CREATIVENERGY

4 March 2021

Via E-filing

Mr. Patrick Wruck
Acting 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)
2021 Revenue Requirements Application (RRA) for the Core Steam System (Application)

Creative Energy writes to submit its response to Commercial Energy Consumers Association of British Columbia (**CEC**) Information Request (**IR**) No. 1 in the above noted proceeding.

For further information, please contact the undersigned.

Sincerely,

Rob Gorter
Director, Regulatory Affairs and Customer Relations

Enclosure.

Suite 1 – 720 Beatty Street
Vancouver, Canada
V6B 2M1

604 688 9584 TEL
604 688 2213 FAX
creativeenergycanada.com

CREATIVE ENERGY RESPONSE TO CEC IR 1

1. Reference: Exhibit B-2, page 2

Item 2: Rationale for refund/recovery of interim rates with interest based on Creative Energy's WACD rather than the average prime rate of Creative Energy's principal bank for its most recent year as previously approved by the BCUC

Creative Energy acknowledges that the BCUC has previously approved to use the average prime rate of Creative Energy's principal bank for the most recent applicable year, and we have not considered that to be a material issue. The rationale to use WACD, however, is based on the fact that the average prime rate does not reflect the interest rate that Creative Energy actually pays. The WACD is an overall better approximation given that WACD factors in interest rate risk. A short-term interest rate of 3.5 percent as utilized for reconciliation of Creative Energy's one-year deferral accounts may also be appropriate.

1.1 Please provide a quantitative comparison of the WACD and the average prime price rate of Creative Energy's principal bank for the most recent applicable year.

RESPONSE:

The current approved WACD is 4%. The average prime rate for 2020 was 2.78%. Creative Energy's current debt agreement with HSBC at the current debt percentage charges prime plus 1.25% which is a total of 4.02%.

Please refer to the responses to BCUC IRs 20.2 and 20.4.

1.2 Why does the average prime rate not reflect the interest rate that Creative Energy actually pays? Please explain.

RESPONSE:

The average prime rate does not reflect the interest rate that Creative Energy actually pays as its bank charges a premium on top of prime. Creative Energy also has the option to draw on banker's acceptances for part of its debt balance if those rates are less expensive.

1.3 Please confirm that the WACD would cover the costs of past debt supported investment and that the prime rate would cover Creative Energy's recent and shorter-term debt supported investments.

RESPONSE:

The prime rate would not cover Creative Energy's recent and shorter-term debt supported investments as prime is not the interest rate that Creative Energy pays as described in the response to CEC IR 1.2. In addition, Creative Energy pays standby fees on its unused operating line. WACD of 4% has been sufficient in recent years to cover the costs of debt supported investments. Historical prime rates should not be the only factor in determining WACD. Creative Energy takes on interest rate risk. It is possible that interest rates will recover to pre-pandemic levels. As such, WACD should be risk adjusted based on forward looking information.

Please refer to the responses to BCUC IRs 20.2 and 20.4.

2. Reference: Exhibit B-2, page 3

RRA Summary	2020 Approved	2020 Projected	Variance	Variance Description
O&M - Total	5,094,228	5,089,545	(4,683)	
Wages and Benefits (Steam, Distribution & Mgmt.)	2,966,181	3,024,994	58,813	This variance is explained primarily to Creative Energy's Distribution team spending comparatively more time on the Core system and less time on other systems compared to budget, which accounts for $50,633 of the variance overall.

2.1 What was Creative Energy's original expectation for its 2020 Wages and Benefits (Steam Distribution & Management) in terms of FTE personnel and average wage and benefit cost per FTE?

RESPONSE:

Creative Energy did not build its budget based on FTE or an average wage and benefit cost. A detailed budget was created which took into account specific employee salaries and the percentage of time they were anticipated to spend supporting the Core system.

2.2 Please provide details of the additional FTE time that was spent on the Core system including what activities, why and by whom (what positions) and/or any change in average cost per FTE. Please provide quantification for the time difference.

RESPONSE:

The majority of the variance relates to distribution service labour, which was $50,633 above approved. The distribution service team consists of 8 team members who charge their time by way of timesheets based on which system they are working on. The default system is the Core system and time is allocated out of the Core system to the other energy systems. If distribution staff are spending more time on the Core system, this will be evidenced by fewer hours directly charged to the other systems. Creative Energy's budget was based on a combination of historical actuals and management judgment. As many of Creative Energy's systems are new and do not have years of data to base an estimate on management judgment played a greater role in the estimate. Creative Energy's estimate for the percentage of time spent on other energy systems in 2020 was higher in its budget than the actual timesheets. The Core system is a larger older system and the amount of attention required is trending up in recent years.

2.3 For the individuals or positions who spent more than expected tie on the Steam system, please explain how Creative Energy originally arrived at their expectation? Did Creative Energy use a formula to determine its anticipated cost?

RESPONSE:

Creative Energy does not use a simple formula to determine its anticipated cost. There is a different process depending on the type of labour cost. Creative Energy has three categories of labour costs: plant, distribution service and management and admin. The question specifically focuses on positions that spent more than expected on the steam system. The majority of the variance is related to the distribution team as elaborated below.

For the distribution service team a detailed build-up of each individual employee's salary and benefits was calculated, including calculations of CPP, EI, employer health tax, extended benefits, pension costs, etc. As the distribution service team is shared service used by all of Creative Energy's energy systems an allocation calculation must be applied to the total balance. This allocation is calculated based on management's best estimate of the headcount (or percentage of a headcount) required to service each energy system during the year. This estimate is developed based on a combination of discussions with operations management, historical actuals and the original estimate in the financial model for that system. The allocation is calculated by taking the estimated headcount needed for that energy system and multiplying by the average cost per service team member as calculated from the detailed cost build up. The service team lead was also included in the allocation. The leftover cost after subtracting the allocations to other energy system is the budget for the Core system.

2.3.1 If yes, please provide the formula and explain why it was considered appropriate.

RESPONSE:

Please refer to the response to CEC IR 2.3 for the step by step details on the process. Note that it is not a simple formula, but a detailed build up of costs from the bottom up and an allocation calculation based on management judgement. It is considered appropriate considering the level of detail that goes into the calculation and that management uses its best judgment to estimate the allocation percentages to other energy systems. Considering there is not a sustained history of data of the hours required to support new energy systems there is a degree of difficulty in predicting the amount of time each system requires in a given year. Creative Energy also notes that its calculation last year likely overestimated the headcount to be allocated to other energy systems by adding the distribution team lead into the calculation. We note that when comparing budget to actual results during 2020 the more established systems at NEFC and Main and Keefer were relatively close to budget while more recently added systems like South Downtown and Kensington varied more from the budgeted amount.

In 2021 Creative has made changes to the estimation process. We no longer include the distribution team lead in the calculation and we perform a high level check on the estimate in addition to relying only on the detailed build up. As a high-level reasonability check, Creative Energy calculated the cost increase from the 2020 Projected Core expense ensuring that the increase in cost was approximately equal to union wage increase of 1.8 percent.

2.3.2 If no, please provide any other rationale for that anticipated spending level.

RESPONSE:

Not applicable.

3. Reference: Exhibit B-1, page 10

Table 3: Creative Energy Thermal Energy Systems in Vancouver, Planned or In-service

Vancouver Projects	TES Type	Status	Entity
Core Steam	Stream B	In-service	CEV
NEFC	Stream B	In-service	CEV
Main & Keefer	Stream A	In-service	CEV
Kensington Gardens	Stream A	In-service	CEV
South Downtown Heating	Stream B	In-service	CEV
South Downtown Cooling	Stream B	CPCN approved	CEV
Pendrell Heating	Stream A	In-service	CE Pendrell LP
Horseshoe Bay Heating	Stream A	Under-construction	CE Horseshoe Bay LP
Mt Pleasant Cooling	Stream B	Pending CPCN approval	CE Mt. Pleasant LP
Oakridge Energy - Corix Partnership	Stream B	In-development	CEDLP

A further aspect of the business context for Creative Energy is the redevelopment of the 720 Beatty Street property where the steam plant is located. As approved by Order C-1-20 also, Creative Energy has transferred development rights in Creative Energy's lands that are surplus to the needs of the utility to a developer for the construction of an office building and related improvements around and above the steam plant. The project, as reviewed and approved in the Order C-1-20 proceeding, involves construction of new boiler plant within unused space in BC Place Stadium (currently planned to be completed in 2022), and removal of the oldest equipment and substantial renovation of the remaining steam generation equipment at 720 Beatty Street (currently planned to be completed in 2025).

3.1 Please identify which parties Creative Energy would consider as competition, if any, and the specific type of competition they would represent.

RESPONSE:

Creative Energy is in competition when attempting to attract a new customer and in relation to retaining an existing customer that is not under a long-term service contract. Creative Energy's customers are building owners, and these entities have options as to how to heat and cool their buildings. They can take heating or cooling service from Creative Energy, from another thermal energy service provider (such as FAES, Corix, etc.), or from an on-site building scale system owned by the building.

Creative Energy needs to offer an attractive nature and quality of service at competitive rates to secure contracts with building owners who decide how to heat or cool their building.

3.1.1 Does Creative Energy consider competitive pricing when pricing its own services? Please explain why or why not.

RESPONSE:

The Core RRA is representative of cost-of-service rate-setting in relation to the quality and the nature of the steam service Creative Energy provides. Creative Energy believes that its rates for Core Steam service are the lowest rates for thermal energy in Vancouver.

The rates of other in-service utilities, whether Stream B TES (rate regulated on a cost of service basis) or Stream A (exempt from rate-regulation) must be competitive for the nature and quality of service provided to secure contracts with building owners who decide how to heat or cool their building.

4. Reference: Exhibit B-1, page 11 and 12

The forecast direct allocation of time is reported in Table 4, which shows specifically:

1. Forecast allocation of Creative Energy staff time between CEVP and CEDLP and the direct assignment of forecast time to CEVP that will be capitalized. These allocations and assignments are developed by the Management team and reviewed with the Board of Directors; and

2. Forecast of expenses to be then assigned to CEVP on a percentage basis, which is an input to the allocation of expenses across all regulated Vancouver projects, including the Core system, using the Massachusetts Formula methodology as approved by the Commission under Order G-227-20, and as described further below.

