

Corix Multi-Utility Services Inc.
Application for Approval of a Corporate Cost Allocation Methodology

CORIX MULTI-UTILITIES SERVICES INC. RESPONSE TO BCUC PUBLIC INFORMATION REQUEST NO. 1

1.0 Reference: OVERVIEW OF CORPORATE COSTS
Exhibit B-1, Section 3.1, p. 10
Corporate Services Costs

On page 10 of the Application, Corix Multi-Utility Services Inc. (Corix) states:

Business Development costs incurred by CII have been excluded from Corporate Services Costs until such time as it can be quantitatively demonstrated that the benefit from these activities to customers of the existing utilities exceeds the associated costs. Therefore, Corix is not seeking the ability to recover Business Development costs under this methodology at this time.

- 1.1 Please describe, in detail, what circumstances may lead to Corix being able to quantitatively demonstrate that the benefits to customers of business development costs exceed the associated costs.

Corix Response:

Theoretically a transformative acquisition of a utility of significant size relative to all other CII utilities could lead to a reduction in the corporate cost allocations to all existing CII utilities. In this situation, corporate business development costs incurred would result in a net benefit to customers of existing utilities with regards to the corporate cost allocations. However, transformative acquisitions are quite infrequent in nature. Should this theoretical situation occur in practice, Corix would consider the possibility of demonstrating quantitatively the benefit to existing customers of business development costs.

- 1.1.1 In such a situation, will Corix recover these costs under the proposed Corporate Cost Allocation Methodology?

Corix Response:

The proposed Corporate Cost Allocation Methodology excludes the recovery of all business development costs. Therefore, Corix will not recover business development costs under the proposed Corporate Cost Allocation Methodology. If Corix considers that the particular scenario warrants an application to seek business development costs, Corix would seek BCUC approval based on the circumstances at that time and using an allocation methodology appropriate at that time.

- 1.1.1.1 If yes, please explain Corix's rationale for recovering business development costs from ratepayers.

Corix Response:

Please note that the Application does not seek to recover business development costs from ratepayers.

- 1.1.1.2 Will Corix seek separate approval from the British Columbia Utilities Commission (BCUC) to recover the business development costs using the Corporate Cost Allocation Methodology for the eight BCUC regulated utilities?

Corix Response:

Please see the response to Question 1.1.1 above.

- 1.1.1.2.1 If no, please explain, and discuss how Corix proposes the BCUC would be informed about such changes.

Corix Response:

Please see the response to Question 1.1.1 above.

- 1.1.1.2.2 Will the business development costs for the entire organization be distributed using the composite allocator?

Corix Response:

Please see the response to Question 1.1.1 above.

- 1.1.1.2.3 If yes, please provide an estimate on how much these costs will be for each of the eight BCUC regulated utilities.

Corix Response:

Please see the response to Question 1.1.1 above.

- 1.2 Please indicate how business development costs incurred by Corix Infrastructure Inc. are currently allocated.

Corix Response:

The corporate cost allocations for business development costs incurred by CII are determined in the same manner as explained throughout Chapter 3 of the Application. However, CII's business development costs have not been allocated to utilities regulated by the BCUC.

**2.0 Reference: CORPORATE COST ALLOCATION METHODOLOGY
Exhibit B-1, Section 3.1, p. 12
Regional Costs**

On page 12 of the Application, Corix states:

Corix utilities regulated by the BCUC are also allocated shared costs which are incurred at the regional level ("**Regional Costs**"). Regional Costs include, but are not limited to, shared operating costs such as building rent, utilities expense, salaries, travel, vehicle and office expenses. However, these costs are not included in the Corporate Cost Allocation Model and are outside the scope of review of this Application.

- 2.1 Please explain how Regional Costs are currently allocated.

Corix Response:

Corix has 1,370 utility systems in operation across 20 U.S. states and 3 Canadian provinces. Regional Costs are specific to each region and depend on how the organization is structured to serve the utilities in the region. As the Corix businesses change (expand, contract, segment, and/or combine), the organizational structure will be changed to meet the needs of customers. As such, there are differences in how Regional Costs are allocated in different regions. For the 8 BCUC-regulated utilities there are two relevant Regional Costs groups: Energy Services Canada

and Canadian Utilities (see pages 11 and 12 in the Application). For these two Regional Costs groups the Regional Costs are allocated using the same methodology discussed in sections 3.2 and 3.3 of the Application, with one difference. This approach includes the use of the composite allocator comprising of three equally weighted factors, consistent with the Massachusetts Formula, for indirect Regional Costs. The difference is that the inputs are updated more frequently to reflect the more dynamic nature of the Regional Costs in the daily management of the utilities within that specific region. However, this Regional Cost allocation methodology is not utilized throughout all CII subsidiaries and regions.

2.2 Please explain why Regional Costs are not included in the Corporate Cost Allocation Model.

Corix Response:

Regional Costs are not included in the Corporate Cost Allocation Model as this model addresses only corporate costs that originate from CII. Regional Costs are related to a specific region with its own regional characteristics. These costs are incurred at different levels within the organization. For example, Regional Costs for BCUC-regulated utilities are related to CUI and CMUS (see Figure 1, page 6 in the Application).

2.3 Does Corix plan to use the Corporate Cost Allocation Methodology to allocate Regional Costs in the future?

Corix Response:

Where appropriate, Corix uses similar principles and approach to allocate Regional Costs as the Corporate Cost Allocation Methodology. However, if a regional structure is unique then some adjustments may be required. Regional Costs and the regional organization structure are closely related. As business needs change and as the portfolio of businesses within the region change, the costs and/or the business structure may change in the future necessitating a different approach to allocating Regional Costs in a reasonable manner.

2.3.1 If yes, please explain when and what approvals, if any, will be sought from the BCUC.

Corix Response:

As noted on page 12 of the Application, Regional Costs are outside the scope of review of this Application. Regional Costs are localized costs relevant to its own particular region. Regional Costs will be applied for when the relevant utility makes a revenue requirements application to the BCUC rate approval. Since Regional Cost allocations are highly dependent on the current organizational structure, it is best addressed closer to the time when a utility makes a revenue requirements application.

