RIVER DISTRICT ENERGY

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: River District Energy Limited Partnership ("RDE")
British Columbia Utilities Commission (BCUC) Generic Cost of Capital Proceeding
Written Submission in Response to BCUC Order G-66-21 (Exhibit A-3)

The following is RDE's 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 RDE and the River District

RDE is wholly owned by Wesgroup Properties Limited Partnership, a family owned development company with a 50-year history of successful residential, commercial, retail and industrial development throughout the BC Lower Mainland.

RDE commenced operations in 2011 and subsequently classified as a Stream B utility to provide thermal energy services for space heating and domestic hot water to River District, a 130-acre master planned complete community fronting 1.4 km of the Fraser River in the southeast corner of Vancouver. Presently 3,500 residents and 20 businesses have moved in. It is Vancouver's most affordable new-home address and, following recent changes to the Official Development Plan to add more homes, at completion in roughly 25 years will be home to approximately 18,000 residents and businesses. The community will contain a diversity of housing choices including approximately 3,500 market and below-market rental homes. https://riverdistrict.ca/

RDE submissions on scope of the proceeding

As described in the notice to all regulated utilities dated March 8, 2021, The Panel seeks written submissions to establish the scope for this proceeding. RDE submits that all the questions raised by The Panel are appropriate to include in the scope for this proceeding and respectfully provides comment underpinning its conclusion. RDE also submits an additional question to include in the proceeding for The Panel's consideration.

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

- RDE submits that timing for adjustments to Cost of Capital, if any, should depend on the timeline for concluding the proceeding. Ideally adjustments would be made prospectively with sufficient notice to avoid the need for interim rates or retroactive adjustments.

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

b. Otherwise, should all utilities have an independent review process to establish the Cost of Capital?

c. 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)?

- RDE submits that continuation of the two-stage mechanism is appropriate and FortisBC Energy Inc should continue to be the benchmark utility.

  Excluding BC Hydro, FortisBC Energy Inc represent approximately 91% of equivalent energy deliveries of all regulated utilities listed on Appendix A to Order G-134-20. Even at projected energy delivery and buildout of River District in 2046, RDE will supply 0.1% of that currently supplied by FortisBC. The burden to fully and competently participate in an independent Cost of Capital proceeding is significant, especially where robust 3rd party evidence applicable to small private utilities is necessary but limited and difficult to obtain.

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)?**

- RDE submits that timing of changes, ideally, would coincide with start of the calender year but, at minimum, be implemented on a prospective basis to avoid retroactive adjustments.

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?**

- RDE submits that re-establishment of a formulaic ROE AAM may be problematic and should appropriately consider utilities with rate levelization plans and revenue deficiency deferral accounts or are in the early stages of buildout where investment decisions for large capital expenditures benefit from greater ROE certainty.

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.**

- RDE submits that the existing practice for establishing a deemed interest rate should continue, where comparison can be reliably be made to prevailing bank interest rates to establish a deemed interest rate within a narrow band.

  Such practice provides the Commission with discretion to ensure the interests of rate payers and service providers are balanced. RDE's comments in d) above on the demerits of a formulaic ROE AAM also apply to deemed interest rates.

RDE also submits an additional question for The Panel's consideration to be included in the scope.

If the practice of benchmarking Cost of Capital against FortisBC is maintained, should the maximum risk premium be increased above the current 1%?

- RDE submits that a 1% risk premium *may* be a sufficient range for stabilized operating utilities otherwise generally comparable but for size, but is not sufficient for start-up utilities or ones attempting to offer superior service, low-carbon or demonstrably

otherwise, in comparison to established services. RDE further submits that if the Commission includes revisiting the risk premium in the original scope of the GCOC proceeding or a subsequent stage, it should retain external professional services to assist. Such professional services are beyond the capacity of RDE or other small utilities to retain.

If you have any questions, please do not hesitate to contact the writer.

Yours truly,

River District Energy
Per: Ross Hanson, CFO

910-1055 Dunsmuir St, Vancouver, BC V7X 1L3
D: 604-628-5362 **F:** 604-622-1737
RDENERGY.CA