Table 4: 2020 Budgeted Time Allocation and Project Assignment by Role

	2021 Test Year						
	Time Allocation		Creative Energy Vancouver Platforms				
	Creative Energy Vancouver Platforms	Creative Energy Developments Limited Partnership	Project Assignment			Net Expense Assignment to Core RRA	
			Direct Assignment to CEV Projects (Capitalized)	Expensed to CEV	Net CEV Expense	Direct Assign-ment	Mass. Form.
Chief Executive Officer	50%	50%	0%	100%	50%	n/a	Yes
VP, Engineering & Projects	30%	70%	100%	0%	0%	n/a	n/a
VP, Business Development (2)	0%	100%	n/a	n/a	0%	n/a	n/a
Chief Financial Officer	50%	50%	0%	100%	50%	n/a	Yes
Director, Regulatory Affairs	80%	20%	0%	100%	80%	n/a	Yes
Director, Operations	100%	0%	0%	100%	100%	n/a	Yes
Director, Engineering	40%	60%	80%	20%	8%	Yes	No
Director, Partnerships (planned)	100%	0%	0%	100%	100%	Yes	No
Mgr. Corporate Development	0%	100%	n/a	n/a	0%	n/a	n/a
Construction Manager	40%	60%	50%	50%	20%	n/a	Yes
Senior Project Manager	0%	100%	n/a	n/a	0%	n/a	n/a
Project Engineer	0%	100%	n/a	n/a	0%	n/a	n/a
Construction Mgr./Proj. Engr.	0%	100%	n/a	n/a	0%	n/a	n/a
Systems Engineer (planned)	50%	50%	0%	100%	50%	n/a	Yes
Engineer in Training	0%	100%	n/a	n/a	0%	n/a	n/a
Controller	60%	40%	0%	100%	60%	n/a	Yes
Accountant	80%	20%	0%	100%	80%	n/a	Yes
Accountant	40%	60%	0%	100%	40%	n/a	Yes
Accountant (planned)	80%	20%	0%	100%	80%	n/a	Yes
Office Coordinator	60%	40%	0%	100%	60%	n/a	Yes
Chief Engineer Steam Plant	100%	0%	0%	100%	100%	Yes	n/a
Steam Plant Crew (11)	100%	0%	0%	100%	100%	Yes	n/a
Distribution Lead	100%	0%	0%	100%	100%	Yes	n/a
Distribution Crew (7)	97%	3%	0%	100%	97%	Yes	n/a

As reviewed in the 2019-2020 RRA, the factors considered when developing the budgeted allocation for the Management team continue to be review of historical timesheets, analysis of budgets for specific capital projects, discussions with employees, and discussions with management. Further context is as follows:

- Direct assignment to CEV Projects (Capitalized): CEV employees spend time supporting capital projects for the Core system (maintenance capex and customer connections) and other energy systems owned by CEV (NEFC, South Downtown, Kensington, Main & Keefer). They directly charge their time to these projects and their costs are capitalized to those projects.

- Expensed to CEV: These are the percentage of costs that employees spend on CEV that are not capitalized to projects. The total of these costs is shared between the Core steam system, NEFC, South Downtown, Kensington and Main & Keefer. They are allocated to these energy systems based on the Massachusetts formula.

4.1 Please confirm that the Commission has approved the methodology for calculating the Massachusetts formula but has not approved the quantities outlined in Table 4.

RESPONSE:

Confirmed.

4.2 Please provide further details regarding the rationale for allocating 30% of the VP, Engineering & Projects to CEV.

RESPONSE:

This is management best estimate for how much time the VP, Engineering & Projects will spend supporting the redevelopment project in 2021. The allocation is not relevant to this application though as this time is 100 percent capitalized and is being billed to Westbank (and the redevelopment project cost to CEV is fixed at $15 million).

4.2.1 If based on historical timesheets, how does Creative Energy account for differences between the coming year and the past year?

RESPONSE:

It is not based on historical timesheets. Creative Energy's business is constantly evolving, with new projects and systems being added each year. A previous year does not necessarily provide relevant information on where an employee will spend their time in the next year. Management judgment is the best way to estimate the allocations for the current year.

4.2.2 Please provide the rationale for capitalizing 100% of the allocated costs of the VP, Engineering & Projects instead of expensing.

RESPONSE:

100 percent of this time is capitalized as the time being charged to CEV will relate to the redevelopment project which is a capital project.

4.3 Please provide further details regarding the rationale for allocating 50% of the Chief Financial Officer to CEV.

RESPONSE:

Creative Energy's actual allocation of the CFO to CEV in 2021 was 70 percent as their focus was primarily on refinancing CEV in 2020. It was originally anticipated that this role would spend 30 percent on the CEV in 2020, but requirements shifted during the year. As CEV's financing is now complete more attention will shift to financing CEDLP and assessing growth opportunities. However, there are some additional activities within CEV that will require attention in 2021 such as the NEFC rate redesign and redevelopment that did not exist in 2020. Creative Energy believes 50 percent is a reasonable in-between allocation from what was budgeted in 2020 and the actual for 2020.

4.3.1 based on historical timesheets, how does Creative Energy account for differences between the coming year and the past year for this position?

RESPONSE:

Please refer to the response to CEC IR 4.2.1.

4.4 Please provide further details regarding the rationale for allocating 80% of the Regulatory Affairs position to CEV.

RESPONSE:

This amount is consistent with what was budgeted in 2020. Creative Energy anticipates the role to spend a similar amount of time on CEV in 2021 considering that there is a Core rate application and an NEFC rate redesign planned.

4.4.1 If based on historical timesheets, how does Creative Energy account for differences between the coming year and the past year for this position?

RESPONSE:

This allocation is partially informed by historical timesheets. The role allocated 86% of its time to CEV in 2021.

4.5 Please confirm that the Director of Operations works exclusively on the steam system.

RESPONSE:

Not confirmed. The Director of Operations also supports the hot water systems.

4.5.1 If not confirmed, please explain why not and provide justification for the 100% allocation to CEV.

RESPONSE:

The 100 percent allocation to CEV only represents the amount charged to CEV before applying the Massachusetts formula. The cost of the Director of Operations role is subsequently allocated to other operating affiliates based on the Massachusetts formula similar to all other management and admin roles that charged time to CEV. The CEV column could be renamed "CEV and other operating affiliates".

4.6 Please provide further details regarding the rationale for allocating 40% of the Director of Engineering to CEV.

RESPONSE:

It is anticipated this role will be involved to some extent on capital projects and on the redevelopment. Note that only 8% of this role is being expensed to CEV which is consistent with 2020.

4.6.1 If based on historical timesheets, how does Creative Energy account for differences between the coming year and the past year for this position?

RESPONSE:

This allocation is not based on historical timesheets. Please refer to the response to CEC IR 4.2.1.

4.7 Please provide the rationale for capitalizing 80% of the allocated costs of the Director of Engineering to CEV.

RESPONSE:

It is anticipated that when supporting CEV that the role would primarily support the redevelopment or other capital projects within CEV.

4.8 Please describe the role of Director, Partnerships (planned).

RESPONSE:

The Director, Partnerships is specifically for the purpose of growing and maintaining the Core steam system customer base. The role will work with potential new developments or existing buildings in downtown Vancouver, creating value propositions and negotiating with those customers to connect to the Core steam system. Please refer to BCUC IR 8.3.

4.9 Please provide further details regarding the rationale for allocating 100% of the Director, Partnerships (planned) to CEV.

RESPONSE:

The role is 100 percent focused on customers of the Core system.

4.9.1 Is there any benefit to CEV customers from this function? Please explain and quantify any benefit.

RESPONSE:

Yes. The purpose of this role is to attract new customers and retain existing. With addition of customers and maintenance of existing customers on the Core Steam system, the average steam rate for all Core system customers will be protected from the impact otherwise of long-term decreases in load. This risk is discussed in the Core Steam system 2021 LTRP.

4.10 Please describe the role of Mgr Corporate Development.

RESPONSE:

The primary function of this role is to develop and support financial review and models for growth projects and to assist with financing matters.

4.11 Please describe the role of Construction Manager.

RESPONSE:

This role is responsible for the design and delivery of projects for Creative Energy, with particular experience in managing contractors and construction.

4.12 Please provide further details regarding the rationale for allocating 40% of the Construction Manager position to CEV.

RESPONSE:

This role functions as the project manager for small projects and customer connections within the Core system. They allocated approximately 82 percent of their time to CEV in 2020, but will be shifting their focus to a large growth project in CEDLP in 2021.

4.12.1 If based on historical timesheets, how does Creative Energy account for differences between the coming year and the past year? What projects will the Construction Manager be working on related to the steam system this year?

RESPONSE:

It is not based on historical timesheets, but management judgment. Please refer to the response to CEC 4.2.1.

4.12.2 Please provide the rationale for capitalizing 50% of the allocated costs of the Construction Manager instead of expensing.

RESPONSE:

The component of this role that is expensed to the Core system is expected to be stable in 2021. This is primarily time spent supporting steam operations and responding requests from the City of Vancouver. Actual timesheets from 2021 show that 21 percent was charged to the Core system. The amount expensed in the 2020 RRA is 20 percent (40 percent to CEV X 50 percent capitalized).

4.13 Please describe the role of Systems Engineer.

RESPONSE:

This role will be based in the engineering department, but provide ongoing support to the Operations Department. The Systems Engineering will be responsible for the continuous improvement and optimization of all of Creative Energy's district energy systems.

4.14 Please provide further details regarding the rationale for allocating 50% of the Systems Engineer (planned) position to CEV.

RESPONSE:

This is an estimate of the time expected to be spend on systems within CEV versus systems outside CEV. The role is anticipated to support operations 50 percent and growth projects 50 percent.

4.15 Please provide further details regarding the rationale for allocating 60% of the Controller position to CEV.

RESPONSE:

The estimate for this role was 70 percent in support of the 2020 RRA. It is anticipated that this role will focus more on growth opportunities in CEDLP in 2021, which partially offsets the CFO role that will focus more on CEV than was previously approved. Please refer to the response to CEC IR 4.3.

4.16 Please provide further details regarding the rationale for allocating 80% of the Accountant (1) position to CEV.

RESPONSE:

This is consistent with the allocation in support of the 2020 RRA and shown to be reasonable based on 2020 management review. Note that this role does not prepare timesheets so the assessment is based on qualitative observation and discussions. It is not anticipated that their focus will change in 2021.

4.17 Please provide further details regarding the rationale for allocating 40% of the Accountant (2) position to CEV.

RESPONSE:

This is consistent with the allocation in support of the 2020 RRA and shown to be reasonable based on 2020 management review. Note that this role does not prepare timesheets so the assessment is based on qualitative observation and discussions. It is not anticipated that their focus will change in 2021.

4.18 Please provide further details regarding the rationale for allocating 80% of the Accountant (planned) position to CEV.

RESPONSE:

This role will focus on the annual audit, taxation and month end reporting. The time commitment requirement and complexity is more significant for CEV than it is for CEDLP. The role will work alongside the existing accountant which also was approved to allocate 80 percent to the Core system.

4.19 Please provide further details regarding the rationale for allocating 60% of the Office Coordinator position to CEV.

RESPONSE:

This is consistent with the allocation in support of the 2020 RRA and shown to be reasonable based on 2020 management review. Note that this role does not prepare timesheets so the assessment is based on qualitative observation and discussions. It is not anticipated that their focus will change in 2021.

4.20 Please provide further details regarding the rationale for allocating 60% of the Office Coordinator position to CEV.

RESPONSE:

This IR is a duplicate of CEC IR 4.19.

4.21 Please provide further details regarding the rationale for allocating 97% of the Distribution Crew position to CEV.

RESPONSE:

This is consistent with the previous year. New headcounts have been added to support the addition of other energy systems directly. Please refer to the response to CEC IR 2.2.

4.22 Please quantify any reduction in operating costs attributable to any and all changes in the allocations to CEV.

RESPONSE:

The variance from 2020 Approved and Actuals to the 2021 Test Year primarily relates to new roles and not to changes in allocations for existing roles. Some roles, for example, the Manager Corporate Development will be budgeted one year to spend significant time on CEV related to refinancing efforts (2020) and zero time in another year (2021).

Creative Energy has quantified the net change in percentage allocations to be a decrease in management and admin labour costs of $62K than if the percentages were equal to the ones approved in 2020.

