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Kyuquot Power Ltd.

## 2024 Revenue Requirements

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### Decision and Order G-53-24

February 29, 2024

Before:  
C. M. Brewer, Panel Chair  
B. A. Magnan, Commissioner

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**COMMISSION ORDER G-53-24**

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## Executive summary

On June 12, 2023, Kyuquot Power Ltd (KPL) filed its 2024 Revenue Requirements Application with the British Columbia Utilities Commission (BCUC) for approval to amend its electric tariff rate schedules (Tariff) and for other related rate matters (Application). Among other matters KPL seeks BCUC approval of the following, to be effective on the date of the BCUC's final decision on the Application:

- A permanent increase of \$0.70 per month to the Basic Charge under RS 1101 and 1102 from \$9.00 per month to \$9.70 per month;
- A permanent increase of \$0.0323 per kilowatt hour (kWh)<sup>1</sup> from \$0.4026 per kWh to \$0.4349 per kWh under RS 1101; and
- A permanent increase of \$0.0279 per kWh<sup>2</sup> from \$0.2270 per kWh to \$0.2549 per kWh to the Energy Charge under RS 1102.

KPL is an electrical utility that operates a 14.4 kilovolt single phase distribution line in the area extending from the British Columbia Hydro and Power Authority's grid at Oclucje to Kyuquot. KPL has supplied electrical power to customers including the Ka:yu:'k't'h'/Che:k'tles7et'h' First Nations (KCFN), the Village of Houpsitas and others, primarily in Fair Harbour, Chamiss Bay and Kyuquot since June 2006. KPL serves commercial and residential customers under Tariff Rate Schedule (RS) 1101 and the KCFN under RS 1102. In 2008, RS 1102 was created to reflect a funding arrangement between the KCFN and the Government of Canada that provided KPL a contribution in aid of construction (KCFN CIAC) totalling \$2,550,000. The KCFN CIAC was recorded as CIAC towards KPL's distribution plant assets and was to be reflected as a reduction in the KCFN's electricity rates. The rate structure for both rate schedules consists of a Basic Charge per month and an Energy Charge per kWh).

The proposed rate increases are based on KPL's forecast cost of service or revenue requirement (Revenue Requirement) of \$542,599 for the period from July 1, 2023 to June 30, 2024 (Fiscal 2024 or 2024 Test Year), as amended by additional information and supplemental requests made during the proceeding. If there was no change to the existing rates, KPL states that the revenues collected would result in a revenue deficiency of \$51,477.

Subject to the adjustments as directed in this Decision, the Panel finds the 2024 forecast Revenue Requirements and resulting revenue deficiency reasonable in setting rates for the 2024 Test Year. Accordingly, pending the outcomes of Stage 2 of the BCUC's current generic cost of capital proceeding and KPL's filing of the agreement(s) for the funds advanced from an affiliated company (Intercompany Advance) pursuant to section 50 of the *Utilities Commission Act*, KPL is approved for the following charges, on an interim and refundable or recoverable basis, in accordance with the directives and determinations as set out in this Decision:

- A Basic Charge of \$9.70 per month for RS 1101 and 1102, which is an increase of \$0.70 per month over the current Basic Charges;
- An RS 1101 Energy Charge of \$0.4349 per kWh to be adjusted in accordance with all directives and determinations in this Decision; and
- An RS 1102 Energy Charge of \$0.2549 per kWh to be adjusted in accordance with all directives and determinations in this Decision.

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<sup>1</sup> KPL requested an increase of \$0.0215 per kWh in the original Application (Exhibit B-1, p. 5) and a further increase of \$0.0108 per kWh between the original Application and Final Argument, for a total increase of \$0.0323 per kWh.

<sup>2</sup> KPL requested an increase of \$0.0255 per kWh in the original Application (Exhibit B-1, p. 5) and a further increase of \$0.0024 per kWh between the original Application and Final Argument, for a total increase of \$0.0279 per kWh.

KPL is directed to file for endorsement, within 15 days of the date of the BCUC's decision on the Intercompany Advance, amended Tariff pages and finalized financial schedules reflecting that decision and all directives and determinations made in this Decision, for interim rates to be effective the first of the month following the receipt of the endorsed Tariff pages.

As part of the Application, KPL requests approval to recognize \$228,408 in a new rate base regulatory account called the "Reliability Hearing Regulatory Account." The Panel finds that KPL was justified in incurring legal fees for the BCUC-initiated KPL Safety and Reliability Hearing, but for KPL to incur legal fees for activities that did not require legal expertise was unreasonable and imprudent. Therefore, the Panel approves the establishment of the requested rate base Reliability Hearing Regulatory Account to record costs incurred in the KPL Safety and Reliability Hearing, but reduces the requested amount of \$213,465 plus applicable taxes to \$173,465 plus applicable taxes representing lower fees for work that did not require legal expertise.

The Panel also directs KPL to recalculate the Revenue Requirement and rates for the 2024 Test Year based on the finalized property tax assessment amount for 2024, as well as KPL's current deemed capital structure and debt component as outlined in this Decision.

## 1.0 Introduction

On June 12, 2023, Kyuquot Power Ltd (KPL) filed its 2024 Revenue Requirements Application (RRA) with the British Columbia Utilities Commission (BCUC) for approval to amend to its electric tariff rate schedules (Tariff) and for other related rate matters (Application). KPL requests that the BCUC approve a permanent increase of \$0.70 per month to the Basic Charge under Rate Schedules (RS) 1101 and 1102 from \$9.00 per month to \$9.70 per month, and an increase of \$0.0323 per kilowatt hour (kWh)<sup>3</sup> from \$0.4026 per kWh to \$0.4349 per kWh, and \$0.0279 per kWh<sup>4</sup> from \$0.2270 per kWh to \$0.2549 per kWh to the Energy Charge under RS 1101 and RS 1102, respectively, to be effective on the date of the BCUC's final decision on the Application.<sup>5</sup> The rate increases are based on KPL's forecast cost of service or revenue requirement (Revenue Requirement) of \$542,599 for the period from July 1, 2023 to June 30, 2024 (Fiscal 2024 or 2024 Test Year), as amended by additional information and supplemental requests made during the course of the proceeding.<sup>6</sup>

KPL also seeks approval to establish a new rate base regulatory account called the "Reliability Hearing Regulatory Account," attracting KPL's weighted average cost of capital (WACC), and to set the amortization as a fixed dollar amount based on a ten percent straight-line annual amortization rate to be effective the date of the BCUC's final decision on the Application.<sup>7</sup> Finally, KPL seeks confirmation of the following:<sup>8</sup>

- The utility's financial information including rate base (Rate Base), depreciation rates and related items;
- The setting of a notional or deemed debt requirement which is 59 percent of Rate Base and deemed debt rate of 5.00 percent;
- The setting of a deemed equity requirement which is 41 percent of Rate Base and deemed return on equity (ROE) of 10.40 percent; and
- The parameters for the calculation of the difference between the RS 1101 and RS 1102 Energy Charges.

This Decision sets out the key issues to be decided by the Panel, provides an overview of the relevant evidence, considers KPL's proposals and outlines the reasons for setting interim rates effective January 1, 2024.

### 1.1 Background

KPL is an electrical utility that procures electricity from the British Columbia Hydro and Power Authority (BC Hydro) to serve the community of Kyuquot, BC. It is a wholly owned subsidiary of Synex Energy Resources Ltd. (SERL), which is a wholly owned subsidiary of its parent company, Synex Renewable Energy Corporation (formerly, Synex International Inc.) (SXI).<sup>9</sup> SERL develops and operates electrical energy facilities. Since June 2006, KPL has supplied electrical power to customers including the Ka:yu:'k't'h'/Che:k'tles7et'h' First Nations (KCFN), the Village of Hupsitas and others, primarily in Fair Harbour, Chamiss Bay and Kyuquot. KPL holds a certificate of public convenience and necessity (CPCN) to operate a 14.4 kilovolt (kV) single phase distribution line in the area extending from BC Hydro's electrical grid at Oclucje to Kyuquot.<sup>10</sup>

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<sup>3</sup> KPL requested an increase of \$0.0215 per kWh in the original Application (Exhibit B-1, p. 5.) and a further increase of \$0.0108 per kWh between the original Application and Final Argument, for a total increase of \$0.0323 per kWh.

<sup>4</sup> KPL requested an increase of \$0.0255 per kWh in the original Application (Exhibit B-1, p. 5) and a further increase of \$0.0024 per kWh between the original Application and Final Argument, for a total increase of \$0.0279 per kWh.

<sup>5</sup> Exhibit B-1, p. 5; Exhibit B-6, Panel Information Request (IR) 1.2.2.

<sup>6</sup> Exhibit B-1, p. 5; Exhibit B-6, Panel IR 1.2.2.

<sup>7</sup> Exhibit B-1, pp. 6, 15; KPL Final Argument, p. 2.

<sup>8</sup> KPL Final Argument, pp. 2–3.

<sup>9</sup> Exhibit B-1, pp. 7, 27.

<sup>10</sup> Exhibit B-1, p. 7.

## **Rates and Rate Design**

The BCUC initially approved KPL's Electric Tariff, Terms and Conditions of Service, and Rates in 2006.<sup>11</sup> On June 1, 2007, the BCUC approved KPL's application for a revision to RS 1101 serving all customers at the time and the creation of a new rate schedule for the KCFN (RS 1102), subject to KPL receiving a Contribution in Aid of Construction (CIAC) from the KCFN.<sup>12</sup> Under a funding arrangement between the KCFN and the Government of Canada, KPL received \$2,550,000 in four tranches from February 18, 2008 to March 23, 2012, and the amounts were recorded as CIAC towards the distribution plant assets. The KCFN CIAC was to be reflected as a reduction in the electricity rates for KCFN.<sup>13</sup>

On March 18, 2008, the BCUC approved a revision to RS 1102 to reflect the second KCFN CIAC payment.<sup>14</sup> On March 5, 2009, the BCUC approved two further amendments to RS 1102, to reflect the third and fourth (final) KCFN CIAC payment.<sup>15</sup>

On July 12, 2021, the BCUC approved KPL's current Basic Charge of \$9.00 per month for both RS 1101 and RS 1102, and an Energy Charge of \$0.4026 per kWh for RS 1101 and \$0.2270 per kWh (2021 RRA Decision) for RS 1102, effective the date of that decision. These rates were approved based on a forecast Revenue Requirement of \$480,658 for the period from July 1, 2020 to June 30, 2021 (2021 Test Year), which included, among other things, an ROE of 9.50 percent, calculated based on the benchmark utility rate of 8.75 percent plus a risk premium of 75 basis points.<sup>16</sup> In the 2021 RRA Decision, KPL also received approval to establish and set the amortization rates for two new Rate Base regulatory accounts: i) the Deferred Depreciation Asset Regulatory Account to recognize \$454,556 in deferred depreciation expenses, and ii) the Long-Term Maintenance Asset (LTM) Regulatory Account to capture actual LTM costs resulting from BCUC-directed powerline maintenance and vegetation management plans.<sup>17</sup> The Deferred Depreciation Asset Regulatory Account was approved at a four percent annual amortization rate and the LTM Regulatory Account was approved at a 15 percent annual amortization rate.<sup>18</sup>

## **Investigation into the Safety and Reliability of the KPL System**

On May 15, 2020, the BCUC established a hearing to review the safety and reliability of the KPL system, following a complaint filed by the KCFN (Safety and Reliability Hearing).<sup>19</sup> On October 27, 2022, by Order G-302-22, the BCUC issued its final decision in the Safety and Reliability Hearing proceeding, and made a number of directives to KPL.<sup>20</sup>

### **1.2 Legislative and Regulatory Framework**

KPL filed its Application pursuant to sections 58 to 61 of the *Utilities Commission Act* (UCA). The UCA sets out the framework for approval of rates which includes the following:

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<sup>11</sup> KPL Application for Approval of an Electric Tariff, Terms and Conditions of Service and Rates, Order G-11-06.

