G F Duffy IR Questions #2 to Shannon Estates Utility Limited

September 18th 2020

1.0 General Questions

1.1 The Commission established a 4% debt interest rate when it first adopted and authorized the use of the Generic Cost of Capital (GCOC) model back in 2014/2015. The Commission further instructed NDES to use the 4% number when it filed its rate application in late 2015. Why did SEUL not use 4% when developing the current Application?

1.2 What was the actual interest used by QMC/SETES when calculating the credit invoices for customers back in April 2017? Can you confirm that it was 1.65% as advised by Mr.Sherk, the QMC Account Manager, at that time. If it was different, what was the number? The credit invoice issued at the time, back in April 2017, merely showed a lump sum with no explanation.

1.3 With respect to the DYN Commissioning study you have indicated that these costs were recorded in the Shannon Estates development company. For clarity, does this mean that they are nowhere to be found in the Financial Model? If these costs are included in the model can you advise where I can find them?

1.4 Has SEUL developed a policy regarding where costs associated with "customer complaints" are charged? Are there clear distinctions for reporting SEUL and customer responsibility for any such charges? When a customer complaint has been shown to be valid does SEUL absorb any charges involved in investigating such a customer complaint?

2.0 Annual Revenue

Exhibit B-1 Section 5.3; Duffy IR 1.2.2 t0 2.5

2.1 What additional expected revenue would be added to the expected revenue line in fiscal year ending January 31st 2022 if the assumed vacancy rate was raised to 85 % for that year? Based on the data presented in the documents I have estimated this number to be approximately $75,000. Is this a reasonable estimate? If this is inaccurate, what is a reasonable estimate?

2.2 Since Wall Financial Corporation (WFC) is the beneficial owner of both SEUL and the Rental Building that contains 215 units and represents over 20% of the energy load, and 30% of the units of the whole development, is it not reasonable for SEUL to provide some transparency to its customers and ratepayers regarding amounts charged by SEUL for the energy consumed and invoiced to the Rental Building and Mansion common areas? To hide behind privacy concerns and suggest that "SEUL does not disclose the energy consumption of or amounts billed to individual customers" does nothing to answer legitimate ratepayer concerns. SEUL and the Rental Building are not dealing at arms length. The landlord (WFC) is hardly an "individual customer", and showing aggregate numbers for the Rental Building and Mansion is not breaching privacy. How do the customers/ratepayers get transparency on this issue?

So again, I will ask that SEUL answer the 4 questions that I posed in round 1 of the IR's.

2.2a How much annual heating revenue is attributed to and paid by the landlord (WFC) for the common area in the Rental Building? When did QMC commence monthly invoicing for this service?

2.2b How much annual heating and cooling revenue is attributed and paid by the landlord (WFC) for the common area in the Mansion? When did QMC commence invoicing for this service?

2.2c What are the costs and associated revenues incurred to heat the Mansion pool in Phase 1 for calendar year 2019? Note that the answer to BCUC IR 2.10 indicated that the swimming pools (2 pools) used 276,802 kwh and represented 6% of the energy load/consumption for that year.

2.2d What is the annual cost to the landlord for DHW services provide to the Rental Building units? Note that the landlord does not bill the unit renters separately for DHW as it is included in the monthly rent amount.

To the extent that meters were not installed in the above noted common area by May 2016, the start-up pf the invoicing for SETES/SEUL – given the phased start up of the development - is it correct to assume that SEUL has understated its revenues and as a result overstated its operating losses up to January 31st 2020?

3.0 **Reference: Deficiency/Surplus Deferral Account**
Exhibit B-1, Section 6.2

Given that the life cycle of the major equipment components - other than the control system and modules - run for out beyond twenty years I suggest that we need to look at a full 20-year modelling of the revenues and costs. After the initial 20-year period it is forecast that the major equipment components will begin to come to the end of their useful life and need replacement at that time. Running a 10-year case ignores the significant residual value of the equipment in the 11 to 20-year timeframe.