Please refer to the response to CEC IR 2.2.

5. Reference: Exhibit B-1, page 17

Table 8: 2020 Approved and 2021 Steam Load Forecast

M#	Core Steam	NEFC Steam	Total Steam	% Change Compared to 2020 Approved
2020 Approved	1,070,325	70,309	1,140,634	n/a
2021 Forecast New Customer Load	2,024	-	2,024	n/a
2021 Steam Load Forecast	1,072,349	70,309	1,142,658	0.2%

Table 9: 2021 New Customer Load

New Customer Steam Load M#	2020 Addition	2021 Addition		
	Partial Year	Partial Year	Full Year	Net Add
402 Dunsmuir	507	-	1,077	570
733 Beatty (YWCA)	246	-	561	316
410 W Georgia	-	1,138	-	1,138
Total	753	1,138	1,639	2,024

By Order G-227-20, the Commission approved an annual steam load forecast of 1,140,634 M# for 2020, which was accepted as the reasonable and appropriate weather normal forecast assuming COVID-19 had not arisen. Creative Energy acknowledges that Panel's commentary into the issue of whether a deferral account to record variances between forecast and actual load could be warranted in future test years going forward. Under the present circumstances of COVID-19, Creative Energy has no evidentiary basis to reasonably adjust the load forecast to account for ongoing economic impacts of COVID-19 into 2021, and the approved mechanism of the COVID-19 Deferral Account will appropriately function as a load variance deferral while in effect, subject to known customer additions.

5.1 Would the 'known customer additions' still be included in a COVID-19 deferral account if they did not materialize, either because of COVID-19 response changes or for any another reason? Please explain.

RESPONSE:

Customer additions are included in the forecast based on the connection of the buildings to our system for their heating service under an agreed-to contract. It is not applicable therefore to consider that the 'partial-year additions' will not materialize, only that the timing of the connection may vary. Any differences in the timing of the connection of new load as affecting the partial year forecast will not be attributed to COVID-19 and recorded to the COVID-19 deferral account. Creative Energy does not have a line of sight into the impacts of COVID-19 on other parties that are not connected customers; for example, we would not be able to discern other the impacts of COVID-19 from other reasons that could explain a different timing of connection such as related to a developer's construction schedule.

Subject to amending a partial year load estimate for the timing of new connected load in 2021, any impacts due to the difference between the forecast and actual load of the customer additions in 2021 due to COVID-19 will be recorded to the deferral account after normalizing for weather.

6. Reference: Exhibit B-1, page 18

3 Core Steam 2021 Revenue Requirements

3.1 Operations and Maintenance

Operations and Maintenance budgets (and Capital budgets) are prepared by the management team and then approved by the Board. In general and consistent with past practice as reviewed in the 2019-2020 RRA, prior year actuals and year-end projected amounts are used as a benchmark to identify the activities that need to be budgeted-for given that the majority of O&M activities are recurring in nature and these costs typically change with inflationary pressures.

Budgets are prepared to align with Creative Energy's business functions and the established BCUC accounts for each function where possible. Where informative and predictive, some maintenance expenses are pooled by equipment and analyzed on a combined and trended basis for budgeting purposes. Other cost categories such as water and electricity expenses are subject to rate increases set by governmental bodies and the amounts required vary by load, and are estimated on those bases.

Table 10: Total O&M by Business Function

$		2015	2016	2017	2018	2019	2020	2020	2021
Acct. #	Account Name	Actual	Actual	Actual	Actual	Actual	Approved	Projected	Test Year
Steam Production-Operation									
500	Supervision and Labour	1,220,581	1,280,201	1,490,282	1,574,018	1,539,228	1,561,685	1,552,342	1,568,932
502	Steam Expenses	900,535	900,394	1,122,868	1,089,206	1,043,394	1,110,166	1,041,057	1,217,291
	Total	2,121,116	2,180,595	2,613,150	2,663,224	2,582,622	2,671,851	2,593,399	2,786,223
Steam Production-Maintenance									
506	Structures and Improvements	3,576	1,548	8,230	37,129	95,978	78,696	37,678	43,500
Distribution - Operation									
870	Supervision & Labour	551,027	529,141	520,275	592,644	592,563	662,757	713,390	727,253
874	Mains & Services	23,134	24,664	27,677	20,057	20,801	21,200	22,452	21,739
880	Other Distribution Operation	0	0	0	0	0	0	0	0
933	Transportation	14,102	11,198	13,612	13,191	23,481	20,840	19,093	20,061
	Total	588,263	565,003	561,565	625,892	636,845	704,797	754,936	769,053
Distribution Expenses - Maintenance									
887	Mains & Services	35,838	44,716	52,965	42,286	73,552	51,880	54,815	85,373
889	Meters & House Regulators	106,675	160,888	90,809	112,863	165,320	187,000	198,832	185,000
	Total	142,513	205,604	143,774	155,149	238,872	238,880	253,647	270,373
Sales Promotion Expenses-Operation									
910	Sales Expense	59,865	41,922	69,735	55,146	14,178	31,285	17,037	27,851
Administrative & General - Operation									
915	Directors Fees	71,135	49,268	24,150	28,200	1,463	40,529	4,049	31,821
920	Admin & General Salaries	784,491	593,410	496,221	551,172	531,316	657,271	657,855	968,797
921	Office Supplies & Expenses	110,831	110,167	114,006	106,356	113,093	101,891	95,967	103,370
922	Admin & General Expenses	18,874	6,011	4,697	25,493	9,856	7,100	2,566	2,571
923	Special Services	246,122	386,217	110,595	510,491	505,821	313,215	390,527	305,605
924	Insurance	102,466	109,466	103,106	107,102	136,898	136,860	139,590	151,601
925	Injuries & Damages-WCB	7,078	6,959	4,527	6,622	7,206	6,339	8,844	12,631
926	Employee Benefits	159,930	70,199	208,074	253,445	96,053	85,141	101,407	123,410
	Total	1,500,927	1,331,697	1,065,375	1,588,881	1,401,706	1,348,346	1,400,806	1,699,806
Administrative & General - Maintenance									
932	Maintenance of General Plant	15,814	16,873	22,980	71,747	22,172	20,372	32,043	27,835
Gross O&M Expense		4,432,074	4,343,242	4,484,809	5,197,167	4,992,371	5,094,228	5,089,546	5,624,641
O&M Expenses Allocated to Capital $									
Net O&M Expense		4,432,074	4,343,242	4,484,809	5,197,167	4,992,371	5,094,228	5,089,546	5,624,641

6.1 Please confirm the CEC's understanding or otherwise explain that the Total O&M by business function has already been allocated out, and that the figures in Table 10 represent costs that are all attributable to the Steam system.

RESPONSE:

Confirmed. The Table 10 has already been allocated out and only represents costs that are attributable to the Steam system.

6.1.1 Please provide the totals for the full system.

RESPONSE:

Please refer to the response to BCUC IR 5.1.1.

6.2 Why did Creative Energy not spend all of its expected Structures and Improvements (line 506) in 2020?

RESPONSE:

COVID-19 was the driver of differences. Spending in this category reduced significantly due to concerns of cash flow and spending. When Creative Energy finalizes the COVID-19 deferral for 2020,

the cost savings from lower rate base additions in 2020 will be addressed with possible savings passed on to customers. The current estimate of these savings is $19K.

Spending was increased as the year progressed. Cash flow and, manpower and all other required resources were managed with the intention of moving smaller projects forward from 2021 to spend the requested budget for capital maintenance. Projects deferred in 2020 will be undertaken in 2021.

6.3 Why did Creative Energy spend approximately $50,000 more in Distribution – Supervision and Labour than Approved, and more than $100,000 more than 2019 Actual? (line 870). Please be specific.

RESPONSE:

Please refer to the response to BCUC IR 7.3 in regards to the $50,000 more than Approved. Creative Energy expected more time would be required on the other energy systems. Actual timesheets have indicated that this was not the case and more time was spent supporting the Core system than budgeted.

In regards to spending $100K more than the 2019 Actual, this was presented as part of the request for an additional partial headcount to support the Core system during the 2020 RRA process. This was necessary to support an aging distribution system that was requiring more attention. Note that the additional cost was approved as part of the 2020 RRA.

7. Reference: Exhibit B-1, page 25

Table 18: Management Labour and Benefits – Accounts 920 and 926 - Variance

920 Admin & General Salaries		2020 Approved to 2021 Forecast	
Wages	Not external	312,099	48%
926 Employee Benefits			
Benefits	Not external	37,318	60%
Pension	External	1,051	5%
Subtotal		38,370	45%
Total		350,468	56%
	Internal	349,417	56%
	External	1,051	0%

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.

Specifically, our resourcing priorities reflect our requirement and renewed commitment:

- To evaluate the technical and financial feasibility of prospective Core customer connections, projects and demand-side management investments;
- To renew existing customer service agreements;
- To improve the overall operations of Creative Energy's new and established district energy systems including Core and to enhance the performance of all of Creative Energy's assets.
- To achieve improvements in efficiency, reliability, and economic and environmental performance of our district energy assets and to support the development of business cases for potential projects and technology solutions; and
- To build the current accounting team that serves all Creative Energy regulated utilities in BC in a shared and cost-effective way.

Benefits are estimated based on projected rates for categories such as CPP, EI, WCB and extended health. Pension costs are expected to be lower than 2020 Approved as the contribution rate decreased from 11% to 9% in 2021. The same number of management team members are planned

to be enrolled in the pension in 2021. The pension plan was discontinued for new members of the management team in 2018 and only those employees that were with the company prior to it being discontinued still receive this benefit. The increase shown here relates to an allocation of the fees from RBC. These had historically been split out to plant and distribution pension costs. In the 2021 Test year column the full fees are included.

7.1 Please provide details of the types of activities that are included in Admin and General Salaries (line 920).

RESPONSE:

This is wages and benefits related to office staff and are the roles of specifically of the CEO, CFO, Controller, Director of Regulatory, Director of Operations, accounting and admin staff and engineering staff.

7.2 Please identify the positions included under Admin and General.

RESPONSE:

Please refer to the response to CEC IR 7.1

7.3 How many additional staff is Creative Energy including in 2021 vs 2020?

RESPONSE:

Creative Energy has added three new roles in 2021: Director – Partnerships, Systems engineer and Accountant.

7.4 Please provide further details of the types of activities that are included in evaluating the technical and financial feasibility of projects and the demand side management investments that Creative Energy mentions in the first bullet.

RESPONSE:

In evaluating the technical and financial feasibility of prospective customer core connections, Creative Energy typically works with the building consultants to understand forecast peak and annual loads, and review drawings and HVAC parameters to understand how service could be supplied. Creative Energy estimates the size and routing of a potential connection, and may make estimates of the extension costs, and runs an extension test(s).

7.5 Please confirm that Creative Energy has always undertaken to evaluate technical and financial feasibility of prospective Core customer connections and renewing existing customer service agreements.

RESPONSE:

Confirmed, but the frequency of connection evaluation may vary over time.

7.6 Please quantify the costs associated with improving 'the overall operations of Creative Energy's new and established district energy systems, including Core, and the costs to enhance the performance of all of Creative Energy's assets'.

RESPONSE:

Creative Energy can not provide a specific quantitative amount for the incremental costs related to the contextual statement. However, the combined incremental cost related to new roles that focus on the statement in CEC IR 7.6 and CEC IR 7.7 is approximately $226,000.

