CREATIVENERGY

10 December 2019

Via E-filing

Mr. Patrick Wruck
Commission Secretary
BC Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Wruck:

Re: British Columbia Utilities Commission (BCUC, Commission)
Creative Energy Vancouver Platforms Inc. (Creative Energy)
Application for a Certificate of Public Convenience and Necessity (CPCN) to Acquire and Operate a Thermal Energy System for Cooling at the Vancouver House Development (Application)

Creative Energy submits its response to Commercial Energy Consumers Association of British Columbia (CEC) Information Request (IR) No. 2 in the above noted proceeding, in accordance with Order G-277-19.

Sincerely,

Rob Gorter
Director, Regulatory Affairs and Customer Relations

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Creative Energy Vancouver Platforms Inc.
Application for a Certificate of Public Convenience and Necessity to Acquire and Operate a Thermal Energy System for Cooling at the Vancouver House Development

CREATIVE ENERGY RESPONSE TO CEC IR NO. 2

31. Reference: Exhibit B-7, CEC 1.4.1.2 and 1.4.5

4.1.2 If confirmed, please explain how Creative Energy intends to allocate costs from the larger utility to the DCS such that the compensation is not subsidized by ratepayers of Creative Energy.

RESPONSE:

The costs of the services supported by staff at Creative Energy Vancouver Platforms Inc. will be allocated to the DCS as follows:

1. **Direct charging of actual time or direct assignment of the costs reimbursed to external consultants (for example, the costs for an external peer review of the DCS design).**

   Creative Energy employees prepare timesheets and costs are charged to the individual projects and business development opportunities they are working on. These costs will not be subsidized by other ratepayers of the other utilities served through Creative Energy; DCS-related costs will be charged to and recovered entirely from the customers of the DCS.

2. **Allocation of overhead administration and related payroll costs to operating energy systems using a modified version of the Massachusetts formula.**

   The Massachusetts formula has been accepted by the Commission for the allocation of costs to NEFC customers; it uses 3-factors (revenue, payroll and capital costs) to allocate overhead costs to NEFC on a percentage basis. Creative Energy has recently assessed that a 2-factor formula (using revenue, payroll) may more reasonably reflect a fair allocation of costs to its operating energy system, including the DCS, because when capital costs are included in the

allocation method, a disproportionate and unrepresentative large amount of costs would be allocated in the initial years of operation and too little would be allocated when the assets have experienced depreciation in later years. Creative Energy intends to incorporate and seek approval of the 2-factor approach as part of its next revenue requirements applications for its operating energy systems, including the DCS.

Please refer to the responses to CEC IR 4.3, CEC IR 19.1 and BCUC IR 10.1 for further elaboration.

4.5 Please provide a complete list of costs that will be allocated between Creative Energy steam utility and the DCS.

RESPONSE:

Please refer to the table below. The DCS will have costs allocated based on the same factors as for the NEFC, but using different percentages depending on the system-specific revenues and direct labour costs. Any costs that are directly charged to the DCS project will not be included in this allocation.

Costs allocated to the DCS (Note 1)	Estimated Costs 2020	Estimated allocation rate
Directors Fees	$500	2.0%
Administration & General Salaries	$12,500	2.0%
Office Supplies	$2,500	2.0%
Special Services (regulatory costs, audit and general legal fees)	$1,500	2.0%
Insurance (excludes building and property insurance, includes general liability, umbrella directors & officers, crime, errors & omissions)	$1,000	2.0%
Injuries and damages – WCB	$250	2.0%
Employee Benefits	$7,250	2.0%
Total	$25,500	

Note 1: The total of these costs is the amount broadly categorized as 'Administration' costs in the indicative revenue requirements provided with the Application.

Costs allocated to NEFC	Estimated Costs 2020	Estimated allocation rate
Directors Fees	$1,725	6.9%
Administration & General Salaries	$43,125	6.9%
Office Supplies	$8,625	6.9%
Special Services (Regulatory costs, audit and general legal fees)	$5,175	6.9%
Insurance (excludes building and property insurance, includes general liability, umbrella directors & officers, crime, errors & omissions)	$3,450	6.9%
Injuries and damages – WCB	$863	6.9%
Employee Benefits	$25,013	6.9%
Total	$87,976	

31.1 Please elaborate on how capital costs are factored into the cost allocation using the Massachusetts formula for NEFC and how this would be accomplished if included in the Vancouver House Cooling.

