expected to increase in line with this inflationary factor for 2018. This is mainly a result of the fact that operating salaries are dictated by Union collective agreements, and the newly signed CBA effective for 2018 stipulates an annual wage increase of 1.8 percent.¹⁶³

The Panel notes that other components of O&M may increase more or less than inflation, or may even decrease. As an example, insurance expense does not appear to change year over year in a manner consistent with inflation. However, the Panel points to Creative Energy's statement that it is "up to Creative Energy as a company to manage our business and costs effectively."¹⁶⁴

In Section 3.1.1.1 of this decision, the Panel directs Creative Energy to remove all costs associated with the Fuel Switch Study and LTRP from the TPRCDA and move these costs to a newly approved deferral account for future review. However, within Special Services, the cost of \$48,000 approved as part of the 2017 O&M in the 2016-2017 RRA Decision remains. Therefore, in light of the Panel's determination in Section 3.1.1.1, the Panel finds it reasonable to remove the Approved 2017 "Consultants – LTRP" costs of \$48,000 from Special Services expenses when establishing the O&M expenses for 2018. We do not consider it reasonable to include the "Consultants – LTRP" costs in the Revised Base Revenue Requirement because these costs will be the subject of a future review by the BCUC and there should not be a further \$48,000 of LTRP-related costs carried forward as part of the 2018 revenue requirement.

Accordingly, the Panel directs Creative Energy to reduce the Special Services expense included in the Revised Base Revenue Requirement by \$48,000 and to recalculate the total O&M after direct assignment of NEFC costs and allocation to Other Projects to reflect this adjustment.

The Panel previously approved the use of the Massachusetts Formula for allocating SG&A costs to Other Projects in Section 3.1.2.1 of this decision and we note that the reduction of \$48,000 in Special Services expenses impacts the calculation of the SG&A cost allocation included in the Revised Base Revenue Requirement. **Therefore, Creative Energy is directed to re-calculate the shared cost allocation to reflect the reduction of \$48,000 to Special Services.**

In summary, the Panel directs Creative Energy to calculate its 2018 O&M as follows:

- **Start with the 2017 total O&M after direct assignment of NEFC costs and allocations to Other Projects of \$4,385,400;**
- **Reduce the 2017 total O&M after direct assignment of NEFC costs and allocations to Other Projects of \$4,385,400 by \$48,000 to remove the 2017 Approved "Consultants – LTRP" costs from Special Services;**
- **Re-calculate the cost allocation to Other Projects to reflect the reduction to Special Services of \$48,000 and apply this adjustment to the aforementioned O&M; and**
- **Multiply the newly adjusted 2017 total O&M after direct assignment of NEFC costs and allocations to Other Projects by an inflationary factor of 1.84 percent.**

¹⁶³ Exhibit B-7, BCUC IR 1.1.1.

¹⁶⁴ Exhibit B-9, CEC IR 12.2.

Municipal Access Fees and property taxes

The Municipal Access Fees included in the Revised Base Revenue Requirement are \$254,200, which equates to the 2017 Approved Municipal Access Fees with a minor adjustment to remove a carry-over amount from 2016. The Panel accepts Creative Energy's statement that Municipal Access Fees are tied to revenue and therefore it is reasonable to expect these fees to increase in line with inflation. Consistent with the treatment approved for O&M expenses, **the Panel directs Creative Energy to calculate the 2018 revenue requirements amount for Municipal Access Fees by multiplying the Revised Base Revenue Requirement amount of \$254,200 by the 1.84 percent inflationary factor.**

While Creative Energy originally proposed to include the Approved 2017 property tax amount as part of the Revised Base Revenue Requirement, it later requested to use the Actual 2017 property tax amount due to the fact that the actual amount of \$595,160 greatly exceeded the Approved 2017 amount. The Panel finds that the Actual 2017 property tax amount is more reasonable to use as a basis for setting the 2018 amount as it is unlikely the 2018 property tax assessment will be less than the 2017 assessment; thus, the Actual 2018 property taxes are likely to be more in line with Actual 2017 property taxes than with the Approved 2017 property taxes. The Panel also notes that Creative Energy's "best" forecast for 2018 property taxes is equal to the Actual 2017 property tax amount. **Therefore, the Panel directs Creative Energy to include the Actual 2017 property tax amount of \$595,160 as part of the 2018 revenue requirements.**

Depreciation, interest expense, income taxes and allowed return

In order to determine the appropriate 2018 revenue requirement amounts for the above-titled costs, the Panel must first address the issue of capital expenditures/additions and rate base. Under a cost of service approach, Creative Energy would have provided its forecast 2018 capital expenditures and its forecast 2018 rate base, which would include the opening and closing 2018 net plant in service.

With regard to capital expenditures, Creative Energy proposed to use the Approved 2017 amount of \$1,270,000 and the Approved 2017 opening and closing rate base balances to calculate the revenue requirement components of depreciation, interest expense, income taxes and allowed return. However, Actual 2017 capital expenditures were much lower than approved, totalling only \$436,695, and Creative Energy's forecast capital expenditures for 2018, totalling \$1,638,325, are higher than the Approved 2017 amount. Creative Energy points to delays of some of the major projects in 2017 due to conflicting project demands and delays in completing projects due to weather conditions and obtaining City approvals to explain why the Actual 2017 capital expenditures were considerably lower than the Approved 2017 amount.

The Panel accepts that there may be variability in annual capital spending due to unexpected project delays resulting from weather conditions, City approvals, etc. This variability, coupled with the lumpy nature of capital spending, creates additional challenges when attempting to determine an appropriate "base" for capital expenditures over a multi-year indexed based plan, whether it be an IBR plan or the PBR plans utilized by other utilities in BC. As the Panel has rejected Creative Energy's proposed IBR plan, the only issue to be addressed here is the appropriate amount of capital expenditures to be approved for 2018.

