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March 31, 2021

British Columbia Utilities Commission  
Suite 410, 900 Howe Street  
Vancouver, British Columbia V6Z 2N3

Attention: Patrick Wruck, Commission Secretary

Dear Mr. Wruck:

**Re: Corix Multi-Utility Services Inc.  
British Columbia Utilities Commission (BCUC) Generic Cost of Capital Proceeding  
Written Submission in Response to BCUC Order G-66-21 (Exhibit A-3)**

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Corix Multi-Utility Services Inc. (“**Corix**”) hereby provides its submission on the Preliminary Scope Document for the British Columbia Utilities Commission (“**BCUC**”) Generic Cost of Capital (“**GCOC**”) proceeding, established through Order G-66-21, dated March 8, 2021.

**About Corix**

Corix is a wholly owned subsidiary of Corix Utilities Inc. (“**CUI**”), which is a wholly owned subsidiary of Corix Infrastructure Inc. (“**CII**”). CII is a fully integrated provider of utility infrastructure solutions throughout North America that include energy, water, and wastewater projects. CII develops, finances, constructs, operates, and maintains a range of multi-utility infrastructure for its customers pursuant to a variety of delivery and governance models. CII and its subsidiaries are responsible for the operation and maintenance of over 25 in-service energy systems, ranging in size, scope and technology from large-scale combined heat and power and chilled water plants to low temperature geo-exchange based systems. Within British Columbia, the BCUC regulates small stand-alone electric, natural gas, propane and thermal energy systems (“**TES**”) owned and operated by Corix. Corix’s utilities regulated by the BCUC are listed below.

**A. Electric Utilities**

1. Sonoma Pines Electric in Kelowna.
2. Sun Rivers Electric in Kamloops.

**B. Natural Gas and Propane Utilities**

3. Sonoma Pines Gas in Kelowna.
4. Sun Rivers Gas in Kamloops.
5. The Propane utility at the Panorama Mountain Resort community (Panorama Propane).

**C. Thermal Energy Systems**

6. Dockside Green Energy Utility (“**DGE**”) in Victoria.

7. Burnaby Mountain District Energy Utility (“**BMDEU**”) in Burnaby.
8. Neighbourhood District Energy System (NDES) at the University of British Columbia (“**UBC NDES**”) in Vancouver.

As stand-alone utilities, each of the above utilities has its own rate structure and customer base. The BCUC regulates DGE, BMDEU, and the UBC NDES as Stream B utilities under the BCUC’s Thermal Energy Systems Regulatory Framework Guidelines (“**TES Guidelines**”).<sup>1</sup> Corix also owns and operates the Talasa and Belmonte thermal energy systems, which do not receive rate regulation by the BCUC due to their classification as Stream A TES.

### **Submissions on the Proposed Questions in the Preliminary Scope of the GCOC Proceeding**

The Panel seeks written submissions from all registered participants to establish the scope for this proceeding. Corix proposes additional scoping questions as outlined below. Questions in **bold font** are the potential scope items listed by the BCUC in G-66-21. Corix’s suggestions are included in regular font below the questions to which they apply.

- a) **Whether the BCUC should establish the Cost of Capital effective January 1, 2022, including public utilities’ capital structure and return on common equity.**
  
- 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?**
  - i. **If so, should the Benchmark Utility continue to be FortisBC Energy Inc., a hypothetical utility, or some other entity?**
  - ii. **Otherwise, should all utilities have an independent review process to establish the Cost of Capital?**
  - 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)?**
    - i. Corix proposes the addition of a sub-question to (b) (iii) which reads “How could the BCUC ensure that utilities continue to be located in the appropriate group as they grow and evolve over time?”
      - This question considers that individual utilities and utility sectors will evolve over time in ways other utilities/sectors may not and seeks to outline the circumstances and process that will allow utilities to be reclassified where appropriate.

<sup>1</sup> Appendix A to BCUC Order G-27-15, dated March 2, 2015.

- ii. Considering the number of utilities regulated by the BCUC, Corix considers that it would be beneficial for the BCUC to provide proceeding participants a list showing: (a) the current public utility groups for establishing the cost of capital; (b) the current/proposed members of each public utility group; and (c) key information related to the size of each utility. This information could provide proceeding participants greater insight into the range of utilities and inform utility submissions on question (b) (iii) and any related sub-questions.

**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)?**

- i. Corix considers that question (c) should be a sub-question to question (a) as it is dependent on the outcome of the BCUC’s decision regarding the effective date(s) of the determinations in this GCOC proceeding.