**3.0 Reference: COST ALLOCATION METHODOLOGY
Exhibit B-1, Section 3.2, p. 13
Allocation of Corporate Costs**

On page 13 of the Application, Corix states:

This Application proposes a methodology to be used to allocate a portion of corporate costs to Corix's utilities regulated by the BCUC. CII has established a structured methodology for allocating corporate costs to each of its utilities. The steps are outlined in Table 3 below:

Table 3: Steps for Allocating Corporate Costs

Item	STEP FOR ALLOCATING CORPORATE COSTS
1.	Corporate costs are first categorized into homogenous categories/services.
2.	Costs are then identified as either: (i) Directly Assignable Costs; or (ii) Indirect Costs.
3.	All Directly Assignable Costs are directly assigned to the appropriate business unit(s).
4.	The basis of variability of the Indirect Costs are then assessed by reviewing what causes these costs to change.
5.	Indirect Costs are then allocated either: a. Using a functional allocator on the basis of variability in instances where this method is clearly applicable; or b. Using a Composite Allocator for all other instances.

3.1 Please discuss why Corix considers that a new Corporate Cost Allocation Methodology is needed at this time.

Corix Response:

In section 2.3 of the Application Corix provided a discussion of the changes that took place within the business that led to the development of the proposed Corporate Cost Allocation Methodology.

Historically, the unregulated and competitive businesses, Corix Water Products (CWP) and Tribus Services (metering services), formed the majority of Corix’s business operations. The 2018 sale of CWP and the formation of Tribus into a separate company transformed CII into a pure play utility business focussed on energy, water, wastewater, and other complementary utility services. Following the disposition of CWP, CII initiated a review of the operations and services within and between all of CII’s subsidiaries and their respective business units. One of the objectives was to develop a common methodology for fairly and equitably allocating the costs of those services to each utility business. Please see section 2.3 of the Application for further details.

3.1.1 Please identify what factors have led Corix to request approval of the new proposed Corporate Cost Allocation Methodology.

Corix Response:

Please see the response to Question 3.1 above.

3.2 Please explain what Corix and its subsidiaries objectives are for the new Corporate Cost Allocation Methodology.

Corix Response:

The objective for the Corporate Cost Allocation Methodology is to fairly and equitably allocate corporate costs to each utility business within CII’s portfolio.

3.2.1 Please discuss the impacts upon Corix if the Corporate Cost Allocation Methodology were not approved by the BCUC.

Corix Response:

The BCUC regulates 8 of Corix’s utilities. Corix has filed this Application to increase regulatory efficiency and address the corporate cost allocation methodology used for all 8 utilities through one application. If this Application were not approved by the BCUC Corix would have to seek approval of the Corporate Cost Allocation Methodology through applications for each of the 8 utilities. When a Corix utility makes a revenue

requirement and rate application to the BCUC without an approved corporate cost allocation methodology, the hearing to set the rates for that utility would become longer and more costly to review given there is no prior approved corporate cost allocation methodology. For example, the majority of the content within this Application would have to be included in each revenue requirement and rate application where Corix is seeking recovery of corporate costs with no prior approval of a corporate cost allocation methodology. The hearing for the rate application would need to set rates and cost recovery without the benefit of a prior BCUC decision to streamline the regulatory process.

- 3.3 Please explain and provide examples of how the new Corporate Cost Allocation Methodology will impact the eight BCUC regulated utilities in terms of customers, rates and each utilities' ability to earn a fair return

Corix Response:

The result of the new Corporate Cost Allocation Methodology would be an allocation of corporate costs to each of the eight utilities.

For Sun Rivers Electric, Sun Rivers Gas, Sonoma Pines Electric and Sonoma Pines Gas there will be no immediate impact to customers, rates and ability to earn a fair return since these utilities' rates mirror the rates for British Columbia Hydro and Power Authority (BC Hydro) (electric) and FortisBC Energy Inc. (FEI) (gas). For Panorama Propane, Corix has not applied to change its delivery rates since its acquisition. For Panorama Propane there is no immediate impact to customers, rates and ability to earn a fair return. As all these utilities are presently under-earning, Corix may in the future consider applying to change the rate setting approach for Sun Rivers and Sonoma Pines and may in the future consider making a rate application for Panorama Propane based on cost of service rates.

The district energy utilities (UBC NDES, BMDEU, and DGE) have had recent rate applications and the impact of the new methodology in allocating costs could result in a material difference when compared to the forecast revenue requirements presented in these Applications. These utilities all have deferral accounts that were approved by the BCUC due to the greenfield nature of each of the utilities. For the district energy utilities, Corix would submit an Application to address any material change to the revenue requirements, if necessary, and the resulting impact to customer rates.

- 3.3.1 Please describe any differences between the utilities that have rates set based on cost of service and the non-cost of service utilities.

Corix Response:

The utilities with rates that follow BC Hydro and FEI rates are not cost based and the corporate cost allocation does not affect customer rates. The district energy utilities are cost based and these costs would flow into the rate setting. An exception is Panorama Propane which is regulated as a cost based utility but Corix has not applied to change rate since it acquired the utility.

- 3.3.2 Please describe the magnitude of the cost redistribution for the eight BCUC regulated utilities.

Corix Response:

Please refer to the response to BCOAPO IR No. 1, Question 2.1.

- 3.4 Please explain how directly assignable costs and indirect costs were previously allocated.

Corix Response:

Directly Assignable Costs are not allocated. These costs are directly associated with a particular business unit’s activity or operation and so are directly assigned. These costs were assigned and continue to be assigned to utilities based on expense reports and job sheets.

Previously, indirect costs were allocated using a tiered form of cost allocations to Corix’s major business units based on the Massachusetts Formula. For the allocation to Corix Multi-Utility Services Inc., Corix applied a Massachusetts Formula with equal weighting to three factors (1/3rd each), for each of (a) average net book value of tangible assets plus inventories; (b) operating revenue; and (c) payroll.

**4.0 Reference: CORPORATE COST ALLOCATION METHODOLOGY
Exhibit B-1, Section 3.2, p. 14
Functional Allocator**

On page 14 of the Application, Corix states:

Functional allocators are used where the Indirect Costs can be allocated using an identified cost causation driver. Functional Allocators used by CII during the allocation process include:

1. **Employee headcount** – for costs that are directly correlated to the number of employees;
2. **Number of Customers** – for costs that are directly correlated to the number of customers of a particular business unit; and
3. **Call volume by business unit** – for costs that are directly correlated to the number of calls for each particular business unit.

