14 August 2020

VIA E-FILING

Reply to: Leigha Worth
ED@bcpiac.org
Ph: 604-687-3034

Our File: 7800.110

Acting Commission Secretary
Marija Tresoglavic
BC Utilities Commission
6th Floor 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Tresoglavic,

Re: Shannon Estates Utility Ltd. - Levelized Rate Application for the Shannon Estates Thermal Energy System ~ Project No. 1599113
BCOAPO Information Request No. 1

We represent the 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").

Enclosed please find the BCOAPO's Information Requests No. 1 with respect to the above-noted Application.

If you have any questions, please do not hesitate to contact the undersigned.

Sincerely,
BC PUBLIC INTEREST ADVOCACY CENTRE

Original on file signed by
Leigha Worth

Executive Director | General Counsel

REQUESTOR NAME:	**BCOAPO *et al.***
INFORMATION REQUEST ROUND NO:	**#1**
TO:	**Shannon Estates Utilities Ltd (SEUL)**
DATE:	**August 14, 2020**
APPLICATION NAME:	**Levelized Rates for the Shannon Estates TES**

1.0 Reference: Exhibit B-1, page 10 and Table 3

The referenced page states:

The Development is now fully built out and there will be no customer additions in the future. Although there will not be year-over-year load growth, there will be year-to-year variations in energy consumption primarily due to (1) variations in actual occupancy rates and occupant energy usage and (2) variations in weather.

1.1 Under the Applicant's proposals, will any of the risk associated with annual variations in energy consumption be borne by the shareholder or will all of the risk be transferred to ratepayers?

1.2 Can SEUL confirm that there will be no forecast risk for the utility under its proposals?

2.0 Reference: Exhibit B-1, page 12 and Table 4

The referenced page states:

*The forecasts have not been normalized for weather. The heating degree days ("**HDD**"), which is a measure of time spent in heating, for the months of October 2019 to February 2020 inclusive were comparable to average HDD for each of these months (see Table 4). As such, normalizing the forecasts by weather would add a layer of complexity to the forecasting methodology without providing a corresponding material benefit.*

2.1 Does SEUL have a methodology for weather normalization? If so, please describe it.

2.2 Please describe the data underpinning the column "Average HDD" and provide a table showing the historical data from which "Average HDD" is calculated.

3.0 Reference: Exhibit B-1, page 17

The referenced page states:

This item shows the revenues SEUL historically derived from the monthly metering charge. From fiscal 2017 to the present, the monthly metering charge has been fixed at $9.50 per account per month and charged directly to customers as a separate charge on

the invoice. This separate charge has been used to collect the $9.50 per account per month SEUL pays its agent QMC for a broad range of customer-care services including collection, review, and processing of data to generate customer invoices, invoicing customers and collecting and processing accounts receivable, and managing all matters related to customer accounts including addressing any questions or concerns customers might have.

3.1 For how long has QMC acted as SEUL's agent?

3.2 How was QMC originally chosen to be SEUL's agent?

3.3 Please describe the process that SEUL undertook to determine that QMC was the best choice for the activities it undertakes on behalf of SEUL.

3.4 Can SEUL confirm that QMC is not related directly or indirectly to SEUL and any of its affiliated companies?

4.0 Reference: Exhibit B-1, pages 18 and 19, Heat and Light and Power Operating Costs

4.1 Please provide historical data to support the assumption of 2% annual increases for these two components of operating costs.

5.0 Reference: Exhibit B-1, pages 19-20, and Exhibit A-3, BCUC IR Series 7.0, Repairs and Maintenance Costs

5.1 Please describe the process that SEUL undertook to determine that Werner Smith was the best choice for the contracted services.

5.2 Can SEUL confirm that Werner Smith is not affiliated directly or indirectly with SEUL or any of its affiliates?

6.0 Reference: Exhibit B-1, pages 22-23, Management Costs

The referenced pages state the following:

This item shows the allocation of head office management costs SEUL historically incurred and forecasts that it will incur to support the utility. SEUL does not have any direct employees. SEUL relies on WFC's head office employees to support its activities. SEUL's management costs therefore represent the proportion of salary costs allocated to the utility for the work performed by, predominantly, the Vice President of Finance, the Vice President of Construction, and the Accounting Manager. This allocation is based on the percentage of time each individual spent in respect of utility matters, including time spent on the regulatory applications, financial and regulatory reporting, and maintenance matters.

