

31 March 2021

Via E-filing

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

Dear Mr. Wruck:

**Re: British Columbia Utilities Commission (BCUC, Commission)  
Creative Energy Vancouver Platforms Inc. (Creative Energy)  
Generic Cost of Capital – Project No. 1599176  
Submission into Preliminary Scope Items**

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Creative Energy writes to provide its submissions into the scope of the proceeding, further to the items set out in Appendix B to Order G-66-21.

*Scope item a) Whether the BCUC should establish the Cost of Capital effective January 1, 2022, including public utilities' capital structure and return on common equity.*

The scope of the proceeding by definition will review public utilities' capital structure and return on common equity and we thus interpret this scope item as concerning only the effective date of a Commission decision in this proceeding. The effective date will be dependent on the process put in place and the timing of the Commission decision(s) at potentially multiple stages of the proceeding. We have no submission on a targeted effective date at this time other than to note an overarching intent to seek as efficient a regulatory process as possible and with decision outcomes that align with test year rate-setting to the extent practicable.

Below we note our consideration that a multi-stage process remains appropriate for review of these matters and that FortisBC Energy Inc. (FEI) ought to serve as the Benchmark Utility during a first stage. We thus acknowledge and support the submissions of FEI, dated March 29, 2021, that there may be value to inform the timing for the filing of evidence into the proceeding with a view to the elevated uncertainty in economic conditions and market data/volatility as currently exists during the pandemic.

*Scope Item b) Should the BCUC continue to establish public utilities' Cost of Capital using a two-stage mechanism, where Stage 1 sets the Benchmark ROE based on a Benchmark Utility, and Stage 2 uses a generic methodology for each utility to determine its unique Cost of Capital in reference to the Benchmark Utility?*

A multi-stage or phased review and Commission decisions at the completion of each stage is an established efficient means to confirm capital structure and return on equity across a diverse set of utilities of differing size, serving different markets and with divergent risks and access to capital. A one-size-fits-all approach would be clearly unworkable and inappropriate, and by the same logic a single process to concurrently consider all matters together would be cumbersome and inefficient. By extension, a stage two consideration of a generic methodology for each utility to determine cost of capital in reference to the Benchmark Utility is an appropriate scope item for the proceeding.

*i) If so, should the Benchmark Utility continue to be FortisBC Energy Inc., a hypothetical utility, or some other entity?*

The Benchmark Utility should continue to be FEI, and this could be confirmed in advance by the Commission panel to support its decisions into process and the timing for the filing of evidence in the proceeding. A hypothetical utility would add unnecessary complexity and burden to define the scope of this proceeding and likely render unworkable the assessment and understanding of relative risk for the purpose of generic rate-setting.

*ii) Otherwise, should all utilities have an independent review process to establish the Cost of Capital?*

An independent review process for all utilities should not be established and this could also be confirmed in advance. The intended purpose of a generic proceeding in part is to review these matters periodically for all regulated utilities in a cost-effective and efficient manner, and staged adjacent processes will support those objectives. This approach will lever the unique expert evidence that must be brought to bear in consideration of such matters and will also support a consistent and efficient review by a single Commission panel. Independent reviews, otherwise, to possibly establish generic longer-term outcomes for each utility would frustrate these benefits and may simply default to an ongoing cost of service matter to be continuously reviewed in utility revenue requirements and rate-setting applications.

*iii) Can certain public utilities be grouped together, where the BCUC establishes the Cost of Capital for the group? What are the characteristics for such grouping(s)?*

It is likely that certain public utilities may be grouped together for consideration of capital structure and equity risk premium that may be applicable to any such grouping. Any such groupings might only be considered within a stage two proceeding to follow the establishment of a capital structure and return on equity for a benchmark utility. The characteristics of any such groupings are a scope item for the proceeding, the definition and outcome of such to be informed by the underlying business and financial risks of the utilities of concern, for example.

*Scope Item c) What considerations should be made for the initial transition year January 1, 2022 to December 31, 2022 (e.g. setting rates for all utilities that may be affected by the GCOC proceeding's decision on an interim basis until a final decision is rendered)?*

This matter is an appropriate scope item for the proceeding and is dependent on the process and timing established for review.

*Scope Item d) Whether re-establishment of a formulaic ROE AAM is warranted. If a return to the use of a formulaic ROE AAM is accepted, what are the specifications of such a formula and should it be implemented starting on January 1, 2023 on an annual basis?*

These matters are appropriate scope items for the proceeding.

*Scope Item e) In certain circumstances for those utilities that require a deemed interest rate, should a methodology be established or a determination be made on a deemed interest rate and should the deemed interest rate be subject to an AAM (Interest AAM)? If warranted, the Interest AAM would be implemented for January 1, 2023. If not warranted, setting a future regulatory process on how the deemed interest would be adjusted in future years beyond December 31, 2022.*

These matters are appropriate scope items for the proceeding.

For further information, please contact the undersigned.

Sincerely,



Rob Gorter  
Director, Regulatory Affairs and Customer Relations