<sup>12</sup> KPL Application for Approval of a Revision to Electric Tariff Rate Schedule 1101 and New Rate Schedule 1102, Order G-58-07.

<sup>13</sup> KPL Application for Amendment to Revenue Requirements along with Certain Rate Matters, Order G-137-09, Recitals G to I.

<sup>14</sup> KPL Application for Approval of a Revision to Electric Tariff Rate Schedule 1102, Order G-53-08.

<sup>15</sup> KPL Application for Approval of a Revision to Electric Tariff Rate Schedule 1102, Order G-18-09.

<sup>16</sup> KPL Revenue Requirements Application, Decision and Order G-213-21 dated July 12 2021 (2021 RRA Decision), Executive Summary, p. i and pp. 11 and 14.

<sup>17</sup> KPL 2021 RRA Decision, pp. 13–14.

<sup>18</sup> KPL 2021 RRA Decision, pp. 13–14.

<sup>19</sup> KPL Investigation into the Safety and Reliability of the KPL System, Order G-115-20A dated May 15, 2020.

<sup>20</sup> Ibid., Order G-302-22 with Reasons for Decision dated October 27, 2022.

- Section 59(5) defines what an “unjust” or “unreasonable” rate is, while section 59(4) states the determination of what is “unjust” or “unreasonable” is a question of fact of which the BCUC is the sole judge;
- Sections 58 and 60 authorize the BCUC to establish rates and includes mandatory considerations, including the requirement that rates not be “unjust, unreasonable, unduly discriminatory or unduly preferential”; and
- Section 60(1)(b.1) provides that in setting a rate, the BCUC may use “any mechanism, formula or other method of setting the rate that it considers advisable, and may order that the rate derived from such a mechanism, formula or other method is to remain in effect for a specified period.”

In addition, section 56 of the UCA authorizes the BCUC to set depreciation rates and section 50(2) of the UCA states that, except in the case of a security evidencing indebtedness payable less than one year from its date, a public utility must not issue a security without first obtaining approval from the BCUC under this section. Under section 50(1) of the UCA, a “security” means any share of any class of shares of a public utility or any bond, debenture, note or other obligation of a public utility whether secured or unsecured.

The Panel conducts its review of the Application based on the UCA and the legislative authority outlined above, using a Cost of Service (COS) approach. To apply this COS approach, the Panel must first determine KPL’s total “cost of service” or revenue requirement. A utility’s revenue requirement reflects the total amount of revenue that must be collected in rates to recover its costs and provide the utility with an opportunity to earn a reasonable return on its invested capital or its ROE. This COS approach links rates to the recovery of the operating and capital costs based on forecast revenues and costs. The COS elements of a forecast revenue requirement include the following basic components:

- Reasonable and necessary costs;
- Return of investment through recovery of depreciation expense; and
- Return on investment through an allowed rate of return on invested capital.

### **1.3 Related Ongoing BCUC Proceedings**

Concurrently with the review of this Application, there are two related proceedings before the BCUC which affect KPL; namely, the BCUC Generic Cost of Capital proceeding and the KPL Resource Assessment Reporting proceeding.

#### **BCUC Generic Cost of Capital Proceeding**

On October 11, 2012, the BCUC established that FortisBC Energy Inc. (FEI) would serve as the benchmark (Benchmark Utility) for any other public utility in British Columbia (BC) that uses a Benchmark Utility to set rates.<sup>21</sup> The setting of the benchmark provides a reference point against which other public utilities can be compared for the purposes of setting the return on equity and capital structure of the other utilities.<sup>22</sup> FEI’s common equity component was set at 38.5 percent and its ROE was set at 8.75 percent, effective January 1, 2013.<sup>23</sup> Subsequently, on August 10, 2016, the BCUC reaffirmed FEI’s cost of capital and its designation as the Benchmark Utility.<sup>24</sup>

<sup>21</sup> BCUC 2013 Generic Cost of Capital (GCOC) Proceeding (BCUC 2013 GCOC), Order G-148-12 with Reasons for Decision dated October 11, 2012, Appendix A (Reasons for Decision), p. 4; Order G-148-12, Directive 1.

<sup>22</sup> BCUC 2013 GCOC, Order G-148-12 with Reasons for Decision dated October 11, 2012, Appendix A (Reasons for Decision), p. 2.

<sup>23</sup> BCUC 2013 GCOC (Stage 1), Decision and Order G-75-13 dated May 10, 2013, pp. 53, 80; Order G-75-13, Directives 1 and 2.

<sup>24</sup> FEI Application for its Common Equity Component and Return on Equity for 2016 (FEI 2016 GCOC), Decision and Order G-129-16 dated

In January 2021, the BCUC initiated a Generic Cost of Capital (GCOC) proceeding to establish a method to determine the appropriate cost of capital for regulated public utilities in BC.<sup>25</sup> The BCUC established a two-stage review process for the GCOC proceeding. Stage 1 of the GCOC proceeding determines the deemed capital structure and allowed ROE of FEI and FortisBC Inc. (FBC). Stage 2 will determine the equity component and equity risk premium or discount for public utilities, or a group of public utilities, except for BC Hydro.<sup>26</sup>

KPL registered as a participant in the GCOC proceeding.<sup>27</sup>

On September 5, 2023, by Order G-236-23 and the accompanying decision, the BCUC issued its decision on Stage 1 of the GCOC proceeding.<sup>28</sup> The BCUC approved for FEI, a deemed equity component of 45 percent and an allowed ROE of 9.65 percent, and for FBC a deemed equity component of 41 percent and an allowed ROE of 9.65 percent, effective January 1, 2023.<sup>29</sup> Directive 4 of Order G-236-23 also states that interim rates are established, effective January 1, 2024, on a refundable and recoverable basis, for all other utilities, except FBC, that currently use the Benchmark Utility to set their capital structure and equity return pending the BCUC's final decision on Stage 2 of the GCOC proceeding.<sup>30</sup>

Stage 2 of the GCOC proceeding is currently underway.<sup>31</sup> On January 11, 2024, by Order G-6-24, the BCUC established that FEI will be the Benchmark Utility for all public utilities in Stage 2 of the GCOC proceeding, and set the scope and regulatory timetable for the Stage 2 proceeding. The utility evidence to be filed in Stage 2 of the GCOC proceeding will be reviewed based on the following groupings: (i) gas utilities, (ii) electric utilities, and (iii) thermal energy system utilities.

### **KPL Resource Assessment Report**

On October 26, 2023, subsequent to the filing of the Application, KPL filed with the BCUC a Resource Assessment Report to comply with Directive 7 of Order G-302-22 (Compliance Filing). Directive 7 states: "Within one year of this Order, KPL is directed to file a long-term resource plan with a 10- year forecast and plan setting out how it will meet the forecasted load that supports KCFN's community aspirations." The BCUC is currently reviewing this Compliance Filing in a separate proceeding.

## **1.4 Regulatory Review Process and Participants**

The BCUC established, and subsequently amended a regulatory timetable, and conducted a written public hearing process for the review of the Application.<sup>32</sup> The regulatory timetable included:

- One round of BCUC and intervener information requests (IRs)
- Panel IRs and responses to IRs; and
- Final and reply arguments from KPL and interveners.

KCFN registered as the sole intervener and actively participated in the proceeding.

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August 10, 2016, pp. 40, 90; Order G-129-16, Directives 1, 2 and 4.

<sup>25</sup> BCUC Generic Cost of Capital Proceeding (Stage 1) , Decision and Order G-236-23 dated September 5, 2023 (2023 GCOC Stage 1 Decision), 1.

<sup>26</sup> Ibid., p. 2.

<sup>27</sup> BCUC GCOC Proceeding (Stage 1), Exhibit B5-1.

<sup>28</sup> 2023 GCOC Stage 1 Decision.

<sup>29</sup> 2023 GCOC Stage 1 Decision, p. 139.

<sup>30</sup> 2023 GCOC Stage 1 Decision, p. 142.

<sup>31</sup> <https://www.bcuc.com/OurWork/ViewProceeding?applicationid=1148>.

<sup>32</sup> Orders G-206-23, G-243-23 and G-288-23.



## 2.0 KPL's Revenue Requirement

In this section, the Panel reviews the components of KPL's 2024 Test Year forecast Revenue Requirement:

- Selling, general and administrative costs or operating and maintenance (O&M) costs;
- Depreciation and amortization, including the request to establish and commence amortization on the Reliability Hearing Regulatory Account;
- ROE;
- Deemed interest; and
- BC Hydro charges and load and revenue forecast.

As noted above, KPL's Revenue Requirement reflects the total amount of revenue that must be collected through rates to recover its forecast costs of service and provide KPL an opportunity to earn a reasonable return. Table 1 below sets out KPL's 2024 Test Year forecast Revenue Requirement and resulting revenue deficiency of \$51,477 if there was no change to existing rates, compared to the 2021 Approved Revenue Requirement and fiscal 2021 actual through 2023 forecast Revenue Requirements.

**Table 1 – KPL 2024 Test Year Forecast Revenue Requirement and Revenue Deficiency<sup>33</sup>**

Component	2021 Approved	2021 Actual	2022 Actual	2023 Forecast	2024 Test Year
<b>Total Selling, General and Administration Expenses</b>	<b>\$ 165,982</b>	<b>\$ 140,232</b>	<b>\$ 145,561</b>	<b>\$ 250,515</b>	<b>\$ 186,388</b>
Depreciation	\$ 38,379	\$ 34,260	\$ 24,296	\$ 37,969	\$ 40,216
Amortization of Deferred Depreciation Asset Regulatory Account	\$ 18,178	\$ -	\$ 17,435	\$ 18,182	\$ 18,182
Amortization of LTM Regulatory Account	\$ 7,500	\$ -	\$ 15,593	\$ 17,161	\$ 17,161
Amortization of Reliability Hearing Regulatory Account	\$ -	\$ -	\$ -	\$ -	\$ 11,420
<b>Total Depreciation and Amortization</b>	<b>\$ 64,057</b>	<b>\$ 34,260</b>	<b>\$ 57,324</b>	<b>\$ 73,312</b>	<b>\$ 86,979</b>
ROE	\$ 51,726	\$ 48,333	\$ 53,947	\$ 53,395	\$ 62,331
Deemed Interest	\$ 40,802	\$ 40,278	\$ 42,590	\$ 42,154	\$ 43,144
Additional earned return/(Shareholder loss)	\$ -	\$ (8,252)	\$ 22,330	\$ (94,723)	\$ -
<b>Total Return</b>	<b>\$ 92,528</b>	<b>\$ 80,359</b>	<b>\$ 118,867</b>	<b>\$ 819</b>	<b>\$ 105,474</b>
BC Hydro Charges	\$ 158,092	\$ 182,393	\$ 157,971	\$ 157,969	\$ 163,757
<b>Total Cost of Service/Revenue Requirement</b>	<b>\$ 480,658</b>	<b>\$ 437,244</b>	<b>\$ 479,723</b>	<b>\$ 482,614</b>	<b>\$ 542,599</b>
<b>Total Revenues at Existing Rates</b>	<b>\$ 480,658</b>	<b>\$ 437,244</b>	<b>\$ 479,723</b>	<b>\$ 482,614</b>	<b>\$ 491,122</b>
<b>Revenue Deficiency</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (51,477)</b>

### 2.1 Selling, General and Administrative Expenses

Selling, general and administrative expenses are forecast to be \$186,388 for the 2024 Test Year,<sup>34</sup> which equates to a 12.30 percent increase over the 2021 Approved recovery of \$165,982. The primary drivers of the change, as explained by KPL, are property taxes, repairs and maintenance and contract services expenses.<sup>35</sup>

<sup>33</sup> Table compiled by BCUC Staff based on values taken from Exhibit B-6, Panel IR 1.2.2 and Exhibit B-1-2, Amended Appendix 2 Schedule 2-4. Depreciation relates to the amortization of distribution plant assets (\$29,655) as well as other assets (\$4,124 + \$6,437), except for the Deferred Depreciation Asset Regulatory Account, LTM Regulatory Account and Reliability Hearing Regulatory Account which are noted separately in the table. KPL's fiscal year begins on July 1, 202X-1 and ends on June 30, 202X (Exhibit B-1, p. 5).