In consideration of the above, the Panel finds that the 2018 depreciation expense should be calculated based on the Actual 2017 ending net rate base. With regard to interest expense, income taxes and allowed return, which are calculated based on, in part, the mid-year net rate base for the applicable test year, the Panel finds it appropriate to use the Actual 2017 ending net rate base as the starting point and to include the Approved 2017

capital expenditures inflated by the approved inflationary factor of 1.84 percent to represent forecast 2018 capital expenditures.

While the Panel accepts that the reason for the lower than forecast capital expenditures for 2017 was due to various delays and, as a result, the 2018 forecast capital expenditures are expected to be higher, Creative Energy has provided minimal explanation to support its 2018 forecast capital expenditures. As such, the Panel is not convinced that Creative Energy will not experience further delays in planned 2018 projects which will result in a reduction to the amount of capital spending in 2018.

Therefore, the Panel finds it appropriate to use the Approved 2017 capital expenditure amount of \$1,270,000, multiplied by an inflationary factor of 1.84 percent, as part of the calculations for the 2018 revenue requirements, as this amount underwent extensive scrutiny in the 2016-2017 RRA Decision. Moreover, while the Approved 2017 amount is less than the 2018 forecast, the Panel considers the Approved 2017 amount to be closer to the average of recent historical capital expenditures. The Panel considers it appropriate to apply an inflationary adjustment to the Approved 2017 capital expenditures to reflect the increase in input costs for 2018 compared to 2017. **Accordingly, the Panel directs Creative Energy to re-calculate depreciation expense, income taxes, interest expense and the allowed return for 2018 using the Actual 2017 ending net rate base and the Approved 2017 capital expenditures, with the Approved 2017 capital expenditures approved to be multiplied by an inflationary factor of 1.84 percent.**

Load forecast

In response to numerous IRs in this proceeding, Creative Energy maintained that its best forecast for 2018 demand is an amount equal to the 2017 Approved demand forecast of 1,098,514 M#. The Actual 2017 demand was 1,199,404 M#, which resulted in Creative Energy's 2017 revenue being \$676,833 higher than forecast.

Similar to the issue with capital expenditures, there is little evidence on the record to assist the Panel in determining an appropriate 2018 demand forecast beyond the 2017 Approved and 2017 Actual results. While the variance in 2017 Actual demand is significant, the Panel accepts that this variance is primarily driven by weather, which is out of Creative Energy's control and is not indicative of future results. Therefore, the Panel finds the best forecast for 2018 is the Approved 2017 demand forecast of 1,098,514 M#. Using the Approved 2017 demand forecast is generally consistent with the approach taken by the Panel in establishing the 2018 revenue requirement and Creative Energy has stated numerous times in evidence that it does not expect the demand forecast to change significantly from the Approved 2017 forecast. **Creative Energy is therefore directed to use the 2017 Approved demand forecast of 1,098,514 M# to calculate the 2018 permanent rate.**

Summary of Compliance Filing items regarding the 2018 revenue requirements and rates

Creative Energy is directed to submit a compliance filing to the BCUC within 30 days of the date of this decision (Compliance Filing) which includes the following:

- **Detailed calculations of the 2018 revenue requirement and 2018 permanent rate, with supporting descriptions as to how the calculations are performed and supporting references for the inputs to the calculations.**
- **The supporting calculations for the adjusted SG&A cost allocation in the same format as was provided in BCUC IR 28.7 (Exhibit B-12).**

- As directed in Section 3.1.1.1 of this decision, revised regulatory schedules showing the updated balance in the TPRCDA to reflect the removal of the “Consultants – LTRP” costs and the newly established Fuel Switch Study and LTRP Deferral Account and associated cost additions.
- A revised Table 4 from page 24 of the Application (Exhibit B-1) separately showing the rate change resulting from the 2018 approved permanent rate before deferral account amortization and the rate changes resulting from amortization of each deferral account balance in 2018 based on the determinations on deferral accounts provided in Section 4.0 of this decision.

4.0 Deferral accounts

4.1 Third Party Regulatory Costs Deferral Account

In Creative Energy’s 2016-2017 RRA Decision, the BCUC approved the establishment of the TPRCDA. In Section 3.1 of this decision, the Panel provided Table 3 which showed the 2016 and 2017 additions to the TPRCDA. Creative Energy requests approval of the TPRCDA balance of \$521,098 as of December 31, 2017 (inclusive of LTRP costs) and to amortize this balance over three years, commencing in 2018.¹⁶⁵ The TPRCDA’s currently approved amortization period is one year.

The Panel previously directed that the LTRP costs be removed from the TPRCDA and placed in a new deferral account – the Fuel Switch Study and LTRP Deferral Account. As a result of this determination and based on the amounts provided by Creative Energy in Table 6.1 of the supplementary information filing, the ending balance in the TPRCDA as of December 31, 2017 is a credit of \$141,760.¹⁶⁶ This results from the Actual 2016 Third Party Regulatory Costs being lower than the Approved 2016 amounts by \$32,948 and the Actual 2017 Third Party Regulatory Costs (excluding the “Consultants – LTRP” costs) being lower than the Approved 2017 amounts by \$108,812.