On page 14 of the Application, Corix has included Table 4 summarizing the Composite Allocator Factors and its weighting and states:

Table 4: Composite Allocator Factors and Weighting

Factor	WEIGHT
Gross Revenue	33.33%
Gross Property, Plant & Equipment (“PPE”)	33.33%
Headcount	33.33%

A Composite Allocator was chosen to generally reflect the size, scope and complexity of each of the operating business units in the capital-intensive and labour-intensive nature of utility operations. The Composite Allocator based on the factors and weighting shown in Table 4 allows for a just and reasonable allocation of costs in a transparent, sustainable and cost-effective manner that reflects cost causality for shared costs which do not exhibit direct correlation with any one particular cost causation driver.

4.1 Please indicate whether any other functional allocators were considered.

Corix Response:

A corporate cost allocation is inherently an estimate of a reasonable allocation of shared costs

that are not directly assignable. Corix relied on only the few functional cost allocators presented in the Application and did not consider other functional allocators. In order to estimate a reasonable allocation of shared costs few functional allocators were used so as to avoid adding unnecessary complexity to the cost allocation process.

The functional allocators chosen most reasonably reflects the cost causation drivers for their respective costs. For example, Table 11 shows that WSC Billing costs will be allocated to the respective utilities based on the functional allocator of number of customers. There is a direct correlation with the number of customers and the costs incurred to issue bills to customers of the utilities.

Please note that the vast majority of CII's indirect corporate costs do not have a direct correlation with any one particular cost causation driver and so most corporate costs are allocated using a Composite Allocator.

4.1.1 Please explain why other functional allocators were not selected.

Corix Response:

Please see the response to Question 4.1 above.

4.2 Please explain what process Corix used to determine the selected composite allocator factors.

Corix Response:

Corix relied on the Massachusetts Formula as the starting point to determine the composite allocator factors. The Massachusetts Formula is a multi-factor model based on gross revenue, capital investment, and direct labour of each affiliate utility to the total. The use of the Massachusetts Formula to allocate corporate or shared services costs is a widely used and accepted method for allocating costs in the utility industry in North America. Section 3.10 of the Application shows that the AUC and the BCUC have both approved the use of the Massachusetts Formula for other utilities including EPCOR, FEI and Creative Energy. Corix then selected factors that could be appropriately and consistently used throughout the organization. This reduces complexity, increases transparency and understandability of the allocation model. Corix's factors of gross revenue, gross property, plant and equipment and headcount are consistent with the Massachusetts Formula and appropriate to all Corix businesses.

4.2.1 Please discuss what other allocators were considered, including but not limited to, operating revenue, payroll, and average net book value of capital assets. Please explain why they were not selected.

Corix Response:

Operating Revenue, payroll and average net book value of capital assets were considered. However, these were not used as explained below.

Operating Revenue was not selected because Gross Revenue more appropriately reflects the Corix business environment. Corix's businesses provide energy, water, wastewater, and other complementary utility services through 1,370 utilities across North America in both regulated and non-regulated environments. Gross Revenue is a broader and more encompassing measure than Operating Revenue and eliminates any judgement whether a specific revenue is an operating revenue or other revenue. Given the above, Gross Revenue was deemed to be a more appropriate and comparable measure across all utilities than Operating Revenue.

Net Property, Plant & Equipment (PPE) was not selected since it causes distortion between older utilities with depreciated assets and newer utilities with low

accumulated depreciation. Also, Net PPE distorted the cost allocation of other Corix utilities where Corix owns the plant assets and provides infrastructure stewardship but the assets are fully paid for through a contribution in aid of construction. For these utilities the net book value of plant assets is essentially zero. However, the costs to maintain, oversee, and protect these assets are actual costs which the corporate costs should be appropriately allocated to these low net book value utilities.

Headcount was used instead of salaries for two key reasons. One reason is that many of the costs are not driven by salaries. For example, corporate costs related to the provision of Information Technology service would be more appropriately allocated to utilities based on the number of employees in a utility, rather than the combined payroll of that utility. Another reason is due to the geographical dispersion of Corix utilities across North America. Corix operates utilities from Florida to Alaska and salaries can vary from city to city due to the competitiveness of the job market and availability of skilled resources. Headcount provides a more appropriate “apples to apples” comparison of work effort required to provide corporate services to each utility instead of salaries measured in dollars for each utility. Given the unique circumstances of Corix and its operations, headcount is the more appropriate and stable factor to use.

**5.0 Reference: CORPORATE COST ALLOCATION METHODOLOGY
Exhibit B-1, Section 3.4, p. 17
Updating Inputs**

On page 17 of the Application, Corix states, with the following table:

Due to the constantly changing input figures, CII uses an annual reference point to determine the Functional Allocators and the Composite Allocators to be used for the upcoming year. This approach provides stability for allocations as well as a reference for year-over-year comparisons.

Table 7: Updating Inputs for the Cost Allocation Model

No.	Inputs (Actuals)	REFERENCE
1.	Gross Revenue	Trailing Twelve Months up to June 30 th of prior year
2.	Gross Property, Plant & Equipment	As at June 30 th of prior year
3.	Headcount	As at June 30 th of prior year
4.	Number of Customers	As at June 30 th of prior year
5.	Call Volume by Operating Business	As at June 30 th of prior year

5.1 Please confirm, or otherwise explain, that these annual reference points are consistent with the Massachusetts Formula.

Corix Response:

Corix confirms reference points 1 through 3 are consistent with corporate allocation and the Massachusetts Formula. A reference point is required to use the Massachusetts Formula. The Massachusetts Formula is a three- factor equal weighted model using revenues, PPE, and labour. The model requires assets to be valued at some point in time. Also, the Massachusetts Formula requires revenue, a flow of funds, to be measured over a set period of time. Corix has chosen June 30th as the optimal choice to set the following year’s corporate cost allocations.

As stated on page 17 of the Application “June 30th was chosen as the most appropriate date that as it allows for the use of the most recent actual information without risking any delays to the budget process. A date earlier than June 30th would result in the unnecessary use of outdated information. A date after June 30th would yield more current information but may cause delays to the budget process for the entire organization.”

