



ORDER NUMBER
G-97-25

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

and

River District Energy
Generic Cost of Capital Stage 2 Order G-321-24 Variance

BEFORE:

E. B. Lockhart, Panel Chair

on April 14, 2025

ORDER

WHEREAS:

- A. By Order G-236-23 dated September 5, 2023, the British Columbia Utilities Commission (BCUC) established interim rates, effective January 1, 2024, on a refundable or recoverable basis, for all utilities, except FortisBC Inc., that use the Benchmark Utility to set their capital structure and equity return pending the BCUC's final decision on Stage 2 of the Generic Cost of Capital (GCOC) proceeding;
- B. By Order G-94-24 dated March 27, 2024, the BCUC established the Monthly Capacity Charge and the Thermal Energy Charge for each of 2024 and 2025 on an interim and refundable/recoverable basis for River District Energy (RDE), pending the outcome of Stage 2 of the BCUC's GCOC proceeding;
- C. On November 29, 2024, the BCUC issued its Decision and Order G-321-24 on Stage 2 of the GCOC proceeding (GCOC Stage 2 Decision). In the GCOC Stage 2 Decision, the BCUC established RDE's deemed equity component at 49.0 percent and allowed return on equity at 10.40 percent, among other things;
- D. In the GCOC Stage 2 Decision, the BCUC approved RDE's previously established interim 2024 and 2025 rates as permanent and directed RDE to do the following:
 - i. establish a new GCOC Variance Deferral Account, attracting RDE's weighted average cost of capital, to record the variance between the previous interim 2024 and 2025 rates and the rates that would reflect the new cost of capital, effective January 1, 2024;
 - ii. the amounts to be added to the GCOC Variance Deferral Account and their disposition are to be addressed in a compliance filing to be filed with the BCUC by January 31, 2025; and
 - iii. the compliance filing must also address when RDE will change the rate level for 2026 and beyond to reflect the new cost of capital under the GCOC Stage 2 Decision.

- E. On February 3, 2025, RDE requested an extension to file the compliance filing as directed in the GCOC Stage 2 Decision. On February 4, 2025, the BCUC granted the extension request;
- F. On February 7, 2025, RDE filed an application in compliance with the GCOC Stage 2 Decision (Application). RDE makes the following requests in its Application:
 - i. approval not to establish a Generic Cost of Capital Variance Deferral Account for RDE and instead use RDE's existing Revenue Deficiency Deferral Account (RDDA) to record the variance between the previous interim 2024 and 2025 rates and the rates that would reflect the new cost of capital, effective January 1, 2024;
 - ii. approval to establish a Cost of Capital Rate Rider at \$0.037 per square metre per month, applicable from the first day of the month following the BCUC's approval of the Rate Rider, to cover the cost of capital variance in 2024; and
 - iii. acceptance and endorsement of the updated Tariff Rate Schedule for RDE in Appendix B (Clean) and Appendix C (Blackline) of the Application, based on the requests above.
- G. On February 28, 2025, the BCUC issued Staff Questions No. 1 to RDE, and RDE provided its response on March 16, 2025; and
- H. The BCUC has reviewed the Application including the evidence and submissions in the proceeding and makes the following determinations.

NOW THEREFORE pursuant to sections 59 to 61 of the *Utilities Commission Act* and for the reasons outlined in the decision accompanying this order, the BCUC orders as follows:

1. RDE's request to record the variance between the previous interim 2024 and 2025 rates and the rates that would reflect the new cost of capital, effective January 1, 2024 (GCOC variance), in the RDDA is denied. RDE is to record the GCOC Variance in the GCOC Variance Deferral Account as directed by the BCUC in the GCOC Stage 2 Decision.
2. RDE is approved to record a GCOC Variance amount in the GCOC Variance Deferral Account calculated using the methodology as explained in RDE's response to Staff Question 2.1, using the rate base of \$18,196,755 in 2024 and \$21,356,385 in 2025.
3. RDE is approved to recover the GCOC Variance in the GCOC Variance Deferral Account through the Cost of Capital Rate Rider from RDE customers over a 12-month period, starting on the first day of the month of the next billing cycle for RDE following BCUC endorsement of RDE's revised tariff.
4. RDE is directed to file with the BCUC a recalculation, with supporting calculations, of the proposed Cost of Capital Rate Rider to recover the GCOC Variance Deferral Account balance based on the recovery of the 2024 and 2025 GCOC Variance in its entirety as calculated per Directive 2 above by April 30, 2025.
5. RDE is directed to file with the BCUC updated tariff pages reflecting the approvals contained in this decision for endorsement by April 30, 2025.
6. RDE is directed to file its next Revenue Requirements Application by September 2, 2025.
7. RDE must comply with all other directives and determinations as outlined in the decision accompanying this order.

DATED at the City of Vancouver, in the Province of British Columbia, this 14th day of April 2025.

BY ORDER

Electronically signed by Blair Lockhart

E. B. Lockhart
Commissioner

River District Energy
Generic Cost of Capital Stage 2 Order G-321-24 Variance

DECISION

1.0 Background

By Order G-94-24 dated March 27, 2024, the BCUC established the Monthly Capacity Charge and the Thermal Energy Charge for each of 2024 and 2025 on an interim and refundable/recoverable basis for River District Energy (RDE), pending the outcome of Stage 2 of the BCUC's GCOC proceeding.

On November 29, 2024, the BCUC issued its Decision and Order G-321-24 on Stage 2 of the GCOC proceeding (GCOC Stage 2 Decision). The BCUC established RDE's deemed equity component in the GCOC Stage 2 Decision at 49.0 percent and allowed return on equity at 10.40 percent.¹ The BCUC also approved RDE's previously established interim 2024 and 2025 rates as permanent.² The BCUC further directed RDE to establish a new GCOC Variance Deferral Account, attracting RDE's weighted average cost of capital (WACC), to record the variance between the previous interim 2024 and 2025 rates and the rates that would reflect the new cost of capital, effective January 1, 2024 (GCOC Variance). The amounts to be added to the GCOC Variance Deferral Account and their disposition are to be addressed in a compliance filing to be filed with the BCUC by January 31, 2025. This compliance filing must also address when RDE will change the rate level for 2026 and beyond to reflect the new cost of capital.³

On February 3, 2025, RDE requested an extension to file the compliance filing as directed in the GCOC Stage 2 Decision, which the BCUC granted. On February 7, 2025, RDE filed an application in compliance with the GCOC Stage 2 Decision (Application). In the Application, RDE makes the following requests:

1. Approval not to establish a Generic Cost of Capital Variance Deferral Account for RDE and instead use RDE's existing Revenue Deficiency Deferral Account (RDDA) to record the variance between the previous interim 2024 and 2025 rates and the rates that would reflect the new cost of capital, effective January 1, 2024;
2. Approval to establish a Cost of Capital Rate Rider at \$0.038 per square metre per month, applicable from the first day of the month following the BCUC's approval of the Rate Rider, to cover the cost of capital variance in 2024⁴; and
3. Acceptance and endorsement of the updated Tariff Rate Schedule for RDE in Appendix B (Clean) and Appendix C (Blackline) of the Application, based on the requests above.

RDE advises that it has started to develop a comprehensive Revenue Requirements Application (RRA) to be filed with the BCUC in early Q3, 2025, with the desire that its new rates take effect on January 1, 2026.⁵ RDE states the RRA is being prepared in response to a significant change in rate base given the completion of RDE's Community Energy Centre.⁶

¹ Decision and Order G-321-24 dated November 29, 2024 (GCOC Stage 2 Decision), p. 58.

² GCOC Stage 2 Decision, p. 97.

³ GCOC Stage 2 Decision, pp. 97–98.

⁴ Exhibit B-2-1, Staff Question 2.2.