RESPONSE:

The approved 3-factor Massachusetts Formula methodology derives the percentage ratio between each regulated Vancouver project and Creative Energy Vancouver Platforms overall for each of the following three factors:

1. **Gross property, plant and equipment;**
2. **Direct labor expenses; and**
3. **Gross revenues.**

A combined percentage ratio is then derived for each project as the simple average of these three factors. The combined ratio for each project is applied to the total General and Administrative costs of Creative Energy Vancouver Platforms to determine the amounts to be allocated to each project.

31.2 Please provide evidence that the 2-factor approach proposed by Creative Energy is an accepted practice in other jurisdictions.

RESPONSE:

Creative Energy has proposed the 2-factor approach given the unique characteristics of its systems and an assessment that the magnitude of cost assignment between the systems appears better aligned with the respective general and administrative expense required to operate and manage each system when using the 2-factor approach.

Creative Energy will be presenting this proposal as part of its 2020 Core System Revenue Requirements Application, which it expects to file in December 2019. Subject to the Commission's review and approval in that proceeding Creative Energy would necessarily adopt the same approach to determines rates for all of its systems going forward as applicable (e.g. Core, NEFC, South Downtown), and would thus factor this approach into a future rates filing for the DCS also.

31.3 What is the purpose of including capital as a factor in the Massachusetts Formula?

RESPONSE:

The capital factor is one factor, in addition to revenues and labour expenses, for determining the percentage allocation of residual type expenses between projects, expenses that are not otherwise directly assigned or capitalized to such projects. The intent therefore is to establish a defensible, transparent and administratively simple means to support the fair cost allocation of costs between projects using those factors.

31.4 Please update the Table in CEC 1.4.5 with capital costs factored in.

RESPONSE:

Please refer to the following table, which are high-level estimates and assume a full-year allocation.

Costs allocated to the DCS	Estimated Costs 2020	Estimated allocation rate
Directors Fees	$ 1,000	4%
Administration & General Salaries	$ 25,000	4%
Office Supplies	$ 5,000	4%
Special Services	$ 3,000	4%
Insurance	$ 2,000	4%
Injuries and Damages - WCB	$ 500	4%
Employee Benefits	$ 14,500	4%
Total	$ 51,000	

31.5 Please update the Table in CEC 1.4.4.1 (NEFC) without capital costs (i.e. using CE's new factor method).

RESPONSE:

The NEFC table in the response to CEC IR 4.4 presented an estimate based on the 2-factor approach and does not need to be updated. The response to CEC IR 34.1 provides a total estimate based on the 3-factor allocation

31.6 Does Creative Energy ever intend to revert to the 3-factor approach in the Massachusetts form for the DES?

RESPONSE:

The nature of the application of the formula across projects necessarily means that the same formula needs to be applied to all projects, including the DCS. Please refer to the response to CEC IR 31.2.

31.6.1 If no, why not.

RESPONSE:

Please refer to the responses to CEC IR 31.6 and CEC IR 31.2.

31.6.2 If yes, when does CE expect to do so?

RESPONSE:

Please refer to the response to CEC IR 31.2.

31.7 Does Creative Energy every intend to change the NEFC to the 2-factor approach? Please explain and explain why.

RESPONSE:

Please refer to the responses to CEC IR 31.6 and CEC IR 31.2.

31.7.1 If yes, when does CE expect to do so?

RESPONSE:

Please refer to the response to CEC IR 31.2.

32. Reference: Exhibit B-7, CEC 1.6.1

6. Reference: Exhibit B-1, page 8 and 9

Creative Energy is not required to compensate the Developer for any construction costs above the agreed purchase price. The Developer has assumed the risk of any construction costs over and above the purchase price. Creative Energy retained Kerr Wood Leidel to provide third party review of the design and costs of the DCS. Further, as an end user of the DCS, the Developer has an incentive to manage construction costs and avoid overruns. Creative Energy does not expect to receive any contributions, grants, or other funding for the acquisition and operation of the DCS. However, as noted above, the purchase price for the DCS set out in the Purchase Agreement is below the actual construction cost of the DCS.