Reference points 4 and 5 are for Functional Allocators and are not included in the composite allocator. However, they also need to be updated annually to reflect changes in the businesses.

**6.0 Reference: CORPORATE COST ALLOCATION METHODOLOGY
Exhibit B-1, Section 3.5, pp. 18-20
Known and Measurable changes**

On page 18 of the Application, Corix states:

In order to ensure a just and reasonable corporate cost allocation to Corix’s DGE [Dockside Green Energy] utility and all other utilities within the CII portfolio, an acquisition adjustment has been made to DGE’s Gross PPE to account for the fair market value of the assets at the time of acquisition. The effect of this adjustment is similar to if the assets were initially booked into the Corix financial system at a gross plant level equal to the fair market value of the assets at the time of acquisition less a CIAC to bring the net book value to the amount of the negotiated purchase price, which in the case of DGE is \$1.

On page 19 of the Application, Corix states:

In instances where assets have been written down for accounting impairment purposes, the assets would continue to be recognized at their historical gross PPE value for the calculation of the Composite Allocator, provided that such assets continue to be used and are useful in the provision of service to customers. Despite the uniqueness surrounding this scenario, this adjustment is necessary for some utilities within CII’s portfolio, including Sonoma Pines Electric whose assets were written down for accounting impairment purposes in 2018. Therefore, an Asset Impairment Adjustment has been performed for Sonoma Pines Electric to account for the fact that the physical assets continue to require ongoing management oversight and stewardship as the utility continues to provide service to customers.

On page 19-20 of the Application, Corix states:

Corix includes an exception to the June 30th cut-off for this 6-month period for Approved Major Capital Projects. Corix will make an adjustment using the most recent projected figures if all of the following apply to the situation:

1. Corix has previously received regulatory approval for the execution of a major capital project, such as a Certificate of Public Convenience and Necessity (“CPCN”);
2. there is reasonable certainty that the major capital project will be completed, and the associated assets will be placed in service between July 1st and December 31st, after the June 30th cut-off date; and
3. there is a significant impact and change to the allocation of corporate costs to the utility and other utilities absent such an adjustment.

On page 20 of the Application, Corix states:

Corix considers that the Approved Major Capital Project adjustment is just and reasonable in cases where the data at June 30th indicates that the project is scheduled to start providing service to customers within the following 6 months.

- 6.1 Please confirm, or otherwise explain, that the acquisition adjustment made to DGE Gross PPE does not affect DGE cost of service prior to the implementation of the proposed Corporate Cost Allocation Methodology.

Corix Response:

Confirmed. The acquisition adjustment is made only during the corporate cost allocation process as proposed.

- 6.2 Please confirm or explain otherwise, that Sonoma Pines Electric's assets continue to provide the same service to customers as it did prior to their asset impairment.

Corix Response:

Confirmed.

- 6.3 Please explain how, after an accounting impairment, Corix will determine that an asset is still useful in the provision of service to customers that will justify using the historical gross PPE in the corporate cost allocation.

Corix Response:

The Asset Impairment Adjustment in the financial books is an accounting matter impacting the financial statements of the company that have been prepared in accordance with Generally Accepted Accounting Principles (GAAP). This has no operational impact to the physical assets at the Sonoma Pines Electric utility. Since the accounting write-down, Corix has continued to operate the utility as before.

- 6.4 Please explain how Corix's proposed treatment for Asset Impairments Adjustments is equitable for all eight BCUC regulated utilities.

Corix Response:

For Sonoma Pines Electric the Asset Impairment Adjustment was a financial accounting matter that did not impact operations or the requirement for corporate services. The assets continue to be used for the benefit of the customers. The purpose of the Corporate Cost Allocation Methodology is to fairly and equitably allocate costs for corporate services to utilities. Sonoma Pines Electric receives the same corporate services both before and after the write-down. There should be no change to the cost allocation to Sonoma Pines Electric because of an accounting matter that has no impact on operations of the utility. If there was no Asset Impairment Adjustment for Sonoma Pines Electric, then all other utilities including the 7 other BCUC regulated utilities would be allocated higher costs to make up for the lower costs allocated to Sonoma Pines Electric due to the impairment adjustment.

- 6.5 Please explain and provide examples of what is considered "reasonable certainty" in reference to: "there is reasonable certainty that the major capital project will be completed, and the associated assets will be placed in service between July 1st and December 31st, after the June 30th cut-off date," listed in item 2 in the above preamble.

Corix Response:

"Reasonably certainty" can be determined using management expertise and judgement based on the project completion timeline, the remaining tasks to completion, and in some cases the requirement for a rate application to coincide with the placement of major capital project assets

into service.

One example is the Burnaby Mountain District Energy Utility (BMDEU). The BCUC approved the construction of a new central energy plant through C-5-17. Management expertise and judgement of the remaining tasks to completion and the project schedule result in a forecasted completion and service commencement in September 2020. If no adjustment is made for Approved Major Capital Projects (as discussed on pages 19 and 20 of the Application) then based on information at June 30, the forecast corporate cost allocations for 2021 would exclude the significant impact of this project that would be providing service to customers for all of 2021. An alternate approach would be to consider the reasonableness of the 2021 allocations to all the other utilities if corporate cost allocations in 2021 excluded the impact of the new central energy plant at the BMDEU.

- 6.6 Please explain and provide examples of what is considered “a significant impact and change” in reference to: “there is a significant impact and change to the allocation of corporate costs to the utility and other utilities absent such an adjustment,” listed in item 3 in the above preamble.

Corix Response:

The significant impact and change may occur in cases such as in commencement of service for a large greenfield utility or a major capital addition to an existing utility where corporate costs allocated to the utility would have an impact to other utilities. In cases of routine incremental capital additions (between July to December) in an existing utility, these capital additions would not have material effects to other utilities with regards to allocation of corporate costs.

One example of a “significant impact and change” would be the BMDEU’s new central energy plant approved by the BCUC through C-5-17. BMDEU’s gross revenue and gross PPE are relatively large in size when compared to other utilities within CII’s portfolios and especially many other Corix utilities regulated by the BCUC. This is evident by comparing the inputs in Rows 20 and 21 of the “Known and Measurable” tab with the gross revenue and gross PPE inputs in the “Canada - INPUT SHEET” of the confidential financial model submitted with the Application.