⁵ Exhibit B-1, p. 1; Exhibit B-2-1, Staff Question 2.5.

⁶ Exhibit B-2-1, Staff Question 2.5.

2.0 Issues Arising

In this section, the Panel addresses several issues related to RDE's requested approvals:

1. The appropriate rate base to apply the new cost of capital to calculate the GCOC Variance.
2. Whether the GCOC Variance should be recorded in the GCOC Variance Deferral Account or form part of the RDDA.
3. Whether the proposed rate rider should recover the GCOC Variance for 2024 only or for both 2024 and 2025.
4. Timing of RDE's next RRA.

2.1 New Cost of Capital Calculation

RDE calculates the variance between the previous interim 2024 and 2025 rates and the rates that would reflect the new cost of capital, effective January 1, 2024 (GCOC Variance), to be \$156,804 for 2024 and \$406,251 for 2025.⁷ RDE explains the calculation is based on revised rate base figures of \$22,368,546 for 2024 and \$57,953,106 for 2025, rather than \$18,196,755 for 2024 and \$21,356,385 for 2025 which were used in the 2024 to 2025 Interim Rate Application.⁸ The methodology to calculate the GCOC Variance, as included in Staff Question 2.1 and confirmed by RDE, is outlined in Table 1 below⁹:

Table 1: GCOC Variance Calculation¹⁰

		2024	2025	Reference	1
Cost of Capital per Order G-47-14	total rate base	\$22,368,546	\$57,953,106	Application, Table 1	2
	debt @ 57.5%	\$12,861,914	\$33,323,034	Line 2 x 57.5% ¹¹	3
	equity @ 42.5%	\$9,506,632	\$24,630,070	Line 2 x 42.5% ¹²	4
	cost of debt @ 5.5%	\$707,405	\$1,832,767	Line 3 x 5.5%	5
	cost of equity @ 9.5%	\$903,130	\$2,339,857	Line 4 x 9.5%	6
	Old Cost of Capital	\$1,610,535	\$4,172,624	Line 5 + Line 6	7
Cost of Capital per Order G-321-24	total rate base	\$22,368,546	\$57,953,106	Application, Table 1	8
	debt @ 51%	\$11,407,958	\$29,556,084	Line 8 x 51%	9
	equity @ 49%	\$10,960,588	\$28,397,022	Line 8 x 49%	10
	cost of debt @ 5.5%	\$627,438	\$1,625,585	Line 9 x 5.5%	11
	cost of equity @ 10.4%	\$1,139,901	\$2,953,290	Line 10 x 10.4%	12
	New Cost of Capital	\$1,767,339	\$4,578,875	Line 11 + Line 12	13
	Difference	\$156,804	\$406,251	Line 13 - Line 7	14

⁷ Exhibit B-2-1, Staff Question 2.2.

⁸ Exhibit B-2-1, Staff Question 1.2.1.

⁹ Exhibit A-2, Attachment to Staff Question 2.0 – Staff GCOC Variance Calculation; Exhibit B-2-1, Staff Question 2.1.

¹⁰ Exhibit A-2, Attachment to Staff Question 2.0 – Staff GCOC Variance Calculation; all numbers rounded to the nearest dollar.

¹¹ Errata: It reads "Line 1 x 57.5%" in Exhibit A-2, Attachment to Staff Question 2.0 – Staff GCOC Variance Calculation. It has been corrected to read "Line 2 x 57.5%" in Table 1 of this Decision.

¹² Errata: It reads "Line 1 x 42.5%" in Exhibit A-2, Attachment to Staff Question 2.0 – Staff GCOC Variance Calculation. It has been corrected to read "Line 2 x 42.5%" in Table 1 of this Decision.

RDE elaborates that the rates indicated by its financial model for a given year are established on a rearward looking basis, i.e. the model uses prior year actuals to determine current year rates. Therefore, the 2024 and 2025 rate base in the interim rate application is RDE's estimate based on financial information available as of October 2023. The 2024 and 2025 rate base used to calculate the new cost of capital in this Application is an updated estimate based on information available in 2024.

