



ORDER NUMBER

G-167-17

IN THE MATTER OF

the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

FortisBC Alternative Energy Services Inc.

Application to Amortize the Thermal Energy Services Deferral Account Balance
and Request for Confidentiality

BEFORE:

B. A. Magnan, Panel Chair/Commissioner
R. D. Revel, Commissioner

on November 23, 2017

ORDER

WHEREAS:

- A. On December 27, 2012, the British Columbia Utilities Commission (Commission) issued its report to FortisBC Energy Inc. (FEI) on the Inquiry into the Offering of Products and Services in Alternative Energy Solutions and Other New Initiatives, which, among other things, directed FEI to file an application to review the Thermal Energy Services Deferral Account (TESDA) and develop a methodology for its allocation and recovery;
- B. On September 25, 2014, the Commission issued Order G-151-14, approving the joint request from FEI and FortisBC Alternative Energy Services Inc. (FAES) to transfer the TESDA and its balance from FEI to FAES. The transfer was part and parcel of FEI discontinuing its involvement in thermal energy services. Order G-151-14 also stated that determinations regarding the disposition of the balance in the TESDA will be the subject of a future application from FAES;
- C. On March 2, 2015, the Commission issued its decision on the Thermal Energy Systems Regulatory Framework Guidelines (TES Guidelines) accompanied by Order G-27-15. The TES Guidelines categorized thermal energy systems into Micro, Strata Corporation, Stream A, and Stream B. A Micro TES has a capital cost of \$500,000 or less. A Stream A TES has an AACE Class 3 capital cost estimate of equal to or greater than \$500,000 and less than \$15 million. All other TES (categorized as Stream B TES) are regulated similar to other public utility systems which require an application for a Certificate of Public Convenience and Necessity and a rate approval;
- D. On July 13, 2017, FAES filed with the Commission its Application to Amortize the TESDA Balance in an orderly manner that is consistent with accounting principles, pursuant to sections 59 to 61 of the *Utilities Commission Act* (Application);

- E. In the Application, FAES proposes a flexible amortization mechanism that allows FAES to:
 - i) leave existing customers unaffected by maintaining the amortization amount inherent in the financial model for the life of each project, and
 - ii) recover as much or as little of the TESDA balance from future customers in negotiated rates as the market will bear in each circumstance;
- F. FAES also requests that Appendix C to the Application be held confidential by the Commission, pursuant to Section 18 of the Commission's Rules of Practice and Procedure regarding confidential documents established by Order G-1-16. FAES states the information in Appendix C is commercially sensitive in nature, and significant harm or prejudice to FAES' competitive or negotiating position is reasonably expected to result if the confidential information was made public;
- G. The Application states that although FAES operates much of its business in a non-regulated environment, the TESDA was a creation of a Commission order and must be unwound by Commission order. In the Application, FAES seeks approval of an amortization methodology that would ensure existing customers are unaffected and, for future projects, would allow FAES to amortize the TESDA balance in amounts that the market will bear;
- H. FAES states that its proposals provide FAES with a fair opportunity to recover the balance, without guaranteeing recovery. It submits that the proposals are consistent with the competitive model under which FAES operates, which is exemplified in the Commission's TES Guidelines. Also, FAES states its shareholder is bearing the full risk for non-recovered costs in the TESDA;
- I. FAES submits that its proposal insulates existing customers and preserves competition for future Micro TES and Stream A TES projects. FAES explains that the rates for Delta School District (DSD) are currently set according to an independent market rate index mechanism that the Commission does not determine. Until such time as the Commission must make a determination respecting the DSD rates, FAES proposes that the Commission exclude the DSD TESDA amortization amount from the review of its current Application. Similar to DSD, FAES proposes that the Commission exclude from the Application the review of the TESDA amortization for any future Stream B TES projects that FAES brings forward for rate approvals;
- J. FAES states that its Legacy projects have fixed rates and were created under a number of different regulated and unregulated circumstances. Regardless of their origin, FAES is not applying to the Commission to approve any rate changes to regulated Legacy projects and has committed to only recovering an amount for TESDA that is consistent with each project agreement. As such, FAES states FAES Legacy project customers are unaffected by this Application. Also, FAES states each Stream A TES project includes an amount for TESDA which was set at the outset of each project. Since FAES has committed to only recovering an amount for TESDA that is consistent with each negotiated project agreement, FAES submits these Stream A TES customers are also unaffected by the Application;
- K. FAES states that, if desired by the Commission, it will file an annual report with the Commission on April 30 of each calendar year on a confidential basis, covering the preceding year ended December 31. The annual report will provide a continuity schedule for the TESDA for the preceding calendar year;
- L. On October 27, 2017, FAES filed responses to staff questions and confidential staff questions on the Application; and

M. The Commission has reviewed and considered the Application, including responses to Commission staff questions and determines that the requested amortization mechanism should be approved.

NOW THEREFORE for the reasons attached as Appendix A to this order, the Commission orders as follows:

1. FAES is approved to amortize the TESDA balance in the manner described in the Application, such that:
 - a. FAES will amortize amounts each year to the Legacy, Micro TES, and Stream A TES projects consistent with its negotiated customer agreements; and
 - b. The future amortization of the TESDA balance to the Delta School District project or any future Stream B TES projects is excluded from the scope of this order, and will be the subject of future Commission orders, as required.
2. The Commission will hold Appendix C of the Application and the confidential response to Commission staff questions in confidence on the basis that they contain commercially sensitive information.
3. FAES is directed to file with the Commission each year on April 30, on a confidential basis, detailing the continuity schedule of the TESDA showing the recoveries and carrying costs along with the balance in the previous calendar year.