- 6.6.1 Please include dollar amounts or any other determining criteria.

Corix Response:

Please see the response to Question 6.6 above. Corix does not propose any dollar thresholds.

- 6.7 Please explain how any lengthy delays to the project schedule that occur after the June 30th cutoff date will be handled in the allocation process.

Corix Response:

Corix will use the best information at the time that the annual forecasts are being developed, including information on any lengthy delays.

7.0 Reference: CORPORATE COST ALLOCATION METHODOLOGY
Exhibit B-1, Section 3.6, pp. 21-22; Section 3.7, p. 23; Section 3.8, p.38
Allocators

On page 21 of the Application, Table 8 provides a summary of Corporate Services cost categories and the applicable allocation methodology:

Table 8: Summary of Corporate Services cost categories and allocation methodology

Item	Cost	ALLOCATION METHODOLOGY
1.	Corporate Office and Admin	Composite Allocator
2.	Corporate Finance	Composite Allocator
3.	Human Resources Corporate	Composite Allocator
4.	Information Technology	Composite Allocator
5.	Legal Corporate	Composite Allocator
6.	Corporate Health, Safety and Environment	Composite Allocator
7.	Corporate Communications	Composite Allocator
8.	Continuous Improvement	Composite Allocator
9.	Strategy	Composite Allocator

On page 23 of the Application, Table 10 provides a summary of Contract Shared Services and the applicable allocation methodology:

Table 10: Summary of Contract Shared Services cost categories and allocation methodology

Item	Cost	ALLOCATION METHODOLOGY
1.	Human Resources Support	Headcount
2.	Information Technology Support	Composite Allocator
3.	Accounting/Accounts Payable Support	Composite Allocator
4.	Payroll Support	Composite Allocator
5.	Legal Support	Composite Allocator
6.	External Communications Support	Composite Allocator
7.	Health, Safety and Environment Support	Composite Allocator

On page 24 of the Application, Corix includes Table 11, which provides a summary of WSC Support Services and the applicable allocation methodology:

Table 11: Summary of WSC Support Services cost categories and allocation methodology

Item	Cost	ALLOCATION METHODOLOGY
1.	Chief Shared Services Office	Composite Allocator
2.	Chief Risk Officer (Risk Management)	Composite Allocator
3.	WSC Corporate Finance	Composite Allocator
4.	Human Resources Support	Headcount
5.	Information Technology Support	Headcount
6.	Computer System Cost	Composite Allocator
7.	Billing	No. of customers
8.	Customer Service	Call Volume by operating Business
9.	Health, Safety and Environmental Support	Headcount
10.	External Communications Support	Composite Allocator
11.	Other Indirect Capital, Depreciation and Costs	Composite Allocator

- 7.1 Please add a column to Tables 8, 10 and 11 providing a description of the allocation methodology selected.

Corix Response:

The allocation methodology is explained in sections 3.2 and 3.3 of the Application. Section 3.2 includes a discussion of the functional allocators headcount, number of customers and call volume by business unit. Section 3.3 provides an explanation of the composite allocator and how it is determined.

- 7.2 Please explain why headcount included in Table 10 and Table 11 is a fair and reasonable allocator for Human Resources Support.

Corix Response:

The functional allocators chosen most reasonably reflects the cost causation drivers for their respective costs. Costs associated with Human Resource Support is driven by the number of employees. The direct employee labour and non-labour costs for payroll, employee onboarding, employee training are directly correlated to the number of employees. This results in headcount being a fair and reasonable allocator for Human Resources Support.

- 7.2.1 Were any other allocators considered? If so, why were they not selected?

Corix Response

No other functional allocators were considered since employee headcount was considered to be a fair and reasonable allocator for Human Resources Support.

- 7.2.1.1 If not, why not?

Corix Response:

Please see the response to Question 7.2.1 above.

- 7.2.2 Please explain why headcount was selected as the allocation methodology for Human

Resources Support within Contract Shared Services and WSC Support Services, but a composite allocator was selected as the allocation methodology for Human Resources Corporate within Corporate Services.

Corix Response:

Headcount is used as a functional allocator for Human Resources Support within Contract Shared Services and WSC Support Services as these costs are closely correlated with the number of employees being provided service. Human Resources Corporate provides different services to the utilities than Human Resources Support within Contract Shared Services and WSC Support Services. The relevant descriptions are included in the appendices of the confidential cost allocation manual provided with the Application. Human Resources Corporate address company-wide policies, programs and practices while Human Resources Support within Contract Shared Services and WSC Support Services administers day-to-day HR programs and services. As such, the different types of services being provided warrant different allocators. Please note that HR Support in WSC Support Services are not allocated to utilities regulated by the BCUC.

- 7.3 Please explain why a composite allocator was selected as the allocation methodology for Information Technology Support within Corporate Services and Contract Shared Services, but headcount was selected as the allocation methodology for Information Technology Support within WSC Support Services.

Corix Response:

All costs allocated from WSC Support Services are allocated to BCUC-regulated utilities using the composite allocator. A composite allocator is chosen instead of a functional allocator when there is no clear correlation with a cost causation driver. Information Technology Support within WSC Support Services uses the functional allocator headcount due to the nature of IT services provided by WSC to its subsidiary business units. Please note that Information Technology Support costs in WSC are not allocated to any utility regulated by the BCUC.

- 7.4 If the proposed Corporate Cost Allocation Methodology is approved, for any changes to the methodology in the future (e.g. what costs are included in the methodology and how it is allocated), Corix would seek BCUC approval for such changes. Confirm or otherwise explain.

Corix Response:

Corix is seeking approval of the Cost Allocation Methodology used to allocate corporate costs to Corix utilities regulated by the BCUC.

Corix would apply to the BCUC for the following:

- Gross PPE, Gross Revenue, Headcount – A change from any of these factors to the use of other factors.
- Weighting (33 1/3%) – A change in the weightings for the composite allocator
- Known and Measurable Changes – A new category beyond the three shown below
 - Bargain Acquisition Adjustment;
 - Asset Impairment Adjustment; and
 - Approved Major Capital Projects.
- Use of any additional functional allocator to those listed on page 14 of the Application (Employee headcount, Number of Customers, Call volume by business unit).

