CREATIVENERGY

15 July 2020

Via E-filing

Ms. Marija Tresoglavic
Acting Commission Secretary
BC Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Tresoglavic:

Re: British Columbia Utilities Commission (BCUC, Commission)
Creative Energy Vancouver Platforms Inc. (Creative Energy)
Application to Establish a COVID-19 Deferral Account (Application)
Project No. 1599104

Creative Energy writes to submit its response to BC Old Age Pensioners' Organization, Active Support Against Poverty, Council of Senior Citizens' Organizations of BC, Disability Alliance BC, and Tenant Resource and Advisory Centre (**BCOAPO**) Information Request (**IR**) No. 1 in regard to the above noted Application.

For further information, please contact the undersigned.

Sincerely,

Rob Gorter
Director, Regulatory Affairs and Customer Relations

Enclosure.

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CREATIVENERGY

Creative Energy Vancouver Platforms Inc. - Application to Establish a COVID-19 Deferral Account
Project No. 1599104

Response to BCOAPO IR No. 1

1.0 Reference: Exhibit B-1, Exhibit B-2, BCUC IRs 2.6, 2.8, 3.4, and 6.2, Bad Debt

The response to BCUC IR 2.8 begins as follows:

Further to context we provided in the response to BCUC IR 2.6, there ought to be no question that the underlying risk cannot be borne by the utility shareholders alone, nor would it be appropriate to place a cap on the balance in the proposed deferral accounts, as 1) we are not operating under nor contending with anything resembling business as usual circumstances in consideration of the impacts on our customers and our operations, 2) there is significant ongoing uncertainty as to the impacts of COVID-19 and the timing of economic recovery, and 3) there is also uncertainty as to the Commission's ongoing response in terms of the suspension of service disconnections and potentially further guidance or measures over time. It is within this context generally that Creative Energy has not considered a cap on deferral account amounts related to bad debt. [Emphasis added.]

1.1 The use of the qualifier "alone" in Creative's response implies that, under the proposal, the utility shareholders are bearing some risk under the instant proposal. Please identify all of the financial risk(s) that shareholders will bear, under the proposal, related to COVID-19 and quantify (if applicable).

RESPONSE:

Please refer to the response to BCOAPO IR 1.2. The financial risks related to COVID-19 are those that are fully set out in the Application, namely:

1. **Any direct unplanned expenses to maintain safe and reliable operations, currently in the range of $30,000;**

2. **Any incremental financing costs to manage associated cash flow impacts that may arise due to the impact of COVID-19 on receivables and revenue, currently in the range of $8,500;**

3. **Any unrecoverable revenues (bad debt) resulting from customers that do not pay their bills due to the impacts of COVID-19 on their financial circumstances, currently nil; and**

4. **Any direct revenue loss net of direct avoided costs resulting from the loss of steam load due to the impacts of COVID-19 on the operational and financial circumstances of our customers. An estimate of the direct revenue loss from March through August 2020 is approximately $850,000 as shown in the response to BCUC IR 3.6.1. Indicative avoided water expenses may be in the range of 8-10% of the estimated direct revenue loss. Please refer also to the response to BCUC IR 3.6.**

1.2 Please confirm that in the event of bad debt eventually having to be written off, the shareholders of Creative will not be impacted negatively under any scenario; if unable to so confirm, please explain.

RESPONSE:

Creative Energy cannot confirm the statement because it will be for the Commission to set Creative Energy's rates within the mandate and discretion permitted by the *Utilities Commission Act*.

In the specific reference in regards to bad debt, the preamble to this question correctly highlights our view that "the underlying risk cannot be borne by the utility shareholders alone" and it was partly within this context that we discussed the reasons why it would not be appropriate to place a cap on the balance in the proposed deferral accounts. We noted also that the risk of bad debt is an asymmetrical and potentially material variance from our cost of service, and bad debt is neither forecast for the purpose of ratemaking nor is it a risk that management can control under the current circumstances. Moreover, the risk of bad debt related to COVID-19 is discrete and separate from the business risk that Creative Energy faces by virtue of the competitive market that we operate within, and is akin and more closely related to the loss of load that we currently face as a result of the impacts of COVID-19.

