



ORDER NUMBER
G-220-19

IN THE MATTER OF
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Corix Multi-Utility Services Inc.
Application for Disposition of Assets from the Burnaby Mountain District Energy Utility

BEFORE:

D. A. Cote, Panel Chair
T. A. Loski, Commissioner

on September 11, 2019

ORDER

WHEREAS:

- A. On April 30, 2019, Corix Multi-Utility Services Inc. (Corix) applied to the British Columbia Utilities Commission (BCUC) pursuant to section 52 of the *Utilities Commission Act* (UCA) for approval to dispose of three high efficiency condensing boilers and associated equipment housed in the Temporary Energy Centre No. 1 (TEC1 Assets) at the Burnaby Mountain District Energy Utility (BMDEU) and to transfer the TEC1 Assets to the Dockside Green Energy utility (DGE) (Application);
- B. In the Application, Corix states that as part of the proposed transfer, DGE will pay BMDEU an amount equal to the net book value of the TEC1 Assets, initially estimated at \$160,000, and currently estimated at \$98,005, and the proceeds from the sale will be used to reduce the rate base associated with BMDEU's UniverCity customers;
- C. The acquisition and treatment of the TEC1 Assets by DGE are currently being reviewed by the BCUC through a separate hearing process – the Corix Revenue Requirements and Rates Application for DGE;
- D. By Orders G-117-19 and G-160-19, the BCUC established and amended a regulatory timetable for reviewing the Application which included, among other things, public notice, two rounds of information requests and written final argument. No interveners registered to participate in the proceeding;
- E. On August 28, 2019, Corix filed its final argument; and
- F. The BCUC has reviewed the evidence and final argument and finds that approval of the Application is warranted.

NOW THEREFORE pursuant to section 52 of the UCA, for the reasons attached as Appendix A to this order, the BCUC orders as follows:

1. Corix is approved to dispose of the TEC1 Assets at BMDEU and to transfer the TEC1 Assets to DGE.
2. Corix is directed to remove the net book value of the TEC1 Assets from the UniverCity portion of the BMDEU rate base and revenue requirement at the time the disposition occurs.
3. Corix is directed to file with the BCUC, within 30 days of the disposition of the TEC1 Assets, a compliance filing detailing the value of the TEC1 Assets removed from the BMDEU rate base.

DATED at the City of Vancouver, in the Province of British Columbia, this 11th day of September 2019.

BY ORDER

Original signed by:

D. A. Cote
Commissioner

Attachment

Corix Multi-Utility Services Inc.

**Application for Disposition of Assets from the Burnaby Mountain
District Energy Utility**

Reasons for Decision

September 11, 2019

Before:

D. A. Cote, Panel Chair
T. A. Loski, Commissioner

1.0 Introduction

1.1 Background and Approvals Sought

On April 30, 2019, Corix Multi-Utility Services Inc. (Corix) applied to the British Columbia Utilities Commission (BCUC) pursuant to section 52 of the *Utilities Commission Act* (UCA) for approval to dispose of three high efficiency condensing boilers and associated equipment housed in the Temporary Energy Centre No. 1 (TEC1 Assets) at the Burnaby Mountain District Energy Utility (BMDEU) (Application). The TEC1 Assets will be transferred to the Corix Dockside Green Energy utility (DGE), and in return, BMDEU will receive payment based on the net book value (NBV) of the TEC1 Assets, at the time of the transfer. The estimated NBV of the TEC1 Assets as of June 30, 2019 is \$98,005.¹ The redeployment of the TEC1 Assets at DGE is part of a separate application currently before the BCUC.

BMDEU and DGE are not separate legal entities; rather, they are distinct utility systems owned by the same legal entity. This legal entity, Corix, is a member of the Corix Group of Companies, a privately-held BC-based company, owned by the British Columbia Investment Management Corporation (BCIMC).

1.2 Review of the Application and Regulatory Process

By Orders G-117-19 and G-160-19 dated May 30, 2019 and July 16, 2019, respectively, the BCUC established a written public hearing process for the review of the Application which included public notification of the Application, intervener registration, two rounds of BCUC and intervener information requests (IR) and written final argument.

No parties registered to intervene in the proceeding. Additionally, there were no interested party registrations, nor were any letters of comment received by the BCUC.

Corix submitted its final argument on August 28, 2019.