<sup>34</sup> Exhibit B-6, Panel IR 1.2.2.

<sup>35</sup> Exhibit B-1, p. 18.

## **Forecast Methodology**

KPL states that selling, general and administrative expenses are forecast for the 2024 Test Year based on the average of the expenses over the eight years from fiscal 2016 to 2023 and adjusted to include the accumulated Canada Consumer Price Index (CCPI) since the year of the incurred expense to December 31, 2022. The average was then increased by the forecast annual inflation rate of 3.53 percent for the 2024 Test Year.<sup>36</sup> In some cases, KPL varied the 2024 Test Year forecast expense from the forecast methodology where the expense was abnormally low or high in the eight-year time horizon.<sup>37</sup> KPL explained that such anomalies in expenses were removed to arrive at a more appropriate forecast expense.<sup>38</sup>

In response to IRs, KPL explained that while a seven-year time horizon was approved for the 2021 RRA, KPL reviewed the appropriateness of increasing the time horizon and concluded that using an eight-year historical time horizon provides a more appropriate balance for most operating costs and expenses because historical expense data for fiscals 2021 to 2023 showed greater annual variations than in the years prior to 2021. Depending on the individual expense item, KPL states that the impact on the 2024 Test Year forecast of using a seven-year time horizon or other time horizons will vary.<sup>39</sup>

## **Property Taxes**

Property taxes are forecast to decrease by \$2,244 (7.36 percent) from \$30,460 (2021 Approved)<sup>40</sup> to \$28,216 (2024 Test Year).<sup>41</sup> KPL states that forecast property taxes for the 2024 Test Year amount to \$28,216, which it calculated as the property tax assessment received for calendar year 2022 (\$27,662) plus 2.00 percent.<sup>42</sup>

However, since the filing of the Application, KPL confirmed that it has received the finalized property tax assessment amount for 2024 in the amount of \$29,093. Accordingly, KPL states that the forecast property taxes for the 2024 Test Year should be increased from \$28,216 to \$29,092.<sup>43</sup>

## **Repairs and Maintenance**

Repairs and maintenance expenses are forecast to increase by \$7,384 (16.63 percent) from \$44,407 (2021 Approved)<sup>44</sup> to \$51,791 (2024 Test Year).<sup>45</sup> KPL states that high repair and maintenance costs were incurred in fiscal years 2020 and 2021 during the Safety and Reliability Hearing when additional resources were dedicated to annual repair and maintenance activities.<sup>46</sup> The most significant permanent increase in repairs and maintenance expenses relates to the annual inspections of the powerline being performed by a third-party consultant, Primary Engineering and Construction Ltd., rather than Technical Services of BC.<sup>47</sup>

In response to IRs on the 2024 Test Year forecast, KPL clarified that the forecast repairs and maintenance expense is calculated by multiplying the determined average cost per day of outage by the mean days of outage and then adding an “assumed” baseline maintenance expense (BME) of \$10,000.<sup>48</sup>

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<sup>36</sup> Exhibit B-1, pp. 18–19.

<sup>37</sup> Exhibit B-1, pp. 19–20.

<sup>38</sup> Exhibit B-4, BCUC IR 4.2.

<sup>39</sup> Exhibit B-4, BCUC IRs 4.1 and 4.1.1.

<sup>40</sup> KPL 2021 RRA, KPL Final Argument, Appendix 3D.

<sup>41</sup> Exhibit B-1, p. 21.

<sup>42</sup> Exhibit B-1, p. 21.

<sup>43</sup> Exhibit B-4, BCUC IR 6.1.

<sup>44</sup> KPL 2021 RRA, KPL Final Argument, Appendix 3D.

<sup>45</sup> Exhibit B-1, p. 18.

<sup>46</sup> Exhibit B-1, p. 18.

<sup>47</sup> Exhibit B-4, BCUC IR 7.9.

<sup>48</sup> Exhibit B-4, BCUC IRs 7.1. and 7.5.

- Mean days of outage for the forecast year was calculated using the last seven years of data but excluding the historical year with the highest and lowest days of outage.
- The average cost per day of outage
  - uses the repair and maintenance total expense for each year adjusted to include CCPI less the BME and divided by the number of outage days for that year, and
  - is determined as the average of the last seven years of data excluding the high and low years.<sup>49</sup>

KPL states that due to the annual variations in the total repairs and maintenance expenses, the analysis requires using a fixed annual BME which is the assumed BME.<sup>50</sup> BME relates to annual expenses regarding repairs or maintenance that are not associated in any way with a planned or forced power outage.<sup>51</sup> Since KPL does not distinguish between BME and other repairs and maintenance expenses in its historical accounting data,<sup>52</sup> the assumed BME is needed and is derived from comparisons of standard deviation.<sup>53</sup> KPL submits that the largest annual BME expense should be part of the clearing work by local contractors under and near KPL powerlines.<sup>54</sup>

### **Contract Services**

Contract services (engineering, management, legal etc.) costs are forecast to increase from \$64,612 (2021 Approved)<sup>55</sup> to \$75,443 (2024 Test Year)<sup>56</sup>, which amounts to an increase of \$10,831 or approximately 16.76 percent. KPL states that these costs have grown in recent years as it has increasingly relied on external consultants as opposed to affiliated company personnel.<sup>57</sup>

KPL outlines that it does not have the workload needed to employ full-time employees with the appropriate skills for the work currently being performed by external consultants. Historically, KPL has used external consultants and affiliated company personnel on an as-required basis with remuneration based on time and materials. However, since 2009, the KPL states that the number of employees from affiliated companies located in the Vancouver area has significantly decreased and now includes only two full-time positions. Accordingly, KPL has increased its use of external consultants as compared to affiliated company personnel.<sup>58</sup> At this time, KPL has not prepared any short-term and/or long-term management plans pertaining to the continued use of services provided by external consultants.<sup>59</sup>

### ***Panel Determination***

**The Panel finds that KPL's forecast increases to selling, general and administrative expenses are reasonable and justified.** We accept KPL's forecasting methodology for operating and maintenance expenses which uses an eight-year average from fiscal 2016 to 2023, adjusted to include the CCPI since the year of the incurred expense to December 31, 2022. The inflationary adjustment of 3.53 percent is also reasonable.

The Panel also accepts the amount of KPL's property taxes as supported by the recent tax assessment from BC Assessment. Accordingly, **KPL is directed to reflect property taxes of \$29,093 in the forecast Revenue Requirement for the 2024 Test Year.**

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<sup>49</sup> Exhibit B-4, BCUC IR 7.1.1.

<sup>50</sup> Exhibit B-4, BCUC IR 7.5.

<sup>51</sup> Exhibit B-4, BCUC IR 7.3.

<sup>52</sup> Exhibit B-4, BCUC IR 7.3.

<sup>53</sup> Exhibit B-4, BCUC IR 7.5.

<sup>54</sup> Exhibit B-4, BCUC IR 7.3.

<sup>55</sup> KPL 2021 RRA, KPL Final Argument, Appendix 3D. Calculated as: \$8,386 + \$50,457 + \$512 + \$4,738 + \$519 = \$64,612.

<sup>56</sup> Exhibit B-1, p. 21.

<sup>57</sup> Exhibit B-1, p. 20.

<sup>58</sup> Exhibit B-4, BCUC IR 5.1.

<sup>59</sup> Exhibit B-4, BCUC IR 5.2.

The Panel accepts that KPL may not have sufficient workload to employ full-time employees, and therefore finds KPL's heavy reliance on contractors to be reasonable. However, recognizing the increased reliance on contractors, KPL should monitor these expenses to ensure that this continues to be the most cost-effective alternative in the future.

## 2.2 Depreciation and Amortization

KPL provides the following table showing KPL's 2024 Asset and Depreciation forecast, along with the BCUC-approved asset depreciation and amortization rates:

**Table 2 – KPL Asset and Depreciation Forecast as at June 30, 2024<sup>60</sup>**

	Assets June 30/23	Ann Dep'n 22/23	TTL Dep'n June 30/23	Assets June 30/24	Ann Dep'n 23/24	TTL Dep'n June 30/24	Net Assets June 30/24	Dep'n Rate %
<b>Breakdown of Distribution Plant</b>								
Overhead Powerline	2,207,237	49,045	798,761	2,218,237	49,167	847,928	1,370,309	2.222%
Submarine Cable	668,964	20,905	354,880	668,964	20,905	375,786	293,179	3.125%
Distribution Powerline	1,009,600	25,240	423,336	1,009,600	25,240	448,576	561,024	2.500%
Meters	16,157	646	8,493	16,157	646	9,139	7,018	4.000%
Transformers	93,310	2,333	23,897	93,310	2,333	25,230	67,080	2.500%
<b>Sub-total of Distribution Plant</b>	<b>3,995,268</b>	<b>98,169</b>	<b>1,609,368</b>	<b>4,006,268</b>	<b>98,291</b>	<b>1,707,659</b>	<b>2,298,609</b>	
CIAC - Overhead Powerline	-1,428,000	-34,386	-482,680	-1,428,000	-34,386	-517,065	-910,934	2.408%
CIAC - Submarine Cable	-459,000	-16,097	-225,518	-459,000	-16,097	-241,616	-217,384	3.507%
CIAC - Distribution Powerline	-663,000	-18,153	-254,668	-663,000	-18,153	-272,821	-390,179	2.738%
<b>Sub-total of CIAC (KCFN)</b>	<b>-2,550,000</b>	<b>-68,636</b>	<b>-962,866</b>	<b>-2,550,000</b>	<b>-68,636</b>	<b>-1,031,502</b>	<b>-1,518,498</b>	
<b>Distribution Plant</b>	<b>1,445,268</b>	<b>29,533</b>	<b>646,502</b>	<b>1,456,268</b>	<b>29,655</b>	<b>676,157</b>	<b>780,111</b>	
<b>Breakdown of Other Assets</b>								
Lease - Licence of Occupation	80,230	4,124	48,210	80,230	4,124	52,334	27,897	5.015%
Long Term Maintenance	114,410	17,162	32,755	114,410	17,161	49,916	64,493	15.000%
Deferred Depreciation	454,556	18,182	35,617	454,556	18,182	53,800	400,756	4.000%
RRA Hearings	24,246	4,312	8,623	27,246	6,437	15,059	12,187	25.000%
Reliability Hearings	0	0	0	228,408	11,420	11,420	216,987	10.000%
<b>Other Assets</b>	<b>673,442</b>	<b>43,779</b>	<b>125,204</b>	<b>904,850</b>	<b>57,324</b>	<b>182,529</b>	<b>722,321</b>	
<b>Totals</b>	<b>2,118,710</b>	<b>73,312</b>	<b>771,707</b>	<b>2,361,118</b>	<b>86,979</b>	<b>858,686</b>	<b>1,502,432</b>	