More broadly, this IR and BCOAPO IRs 1.3 and 1.4 that follow below, ultimately concern matters raised by BCUC IR 6.2, which asked Creative Energy to explain if it believes that shareholders or ratepayers should bear all of the losses due to COVID-19. As we concluded in the response to that IR, we believe that our approach is reasonable at this time and provides the appropriate basis for the future consideration of such matters and in view of the ongoing uncertainty.

Creative Energy believes that the Commission will have to consider and decide these issues, which are not unique to Creative Energy, at an appropriate time and pursuant to an appropriate proceeding; possibly a generic hearing involving all affected utilities and stakeholders. This is not that hearing. The account requested for approval in this application enables that future consideration.

1.3 Is it the view of the applicant that it is appropriate for ratepayers to bear 100% of the "underlying risk" in this case, i.e., that the shareholders be held harmless and not bear any of the underlying risk? If so, what risk does the shareholder bear to justify a risk premium embedded in its equity return?

RESPONSE:

Please refer to the response to BCOAPO IR 1.2.

1.4 How are "we all in this [pandemic] together" if the shareholder alone is held harmless from all of the costs of the pandemic?

RESPONSE:

Please refer to the response to BCOAPO IR 1.2.

BCUC IR 2.6 asks:

Please explain how Creative Energy will determine which debts are no longer collectible and describe the activities that would fall under "every effort to recover the revenue."

The response to BCUC IR 2.6 includes the following passage:
There are limited avoided costs associated with maintaining customer connections versus discontinuing service all else equal. Creative Energy would need to assess the expected time frame for payment of service and overall risk of bad debt and customer bankruptcy relative to the risk of any permanent loss of load that may arise through a service disconnection and in relation to the impact on all other customers. [Emphasis added.]

1.5 Please clarify what is meant by "overall risk of bad debt" to Creative assuming the application is approved as filed.

RESPONSE:

The reference to "overall risk of bad debt" is independent of whether the application is approved as filed, but was provided in the context of a broader discussion as to why Creative Energy would take care to assess the impact of any decision to disconnect customer service. As discussed, the risk of bad debt concerns a customer's ability to pay their bills due to the impacts of COVID-19 on their financial circumstances. Creative Energy will continue to monitor its unpaid receivables and will seek to assess and understand the underling risk with individual customers on a case by case basis, and to arrange for a flexible payment plan to avoid having to disconnect customers and to record any unpaid receivables to the COVID-19 Deferral Accounts.

2.0 Reference: Exhibit B-1, General

2.1 Please confirm that under the proposal, all deferred customer payments will ultimately be paid by the customer or customers; if unable to so confirm, please explain.

RESPONSE:

Confirmed, assuming that all payments are ultimately received and that no bad debt arises.

3.0 Reference: Exhibit B-2, BCUC IR 5.3

3.1 The response provided to the referenced IR appears to imply the proposed interest on the proposed deferral account balance will not cover (i.e., be less than) Creative's incremental financing costs associated with COVID-19: if this is true, please demonstrate why and indicate why there is not some element of double counting; if this is false, please explain why the proposal does not involve any double counting.

RESPONSE:

Incremental financing costs include the cost to Creative Energy to finance the higher level of working capital caused by overdue receivables. Creative Energy is therefore requesting to record the cost of such incremental financing to the COVID-19 Deferral Account, and so determined using the weighted average cost of debt (WACD).

There is no element of double counting. Incremental financing related to unpaid receivables is different from the interest that accrues on the deferral account. The cost of incremental financing relates only to receivables that are paid late. Creative Energy will ensure that subject to the timing of when such incremental costs are recorded to the deferral account that it does not double count any such interest recorded on prior accounting for such costs.

Any incremental financing required to fund lost revenues or COVID specific costs will be captured through the interest accrued on the deferral account. However, it bears repeating the discussion in the response to BCUC IR 5.3 that in view of the ongoing uncertainty regarded load, revenues and receivables, it may be premature to judge the cash-flow impact and the requirement to manage this impact longer-term if need be through a combination of debt and equity. If that becomes necessary, Creative Energy will bring forward a proposal in the future such as at the time that it brings an application forward to begin recovering costs recorded to the deferral account, for example by proposing that the deferral account attract interest at the weighted average cost of capital instead of the WACD.