Otherwise the methodology would remain the same.

8.0 Reference: CORPORATE COSTS ALLOCATIONS AND THE RELATIONSHIP WITH CORIX UTILITIES

Exhibit B-1, Section 6, p.32
Rate Impact

On page 32 of the Application, Corix states:

Rates for DGE, BMDEU and UBC NDES are set based on their cost of service. For each of these utilities Corix would submit subsequent rate applications, if necessary, for the recovery of the corporate cost allocations and capitalized corporate costs based on the approvals from this Application. Until the time when these rate applications are filed, Corix is unable to show an indicative impact to utility rates as a result of the proposed Corporate Cost Methodology.

- 8.1 Please provide the best possible forecast (e.g. an approximate range or order of magnitude) on the rate impact of the Corporate Cost Allocation Methodology for DGE, Burnaby Mountain District Energy Utility (BMDEU) and University of British Columbia Neighbourhood District Energy System (UBC NDES) for 2021, 2022 and 2023, and explain any caveats.

Corix Response:

The rate impact of the proposed Corporate Cost Allocation Methodology for DGE, BMDEU and UBC NDES should be addressed in a rate application based on the circumstances of each utility at the time of filing. In response to BCUC IR No. 1, Question 10.1, Corix has presented a table comparing the forecast corporate cost allocations for the above utilities that have been previously approved by the BCUC and the indicative corporate cost allocations included with this Application. This provides insight into the impact to the revenue requirement for each of the above utilities. However, customer rates for DGE, BMDEU and UBC NDES take into account other factors. For example, each of these utilities have been approved levelized rates by the BCUC, which is coupled with the use of deferral accounts. Other aspects further complicate the rate impact analysis such as DGE's positive (surplus) balance in its deferral account, which was setup by the previous utility owner to reduce the impact of any rate increases in the near future. In another example, Corix has filed a 2020-2023 rate application for the BMDEU which includes Corporate Cost Allocations based on the methodology proposed in this Application. However, due to addition of the new central energy plant at the BMDEU and its relative size in capital costs, the corporate cost allocations will not have a material impact to customer rates.

9.0 Reference: CORPORATE COST ALLOCATION METHODOLOGY
Exhibit B-1, Section 3.2, p. 15; Section 3.10, p. 26
Use of the Massachusetts Formula in the Industry

On page 26 of the Application, Corix states:

The Composite Allocator is consistent with the Massachusetts Formula. The Massachusetts Formula is a multi-factor model based on gross revenue, capital investment, and direct labour of each affiliate utility to the total. The use of the Massachusetts Formula to allocate corporate or shared services costs is a widely used and accepted method for allocating costs in the utility industry in North America.

On page 15 of the Application, Corix states:

FortisBC Energy Inc. uses a form of the Massachusetts Formula composed of the arithmetical average of (1) operating revenue, (2) payroll, and (3) average net book value of capital assets plus inventories approved by the BCUC.

- 9.1 Please discuss how Corix's composite allocator is consistent with the Massachusetts Formula

and please explain any differences.

Corix Response:

As stated on page 15 of the application, “The Massachusetts Formula is a multi-factor model based on gross revenue, capital investment, and direct labour of each affiliate utility to the total.” The use of the Massachusetts Formula is commonly utilized in the utility industry in North America with equal weighting of the three factors. Corix’s composite allocation methodology is consistent with the Massachusetts Formula since it utilizes three factors it includes revenue, capital investment (plant), and labour (headcount).

9.2 Please explain the differences between the composite allocators chosen by Corix to the allocators used by FortisBC Inc. as indicated on page 15 of the Application.

Corix Response:

The table below shows the three equally weighted factors used by Corix and FortisBC Energy Inc.

Corix	FortisBC
Gross Revenue	Operating Revenue
Gross Property, Plant & Equipment	Average net book value of capital assets plus inventories
Headcount	Payroll

Please see the response to Question 4.2.1 for a discussion that highlights the differences between (i) Gross Revenue and Operating Revenue; and (ii) Headcount and payroll (salaries).

Gross PPE and Average NBV plus inventories are two different measures of plant assets. There is little difference between the two for a relative new utility. However, large differences can be observed between an older utility with mostly depreciated assets and a new utility with little accumulated depreciation. Average NBV of capital assets decreases over time with depreciation, thus reducing the allocation to that utility if all else remains the same.

**10.0 Reference: INDICATIVE COST ALLOCATIONS
Exhibit B-1, Section 4, p. 28
Indicative Costs and Percentages**

On page 28 of the Application, Corix states:

Table 12 below provides the current indicative forecast corporate cost allocations to each of the utilities regulated by the BCUC. The actual allocation percentages and corporate cost allocations to each utility will vary each year depending on the size of CII’s eligible corporate cost pool, the number of utilities in CII’s portfolio and the gross PPE, revenue and headcount associated with each of the utilities in CII’s portfolio.

Table 12: Indicative Corporate Cost Allocations

Item	Utility	INDICATIVE CORPORATE COST ALLOCATIONS (CAD\$)		
		2020F	2021F	2022F
1.	Dockside Green - Energy	\$ 76,787	\$ 78,868	\$ 68,324
2.	UBC	231,037	213,183	183,179
3.	BMDEU - UniverCity	202,998	299,636	364,790
4.	BMDEU - SFU	--	142,601	449,197
5.	Panorama - Propane Storage ¹²	38,894	35,504	34,835
6.	Panorama - Propane Distribution	40,714	37,543	37,030
7.	Sun Rivers - Electric	156,182	141,279	138,131
8.	Sun Rivers - Gas	23,845	21,396	20,804
9.	Sonoma Pines - Electric	49,284	44,216	42,735
10.	Sonoma Pines - Gas	19,721	17,863	17,370
	Subtotal	839,462	1,032,089	1,356,396
	Total for BCUC-Regulated Utilities <i>(excludes Panorama – Propane Storage)</i>	\$ 800,568	\$ 996,585	\$ 1,321,561

On page 33 of the Application, Corix states:

Therefore, the customer rates at SP Electric, SP Gas, SR Electric and SR Gas are not based on the cost to serve customers. The customer rates at these four utilities are based on BC Hydro and FEI’s rates, regardless of the costs incurred by Corix at each of these utilities. Until such time that the BCUC approves a cost of service methodology for setting rates for SR and SP utilities, the proposed Corporate Cost Allocation Methodology will have no impact to customer rates for these four utilities.

