CREATIVENERGY

17 February 2021

Via E-filing

Mr. Patrick Wruck
Commission Secretary
BC Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Mr. Wruck:

Re: British Columbia Utilities Commission (BCUC, Commission)
Creative Energy Vancouver Platforms Inc. (Creative Energy)
Northeast False Creek (NEFC) Rate Proposal and 2021 Revenue Requirements Application (RRA)(Application)

Creative Energy writes to file its response to BCUC Information Request No. 1 in the above noted proceeding, in accordance with Order G-31-21. We do not have any final submissions to file concurrent to the attached responses.

Please note that we have filed the response to BCUC IR 3.3 confidentially under separate cover. The response provides supporting information into commercially sensitive and privately negotiated terms in respect of Creative Energy financing. We therefore request the Commission's acceptance to keep this information confidential due to its commercially sensitive nature.

Please note also that through the responses to BCUC IRs 2.1.1 and 2.1.2 we explain that the specific requested salary information, and the variance overall in the formulaic allocation of such costs as between 2020 and 2021 (~$3,000), may be an overall immaterial amount in respect of the 2021 NEFC revenue requirements and therefore likely of limited value also in particular regard to our request for approval of the NEFC Rate Proposal. We will be able to file a supplemental confidential response with the requested salary information on a timely basis if the Commission considers that the request remains necessary overall.

Sincerely,

Rob Gorter
Director, Regulatory Affairs and Customer Relations

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CREATIVE ENERGY RESPONSE TO BCUC IR NO. 1

1.0 Reference: BACKGROUND
Exhibit B-1, Application, p. 2
Long-term plans and rate design

On page 2 of Creative Energy Vancouver Platforms Inc.'s (Creative Energy) Northeast False Creek (NEFC) Rate Proposal and 2021 Revenue Requirements Application (RRA) (Application), Creative Energy submits:

> …as reviewed in the 2019-2020 RRA and that which remains the current status, the necessary arrangements with the City have not been made yet for Creative Energy to serve that load and are subject to the City's processes. Therefore, it remains the case that Creative Energy does not have a consolidated forecast of load growth in the NEFC neighbourhood and the timing of any required incremental capacity investments to support that load growth is also uncertain.
>
> Upon confirmation with the City of a long-term plan for connecting new load in the NEFC and with a new rate design in place, Creative Energy can renew a current and long-term plan for levelized rates that will reflect a fair allocation of costs between current and future customers and recover the RDDA over a reasonable time frame.

1.1 Please provide an update on the status of any long-term plans for connecting new load in the NEFC.

RESPONSE

The City of Vancouver has notified Creative Energy of a pending Request for Proposals, to be issued in April 2021, for energy service for new developments in Northeast False Creek. Creative Energy has no other updates of note at this time.

2.0 Reference: OPERATING AND MAINTENANCE EXPENSES
Exhibit B-1, pp. 6, 8; Appendix C, Schedule 14; Creative Energy Core Steam System 2021 RRA, Exhibit B-1, p. 25
Administrative and General expenses

Administrative and General expenses are $113,538 for 2020 Approved, $110,596 for 2020 Projected and $131,201 2021 Test Year. On page 6 of the Application, Creative Energy submits:

> Administrative and General costs, including related salaries and benefits, office supplies and general legal and audit fees are allocated using the Commission-approved Massachusetts formula. The 2021 allocation is calculated using the approved 3-factor methodology using projected 2021 allocable costs across all systems.

On page 25 of Exhibit B-1 in the Creative Energy Core Steam System 2021 RRA, Creative Energy submits:

The increase in 2021 from the 2020 Approved level primarily relates to building the complement of staff and direct resource allocation that is necessary to sustain and grow the Core Steam system customer base and to maintain safe and reliable service.

2.1 Please provide the underlying total Administrative and General Salaries expense and the Employee Benefits expense for 2020 Approved, 2020 Actual and 2021 Test Year, prior to the allocation to the Core system, NEFC and other entities.