As shown in the above table (see "Ann Dep'n 23/24"), the total depreciation and amortization for the 2024 Test Year amounts to \$86,979, which is comprised of the depreciation for the distribution plant assets of \$29,655, plus depreciation of other assets (\$4,124 and \$6,437), as well as the amortization of three separate regulatory accounts totalling \$46,763.<sup>61</sup> This equates to a 35.78 percent increase over the 2021 Approved depreciation and amortization of \$64,057, which is primarily due to the following Rate Base additions which will be reviewed in Section 2.2.1 below:

- Proposed Reliability Hearing Regulatory Account in 2024 (\$228,408);
- Distribution Plant additions in 2022 (\$100,591); and
- Long Term Maintenance (LTM) Regulatory Asset account that commenced during fiscal 2021.<sup>62</sup>

In the 2021 RRA Decision, the BCUC approved the depreciation rates for the distribution plant assets, the KCFN CIAC, as well as the amortization rates for the Deferred Depreciation and LTM Asset regulatory accounts. The BCUC found that KPL's request for approval of revised depreciation rates and related KCFN CIAC was responsive to the BCUC's 2018 directive for KPL to provide a depreciation study for its distribution plant assets, and that the

<sup>60</sup> Exhibit B-1, Appendix 2, Schedule 2-4 or Exhibit B-1-1, Appendix 2, Schedule 2-4.

<sup>61</sup> The \$46,743 is calculated from Table 2 as: LTM Regulatory Asset amortization of \$17,161 + Deferred Depreciation Regulatory Account amortization of \$18,182 + Reliability Hearing Regulatory Account amortization of \$11,420 = \$46,743.

<sup>62</sup> Exhibit B-1, pp. 12–15.

proposed depreciation rates appropriately reflected the remaining service lives of KPL's distribution plant assets.<sup>63</sup>

Based on BCUC-approved depreciation and amortization rates, KPL requests confirmation, in this Application, of the accumulated depreciation values of the distribution plant and other assets at July 1, 2023 (i.e. the start of fiscal 2024) as filed.<sup>64</sup>

### **Deferred Depreciation Regulatory Account**

The BCUC previously approved KPL to recognize \$454,556 (as of July 1, 2020) in the Deferred Depreciation Regulatory Account and to amortize the account at a rate of four percent annually.<sup>65</sup>

KPL requests confirmation, however, in this Application that the Deferred Depreciation Regulatory Account is to be amortized on a straight-line basis as approved. KPL submits that, since depreciation rates for the related distribution plant assets including the CIAC are straight-line, then the depreciation rate for the Deferred Depreciation Regulatory Account should also be straight-line.<sup>66</sup> Therefore, for the 2024 Test Year, the forecast amortization of the Deferred Depreciation Regulatory Account amounts to \$18,182 (as shown in Table 2 above).

### ***Panel Determination***

The Panel accepts KPL's asset values as at July 1, 2023. Further, we accept the distribution plant depreciation rates, total depreciation and amortization of approved deferral accounts for the 2024 Test Year in the amount of \$86,979, including the amortization of the Deferred Depreciation Regulatory Account on a straight-line basis as per the prior BCUC decision<sup>67</sup> for the distribution plant assets, including the CIAC, to be depreciated on a straight-line basis.

### **2.2.1 Rate Base Additions and Reliability Hearing Regulatory Account**

In addition to the distribution plant and other asset components shown in Table 2 above, KPL's total Rate Base includes working capital.<sup>68</sup> The forecast working capital requirement for the 2024 Test Year is \$24,967, compared to \$44,852 in the 2021 RRA.<sup>69</sup>

Excluding the aforementioned working capital, KPL provides the following table showing its 2024 forecast Rate Base as at June 30, 2024:

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<sup>63</sup> 2021 RRA Decision, pp. 12–13.

<sup>64</sup> KPL Final Argument, p. 5.

<sup>65</sup> KPL 2021 RRA Decision, p. 13.

<sup>66</sup> Exhibit B-4, BCUC IR 3.1

<sup>67</sup> KPL 2021 RRA Decision, p. 12.

<sup>68</sup> Exhibit B-1, p. 11.

<sup>69</sup> Exhibit B-1, p. 16.

**Table 3 – KPL Forecast Rate Base<sup>70</sup>**

	FY 20/21	FY 21/22	FY 22/23	FY 23/24
Rate Base at FY start	1,876,260	2,005,743	2,111,170	2,118,710
Additions during FY	129,484	105,967	7,000	242,408
Rate Base at FY end	2,005,743	2,111,710	2,118,710	2,361,119
Depreciation at FY start	606,810	641,071	698,395	771,707
Depreciation during FY	34,260	57,324	73,312	86,979
Depreciation at FY end	641,071	698,395	771,707	858,686
Net Rate Base at FY start	1,269,450	1,364,673	1,413,315	1,347,004
Net Rate Base at FY end	1,364,673	1,413,315	1,347,004	1,502,432

Since the 2021 RRA, KPL states that the actual Rate Base additions during fiscal 2021 total \$129,484, of which \$18,740 relates to the distribution plant, \$93,498 relates to the approved LTM Asset Regulatory Account, and \$17,246 relates to 2021 RRA regulatory costs.<sup>71</sup> Rate Base additions of \$105,967 during 2022 largely consist of Distribution Plant Asset additions (\$100,591) (see section below), while Rate Base additions of \$242,408 during the 2024 Test Year largely consist of the proposed Reliability Hearing Regulatory Account amounting to \$228,408. The remaining additions to Rate Base in the 2024 Test Year pertain to additions to the distribution plant (\$11,000) and the 2024 RRA regulatory costs (\$3,000).<sup>72</sup> The total estimate for 2024 RRA regulatory costs is \$10,000, of which \$7,000 is recorded in fiscal 2023.<sup>73</sup>

### **Reliability Hearing Regulatory Account**

KPL states that it incurred \$213,465 plus applicable taxes in regulatory costs with respect to the Safety and Reliability Hearing which commenced on May 15, 2020, and ended on October 27, 2022.<sup>74</sup> The total cost incurred by KPL pertains to legal services for the Safety and Reliability Hearing and related filings as outlined in the invoice filed in Supplementary Appendix C of the Application. The invoice shows that the total incurred fees relate to 406.6 hours of legal time at a rate of \$525 per hour, and includes activities such as assisting with BCUC-related filings (e.g. Vegetation Management Plan, Maintenance Plan, progress reports), communication with KCFN, communication with safety authorities (Technical Safety BC), organizing a public townhall, etc.<sup>75</sup> KPL submits that the hourly rate for the legal counsel is the estimated market rate for counsel with the required type of regulatory experience, stating that the Safety and Reliability Hearing was an “exceptional” proceeding that took 2.8 years to complete with many required and detailed filings.<sup>76</sup>

Subject to the applicable taxes, KPL seeks BCUC approval to recognize the full amount of the incurred legal fees in a new rate base deferral account, called the Reliability Hearing Regulatory Account, attracting KPL’s notional WACC which will be depreciated as a fixed dollar amount based on a straight-line amortization rate of 10.00

<sup>70</sup> Exhibit B-1, Table 1, p. 12.

<sup>71</sup> Exhibit B-1, pp. 12–13.

<sup>72</sup> Exhibit B-1, pp. 13, 15.

<sup>73</sup> Exhibit B-1, p. 15.

<sup>74</sup> Exhibit B-1, Supplementary Appendix C-3; By Order G-302-22, on October 27, 2022, the BCUC issued its final decision on the Safety and Reliability Hearing.

<sup>75</sup> Exhibit B-1, Supplementary Appendix C-3.

<sup>76</sup> Exhibit B-5, KCFN IR 3(e).



percent per year starting at \$11,420 for the 2024 Test Year.<sup>77</sup> KPL argues that the Safety and Reliability Hearing was initiated and led by the BCUC as a regulatory proceeding. As such, the utility should be permitted to pass on its reasonable costs of the Safety and Reliability Hearing into the Rate Base of KPL.<sup>78</sup>

KPL provided the following clarifications:

- Regulatory costs with respect to the Safety and Reliability Hearing for which the public utility seeks BCUC approval consist purely of legal costs and no other internal or third-party costs, which KPL offers as justification for passing these costs onto ratepayers;<sup>79</sup>
- In the case of the notional WACC, costs for the Safety and Reliability Hearing arose in the normal course of business and third-party debt is not utilized, which justifies the use of KPL's notional WACC.<sup>80</sup> The proposed rate of return is also the same as KPL's other regulatory assets;<sup>81</sup> and
- In the case of the straight-line depreciation of the Reliability Hearing Regulatory Account, KPL submits the Safety and Reliability hearing is its first significant regulatory hearing in the 15 years since it commenced operations in 2006. KPL expects that the next significant regulatory hearing will be less than 15 years from now. Therefore, the proposed depreciation rate over the next 10 years is appropriate.<sup>82</sup>

### **Distribution Plant**

2022 Distribution Plant asset additions of \$100,591 pertain to plant upgrades to resolve low conductor clearance locations as recommended by Primary Engineering and Construction Ltd. in the November 2020 Maintenance Report prepared for the Reliability Hearing. The additions also include additional electrical meters and the purchase of four 75 kilovolt ampere pole mounted transformers necessary to serve future large single customer loads.<sup>83</sup>

### **LTM Asset Regulatory Account**

The BCUC approved the establishment of the LTM Asset Regulatory Account in the 2021 RRA Decision to capture costs related to the BCUC directed powerline maintenance and vegetation management plans, as part of the Safety and Reliability Hearing. At that time, KPL originally forecasted LTM expenditures of approximately \$100,000. The BCUC approved the account to be amortized at a rate of 15 percent annually.<sup>84</sup> As of June 30, 2024, the forecast gross value of the LTM Asset amounts to \$114,410 and the annual amortization for the 2024 Test Year amounts to \$17,161 (as shown in Table 2 above).

### ***Positions of the Parties***

KCFN submits that it is unfair for KPL to seek recovery of legal costs from a safety hearing that could have been avoided. KCFN argues that the hourly rate applied by KPL exceeds the rates for legal counsel provided in the BCUC's Rules of Practice and Procedure (Rules) regarding Participant Cost Award (PCA) (PCA Rules).<sup>85</sup> KCFN also submits that passing on legal fees to ratepayers would create a "chilling effect" for future complainants. If the BCUC were to permit KPL to recover its legal fees from ratepayers, KCFN states that it would be forced to limit

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<sup>77</sup> Exhibit B-1, pp. 14–15; KPL Final Argument, p. 2. The Panel notes that KPL requests approval of a specific amount of \$228,408 which can be calculated from the invoice filed in Supplementary Appendix C as: \$213,465 plus Provincial Sales Taxes (PST) of \$14, 943.

<sup>78</sup> Exhibit B-5, KCFN IR 3(d).