If this Application is not approved by the Commission, the Developer will continue to own and operate the DCS and, as a result of providing service to the residential strata building would be a new public utility under the UCA. The Developer would need to apply for a CPCN for operation of the DCS, potentially reorganize to separate the utility business from the non-utility business at Vancouver House and seek rate recovery based in part on the higher actual costs of construction. The result would be higher customer costs, in particular to the residential strata upon assignment of the customer service agreement. In addition, overall transaction costs and regulatory costs would increase, diminishing regulatory efficiency overall, which would also therefore not support the public interest.

6.1 Please identify which party will assume the risk if the DCS is not constructed according to schedule.

RESPONSE:

The Developer is assuming all construction-related risks. Please refer also to the response to CEC IR 27.4.

32.1 Please identify any and all risks that could accrue to commercial ratepayers of the DCS.

RESPONSE:

Creative Energy interprets this question as relating to construction-related risks.

Creative Energy is not assuming any construction-related risks and, furthermore, the cost to construct the DCS exceeds the agreed-to price that Creative Energy will pay to acquire the system when the system is completed. Therefore, Creative Energy does not expect any related risks in respect of construction delay to accrue to the commercial ratepayers of the DCS. Similarly, Creative Energy does not expect any related risks to accrue to the commercial ratepayers of its steam heat utility.

32.2 Please identify any and all risks that could accrue to commercial ratepayers of the steam heat utility.

RESPONSE:

Please refer to the response to CEC IR 32.1.

33. Reference: Exhibit B-7, CEC 1.15.1 and Exhibit B-6, BCUC 1.11.1

15.1 Please explain how Creative Energy estimated the time value for the part-time Operator.

RESPONSE:

Creative Energy estimated the time value based on its inherent knowledge and expertise regarding the responsibilities and level of effort required to operate heating and cooling systems.

Please refer also to the response to BCUC IR 11.1.

11.2 Please explain which party will be responsible for the costs of engaging Technical Safety BC and from whom these costs will be recovered.

RESPONSE:

The costs of engaging Technical Safety BC will be included in the revenue requirements of the DCS to be recovered from the DCS customers in their rates for service. These costs are not reflected in the indicative revenue requirements provided with the Application.

33.1 Why did Creative Energy not include the costs of engaging Technical Safety BC in the indicative revenue requirements of the DCS?

RESPONSE:

Please refer to the response to BCUC Round 2 IR 14.1.

33.2 Please list and quantify all other such costs that Creative Energy has not included in the indicative revenue requirements.

RESPONSE:

Please refer to the response to BCUC Round 2 IR 14.2.

34. Reference: Exhibit B-7, CEC 1.19.1

19.1 How did Creative Energy arrive at a cost of $25,000 for billing and customer management?

RESPONSE:

Creative Energy Vancouver Platforms Inc. will provide the administrative functions for the DCS and the costs will be allocated based on a 2-factor Massachusetts formula described in the responses to BCUC IR 10.1, CEC IR 4.1.2 and CEC IR 4.5. This approach is consistent with the Commission's recommendation to use this formula to allocate the costs of shared services. The modified approach reflects that it might otherwise not be fair to allocate a disproportionate amount of administration cost based also on the relative asset base in comparison to our mature Core system, which would thereby allocate a disproportionate amount of costs to the DCS. The modified formula includes only two factors to allocate costs to projects: revenue and operating cost. Applying this formula leads to an administration cost of approximately $25,500, which represents approximately 2 percent of Creative Energy's total administration costs.

34.1 Please provide CE's view of 'disproportionate' costs.

RESPONSE:

A qualitative assessment by Creative Energy's Controller and accounting team concluded that under the 2-factor allocation the magnitude of cost assignment between the systems appears better aligned with the respective general and administrative expenses required to operate and manage each system. Please refer to the following table which provides an indicative comparison of the differences but should not be relied upon in precise comparison to figures quoted elsewhere or updated where required as part of Creative Energy's forthcoming 2020 RRA for the Core System.