RESPONSE

The total Administrative and General Salaries expense and the Employee Benefits expense for Creative Energy Vancouver is provided below. Note that one of the new roles directly charges hours to the Core system and is not part of the cost allocated via the Massachusetts Formula. A comparison of the 2020 Approved, 2020 Actual and 2021 Test Year unallocated total costs may not be an especially informative way of understanding the NEFC cost of service, as we explain further in the responses to BCUC IRs 2.1.1 and 2.1.2.

	2020 Approved	2020 Actual (estimate as actuals are not yet final)	2021 Test Year
Administrative and General Salaries	$810,822	$822,206	$1,157,585
Employee Benefits	$105,032	$97,691	$154,987
Total	$915,854	$919,897	$1,312,572

2.1.1 Please explain the reason for the increase in each of the 2021 Test Year Administrative and General Salaries expense and the Employee Benefits expense including any new positions and the timing and salaries of those new positions.

RESPONSE

The increase in total unallocated costs relates to the planned addition of the following positions, which are partially allocated to Creative Energy Vancouver as indicated below and as reported in Table 4 of the Core System 2021 RRA.

1. **Accountant (80 percent expensed to Creative Energy Vancouver)**
2. **Systems Engineer (50 percent expensed to Creative Energy Vancouver)**
3. **Director, Engineering (8 percent expensed to Creative Energy Vancouver)**
4. **Director, Partnerships (100 percent expensed to Creative Energy Vancouver)**

Under the Massachusetts formula, 7.7 percent[1] of the net expensed budgeted salary for the first three roles listed above is allocated to the NEFC. We note that only a portion of the salaries are allocated to Creative Energy Vancouver with the remainder being allocated to capital projects and Creative Energy Developments LP. Creative Energy is able to provide the salary information in a supplemental confidential response on a timely basis if the Commission considers that the information is specifically warranted in view of these responses overall. Please refer also to the response to BCUC IR 2.1.2 for further information.

The Director, Partnerships role, which is the main driver of the increase in salaries, will be directly

[1] **Refer to Table 5 of the Core Steam 2021 RRA.**

charged 100 percent of the cost to the Core system and has no impact on the NEFC RRA outside of the impact of 2021 steam rates, which is the subject of review in the Core Steam 2021 RRA.

Also driving the increase in unallocated salaries and benefits are wage increases. These increases represent approximately $40,000.

2.1.2 Please discuss the benefits of the 2021 Test Year allocated Administrative and General Salaries expense and the Employee Benefits expense for NEFC and its ratepayers.

RESPONSE

The increase in overall salaries is not a separately identified benefit to the NEFC system or its ratepayers that can be tracked in relation to staff roles and time. Costs are allocated in a formulaic manner using the Massachusetts formula, which in part recognizes and avoids the administrative complexity to specifically allocate costs in relation to such factors.

A means to consider the impact on NEFC in this context is to separately view the total salaries and benefits that are allocated via the Massachusetts formula and those that are allocated directly. The total of salaries and benefits allocated under the Massachusetts formula is $1,013,081 in 2021, which compares to $915,854 approved in 2020. The increase in this amount is the aforementioned salary increases and new roles. As this is allocated using the Massachusetts formula the percent allocated is also relevant to NEFC ratepayers and not just the total cost. Some of the costs being added are step costs required to service the growing system. As such, the addition to the total cost will be partially offset by adding new energy systems to the Massachusetts allocation. In 2021, the Massachusetts allocation decreased from 8.2 percent in 2020 to 7.7 percent in 2021. Using these figures, the Massachusetts formula allocated cost for salaries to NEFC in 2020 was $75,100 in 2020 compared to $78,007 in 2021. This is an increase of 3.8 percent.

The majority of the increase in costs to NEFC is not related to the Massachusetts formula allocation, but relates rather to costs that are budgeted to be directly charged to NEFC system. Specifically, Creative Energy has included $13,000 of management time in the NEFC application as an estimate of the cost to prepare the 2021 NEFC rate design application.