3.1 What is the dollar amount in the Deficiency/Surplus deferral Account in year 20 when merely extending and including the revenue stream escalating at 2.5%? There are no changes in any other parameter.

I also understand that the model requires an iterative approach to solve for the unit variable energy number, while leaving the fixed component untouched. I do not necessarily agree with SEUL's opinion that this recalculation is not sufficiently accurate for the Commission to rely on in making its decision on this application. How did SEUL come up with the $0.1295 per kwh number, if not using this model to calculate it?

4.0 Reference: Regulatory Deferral Account (RDA)
Exhibit B-1, Section 6.3, BCUC Decision G-190-17

Why a 10-year recovery period? Back in late 2017 SWCRA (now SEUL) stated – page 40 of BCUC Decision - that it preferred a 60 month period to recover the balance in the RDA and that it opposed anything longer as "it will result in increased financing costs which will need to be recovered from ratepayers, and a long recovery period will result in a larger outstanding deficit remaining on SETES financial ledger for longer, which will negatively impact the ability of the utility to independently source low interest loans". Now SEUL argues for a 10-year recovery period. I suggest that given the interest is accruing at SEUL's deemed WACC, the ratepayers are better served with a 5-year recovery period.

4.1 What are the amounts in the base case model with a 10-year versus a 5-year recovery period? The amounts in question being the deficiency/surplus amounts in year 10 in each scenario.

5.0 Legal and Professional Fee Charges

5.1 Why has SEUL added $13,000 to the legal and professional fees in relation to a customer inquiry and complaint to

the BCUC. In principle, why should any costs be incurred as a result of a valid customer complaint be charged to the ratepayer base. Surely the utility should bear such costs and not be allowed to add such costs into the ratepayer base.

5.2a Was the complaint noted in this instance proven to be justified? Was is shown that SEUL/QMC were at fault?

5.2 Customer Complaint Charges

5.3a Provide breakdown a of the $13,000 charges related to the DHW customer complaint. I am the customer in question and waive any concerns regarding privacy. What were the costs associated with the December 2017 DYN report prepared at the request of Mr. Grant Myles of WFC by Mr. Joseph Chow? What costs were associated with the preparation of Mr. George Steeves letter on January 2018 relating to the customer complaint? Were there any legal costs charged to answer my complaint?

5.3b What was the final outcome of my complaint? Was my complaint shown to be justified and what actions were taken subsequently to correct the zero error in the QMC interpretation of the measured DHW data?

5.0 SEUL/SETES Re-Organization costs.

In SETES letter to the Commission dated May 4th 2018 – Timing of the Proposed Transfer - regarding the proposed corporate re-organization SETES stated that" no additional costs are expected as a result of the transfer of SETES to SEUL that would increase rates in the upcoming rates application as the transfer is simply an internal reorganization of the assets and operation of SETES". With this undertaking, why has SEUL now added $12,000 in 2019 to the administrative cost line in relation to establishing a right of way to the solar panels, and why has SEUL added $27,000 to the administrative cost line for the BCUC hearing costs. In addition, SEUL charged $16,000 for legal fees in 2020 related to the corporate reorganization to administrative costs. These costs have nothing to do with the operation of the utility nor have the rate payers any say with these costs. Surely, these costs are exclusive to Wall Financial Corporation (WFC) and or SEUL and should not be allowed to transfer into a ratepayer base. It was WFC that solely made this decision to re-organize.

5.1 Has SEUL overlooked its earlier communication and the undertaking outlined in the May 4th 2018 letter?

6.0 Metering Charge
Reference; BCUC IR 1.4.1

6.1 Since the QMC invoices commenced in May 2017, how many customer complaints have been registered regarding the $9.50 charge which shows up as a one line item on each customer invoice?

6.2 The proposed change to include and imbed the metering charge into the fixed levy amount will hide this from the customer and the customer will see this escalate as the fixed levy increases annually. In your response to the BCUC request in 4.1 you indicate that the implied charge will be $0.008 per square foot per month. This means that the actual charge will vary based on the size of each unit. How is this equitable when the service involves the same automatic monthly meter reading and invoicing for every unit/customer? This activity is not unit size dependent; the costs are the same and invariant to unit size.