6.1 Does WFC formally track the time each of the named executives spend in respect of SEUL business?

6.2 Please confirm that no allocation of any other management costs, including those of the CEO of WFC, is made to SEUL.

7.0 Reference: Exhibit B-1, page 26, Cost of Capital

The referenced page states:

Pursuant to Commission Order G-190-17, the capital structure for SEUL is set at 57.5% debt and 42.5% equity. SEUL is allowed a ROE of 9.5% and a return on debt based on SEUL's cost of debt. SEUL currently does not incur any debt and is funded solely by its parent company WFC on an interest free basis. To determine SEUL's cost of debt, SEUL inquired of WFC's major lenders on the borrowing rates SEUL would pay if it obtained financing on a stand-alone basis. In reviewing the business and risk profile of the utility, WFC's major banks on average suggested a rate of Prime plus 2.00%.

7.1 Why doesn't WFC charge interest on the debt financing it provides to SEUL? Is there a tax or other advantage to the shareholder under this arrangement? Please explain.

7.2 If SEUL does not pay any interest to WFC, does the "deemed interest" that is collected from ratepayers – but not paid to WFC – ultimately flow to SEUL's shareholder, effectively as a boost to RoE? Please explain.

7.3 Can SEUL confirm that under the proposal, SEUL will be entitled to all tax advantages it would have as a stand-alone utility? Please explain.

7.4 Does SEUL agree that the appropriate use of the stand-alone cost concept is to establish an <u>upper bound</u> on what may be appropriately charged to the utility and not necessarily the appropriate level of cost to be borne by the utility?

7.5 Please provide the historical RoEs earned by SEUL along with the Return on Investment achieved by SEUL in each of the years.

7.6 Please provide the actual capital structure of SEUL.

7.7 Would SEUL deem WFC to be a stable and sustainable source of capital financing, as measured by earnings per share and other metrics, going forward?

7.8 Please provide a copy of the most recently available annual report for WFC.

8.0 Reference: Exhibit B-1, pages 27-29, Revenue Deficiency/Surplus Deferral Account

8.1 Please describe the extent to which the referenced account "guarantees" that the shareholder will get the approved RoE going forward; to the extent that it does not, please describe the risks borne by the shareholder on her equity investment going forward under the Applicant's proposal.

9.0 Reference: Exhibit B-1, page 33, Proposed Rate Escalation

The referenced page states:

After Year 1, the rates are proposed to increase on a levelized basis as follows:

- *Years 2-3 (F'2023 – F'2024) + 1.5%/year*
- *Year 4 (F'2025) + 2.0%/year*
- *Year 5-6 (F'2026 – F'2027) + 2.5%/year*
- *Years 7-10 (F'2028 – F'2031) + 3.0%/year*

9.1 Please confirm that this proposal will result in rates that are 24.26% higher in year 10 than in the base year; if unable to so confirm, please provide SEUL's number.

10.0 Reference: Exhibit B-1, page 24 and Exhibit A-3, BCUC IR Series 11.0, Insurance

The referenced page states:

Other administrative expenses in Year 1 are projected to increase by approximately 160% due mainly to insurance costs, which have increased in the range of 40% to 200% in the industry in this most recent year. An annual inflation rate of 2% (line 45 of the Financial Model) is applied to this item.

10.1 Please provide support on the record for the assertion that insurance costs, for the industry, have increased by 40% to 200%.

10.2 Please provide SEUL's views as to the drivers of this large increase.

10.3 Please provide the average insurance cost increase for the industry as a whole along with a precise definition of "the industry."

10.4 Are there any circumstances peculiar to SEUL that could give rise to a larger than average increase in insurance costs?

11.0 Exhibit B-1, page 25, Income Taxes

The referenced page states:

No corporate income taxes have been payable by the utility to date, as the utility has not earned any profits for any fiscal year. The forecast of the income taxes payable by SEUL uses the current corporate income tax rate of 27% and assumes the rate increases by 2% every three years, commencing in Year 4 of the Financial Model, until it reaches 33% by Year 10. As this Application only forecasts costs up to Year 10, the corporate income tax rate of 33% was maintained for the balance of the Financial Model.

11.1 In the event that actual income taxes paid are less than the amount recovered in rates, how would this surplus be treated under the proposal?

11.2 Did SEUL consider embedding a forecast of actual income taxes to be paid in rates along with a variance account to capture variances between what is collected in respect of income taxes and what is actually paid in respect of income taxes?