



**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER C-11-14A**

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

and

Corix Multi-Utility Services Inc.
an Application for a Certificate of Public Convenience and Necessity
for Phase 1 of the University of British Columbia Neighborhood District Energy System

BEFORE: D. M. Morton, Panel Chair/Commissioner
C. A. Brown, Commissioner December 12, 2014
I. F. MacPhail, Commissioner

O R D E R

WHEREAS:

- A. On August 8, 2014, Corix Multi-Utility Services Inc. (CMUS) applied to the British Columbia Utilities Commission (Commission) for a Certificate of Public Convenience and Necessity (CPCN) to construct and operate Phase 1 of the proposed community-based district energy system at the University of British Columbia (UBC) (Project), pursuant to sections 45 and 46 of the *Utilities Commission Act* (UCA) (Application);
- B. CMUS requested:
- a. Approval under section 45 of the UCA of the Infrastructure Agreement between Corix and UBC including endorsement of the proposed project plan;
 - b. Approval under sections 56, 59, 60 and 61 of the UCA of the revenue requirements, rate design and rates as described in the Application and outlined below; a revised financial model showing final revenue requirements, rate design and rates will be filed in the spring of 2015:
 - i. The indicative rate base as provided in Section 2.7 of the Application;
 - ii. The indicative revenue requirement as provided in Section 2.9 and consistent with the recent Commission decision in the Phase 2 Generic Cost of Capital proceeding applicable to small thermal energy utilities:
 1. a deemed capital structure of 57.5 percent debt and 42.5 percent equity;
 2. long-term debt financing costs estimated at 4.0 percent;
 3. a return on equity of 9.5 percent, which is based on the current low risk benchmark equity return plus 75 basis points to account for the additional risk related to the development of the small scale alternative energy utility;
 4. operating costs as provided in Section 2.6.2; and

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5. the proposed 10-year levelized rate structure through which the company defers a portion of its annual revenue requirements in the early stages of development in order to provide affordable rates for customers;
- iii. Approval of the accounting treatment of the following:
 1. a revenue deficiency deferral account which is used to record those portions of revenue requirements which are not recovered in the early stages of development, with the goal of complete recovery of the funds over the 20-year period;
 2. the proposed Connection Credit for low rise buildings connected prior to 2021;
 3. the Carbon Emission Rider; and
 4. the indicative rate design as provided in Section 2.10 of the Application; and
 - iv. Approval to capitalize and amortize Corix' and UBC's project development costs over 30 years and to have these costs included in rates AFUDC;
- C. Phase 1 of the Project is to provide service to new buildings in Westbrook Place that are scheduled for completion between 2015 and 2023 and Acadia East and Block F buildings to be built between 2020 and 2023. It involves construction of two separate district heating loops. One loop will be fed initially by two 6.0 MW temporary natural gas boiler plants located within Westbrook place, plus a portion of the Westbrook Energy Centre/Energy Transfer Station (EC/ETS) in 2022. The second loop will likely be served by purchased energy from the existing UBC Academic District Energy System;
 - D. On August 29, 2014, by Order G-125-14, the Commission determined that a public hearing was appropriate to review the Application and established a Preliminary Regulatory Timetable including one round of written information requests followed by a Streamlined Review Process (SRP). However, the Commission determined that further submissions were necessary to determine whether an SRP or written hearing process is require;
 - E. On September 9, 2014 CMUS provided a letter supporting an SRP. On September 10, 2014, UBC and the British Columbia Sustainable Energy Association and Sierra Club of B.C. (BCSEA) registered as Interveners. Neither party provided comment on the SRP. On September 25, 2014, the Commission determined that an SRP was appropriate and confirmed the Preliminary Regulatory Timetable;
 - F. The SRP, wherein CMUS removed Acadia East and Block F from the CPCN application was held on October 30, 2014. The revised project, Phase 1 Westbrook, is to provide service to new buildings in Westbrook Place that are scheduled for completion between 2015 and 2023. It involves construction of two independent thermal energy supply loops, one to serve new customers in the east part of Westbrook Place and one to serve new customers in the west part of Westbrook Place. In 2022 and 2023, these two sub-systems are expected to be interconnected and connected to a permanent 5 MW natural gas boiler to be installed inside the Westbrook EC/ETS. Each sub-system is initially supplied by its own temporary energy centre consisting of two 2.9 MW natural gas boilers housed within a standard shipping container. CMUS expects that the temporary energy centres will be removed once Phase 2 begins. CMUS projects that 11 new high rise buildings and 12 new low rise buildings, with a total floor space of 342,207m², will connect to the Neighbourhood District Energy System in Westbrook Place during this time;

