

IN THE MATTER OF

The *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Corix Multi-Utility Services Inc.

**Application regarding the Variable Energy Charge and a Rate Setting Mechanism
for Dockside Green Energy**

Corix Multi-Utility Services Inc.

FINAL ARGUMENT

Submitted 6 August 2020

TABLE OF CONTENTS

I.	INTRODUCTION	2
II.	OVERVIEW	2
III.	MINIMUM RATE CHANGE THRESHOLD	4
IV.	REPORTING REQUIREMENTS	8
V.	ALTERNATIVE RATE SETTING MECHANISM.....	9
VI.	CONCLUSION.....	10

I. INTRODUCTION

1. On April 20, 2020, Corix Multi-Utility Services Inc. (“**Corix**”) submitted an application to the British Columbia Utilities Commission (“**BCUC**”) seeking for Dockside Green Energy (“**DGE**”) approval to:
 - i. Establish a Variable Energy Charge Rate Setting Mechanism which comprise of Trigger Ratios and a Minimum Rate Change Threshold, as outlined in Section 3 of the Application;
 - ii. Reduce the existing Variable Energy Charge from \$0.055 per kilowatt-hour (“**kWh**”) to \$0.042 per kWh effective May 1, 2020, pursuant to section 60 of the *Utilities Commission Act* (“**UCA**”); and
 - iii. Amend the DGE tariff to allow the Variable Energy Charge to remain unchanged after the approval of item (ii) above, until the next Variable Energy Charge rate change is approved by the BCUC, pursuant to section 61 of the UCA (“**Application**”).
2. 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, known collectively in regulatory processes as “BCOAPO et al.” (“**BCOAPO**”) was granted intervener status by the BCUC in the regulatory review of the Application.
3. The regulatory review process included two rounds of information requests from BCUC and one round of information requests from BCOAPO. Corix’s responses to these information requests provide clarity and justification for the approvals sought by Corix in the Application.
4. This submission briefly reviews the main aspects of the Variable Energy Charge Rate Setting Mechanism and addresses key topics raised through information requests. Topics not covered in this submission are considered to have been addressed sufficiently in the Application or Corix’s responses to the information requests.

II. OVERVIEW

5. In Order G-248-19, dated October 16, 2019, the BCUC approved the flow-through of energy costs for DGE by approving a Variable Energy Charge and an Energy Cost Reconciliation Account (“**ECRA**”) to record variances between the actual energy costs and the revenue collected through the Variable Energy Charge, with the balance to be amortized over a one-year period. The Panel stated:

“The Panel approves Corix’s proposal to replace the Variable Charge with a Variable Energy Charge, as described in the Application, and to establish a reconciliation account to record the difference between the actual energy costs and the revenue collected through the Variance Energy Charge [sic]. The balance

in the reconciliation is approved to be amortized over a one-year period. The Panel finds that the Variable Energy Charge more appropriately addresses changes in energy costs, as it more efficiently responds to changes in natural gas and electricity rates implemented by FEI and BC Hydro, respectively. The Panel also agrees with Corix that the Variable Energy Charge and use of the reconciliation account enhances price transparency and sends the appropriate price signal to customers, as changes in the Variable Energy Charge will be more closely aligned with customer's consumption and the changes in natural gas and electricity prices."¹