How does SEUL rationalize charging different monthly amounts to each unit when the actual costs incurred are the same? Proposed imbedded charges per month are as follows – 750 sq.ft. unit is $6.00, 1500 sq.ft. unit is $12.00 and 2500 sq.ft. unit is $20.00.

7.0 Swimming Pool in Phase 1
Reference: BCUC IR 1.2.10

SEUL states that the strata councils can influence the heating costs of the swimming pools. Can you confirm that the DHW heating supply to the Mansion Pool was only closed off on one occasion, on November 1st 2019, since Phase 1 was first occupied back in January 2016? This was despite the fact that strata requested that the pool be closed for a 6-month period each year. DHW sourced

heating was applied without interruption from early 2016 until November 1st 2019: a significant amount of energy was wasted during this period.

When was a meter installed and when did QMC commence issuing invoices to the landlord for the Phase 1 pool heating costs?

8.0 Annual Reporting

Reference Strata IR 19.1

SEUL indicates that it files Financial Statements with the Commission on an annual basis.

Why does SEUL not release these annual statements to its customers as Fortis and BC Hydro do?

What is the process for the customers/ratepayers to gain access to this information? Is transparency for the consumer such a difficult request?

Would SEUL consider initiating a SEUL webpage to facilitate customer communication?

8.0 Financial Model

Reference Tab IR 20.1.6in the Master Sheet

In order to better understand how the Financial Model works I am requesting that SEUL run a number of different cases. These are defined below. I am adding one incremental change sequentially to each case.

8.1 Taking the SEUL model as presented in the Application (Base Case), what is the Internal rate of return (IRR) for an unlevered (no debt), when the model has revenue escalated at 2.5% per annum, out for 10 years? This *incorrectly* assumes that there is no residual value in the assets after year 10.

8.2 Again running the Base Case out for 20 years, and removing the extra costs associated ($210k) with a new BCUC application in year 11, what is the balance in the deficiency/surplus account in year 20? This is Base Case prime. When I run this case, the balance in the deficiency/surplus account in year 20 is negative $ 3,483,749.

8.3 Taking Base case prime now add in one extra revenue line to accommodate “vacancy revenue”. Add in $75k in year 2, $150k in year 3 and then escalate out at 2.5% trough year 20. This assumes that occupancy will rise to 85% by year 2, and to 100% by year 3. What is the resultant balance in

the deficiency/surplus account in year 20? When I run this case the balance in the deficiency/surplus account in year 20 is negative $5,759,940

8.4 Taking case 8.3 now change the income tax rate to 27% across all 20 years. What is the balance in the deficiency/surplus account in year 20? When I run the numbers the balance in the deficiency /surplus account is negative $6,453,637.

8.5 One last change: enter $10,000 for legal and professional fee costs in year 1 and escalate at 2 % for 20 years. I question the future assumed $30,000 annual amount for legal and professional fees on the basis that prior year amounts of $55,000 for the corporate re0rganization should not have been allowed into the rate base. What is the value in the deficiency/surplus account in year 20? What is the IRR unlevered for the final case?

My numbers for this last case show negative $6,802,025 as the balance in the deficiency/surplus account in year 20. Taking this number and solving for the unit energy charge that brings the balance back to "zero" yields $0.062 per kwh. What unit energy number does your solution show under these assumptions.

9.0 Additional question to Duffy IR 1.7.1

What is the forecast accumulated depreciation, and the forecast accumulated cash flow losses for SEUL by January 31st 2021? What is the expected "non-capital losses" that will be available to carry forward against future taxes?

To the extent that revenues are understated in the 4-year start-up phases due to delays, in finalizing piping/valve hook-ups, with meter installations and QMC invoicing administration, is it correct to assume that the "expected $3.5 million loss" is probably somewhat overstated? Further, are the corporate reorganization costs of $55,000 incorrectly charged against the accumulated expected loss?