- G. On November 6, 2014, CMUS submitted its Final Argument whereby it clarifies it is requesting approval under sections 59, 60 and 61 of the UCA of the proposed methodology for establishing revenue requirements, rate design and rates as described in the Application and it is not seeking approval of final rates. CMUS further clarifies it is requesting a rate design methodology which includes the projected costs and revenues associated with all phases of the project, including Acadia and Block F and confirms that only the capital cost of Phase 1 Wesbrook, or \$11,193,073 in real 2014 dollars, is included in the CPCN approval request;
- H. On November 10, 2014 BCSEA submitted its Final Argument and on November 14, 2014 CMUS submitted a letter confirming it has no reply to BCSEA's submission; and
- I. The Commission has reviewed the Application and has determined that if certain revisions are made, it is in the public interest to grant approval of this CPCN Application.

NOW THEREFORE the Commission:

- 1. Denies a Certificate of Public Convenience and Necessity, pursuant to sections 45 of the *Utilities Commission Act* (UCA), for Phase 1 Wesbrook of the proposed Neighbourhood District Energy System (NDES) at the University of British Columbia, as set out in the revised Application. However, provided, within 60 days of the date of this Order, the Applicant files an executed revised Infrastructure Agreement with the Carbon Emission Rider removed and a revised System Extension Policy that is aligned with the Commission's Thermal Energy Systems Regulatory Framework Guidelines (2014) (TES Guidelines), the Commission will approve a CPCN for Phase 1 Wesbrook.
- 2. Approves \$11,193,073 in real 2014 dollars for the project capital cost, which is based on total Phase 1 Wesbrook project capital cost estimate up to and including the year 2023. For the purpose of the TES Guidelines, the Commission finds that amount is also the initial TES capital cost.
- 3. Approves the Connection Credit, including approval to include the deferred amounts in rate base earning a return based on Corix Multi-Utilities Services' (CMUS) approved after-tax weighted average cost of capital. CMUS is directed to amortize the Connection Credit deferral account over 10 years. If the Connection Credit is still required beyond the year 2021, CMUS must apply to the Commission for approval to include additional amounts in the deferral account.
- 4. Does not approve the rate design applied for, but will approve, subject to CMUS filing a revised rate design and rates no later than 6 months prior to commissioning the Phase 1 Wesbrook NDES, a 20-year levelized rate design based solely on the Phase 1 Wesbrook revenues and costs and including the following:
 - a. an initial allocation of the NDES rate proposed by CMUS of 66.3 percent fixed charge and a 33.7 percent variable charge. However, the Panel directs that CMUS recalculate the variable and fixed components of the rate based on the revised 20-year levelized rate structure as directed in Section 5.2.1;
 - b. CMUS' proposed deemed capital structure of 57.5 percent debt and 42.5 percent equity;
 - c. an equity risk premium of 75 basis points over the benchmark low risk utility return on equity of 8.75 percent;
 - d. the proposed debt rate of 4 percent; and

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- e. The amortization of the approved project development costs for Phase 1 Wesbrook over 30 years.
5. Makes no determination on CMUS' forecast system operating costs. CMUS is directed to file an updated revenue requirements forecast as part of its revised rate design and rates application.
 6. Upon approval of the 20-year levelized rate and a satisfactory mechanism to deal with variances in controllable costs, will approve the establishment of the revenue deficiency deferral account (RDDA). The RDDA can be included in annual rate base and earn a return based on CMUS' approved after-tax weighted average cost of capital. CMUS is directed to file as part of its revised rate design application a scenario whereby CMUS only records only the annual variances between forecast and actual results in the RDDA which are related to uncontrollable components of the revenue requirement. CMUS must identify which components of the revenue requirement are uncontrollable versus controllable along with a detailed explanation of the rationale for each classification.
 7. Approves a single thermal rate in this territory regardless of where the energy is served from.
 8. Directs CMUS to file annual project progress reports by March 31 every year, including all the items outlined in Section 5.3.1 of the Decision.
 9. Directs CMUS to submit the calculations and balance of the RDDA by March 31 every year. This report must separately show the annual addition to the RDDA, the annual carrying cost, and the opening and closing balance. Additionally, CMUS is directed to include in its annual report the forecast versus actual results of its annual revenue requirements with an accompanying explanation for key variances.
 10. Directs CMUS to comply with all applicable directives of the Commission set out in the decision issued concurrently with this order.

DATED at the City of Vancouver, in the Province of British Columbia, this 16th day of December 2014.

BY ORDER

Original signed by:

D. M. Morton
Panel Chair/Commissioner