2.2 Please explain the reason for the increase in Insurance expense in 2021 Test Year as compared to 2020 Projected.

RESPONSE

The 2020 projected cost is estimated to increase $270, or 2.6 percent. Insurance is renewed each year in July and premium increases are uncertain until then. This increase is net of the decrease in the Massachusetts formula percentage allocation (8.2 percent to 7.7 percent) described in the response to BCUC IR 2.1.2. Insurance premiums have historically increased at a rate higher than inflation and this trend is expected to continue due to insurance market conditions in 2021.

2.2.1 Please discuss the benefits of the 2021 Test Year allocated Insurance Expense for NEFC and its ratepayers.

RESPONSE

Further to the response to BCUC IR 2.1.2, a portion of insurance expense is also allocated using a formulaic approach and the same limitation applies to align this allocated expense to a separate identified benefit.

Please note that $5,000 of the property insurance component of the expense is directly charged to NEFC as it is directly driven by the replacement value and cost of business interruption of NEFC's assets. This variance between the 2020 approved and 2021 Test Year amounts is explained by the fact that the 2020 RRA missed reporting on this property insurance amount.

On page 8 of the Application, Creative Energy submits:

> We note also that while NEFC rates have been reviewed jointly with a Core RRA filing in prior proceedings given that steam rates are an input to the NEFC RRA, a joint review is not necessarily required due to the mechanism of the approved NEFC Variance Deferral Account that captures differences between forecast and actual steam rates.

2.3 Please identify any mechanisms considered by Creative Energy to account for variances in those 2021 Test Year operation and maintenance (O&M) costs not captured in the Variance Deferral Account, resulting from determinations regarding costs allocated to NEFC in the Creative Energy Core Steam System 2021 RRA proceeding. If no mechanisms were considered, please explain why not.

RESPONSE

Creative Energy confirms that not all allocated costs are covered by the Variance Deferral Account. As reviewed above, certain O&M costs are allocated via the Massachusetts formula and will not be subject to deferral treatment should any underlying factors in the Massachusetts formula change during Core Steam 2021 RRA proceeding, which may then consequently change the allocation ratio to the NEFC. The Massachusetts Formula allows for the simple and transparent allocation of costs for the purpose of rate setting and it is generally accepted that the formulaic allocation ratios may vary over time and that cost allocations may be reset in the normal course of revenue requirement filings. Creative Energy may expect that on the balance of $131,201, any impacts to the Massachusetts formula allocation ratio that stems from the Core Steam 2021 RRA proceeding are unlikely to be material in any case, and we therefore consider that no other mechanism is necessary for the purpose of setting rates.

3.0 Reference: DEFERRAL ACCOUNTS
Exhibit B-1, p. 11; Appendix C, Schedule 12
Interest on deferral accounts

Schedule 12 of Appendix C to the Application, includes a continuity schedule for non rate base deferral accounts and includes 2018 weighted average cost of capital (WACC) of 6.34 percent, 2018 weighted average cost of debt (WACD) of 4 percent and 2018 short-term interest rate of 3.5 percent.

3.1 Please provide the basis for the 2018 WACD of 4 percent and the 2018 short-term interest rate of 3.5 percent and discuss whether these figures are updated on an annual basis. If not, please explain why not.

RESPONSE

The WACD of 4 percent and the short-term interest rate of 3.5 percent are the historically approved interest rates. Creative Energy considers 4 percent to still be a reasonable estimate for its overall cost of debt and therefore it has not been updated on an annual basis.

The historical WACD of 4 percent was calculated based on an assumption of 63.8 percent long term debt and 36.2 percent short-term debt. Long term debt was based on a rate of 4.3 percent and short-term debt at 3.5 percent. At present, Creative Energy does not distinguish between short-term and long-term debt. All of Creative Energy's debt has the same interest rate and matures at the same time.

3.2 Please explain whether the short-term interest rate is used in the calculation of Creative Energy's WACC. If not, please explain why not.

RESPONSE

As noted in the response BCUC IR 3.1, the historical approved short-term interest rate was used as a component for calculating the WACD. This WACD is then used for calculating the 6.34 percent WACC based on WACD of 4 percent (at 57.5 percent deemed debt) and a cost of equity of 9.5 percent (at 42.5 percent deemed equity).