1.3 Relevant Law and Principles Established in Previous BCUC Decisions

The Panel is guided by the UCA in the evaluation of the Application. Section 52 of the UCA pertains to applications regarding disposition of assets, and states the following:

- (1) Except for the disposition of its property in the ordinary course of business, a public utility must not, without first obtaining the Commission's approval,
 - (a) dispose of or encumber the whole or a part of its property, franchises, licenses, permits, concessions, privileges or rights, or
 - (b) by any means, direct or indirect, merge, amalgamate or consolidate in whole or in part its property, franchises, licenses, permits, concessions, privileges or rights with those of another person.
- (2) The Commission may give its approval under this section subject to conditions and requirements considered necessary or desirable in the public interest.

¹ Exhibit B-3, BCUC IR 4.11.

1.3.1 Single Legal Entity and Stand-Alone Principle

Based on the stand-alone principle, Corix is applying for approval of the asset disposition under section 52 of the UCA. Corix submits that because BMDEU and DGE are owned by the same legal entity, there is no formal sale agreement between the two utilities. Corix also states that the BCUC has treated BMDEU and DGE as separate and distinct utility operations – BMDEU and DGE were each granted a Certificate of Public Convenience and Necessity (CPCN) and each utility has its own approved rates and tariffs. Corix submits this treatment is consistent with the stand-alone principle that the BCUC has adhered to in past determinations and specifically as it applies to small thermal energy systems (TES).²

In the BCUC's decision and accompanying Order G-75-13 dated May 10, 2013 regarding the Generic Cost of Capital (GCOC) proceeding (Stage 1) (GCOC Stage 1 Decision), the BCUC stated the following:

The Panel reaffirms the long history and importance of the stand-alone principle in Canadian utility regulation. The determinations on the benchmark ROE and capital structure in this Decision are based on this principle. Therefore, there is no reason to deviate from this principle even in the case of small utilities or projects whether or not they are part of a larger utility. These projects can represent either a “new” utility with a greenfield operation and no historical performance data or an existing facility being developed into a TES project. Each project needs to be considered individually and independently.³

1.3.2 Valuation of TEC1 Assets

Corix states that in previous decisions, the BCUC has approved the principle of determining the value of assets subject to disposition based on rate base, i.e. NBV.⁴ Corix provides the following examples of previous BCUC decisions regarding applications for disposition under section 52 of the UCA:

- A June 25, 1997 application by Squamish Gas Co. Ltd. (Squamish Gas) to dispose of the assets of the Granisle Grid Propane Distribution System (Grid System) to Pacific Northern Gas Ltd. (PNG) (Granisle Grid Disposition). The Asset Purchase Agreement allowed the assets of the Grid System to be transferred from Squamish Gas to PNG at its NBV, excluding product inventories less an identified Resort Discount. By Order G-80-97, the BCUC approved the Granisle Grid Disposition.
- A June 8, 1999 Kanelk Transmission Company Limited (Kanelk) application to dispose of its utility assets in BC and assign the associated CPCN to British Columbia Hydro and Power Authority (BC Hydro) (Kanelk Disposition). BC Hydro proposed to capitalize the Kanelk Line at the full purchase price of \$4.322 million rather than the NBV of \$3.618 million. By Order G-127-99, the BCUC approved the Kanelk Disposition and the assignment of the associated CPCN to BC Hydro; however, the BCUC did not accept BC Hydro's proposal to capitalize the utility assets of Kanelk at the full purchase price. In the BCUC's view, it was more appropriate to record the Kanelk utility assets at NBV. The BCUC noted that this is the more normal regulatory accounting treatment which protects customers from utility assets previously paid for by customers being increased by a new utility owner.
- A December 21, 2001 application by BC Gas Utility Ltd. (now FortisBC Energy Inc.) to dispose of its partially-completed Program Mercury and other customer care related assets to BC Gas Inc. (now FortisBC Energy Inc.) pursuant to an Asset Transfer Agreement where the capital expenditures for

² Exhibit B-1, p. 2.

³ British Columbia Utilities Commission Generic Cost of Capital Proceeding (Stage 1), Order G-75-13 and Decision dated May 10, 2013, p. 100.

⁴ Exhibit B-1, p. 3.

software and hardware were to be transferred at an NBV that was estimated to equal fair market value (Program Mercury Disposition). By Order G-29-02, the BCUC approved the Program Mercury Disposition.

1.3.3 Criteria for Assessment of Disposition Applications

As stated previously, the Application requests approval of the disposition of the TEC1 Assets pursuant to section 52 of the UCA. However, section 52 of the UCA does not set out the criteria by which the BCUC will determine whether to approve an asset disposition or not.