BCUC determination

The Panel rejects Creative Energy’s requests related to the TPRCDA and directs Creative Energy to continue to apply a one-year amortization period to the TPRCDA and to accrue short-term interest on the TPRCDA balance, as approved in the 2016-2017 RRA Decision. Given the Panel’s determinations regarding the LTRP costs, there is no need to increase the amortization period for the TPRCDA as the rate impact resulting from amortizing the revised ending 2017 balance is reasonable and results in a rate decrease due to the TPRCDA ending 2017 balance now being in a credit position. **Creative Energy is directed to include in the Compliance Filing to the BCUC, the calculations for the ending 2017 balance in the TPRCDA and the associated 2018 amortization expense, as well as the rate impact resulting from the 2018 amortization of the TPRCDA.**

4.2 Pension Expense Deferral Account

In the Creative Energy 2015-2017 RRA Decision, the BCUC approved the 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. The BCUC also directed the deferral account to be amortized over a one-year period with carrying costs accrued based on the mid-year unamortized balance of the deferral account at Creative Energy’s short-term debt rate.¹⁶⁷

¹⁶⁵ Creative Energy Final Argument, p. 3.

¹⁶⁶ Exhibit B-3, Table 6.1.

¹⁶⁷ Creative Energy 2015-2017 RRA Decision, p. 54.

Creative Energy provided the following table outlining the 2016 and 2017 balances in the Pension Expense Deferral Account:¹⁶⁸

Table 13 – Pension Expense Deferral Account Balances

EXPENSE ITEM	2016 APPROVED	2016 ACTUAL	2016 VARIANCE	2017 APPROVED	2017 ACTUAL	2017 VARIANCE
REGULATORY						
1 PENSION EXPENSE Per Commission Order G-98-15, 2015-17 RRA	219,100	143,863	75,237	224,000		224,000
2 Pension exp, 31 Dec 2016 Revaluation		257,600	(257,600)			
TOTAL (DEFICIENCY)/SURPLUS	219,100	401,463	(182,363)	224,000	-	224,000

As shown in the above table, the 2016 variance between approved and actual pension expense is \$182,363, which is due to two items:

- A variance of \$75,237 due to the market performing better than expected, which resulted in less funding being required than expected; and
- A pension revaluation which occurred on December 31, 2016. Creative Energy explains that 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.¹⁶⁹

In response to an IR, Creative Energy clarified that the pension revaluation amount provided in Table 6.1 of the supplementary information filing was an estimate and that the actual amount is \$246,400. It provided the following updated calculations to show the pension expense variances and stated that its 2017 Audited Financial Financials and 2017 Actuary Disclosures will be provided under a separate filing confidentially. However, only the 2017 Actuary Disclosures report was filed:¹⁷⁰

¹⁶⁸ Exhibit B-3, Table 6.1.

¹⁶⁹ Exhibit B-1, pp. 21–22.

¹⁷⁰ Exhibit B-12, BCUC IR 48.1.

Table 14 – Updated Pension Expense Calculations

	2017 TPRCDA	2017 Actual	Variance
<u>Pension Costs</u>			
Employer current service cost		\$ 245,000	
Finance cost		(29,600)	
Per G-167-16	224,000	215,400	8,600
Remeasurements and other items		246,400	(246,400)
Defined benefit cost	\$ 224,000	\$ 461,800 *	\$ (237,800)

* Per 2017 Audited Financials - Note 7 - Pension Plan

The 2017 pension expense variance, as shown in the above table is \$8,600. After adding the 2016 pension expense variance of \$75,237 and deducting the actual pension revaluation of \$246,400, the ending 2017 balance in the Pension Expense Deferral Account to be amortized into rates is \$162,563 [\$75,237 + \$8,600 - \$246,400]. Creative Energy requests approval to change the amortization period of the Pension Expense Deferral Account from one year to three years (i.e. approval to amortize the balance of \$162,563 over three years).¹⁷¹

As stated above, contrary to Creative Energy’s response to BCUC IR 48.1, Creative Energy did not file its 2017 Audited Financials during this proceeding. However, separate from this proceeding, Creative Energy filed the 2017 Audited Financial Statements on July 19, 2018. As this evidence was not filed on the record in this proceeding, the Panel will not refer to any specific information; however, a potential discrepancy has been detected which the Panel will address in its determination below.

BCUC determination

Creative Energy requests approval to amortize the ending 2017 Pension Expense Deferral Account balance of \$162,563 over three years commencing in 2018. The Panel notes that Creative Energy also requested a three-year amortization period for this deferral account in the 2015-2017 RRA, but this request was denied and instead a one-year amortization period was approved. In that decision, the BCUC stated that variance deferral accounts should normally be recovered in the test period to ensure intergenerational equity is preserved.¹⁷²

The Panel acknowledges that the current variance and thus the ending 2017 deferral account balance is larger than what was likely expected in the 2015-2017 RRA Decision due to the pension revaluation adjustment, which Creative Energy states occurs every three years. However, even with the pension revaluation taken into consideration, the Panel does not consider the deferral account balance to be so large as to warrant a variance in amortization periods from the 2015-2017 RRA Decision. Moreover, the Panel notes that the overall 2018 rate impact will likely be lower than expected by Creative Energy in its final argument due to the Panel denying the

¹⁷¹ Exhibit B-1, p. 22; Creative Energy Final Argument, p. 3.

¹⁷² Creative Energy 2015-2017 RRA Decision, p. 54.

recovery of the LTRP costs in 2018 rates and the resulting credit balance in the TPRCDA. The amortization of the TPRCDA, which results in a rate decrease, will serve to offset the increased rate impact resulting from the amortization of the Pension Expense Deferral Account. **Accordingly, the Panel directs Creative Energy to amortize the ending 2017 balance in the Pension Expense Deferral Account over one year and to continue accruing short-term interest on the mid-year unamortized deferral account balance, consistent with the BCUC's determinations in the 2015-2017 RRA Decision.**

As noted previously, the Panel has detected a potential discrepancy upon its review of the 2017 Audited Financial Statements filed on July 19, 2018. In the Panel's view, there is uncertainty as to the accuracy of the ending 2017 balance in the Pension Expense Deferral Account, which Creative Energy states is \$162,563.¹⁷³ In particular, the Panel questions the accuracy of the 2016 pension expense variance of \$75,237 as it relates to information contained in Note 7 of Creative Energy's 2017 Audited Financial Statements.