Panorama Propane’s commodity rates are set as a direct flow-through cost to customers and Corix earns no return on these commodity rates. While Corix has the ability to set Panorama Propane’s delivery rates based on a cost of service methodology, these rates are not currently set based on the cost of service. Therefore, until such time that the BCUC approves delivery rates for Panorama Propane that are based on its cost of service, the proposed Corporate Cost Allocation Methodology will have no impact to customer rates at Panorama Propane.

- 10.1 For each of the eight BCUC regulated utilities, please compare the indicative costs outlined in Table 12 with the existing means of cost allocation, for the 2020, 2021 and 2022 forecasted years.

Corix Response:

As Sun Rivers, Sonoma Pines and Panorama Propane do not set rates based on their cost of service, Corix does not have indicative forecasts for 2020, 2021 and 2022 for corporate allocations to these utilities. Please refer to section 6 of the Application for a detailed explanation of the process of setting rates for each of Corix’s utilities regulated by the BCUC.

The table below compares the indicative corporate cost forecasts previously approved for DGE, UBC NDES and UniverCity NUS utilities.

Utility Allocations	FY2020	FY2021	FY2022
Dockside Green Energy			
Approved through Order G-248-19 with Reasons, addressing the 2019 DGE Rate App.	80,000	81,600	83,232
Indicative allocation included in CAM Allocation, filed in 2020	76,787	78,868	68,324
Difference	\$ (3,213)	\$ (2,732)	\$ (14,908)
UBC NDES			
Approved through G-84-15, addressing the 2015 UBC NDES Rate App.	118,247	120,612	123,024
Indicative allocation included in CAM Allocation, filed in 2020	231,037	213,183	183,179
Difference	\$ 112,790	\$ 92,571	\$ 60,155
BMDEU - UniverCity			
Approved through G-48-16A, addressing the 2015 UniverCity NUS Rate App. (a)	55,756	56,871	58,009
Indicative rates presented in BMDEU 2017 CPCN, approved through C-5-17 (b)	54,663	55,756	56,871
Indicative allocation included in CAM Allocation, filed in 2020 (c)	202,998	299,636	364,790
Difference (c-b)	\$ 148,336	\$ 243,880	\$ 307,919
BMDEU - SFU (New Customer)			
Indicative rates presented in BMDEU 2017 CPCN, approved through C-5-17	42,929	43,787	44,663
Indicative allocation included in CAM Allocation, filed in 2020	0	142,601	449,197
Difference	\$ (42,929)	\$ 98,814	\$ 404,533

Please refer to Corix’s response to question 3.3.2 for a discussion of the challenges of comparing indicative corporate cost allocations based on the proposed methodology with corporate cost forecasts that were developed while CWP’s revenue formed the majority of CII’s revenue. Forecasts for UBC and the BMDEU (UniverCity and SFU Biomass) were filed by Corix prior to the sale of CWP and the restructuring of CII’s business. Therefore, indicative allocations that were presented to the BCUC in 2015 and 2017 are no longer appropriate. Corix’s most recent rate application to the BCUC for rates for the BMDEU from 2020-2023 incorporate the corporate cost allocations based on the proposed methodology.

10.1.1 Please explain how this new cost allocation methodology is fair and reasonable for the utilities and their respective ratepayers in comparison to how costs were previously allocated.

Corix Response:

The new cost allocation methodology is fair and reasonable since it includes three equally weighted factors consistent with the industry-accepted Massachusetts Formula that address the circumstances of CII. In addition, the proposed methodology more fairly distributes costs for special circumstances encountered in the known and measurable changes adjustments. Previously, Corix was primarily driven by a competitive operation where CWP formed the majority of the business. Now, CII without CWP is a much different company where CII has transformed itself to a pure play utility.

10.2 Please explain how these indicative costs will affect the financial statements of Sonoma Pines, Sun River and Panorama Propane.

Corix Response:

These indicative costs for Sonoma Pines, Sun Rivers, and Panorama Propane would be included as expenses (operating and maintenance costs) for these utilities. The actual costs to these utilities will be based on the actual allocations for each respective year.

10.2.1 How do they compare to what was previously charged to these utilities?

Corix Response:

Please refer to Corix's response to BCOAPO IR No. 1, Question 2.1.

10.2.2 Please discuss whether the new cost allocations create any risks with respect to the financial viability of these utilities?

Corix Response:

The new cost allocations do not change or create any risks with respect to the financial viability of these utilities as their rates are not charged based on the cost of service. The business risks of these utilities remain unchanged.

**11.0 Reference: COSTS ASSOCIATED WITH THIS APPLICATION
Exhibit B-1, Section 7, pp. 34-35, Regulatory Filing Checklist, Appendix B, pp. 1-2
Deferral Accounts**

On page 34 of the Application, Corix states:

Corix proposes to capture external regulatory costs and internal incremental application expenses associated with the regulatory review of this application in a deferral account for Corix Multi-Utility Services Inc... After all costs are accounted for in the CMUS Deferral Account, Corix proposes to then allocate the balance in the CMUS Deferral Account to each of the eight BCUC-regulated utilities using the Composite Allocator. Each utility would then require its own deferral account for costs associated with this Application...Corix proposes to make an application with the BCUC for recovery through a rate rider if the allocated deferral costs are significant for a utility:

- its revenue requirement and rate applications are infrequent; or
- its utility rates are pegged to another utility

On page 1 of Appendix B of the Regulatory Filing Checklist, Corix states:

- Propose a term (i.e. length of time) that the regulatory account should be approved for and explain why that term is appropriate.
- Identify any alternate treatments that were considered, including an overview of what the accounting treatment would be in the absence of approval of the request to establish a regulatory account, and explain why these alternate treatments may not be appropriate

On page 2 of Appendix B of the Regulatory Filing Checklist, Corix states:

- Propose a mechanism for recovery (e.g. how the balance in the regulatory account will be recovered or refunded to ratepayers) and explain why it is appropriate.
- Propose a timeline for recovery (e.g. the period over which the regulatory account balance is either collected or refunded; also referred to as the amortization period) and explain why it is appropriate.
- Propose a carrying cost for the balance in the regulatory account and explain why it is appropriate.