	Core	NEFC	Main & Keefer	Kensington Garden	SODO Heating	SODO Cooling (1)	Pendrell	Total
Factor ($)								
Capital	**25,618,855**	**4,851,398**	**781,427**	**1,865,605**	**3,752,214**	**1,418,054**	**1,254,230**	**39,541,783**
Revenues	**9,001,542**	**1,505,235**	**135,544**	**341,167**	**418,675**	**159,541**	**167,156**	**11,728,861**
Plant & Dist. Labour	**2,228,989**	**51,691**	**19,384**	**77,536**	**51,691**	**12,737**	**25,845**	**2,467,874**
Ratio								
Capital	**65%**	**12%**	**2%**	**5%**	**9%**	**4%**	**3%**	**100%**
Revenues	**77%**	**13%**	**1%**	**3%**	**4%**	**1%**	**1%**	**100%**
Plant & Distribution Labour	**90%**	**2%**	**1%**	**3%**	**2%**	**1%**	**1%**	**100%**
Combined Ratio: 3 Factor	**77.3%**	**9.1%**	**1.3%**	**3.6%**	**5.1%**	**1.8%**	**1.9%**	**100%**
Combined Ratio: 2 Factor	**83.5%**	**7.5%**	**1.0%**	**3.0%**	**2.8%**	**0.9%**	**1.2%**	**100%**
3-Factor Allocation	**997,145**	**116,967**	**16,847**	**46,313**	**65,170**	**23,493**	**24,275**	**1,290,210**
2-Factor Allocation	**1,077,759**	**96,302**	**12,522**	**39,033**	**36,540**	**12,104**	**15,950**	**1,290,210**
Difference	**80,613**	**(20,665)**	**(4,325)**	**(7,280)**	**(28,630)**	**(11,388)**	**(8,325)**	**-**

Note 1: SODO Cooling assumes allocations are effective July, 2020.

34.2 Please provide evidence that the capital cost factor makes the administration costs 'disproportionate'.

RESPONSE:

Please refer to the response to CEC IRs 34.1 and 31.2.

35. Reference: Exhibit B-6, BCUC 1.19.1 and Exhibit B-7, CEC 1.28.3

(i) to encourage communities to reduce greenhouse gas emissions and use energy efficiently	• District energy systems promote energy efficiency. • The DCS uses electricity only

28.3 Please explain how District energy systems such as Creative Energy's proposal promotes energy efficiency relative to other options for cooling.

RESPONSE:

The reference to 'energy efficiency' in Table 11 refers to the general efficiency of the centralized generation and distribution that is available through district energy cooling applications as compared to the use of similar thermal energy cooling technologies on an stand-alone building by building basis. District cooling is typically more efficient at a plant level than a stand-alone building plant due to the increased load diversity and corresponding stable demand profile, allowing equipment to run in efficient operating regimes. The relative energy efficiency of district energy applications as compared to stand-alone technology applications is non-controversial.

35.1 Please elaborate, with quantification if possible, on the general efficiency of the centralized generation and distribution that is available through district energy cooling application as compared to standalone building by building basis.

RESPONSE:

Please refer to the response to BCUC Round 2 IR 20.1.

36. Reference: Exhibit B-7, CEC 1.24.1

24.1 Please confirm that commercial and residential customers will be charged the same per square meter rate.

RESPONSE:

There will only be two customers of the DCS: 1) Howe Street Ventures Ltd., the owner of Buildings 1, 3 and 4 and 2) the Strata Corporation in control of Building 2, to whom the contract for cooling service will be assigned by Howe Street Ventures Ltd.

A final rate design has not been proposed, but Creative Energy will seek to put in place a rate design with associated billing determinants that fairly and reasonably recover the costs of the DCS from these two customers.

Each of the two customers will determine how to pass their cooling service costs through to tenants and unit owners in their buildings.

36.1 When does Creative Energy plan to put forth a rate design with associated billing determinants that fairly and reasonably recover the costs of the DCS from its two customers?

RESPONSE:

Creative Energy will file a revenue requirements and rates application for the DCS as soon as practicable following the granting of a CPCN to acquire and operate the DCS.