DATED at the City of Vancouver, in the Province of British Columbia, this 23rd day of November 2017.

BY ORDER

Original Signed By:

B. A. Magnan
Commissioner

Attachment

FortisBC Alternative Energy Services Inc.
Application to Amortize the Thermal Energy Services Deferral Account Balance
and Request for Confidentiality

REASONS FOR DECISION

1.0 The Application

On July 13, 2017, FortisBC Alternative Energy Services Inc. (FAES) filed with the British Columbia Utilities Commission (Commission) its Application to Amortize the Thermal Energy Services Deferral Account (TESDA) Balance in an orderly manner that is consistent with accounting principles, pursuant to sections 59 to 61 of the *Utilities Commission Act* (Application). FAES also requests that Appendix C to the Application be held confidential by the Commission, pursuant to Section 18 of the Commission's Rules of Practice and Procedure regarding confidential documents established by Order G-1-16.

2.0 Regulatory review process

FAES proposes that the review of the Application be limited to the Commission, without the need for participation by any other parties. FAES provided four reasons why a limited process is appropriate for this Application:

- The TESDA is now entirely separated from FEI, removing any interest that natural gas ratepayers and TES competitors have in avoiding cross-subsidies by FEI's natural gas customers;
- Existing FAES customers will not be impacted by the Application;
- There is commercially sensitive information about the competitive position and strategy of FAES included in this Application and there is no public interest justification for public review; and
- The amortization of the TESDA is now an internal FAES matter similar to other FAES overheads.

The Panel notes that the Application's proposals do not affect existing customers and that FAES negotiates its service agreements in a competitive market. Given the limited scope of the proceeding and because no customers are unfavourably impacted, the Commission conducted its proceeding review without initiating a public hearing. Commission staff filed its questions to FAES on October 6, 2017. Subsequently, on October 27, 2017, FAES filed responses to staff questions and confidential staff questions on the Application. The Panel considers it has the necessary information to decide on proposals contained in the Application.

3.0 Amortization of the TESDA balance

In the Application, FAES proposes a flexible amortization mechanism that allows FAES to:

- i) leave existing customers unaffected by maintaining the amortization amount inherent in the financial model for the life of each project; and
- ii) recover as much or as little of the TESDA balance from future customers in negotiated rates as the market will bear in each circumstance.

As part of its Application, FAES states it is committing to amortize TESDA in a fashion that does not impact existing Legacy project customers. Further, FAES adopts an approach to amortization of TESDA that is based on

setting rates at the time FAES is competing for thermal energy business. FAES submits this approach alleviates the need for Commission intervention and inquiry into the propriety of the balance. FAES also submits the TESDA is a Commission approved deferral account and this Application is about a narrow determination dealing with appropriate and reasonable amortization affecting only FAES.

FAES states that for customers with fixed rates, the balance and amount that FAES amortizes are of no consequence. For customers on rates that are not reviewed or approved by the Commission (projects that would currently be classified as Stream A TES projects or Micro TES), FAES confirms its proposal will result in a level of TESDA amortization expense to their overheads that conforms with the forecasts used in negotiating their contracts, thereby holding them harmless. Finally, FAES submits, for the Delta School District and any future customers with rates that the Commission will review and approve, FAES proposes that the TESDA allocation embedded in their rates can be reviewed in the context of their rate review and approval processes.

Commission determination

The Panel finds the flexible amortization proposal for the TESDA in the Application to be fair and reasonable. The proposal does not disadvantage existing customers with fixed rates. Any TESDA amortization to Legacy, Micro TES and Stream A TES projects would be based on their negotiated contracts.

The Panel approves FAES to amortize the TESDA balance in the manner described in the Application, such that:

- a) FAES will amortize amounts each year to the Legacy, Micro TES, and Stream A TES projects consistent with its negotiated customer agreements; and**
- b) The future amortization of the TESDA balance to the Delta School District project or any future Stream B TES projects is excluded from the scope of this order, and will be the subject of future Commission orders, as required.**

The Panel, in granting its approval of the amortization methodology, did not review the balance, any additions and any financing (AFUDC) in the TESDA. Given the limited scope of the Application, the Panel accordingly reviewed the amortization methodology and found the amortization mechanism to be fair and reasonable.

4.0 Confidentiality

FAES requests that the Commission keep the balance of the TESDA and forecast of recovery period (Appendix C of the Application) confidential. FAES states the information in Appendix C is commercially sensitive in nature, and significant harm or prejudice to FAES' competitive or negotiating position is reasonably expected to result if the confidential information was made public. FAES explains the balance of the TESDA and its subsequent amortization to FAES overheads has a direct effect on FAES' competitiveness in the TES market. The Commission does not regulate the overhead costs and management structure of FAES on the basis that the TES market is a competitive market. Moreover, FAES submits disclosure of these terms could prejudice FAES' ability to successfully recover the TESDA.

Commission determination

The Panel finds that Appendix C contains commercially sensitive information and disclosure in a competitive market could harm FAES' ability to recover the TESDA. **The Commission will hold Appendix C of the Application and the confidential response to Commission staff questions in confidence on the basis that they contain commercially sensitive information.**

5.0 TESDA balance reporting

In the Application, FAES states that in the event the Commission considers ongoing reporting to be appropriate, FAES proposes to provide a report to the Commission each year on April 30, on a confidential basis, detailing the continuity schedule of the TESDA showing the recoveries and carrying costs along with the balance in the previous calendar year.

Commission determination

The Panel considers reporting of the TESDA balance is warranted. **Therefore, FAES is directed to file with the Commission each year on April 30, on a confidential basis, detailing the continuity schedule of the TESDA showing the recoveries and carrying costs along with the balance in the previous calendar year.**