<sup>79</sup> Exhibit B-4, BCUC IR 11.1.

<sup>80</sup> Exhibit B-4, BCUC IR 11.2.

<sup>81</sup> Exhibit B-1, p. 15.

<sup>82</sup> Exhibit B-4, BCUC IR 11.3.

<sup>83</sup> Exhibit B-1, p. 13.

<sup>84</sup> KPL 2021 RRA Decision, p. 14.

<sup>85</sup> KCFN Final Argument, p. 7. Per Footnote 23 of the KCFN Final Argument, KCFN means this to refer to the BCUC's New Rules of Practice and Procedure (Rules) established by Order G-178-22 dated June 22, 2022 which have since been amended by Order G-72-23 dated April 3, 2023.

its engagement with KPL in order to reduce potential rate impacts in the future. KCFN argues that the claimed legal fees are a major driver of the rate increase sought for RS 1102 (i.e. 5.6 percent increase in rates) and the increase resulting from these fees would, if approved, result in rate shock.<sup>86</sup>

In reply, KPL reiterates that legal costs incurred toward the Safety and Reliability Hearing are just and reasonable, and that it responded to the BCUC investigation by using legal resources that were necessary and appropriate.<sup>87</sup> KPL argues that it incurred considerable legal effort and costs to review new issues that KCFN raised throughout the Safety and Reliability Hearing.<sup>88</sup> Further, KPL states that the BCUC's PCA Rules do not apply, noting that these rules are applicable to proceedings that started after June 30, 2022. Rather, the BCUC's previous Participant Assistance/Cost Award (PACA) Guidelines should apply to the Safety and Reliability Hearing. Notwithstanding, KPL submits that this reference has no bearing on the recovery of the legal costs as KPL was the public utility responding to a complaint, and it is not seeking a cost award.<sup>89</sup> With respect to the recovery period for the proposed deferral account, KPL states that it is open to amortizing the deferral account over 15 years instead of the proposed 10 years, which would lower the increase sought for RS 1102 rates.<sup>90</sup>

### *Panel Determination*

The Panel finds that it is appropriate for KPL to recover through rates the legal fees pertaining to the Safety and Reliability Hearing. Public utilities incur these types of expenses in the normal course of business and can reasonably expect to recover them through rates. KPL was required to participate in the complaint proceeding, and was compelled to address various legal issues raised by KCFN; therefore, it was reasonable for KPL to incur legal fees as part of the Safety and Reliability Hearing despite the acknowledged impact on KCFN.

There is no evidence that cost recovery has a chilling effect on customer complaints. However, we recognize that for a small utility such as KPL, which serves few customers, complaints may be better resolved through relationship building, especially with its larger customers. This requires a level of customer cooperation and mutual effort that cannot be externally imposed, but which the BCUC would like to encourage. This might assist in avoiding the cost of formal proceedings, such as the Safety and Reliability Hearing, which are recoverable expenses.

Regarding KCFN's argument that the amount of the legal fee or hourly rate was excessive and above that permitted in the BCUC's Rules, the Panel agrees with KPL that it is a public utility responding to a complaint, rather than a participant in a proceeding, so neither the Rules respecting PCA nor the PACA Guidelines apply. These expenses, which relate to the utility's operations, cannot be considered in relation to the costs awarded to participants as set out in the PCA Rules or PACA Guidelines. As such, although the hourly rate for legal fees exceeds that allowed under either the PCA Rules or the PACA Guidelines, without evidence showing that the rate is unjustified or exceeds the norm, the Panel accepts the rate incurred by KPL as the market rate and we have no basis upon which to question whether the rate itself is excessive.

Legal fees that are prudently incurred can generally be recoverable through customer rates. In this case, the Panel considered the type of services performed and number of billed hours. In this regard, we reviewed the activities undertaken, and consider whether it was necessary or reasonable to incur the legal costs for that activity, particularly if a lesser-paid non-legal consultant or manager could have undertaken the work more efficiently. In considering this, the Panel notes that the legal costs are comprised of 406.6 hours pertaining to the Safety and Reliability Hearing and related filings. Without questioning the accuracy of these invoices, the Panel considers that a significant number of the services noted in the invoices, such as for the Town Hall meeting, Vegetation Management Plan, Maintenance Plan, progress reports, communication with Technical

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<sup>86</sup> KCFN Final Argument, pp. 6–8.

<sup>87</sup> KPL Reply Argument, pp. 4–5.

<sup>88</sup> KPL Reply Argument, p. 8.

<sup>89</sup> KPL Reply Argument, pp. 9–10.

<sup>90</sup> KPL Reply Argument, p. 12.



Safety BC, etc. are not legal in nature and did not require legal skills or expertise. We consider that these matters could have been more strategically and efficiently managed at a lower fee without incurring some or all the legal costs for those activities.

As such, while the Panel finds that KPL was justified in incurring legal fees for the Safety and Reliability Hearing, it was unnecessary for KPL to incur legal fees for activities that did not require legal expertise. KPL should have better controlled these costs by prudent management and could thus have decreased this expense. We considered the number of hours itemized for non-legal matters and factored in an estimated cost to arrive at a reduction of \$40,000 in legal fees related to the Safety and Reliability Hearing.

In addition to accepting the need for the Reliability Hearing Regulatory account, the Panel also accepts that it would be appropriate to calculate interest based on KPL's WACC. The Panel will address the KCFN's concerns regarding rate shock in Section 3.2.

**Accordingly, the Panel approves the establishment of a Rate Base Reliability Hearing Regulatory Account to record legal costs incurred in the Safety and Reliability Hearing of \$173,465<sup>91</sup> plus applicable taxes, attracting interest based on KPL's WACC. Further, the Panel approves the amortization of the Reliability Hearing Regulatory Account to be calculated on a straight-line basis over 10 years as filed.**

## **2.3 Equity Component and ROE**

Subsequent to the issuance of the BCUC Generic Cost of Capital Proceeding Stage 1 Decision (GCOC Stage 1 Decision), KPL proposes that its deemed equity component should be 41 percent, rather than 40 percent as originally proposed, based on continued historical matching to the deemed equity component of FBC, the electrical utility of Fortis.<sup>92</sup> In addition, KPL proposes that its Revenue Requirement should be calculated based on an ROE of 10.40 percent (amended from 10.00 percent in the original Application), which is determined as FBC's allowed ROE of 9.65 percent plus a risk premium of 0.75 basis points or 0.75 percent above FBC as the benchmark utility.<sup>93</sup> The resulting ROE, as proposed, is \$62,331 for the 2024 Test Year.<sup>94</sup>

KPL is aware of Stage 2 of the BCUC's GCOC proceeding, but states that due to the very small size and financial cost/benefits of participating, it is not participating in the Stage 2 proceeding.<sup>95</sup> As will be further addressed in Section 3.3 of this Decision, KPL submits that rates for 2024 should not be set on an interim basis pending the completion of the GCOC Phase 2 proceeding because the regulatory and administrative cost of interim and final rates would far exceed the cost/benefits of interim billings.<sup>96</sup>

KPL's current rates, as approved in the 2021 RRA Decision, are based on an existing BCUC-approved deemed equity component of 40 percent and an allowed ROE of 9.50 percent flowing from the allowed ROE of the Benchmark Utility at that time.<sup>97</sup>

### *Panel Determination*

The BCUC has established that Stage 2 of the GCOC proceeding will determine the cost of capital for most public utilities in BC, including KPL. Although BCUC panels are not necessarily bound by precedent, when a determination has been made in a proceeding which is specifically intended to establish capital structure and allowed ROE, this Panel is not inclined to make a decision that precludes the outcome of that proceeding unless

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<sup>91</sup> Calculated as: the total incurred fees before taxes of \$213,465 less \$40,000.

<sup>92</sup> Exhibit B-4, BCUC IR 9.1.

<sup>93</sup> Exhibit B-4, BCUC IR 9.1.

<sup>94</sup> Exhibit B-6, Panel IR 1.2.2, Excel Attachment "B-6-Appendix141EquityROE1040."

<sup>95</sup> Exhibit B-4, BCUC IR 9.1.

<sup>96</sup> Exhibit B-4, BCUC IRs 9.1 and 9.1.2.

<sup>97</sup> 2021 RRA Decision, p. 14.

exceptional circumstances demanded such a decision. No such exceptional circumstances exist here. KPL's request regarding interim rates is addressed in more detail in Section 3.3.

**The Panel finds that KPL's current deemed capital structure which is an equity component of 40 percent, and an allowed ROE of 9.50 percent, will remain in effect on an interim basis to conform with Directive 4 of Order G-236-23, pending the BCUC's final decision on Stage 2 of the GCOC proceeding.**

**As Stage 2 of the GCOC proceeding is still ongoing, KPL is directed to recalculate the Revenue Requirement and rates for the 2024 Test Year using a deemed equity component of 40 percent and allowed ROE of 9.50 percent.**

## **2.4 Deemed Interest**

For the 2024 Test Year, KPL proposes a deemed debt component and interest rate of 59 percent and 5.00 percent, respectively, resulting in deemed interest of \$43,144 on the debt component of Rate Base.<sup>98</sup> The deemed debt component, as proposed, is consistent with the proposed equity component as discussed in Section 2.3. KPL outlines that it proposed an interest rate of 5.00 percent because this rate falls "reasonably within the range" of affiliated company lending rates, plus the additional 0.50 percent historically allowed by the BCUC to account for the loan guarantees provided by affiliated companies.<sup>99</sup>

In fiscal 2020/21, KPL states that its parent company, Synex Renewable Energy Corporation, refinanced the long-term debt of all its subsidiaries, such that KPL currently does not have any credit facilities with third party lenders or third party debt-holders.<sup>100</sup> Specifically, KPL outlined that its prior credit agreement with the Canada Western Bank (CWB) was cancelled and recorded as a repayment "from equivalent funds advanced from an affiliated company ("Intercompany Advance")."<sup>101</sup> KPL confirmed that it did not file an application requesting the BCUC's approval for the issuance of securities under section 50 of the UCA with respect to this transaction, nor does it intend to seek BCUC-approval for its affiliated company transaction.<sup>102</sup> KPL stated, since the credit agreement was cancelled, "[it] did not seek approval of its refinancing of affiliated companies because this project refinancing did not in any way relate to KPL, including its assets," and it was "highly unlikely to obtain any standalone financing."<sup>103</sup>

KPL states that the latest financial statements of SXI indicates that there are three loans payable by affiliated companies, as follows:<sup>104</sup>

- Loan A - \$7.2 million ending June 30, 2045; annual interest rate of 4.26 percent;
- Loan B - \$5.5 million ending June 30, 2039; annual interest rate of 4.32 percent; and
- Loan C - \$1.6 million ending June 30, 2045; annual interest rate of 4.676 percent.

As such, KPL states, "[p]resumably, the Intercompany Advance[s]... interest rate could be determined [as] between 4.26% and 4.676%." Since the value of 4.50 percent falls reasonably within the range of affiliated company lending rates, KPL submits that the proposed 5.00 percent interest rate is consistent with third-party lending rates plus the additional 0.50 percent interest in respect of loan guarantees of affiliated companies as

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<sup>98</sup> Exhibit B-6, Panel IR 1.2.2.

<sup>99</sup> Exhibit B-4, BCUC IR 10.3.

<sup>100</sup> Exhibit B-1, p. 17; Exhibit B-4, BCUC IR 10.3.