7.7 Please quantify the costs associated with improvements 'in efficiency, reliability, and economic and environmental performance of its district energy assets and supporting the development of business cases for potential projects and technology solutions'.

RESPONSE:

Please refer to the response to CEC IR 7.6.

7.8 Please quantify the costs associated with building 'the current accounting team that serves all Creative Energy regulated utilities in BC in a shared and cost-effective way'.

RESPONSE:

Creative Energy can not provide a specific quantitative amount for the incremental costs related to this statement. However, the combined incremental cost related to new roles as per the focus on this statement is approximately $82,000.

8. Reference: Exhibit B-1, page 28

3.1.4.3 Electricity

Creative Energy takes electricity service from BC Hydro under Large General Service Rate Schedule 1611. Electricity costs for the 2021 Test Year uses the BC Hydro rates that will be in effect in 2021. The estimate of 2021 electricity costs uses an estimate of historical peak demand by month to forecast demand charges and an estimate of the ratio of electricity consumption to steam production to forecast energy charges. It is noted that Creative Energy underestimated the cost of electricity in the 2019-2020 RRA compared to current year actuals. The estimate for the 2021 Test Year while higher than 2020 Approved is lower than what it is tracking to in 2020. Creative Energy considers the estimate to be reasonable based on 2019 and 2020 actuals. We note that use of electrical equipment has increased in the Plant, most notably electric driven feedwater pumps. Boilers 3, 4 and 6 also had reduced operating hours this year compared to previous years, due to maintenance. All 3 of these Boilers have steam operated fans, meaning that the reduced usage of these boilers will reduce natural Gas consumption in the Boiler Plant, but increases the electrical usage by other equipment.

8.1 Why have the electric driven feedwater pumps increased in electricity usage? Please explain.

RESPONSE:

Please refer to the response to BCUC IR 10.1.

8.2 Please quantify the use and $ value of the increase in the feedwater electricity usage.

RESPONSE:

This cannot be directly quantified and was only an observation for why it is likely that electricity costs increased in 2020. Projected electricity costs for 2020 are approximately $8K higher than 2019. Considering that 2020 load is lower than 2019, it is estimated that the additional cost of the feedwater electricity usage is between $5-10K.

8.3 Please elaborate on the extra maintenance required by Boilers 3, 4, and 6 and the reasons for the same, as well as differences from the past.

RESPONSE:

Boiler 3 is being kept after the site redevelopment, and care and attention to maintenance to prolong the life of the asset is important. Boiler 3 is one of the older boilers we have (1970), 50 years of age,

and as such, is starting to show its age, requiring other maintenance than would typically seen on newer equipment. Identification of turbine blades and buckets worn required some additional repairs, with the planning for a much larger refurbishment project in 2021.

Boiler 4 has had continued regular maintenance done in 2020, but nothing out of the ordinary, keeping in mind it will not be part of future plans of the steam plant, nothing can be capitalized on this Boiler, and is strictly a maintenance cost.

Boiler 6 (1990) is also now getting some much-needed upgrades to its burner management system, turbine and its damper controls, as well as its ability to operate on back up fuel oil, all while trying to optimize its Low NOx burner and keep its efficiency of combustion and operation top of mind.

8.4 Please quantify the reduction in the usage of natural gas consumption and the cost savings experienced in the natural gas consumption.

RESPONSE:

Natural Gas consumption is a direct result of steam production, and therefore steam demand from the customer base. Fuel costs are a flow-through charge and any reduction in natural gas usage compared to forecast will be a direct flow-through to customers.

Combustion efficiency varies during the year as impacted by load but consider the following indicative impact and sensitivity of the cost and savings in natural gas fuel costs in a given year all else equal:

- **Natural Gas = 1,864,214 GJ**
- **Steam Load = 1,126,620 M#**
- **Average GJ/M# steam produced = 1.65**
- **Fuel Charge per M# = $12.50/M#**
- **Average Fuel Charge per GJ = $7.55/GJ**
- **2% improvement in combustion efficiency**
- **Result:**
    - **Average GJ/M# steam produced = 1.62**
    - **GJ for given load = 1,825,124**
    - **GJ reduction = 39,089**
    - **Annual value of reduced natural gas use = ~$295,000**

8.4.1 Please identify where that reduction is evidenced in the Application.

RESPONSE:

The Application concerns the cost of steam service and the reduction in fuel costs will not be evidenced in the Application. The costs of fuel are a flow-through charge to customers, approved separately by the BCUC. For an approved fuel cost rate, differences between forecast and actual fuel cost recovery are recorded to a Fuel Cost Stabilization Account.

8.5 Please explain and quantify the increase in electrical usage of the other equipment.

RESPONSE:

Please refer the response to CEC IR 8.2.

9. Reference: Exhibit B-1, pages 29 and 28

Table 21: Maintenance and related functional operation – Multiple Accounts – Detailed Summary

	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Approved	2020 Projected	2021 Test Year
502 Steam Expenses – Maint. & related	153,371	94,582	225,735	180,529	148,779	140,320	142,443	174,093
506 Structures and Improvements	3,576	1,548	8,230	37,129	95,978	78,696	37,678	43,500
880 Other Distribution Operation	-	-	-	-	-	-	-	-
933 Transportation	14,102	11,198	13,612	13,191	23,481	20,840	19,093	20,061
887 Mains and Services	35,838	44,716	52,965	42,286	73,552	51,880	54,815	85,373
889 Meters & House Regulators	106,675	160,888	90,809	112,863	165,320	187,000	198,832	185,000
932 Maintenance of General Plant	15,814	16,873	22,980	71,747	22,171	20,372	32,043	27,835
Total	329,376	329,805	414,331	457,744	529,281	499,108	484,903	535,862

3.1.5 Maintenance – Multiple Accounts

This general category of Maintenance includes some related operations cost components to simplify the overall summary.

Forecast 2021 maintenance costs exceed 2020 Approved amounts by approximately 7 percent. Maintenance budgets are pooled across business function overall and they may vary within the year based on priority or emergent need, as indicated by the variation in spend within and across account category of expense.

The evident longer-term trend of increasing maintenance costs from 2015 through 2020 relates to a requirement for more inspections of ageing equipment and more expensive work to maintain that equipment, noting that the amount of equipment to be maintained is generally stable.

The budget is prepared by management plant and distribution team based on expected spending needs in 2021. It is relatively consistent with the level of spending in 2019.

9.1 Please identify the age of the boilers and the expected life and anticipated retirement of each.

RESPONSE:

Please refer to the following extract from Creative Energy's 2021 LTRP, which provides information into the existing boilers and to the outcome of the Redevelopment Project when complete.

Table 5 below shows the changes to overall boiler capacity as a result of the Redevelopment Project.

Table 5: Boiler Capacities after the Redevelopment Project

Boiler ID (lb/hr)	Manufacturer	Year Built	Rated Capacity (lb/hr)	Functional Capacity (lb/hr)	Annual Contribution to Steam Generation
~~No. 1~~	~~Foster Wheeler~~	~~1967~~	~~100,000~~	~~50,000~~	-
~~No. 2~~	~~Foster-Wheeler~~	~~1968~~	~~100,000~~	~~60,000~~	-
No. 3* (Beatty)	B & W	1969	135,000	100,000	10%
~~No. 4~~	~~B & W~~	~~1973~~	~~215,000~~	~~180,000~~	-
No. 5 (Beatty)	Cleaver-Brooks	1983	75,000	70,000	10%
No. 6 (Beatty)	Foster-Wheeler	1991	200,000	170,000	20%
No. 1 (Expo)	B & W	2022	200,000	200,000	30%
No. 2 (Expo)	B & W	2022	200,000	200,000	30%
Total Connected Capacity			810,000	740,000	100%

* Boiler #3 currently has a functional capacity of 100,000 lb/hr; however, this boiler has reached the end of its design life. The Redevelopment Project retains Boiler #3 for the time being. In the absence of Boiler #3, the functional capacity of the new plant is 640,000 lb/hr.

9.2 For each boiler please quantify the maintenance over the last 5 years.

RESPONSE:

Our tracking by General Ledger codes do not separate costs by boiler but by mechanical equipment, electrical equipment, etc.

General maintenance for Boilers on an annual basis includes, but is not limited to

- **Annual inspection, internal and external components**
  - **Internal components**
    - **Washing and cleaning of the boiler,**
    - **Repair of the refractory as required**
  - **External components**
    - **All devices checked for proper operation,**
    - **If they are a safety switch, they are tested, noted for TSBC**
    - **Safety valves are pop tested, serviced if required as per schedule**
    - **Hydrostatic test performed on water side of Boiler**

- **Forced draft fan serviced as required,**

- **All Boilers have their combustion tuned to optimal firing rate, minimal excess Oxygen while managing NOx and CO**
- **All mechanical equipment is lubed, oil checked**
- **All rotating equipment has a twice yearly vibration analysis completed, reviewed for any issues**
- **All feedwater equipment, pumps are serviced, packing replaced as required, bearings replaced as required, alignment performed as required**

10. Reference: Exhibit B-1, page 29

Table 22: Maintenance and related functional operation – Multiple Accounts – Variance

		2020 Approved to 2021 Test Year	
502 Steam Expenses - Partial	Not external	33,773	24%
506 Structures and Improvements	Not external	(35,196)	-45%
880 Other Distribution Operation	Not external	-	
933 Transportation	Not external	(779)	-4%
887 Mains and Services	Not external	33,493	65%
889 Meters & House Regulators	Not external	(2,000)	-1%
932 Maintenance of General Plant	Not external	7,463	37%
Total	Not external	36,754	7%

10.1 Please explain the 65% variance in 'Mains and Services' with quantitative explanations.

RESPONSE:

The increase reflects current priorities across the entire portfolio of maintenance budgets and incorporates forecast cost increases also from vendors etc.

11. Reference: Exhibit B-1, page 30

Table 25: Summary of Projected 2020 Regulatory Expenses

	2020 Total Projected
Quarterly Fees	19,813
Beatty CPCN Commission & Contractor Fees	52,458
Refinancing Application	13,462
Revenue Requirement Application 2020	107,351
Revenue Requirement Application 2021	20,000
COVID-19 Deferral Application	14,006
Long-term Resource Plan	32,300
Regulatory Legal Misc.	13,729
Total Regulatory	273,119

Table 26: Forecast 2021 Regulatory Expenses

	2021 Total Test Year
Quarterly Fees	25,000
Revenue Requirement Application 2021	50,000
COVID-19 Deferral Account Recovery Application	25,000
Long-term Resource Plan	50,000
Total Regulatory	150,000

11.1 Creative Energy submitted its 2021 Long Term Resource Plan in January 2021. When and for what activities did Creative Energy incur $32,300 in regulatory costs in 2020?

RESPONSE:

The costs are for external regulatory and legal services provide to Creative Energy in support to the preparation and filing of the LTRP, which filing requirement is an externally driven regulatory requirement.

11.2 What is the total regulatory expense for Creative Energy's Long Term Resource Plan to date?

RESPONSE:

Creative Energy did not begin spending on the LTRP until 2020 as the previous costs related to the Fuel Switch project were denied for recovery as part of the LTRP. The total projected cost in Table 25 of $32,300 are the total costs to date.

