

G F Duffy intervenor questions to SEUL

August 11th 2020

General Questions

1.0 Reference: BCUC Decision G-190-17, December 2017

1.1 The BCUC decision G-190-17 of December 2017 regarding the original rate application by SWCRA (now SEUL) makes reference to the COV NES Policy and outlines certain goals, one of which is “to keep energy affordable in the long-term”. The same decision references the 5015 SEFC Five-Year Review which states “strives to maintain customer rates that are competitive with the long-term capital and operating costs of other options available to customers”.

1.1a How does the proposed energy rate of \$0.1295 per kWh relate to these two statements?

1.1b What are the current variable component rates in effect at SEFC and NDES at UBC?

1.2 The BCUC panel also approved the establishment of a “deferral account to capture annual deficits and surpluses with a benchmark for TES of 9.5% and a debt to equity ratio of 52.5/47.5% which may be amended by the Commission from time-to time”. Given the current economic conditions and that the original Generic Cost of Capital model rates were set back in 2014, is it now appropriate to review and adjust these rates? To have a virtual risk-free 9.5% return on equity, using a 5.5% interest rate as the cost of debt seems way out of place in the current environment when long-term Canada bonds are currently yielding 0.99% and 10-year tranches of commercial debt are readily available at 2.5%.

1.3 Can you confirm the interest rate used by QMC when issuing credit invoices to the Phase 1 customers back in April 2018? These credits relate to the prior period customer billings before the December 2017 BCUC Decision. At that time, I was advised by Mr. Graham Sherk, the QMC Account Manager, that the rate used was 1.65%.

1.4 Back in January 2017 when SWCRA re-issued its rate application a total of approximately 780 pages were submitted in evidence. Document B-5 included the detailed and complete economic model and presentation of the CORIX NDES system at UBC. The aforementioned model presented a levelized rate based on a 30-year model and a complete life-cycle of the assets. There was also a detailed summary of income taxes using an appropriate Capital Cost Allowance calculation. The current rate application by SEUL is limited to 10 years and a rough income tax calculation.

Why did SWCRA include the CORIX model with its submission? Why did SWCRA not follow the sequential steps of the CORIX model when formulating its economic model when submitting its rate application?

1.5 What did the DYN Commissioning Study cost? Where are these costs captured in the economic model? – *commencing page 156*

2.0 Reference: Annual Revenue

Exhibit B-1, Section 5.3 pp 15-19;

2.1 The reported vacancy rate is 20-30% currently - *last sentence page 4, section 2.2* - and this relates almost exclusively to phases 2/3, as phase 1 has almost 95% occupancy. This vacancy rate implies there are almost 100 vacant units. How much potential annual revenue is being lost to SEUL as a result of these vacant units. Is \$150k a reasonable estimate of this foregone revenue?

2.2 How much annual heating revenue is attributed to and paid by the landlord for the common area in the rental building? — *table 3, page 10 gives consumption data but not revenues*

2.3 How much annual heating revenue is attributed to and paid by the landlord for the common areas in the Mansion?

2.4 What are the costs and associated revenues incurred to heat the Mansion pool in Phase 1 for calendar 2019?

2.5 What is the annual cost to the landlord for DHW services provided to the rental building?

3.0 Reference: Deficiency/Surplus Deferral Account

Exhibit B-1, Section 6.2, pp 26-27

3.1 Under order G-190-17 SEUL was authorized to use its WACC as the interest rate when adding interest to the account balance.

3.1a If SEUL was to use a nominal commercial interest rate of 3.0% what would the resulting energy unit cost be?

3.1b At the same time, if SEUL were to use its WACD (weighted average cost of debt) assuming a 4% interest rate, what would the resulting energy unit cost be?

4.0 Reference: Regulatory Deferral Account (RDA)

Exhibit B-1 Section 6.3 pp 29-30

4.1 What is the actual impact on the customer energy rate if the RDA is re-paid over a 5 -year period?

4.2 Using the WACC of SEUL for calculating the interest associated with the RDA balance is in appropriate. SEUL is a one project company and has no need for using capital on any future projects. SEUL is somewhat unique in this regard, as companies like CORX and FAES have on-going business projects under development and require returns on the capital they use. SEUL should be using a prevailing commercial interest rate on the RDA balance in light of its situation.

Did SEUL consider sourcing a 5-year tranche of debt at current market conditions to cover the RDA account balance?

5.0 Reference: Annual General and Administrative Costs

Exhibit B-1, Section 5.5, pages 20-21 and 29-30

5.1 Can you clarify the costs associated with the corporate re-organization of SWCRA into SEUL back in 2018/2019? Also, where are these costs defined in the economic model? – *section 3.3 page 7 and last sentence page 21.*

5.2 How many customer complaints (other than invoicing issues) did QMS respond to in calendar 2019? Have all these complaints been resolved and closed? How much legal time was spent handling these customer complaints and what was the costs associated with the legal advice?

5.3 What is the ownership of QMC? Who are the principle shareholders of QMC? Does Wall Financial Corporation, any of its officers, or any of its affiliated companies, or subsidiaries hold a financial interest in QMC?

6.0 Reference: Exhibit-1, Appendix A

Financial Model Profit and Loss

6.1 Further to BCUC staff question 22.2 I would like some further clarification of the economic model. Why limit the term to only 10 years and then re-submit a new application with approximately \$250k of additional costs, and tying up BCUC staff resources, at that time? Also, the CORIX NDES model was extended out for 30 years. The life cycle of the SEUL equipment assets goes out for over 20 years; the first significant replacement of components, other than the controls, does not begin until post 2040.

What is the accumulated surplus in year 20 when revenues are extended out through that time frame for a full 20 years? What impact does a 20-year deficit/surplus balance have on the derived energy rate?

7.0 Reference: Revenue Deficiency/Surplus Deferral Account

Exhibit B-1, Section 6.3 pp 27-29

7.1 The decision to discount the estimated \$3.5 million loss accumulated by January 31st 2021 from the deficit/surplus account is welcomed by the ratepayers. However, there is no recognition of the accumulated depreciation (non cash) by that time of approximately \$1.15 and the fact that the \$3.5 million loss is carried forward as a “tax pool” against income in future years. This tax loss provision at a

27% income tax rate approximates a \$900k value to SEUL. By recognising these two items the net accumulated cash loss to SEUL is about \$1.5, notwithstanding the reported net income loss of \$3.5 million by January 31st 2021.

Further, the development was carried out in 2 distinct phases over almost 4 years. It is only now that we are seeing full use of the utility, albeit, with 30% vacancy rates. DHW invoicing in Phase 1 did not commence until May 2017. Arguably, the project was in a staged start-up mode for almost 4 years.

Does SEUL agree with the above assessment of the cash flows?