6. BCUC's Gas Cost Reconciliation Account Guidelines ("**Guidelines**") were established through Letter L-5-01, dated February 5, 2001, and Letter L-40-11, dated May 19, 2011. The Guidelines set out the conditions when BC Gas Utility Ltd. (now FortisBC Energy Inc. [**FEI**"]) would generally be expected to apply for changes to commodity cost recovery account ("**CCRA**") rates. Since then, the Guidelines "have generally been adopted by other natural gas and propane utilities in British Columbia."²
7. During the establishment of the Guidelines, the BCUC reviewed practices in other jurisdictions and considered rate stability, price transparency, implications for the expected size of the deferral account and efficiency of process.³
8. The Variable Energy Charge Rate Setting Mechanism proposed for DGE is consistent with the two-step approach established in the Guidelines. Corix would file an application to change the Variable Energy Charge if both of the following conditions were met in the order outlined below:
 - i. Step 1 - The ECRA ratio is lower than the 0.95 Trigger Ratio or higher than the 1.05 Trigger Ratio. This is outside the ± 5 percent dead-band range of $0.95 \leq \text{ECRA Ratio} \leq 1.05$; and
 - ii. Step 2 – The indicative rate change figure exceeds a minimum rate change threshold of $\pm \$0.011/\text{kWh}$.
9. The ECRA Ratio is ratio of the 12-month forecast Variable Energy Charge revenue to the sum of the 12-month forecast energy costs plus the ECRA balance at the beginning of the forecast period.
10. Consistent with the Guidelines, the dead-band range is the first key step in determining if a rate change is warranted. If the dead-band range has not been exceeded it means that the 12-month forecast Variable Energy Charge revenue based on existing rates is sufficiently close ($\pm 5\%$) to the sum of the 12-month forecast energy costs and the balance in the ECRA at the beginning of the 12-month forecast period. If the ECRA ratio falls outside the dead-band range, the Variable Energy Charge revenue over

¹ BCUC Order G-248-19 regarding the Revenue Requirements and Rates Application for DGE, p. 2.

² BCUC Letter L-5-01, Guidelines for Setting Gas Recovery Rates and Managing the Reconciliation Account Balance, Appendix I, p. 1.

³ BCUC Letter L-40-11, regarding the Report on Gas Cost Deferral Accounts and Rate Setting Mechanisms p. 1.

the next 12 months will either be too low, or too high relative to the sum of the existing ECRA balance and the energy costs over the same 12-month period.

11. Consistent with the Guidelines, the minimum rate change threshold is intended to provide rate stability to customers in a low-price environment by avoiding minor rate changes, while maintaining a manageable ECRA balance and reducing regulatory and administrative costs.

III. **MINIMUM RATE CHANGE THRESHOLD**

12. A number of information requests focused on the proposed minimum rate change threshold of $\pm\$0.011/\text{kWh}$ and referenced the minimum rate change threshold established in the Guidelines for the natural gas and propane utilities regulated by BCUC, which is $\pm\$0.5$ per gigajoule (“**GJ**”). Corix’s justification of the proposed minimum rate change threshold is presented below:

The Guidelines do not apply to DGE

13. The Guidelines apply to natural gas and propane distribution utilities regulated by the BCUC. DGE is a thermal energy system providing space heating and hot water service to customers. Natural gas and propane utilities in BC purchase their end-product (natural gas/propane) on the open market, and then transport and resell this product to customers. At this time DGE’s operations involve the conversion of energy from one form (natural gas) to another (hot water) using electricity to power the plant. DGE is regulated according to the BCUC’s Thermal Energy Systems Regulatory Framework Guidelines (“**TES Guidelines**”).
14. Due to the differences discussed in the paragraph above, the Guidelines do not apply to DGE. DGE is not required to establish a Variable Energy Charge rate setting mechanism with a dead-band range and minimum rate change threshold identical to that established by the BCUC for FEI.

Purpose of the Minimum Rate Change Threshold

15. The BCUC’s commodity rate setting mechanism for natural gas and propane utilities operated with only the dead-band range and no minimum rate change threshold from 2001 to 2011. In 2011 the minimum rate change threshold was introduced as a second step in the commodity rate setting mechanism in order to:
 - i. Provide rate stability to customers by avoiding minor rate changes in a low-price environment;
 - ii. Provide appropriate price signals to customers; and
 - iii. Maintain manageable deferral balances.⁴

⁴ BCUC Letter L-40-11, regarding the Report on Gas Cost Deferral Accounts and Rate Setting Mechanisms p. 2.

16. The existing Variable Energy Charge prior to this Application was \$0.055/kWh. The \pm \$0.5/GJ minimum rate change threshold in the Guidelines is equivalent to \$0.0018/kWh, which represents 3.27% of \$0.055/kWh.
17. A minimum rate change threshold that represents 3.27% of the existing Variable Energy Charge would result in a highly sensitive minimum rate change threshold that could lead to frequent and minor Variable Energy Charge rate changes even in a low-cost environment. This could lead to rate instability for customers and increased regulatory and administrative costs for the utility and the BCUC.
18. A minimum rate change threshold of \$0.0018/kWh would not be consistent with the desired purpose of the second step in the rate setting mechanism in the Guidelines.