11.3 Does Creative Energy expect to incur regulatory costs for its Long Term Resource Plan in 2022? Please explain and quantify if yes.

RESPONSE:

Regulatory costs for the LTRP in 2021 will comprise Commission fees, PACA fees and external regulatory legal support provided to Creative Energy in support of the regulatory review of the LTRP.

Creative Energy may expect that the LTRP would be accepted by the Commission in a decision in 2021 and that given the periodic nature, by definition, of the requirement to file a LTRP, we may not expect to incur regulatory costs for review the LTRP in 2022.

12. Reference: Exhibit B-1, page 30

3.1.6.3 Outside Services

Outside Services relate to consulting costs for government advisory services, business development opportunities, the scoping of low carbon project opportunities and funding sources and external costs for preparing the tax return. To estimate these costs Creative Energy gives greater weight to the current trend in expenditures over the last 2 years using a weighted average of 2018 through 2020 costs, applying weights of 20%, 40% and 40% to each year respectively.

12.1 Please explain why Creative Energy used 3 years instead of another period, such as 1, 2 or 5 years.

RESPONSE:

Creative Energy feels that three years is best predictor for the current year as it is middle ground for factoring in recency and history.

12.2 Why did Creative Energy select 20%, 40% and 40% instead of any other weighting, such as 10%, 20%, 50%, 60%, and 70%?

RESPONSE:

Creative Energy chose 20 percent, 40 percent and 40 percent primarily to give more influence to the affect of recent cost trends for setting costs. The choice to set 2019 and 2020 both equal to 40 percent was to ensure that 2020 did not have too much influence as this number was still an estimate for the final 3 months of the year and not a full actual. For these reasons, Creative Energy believes that this is a superior method than using a simple average of three years. It is also superior to having a higher percentage for 2020 and relying on results that were not full actuals. These percentages have been consistently applied for the types of costs that are estimated using averages instead of a bottom-up approach. Creative Energy did not pick and choose accounts for use of the 20/40/40 estimate approach but has applied it consistently, with exceptions noted where required.

12.3 Please break out the outside service costs by activities.

RESPONSE:

Outside services cannot be broken out by activity as the activities vary from year to year depending on need it varies from year to year. It typically includes 3rd party consulting costs, government advisory costs and fees for preparing tax returns. The budget is an average of previous years using the 20/40/40 trend with an adjustment for inflation and is not a bottom-up approach based on specific tasks.

12.4 Please describe the government advisory services costs and how they relate to the steam system and, in particular, identify the quantitative benefits attributable.

RESPONSE:

This was a retainer for a government consultant related to low carbon initiatives and it has been discontinued for the 2021 RRA.

12.5 Please describe the business development activities and how they relate to the steam system and, in particular, identify the quantitative benefits attributable.

RESPONSE:

The nature and benefits of the activities are as described in the response to CEC IR 4.9.1. As described above, outside services cannot be broken out by activity as the activities vary from year to year depending on need it varies from year to year. We do expect business development activities to be delivered through internal resources in 2021.

12.6 Please describe the low carbon project opportunities that Creative Energy is pursuing and how they relate to the steam system and, in particular, identify the quantitative benefits attributable.

RESPONSE:

Please refer to Creative Energy's LTRP and to the Confidential Appendix A to the LTRP, as being reviewed in a separate proceeding of the BCUC and for which the CEC is an intervener.

12.7 Please provide an approximate % of the costs that relate directly to the steam system.

RESPONSE:

One-hundred percent of the costs relate directly to the steam system.

13. Reference: Exhibit B-1, page 30 and 31

3.1.6.4 Audit Fees

Creative Energy expects an increase in 2021 audit fees from 2020 approved audit fees due to two material related matters in 2020: the corporate reorganization and debt refinancing. Creative Energy is currently in discussions with its auditors regarding the fee. For the purposes of interim rates at this time Creative Energy has assumed total audit fees in 2021 of $70,000 which is still in line with actuals from previous years. Creative Energy expects to be able to update this estimate

with the actual cost of audit fees during the IR process. Note that the 2021 audit fee of $55,687 reflects the allocated amount to Core through the mechanism of the Massachusetts formula.

13.1 Please provide a brief description of the corporate reorganization and estimate the % increase in the audit fees as a result of the reorganization.

RESPONSE:

The corporate reorganization is as described in the 2018 application for a CPCN for the Expo-Beatty Plants and Reorganization, which the Commission approved in 2020 and in relation to which the CEC was an intervener.

It is estimated that the additional fee related to the reorganization will be approximately $10,000 or approximately 20% of the existing fee.

13.2 Please provide a brief description of the debt refinancing, including the reason it was required, and estimate the % increase in financing costs due to the debt refinancing.

RESPONSE:

Creative Energy shifted lenders from RBC to HSBC. The actual cost quoted by Creative Energy's auditor for additional audit work on the new financing is $1,500 which is approximately 3%.

Note that the fee quoted by Creative Energy's auditor includes various other increases totaling $7,000.

14. Reference: Exhibit B-1, page 31

3.1.6.5 Legal Fees

Legal fees in this category of costs do not include expenses relating to regulatory applications and proceedings. Legal fees are typically driven by emergent within period priorities and therefore prior year actual costs are not necessarily indicative of an underlying trend. For example, higher legal fees in 2018 related in part to legal support for drafting a statutory rights of way for the Post Office site and projected 2020 costs are higher based on the required support to the corporate reorganization effort. The variance in prior year actual legal costs are therefore not predictive of future requirements. The 2021 forecast is therefore estimated as the simple three-year average of the reported amounts spanning 2018-2020.

14.1 Please confirm or otherwise explain that management expense could also be generated according to related and emergent activities and priorities, such that the prior year actual costs may not necessarily be indicative of an underlying trend.

RESPONSE:

Not confirmed. This expense does not just relate to emergent activities or priorities. These legal costs are not predictable as evidenced by the variability from year to year. They also relate to things like employee matters that are not known in advance.

15. Reference: Exhibit B-1, page 31

Director fees in 2020 are not indicative of Creative Energy's business requirements but reflect a continued transition in Board membership from volunteer unpaid positions that existed during the period of 2019 and 2020. Creative Energy added a paid director position in 2020 – quarter 3 for $40,000 per year, half of which will be allocated to Creative Energy Vancouver and then allocated via the Massachusetts formula. An additional board position at a similar cost is planned for 2021. With the Beatty and Expo projects and other emergent project opportunities in the near-term horizon, the Board has begun to rebuild its capacity in 2020.

15.1 Please clarify the statement that the Director's Fees are not indicative of Creative Energy's business requirements.

RESPONSE:

This statement means that the fact Creative Energy did not have director's fees in 2019 is not indicative that such fees will not be applicable in future years. Creative Energy added a 3rd party

director mid-way through 2020 and is actively pursuing a second 3rd party director to be added in 2021.

15.2 Why did Creative Energy have unpaid volunteer positions between 2019 and 2020?

RESPONSE:

Unpaid volunteer positions in 2019 and 2020 are employees of the partners of CEDLP. These will continue to be unpaid volunteer positions in 2021.

15.3 What is the rationale for transitioning to paid positions?

RESPONSE:

The existing positions are not transitioning into paid positions. They will continue to sit on the board as representatives of the company's they work for. Creative Energy has historically had mix of paid and unpaid positions on the board which is consistent with a similarly higher expense pre-2018.

16. Reference: Exhibit B-1 page 31 and 32

Table 31: Other General & Administrative – Multiple Accounts – Summary

	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Approved	2020 Projected	2021 Test Year
915 Directors Fees	71,135	49,268	24,150	28,200	1,463	40,492	4,049	31,821
921 Office Supplies & Expenses	110,831	110,167	114,006	106,356	113,093	102,674	95,967	103,370
922 Admin & General Expenses	18,874	6,011	4,697	25,493	9,856	7,094	2,566	2,571
924 Insurance	102,466	109,466	103,106	107,102	136,898	136,800	139,590	151,601
925 Injuries & Damages - WCB	7,078	6,959	4,527	6,622	7,206	6,333	8,844	12,631
Total	310,384	281,871	250,486	273,773	268,506	293,393	251,016	301,994

Table 32: Other General & Administrative – Multiple Accounts - Variance

		2020 Approved to 2021 Test Year	
915 Directors Fees	Not external	(8,671)	-21%
921 Office Supplies & Expenses	Not external	696	1%
922 Admin & General Expenses	Not external	(4,523)	-64%
924 Insurance	External	14,801	11%
925 Injuries & Damages - WCB	Not external	6,298	99%
Total		8,602	3%

Insurance expense has increased from 2020 Approved. The 2020 Approved amount reflected an increase related to higher actual property insurance costs for the equipment at the plant and for the building at 720 Beatty Street. The replacement value of equipment and building was reviewed for 2019 upon request by Creative Energy's insurer and the statement of values were increased and as a result, property insurance increased 2020 is consistent with those updates. The 2021 forecast likewise reflects those updated values and the forecast increase now relates to anticipated increases in premiums. For the major categories of insurance such as umbrella, general commercial liability and property insurance Creative Energy used the actual increases in premiums experienced during 2020. For smaller categories such as Directors and Officers insurance, a small increase of 2% for inflation was used.

16.1 The 2020 Projected was about $2000 higher than the 2020 Approved. Please confirm the CEC's understanding, or otherwise explain, that the nearly $4000 increase is entirely due to premium increases.

RESPONSE:

Confirmed.

17. Reference: Exhibit B-1, page 32

3.1.7.2 Sales Expense – Account 910

The Sales Expense account records costs related to conferences and professional development. Historical year actual costs included advertising and promotion, and sponsorship for conferences such as relating to the International District Energy Association. A weighted average of 2018-2020 was used applying 20% to 2018, 40% to 2019 and 40% to 2020. This reasonably estimates that costs will be higher than 2019 and 2020, and not as high as in 2018. Consistent with 2020, sales expense is directly charged to the Core system and is not allocated using the Massachusetts Formula.

Table 33: Sales Expense - Summary & Variance

	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Approved	2020 Projected	2021 Test Year	Control	2020 Approved to 2021 Test Year
910 Sales Expense	59,865	41,922	69,735	55,146	14,178	31,285	17,037	27,851	Not ext.	(3,434) -11%

17.1 Please confirm the type of district energy systems into which Creative Energy's core system and other systems fall.

RESPONSE:

Please refer to Table 3 of the Application.

17.2 Please provide a % approximation of the Sales Expense that was directly related to promoting the steam system.

RESPONSE:

Sales expense is based on an average of the previous three years using the 20/40/40 average and adjusting for inflation. Creative Energy did not budget specific details other than using this average of the previous year's actuals and cannot provide an approximate percentage related to directly promoting the energy system. Historical costs grouped to this account have included trade shows, advertising, branding, dues and memberships (such as the IDEA) and courses and conferences.

18. Reference: Exhibit B-1, page 34

3.3.1 Allocation to Non-Regulated Operations

Historically Creative Energy has allocated a portion of the total property tax to its non-regulated operations (**NRO**); thus, reducing the amount of its regulated revenue requirement and benefiting steam customers through lower rates.