As elaborated below in the response to BCUC IR 3.3, and for the reasons noted, going forward any reference to Regulated WACD may simply be referred to as Regulated Cost of Debt.

On page 11 of the Application, Creative Energy submits:

> On July 3, 2020 Creative Energy filed an application with the Commission pursuant to sections 50 and 52 of the *Utilities Commission Act* (UCA) for approval to enter into an agreement for senior secured credit facilities up to $33.8 million (Credit Agreement) with Toronto Dominion Bank and HSBC Bank Canada. The Commission approved the application on July 15, 2020 by Order G-187-20, with reasons for decision issued subsequently on July 23, 2020. The Credit Agreement was executed on September 17, 2020 and filed confidentially with the Commission on September 21, 2020.

3.3 Please provide any updates to Creative Energy's WACC, WACD and short-term interest rate for 2020 and 2021, including detailed supporting calculations, considering any impact related to the September 2020 debt refinancing approved by Order G-187-20.

RESPONSE

CONFIDENTIAL – Filed under separate cover.

4.0 Reference: DEFERRAL ACCOUNTS
Exhibit B-1, p. 3; Creative Energy Core Steam System 2021 RRA, Exhibit B-1, p. 47
Refinancing cost deferral account

On page 3 of the Application, Creative Energy submits:

> Creative Energy requests approval for the 2021 Test Year only of a Refinancing Cost Deferral Account (RCDA) to record in 2020 and recover in 2021 rates the allocated costs to NEFC associated with the refinancing of our debt facilities on September 17, 2020.
>
> …
>
> The allocated fees reported in Table 3 above reflect an approximately 11.2 percent allocation to the NEFC of total refinancing fees of $320,117. The evidence in support of

> these fees and allocation will be presented on a single consolidated basis in the 2021 Core RRA expected to be filed on December 1, 2020.

On page 47 of Exhibit B-1 in the Creative Energy Core Steam System 2021 RRA, Creative Energy submits:

> For accounting purposes in 2020 Creative Energy must record an expense for 3 months and 13 days of amortization which is $91,589. In 2021, the remaining $228,528 will be expensed.

4.1 Please clarify whether Creative Energy has previously requested approval from the British Columbia Utilities Commission (BCUC) of a deferral account to record the costs associated with the September 2020 debt refinancing.

RESPONSE

Creative Energy had not requested approval of the proposed RCDA prior to the filing of the Application on November 30, 2020.

4.2 Please discuss any issues with retroactive ratemaking associated with the request to recover the financing costs expensed for accounting purposes in 2020.

RESPONSE

A timely application for and establishment of a regulatory deferral account by order of the Commission is recognized as an exception to any concern otherwise about retroactive ratemaking. We note two examples for reference:

1. **Order G-17-08 authorized BC Hydro to establish a regulatory account for the purpose of deferring up to $8.2 million of unplanned expenditures incurred in Fiscal Year 2008, plus interest, arising from its Procurement Enhancement Initiative (PEI), as described in BC Hydro's January 3, 2008 Application. At that time the costs BC Hydro had incurred or was to incur in regard to the PEI were not previously included in BC Hydro's approved F2007/F2008 Revenue Requirement Application; and**

2. **Order G-64-09 authorized BC Hydro to establish a regulatory account for the purpose of deferring the $8.9 million of operating costs BC Hydro incurred in F2009 for its Smart Metering and Infrastructure (SMI) Program as described in its Application, plus interest at BC Hydro's weighted average cost of debt for its most recent fiscal year. BC Hydro advised that all costs related to smart meters and the SMI Program in F2009 were not planned or provided for in BC Hydro's rates for F2009 as approved by the Commission by Order G-16-09.**

In both of the example cases above, the application for approval to establish a regulatory account was submitted to the Commission prior to the utility's fiscal year end, avoiding any concern otherwise about retroactive ratemaking.

