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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-70-14**

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IN THE MATTER OF
the Utilities Commission Act, R.S.B.C. 1996, Chapter 473

and

An Application by Central Heat Distribution Ltd.
for Approval of 2014 Revenue Requirements

BEFORE: L.F. Kelsey, Commissioner

June 5, 2014

O R D E R

WHEREAS:

- A. On November 26, 2013, Central Heat Distribution Limited (CHDL) filed with the British Columbia Utilities Commission (the Commission), pursuant to Sections 59 to 61 and 89 of the *Utilities Commission Act* (Act), an Application to increase its Steam Tariff portion of rates by 11.91 percent effective January 1, 2014, on an interim basis (Application);
- B. The Application is the first rate change since January 2009 and seeks to recover increases in operating costs, fund capital expenditures, and to allow the utility to earn a reasonable return. CHDL states that the proposed rate increase will result in an overall increase in operating margin of approximately \$825,302 in 2014;
- C. By Order G-194-13, the Commission established a Preliminary Regulatory Timetable which includes a written review process and approval for an interim and refundable rate increase of 11.91 percent, effective January 1, 2014;
- D. The Commercial Energy Customers (CEC) Association of BC registered as the single intervener in this proceeding, however the CEC did not submit Information Requests on the Application or file submissions;
- E. The Commission has reviewed the Application and the related evidence, and finds that an amendment to CHDL's Sales Expense is required in order to establish just and reasonable rates.

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NOW THEREFORE pursuant to sections 59-61 of the *Utilities Commission Act*, the Commission orders as follows:

1. CHDL's 2014 Sales Expense shall be adjusted downwards by \$37,000, as explained in the Reasons for Decisions, attached as Appendix A to this Order. All other components of CHDL's 2014 Revenue Requirements are approved as filed.
2. CHDL shall recalculate its 2014 Revenue Requirements in accordance with directive no. 1 and file a permanent Steam Tariff, including a permanent Rate Schedule, to the Commission within 30 days of this Order.
3. CHDL is to calculate the difference in revenue between the 2014 interim rates established by Order G-194-13 and the 2014 permanent rates that are required by directives 1 and 2 of this Order. CHDL is to propose a method of returning this difference in revenue to customers and file that proposal to the Commission within 30 days of this Order.

DATED at the City of Vancouver, In the Province of British Columbia, this 5th day of June 2014.

BY ORDER

Original signed by:

L.F. Kelsey
Commissioner

An Application by Central Heat distribution Limited (CHDL)
for Approval of 2014 Revenue Requirements (Application)

REASONS FOR DECISION

These Reasons for Decision address the November 26, 2013 application by CHDL to the Commission for an order granting approval of its 2014 Revenue Requirements.

The Commission has reviewed the Application, along with the accompanying evidence and finds that an adjustment to CHDL's Sales Expense is required in order to establish just and reasonable rates.

An excerpt from Tab 6 of the Application shows a comparative table of CHDL's Sales Expenses:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Est</u> <u>2013</u>	<u>Est</u> <u>2014</u>
Sales Expense	\$ 9,322	\$ 18,950	\$ 25,217	\$ 14,970	\$ 29,000	\$ 60,000

The Panel notes that CHDL's Sales Expense has had a fluctuating trend over the past five years. The 2014 forecast expense will increase over 500 percent compared to 2009. This expense doubled in 2013, then doubles again in CHDL's 2014 forecast. CHDL explains that the range in expenses will depend on which industry association CHDL participates in during the year¹. CHDL also indicates that Sales Expense includes: "marketing efforts towards the existing and prospective customer base...in order to raise the awareness of the benefits of district energy."²

The Panel understands that CHDL is operating under a new and recent ownership structure³ with possible new direction. The Panel is concerned about the cost-causation relationship of Sales Expense to the potential benefits that are actually attributable to CHDL's existing customer base. This concern is highlighted by CHDL's stated need "to educate and inform prospective customers and energy consultants."⁴ [underline added] Accordingly, the Panel is not convinced that CHDL has provided a reasonable justification that the full amount of the 2014 Sales Expense of \$60,000 should be borne by its existing customers.

The Panel directs CHDL to reduce its 2014 Sales Expense by \$37,000. The Panel considers that the average of the last 4 years Sales Expense (2010– 2013) of \$23,000 to be a more reasonable forecast for 2014. This average also eliminates the 2009 data, which represented the lower range of expenditures.

The Panel believes that any marketing efforts incurred for the purpose of raising awareness for or incurred in the development of new and separate district energy systems should not be borne by CHDL's existing customer base, unless there is evidence that these customers will benefit fully. The evidence provided in this proceeding is not persuasive that this is the case.

¹ Exhibit B-2, BCUC IR 1.8.1

² Ibid

³ Order G-190-13

⁴ Exhibit B-2, BCUC IR 1.8.1