11.1 Please indicate how Corix has dealt with external regulatory costs and internal incremental application expenses associated with the regulatory review of an application in the past.

Corix Response:

Corix notes that the above preamble incorrectly refers to Corix as providing statements in the BCUC Regulatory Account Filing Checklist. This is a document issued by the BCUC.

Corix's proposal to address regulatory costs depend on the nature of the Application and the circumstances surrounding the specific utility. Typically, Corix's regulatory costs are associated with a CPCN application or a rate application to address primarily capital costs. In these cases, regulatory costs and application expenses are capitalized.

A more recent and similar example is Corix's recent application to the BCUC for its COVID-19 Deferral Account for all BCUC-Regulated utilities. The BCUC by Order G-126-20 approved a deferral account to include incremental costs related to the COVID-19 pandemic. These incremental costs included external regulatory costs such as BCUC hearing costs and participant assistance/cost awards. The approved deferral account also includes internal incremental application expenses such as labour overtime. The request for a deferral account in this Application is comparable to the request in the COVID-19 application as both applications address multiple utilities within the Corix portfolio and neither applications are associated with an existing revenue stream.

- 11.2 Please explain why Corix requires deferral accounts to manage costs associated with the regulatory review of the Application.

Corix Response:

This application does not result in any incremental revenue with which to recover costs and therefore a deferral account is required to capture the regulatory costs associated with the review of this Application for future recovery from ratepayers.

- 11.3 Please identify any alternatives to the deferral accounts that were considered to manage these costs and explain why these alternatives may not be appropriate.

Corix Response:

Since many of the 8 utilities regulated by the BCUC are not cost-based or have not recently made a revenue requirements application, the deferral account creation is the most appropriate option. If a deferral account were not set up, then one option could be to have each utility apply in advance for recovery from ratepayers either through an fixed-charge rate rider or if the timing is appropriate through the revenue requirements application.

- 11.4 For the proposed Corix deferral account and the proposed deferral accounts for each of the eight BCUC regulated utilities, please answer and provide justification for the following:

- The length of time that the deferral account should be approved;
- The proposed mechanism for recovery;
- A timeline for recovery (e.g. the period over which the regulatory account balance is either collected or refunded; also referred to as the amortization period);
- The carrying cost for the balance in the regulatory account;
- How costs will be managed if the proposed deferral account is not approved by the BCUC; and
- The subsequent approvals needed before these costs are included in rates

Corix Response:

Corix has presented its considerations for the future treatment of these accounts in Section 7 on

pages 34 and 35 of the Application. Corix stated:

“Corix’s utilities regulated by the BCUC have different regulatory constructs, which were described in Section 6. Where a utility will be making a revenue requirements application within two years, Corix will address the recovery of the deferral account in that application.

Corix proposes to make an application with the BCUC for recovery through a rate rider if the allocated deferral costs are significant for a utility and;

- its revenue requirement and rate applications are infrequent; or
- its utility rates are pegged to another utility.

If the allocated amount is small for a particular utility, Corix may instead add it to an existing revenue deficiency deferral account balance where applicable or flow it through as an expense in the year and not seek recovery from ratepayers.

If Corix is able to gain efficiencies and group the utility’s deferral accounts into one application for recovery it will do so. Corix recognizes that for these small utilities initiating a regulatory application for the sole purpose of recovery of the deferral accounts may be more costly than the amount to be recovered. Where Corix chooses to clear the deferral account by expensing the amount, the financial impact would be to the account of the shareholder and no recovery from customers would be realized.”

The length of time is not applicable to costs associated with this Application as Corix does not expect to incur ongoing costs on an annual basis.

The proposed mechanisms are discussed in the quote above and could include a rate rider, addition to an existing revenue deficiency deferral account, or flowing the cost through as an expense.

The amortization period depends on the mechanism used, the total dollar amount and the impact of its recovery to ratepayers.

The carrying cost depends on the mechanism used. For example, if the amount is added to an existing revenue deficiency deferral account then the carrying cost would be equal to the BCUC-approved carrying cost for that deferral account.

If the proposed deferral account is not approved by the BCUC then the actual costs would be included in the O&M costs for each utility for the year, thus have an unfavourable impact on profitability.

Corix would need BCUC approval pursuant to Sections 58-60 of the *Utilities Commission Act* to recover the actual costs associated with this Application from customers based on the recovery methodology proposed at that time.

As costs associated with this application depend on intervener participation and the regulatory process, Corix is unable to anticipate the final amount at this time.

11.5 Please discuss how regulatory costs will impact the non-cost of service utilities.

Corix Response:

The regulatory costs impact the non-cost of service utilities by having costs assigned to them. If costs are not recovered separately through a rate rider, the regulatory costs would be included in the O&M costs for the year, thus have an unfavourable impact on profitability.

11.6 Please explain why Corix proposes to allocate regulatory costs using the composite allocator.

Corix Response:

Corix submits that utilizing a composite allocator for regulatory costs is simple and fair and consistent with approach of the Application.

11.6.1 Please provide a hypothetical example for the composite allocation of these costs.

Corix Response:

In responding to this question Corix assumes that all requests in the Application are approved, external regulatory costs and internal incremental application expenses total \$20,000, and that these costs are recovered in 2021 (as opposed to 2020 or 2022). Corix would use the FY 2021 percentage allocations in Table 13 in the Application to determine the allocation for the costs associated with this Application.

Utilities	% of Total CII Corp. Costs FY2021	% of Total BCUC-Regulated Utilities FY2021	Allocation of Costs Associated with this Application (\$)
Dockside Green Energy	0.17%	7.9%	1,583
UBC	0.45%	21.4%	4,278
SFU UniverCity	0.63%	30.1%	6,013
SFU Biomass	0.30%	14.3%	2,862
Panorama Propane	0.08%	3.8%	753
Sun Rivers - Electric	0.30%	14.2%	2,835
Sun Rivers - Gas	0.04%	2.1%	429
Sonoma Pines - Electric	0.09%	4.4%	887
Sonoma Pines - Gas	0.04%	1.8%	358
Total (BCUC-Regulated)	2.09%	100.0%	\$ 20,000