Creative Energy's costs of refinancing were not provided for in the 2020 RRA. The costs were an unplanned expense in 2020, arising as an outcome ultimately of Commission Order C-1-20 dated March 5, 2020 approving disposition of surplus property and a corporate reorganization involving Creative Energy entities, subject to the approval by the Lieutenant Governor in Council (LGIC). On June 29, 2020, the LGIC approved the amalgamation step of the reorganization allowing the overall reorganization, disposition of surplus property and refinancing to proceed. At the time of submitting the 2020 RRA, Creative Energy did not know when the Commission would decide on the reorganization nor when any required LGIC consent would be granted. Therefore, the timing of

completing the refinancing, if at all, and incurring the associated costs was highly uncertain to Creative Energy at that time. Had the Commission decision and LGIC consent been issued in a different timeframe it might have been possible to include the refinancing costs in an applicable RRA, though even then it might have been challenging to forecast the costs accurately.

These expenses were thus not factored into 2020 NEFC rates on a test-year basis. The application for approval of the RCDA was submitted in 2020, which is the fiscal period in which the unplanned expenses were incurred, and the mechanism of the RCDA will thus allow for recovery of the expenses in rates effective January 1, 2021.

4.3 Please discuss the pros and cons of establishing a Refinancing Cost deferral account and deferring the recovery of the final costs in rates pending the outcome of the review of the total fees and allocation methodology in the Creative Energy Core Steam System 2021 RRA proceeding.

RESPONSE

Creative Energy considers there to be no issues arising from permanent approval of NEFC rates coincident with the ongoing review of the Refinancing Cost deferral account in the Core Steam 2021 RRA proceeding. Administration of any changes to total fees and allocation methodology can be factored into the NEFC cost of service and revenue requirements determination under the same existing mechanism of the approved NEFC Variance Deferral Account.

5.0 Reference: DEFERRAL ACCOUNTS
BCUC Decision, Creative Energy 2019-2020 RRA for the Core Steam System and the NEFC Service Areas, p. 50
Variance Deferral Account

On page 50 of the BCUC Decision in the matter of the Creative Energy 2019-2020 RRA for the Core Steam System and the NEFC Service Areas (2019-2020 RRA Decision) states:

> Creative Energy is directed to add any 2020 forecast variances related to the Variance Deferral Account, as follows:
>
> • Revenue shortfalls based on differences between actual revenues received and approved forecasts;
>
> • Variances between forecast versus actual Steam Service Rates and Fuel Cost charged to NEFC;
>
> • Variances between forecast versus actual Distribution expenses; and
>
> • Variances between forecast versus actual Income Tax expense.

5.1 Please provide a breakdown of the 2020 additions to the Variance Deferral Account, in the same format as Attachment 4 tab "NEFC 2017-2019 Deferrals" in the compliance filing to address Order G-227-20 dated September 2, 2020.

RESPONSE

Additions to the Variance Deferral Account will be provided as part of a final compliance filing. Creative Energy will not have its final audited financial results until April 2021.

5.2 Please provide the Actual 2020 M# Consumed by NEFC and the Actual 2020 NEFC Load (MWh).

RESPONSE

NEFC consumed 66,195 M# in 2020 and had an actual hot water energy load of 17,981 MWh.

5.3 Please confirm, or explain otherwise, that Creative Energy includes both revenue shortfalls and surpluses in the Variance Deferral Account.

RESPONSE

Confirmed.

In the Decision accompanying Order G-167-16 dated November 18, 2016, the BCUC states that "The Panel also approves variances between actual and forecast NEFC Special Service costs to be captured in [the Variance] deferral account given that we have directed they be removed from Steam Service."

5.4 Please confirm, or explain otherwise, that Creative Energy includes Special Services costs in the Variance Deferral Account.

RESPONSE

Confirmed.

5.5 Please identify and discuss any changes in the type of Special Services costs allocated to NEFC and any changes to the methodology for allocating these costs to NEFC since the issuance of Order G-167-16.

RESPONSE

There has been no change to the methodology for allocating these costs. Special Services are allocated using the Massachusetts formula and are directly charged. Regulatory costs are a component of Special Services and regulatory costs are directly charged to the specific energy systems.