Panel Determination

In its 2024 to 2025 Interim Rate Decision, the BCUC established RDE's rates for each of 2024 and 2025 pending the outcome of the GCOC Stage 2 proceeding. Subsequently, the BCUC determined the deemed equity component and allowed ROE for RDE in the GCOC Stage 2 Decision. In the Application, RDE proposes a different rate base for 2024 and 2025 based on financial information available in 2024.

The Panel notes that the outcome of the GCOC Stage 2 proceeding pertains to changes in RDE's deemed equity component and allowed ROE and does not contemplate the re-examination of any changes to RDE's rate base. Rather, the BCUC approved RDE's 2024 and 2025 rates in the 2024 to 2025 Interim Rate Decision based on rate base information provided by RDE. RDE's new cost of capital was the only item pending, which prompted keeping 2024 and 2025 rates interim. In this proceeding, RDE indicates that it is preparing an RRA in response to a significant change in rate base and that application is forthcoming. In the absence of such a review, the Panel finds it appropriate to calculate the GCOC Variance using rate base information that the BCUC has previously examined. **Therefore, the Panel determines that the rate base of \$18,196,755 in 2024 and \$21,356,385 in 2025, as included in the 2024 and 2025 Interim Rate Application, is the appropriate rate base to calculate the GCOC Variance.** Using the methodology presented in Staff Question 2.1 and confirmed by RDE,¹³ the Panel expects the GCOC Variance to be \$127,559 for 2024 and \$149,708 for 2025.

2.2 Establishment of a GCOC Variance Deferral Account

The BCUC directed RDE to establish a new GCOC Variance Deferral Account, attracting RDE's WACC, to record the variance between the previous interim 2024 and 2025 rates and the rates that would reflect the new cost of capital, effective January 1, 2024.¹⁴ The BCUC noted in the GCOC Stage 2 Decision that the GCOC Variance Deferral Accounts are separate from the Revenue Deficiency Deferral Account (RDDA) for certain utilities, to give the utility flexibility in collecting the GCOC Variance from ratepayers.¹⁵

RDE has a RDDA that was established as a rate smoothing account to implement a levelized rate structure, reducing rates for early customers of the district energy utility and distributing the costs of developing the project over all customers for a 20-year period.¹⁶ RDE proposes to record the GCOC Variance in the RDDA instead of in the GCOC Variance Deferral Account as directed in the GCOC Stage 2 Decision. RDE explains that it anticipates the variance resulting from the change to RDE's WACC for 2024 to be equivalent to only 2 percent of RDE's RDDA balance for the same year, and 4 percent in 2025.¹⁷ RDE requests that the variance between the 2024 and 2025 rates and the rates that would reflect the new cost of capital effective January 1, 2024, including the proposed rate rider, be recorded in RDE's existing RDDA. To support this request, RDE notes that the variance resulting from the change to its WACC for 2024 is modest, and it will soon be applying for new rates effective January 1, 2026, which will reflect the updated equity thickness and ROE.¹⁸

¹³ Exhibit A-2, Attachment to Staff Question 2.0 – Staff GCOC Variance Calculation; Exhibit B-2-1, Staff Question 2.1.

¹⁴ GCOC Stage 2 Decision, p. 97.

¹⁵ GCOC Stage 2 Decision, p. 96.

¹⁶ [Order G-14-11 and Decision dated December 19, 2011](#), pp. 23–24.

¹⁷ Exhibit B-1, p. 4.

¹⁸ Exhibit B-1, p. 4.