<sup>101</sup> Exhibit B-4, BCUC IR 10.3.1.

<sup>102</sup> Exhibit B-4, BCUC IRs 10.1, 10.2 and 10.2.1.

<sup>103</sup> Exhibit B-4, BCUC IR 10.2.

<sup>104</sup> Exhibit B-4, BCUC IR 10.3.1.

approved in the 2021 RRA Decision.<sup>105</sup> KPL noted that, without the support/guarantees of its parent company, it historically has not been able to secure debt in an arm's length transaction alone.<sup>106</sup>

### *Panel Determination*

With respect to the deemed debt component of KPL's capital structure, the Panel accepts that KPL's current approved deemed debt component of 60 percent should remain in effect pending the outcome of Stage 2 of the GCOC proceeding.

In respect of the Intercompany Advance, KPL failed to comply with section 50 of the UCA requiring it to seek BCUC approval prior to making a material alteration to a security arrangement. The purpose of such an application is to ensure that financial arrangements that could impact ratepayers are properly reviewed by the BCUC. In this case, since the Intercompany Advance and loan guarantee agreements were not reviewed, the Panel is concerned about the accuracy of the 5.00 percent interest rate. We do not, however, consider it to be practical to delay this proceeding while a review is undertaken. As such, **the Panel directs KPL to file for BCUC review, within 15 days from the date of this Decision, the agreement(s) for the Intercompany Advance.**

Should the BCUC's section 50 review determine that the interest rate or the loan guarantee amount, or both are excessive or inaccurate, a rate adjustment may be necessary. Therefore, while the Panel finds the requested 5.00 percent return on interest provides a reasonable basis for determining the Revenue Requirement for the 2024 Test Year, this is subject to adjustment upon the BCUC's final determination in the review of the Intercompany Advance agreement(s).

**KPL is directed to recalculate the Revenue Requirement and rates for the 2024 Test Year using a deemed debt component of 60 percent and interest rate of return of 5.00 percent, pending the outcome of Stage 2 of the GCOC proceeding and the BCUC's review of the agreement(s) for the Intercompany Advance.**

## **2.5 Load Forecast and BC Hydro Charges**

### **Load Forecast**

KPL estimates 1,756 megawatt hours (MWh) in electricity sales to customers for the 2024 Test Year.<sup>107</sup> KPL explains that one of the reasons for the increase to its Test Year Revenue Requirement is an increase in annual electricity sales by less than 1.10 percent since the BCUC's approval of existing rates in the 2021 RRA.<sup>108</sup>

KPL provides its actual historical energy sales from July 2005 to June 2023 and forecast energy sales for July 2023 to December 2023 and Fiscal 2024 for each of its customer groups: Houpsitas, Schools & Teacherages, Residential, Commercial, and two of its largest customers, Chammiss Bay and Commercial Customer A.<sup>109</sup> Except for Schools & Teacherages, KPL forecast the load for each customer group by using the percentage average increase and the average over the past six, seven, or eight years or by using the percent average increase and the load from the previous year. These methods were then compared to remove outliers. KPL states that the 2024 Test Year forecast is primarily based on actual sales from July 2014 to June 2023.<sup>110</sup> In KPL's view, data prior to this timeframe was a period of initial growth. KPL forecast the load for the Schools & Teacherages customer group based on the actual sales in Fiscal 2022 and 2023 only to account for a permanent drop in electricity sales from these customers due to the installation of solar panels and backup batteries in April 2021.<sup>111</sup>

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<sup>105</sup> Exhibit B-4, BCUC IR 10.3.1.

<sup>106</sup> Exhibit B-4, BCUC IR 10.3.1.

<sup>107</sup> Exhibit B-1-2, PDF p. 4.

<sup>108</sup> Exhibit B-1-2, PDF p. 3.

<sup>109</sup> Exhibit B-1-2, Appendix 2, PDF p. 14.

<sup>110</sup> Exhibit B-1-2, PDF p. 4.

<sup>111</sup> Exhibit B-1-2, PDF p. 5.

In KPL's view, the calculated Test Year load forecast for residential and commercial load during the Test Year as described above may be overestimated due to the effects of the COVID-19 pandemic. Accordingly, KPL applied an adjustment by "ratioing" the calculated Test Year load forecast with 1/3 of the Fiscal 2023 load to offset for the overestimate.<sup>112</sup> KPL states that it applied the 1/3 ratio approach based on general observations and that it does not consider any resulting adjustments from this approach to be material to the Test Year Revenue Requirement.<sup>113</sup>

KPL states that its forecast of electricity sales to customers for the 2024 Test Year incorporates the impacts of the COVID-19 pandemic and permanent load reductions from the installation of new self-generation facilities.<sup>114</sup>

### **BC Hydro Charges**

The forecast cost of electricity from BC Hydro during the 2024 Test Year was determined by multiplying the forecast of BC Hydro's average annual cost per kWh by the forecast energy purchases from BC Hydro.<sup>115</sup> KPL states that the cost of electricity is determined based on ten years of historical data and includes allowances for an increased volume of electricity purchases over the KPL electricity sales volume by about 8.80 percent to account for distribution system losses. The resulting cost of electricity from BC Hydro for the 2024 Test Year is approximately \$163,800.<sup>116</sup> The cost of energy per kWh from BC Hydro is based on:

- A) a basic charge per day;
- B) an energy demand charge per kW of billing ; and
- C) an energy charge per kWh.

KPL provides the following scenario analysis showing the impact that an increase/decrease in sales or BC Hydro rates would have on the Revenue Requirement and the proposed Energy Charges:

**Table 4: BC Hydro Charges/Load Forecast Scenario Analysis<sup>117</sup>**

	<b>Change Rev Req'ts</b>	<b>Change in 1101</b>	<b>Change in 1102</b>
<b>Increase electricity sales 10%</b>	Nil	<b>Decrease 4.4%</b>	<b>Decrease 7.5%</b>
<b>Decrease electricity sales 10%</b>	Nil	<b>Increase 5.4%</b>	<b>Increase 9.2%</b>
<b>Increase BC Hydro cost 10%</b>	<b>Increase 3.1%</b>	<b>Increase 2.2%</b>	<b>Increase 3.7%</b>
<b>Decrease BC Hydro cost 10%</b>	<b>Decrease 3.1%</b>	<b>Decrease 2.1%</b>	<b>Decrease 3.7%</b>

KPL also provides a monthly demand forecast for the 2024 Test Year and notes a forecast system peak capacity of 473 kW for December 2023.<sup>118</sup> The monthly demand forecast is approximate and was determined for the purposes of calculating the energy demand charge from BC Hydro.<sup>119</sup> KPL clarified, however, that it has not assessed the maximum peak demand at the point of interconnection as part of this proceeding and intends to provide an updated peak demand forecast for the next 10 years, including the 2024 Test Year, in its long-term resource plan.<sup>120</sup> KPL states that the electricity service agreement with BC Hydro is currently under review for potential upgrades to the supply capacity and does not foresee this review and resulting cost impacts from potential capacity upgrades to alter the 2024 Test Year Revenue Requirement.<sup>121</sup>

<sup>112</sup> Exhibit B-1-2, PDF. 6.

<sup>113</sup> Exhibit B-4, BCUC IR 13.1.

<sup>114</sup> Exhibit B-4, BCUC IR 12.5.1, Exhibit B-1-2, pp. 25–26.

<sup>115</sup> Exhibit B-1-2, PDF p. 8.

<sup>116</sup> Exhibit B-1-2, PDF p. 8.

<sup>117</sup> Exhibit B-4, BCUC IR 12.3.

<sup>118</sup> Exhibit B-1-2, Appendix 2, Schedule 2-3, PDF p. 24.

<sup>119</sup> Exhibit B-4, BCUC IR 16.1.

<sup>120</sup> Exhibit B-4, BCUC IR 16.2.1.

<sup>121</sup> Exhibit B-4, BCUC IR 16.5.

## Panel Discussion

The Panel acknowledges that KPL is a small utility with limited resources. Therefore, while we consider KPL's load forecasting methodology to be simplistic, we find the 2024 Test Year forecast of monthly demand and energy sales as filed to be reasonable for the purpose of determining the forecast BC Hydro charges and revenue deficiency, respectively. The forecast amounts are sufficiently supported by a detailed analysis of historical energy sales and purchases, including adjustments for the impact of the COVID-19 pandemic and new customer self-generation facilities which offset load, thus, providing a reasonable basis for forecasting the expected load and BC Hydro charges. While the Panel is aware that the BCUC is currently reviewing a compliance filing that considers a long-term forecast, the forecast presented here is acceptable for the purposes of this rates review.

### 2.6 Overall Panel Determination

**Subject to the directions in sections 2.1 through 2.4, the Panel finds the 2024 forecast Revenue Requirements and resulting revenue deficiency reasonable for setting rates for the 2024 Test Year.** The forecast Revenue Requirement reasonably reflects KPL's forecast cost of service and is an appropriate basis on which to establish the rates, as examined in Section 3.0 below.

Notwithstanding the aforementioned approvals and directives, in recognition of KPL as a small utility, the Panel encourages KPL to consider filing a multi-year rate application or proposing a more efficient approach to setting rates. This could increase regulatory efficiency and reduce costs for KPL.

### 3.0 Proposed Amendments to Rate Schedules

KPL's existing Electric Tariff rate schedules (RS) consists of:<sup>122</sup>

- RS 1101 – Residential and Commercial Services with a Basic Charge of \$9.00 per month and an Energy Charge of \$0.4026 per kWh; and
- RS 1102 - KCFN with a Basic Charge of \$9.00 per month and an Energy Charge of \$0.2270 per kWh.

KPL proposes to retain the existing structure of the Tariff, but to amend the Basic Charge and Energy Charge, as appropriate, to provide the necessary additional revenue for KPL to achieve a WACC return on Rate Base of 7.21 percent.<sup>123</sup> The proposed changes, including the effective date and whether rates are approved on a permanent or interim and refundable/recoverable basis, are discussed in the sections below.

#### 3.1 Basic Charge

The proposed increase in the monthly Basic Charge for all customers (RS 1101 and 1102) is \$0.70 per month from \$9.00 per month to \$9.70 per month on a permanent basis, effective the date of the BCUC's final decision on the Application.<sup>124</sup> KPL states that the proposed increase allows the utility to "maintain an affordable [Basic] charge while reflecting inflationary increases in the costs of accounting, billing and meter reading functions."<sup>125</sup>

KPL states that the monthly Basic Charge for RS 1101 and 1102 was last increased in 2021. The proposed increase of \$0.70 per month equates to 7.78 percent, which KPL explained is less than its expected rate of inflation for the period from July 15, 2021 (the approximate date of the 2021 RRA Decision) to June 30, 2023,

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<sup>122</sup> Exhibit B-1, p. 29.

<sup>123</sup> Exhibit B-1, p. 29. However, the proposed WACC return on Rate Base has been amended to 7.21 percent as subsequently corrected in Exhibit B-6, Panel IR 1.2.2.

<sup>124</sup> Exhibit B-1, pp. 5, 29.