Corix submits that the BCUC, in previous decisions, has established criteria it uses in the review of share transfer applications pursuant to section 54 of the UCA. Specifically, the BCUC has considered the following six criteria in assessing whether a share transfer should be approved under section 54 of the UCA:

1. The utility's current and future ability to raise equity and debt financing will not be reduced or impaired;
2. There is no violation of existing covenants that will be detrimental to the customers;
3. The conduct of the utility's business, including the level of service, either now or in future, will be maintained or enhanced;
4. The Application is in compliance with appropriate enactments and/or regulations;
5. The structural integrity of the assets will be maintained in such a manner as to not impair utility service; and
6. The public interest will be preserved.⁵

Corix submits that the BCUC referred to these same criteria in its decision and accompanying Order G-180-08, regarding the sale of assets by Central Coast Power Corporation (CCPC) to Boralex Ocean Falls Limited Partnership (CCPC Asset Disposition) and therefore these criteria are relevant to the Application.⁶

The following section of these Reasons for Decision assesses the proposed disposition of the TEC1 Assets in consideration of the above-described six criteria.

2.0 Evidence in Support of the Proposed Disposition of the TEC1 Assets

Corix submits that the proposed disposition of the TEC1 Assets satisfies each of the six criteria described in Section 1.3.3 of these Reasons for Decision based on the following:

1. Corix is owned by BCIMC⁷ and as such has access to significant financial resources. The financial integrity and ability to raise financing of the utility will not be reduced or impaired by this asset transfer.
2. Corix does not have any covenants of the type contemplated by this criterion.
3. The transfer of the assets of BMDEU will not adversely affect the conduct of the utility's business. The assets to be transferred are no longer required by BMDEU to provide energy service to its customers and the funds from the transfer will be used to reduce rate base for BMDEU customers and therefore will be of benefit to those customers.

⁵ Exhibit B-1, pp. 3–4.

⁶ Ibid.

⁷ Exhibit B-1, p. 2 – BCIMC is an investment management company with over \$145 billion in assets under management.

4. The transfer of the TEC1 Assets will not affect Corix's compliance with appropriate enactments or regulations and the Application has been submitted in compliance with the UCA.
5. The TEC1 Assets are no longer required by BMDEU and therefore will have no impact on utility service to BMDEU customers. The redeployment of those assets at DGE is the subject of a separate application currently before the BCUC.
6. The public interest will be preserved by completion of the transfer. BMDEU customers will benefit from funds received for assets that are no longer required.⁸

In response to IRs related to criterion numbers three, five and six, Corix provided further information on the proposed disposition, including a description of the benefits to BMDEU customers and a net present value (NPV) analysis comparing the proposed disposition to other alternatives.

Corix states that the previously approved new central energy plant (CEP) is scheduled to be in service in spring 2020 and will include re-purposed gas boilers from the Temporary Energy Centre No. 2 (TEC2) to provide peaking and back-up service for BMDEU customers. With the new CEP, the TEC1 Assets will no longer be required by BMDEU.⁹

The TEC1 Assets are no longer required as Corix has determined that only the two larger 3 megawatt thermal (MWt) boilers from TEC2 will be required in combination with the biomass plant operation at this time. Based on its forecast information, Corix states it does not believe there is any significant risk to its customers.¹⁰ However, there is a possibility that it may need to add a third unit of production in the future at an estimated cost in the range of \$140,000 to \$220,000 if the disposition of the TEC1 Assets is approved.¹¹ An alternative to this may be adding an electric boiler at a cost in the range of \$294,000 to \$544,000.¹²

Corix explains that if it were to keep the TEC1 Assets, significant effort and costs would need to be incurred to configure the TEC1 boilers into the BMDEU CEP as they were not selected at the time they were purchased to be re-purposed into the CEP. While it could be technically possible to use these units in the CEP, they have working pressure limitations that would result in certain cost limitations around configuring them, potentially leading to higher overall costs compared to a new piece of equipment.¹³ The total estimated cost for moving and reconfiguring the TEC1 Assets into the CEP, based on a class C estimate, is in the range of \$500,000 to \$700,000.¹⁴

Corix provided a 30 year NPV comparison of three different, hypothetical scenarios, based on the estimated capital costs of each. The first scenario assumes the TEC1 Assets are incorporated into the CEP at an estimated capital cost of \$550,000. The second scenario assumes the TEC1 Assets are disposed of based on the NBV of \$98,005 and a new natural gas boiler is installed, with associated equipment, at an estimated capital cost of \$180,000. The third scenario assumes the TEC1 Assets are disposed of based on the NBV of \$98,005 and a new electric boiler is installed, with associated electrical and mechanical works, at an estimated capital cost of \$419,000.¹⁵

⁸ Exhibit B-1, pp. 3–4.