Given the aforementioned uncertainty, the Panel directs Creative Energy to include in the Compliance Filing to the BCUC the calculation for the 2016 and 2017 pension expense variances and the resulting 2017 ending deferral account balance to be amortized in 2018 rates, in a similar format as was provided in Creative Energy's response to BCUC IR 48.1 (Exhibit B-12). Creative Energy is also directed to provide the relevant figures from Note 7 of its 2017 Audited Financial Statements to confirm the 2016 and 2017 amounts and to provide the rate impact for 2018 resulting from the amortization of the Pension Expense Deferral Account.

4.3 Regulatory Transitional Adjustment Deferral Account

Creative Energy states that the Regulatory Transitional Adjustment Deferral Account is in its final year of amortization and the amount of \$116,619 will be recovered in 2018. Creative Energy estimates the 2018 rate impact to be 1.38 percent.¹⁷⁴

The Regulatory Transitional Adjustment Deferral Account was approved as part of the 2015-2017 RRA Decision. The balance approved to be recorded in this deferral account was \$301,177 and was approved to be amortized into rates over three years commencing in 2015.¹⁷⁵

BCUC determination

The Panel approves Creative Energy's request to amortize the remaining balance of the Regulatory Transitional Adjustment Deferral Account into 2018 rates as this treatment is consistent with the BCUC's approvals in the 2015-2017 RRA Decision. Creative Energy is directed to discontinue the Regulatory Transitional Adjustment Deferral Account once the deferral account balance is zero.

4.4 Fuel Cost Stabilization Account

Creative Energy requests approval to change the amortization period of the Fuel Cost Stabilization Account (FCSA) from two years to one year.¹⁷⁶

¹⁷³ Creative Energy Final Argument, p. 3.

¹⁷⁴ Exhibit B-1, p. 23.

¹⁷⁵ Creative Energy 2015-2017 RRA Decision, p. 52.

¹⁷⁶ Creative Energy Final Argument, p. 4.

The FCSA was approved by the BCUC in the 2016-2017 RRA Decision for the purpose of capturing variances between forecast and actual Fuel Costs. In the 2016-2017 RRA Decision, the BCUC made the following determinations, including:

- Starting January 1, 2017, the BCUC will set the Fuel Costs for each year as part of the revenue requirements application, as follows:

[[Total annual Fuel Cost forecast approved by the Commission in the revenue requirements application) – (annual \$0.41 Base Cost recovered as part of the revenue requirements)] divided by (the Commission approved annual load forecast);
- Starting January 1, 2017, any positive or negative variances between forecast Fuel Costs and actual Fuel Costs (including any variance between the forecast actual Base Cost volume), are to be captured in the FCSA;
- Where the balance in the FCSA exceeds plus/minus 5 percent of the most recently approved 12 month forecast for total Fuel Costs, any amount in excess of this is to be distributed through the Fuel Cost Adjustment Charge (FCAC) rate rider with an amortization period of two years; and
- The appropriate amortization of the FCSA is to be assessed by Creative Energy at June 30 and December 31 of each year.¹⁷⁷

Creative Energy submits that due to the fact that the balance in the FCSA is reviewed bi-annually, it is unlikely the amount required to be amortized would be greater than \$100,000. In consideration of this likely relatively small amount, Creative Energy requests a variance to shorten the amortization period to one year in order to increase the speed of the cost recovery and for administrative efficiency.¹⁷⁸ As further justification for its request, Creative Energy states that “[a]s fuel prices can be extremely volatile, the longer amortization period could result in multiple rate riders overlapping causing and [sic] administrative burden.”¹⁷⁹ In response to an IR, however, Creative Energy stated that it is amenable to the BCUC assessing the appropriate length of the amortization period based on the amount to be amortized at the time a FCAC rate change application is filed.¹⁸⁰

When asked about setting the Fuel Cost in this particular Application, in accordance with the BCUC’s directive in the 2016-2017 RRA Decision under Order G-167-16, Creative Energy stated that it is not proposing to set fuel costs through this Application.¹⁸¹ Instead, Creative Energy noted that it has filed a Fuel Cost Adjustment compliance filing requesting approval of the 12-month gas costs. Creative Energy proposes that the Fuel Costs be set through the aforementioned Fuel Cost Adjustment compliance filing.¹⁸²

BCUC determination

The Panel directs Creative Energy to file for approval of the amortization period for the FCSA at the time it files the FCAC rate change applications with the BCUC. The Panel further directs Creative Energy to file the annual Fuel Costs for approval in the Fuel Cost Adjustment compliance filings, in the format required under Order G-167-16, as referenced above. Both the amortization of the FCSA and the setting of the Fuel Costs are issues related to commodity costs, and it is standard BCUC practice to review such commodity-cost related

¹⁷⁷ Creative Energy 2016-2017 RRA Decision, p. 30.

¹⁷⁸ Exhibit B-1, p. 18; Exhibit B-7, BCUC IR 25.3.

¹⁷⁹ Exhibit B-12, BCUC IR 46.4.

¹⁸⁰ Exhibit B-12, BCUC IR 46.4.1.

¹⁸¹ Exhibit B-1, p. 18.

¹⁸² Exhibit B-15, Panel IR 4.1.

information separately from the revenue requirement applications. Thus, the Panel accepts Creative Energy’s proposal to set the Fuel Costs through the Fuel Cost Adjustment compliance filings.

The Panel notes that Creative Energy has since filed a separate FCAC rate change proposal with a one-year amortization period for BCUC approval on July 31, 2018. That proposal is currently under review and will be dealt with by the BCUC in the normal course.