<sup>125</sup> Exhibit B-1, p. 29.

which exceeds 7.78 percent, based on the information available up to the prior month at the time of the Application from the monthly CCPI.<sup>126</sup>

During the proceeding, KPL confirmed that the actual rate of inflation from July 2021 to July 2023 was 11.20 percent.<sup>127</sup>

KPL explained that it approximates the Basic Charge to the actual cost of service, where the cost of billing services likely represents the bulk of the Basic Charges although the actual cost of service is uncertain due to KPL's very small size. Since the cost of billing services mostly relates to the remuneration of personnel, KPL considers that the cost of service is expected to approximate the increase in CPI. On this basis, KPL submits that the proposed change to the Basic Charge is not unjust or unreasonable.<sup>128</sup> KPL also argues that the difference in the proposed percentage increase is reasonable compared to the proposed averaged weighted increase to the Energy Charges,<sup>129</sup> which will be addressed in Section 3.2 below.

### *Panel Determination*

Although there was an increase to the Basic Charge in 2021, the Panel accepts that the cost of billing services is likely to rise in accordance with CCPI. We therefore find that that proposed increase of \$0.70 per month is warranted to address inflationary cost increases since 2021. **Subject to the effective dates and the Panel's determination on interim rates in Section 3.3 below, pursuant to section 58 to 61 of the UCA, the Panel approves KPL to increase the Basic Charge for RS 1101 and 1102 by \$0.70 per month to \$9.70 per month.**

The effective date and whether rates are approved on a permanent or interim and refundable or recoverable basis are addressed in Section 3.3.

## **3.2 Energy Charge**

According to KPL, the Tariff structure of the utility includes Energy Charges based on kWh consumption that provide for almost all of the utility's revenues.<sup>130</sup> Pursuant to the 2021 RRA Decision, KPL states that the Energy Charges for RS 1101 and 1102 are determined based on the apportionment of costs by way of a formulaic computation as follows:<sup>131</sup>

- Energy Sales Revenue = Total Revenue Requirement less Basic Charge and Other Revenues; and
- Energy Sales Revenue = (RS 1101 Sales x RS 1101 Rate) + (RS 1102 Sales x (RS 1101 Rate – CIAC-KCFN Differential or KCFN Differential)).

KPL explains that the KCFN Differential, as noted in the above formula, is defined as the difference between the RS 1101 and 1102 rates based on the depreciating value of the KCFN CIAC.<sup>132</sup>

### **KCFN Differential**

For the purpose of setting 2024 rates, KPL states that the KCFN Differential is \$0.1800 per kWh, which is calculated as follows, consistent with the 2021 RRA Decision:<sup>133</sup>

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<sup>126</sup> Exhibit B-1-2, PDF p. 11; Exhibit B-4, BCUC IR 2.1.

<sup>127</sup> Exhibit B-4, BCUC IR 2.1.1.

<sup>128</sup> Exhibit B-4, BCUC IR 2.3.

<sup>129</sup> Exhibit B-4, BCUC IR 2.3.

<sup>130</sup> Exhibit B-1, p. 30.

<sup>131</sup> Exhibit B-1, p. 30.

<sup>132</sup> Exhibit B-1, p. 30.

<sup>133</sup> Exhibit B-1, p. 30; Exhibit B-1-2, PDF page 12.

**Table 5: KCFN Differential<sup>134</sup>**

<b>Description</b>	<b>Amount in \$</b>	<b>Amount in \$/kWh for 2024 Test Year</b>
CIAC amortization (2024 Test Year)	\$68,636	\$0.05405
Net CIAC balance at June 2024	\$1,518,498	
Rate Base return on net CIAC balance at June 2024 at 6.90 percent	\$104,776	\$0.08250
CIAC deferred depreciation amortization (2024 Test Year)	\$21,914	\$0.01726
Net CIAC deferred depreciation balance at June 2024	\$483,015	
Rate Base return on net CIAC deferred depreciation balance at June 2024 at 6.90 percent	\$33,328	\$0.02624
Calculated total difference		<b>\$0.18005</b>

As shown in the above table, KPL explains that the KCFN Differential is calculated in two steps. The first step is the summation of: a) the amount of annual depreciation of the KCFN CIAC; b) the amount of return on the depreciated Rate Base value of the KCFN CIAC; c) the amount of annual depreciation of the KCFN CIAC in deferred depreciation; and d) the amount of return on the depreciated Rate Base value of the KCFN CIAC in deferred depreciation. In the second step, the summation is divided by the forecast electricity sales under RS 1102, to determine the dollar differential on kWh basis.<sup>135</sup>

KPL notes that the Rate Base return used in the calculation of the KCFN Differential is 6.90 percent, stating:<sup>136</sup>

The use and calculation of the CIAC-KCFN differential was first included in the 2021 RRA. The total impact in dollars is set out in Table 7 (2021 RRA Decision page 17) and includes a rate base return of 6.90% on the CIAC balance and the CIAC Deferred Depreciation balance. [...] In RRA 2021, KPL provided a range of the CIAC-KCFN differential which the BCUC considered in its decision. The BCUC expressed that the 6.90% return was fair under the circumstances and did not state that the return of 6.90% should be altered depending on the rate of return approved at subsequent KPL revenue requirement applications. The “fairness” of the expected benefit to KCFN relates to the expectations of KCFN and KPL Customers, particularly at the time of KCFN providing the CIAC. The 2021 RRA Decision was the first instance of calculation of the CIAC-KCFN differential and KPL submits that the 6.90% return was intended to be fixed at 6.90% for subsequent RRA applications.

During the proceeding, KPL calculated in response to Panel IRs what the KCFN Differential would be based on two alternative Rate Base return scenarios, as follows:<sup>137</sup>

1. \$0.182 per kWh based on an annual Rate Base return of 7.00 percent, which is using a deemed capital structure of 60 percent debt and 40 percent equity and 10.0 percent allowed ROE as proposed in the original Application;
2. \$0.185 per kWh based on an annual Rate Based return of 7.21 percent, which is using a deemed capital structure of 59 percent debt and 41 percent equity and 10.40 percent allowed ROE as proposed by KPL subsequent to the issuance of the GCOC Stage 1 Decision.

<sup>134</sup> Table reproduced by BCUC Staff based on the values in Table 2 in Exhibit B-1-2, PDF page 12. As shown in Note 3 of Table 2, the amounts in \$/kWh for the 2024 Test Year are based on forecast electricity sales for RS 1102 of 1,269.9 MWh.

<sup>135</sup> Exhibit B-1-2, PDF p. 11.

<sup>136</sup> Exhibit B-4, BCUC IR 3.1.

<sup>137</sup> Exhibit B-6, Panel IR 1.2.2.



As noted in Section 1.0, KPL requests that, in this proceeding, the BCUC confirm “the parameters for the difference between the RS 1101 and RS 1102 Energy Charges.”<sup>138</sup>

### **Increase to Energy Charges for RS 1101 and 1102**

After allowing for the increase in revenue from the proposed Basic Charge, KPL proposes to meet the increased Revenue Requirement of the Application through an increase in the Energy Charges for RS 1101 and 1102.<sup>139</sup>

Based on a KCFN Differential of \$0.1800 per kWh (as described above) and the computation of Energy Charges for RS 1101 and 1102 in the formula, KPL states that the proposed Energy Charge is \$0.4349 per kWh for RS 1101 and \$0.2549 per kWh for RS 1102, as amended by additional information during the course of the proceeding.<sup>140</sup>

KPL had originally requested an increase of \$0.0215 per kWh for RS 1101 (approximately 5.30 percent) and \$0.0255 per kWh for RS 1102 (approximately 11.20 percent) in the Application.<sup>141</sup>

### ***Positions of the Parties***

In final argument, KCFN states that, as the sole ratepayer under RS 1102, it opposes the increase to the Energy Charge for RS 1102.<sup>142</sup> KCFN argues that a proposed 11.20 percent increase<sup>143</sup> would result in rate shock.<sup>144</sup>

KCFN submits that the requested increase “fails to manage the customer rate impact and further underscores the unfairness of holding KCFN responsible for KPL’s legal fees, especially insofar as the Complaint was necessitated by KPL’s own actions and inactions.”<sup>145</sup> KCFN argues, it was only two years ago that the BCUC ordered a 17.60 percent increase to the Energy Charge for RS 1102, which is borne entirely by KCFN.<sup>146</sup>

### ***Panel Determination***

The Panel considers the structure of the existing Tariff to be acceptable, and subject to the adjustments as directed in sections 2.1 through 2.4 of this Decision regarding the 2024 Test Year Revenue Requirement, finds the formula to compute the RS 1101 and 1102 Energy Charges as set out in the 2021 RRA Decision remains reasonable for the 2024 Test Year in order to retain the Tariff’s existing structure.

However, with respect to the KCFN Differential, the Panel finds that the Rate Base return, which is applied to the depreciated Rate Base value of the KCFN CIAC as well as the depreciated Rate Base value of the KCFN CIAC in deferred depreciation, should reflect the current approved deemed capital structure and equity return. In sections 2.3 and 2.4, the Panel accepts that KPL’s current approved capital equity component of 40 percent and debt component of 60 percent, as well as the allowed ROE of 9.50 percent should remain in effect, pending the BCUC’s final decision on Stage 2 of the BCUC’s GCOC proceeding. By extension, the Panel accepts a KCFN

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<sup>138</sup> KPL Final Argument, p. 1.

<sup>139</sup> Exhibit B-1, p. 31.

<sup>140</sup> Exhibit B-6, Panel IRs 1.2.2 and 1.4.2.

<sup>141</sup> Exhibit B-1, p. 5.

<sup>142</sup> KCFN Final Argument, p. 1.

<sup>143</sup> The Panel notes that the 11.2 percent increase stated in the KCFN Final Argument represents KPL’s original proposed rate increase before changes brought forward between the original Application and final argument. However, the proposed rate increase, as amended, is 12.3 percent (KPL Final Argument, p. 3).

<sup>144</sup> KCFN Final Argument, p. 1.

<sup>145</sup> KCFN Final Argument, p. 8.

<sup>146</sup> KCFN Final Argument, p. 7.



differential of \$0.1800 per kWh for setting rates to be appropriate, pending the BCUC's final decision in Stage 2 of the BCUC's GCOC proceeding.

While the Panel is sympathetic to the rate increases faced by KCFN and the rate shock concerns raised, given the adjustments directed in sections 2.1 through 2.4, we expect that the resulting rate increase and Energy Charge for RS 1102 will be somewhat lower than the rates requested by KPL such that there is no need for a longer amortization period of the Reliability Hearing Regulatory Account approved in Section 2.2.1. The Panel also acknowledges that the KCFN's concerns are compounded by the approved increase in the RS 1102 Energy Charge that took effect on July 12, 2021.<sup>147</sup> However, the Panel is mindful that, as stated in the 2021 RRA Decision, the KCFN had not had a rate increase since 2012.<sup>148</sup> At that time, the BCUC found that the 2021 Approved rate increase reflected a fair apportionment of costs to KCFN to ensure KPL's revenue is sufficient to recover its cost of service.<sup>149</sup> This Panel considers, therefore, that the 2021 Approved rate increase of 17.60 percent reflects the cumulative impacts of net costs that had increased in the approximately nine years between 2012 and 2021, which roughly equates to 1.80 percent per annum.<sup>150</sup>

In setting the rates for the 2024 Test Year, the Panel considers the approximately 2.5 years since the 2021 rates increase, as well as the requirements of the current regulatory and legislative framework which allow public utilities to recover prudently incurred costs and have an opportunity to earn a reasonable return on invested capital or ROE through rates. In Section 2.6 of this Decision, the Panel determined that the 2024 forecast Revenue Requirements and resulting revenue deficiency are reasonable for the purposes of setting rates for the 2024 Test Year, subject to the adjustments as directed in sections 2.1 through 2.4.