⁹ *Ibid.*, p. 1.

¹⁰ Exhibit B-2, BCUC IR 2.1, 2.3.

¹¹ Exhibit B-3, BCUC IR 4.4.

¹² *Ibid.*, BCUC IR 4.6.

¹³ Exhibit B-2, BCUC IR 2.5.1.

¹⁴ Exhibit B-3, BCUC IR 4.8.

¹⁵ *Ibid.*, BCUC IR 4.10.

The information in Table 1 below demonstrates that of the three scenarios, the lowest NPV of the 30-year levelized rate is Scenario 2. This shows that even if additional demand materialized in the short term requiring another boiler to be added to the system, the proposal to dispose of the TEC1 Assets is better for customers over the long term.¹⁶ Thus, Corix submits that the proposed disposition of the TEC1 Assets is more beneficial to BMDEU customers than keeping the TEC1 Assets.¹⁷

Table 1: Hypothetical Scenario Comparison Table¹⁸

	Net Present Value (30 Year Levelized Rate per MWh)
Scenario 1	\$132.99
Scenario 2	\$131.85
Scenario 3	\$132.46

Corix explains that if the Application is approved, the TEC1 Assets will be removed from the UniverCity portion of the BMDEU rate base and will thus no longer be included within the BMDEU revenue requirement at the time the disposition occurs.¹⁹ Corix states the transfer would occur following BCUC approval of the Application, BCUC approval of the Revenue Requirements and Rates Application for DGE, completion of the design for the DGE refit, and tendering of the work. Based on Corix’s current expectations of the project timing, the project would start by early spring 2020.²⁰

3.0 Panel Determination

The Panel agrees with Corix that despite being part of the same legal entity, BMDEU and DGE should be considered as separate and distinct utility systems. This is consistent with past BCUC decisions and is in keeping with the direction provided in the GCOG Stage 1 Decision. Therefore, the Panel agrees with Corix that the Application should be reviewed pursuant to section 52 of the UCA.

The Panel acknowledges that the six criteria listed by Corix have been relied upon in other asset disposition decisions made by the BCUC. While the circumstances are not identical in this case, they are similar and rely on the same principles. Therefore, the Panel finds there to be value in applying these criteria in this proceeding.

Corix has provided evidence that the Application meets the six criteria. The Panel agrees and is persuaded that the disposition of the assets will not impair the conduct of the utility’s business, nor will it have an adverse impact on the provision of utility service to BMDEU customers. Moreover, the NPV evidence is compelling, in that it demonstrates that over the 30-year time horizon, disposing of the TEC1 Assets will be more beneficial to BMDEU customer rates than keeping the TEC1 Assets. Thus, the Panel finds the disposition of the TEC1 Assets to be in the public interest and to be in accordance with the previously referenced criteria.

The Panel acknowledges that the NBV of assets was used in the determination of the value of the assets subject to disposition in the three decisions cited by Corix (as outlined in Section 1.3.2 of these Reasons for Decision). Additionally, the Panel notes that in the BCUC’s decision regarding the CCPC Asset Disposition, it ordered that

¹⁶ Exhibit B-3, BCUC IR 4.10.

¹⁷ Exhibit B-1, p. 5; Exhibit B-3, BCUC IR 4.11.

¹⁸ Exhibit B-3, BCUC IR 4.10.

¹⁹ Exhibit B-2, BCUC IR 3.4.

²⁰ Ibid., BCUC IR 3.2.

the assets were to be recorded at “their historical, depreciated value”²¹ (i.e. net book value). The Panel finds relying upon the net book value to be a fair approach to value the TEC1 Assets in this case as it is based upon approved depreciation methodologies and provides a reasonable estimate of the residual value of the TEC1 Assets. Accordingly, the Panel finds it reasonable in this instance that the valuation of the assets to be disposed of should be equal to the net book value of the assets at the time of disposal.

Based on the above findings, the Panel approves the disposition of the TEC1 Assets by BMDEU, pursuant to section 52 of the UCA. The Panel directs Corix to remove the net book value of the TEC1 Assets from the UniverCity portion of the BMDEU rate base and revenue requirement at the time the disposition occurs. Further, Corix is directed to file with the BCUC, within 30 days of the disposition, a compliance filing which includes a summary of the value of the assets removed from the BMDEU rate base.

²¹ CCPC/Boralex, An Application for Approval of the Sale and Disposition of Utility Assets of Central Coast Power Corporation to Boralex Ocean Falls Limited Partnership, Order G-180-08 and Decision dated December 5, 2008, p. 28.