5.0 Summary of directives

This summary is provided for the convenience of readers. In the event of any difference between the directions in this summary and those in the body of the decision, the wording in the decision shall prevail.

	Directive	Page
1.	Therefore, the Panel rejects Creative Energy’s proposal for an IBR mechanism and its application for 2018-2022 revenue requirements and rates.	16
2.	Accordingly, we make no determination as to whether the costs incurred to date ought to be approved for recovery at this time.	32
3.	Accordingly, the Panel directs Creative Energy to establish a new deferral account titled the “Fuel Switch Study and LTRP” Deferral Account and to transfer all the amounts captured on account of “Consultants – LTRP” from the TPRCDA to the new deferral account, including all actual costs incurred on account of the Fuel Switch Study and the LTRP in 2017 and 2018, net of all applicable offsetting grants. Creative Energy is approved to accrue a weighted average cost of debt return on the Fuel Switch Study and LTRP Deferral Account.	32
4.	Creative Energy is directed to include in a compliance filing due to the BCUC within 30 days of the date of this decision (Compliance Filing) the revised regulatory schedules showing: (i) the updated balance in the TPRCDA to reflect the removal of the “Consultants – LTRP” costs; and (ii) the newly established Fuel Switch Study and LTRP Deferral Account and associated cost additions.	32–33
5.	In the event that contrary to its stated intentions, Creative Energy does not file an updated LTRP by December 31, 2019, the Panel directs Creative Energy to file a proposal with the BCUC no later than January 31, 2020 for reviewing the potential recovery of the balance in the new Fuel Switch Study and LTRP Deferral Account.	33
6.	Therefore, the Panel finds Creative Energy’s recommendation of the Massachusetts Formula to be acceptable and approves this methodology for application in this and future revenue requirements.	37

7.	Accordingly, the Panel directs Creative Energy to reduce the Special Services expense included in the Revised Base Revenue Requirement by \$48,000 and to recalculate the total O&M after direct assignment of NEFC costs and allocation to Other Projects to reflect this adjustment.	43
8.	Therefore, Creative Energy is directed to re-calculate the shared cost allocation to reflect the reduction of \$48,000 to Special Services.	43
9.	<p>In summary, the Panel directs Creative Energy to calculate its 2018 O&M as follows:</p> <ul style="list-style-type: none"> • Start with the 2017 total O&M after direct assignment of NEFC costs and allocations to Other Projects of \$4,385,400; • Reduce the 2017 total O&M after direct assignment of NEFC costs and allocations to Other Projects of \$4,385,400 by \$48,000 to remove the 2017 Approved “Consultants – LTRP” costs from Special Services; • Re-calculate the cost allocation to Other Projects to reflect the reduction to Special Services of \$48,000 and apply this adjustment to the aforementioned O&M; and • Multiply the newly adjusted 2017 total O&M after direct assignment of NEFC costs and allocations to Other Projects by an inflationary factor of 1.84 percent. 	43
10.	the Panel directs Creative Energy to calculate the 2018 revenue requirements amount for Municipal Access Fees by multiplying the Revised Base Revenue Requirement amount of \$254,200 by the 1.84 percent inflationary factor.	44
11.	Therefore, the Panel directs Creative Energy to include the Actual 2017 property tax amount of \$595,160 as part of the 2018 revenue requirements.	44
12.	Accordingly, the Panel directs Creative Energy to re-calculate depreciation expense, income taxes, interest expense and the allowed return for 2018 using the Actual 2017 ending net rate base and the Approved 2017 capital expenditures, with the Approved 2017 capital expenditures approved to be multiplied by an inflationary factor of 1.84 percent.	45
13.	Creative Energy is therefore directed to use the 2017 Approved demand forecast of 1,098,514 M# to calculate the 2018 permanent rate.	45

14.	<p>Creative Energy is directed to submit a compliance filing to the BCUC within 30 days of the date of this decision (Compliance Filing) which includes the following:</p> <ul style="list-style-type: none"> • Detailed calculations of the 2018 revenue requirement and 2018 permanent rate, with supporting descriptions as to how the calculations are performed and supporting references for the inputs to the calculations. • The supporting calculations for the adjusted SG&A cost allocation in the same format as was provided in BCUC IR 28.7 (Exhibit B-12). • As directed in Section 3.1.1.1 of this decision, revised regulatory schedules showing the updated balance in the TPRCDA to reflect the removal of the “Consultants – LTRP” costs and the newly established Fuel Switch Study and LTRP Deferral Account and associated cost additions. • A revised Table 4 from page 24 of the Application (Exhibit B-1) separately showing the rate change resulting from the 2018 approved permanent rate before deferral account amortization and the rate changes resulting from amortization of each deferral account balance in 2018 based on the determinations on deferral accounts provided in Section 4.0 of this decision. 	45–46
15.	<p>The Panel rejects Creative Energy’s requests related to the TPRCDA and directs Creative Energy to continue to apply a one-year amortization period to the TPRCDA and to accrue short-term interest on the TPRCDA balance, as approved in the 2016-2017 RRA Decision.</p>	46
16.	<p>Creative Energy is directed to include in the Compliance Filing to the BCUC, the calculations for the ending 2017 balance in the TPRCDA and the associated 2018 amortization expense, as well as the rate impact resulting from the 2018 amortization of the TPRCDA.</p>	46
17.	<p>Accordingly, the Panel directs Creative Energy to amortize the ending 2017 balance in the Pension Expense Deferral Account over one year and to continue accruing short-term interest on the mid-year unamortized deferral account balance, consistent with the BCUC’s determinations in the 2015-2017 RRA Decision.</p>	49
18.	<p>Given the aforementioned uncertainty, the Panel directs Creative Energy to include in the Compliance Filing to the BCUC the calculation for the 2016 and 2017 pension expense variances and the resulting 2017 ending deferral account balance to be amortized in 2018 rates, in a similar format as was provided in Creative Energy’s response to BCUC IR 48.1 (Exhibit B-12). Creative Energy is also directed to provide the relevant figures from Note 7 of its 2017 Audited Financial Statements to confirm the 2016 and 2017 amounts and to provide the rate impact for 2018 resulting from the amortization of the Pension Expense Deferral Account.</p>	49
19.	<p>The Panel approves Creative Energy’s request to amortize the remaining balance of the Regulatory Transitional Adjustment Deferral Account into 2018 rates as this treatment is consistent with the BCUC’s approvals in the 2015-2017 RRA Decision. Creative Energy is directed to discontinue the Regulatory Transitional Adjustment Deferral Account once the deferral account balance is zero.</p>	49