In response to BCUC Staff Questions, RDE explains that establishing the GCOC Variance Deferral Account increases administrative overhead through the need to establish, track, “close” and reconcile a deferral account for a revenue deficiency that may easily be recorded within the existing RDDA. Furthermore, RDE states the nature of the revenue deficiency that results from the GCOC Variance is consistent with that tracked by the existing RDDA, i.e. a GCOC Variance Deferral Account would reside within RDE’s rate base and attract the same WACC as the RDDA. Lastly, RDE submits its customers are accustomed to the fixed capacity charge and variable energy charge tariff structure that RDE has had in place since 2012, and to the extent possible, RDE is seeking to keep the GCOC Variance within that tariff structure.¹⁹

Panel Determination

The Panel considers that the intended purpose, mechanism for recovery, and timeline for recovery are different between the RDDA and the GCOC Variance Deferral Account. The RDDA was established to implement a levelized rate structure over a 20-year horizon, with the recovery of the RDDA balance through RDE’s rate structure. On the other hand, the GCOC Variance Deferral Account is established for the purpose of capturing the variance between the previous interim 2024 and 2025 rates and the rates that reflect the new cost of capital, effective January 1, 2024. As discussed under Section 2.3 below, RDE proposes the GCOC Variance will be recovered through a Cost of Service Rate Rider over a 12-month amortization period – much shorter than the levelized rate structure over a 20-year horizon.

The Panel accepts there may be a minor additional burden for RDE to administer a separate deferral account. However, given the intended purpose of the GCOC Variance Deferral Account and consistent treatment of other Thermal Energy System utilities that use a RDDA, the Panel considers it appropriate to record the GCOC Variance in a separate GCOC Variance Deferral Account. **Therefore, the Panel denies RDE’s request to record the variance between the previous interim 2024 and 2025 rates and the rates that would reflect the new cost of capital, effective January 1, 2024, in its RDDA. The Panel directs RDE to record the variance between the previous interim 2024 and 2025 rates and the rates that would reflect the new cost of capital, effective January 1, 2024, in the GCOC Variance Deferral Account as directed in the GCOC Stage 2 Decision.**

2.3 Rate Rider

RDE proposes a Cost of Capital Rate Rider of \$0.038/m²/month to fully amortize the 2024 GCOC Variance over a 12-month period, and that the proposed rate rider would take effect on the first day of the month following the BCUC’s approval.²⁰ The proposed rate rider is calculated using RDE’s updated rate base for 2024 at \$22,368,546.

RDE proposes to include the 2025 GCOC Variance in its next RRA.²¹ RDE submits that both the construction of the Community Energy Centre and the changes to RDE’s regulated return span a similar period (2024–2025). RDE has historically established its rates based on year-end actuals and as such, the proposed Rate Rider for 2025 would be in effect in 2026 when RDE’s new rates would also come into effect.²² RDE also submits the variance in the Cost of Capital that results from the change to RDE’s WACC is an order of magnitude smaller than the change in rate base that has resulted from the construction of the Community Energy Centre.²³ For administrative efficiency, and clarity for its customers, RDE believes this financing cost may easily be included in RDE’s pending RRA.²⁴

¹⁹ Exhibit B-2-1, Staff Question 3.1.

²⁰ Exhibit B-2-1, Staff Question 2.4.

²¹ Exhibit B-1, p. 5.

²² Exhibit B-2-1, Staff Question 2.5.

²³ Exhibit B-2-1, Staff Question 2.5.

²⁴ Exhibit B-2-1, Staff Question 2.5.

Using RDE's proposed 2024 GCOC Variance of \$156,804 and 2025 GCOC Variance of \$406,251, RDE provided a scenario analysis on the rate rider and bill impact for a typical 800 ft² (74.3 m²) residential suite with an annual consumption of 8,000 kilowatt hours if the rate rider also recovered 25, 50, 75 and 100 percent of the 2025 GCOC Variance. The results are summarized in Table 2 below²⁵:

Table 2: Bill Impact Scenario Analysis²⁶

	Scenario 1 2024 GCOC Variance Only	Scenario 2 2024 + 25% of 2025 GCOC Variance	Scenario 3 2024 + 50% of 2025 GCOC Variance	Scenario 4 2024 + 75% of 2025 GCOC Variance	Scenario 5 2024 + 100% of 2025 GCOC Variance
GCOC Variance Recovery Amount	\$156,804	\$258,367	\$359,930	\$461,492	\$563,055
Rate Rider (\$/m ² /month)	0.038	0.063	0.088	0.113	0.137
Rate Rider Bill Increase	3.26%	5.37%	7.48%	9.59%	11.70%
2025 Approved Rate Increase	7.5%	7.5%	7.5%	7.5%	7.5%
Total Bill Increase	10.76%	12.87%	14.98%	17.09%	19.20%

RDE believes that total bill increases for any of the scenarios considered would be manageable by customer buildings and end users.²⁷

Panel Determination

The Panel considers recovery of cost in the same year the cost is incurred preferable whenever possible. In the absence of the timing difference between permanent rates approval and the effective date of the new cost of capital approved by the GCOC Stage 2 Decision, the cost of capital for 2024 would have been recovered in rates for 2024, and likewise for 2025. In order to align cost recovery and minimize the impact from recovering the 2025 GCOC Variance on future rates, the Panel considers that RDE should recover this amount as soon as practicable. With the change to rate base upon completion of the Community Energy Centre as indicated by RDE, and because the nature of levelized rates puts upward pressure on future rates, the Panel considers it inappropriate to prolong the recovery of the 2025 GCOC Variance.

The Panel determined in Section 2.1 that the approved GCOC Variance for 2024 and 2025 to be recorded in the GCOC Variance Deferral account should be calculated using the lower rate base used to inform the 2024 to 2025 Interim Rate Application, resulting in an indicated total GCOC Variance of \$277,267 (\$127,559 for 2024 and \$149,708 for 2025). The Panel notes the approved total GCOC Variance is now lower than RDE's proposed total GCOC Variance of \$563,055 (\$156,804 for 2024, \$406,251 for 2025). Using Table 2 above, the Panel notes that the resulting customer bill impact would be similar to Scenario 2 of 12.87%, and no more than Scenario 3 of 14.98%. The Panel finds this bill impact acceptable on balance, in light of the benefit of not prolonging the recovery of the 2025 GCOC Variance as discussed above.

RDE is directed to file with the BCUC a recalculation, with supporting calculations, of the proposed Cost of Capital Rate Rider to recover the GCOC Variance Deferral Account balance based on i) GCOC Variance

²⁵ Exhibit B-1, p. 5; Exhibit B-2-1, Staff Question 2.2, 2.6.

²⁶ Exhibit B-2-1, Staff Question 2.2, 2.6.

²⁷ Exhibit B-2-1, Staff Question 2.6.1.

calculated using a rate base of \$18,196,755 in 2024 and \$21,356,385 in 2025, and ii) recovery of the full GCOC Variance amount for 2024 and 2025 over a 12-month amortization period. RDE is directed to file revised tariff pages reflecting the revised rate rider with the BCUC for endorsement by April 30, 2025. The Cost of Capital Rate Rider will be effective on the first of RDE's next billing cycle following the BCUC's endorsement of RDE's revised tariff.

2.4 Future Revenue Requirements Application

RDE states it has begun to develop its RRA to be filed with the BCUC in early Q3, 2025, through which it will address a number of related matters, including its deemed interest rate, actual costs from the construction of its Community Energy Centre and management of the RDDA balance.²⁸ RDE states it would be able to meet a September 2, 2025, filing deadline for RDE's upcoming RRA if so directed by the BCUC.²⁹

Panel Determination

Considering that RDE only has rates established up to 2025, RDE is required to file a RRA to establish rates for 2026. **The Panel directs RDE to file its next RRA no later than September 2, 2025.**

DATED at the City of Vancouver, in the Province of British Columbia, this 14th day of April 2025.

Electronically signed by Blair Lockhart

E. B. Lockhart
Panel Chair/Commissioner

²⁸ Exhibit B-1, p. 2.

²⁹ Exhibit B-2-1, Staff Question 4.1.