**As such, subject to the effective dates and the Panel's determination on interim rates in section 3.3 below, KPL is approved for an RS 1101 Energy Charge of \$0.4349 per kWh and an RS 1102 Energy Charge of \$0.2549 per kWh, to be adjusted in accordance with all directives and determinations set out in Section 2.0 of the Decision pertaining to the 2024 Revenue Requirement.**

The effective date and whether rates are approved on a permanent or interim and refundable or recoverable basis are addressed in Section 3.3.

### **3.3 Interim vs. Permanent Charges**

As referenced earlier in Section 2.3, KPL requests rates on a permanent basis, stating that it does not concur with the setting of KPL's rates on an interim basis pending the completion of Stage 2 of the BCUC's GCOC proceeding.<sup>151</sup> KPL states it is not participating in the BCUC's GCOC Stage 2 proceeding due to the very small size and financial costs/benefits of participating. KPL illustrates, stating:<sup>152</sup>

For example, for the revenue requirement of \$540,000, the effect of a change in the Risk Premium of 0.10 percent amounts to a change in revenue requirement of \$540. The regulatory and administrative cost of interim and final rates would far exceed the cost/benefit of interim billings.

The GCOC Stage 1 Decision states that the BCUC will determine the manner by which any variance between approved interim rates and permanent rates, including interest if any, will be refunded or recovered at the time the BCUC renders its final decision on Stage 2.<sup>153</sup>

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<sup>147</sup> KPL 2021 RRA Decision.

<sup>148</sup> KPL 2021 RRA Decision, p. 19.

<sup>149</sup> KPL 2021 RRA Decision, pp. 18–19.

<sup>150</sup> The 2012 Approved rate multiplied by 1.018<sup>9</sup> equals the 2021 Approved rate.

<sup>151</sup> Exhibit B-4, BCUC IR 9.1.

<sup>152</sup> Exhibit B-4, BCUC IR 9.1.

<sup>153</sup> 2023 GCOC Stage 1 Decision, p. 142.

### *Panel Determination*

The Panel recognizes that KPL uses the Benchmark Utility to set its capital structure and equity return. Based on the decision accompanying Order G-236-23 approving Stage 1 of the GCOC proceeding, the Panel accepts that the rates effective January 1, 2024 should remain interim and refundable or recoverable, pending the BCUC's final decision on Stage 2 of the GCOC proceeding.

**Accordingly, the Basic Charges and Energy Charges for RS 1101 and 1102 as approved in sections 3.1 and 3.2 of this Decision are approved on an interim and refundable or recoverable basis, pending the BCUC's final decision on Stage 2 of the GCOC proceeding and the BCUC's review of the agreement for the Intercompany Advance as directed in Section 2.4.** Except for any impact arising from the decision on Stage 2 of the GCOC proceeding and the review of the agreement for the Intercompany Advance, there will be no other rate changes to KPL's Basic Charges or Energy Charges for the 2024 Test Year.

**KPL is directed to file with the BCUC, within 15 days of the date of the BCUC's decision on the Intercompany Advance, amended Tariff pages and finalized financial schedules reflecting the Intercompany Advance decision and the following directives and determinations made in this Decision, for interim rates on a refundable or recoverable basis, to be effective the first of the month following the receipt of the endorsed Tariff pages:**

- **KPL is approved to include in the rates for the 2024 Test Year, property taxes of \$29,093 in the forecast Revenue Requirement.**
- **KPL is approved to establish a Rate Base Reliability Hearing Regulatory Account to include legal costs of the Safety and Reliability Hearing in the amount of 173,465 plus applicable taxes,. The amortization of the Reliability Hearing Regulatory Account should be calculated on a straight-line basis over 10 years and attract interest based on KPL's WACC.**
- **KPL is directed to recalculate the Revenue Requirement and rates for the 2024 Test Year using a deemed equity component of 40 percent and an allowed ROE of 9.50 percent; and**
- **KPL is directed to recalculate the Revenue Requirement and rates for the 2024 Test Year using a deemed debt component of 60 percent.**

**DATED** at the City of Vancouver, in the Province of British Columbia, this                      29<sup>th</sup>                      day of February 2024.

*Original signed by:*

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C. M. Brewer  
Panel Chair / Commissioner

*Original signed by:*

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B. A. Magnan  
Commissioner



**ORDER NUMBER**

**G-53-24**

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

and

Kyuquot Power Ltd.  
2024 Revenue Requirements

**BEFORE:**

C. M. Brewer, Panel Chair  
B. A. Magnan, Commissioner

on February 29, 2024

**ORDER**

**WHEREAS:**

- A. On June 12, 2023, Kyuquot Power Ltd. (KPL) filed with the British Columbia Utilities Commission (BCUC) an application for approval to amend its electric tariff rate schedules and for other related rate matters (Application);
- B. KPL operates a 14.4 kilovolt single phase distribution line in the area extending from British Columbia Hydro and Power Authority's electrical grid at Oclucje to Kyuquot, serving customers principally in and around Fair Harbour, Chamiss Bay and Kyuquot. Commercial and residential customers are served under Tariff Rate Schedule (RS) 1101 and the Ka:yu:'k't'h' / Che:k'tles7et'h' First Nations is served under RS 1102;
- C. On June 30, 2023, KPL filed an updated submission and errata to its Application with a correction to the calculation of the contribution in aid of construction differential and an updated electric load forecast;
- D. By Orders G-206-23, G-243-23 and G-288-23, the BCUC established the regulatory timetable for the review of the Application, which included one round of BCUC and intervener information requests (IRs), Panel IRs to KPL, and final and reply arguments;
- E. On November 7, 2023, KPL filed its response to Panel IRs, clarifying its request for approval of the following rate changes based on KPL's forecast cost of service or revenue requirement (Revenue Requirement) for the period from July 1, 2023 to June 30, 2024, as amended, to be effective on the date of the BCUC's final decision on the Application, among other matters:
  - (i) An increase of \$0.70 per month from \$9.00 per month to \$9.70 per month to the Basic Charge under RS 1101 and RS 1102;
  - (ii) An increase of \$0.0323 per kilowatt hour (kWh) from \$0.4026 per kWh to \$0.4349 per kWh to the Energy Charge under RS 1101;

- (iii) An increase of \$0.0279 per kWh from \$0.2270 per kWh to \$0.2549 per kWh to the Energy Charge under RS 1102; and
- (iv) The establishment of a new rate base Reliability Hearing Regulatory Account with a 10 percent straight-line annual amortization rate, earning KPL's weighted average cost of capital;

F. The BCUC has reviewed the Application, evidence and arguments filed by all parties in the proceeding and makes the following determinations.

**NOW THEREFORE** pursuant to sections 58 to 61 of the *Utilities Commission Act* and for the reasons provided in the decision issued concurrently with this order, the BCUC orders as follows:

1. KPL is approved the following charges, on an interim and refundable basis, pending the outcomes of Stage 2 of the BCUC's current generic cost of capital proceeding and KPL's filing of the agreement(s) for the Intercompany Advance in Directive 4:
  - a. A Basic Charge of \$9.70 per month for RS 1101 and 1102, which is an increase of \$0.70 per month over the current Basic Charges;
  - b. An RS 1101 Energy Charge of \$0.4349 per kWh to be adjusted in accordance with all directives and determinations set out in Section 2.0 of the Decision; and
  - c. An RS 1102 Energy Charge of \$0.2549 per kWh to be adjusted in accordance with all directives and determinations set out in Section 2.0 of the Decision.
2. KPL is approved to establish a Rate Base Reliability Hearing Regulatory Account to include legal costs of the Safety and Reliability Hearing in the amount of \$173,465 plus applicable taxes. The account is approved to attract interest based on KPL's weighted average cost of capital and to be amortized on a straight-line basis over 10 years.
3. KPL is directed to recalculate the Revenue Requirement and rates for the 2024 Test Year using a deemed equity component of 40 percent and an allowed ROE of 9.50 percent, as directed in Section 2.3 of the Decision.
4. KPL is directed to file for BCUC review, within 15 days of the date of this order, the agreement for the Intercompany Advance transaction undertaken in fiscal 2020/21.
5. KPL is directed to recalculate the Revenue Requirement and rates for the 2024 Test Year using a deemed debt component of 60 percent and interest rate of return of 5.00 percent, as directed in Section 2.3 of the Decision.
6. KPL is directed to file for endorsement, within 15 days of the date of the BCUC's decision on the Intercompany Advance, amended tariff pages and finalized financial schedules reflecting that decision and all directives and determinations made in this Decision, for interim rates to be effective the first of the month following the receipt of the endorsed tariff pages.
7. KPL must comply with all other terms and directives in the decision issued concurrently with this order.

**DATED** at the City of Vancouver, in the Province of British Columbia, this        29<sup>th</sup>        day of February 2024.

BY ORDER

*Original signed by:*

C. M. Brewer  
Commissioner

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

and

Kyuquot Power Limited  
2024 Revenue Requirements

**EXHIBIT LIST**

<b>Exhibit No.</b>	<b>Description</b>
<i>COMMISSION DOCUMENTS</i>	
A-1	Letter dated July 4, 2023 – Appointing the Panel for the review of Kyuquot Power Limited 2023 Revenue Requirements Application
A-2	Letter dated August 2, 2023 – BCUC Order G-206-23 establishing a regulatory timetable
A-3	Letter dated September 1, 2023 – BCUC Information Request No. 1 to KPL
A-4	Letter dated September 14, 2023 – BCUC Order G-243-23 with an amended regulatory timetable
A-5	Letter dated October 24, 2023 – BCUC Order G-288-23 with an amended regulatory timetable
A-6	Letter dated October 24, 2023 – BCUC submitting Panel Information Request No. 1 to KPL
<i>COMMISSION STAFF DOCUMENTS</i>	
A2-1	Letter dated September 1, 2023 – Staff submitting KPL Response to Directive 6 of Order G-302-22
A2-2	Letter dated September 1, 2023 – Staff submitting KPL Response to Directive 8 of Order G-302-22

#### *APPLICANT DOCUMENTS*

- B-1 **KYUQUOT POWER LIMITED (KPL)** - 2024 Revenue Requirements Application (RRA) dated June 12, 2023
- B-1-1 **CONFIDENTIAL** - Letter dated June 12, 2023 – KPL submitting 2024 RRA confidential Appendices
- B-1-2 Letter dated June 30, 2023 – KPL submitting replacement amendment errata to the 2024 RRA
- B-2 Letter dated August 14, 2023 – KPL submitting compliance to Order G-206-23 Directive 5
- B-3 Letter dated September 12, 2023 – KPL submitting extension request to file responses to BCUC Information Request No. 1
- B-4 Letter dated October 11, 2023 – KPL submitting responses to BCUC Information Request No. 1
- B-5 Letter dated October 11, 2023 – KPL submitting responses to KCFN Information Request No. 1
- B-6 Letter dated November 7, 2023 – KPL submitting response to BCUC Panel Information Request No. 1

#### *INTERVENER DOCUMENTS*

- C1-1 **KYUQUOT CHECLESEHT FIRST NATIONS (KCFN)** – Letter dated August 23, 2023 request to intervene by Cynthia Blackstone
- C1-2 Letter dated September 11, 2023 – KCFN submitting Information Request No. 1 to KPL

#### *LETTERS OF COMMENT*

- D-1 **KYUQUOT CHECKLESAHT FIRST NATIONS (KCFN)** – Letter of Comment dated June 30, 2023