20.	The Panel directs Creative Energy to file for approval of the amortization period for the FCSA at the time it files the FCAC rate change applications with the BCUC. The Panel further directs Creative Energy to file the annual Fuel Costs for approval in the Fuel Cost Adjustment compliance filings, in the format required under Order G-167-16, as referenced above.	50
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Dated at the City of Vancouver, in the Province of British Columbia, this 25th day of October 2018.

Original Signed By:

D. A. Cote
Panel Chair / Commissioner

Original Signed By:

A. K. Fung, QC
Commissioner



**ORDER NUMBER
G-205-18**

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

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

BEFORE:

D. A. Cote, Panel Chair
A. K. Fung, QC, Commissioner

on October 25, 2018

ORDER

WHEREAS:

- A. On December 1, 2017, Creative Energy Vancouver Platforms Inc. (Creative Energy) filed its 2018-2022 revenue requirements application with the British Columbia Utilities Commission (BCUC) seeking, among other things, approval of a multi-year index based ratemaking mechanism to be applied to setting steam rates for the years 2018-2022, including interim and final approval to increase steam rates by 2.15 percent, effective January 1, 2018 (Application);
- B. By Order G-200-17 dated December 22, 2017, the BCUC approved, on an interim and refundable basis, a steam rates increase of 2.15 percent effective January 1, 2018;
- C. By Orders G-12-18, G-43-18, G-90-18 and G-129-18, the BCUC established, among other things, a written public proceeding and a regulatory timetable for the review of the Application, which included: Creative Energy filing additional information as directed in Appendix C to Order G-12-18; two rounds of information requests (IRs) by the BCUC and interveners; and the filing of written final and reply arguments;
- D. On July 13, 2018, the BCUC issued a letter requesting that Creative Energy and interveners address two specific issues as part of the parties' final and reply arguments related to Creative Energy's recently filed application for a Certificate of Public Convenience and Necessity (CPCN) for the Expo and Beatty plants project and approvals related to reorganization (CPCN and Reorganization Application). The CPCN and Reorganization Application is being reviewed by the BCUC in a separate proceeding;
- E. On July 20, 2018, prior to the filing of Creative Energy's final argument, the Panel issued a round of IRs;
- F. Creative Energy submitted its final argument on July 26, 2018. Two interveners, British Columbia Old Age Pensioners' Organization *et al.* and the Commercial Energy Consumers Association of British Columbia,

submitted their final arguments on August 10, 2018. Creative Energy filed its reply argument on August 20, 2018; and

- G. The BCUC has considered the evidence and arguments filed in the proceeding and makes the following determinations.

NOW THEREFORE pursuant to sections 59 to 61 of the UCA and for the reasons provided in the decision issued concurrently with this order, the BCUC orders as follows:

1. Creative Energy's application for approval of a multi-year index based ratemaking mechanism to be applied to setting steam rates for the years 2018-2022 is denied.
2. Creative Energy is approved to establish 2018 steam rates on a permanent basis in accordance with the method and calculations directed in the decision issued concurrently with this order.
3. Creative Energy is directed to collect from/refund to customers the difference between the 2018 interim steam rates approved by Order G-200-17 and the 2018 permanent rates, with interest at the average prime rate of Creative Energy's principal bank for its most recent year, over the balance of 2018.
4. Creative Energy is directed to establish a new deferral account titled the Fuel Switch Study and LTRP Deferral Account and to transfer all costs related to the Fuel Switch Study and Long-Term Resource Plan (LTRP), net of all applicable offsetting grants, from the Third Party Regulatory Cost Deferral Account (TPRCDA) to the newly established deferral account. Creative Energy is approved to accrue a weighted average cost of debt return on the mid-year unamortized balance of the Fuel Switch Study and LTRP Deferral Account. In the event that Creative Energy does not file an updated LTRP by December 31, 2019, Creative Energy is directed to file a proposal with the BCUC no later than January 31, 2020 for reviewing the potential recovery of the balance in the Fuel Switch Study and LTRP Deferral Account.
5. Creative Energy is approved to use the Massachusetts Formula methodology to allocate Sales, General & Administrative costs between the Steam Service and Other Projects, as described in section 3.1.2.1 of the decision issued concurrently with this order.
6. Creative Energy's request to amortize the balance in the TPRCDA of \$521,098 as of December 31, 2017 is denied. Creative Energy is directed to re-calculate the ending 2017 balance in the TPRCDA based on the determinations in sections 3.1.1.1 and 4.1 of the decision issued concurrently with this order. Creative Energy is further directed to continue to apply a one-year amortization period to the TPRCDA and to accrue short-term interest on the TPRCDA balance, as approved in the Creative Energy 2016-2017 Revenue Requirements and Rate Design for Northeast False Creek Hot Water Service Application Decision (2016-2017 RRA Decision).
7. Creative Energy is directed to continue to amortize the Pension Expense Deferral Account over one year and to continue to accrue short-term interest on the mid-year unamortized balance, consistent with the BCUC's determinations in the Creative Energy 2015-2017 Revenue Requirements Application Decision.
8. Creative Energy is approved to amortize the remaining balance of the Regulatory Transitional Adjustment Deferral Account into 2018 rates and is directed to discontinue this deferral account once the balance is zero.