**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?**

Corix proposes the following questions be added as sub-questions for this topic:

- i. “If re-establishment of a formulaic ROE AAM is warranted, how should it be incorporated into the calculation of customer rates for (a) utilities that have rate levelization plans with an accompanying revenue deficiency deferral account; or (b) utilities with a large capital investment that have been directed by the BCUC to smooth the required rate increase over several years?”
  - Rate levelization plans are typically used for greenfield utilities with a small but growing customer base in recognition of the fact that charging reasonable rates for early customers requires a utility to underearn during its early years.
- ii. “If re-establishment of a formulaic ROE AAM is warranted, how can it be ensured that the equity risk premium for a utility group remains fair, just and reasonable after a change in the level of risk for that utility group relative to the benchmark utility?”

**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.**

### **Additional questions for the scope**

Corix proposes that the following topics and questions be added to the scope of this proceeding.

#### **f) Deemed Capital Structure**

- i. How should the deemed capital structure for small utilities be determined?
  - As a utility's cost of capital is directly impacted by the capital structure, Corix considers that a GCOC review that addresses cost of capital matters should also address the capital structure methodology.
- ii. How should the equity portion (equity thickness) of the capital structure for small utilities incorporate or reflect the inherent risk(s) of the varied small utilities?
  - The inherent risk would consider greenfield versus mature; rate levelization plans versus annual rate-making; buildout schedule of the development; limited customer base; limited ability to expand; and risk from the requirement to service new customers.
- iii. Should there be a range or second tier for an acceptable equity thickness for small utilities that reflects the different risk profiles of various types of small utilities that may be placed in the same utility group relative to the benchmark utility?
  - For example, there are a number of TES regulated by the BCUC that each has different characteristics resulting in varying risk profiles. These TES may all be grouped as "small utilities" or "Stream B TES" for the purposes of determining the ROE. However, their risk profiles may require different levels of equity should they approach financial institutions for capital.

#### **g) Equity Risk Premium**

- i. Should the BCUC implement an Equity Risk Premium Range to account for varying utility risks within a utility group relative to the benchmark utility? If so, what methodology should be used and what factors should be considered to determine a:
  - Minimum Equity Risk Premium;
  - Median Equity Risk Premium; and
  - Maximum Equity Risk Premium?
- ii. To which group(s) of utilities should an Equity Risk Premium Range apply?
- iii. How should the equity risk premium be updated for each group of utilities if there is a change in risk for that utility sub-sector relative to the benchmark utility?

## **h) Impact of COVID-19**

- i. Given the ongoing impact of COVID-19 on the economy, bond yields and the overall cost of capital for utilities, should there be a follow-up review proceeding within a few years to confirm/vary determinations that arise from this proceeding if no AAM is approved?

### **BCUC Staff topics in the letter dated March 23, 2021**

On March 23, 2021, BCUC Staff submitted a letter (Exhibit A2-1) highlighting scoping items for the Panel's consideration. Corix submits that all scoping items highlighted by BCUC staff are appropriate and should be included in the scope of this GCOC proceeding. The addition of these items to the scope would allow for a thorough GCOC proceeding that addresses topics necessary for determining the cost of capital for regulated utilities on a fair, just and reasonable basis. Given the number of topics that will potentially be in scope in this proceeding, Corix proposes that the BCUC use an independent expert to provide information related to small utilities. This is further discussed below.

### **Use of an independent expert for small utilities**

The BCUC has designated Corix as an "Affected Utility" in this GCOC proceeding, with the expectation that Corix takes a lead role in filing evidence. Corix intends to participate actively in this proceeding and, where feasible, Corix may coordinate with other utilities with substantially similar interests to avoid unnecessary duplication of evidence and costs.

Given the technical nature of some of the topics, Corix and other small utilities will likely rely on external consultants or expert resources in the preparation of their submissions. For small utilities it can be costly to obtain experts that specialize in utility cost of capital, which risks impeding the utility's ability to actively participate in this proceeding. This risk would be mitigated were the BCUC to engage an independent expert witness to produce a report as part of the Evidentiary Record on topics that pertain to small utility cost of capital, which could be relied upon by small utilities and interveners in their submissions. A similar process was used in the proceeding to review the FortisBC Energy Inc. 2016 Rate Design Application. This approach increases efficiency and fairness by allowing small utilities to actively participate while keeping costs reasonable for their utility customers.

A BCUC independent expert witness opining on technical cost of capital issues would allow interveners, utilities, and the Commission to cost effectively obtain independent expert evidence on cost of capital matters (including small utility matters) that are pertinent to the scope of the proceeding. The evidence from the independent expert witness will allow the Panel to make an informed and reasoned decision on the issues arising from the proceeding. The BCUC's use of an independent expert would not preclude small utilities from obtaining their own expert to address specific topics unique to a particular utility.

All of which is respectfully submitted,

**Corix Multi-Utility Services Inc.**

Per:

A handwritten signature in black ink, appearing to read "Errol South", followed by a long horizontal line extending to the right.

Errol South  
Senior Manager, Regulatory Affairs