Creative Energy's NRO include leasing of surplus office space to tenants and parking rentals on land not used in utility operation. To calculate the appropriate amount to be allocated to NRO, Creative Energy applies the levy rates to the total assessed value of the land and building and a portion is then allocated to the NRO using building and land square footage as an allocation base. Consistent with the 2019-2020 RRA, office space not currently being rented to tenants and as approved in the 2020 rates, Creative Energy has not included an allocation to NRO for office space in 2021. The NRO allocation relates specifically to parking. The Company believes that this approach to allocation continues to be fair and reasonable and should be applied for the 2021 Test Year.

18.1 Is Creative Energy not allowing use of any office space or parking to a prospective tenant or someone, including contractors, working on the development of its property or other related Creative Energy projects or distributed energy systems projects? Please explain, and provide the rationale.

RESPONSE:

Creative Energy was open to prospective tenants, but the challenges of COVID-19 have reduced opportunities for this and safety precautions have made this a low priority. At the time the RRA was submitted, Creative Energy had not secured a new tenant. Creative Energy recently secured a small tenant that will utilize some excess warehouse space as a short-term rental and will be allowed to use Creative Energy's parking space. This rental is month to month and Creative Energy can end the rental when the space is required for the redevelopment. Creative Energy does not anticipate making more than $10K from this rental during 2021. Creative Energy considers this revenue to be relatively immaterial and not a secure revenue stream and should not impact the allocation of property taxes.

Creative Energy anticipates that the developer will at some point require use of space at 720 Beatty. The timing of this and whether it will commence in 2021 is currently unknown. Creative Energy will equitably apportion a percentage of the property tax to the developer when they start using the space in line with the requirements of the Trust agreement. As Creative Energy has a deferral account on property taxes, if a portion of actual property taxes is allocated to the developer, Creative Energy's customers would benefit via the deferral account.

Staff supporting other Creative Energy projects use office space at 720 Beatty. When Creative Energy's two former office space tenants vacated, Creative Energy staff moved into the vacated space. This became important for social distancing at the onset of COVID-19. Due to COVID-19, most of this staff team works from home and only uses the 720 Beatty office space when needed. As shown in BCUC IR 43.1, the labour rate charged to capital projects includes a charge for using office space which is meant to incorporate costs related to IT, office supplies and property tax.

19. Reference: Exhibit B-1, page 36

3.5.1 Depreciation of CIAC

Depreciation of Contribution-in-Aid-of-Construction reduces the overall depreciation expense and effectively lowers the rates. Creative Energy uses the same approach as discussed above when calculating CIAC depreciation. There is only one CIAC class and its depreciation rate is set at 2.5 percent. The depreciation percentage approximates the overall deprecation rate for distribution plant to which the CIAC pertains. Please refer to Schedule 6. There are no new additions to CIAC included in 2021.

19.1 Please confirm or otherwise explain that the 2.5% depreciation rate is consistent with Creative Energy's historical practice, and if not why not.

RESPONSE:

Confirmed. This is consistent with Creative Energy's historical practice.

20. Reference: Exhibit B-1, page 37

3.6.2 Debt Financing

Creative Energy secured new debt financing in September 2020 with HSBC, which was approved by Order G-187-20. Principal payments on Tranche 1 (Fuel loan) are made on a monthly basis until it is repaid in February 2021. Principal payments on Tranche 4 are made on a quarterly basis. Loan balances/limits as at December 31, 2020 and current interest rates on these loans are provided in Table 34.

Table 34: Credit Facility Summary

Tranche 1 (Fuel Loan)	Non-revolving	2,110,599	Prime + 1.25% or BA Floating Rate + 2.50%
Tranche 2	Revolving Demand	5,000,000 (limit)	Prime + 1.25% or BA Floating Rate + 2.50% plus standby fee of 0.5% on the unused balance
Tranche 3	Non-revolving	10,000,000	Prime + 1.25% or BA Floating Rate + 2.50%
Tranche 4	Non-revolving	13,003,129	Prime + 1.25% or BA Floating Rate + 2.50%

20.1 Has the Fuel loan been repaid as of mid-February?

RESPONSE:

Yes, it was fully repaid in February.

20.1.1 If no, please explain when Creative Energy expects to repay the Fuel loan.

RESPONSE:

Not applicable.

20.1.1.1 What is the current value of the Tranche 2 Revolving Demand loan?

RESPONSE:

At December 31, 2020, $2,769,000 was drawn on Tranche 2.

20.1.1.1.1 For what purposes is Creative Energy using this loan?

RESPONSE:

It is required for working capital needs primarily for the Core system. There are timing differences between when Creative Energy receives cash from customers and when it pays its vendors.

20.1.2 When does Creative Energy expect to pay off Tranche 2, 3 and 4? Please explain.

RESPONSE:

Tranche 2 is a revolver. It is repaid as cash becomes available and is drawn when cash is needed.

Tranche 3 is an evergreen loan. It is not repaid.

Tranche 4 is repaid approximately $165,000 at the start of each quarter.

20.2 Please provide the most recent prime rate and BA Floating Rate as well as 1 year's history and any anticipated rate information Creative Energy has access to.

RESPONSE:

The prime rate is currently 2.45%.

A history of the change in the prime rate based on the date the rate changed is shown below:

March 31, 2020 2.45%

March 18, 2020 2.95%

March 6, 2020 3.45%

October 25, 2018 3.95%

The BA rate changes every day. For context the rate on February 12 was 0.52%. To provide additional context a subset of the one-month rates from 2020 has been provided so that the general trend in the rate can be seen.

January 2020 2.08%

April 2020 1.14%

July 2020 0.52%

October 2020 0.57%

Creative Energy has no anticipated future rate information and takes on the risk of changes in interest rates throughout the year.

21. Reference: Exhibit B-1, page 39 and 40

Table 36: Core System Capital Additions

	2015 Actual	2016 Actual	2017 Actual	2018 Actual	2019 Actual	2020 Projected	2021 Test Year
Total Capital Additions	957,101	1,506,832	436,695	1,173,038	2,193,318	770,069	1,914,085
Steam Plant							271,668
Distribution System							1,164,445
Customer Building Services							144,446
Customer Connections							233,527
Other							100,000

The scope of each category is as follows:

- Steam Plant
  - Beatty steam plant electrical, instrumentation or mechanical equipment used in the production of steam; during 2021, this includes expenditures to extend the life and improve efficiency of Boiler 3;

- Distribution System
  - Any piping, manhole or auxiliary equipment used in the steam distribution piping network; during 2021, this includes rebuilding and insulating manholes and the purchase of new vehicle for the distribution team;

- Customer Building Services
  - Meter replacements, upgrades or pressure reducing station improvement; for example, the installation of a primary and secondary pressure reducing station where previously only a primary station was installed, or installation of an access platform (safety) to a pressure reducing station; in 2021, this is specifically meter and PRV replacements; and

- Customer Connections
  - Costs directly associated with adding a new customer, including the pipe section from existing steam mains to building mechanical room, pressure regulating station, Energy Transfer Station, meter station, equipment insulation, mechanical and electrical install, commissioning, permits, fees, and management; in 2021 this relates to the new customer connection at 410 West Georgia.

- Other
    - In 2021, this relates initiatives that Creative Energy's finance team is planning for implementing Accounts Payable and billing automation software.

Note that certain components of the Steam Plant will be removed as part of the Beatty Plant redevelopment project as summarized below and discussed in detail in the Beatty CPCN Application:

- Boilers #1, 2 and 4 will be abated and demolished; Boilers #3, 5 and 6 will be retained
- Deaerators #1 and #2 will be abated and demolished; Deaerator #3 will be retained
- Feedpumps #1-3 and 5-7 will be abated and demolished; Feedpumps #4 and 8 will be retained
- Diesel generator will be abated and demolished, and replaced
- Diesel Fuel Tanks #1-4 will be abated and demolished, and replaced

21.1 Please provide further details of the age of Boiler #3 and its efficiency levels.

RESPONSE:

Boiler 3 is 50 years old; 1970 installation year.

Boiler 3 has an average combustion efficiency of approximately 88%. Boiler 3 is also connected to the existing condensing economizer, along with Boiler 4. This increases the Plant efficiency as a whole with the remaining heat in the flue gases utilized in the pre heating of our incoming domestic cold water prior to addition to the operating boilers.

Boiler 3 has dual fuel firing capability and needs no further upgrades for this feature.

Boiler 3 has had the refractory of the floor replaced and is looking to have the front wall replaced in 2021 as ongoing asset management in the maintenance of this boiler.

The Boiler 3 turbine that powers the forced draft fan has not had any significant maintenance performed on it in its 50-year history, and will be undergoing some extensive maintenance work in 2021 to increase its life and improve on the turbines efficient use of the steam it is supplied directly for its operation.

21.1.1 Were the costs related to extending the life of Boiler #3 included in the application for the Beatty Plant CPCN? Please explain.

RESPONSE:

No costs were included to extend the life of Boiler #3 in the Beatty Plant CPCN.

21.2 Please describe the current condition of the manholes and why they need to be rebuilt and insulated.

RESPONSE:

Please refer to the response to CEC IR 21.2. Manholes degrade, over time, due to:

- **Nature of the space, moisture and humidity, temperature**
- **External factors, City of Vancouver rainfall, manhole flooding, etc.**

- **Internal equipment leakages adding to the hot humid environment and the stress this places on the equipment within and**
- **Age, cyclic loading of the roadway above by heavy vehicle traffic, insulation upgrades due to the asbestos insulation used pre-1985**

21.3 How many manholes need to be rebuilt and insulated?

RESPONSE:

Currently, we have 5 manholes planned to be rebuilt and insulated.

- **MB-1 , 2021, structurally unsafe for entry, currently supported from within with blocking, asbestos insulation, manhole is under the sidewalk, not under the roadway**
- **MG-1, 2021/ 2022, structurally safe, but insulation is badly damaged and in need of repair**
- **MA-9, 2022, structurally unsafe for entry, currently supported from within with blocking, insulation is damaged, manhole is under the sidewalk, not under the roadway.**
- **MJ-3, 2023, manhole is manhole is beginning to show failure, first signs of rebar on the walls, and some minor buckling of the walls is seen upon entry/inspection. This manhole is in the roadway.**
- **MA-8, 2024, manhole is beginning to show failure, first signs of rebar on the walls, and some minor buckling of the walls is seen upon entry/inspection. This manhole is also under the sidewalk, not in the roadway**

21.4 What is the cost per manhole to rebuild and insulate?

RESPONSE:

Based on 2019 data, and projections for 2020, utilizing an outside firm for project management, $1,000,000 is the estimated cost, including $300,000 for project management and $600,000 for the manhole work itself.

21.5 Please provide quantification of the meter and PRV replacements in $ and number of replacements.

RESPONSE:

The current budget for each of these categories is as follows:

Meter replacements = $72,000

PRV replacements = $72,000

Depending on the meter being replaced, the amount of retrofitting required, size of the meter and location, insulation and support requirements need to also be factored into the budget, and then the labour for the work to occur, both from an outside contractor if welding and pipefitting is required, and internally, for set up, commissioning and planning. This value is estimated to change 5 steam meters.

PRV replacements is intended to include the pressure reducing station itself, and refurbish the components that make up this station, potentially re working this station if operational improvements for the utility are identified. This value is intended to refurbish 2- 4 stations depending on the amount of work that is identified.

21.6 Is the customer at 410 West Georgia Westbank, or in any way related to Creative Energy? Please explain.

RESPONSE:

The developer of 410 W Georgia site is Westbank.