9. Creative Energy is directed to file for approval of the amortization period for the Fuel Cost Stabilization Account (FCSA) at the time it files the Fuel Cost Adjustment Charge (FCAC) rate change applications with the BCUC. Creative Energy is directed to file the annual Fuel Costs for approval in the Fuel Cost Adjustment compliance filings, in the format directed in the 2016-2017 RRA Decision.
10. Creative Energy is directed to file a compliance filing with the BCUC within 30 days of the date of this order in accordance with the requirements outlined in the decision issued concurrently with this order.
11. Creative Energy is directed to comply with all directives identified in the decision issued concurrently with this order.

DATED at the City of Vancouver, in the Province of British Columbia, this 25th day of October 2018.

BY ORDER

Original Signed By:

D. A. Cote
Commissioner

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

LIST OF ACRONYMS

2015-2017 RRA Decision	Creative Energy 2015-2017 Revenue Requirements Application Decision
2016-2017 RRA Decision	Creative Energy 2016-2017 Revenue Requirements and Rate Design for NEFC Hot Water Service Application Decision
2017 LTRP Application	Creative Energy Vancouver Platforms Inc. 2017 Long-Term Resource Plan
Application	Creative Energy Vancouver Platforms Inc.'s December 1, 2017 application for approval of a five-year index based ratemaking (IBR) mechanism to be applied to setting steam rates for the years 2018-2022, including interim and final approval to increase steam rates by 2.15 percent, effective January 1, 2018
Base Revenue Requirement	Composed of the 2017 approved O&M expenses with various adjustments, 2017 approved municipal access fees (MAF) with adjustment, 2017 actual property taxes, and 2017 approved income taxes, depreciation and costs of financing rate base
BC	British Columbia
BC-AWE	BC Average Weekly Earnings
Beatty Plant	Beatty Street Plant
BCOAPO	British Columbia Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, and the Tenant Resource and Advisory Centre
BCUC	British Columbia Utilities Commission
CBA	Collective Bargaining Agreement
CEA	<i>Clean Energy Act</i>
CEC	Commercial Energy Consumers Association of British Columbia
Central Heat	Central Heat Distribution Ltd.
Compliance Filing	Creative Energy is directed to submit a compliance filing to the BCUC within 30 days of the date of this decision
CPCN	Certificate of Public Convenience and Necessity
CPCN and Reorganization Application	Creative Energy Vancouver Platforms Inc. Application for a Certificate of Public Convenience and Necessity for the Expo and Beatty Plants Project and Approvals Related to Reorganization

Creative Energy	Creative Energy Vancouver Platforms Inc.
Creative Energy Corp.	Creative Energy Platforms Canada Corporation
COS	cost of service
Emanate Energy	Emanate Energy Solutions Inc.
ESM	earnings sharing mechanism
Expo and Beatty Plant Project	Creative Energy's Expo and Beatty plants project of January 2019 to October 2022
Expo Plant	Creative Energy proposes to repurpose unused space at the base of BC Place which is across the street from the existing steam plant by building a new plant
FAES	FortisBC Alternative Energy Services Inc.
FBC	FortisBC Inc.
FCAC	Fuel Cost Adjustment Charge
FCSA	Fuel Cost Stabilization Account
FEI	FortisBC Energy Inc.
GHG	greenhouse gas emissions
IR	information request(s)
LTRP	Long-Term Resource Plan
M#	million pounds
MAF	municipal access fees
MW	megawatt(s)
NEFC	Northeast False Creek
O&M	operating and maintenance
PBR	Performance Based Ratemaking
Revised Base Revenue Requirement	Creative Energy's revised 2017 revenue requirement of \$8,133,060 to be used as the IBR base
ROE	return on equity
RRA	revenue requirements application
SG&A	Sales, General & Administrative

SQI	service quality indicator(s)
TES	Thermal Energy Systems
TES Guidelines	Thermal Energy Systems Regulatory Framework Guidelines established by Order G-127-14
TPRCDA	Third Party Regulatory Costs Deferral Account
UCA	<i>Utilities Commission Act</i>
Vancouver-CPI	Vancouver Consumer Price Index
WCB	Workers Compensation Benefit

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

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

EXHIBIT LIST

Exhibit No.	Description
<i>COMMISSION DOCUMENTS</i>	
A-1	Letter dated December 22, 2017 – Appointing the Panel for the review of Creative Energy Vancouver Platforms Inc. 2018–2022 Revenue Requirements Application
A-2	Letter dated December 22, 2017 – Commission Order G-200-17 approving interim rates
A-3	Letter dated January 17, 2018 – Commission Order G-12-18 issuing a Regulatory Timetable, Public Notice and Supplementary Information List
A-4	Letter dated February 26, 2018 – Commission Order G-43-18 amending the Regulatory Timetable
A-5	Letter dated March 21, 2018 – Commission Information Request No. 1
A-6	Letter dated April 3, 2018 – Request for Submissions on Scope of Information Requests
A-7	Letter dated April 4, 2018 – Request for Submissions on Scope of Information Requests Amendment
A-8	Letter dated May 10, 2018 – BCUC Order G-90-18 determining Scope of Information Requests and amending the Regulatory Timetable
A-9	Letter dated June 20, 2018 – BCUC Information Request No. 2
A-10	Letter dated July 13, 2018 – BCUC Order G-129-18 amending the Regulatory Timetable
A-11	Letter dated July 13, 2018 – Request for Final and Reply Arguments
A-12	Letter dated July 20, 2018 – Panel Information Request No. 1
A-13	Letter dated August 15, 2018 – Response to Creative Energy’s Reply Argument Extension Request (Exhibit B-16)