5.6 Please provide a breakdown of Test Year 2021 NEFC Special Services costs.

RESPONSE

NEFC's Special Service costs for 2021 are the Massachusetts formula allocation. Creative Energy has not budgeted for regulatory costs specifically related to NEFC, but which will be directly charged. For example, the NEFC will have specific regulatory costs in 2021 related to this Application and the planned rate design application; rather than trying to estimate these costs, they will recovered via the Variance Deferral Account based on actuals when known.

On page 6 of the Application, Creative Energy submits that "[s]imilar to fuel costs, steam tariff costs are a function of steam load used by the NEFC system. These costs increase for the 2021 Test Year due to the forecast increase in the steam rate charged."

Schedule 15 and 15A of Appendix C to the Application, include the supporting calculations for NEFC Energy Costs. M# consumed by NEFC is 58,928 and 70,309 for 2020 Projected and 2021 Test Year, respectively. The compliance filing to address Order G-227-20 dated September 2, 2020, includes an Approved 2020 M# consumed by NEFC of 70,309 in Attachment 5, Schedule 15.

5.7 Please confirm, or explain otherwise, that the difference between forecast and actual steam service rates applied to the approved M# transferred to NEFC is included in the Variance Deferral Account, rather than the variance in the total steam costs.

RESPONSE

Confirmed. Creative Energy does not calculate the variance on total steam costs, but on the difference in the steam rate. The approved M#'s transferred is held constant when calculating the variance.

5.8 Please provide the basis for the 2021 Test Year M# consumed by NEFC of 70,309 and discuss whether any ongoing impacts of the COVID-19 pandemic have been considered in developing this forecast.

RESPONSE

To determine the associated steam load supporting the NEFC System, total forecast hot water consumption (19,162 MWh) is scaled up based on the efficiency of the distribution system (97.5%) and then by the efficiencies of the PARQ Hot Water Plant (88%) and the Aquilini Center Hot Water Plant (85%). Total estimated MWh are converted to M# multiplying through by a conversion factor of 3.14 M#/MWh. Please refer to the following table

Method Component	Plant	Total Steam Load
Forecast Plant Gate Volumes MWh (Adjusting for Distribution Efficiency)	Aquilini PARQ Total	1,441 18,213 19,654
Forecast Steam Volume MWh (Adjusting for Plant Efficiency)	Aquilini PARQ Total	1,695 20,696 22,391
Forecast Steam Volume M#	Aquilini PARQ Total	5,322 64,987 70,309

The impacts of the pandemic have not been factored in for the reasons discussed in section 5.1 of the Application.

5.9 Please provide the forecast 2021 Test Year M# in the absence of any COVID-19 impacts and discuss and quantify the expected impact of COVID-19 on the forecast.

RESPONSE

Please refer to the response to BCUC IR 5.8, which provides the 2021 forecast assuming no COVID-19 impact on load.

The only basis we may have to consider the what the forecast 2021 impact of COVID-19 is on load would be to use 2020 actual load, but even then the estimate would be highly uncertain. Please refer to the response to BCUC IR 5.10.

5.10 Please recalculate the 2021 Test Year Steam Costs, including supporting calculations, using the 2020 Actual M# consumed by NEFC and discuss the reasonableness of this forecast.

RESPONSE

Th use of 2020 Actual M#'s consumed by NEFC is not a relevant comparison due to the impact of COVID-19. The 2021 application is based on business as usual and has used the same forecast as the 2020 approved.

If 2020 Actual M#'s were used in the calculation the forecast steam cost would be $541,537 compared to $571,651 in the Application. Please refer to the calculation at Attachment 5.10. This difference would not be captured by the deferral account but would be offset by lower Core internal revenue from NEFC of an equal amount.

Please note that forecast fuel costs would also change in this case; fuel costs would be $904,790 compared to $968,739 in the Application. The total fuel cost, which includes variances in the fuel rate and load consumed, is covered by the NEFC Variance Deferral Account. As such, the impact to NEFC for variances between actual load and forecast load on fuel costs will be fully reflected in the deferral account.