21.7 Does all of the $233,527 relate to the customer at 410 West Georgia?

RESPONSE:

Yes, $233,527 was the estimate at the time the RRA was submitted Creative Energy now expects the final costs to come in below this amount.

21.7.1 What practices, if any, does Creative Energy have to ensure the cost-effectiveness of its customer connections? i.e. Does Creative Energy utilize any economic tests or require customer contributions? Please explain and provide quantification where applicable.

RESPONSE:

Creative Energy performs a capital cost estimate based on the available information provided by the customer for each customer connection. The estimated capital cost is then used in an economic extension test to determine whether a contribution from the customer is required for their connection to Creative Energy district energy system. The economic test is typically based on 25-year NPV from the start of service.

21.8.1.1 If yes for customer contributions, is the customer at 410 Georgia making any contribution? If so, please explain and quantify.

RESPONSE:

The customer at 410 W Georgia will be contributing an amount of $50,000 for connecting to Creative Energy. In the Application Creative Energy incorrectly displayed the addition to rate base net of the CIAC. The rate base addition should be the gross cost with the $50K being recorded to the CIAC account. This will be corrected when the actual addition is made. The misclassification does not have an impact on 2021 rates.

21.8 Please describe the initiatives planned for Accounts Payable and billing automation software.

RESPONSE:

Please refer to the response to BCUC IR 17.9.

22. Reference: Exhibit B-1, page 40

Creative Energy is commencing a Distribution system project in 2021 to improve the operational efficiency of the steam system by using condensate return from the NEFC. This project will not be added to rate base until 2022. Creative Energy will record AFUDC on this project during 2021. The scope of the project is to install required pipe and equipment between NEFC's Steam to Hot Water Energy Centre located at 39 Smithe Street - PARQ Casino - and Creative Energy's Steam plant at 720 Beatty Street. The approximate distance between the two energy centers is 1,000 meters. The purpose of the project is to capture the condensate formed from the steam used in NEFC Energy Centre and deliver it back to the plant at 720 Beatty street so that the condensate can be re-used to generate steam. Re-purposing any volumes of condensate from Creative Energy distribution network replaces the volume of City water required for generating steam. Reduction in City water usage in the steam plant equates to lower water costs to Core customers. It is also anticipated to benefit Core customers by reducing fuel consumption. The cost of the project is estimated at $930,000. The project has a forecast positive net present value over a 30-year period and is expected to deliver levelized annual savings of $3,500 per year.

22.1 Does Creative Energy require, or has it received, Commission approval for the project? Please explain.

RESPONSE:

Creative Energy does not require the Commission's approval before commencing or operating the project. Please refer to the response to BCUC IR 17.19. Commission approval is required to reflect the financial impacts of the project into rates, which as noted is expected to be an annual savings.

22.2 What is the $ value for the CPCN threshold for Creative Energy?

RESPONSE:

None is in place for Creative Energy. Please refer to the response to BCUC IR 17.4.

22.3 Please provide the forecast details for the positive net present value for the project, including the discount rate and its justification, the benefits, and the costs.

RESPONSE:

Please refer to the responses to BCUC IRs 17.16 and 17.17. A spreadsheet has been provided in the response to BCUC IR series 17.

22.4 Does the $930,000 project cost estimate include overhead and administrative costs as well as contingency? If so, please provide details.

RESPONSE:

The project cost estimate includes internal management time as well as contingency.

22.5 Is the NEFC being provided any benefit for the condensate recapture? If so, please provide details,

RESPONSE:

As a customer of the Core system, the NEFC will receive the benefit of improved efficiency as a result of the project.

22.6 Are there any other financial benefits for the condensate recapture project other than the $3,500 per year?

RESPONSE:

No.

23. Reference: Exhibit B-1, page 47 and page 48

4.2 Refinancing Cost Deferral Account (RCDA)

Creative Energy requests approval of a Refinancing Cost Deferral Account (**RCDA**) to record in 2020 and recover in 2021 rates the costs to refinance its debt facilities on September 17, 2020.

Creative Energy incurred the fees set out in the table below.

Table 42: Refinancing Fees

Payment to Former Lender's Lawyers	15,190
Payment to Creative's Lawyers	98,677
Payment to New Lender's Lawyers	89,850
Fee from New Lender	116,400
Total Deferred Financing Fees	320,117

Table 43: Refinancing Fee Calculations

	Core	M&K	NEFC	Kensington	SODO Cool	SODO Heat	Total
Net Balance of Property, Plant and Equipment (at September 2020)*57.5% debt	14,002,064	443,269	2,843,600	990,323	-	1,970,099	
Work in Progress (at September 2020)*57.5% debt	759,026	0	8,515	28,806	89,910	354,066	
Working Capital (per 2020 approved rates) * 57.5% debt	316,221	not material	-5,479	not material	n/a	not material	
Pension Asset (at September 2020) * 57.5% debt	637,215	n/a	n/a	n/a	n/a	n/a	
Fuel Cost Stabilization Account (at September 2020)	2,982,311	n/a	n/a	n/a	n/a	n/a	
Total	18,696,837	443,269	2,846,637	1,019,129	89,910	2,324,165	25,419,946
% allocation	73.55%	1.74%	11.20%	4.01%	0.35%	9.14%	100%

Based on these percentage allocations, Creative Energy is requesting a deferral account to record during 2020 financing fees of $235,452 (73.55% X $320,117) for the Core Steam System, which will be fully amortized into Creative Energy's Core 2021 revenue requirement.

23.1 Please confirm or otherwise explain that the units are in $2020.

RESPONSE:

Confirmed. The units are in $2020.

23.2 Please describe why Creative Energy required refinancing, and the purpose of any additional financing that was provided, as well as provide the cost-benefit for the refinancing.

RESPONSE:

Please refer to the response to BCUC IR 26.2.

23.3 Please confirm that refinancing calculations were determined based on the timing of the refinancing.

RESPONSE:

Confirmed. The calculations to allocate the refinancing costs by energy system were based on the relative debt values (based on assets and working capital requirements) at the time of the refinancing.

23.4 Please provide Table 43 calculated at the present time instead of at September 2020.

RESPONSE:

Creative Energy does not consider this to be relevant as the fee from the new lender was based on the value of the loan at the time the refinancing occurred not at a later date. For example, the fee was based on a fuel loan balance at September 17 that has now been completely repaid. In addition, the results of using later data would be skewed by capital expenditures that were made later in 2020 that were not funded by this debt balance. For example, Creative Energy received $2.5M equity financing to fund the SODO Cooling purchase after the refinancing date. Except for the annual fee of $15,000 that is included in the $116,400 these are closing fees and the allocation should be based on the balance at closing without exception. It does not make sense to use balances at a date in February or March as of timing of the response to this IR.

23.5 Please provide the expected term, rates, and other relevant terms for the property, plant and equipment financing, the working capital financings, and the fuel cost stabilization financing.

RESPONSE:

Currently, Creative Energy elected to enter into a one-year term on the new loans. They mature in September 2021. Creative Energy's rates were provided in BCUC IR 20.2 and 20.4. The fuel loan (Tranche 1) was repaid by February 2021. The other three Tranches have the same maturity date and rates. Tranche 2 is a revolver, the balance fluctuates throughout the year and the unused balance is subject to standby fee. Tranche 2 is used for working capital requirements and Tranche 3 and 4 for property, plant and equipment financing.

24. Reference: Exhibit B-1, Appendix C, PDF page 63/74

COST ALLOCATION METHODOLOGY AND TRANSFER PRICING

Principle

The methodology follows the principle that cost allocation is to match cost causation as closely as possible. This principle is achieved by directly assigning costs where possible, including the direct assignment of costs to Creative Energy pursuant to a Service Agreement if put in place. When costs are not directly assignable, Shared Corporate Services costs are allocated based on a functional allocator where appropriate. In cases where costs are not directly assigned and not functionally allocated, the Massachusetts Formula is used.

The methodology for determining a labour cost for time charges is on the basis of the fully loaded pay. There is no mark-up on Shared Corporate Services costs allocated to Regulated Affiliates.

24.1 Please elaborate on the type of Service Agreement that could be put in place.

RESPONSE:

An agreement between Affiliates in the Creative Energy group that describes the type of services provided and the rates that will be charged for those services.

24.1 Are there any Service Agreements already in place?

RESPONSE:

Creative Energy expects that following Commission approval of the IAC and TPP, a new shared service agreement or agreements will be prepared that align to and incorporate all relevant aspects of the approved TPP.

24.1.1 If yes, please provide.

RESPONSE:

Please refer to the response to CEC IR 24.2.

24.1.2 If no, does Creative Energy expect to put Service Agreements into place? Please explain and identify any intended agreements and when they will be implemented.

RESPONSE:

Please refer to the response to CEC IR 24.2.

24.2 Would the Commission have the opportunity to review the Service Agreements and the cost allocations? Please explain.

RESPONSE:

The Commission has already approved cost allocation methodology for utilities in the Creative Energy group. The approved methodology is set out for transparency in the IAC and TPP. Following

Commission approval of the IAC and TPP, any service agreement(s) between affiliates in the Creative Energy group will assign costs in accordance with the approved TPP, and accordingly there would be no reason to seek Commission approval of such service agreement.

25. Reference: Exhibit B-1, Appendix C, PDF page 63/74 and Appendix C, PDF page 67/74

Financing

Any loan, investment, or other financial support received by an Affiliate from Creative Energy or another Affiliate shall be taken on terms no less favorable than what the Affiliate would be able to obtain as a standalone entity from the capital markets.

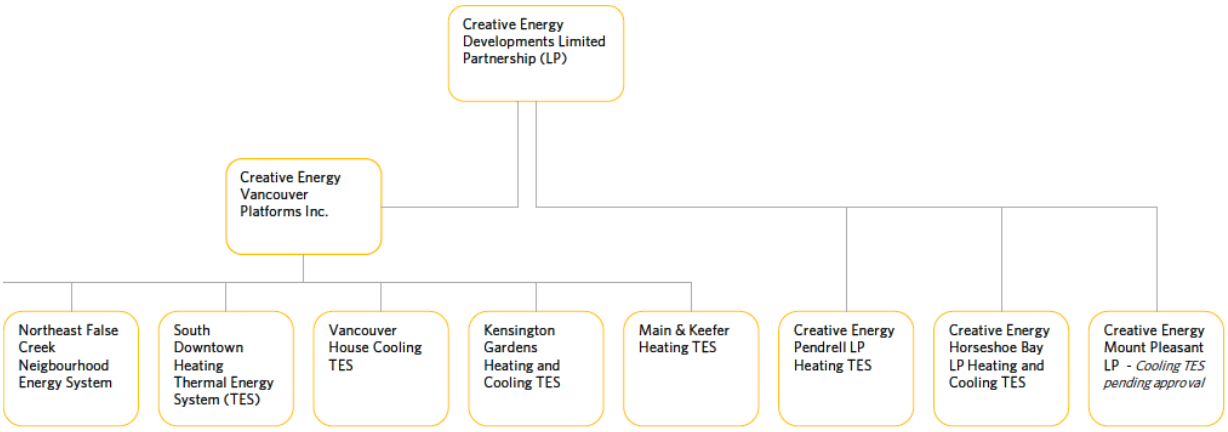
Any loan, investment, or other financial support provided by a Regulated Affiliate to Creative Energy or another Affiliate shall be provided on terms no more favorable than what Creative Energy or that Affiliate would be able to obtain as a standalone entity from the capital markets.