Comparison to FEI's rate change threshold

19. The Guidelines were developed for FEI (then BC Gas Utility Ltd.)⁵. At the time this Application was filed the \pm \$0.5/GJ minimum rate change threshold in the Guidelines was equivalent to 32% of the FEI Commodity Cost Recovery Charge, which had been \$1.549/GJ since January 1, 2018.⁶ The \pm \$0.5/GJ minimum rate change threshold in the Guidelines now represent 22% of FEI's current Commodity Cost Recovery Charge, approved through BCUC Order G-189-20. Therefore, if FEI's current Commodity Cost Recovery Charge were to change in the future, the minimum anticipated rate change would be a 22% rate change.
20. Corix's proposed minimum rate change threshold of \pm \$0.011/kWh represents 20% of the existing Variable Energy Charge.
21. Therefore, according to Corix's proposal, the minimum anticipated rate change for DGE's existing Variable Energy Charge would be a 20% rate change.
22. This comparison shows that Corix's proposed minimum rate change threshold is better aligned with the application of the minimum rate change threshold in the Guidelines to FEI, than it is with the application of the minimum rate change threshold in the Guidelines (\pm \$0.5/GJ) to DGE.

Rate Shock

23. There were several questions that explored whether the minimum rate change threshold would lead to rate shock each time a rate change occurred under the proposed rate setting mechanism.
24. The term "rate shock" has been recognized by the BCUC to be:
 - i. An annual rate increase of 10% or more; or

⁵ BCUC Letter L-40-11, regarding the Report on Gas Cost Deferral Accounts and Rate Setting Mechanisms p. 1.

⁶ Exhibit B-2, Corix Response to BCUC IR No. 1, Question 1.2, pp. 2-3; BCUC Letter L-35-20.

- ii. An annual bill increase of 10% or more.⁷
25. In addition, the BCUC previously noted the following observation on rate shock by independent consultants retained by the BCUC:

“Elenchus has observed that a common threshold for defining a rate/bill increase that constitutes rate shock is a double-digit increase (i.e., 10% or more). This view of rate shock appears to be more reflective of perceived societal values than any analytic basis for defining undue hardship resulting from a rate increase. Indeed, the hardship resulting from a rate increase is more closely correlated to income than the rate increase itself. Further, since customers tend to focus on the change in their total bills, rather than changes in individual components of the bill, it is typical, and in the view of Elenchus more appropriate, to define rate shock in terms of the increase in the total bill.”⁸

26. Corix submits that the term “rate shock” also depends on the nature of the service/product provided. For example, the BCUC has previously approved rate changes that result in annual bill increases of greater than 10% for propane customers within BC.⁹ In the case where commodity supply costs increase greater than 10% on a persistent and permanent basis, then the utility would be required to charge a higher rate to customers in order to flow-through the commodity costs in a reasonable time period. This increase would be necessary to maintain a manageable reconciliation account balance but could also lead to an annual bill impact of more than 10%.
27. In addition, the term “rate shock” also depends on the type of customer and their ability to pay. In the case of DGE, the customers are strata corporations (not individual residential customers). Strata corporations are typically large entities that are funded through the unit-owners of the strata. Larger entities have a greater ability to withstand bill increases compared to an individual residential customer. An increase that may be considered as rate shock for a residential homeowner may not be considered rate shock for a large corporate customer.¹⁰
28. Strata corporations typically recover their monthly costs, including district energy service costs, from unit-owners through strata maintenance fees that are fixed over a 12-month period. However, Corix cannot speak to how each strata corporation customer at DGE subsequently passes on district energy costs to each unit-owner.
29. Corix has provided a hypothetical bill impact by modelling the impact to a typical end-user (unit-owner) as if that end-user was a direct customer of the utility.¹¹

⁷ Exhibit B-2, Corix Response to BCUC IR No. 1, Question 1.8.1.1, pp. 6-7.

⁸ Exhibit B-2, Corix Response to BCUC IR No. 1, Question 1.8.1.1, pp. 6-7; Decision for Order G-135-18, FEI 2016 Rate Design Application, p. 57.