COMMISSION STAFF DOCUMENTS

- A2-1 Letter dated March 21, 2018 – Creative Energy Vancouver Platforms Inc. Compliance Filing to Order G-167-16 – Schedules 15B and 22 dated February 1, 2017
- A2-2 Letter dated March 21, 2018 – Creative Energy Vancouver Platforms Inc. NEFC Compliance Filing to Order G-167-16 – Schedule 1 dated February 3, 2017
- A2-3 Letter dated June 20, 2018 – Creative Energy Vancouver Platforms Inc. NEFC Compliance Filing to Order G-167-16 – Schedule 15A dated February 3, 2017

APPLICANT DOCUMENTS

- B-1 **CREATIVE ENERGY VANCOUVER PLATFORMS INC. (CREATIVE ENERGY)** Letter dated December 1, 2017 – 2018–2022 Revenue Requirements Application
- B-1-1 Letter dated May 30, 2018 – Creative Energy Submitting Errata to the Application
- B-2 Letter dated February 22, 2018 – Creative Energy Request for Filing Extension
- B-3 Letter dated March 7, 2018 – Creative Energy Submitting Supplementary Information
- B-4 Letter dated March 26, 2018 – Creative Energy Submitting IR Scope Request
- B-5 Letter dated April 11, 2018 – Creative Energy Submission on Scope of Information Requests
- B-6 Letter dated April 25, 2018 – Creative Energy Reply Submission on Scope of Information Requests
- B-7 Letter dated May 30, 2018 – Creative Energy Submitting Response to BCUC IR No. 1
- B-7-1 Letter dated June 8, 2018 – Creative Energy Submitting Errata Responses in BCUC IR No. 1
- B-7-2 **CONFIDENTIAL** - Letter dated June 13, 2018 – Creative Energy Submitting Confidential response to BCUC IR No. 23.3
- B-8 Letter dated May 30, 2018 – Creative Energy Submitting Response to BCOAPO IR No. 1
- B-9 Letter dated May 30, 2018 – Creative Energy Submitting Response to CEC IR No. 1
- B-9-1 Letter dated June 8, 2018 – Creative Energy Submitting Errata Responses in CEC IR No. 1
- B-10 Letter dated May 30, 2018 – Creative Energy Submitting Response to FEI IR No. 1
- B-11 Letter dated July 12, 2018 – Creative Energy Submitting Final Argument Extension Request
- B-12 Letter dated July 12, 2018 – Creative Energy Submitting Response to BCUC IR No. 2

- B-12-1 **CONFIDENTIAL** Letter dated July 12, 2018 – Creative Energy Submitting Confidential Attachments to BCUC IR No. 2
- B-12-1-1 Letter dated July 17, 2018 – Creative Energy Submitting Attachment 37.2 not confidential as previously stated in BCUC IR 37.2
- B-12-2 Letter dated July 20, 2018 – Creative Energy Submitting Additional Responses to BCUC IR No. 2
- B-13 Letter dated July 12, 2018 – Creative Energy Submitting Response to BCOAPO IR No. 2
- B-14 Letter dated July 12, 2018 – Creative Energy Submitting Response to CEC IR No. 2
- B-14-1 Letter dated July 20, 2018 - Creative Energy Submitting Additional Responses to CEC IR No. 2
- B-15 Letter dated July 25, 2018 - Creative Energy Submitting Responses to Panel IR No. 1
- B-16 Letter dated August 13, 2018 – Creative Energy Submitting Extension Request to file Reply Argument

INTERVENER DOCUMENTS

- C1-1 **FORTISBC ENERGY INC. (FEI)** Letter dated January 29, 2018 – Request to Intervene by Diane Roy
- C1-2 Letter dated March 21, 2018 – FEI submitting Information Request No. 1
- C1-3 Letter dated April 18, 2018 – FEI Submission on Scope of Information Requests
- C2-1 **FORTISBC ALTERNATIVE ENERGY SERVICES INC. (FAES)** Letter dated January 30, 2018 – Request to Intervene by Grant Bierlmeier
- C2-2 Letter dated April 18, 2018 – FAES Submission on Scope of Information Requests
- C3-1 **BC OLD AGE PENSIONERS’ ORGANIZATION, ACTIVE SUPPORT AGAINST POVERTY, COUNCIL OF SENIOR CITIZENS’ ORGANIZATIONS OF BC, DISABILITY ALLIANCE BC, AND THE TENANT RESOURCE AND ADVISORY CENTRE (BCOAPO)** Letter dated February 21, 2018 – Request to Intervene by Leigha Worth
- C3-2 Letter dated March 21, 2018 – BCOAPO submitting Information Request No. 1
- C3-3 Letter dated April 18, 2018 – BCOAPO Submission on Scope of Information Requests
- C3-4 Letter dated June 20, 2018 – BCOAPO Submitting Information Request No. 2
- C4-1 **COMMERCIAL ENERGY CONSUMERS ASSOCIATION OF BRITISH COLUMBIA (CEC)** Letter dated February 28, 2018 – Request to Intervene by Christopher Weafer

- C4-2 Letter dated March 21, 2018 – CEC submitting Information Request No. 1
- C4-3 Letter dated April 18, 2018 – CEC Submission on Scope of Information Requests
- C4-4 Letter dated June 20, 2018 – CEC Submitting Information Request No. 2

LETTERS OF COMMENT

REMOVED – Related to BC Hydro and Power Authority Net Metering program