Any financing or other financial assistance that exposes Customers to additional costs or risks will not be undertaken unless approved by the BCUC.

Any loan, investment, or other financial support provided by, or received by, a Regulated Affiliate is subject to the approval of the BCUC, as required pursuant to the *Utilities Commission Act*.

APPENDIX A

CREATIVE ENERGY GROUP ORGANIZATION CHART



25.1 Please explain which entities are considered to be Affiliates, and which are considered to be Regulated Affiliates.

RESPONSE:

All of the entities / service areas in the org chart are Affiliates, as the term is defined in the IAC and TPP, except for Creative Energy Developments LP. Creative Energy Developments LP is affiliated with the Affiliates, but it is not a utility and is defined as Creative Energy and dealt with separately in the IAC and TPP.

In the Creative Energy IAC and TPP, Regulated Affiliates are a subset of all Affiliates. A Regulated Affiliate is an Affiliate that provides a service pursuant to rates set by the Commission; that is, a Stream B TES under the existing TES Guidelines. The classifications are as follows:

> **Regulated Affiliates (public utility, Stream B TES): Core Steam District Energy System. Northeast False Creek Neighbourhood Energy System, South Downtown Heating Thermal Energy System, Vancouver House Cooling TES, Creative Energy Mount Pleasant LP**
>
> **Affiliates that are not Regulated Affiliates (public utility, Stream A TES): Kensington Gardens Heating and Cooling TES, Main & Keefer Heating TES, Creative Energy Pendrell LP Heating TES, Creative Energy Horseshoe Bay LP Heating and Cooling TES**

25.2 Why is Creative Energy not permitted to provide a loan to an Affiliate that is less favourable (i.e. more costly to the Affiliate) than what the Affiliate could achieve on the open market? Please explain.

RESPONSE:

The Creative Energy IAC and TPP provides that,

> **"Any loan, investment, or other financial support received by an Affiliate from Creative Energy or another Affiliate shall be taken on terms no less favorable than what the Affiliate would be able to obtain as a standalone entity from the capital markets."**

An Affiliate would not take a loan or financial support from Creative Energy Developments LP on less favourable terms that what could be obtained from the capital markets because better terms could be obtained from the capital markets and it would be in the best interests of the Affiliate and its customers to take the better terms.

25.2.1 Does this apply to Regulated Affiliates as well?

RESPONSE:

Yes. Regulated Affiliates are Affiliates.

25.3 Is Creative Energy permitted to provide loans to an Affiliate that are more favourable (i.e. less costly to the Affiliate) than what the Affiliate could achieve on the open market? Please explain.

RESPONSE:

Yes. Creative Energy Developments LP can offer a loan or other financial support to an Affiliate on any terms it wishes. Per the referenced provision of the Creative Energy IAC and TPP, an Affiliate

(including a Regulated Affiliate) would not take a loan or financial support from Creative Energy Developments LP on less favourable terms that what could be obtained from the capital markets.

25.3.1 If yes, would this require Commission approval? Please explain.

RESPONSE:

No. None of the utilities in the group would take such a loan as stipulated in the IAC and TPP.

25.3.2 Does this apply to Regulated Affiliates as well? Please explain.

RESPONSE:

Yes. Please refer to the response to CEC 25.3.

25.4 Why is any support provided by a Regulated Affiliate to Creative Energy or another Affiliate to be provided on terms no more favourable (i.e. not at a lower rate) than what Creative Energy or the Affiliate could achieve on the open market? Please explain.

RESPONSE:

In the scenario set out in the question, the Regulated Affiliate would be providing a loan or financial support to another Affiliate on below market terms. The concern would be that ratepayers of the rate-regulated utility are subsidising the Affiliate or Creative Energy Developments LP.

25.5 Could a Regulated Affiliate provide a loan or support to Creative Energy at a higher rate than what Creative Energy could achieve on the open market? Please explain.

RESPONSE:

Hypothetically, a Regulated Affiliate could attempt to offer a higher than market-rate loan to Creative Energy Developments LP, but there is no reason whatsoever why Creative Energy Developments LP would take such loan or support.

25.5.1 If yes, would this require Commission approval?

RESPONSE:

No. The scenario is completely implausible but for the sake of argument if Creative Energy Developments LP was to take a higher than market-rate loan from a Regulated Affiliate such loan would not be subject to Commission approval because Creative Energy Developments LP is not a public utility.

25.6 Please confirm that Creative Energy is not itself considered a Regulated Affiliate.

RESPONSE:

In the Creative Energy IAC and TPP, Creative Energy Development LP is neither an Affiliate nor a Regulated Affiliate.

The Core Steam District Energy System, Northeast False Creek Neighbourhood Energy System, South Downtown Heating Thermal Energy System, and Vancouver House Cooling TES owned by Creative Energy Vancouver Platforms Inc. are Regulated Affiliates.

The Kensington Gardens Heating and Cooling TES, and the Main & Keefer Heating TES owned by Creative Energy Vancouver Platforms Inc. are Affiliates that are not Regulated Affiliates.

The org chart could be updated to identify those entities / service areas that are Regulated Affiliates (that is, Stream B TES under the existing Commission's TES Guidelines) and those are not (that is, Stream A TES or other exempt TES); however, the TES Guidelines are presently under review by the Commission and are expected to change. Creative Energy proposes to add the applicable classification to the org chart after the Commission updates the TES Guidelines.

26. Reference: Exhibit B-1, Appendix C, PDF page 64/74

Directly Assignable Costs

These costs can be identified with a specific service or product and can be directly assigned, generally through time sheets or expense reports.

Cost are directly assigned to Creative Energy pursuant to the Service Agreement.

26.1 Please identify which positions keep regular timesheets.

RESPONSE:

The following positions prepare timesheets or will prepare timesheets:

- **VP Enginering & Projects**
- **VP, Business Development**
- **Director, Regulatory Affairs**
- **Director, Operations**
- **Director, Engineering**
- **Manager, Corporate Development**
- **Construction Manager**
- **Project Engineer**
- **Engineer in Training**
- **Systems Engineer**
- **Distribution Lead and Distribution Crew**

26.1.1 At what level of granularity are they collected?

RESPONSE:

Time is coded based on the specific project. This includes projects within the Core maintenance capital expenditures.

26.2 Do the Service Agreements assign costs directly based on time or expenses incurred, or do they have modifying factors? Please explain.

RESPONSE:

Yes, costs are directly assigned based on time and expense incurred and the service agreement is updated and amended based on actuals each year. Roles that do not complete timesheets are allocated based on the budgeted percentages, but can be modified if the budgeted percentages no longer reflect the actual area of focus for that employee during the year.

26.2.1 If they are not directly assigned based on time or expense, please explain why not.

RESPONSE:

Not applicable.

27. Reference: Exhibit B-1, Appendix C, PDF page 65/74

Indirect Costs

These costs are not directly assignable, and therefore are allocated to the Affiliate benefitting from these costs in accordance with a functional allocator, and where there is no functional allocator the costs are allocated using the Massachusetts Formula.

Functional allocators are used where the Indirect Costs can be allocated using an identified cost causation driver. Functional allocators used in the allocation process may include the following as examples:

1. **Employee headcount** – for costs that are directly correlated to the number of employees; and
2. **Number of Customers** – for costs that are directly correlated to the number of customers of a particular Affiliate.

The vast majority of Indirect Costs do not have a direct correlation with any one particular cost causation driver. Hence, most residual Indirect Costs are allocated using the Massachusetts Formula.

For Regulated Affiliates, the functional allocators will be set out in detail in the revenue requirements and rate applications submitted to the BCUC if and where applicable.

27.1 What other functional allocator metrics did Creative Energy consider when developing the allocators? Please explain, and identify any allocators that are used in the industry and not used by Creative Energy.

RESPONSE:

The references above are examples. As noted, any actual functional allocators that are applied will be set out in a revenue requirements and rates applicable.

27.2 Please provide an explanation with examples for what types of costs would be allocated based on employee headcount, and which would be allocated based on number of customers.

RESPONSE:

At this point time the noted discussion of the functional allocators are indicative of what could be used to allocate indirect costs where necessary. An example of a cost that varies by the number of customers is billing; however, at present we likely will not use functional allocators for this as we are a small utility without significant dedicated resources to only those types of costs.

28. Reference: Exhibit B-1, Appendix C, PDF page 65/74

Massachusetts Formula

The Massachusetts Formula is comprised of three equally weighted factors as shown in the table below. These weightings are kept constant in order to avoid unnecessary complexity of the Cost Allocation Methodology.

Table 2: Massachusetts Formula Factors and Weighting

Factor	Weight
Operating Revenues	33.33%
Gross Property, Plant & Equipment	33.33%
Salaries or Direct Labour Expenses	33.33%

As approved by the BCUC for the allocation of residual Indirect Costs, the Massachusetts Formula allows for a just and reasonable allocation of costs in a transparent, sustainable and cost-effective manner that reflects cost causality for the shared costs that do not exhibit direct correlation with any one particular cost causation driver.

28.1 Please confirm that the proposal is identical, including Factors and Weighting, to that approved most recently by the Commission.

RESPONSE:

Confirmed.

28.2 Please confirm or otherwise explain that Gross Property, Plant & Equipment would mean undepreciated Property, Plant & Equipment at mid-year.

RESPONSE:

Confirmed.

28.3 At what point in time, relatively speaking, would the Operating Revenues and Salaries or Direct Labour Expenses be calculated? At year end, mid-year, time of transfer etc.?

RESPONSE:

Operating revenues and labour expenses are the full year budgeted total. If an energy system only operated for part of the year, the allocation for the year would be proportionately lower than it would be with a full year of operations.

29. Reference: Exhibit B-1, Appendix C, PDF page 66/74

Cost Collection Procedures

The corporate accounting group will be responsible for establishing, administering and monitoring processes to ensure that the employees providing Affiliate Services charge all time spent engaged by each Affiliate or Creative Energy for all activities.

29.1 Please describe the monitoring processes that the Corporate Accounting group will undertake.

RESPONSE:

The accounting group prepares a timesheet report on a monthly basis showing the percentage, hours and dollar values allocated to each energy system or project and reviews it for reasonability.

30. Reference: Exhibit B-1, Appendix C, PDF page 66/74

Asset Transfers

Any assets transferred or otherwise disposed of by Creative Energy to an Affiliate or by an Affiliate to another Affiliate shall be on a Cost Recovery Basis.

30.1 Please provide further elaboration of the 'Cost Recovery Basis' for transferring assets.

RESPONSE:

"Cost Recovery Basis" is defined in the definitions section of the IAC and TPP. "Fair Market Value" is also defined therein.

In demonstrating that Fair Market Value was paid or received pursuant to an arrangement or a transaction contemplated Creative Energy, subject to any prior or contrary direction by the BCUC, may

utilize any method to determine Fair Market Value that it believes appropriate in the circumstances. These methods may include, without limitation: independent assessment, competitive tendering, competitive quotes, bench-marking studies, catalogue pricing, replacement cost comparisons or recent market transactions. Creative Energy shall bear the onus of demonstrating that the methodology or methodologies utilized in determining the Fair Market Value of the subject goods or services was appropriate in the circumstances.