⁹ Exhibit B-5, Corix Response to BCUC IR No. 2, Question 4.2, p. 2.

¹⁰ Exhibit B-5, Corix Response to BCUC IR No. 2, Question 4.2, p. 2.

¹¹ Exhibit B-1, Application, Appendix A-4.

30. Based on the discussion above, Corix used an annual bill impact of 10% or more for a typical end-user to represent rate shock in this situation.
31. A rate increase of +\$.011/kWh would be equal to an increase of 20% to the existing Variable Energy Charge. At existing rates, the Variable Energy Charge portion represents approximately 43% of the annual bill of a typical end-user at DGE. If the Basic Charge remains unchanged, a \$0.011/kWh increase would equal to approximately an 8.6% on the annual end-user's bill.
32. A rate increase at the proposed threshold is under 10% of the annual bill for a typical end-user and would not constitute rate shock.
33. Furthermore, the BCUC recently issued Order G-189-20 approving a 47.1% increase to FEI's Commodity Cost Recovery Charge, from \$1.549/GJ to \$2.279/GJ. FEI estimated that for their typical residential customer consuming 90 GJ per year, this 47.1% rate increase would result in an 8.27% increase in the annual bill. This showed that the apparent large increase on the unitized rate translated to a bill impact of less than 10%. Order G-189-20 did not indicate any concern with regards to rate shock even though the 47.1% tariff increase was well beyond a 10% rate increase.¹²

Ability to change the minimum rate change threshold

34. As this is the first and only flow-through Variable Energy Charge for Corix's several Stream B district energy utilities, Corix considers the proposed minimum rate change threshold a reasonable starting point. Should this minimum rate change threshold result in either (i) frequent and minor rate changes; or (ii) infrequent rate changes along with unmanageable ECRA balances, Corix would submit an application to amend the Variable Energy Charge rate setting mechanism for DGE.

Summary on the minimum rate change threshold

35. The proposed minimum rate change threshold is appropriate since:
 - i. DGE is a thermal energy system and the Guidelines do not apply to DGE. Corix is not bound to use the minimum rate change threshold established in the Guidelines;
 - ii. Corix's proposal is consistent with the purpose of the minimum rate change threshold established in the Guidelines;
 - iii. Corix's proposed minimum rate change threshold is comparable to the minimum rate change threshold established in the Guidelines for FEI;

¹² Exhibit B-5, Corix Response to BCUC IR No. 2, Question 4.2, p. 2.

- iv. The proposed minimum rate change threshold would not lead to rate shock for a typical end-user modelled as a customer of the utility; and
 - v. Corix would request a change to the minimum rate change threshold at a later date if it results in (i) frequent and minor rate changes; or (ii) infrequent rate changes along with unmanageable ECRA balances.
36. Given the summary above, Corix submits that the proposed minimum rate change threshold of $\pm\$0.011/\text{kWh}$ is neither unjust nor unreasonable and is consistent with the intent of the Guidelines used for natural gas and propane distribution utilities regulated by the BCUC. It promotes rate stability, an efficient regulation, price transparency and considers implications for the expected size of the deferral account.

IV. REPORTING REQUIREMENTS

37. A number of questions in the information requests explored the application of the quarterly gas cost reporting mechanism in the Guidelines to DGE. The Guidelines require that FEI provide quarterly reports to the BCUC showing expected gas costs, expected revenue from gas cost recovery rates and the gas cost reconciliation account balance.¹³ This quarterly gas cost reporting process has been adopted by some natural gas and propane utilities in BC.
38. Corix does not propose to file quarterly ECRA reports and instead proposes to provide all the necessary information if and when the ECRA analysis, based on the approved rate setting mechanism, indicates that the Variable Energy Charge should be changed.
39. Corix's proposed reporting requirements seek to minimize regulatory and administrative costs for DGE, its customers and the BCUC by only filing information when a rate change is required.
40. In the response to BCUC IR No. 1, question 2.1, Corix provides detailed explanations for this proposal. Corix has summarized these points, along with other justifications below.
- i. DGE is a thermal energy system and the Guidelines do not apply to thermal energy systems. DGE is regulated according to the BCUC's TES Guidelines. One of the rate setting principles in the TES Guidelines for thermal energy systems to consider is to "use the least amount of regulatory oversight to protect the ratepayer (minimize the regulatory burden and costs on the utility, ratepayers and the Commission)."¹⁴

¹³ Exhibit B-2, Corix Response to BCUC IR No. 1, Question 2.0, pp. 12-13.

¹⁴ BCUC TES Guidelines, Appendix A to Order G-27-15, p. 22.

- ii. The relative size of the utility operations and the reconciliation account should be considered in the determination regarding quarterly reporting. DGE's total energy costs are forecasted to range from approximately \$102,000 in 2019 to a high of \$200,000 in 2023. DGE's projected ECRA balance at the end of 2020 is a surplus of \$17,121. In contrast, FEI has a projected cost of natural gas of \$453 million dollars for 2020 (including storage and transport costs) with a commodity cost reconciliation account balance projected to peak at a surplus of \$36 million in 2020.¹⁵
 - iii. Energy at DGE is provided from utilities regulated by the BCUC. These are FEI and British Columbia Hydro and Power Authority ("**BC Hydro**"). This contrasts with the utilities to which the Guidelines apply, who typically purchase gas on a competitive market that is not regulated by the BCUC. The low-risk nature of the energy supply source and energy supply costs for DGE does not require increased regulatory oversight through quarterly reporting, since the energy suppliers for DGE are already subject to BCUC regulatory oversight.
 - iv. Corix owns and operates 8 energy utilities regulated by the BCUC. With its current resources, Corix has to rely on external assistance for some regulatory filings. Additional regulatory reporting requirements for DGE would likely lead to additional incremental costs for external regulatory assistance, all of which would be borne by DGE customers.
 - v. Corix notes that not all natural gas utilities regulated by the BCUC are required to submit quarterly gas cost reports. Corix's response to BCUC IR No. 2, question 5.3.1 provides an example of a small natural gas utility regulated by the BCUC that is not required to provide quarterly gas cost reports and only provides this information if and when a rate change is requested.¹⁶
41. In addition, DGE files an annual financial report to the BCUC. The BCUC would be apprised of the ECRA balance when Corix files the DGE annual financial report each year.
42. For small utilities with limited resources such as Corix, customers benefit from a more cost-effective approach, such as providing all the relevant information on the ECRA only if and when a rate change is required. This approach is consistent with a key rate setting principle outlined in the TES Guidelines and has been utilized by other utilities regulated by the BCUC.

V. ALTERNATIVE RATE SETTING MECHANISM

43. In response to BCUC IR No. 2, question 5.3.1.1, Corix considered an alternative Variable Energy Charge Rate Setting Mechanism to that proposed in the Application. This alternative would reduce

¹⁵ Exhibit B-5, Corix Response to BCUC IR No. 2, Question 5.3.1, p. 9.

¹⁶ Exhibit B-5, Corix Response to BCUC IR No. 2, Question 5.3.1, p. 10.

administrative and regulatory costs while allowing an annual adjustment of the Variable Energy Charge to prevent high ECRA balances.

44. At its core, the alternative Variable Energy Charge Rate Setting Mechanism would be to:
- i. Reset the Variable Energy Charge once per year on January 1st, targeting a 12-month forecast ECRA Ratio of 1;
 - ii. Exclude a minimum rate change threshold from the rate setting mechanism;
 - iii. Report on the ECRA balance once per year, at the time of the application to reset the Variable Energy Charge; and
 - iv. Submit an application for a rate change outside of the annual resetting process, should there be any significant changes in FEI or BC Hydro rates that results in Corix's inability to offer reasonable rates while managing the ECRA balance with a 12-month amortization period.
45. Should the Panel determine that the rate setting methodology proposed in the Application is inappropriate and could lead to unjust and unreasonable rates, Corix submits that the alternative rate setting mechanism should be considered by the Panel.

VI. CONCLUSION

46. All the proposals in this Application are designed to achieve the approved flow-through of energy costs with reasonable rates while minimizing ECRA balances.
47. Throughout the proceeding, Corix has provided the clarification and justification to support the BCUC approval of the requests on page 1 of Corix's Application.

Langley, BC

August 6, 2020

All of which is respectfully submitted.



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