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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-2-12**

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

and

**River District Energy Limited Partnership
Rate and Revenue Requirement Resubmission
for the First Five Years of Operation at River District in Southeast Vancouver**

BEFORE: L.A. O'Hara, Panel Chair/Commissioner
A.W.K Anderson, Commissioner
M.R. Harle, Commissioner
January 12, 2012

ORDER

WHEREAS:

- A. On July 27, 2011, River District Energy Limited Partnership (RDE) submitted an Application for a Certificate of Public Convenience and Necessity (CPCN) to the British Columbia Utilities Commission (Commission) under sections 45 and 46 of the *Utilities Commission Act* (Act) for the construction and operation of a District Energy Utility (DEU) for the River District development located along the Fraser River in Southeast Vancouver, BC, and for approval under sections 59, 60 and 61 of the Act for the proposed revenue requirement, rate design, levelized rates and accounting treatment including a rate stabilization account (the Application);
- B. On August 5, 2011, by Order G-141-11, the Commission established a written hearing process that included two rounds of Information Requests from Registered Interveners and the Commission to review the Application;
- C. On December 19, 2011, by Order C-14-11 and accompanying Decision (Decision), the Commission approved the Application with conditions, including a requirement that RDE resubmit a rates application by January 3, 2012 to consider three additional rate options (starting rates and escalation factors) based on the electrical benchmark of \$87.97 per MWh, \$87.97 plus 5 percent and \$87.97 plus 10 percent. Registered Interveners were given an opportunity to comment on the resubmitted rates application by January 10, 2012;
- D. On December 22, 2011, RDE resubmitted a rates application according to the directions contained in the Decision along with updated annual rate escalation factors that would eliminate the Revenue Deferral Deficiency Account in Year 20. RDE proposes an effective 2012 starting rate of \$87.97 plus 5 percent. RDE

further proposes to apply a straight-line escalation over the full 20 years, rather than limit near-term increases. The resulting annual nominal escalation rate is 3.94 percent;

- E. BCSEA, the only Registered Intervener to respond, is in favour of a higher initial rate of 10 percent above the RDE forecast electricity residential rate, though it did acknowledge that RDE's proposed initial rate and annual escalation rate is reasonable;
- F. The Commission has reviewed the resubmitted rates application and Intervener's comments.

NOW THEREFORE the Commission orders as follows:

1. Approval of RDE's initial 2012 effective rate of \$92.37 per MWh.
2. Approval of an annual escalation rate of 3.94 percent for the period of 2013 through 2016, which is forecast to eliminate the Revenue Deficiency Deferral Account balance in Year 20 if applied over the 20-year period.
3. RDE shall file a Tariff including terms and conditions of service and rate schedule within 30 days of this Order.
4. RDE shall file with the Commission a full working copy of its calculations worksheet supporting the resubmitted rates application within 10 business days of this Order.

DATED at the City of Vancouver, in the Province of British Columbia, this 12th day of January 2012.

BY ORDER

Original signed by:

L.A. O'Hara
Commissioner

Attachment

River District Energy Limited Partnership
Rate and Revenue Requirement Resubmission
for the First Five Years of Operations at River District in Southeast Vancouver

REASONS FOR DECISION

BACKGROUND

The Commission Panel in its Decision dated December 19, 2011 (Order C-14-11) accepted that a premium of up to 10 percent above the benchmark electricity rate may be justified when establishing rates for the District Energy Utility (DEU) to be constructed and operated by River District Energy Limited Partnership (RDE). After finding the RDE's forecast of BC Hydro's 2012 residential electricity rates and the assumed weighted average consumption mix of 50 percent Tier 1 and 50 percent Tier 2 to be reasonable, the Commission Panel considered that the initial 2012 rate for RDE should be no less than the blended \$87.97 per MWh benchmark rate.

Because the Commission Panel was reluctant to determine a final 2012 rate greater than that requested by RDE without providing an opportunity for further input, the Panel directed RDE to file the following additional options by calculating the annual effective rates per MWh for the 20-year period using one single escalation factor over the entire period:

1. First year rate: \$87.97;
2. First year rate: \$87.97 plus a premium of five percent; and
3. First year rate: \$87.97 plus a premium of ten percent.

RDE SUBMISSION DATED DECEMBER 22, 2011

After receipt of the Decision, RDE first recalculated the revenue requirements assuming the approved debt rate of 5.5 percent while keeping the target levelized cost of waste heat at \$35 per MWh. The resultant overall levelized cost of energy is \$148 per MWh. The three rate scenarios requested by the Panel and the resultant annual escalation rate under each scenario required to eliminate the Revenue Deferral Deficiency Account in Year 20 are as follows:

Scenario	Escalation Rate (%)
1. \$87.97	4.34
2. \$87.97 plus five percent	3.94
3. \$87.97 plus ten percent	3.56

RDE submits that after considering the Decision it proposes an effective starting rate of \$87.97 per MWh plus five percent with an annual escalation rate of 3.94 percent. It further proposes to apply a straight-line escalation over the full 20 years, rather than limit near-term increases. The resultant initial 2012 effective rate is \$92.37 per MWh. RDE submits "this proposal achieves an acceptable balance of near-term and long-term rates, taking into account outstanding risks and uncertainties." RDE points out that there is still considerable uncertainty over future electricity rate increases beyond three years noting that "the Province has opted for short-term rate relief." RDE further submits that given these uncertainties, it is concerned about near-term

competitiveness of rates for customers of alternative heating systems. Finally, RDE proposes to revisit the level of escalation when it brings forward a long-term renewable energy solution, or not later than five years from commercial operation. (RDE Submission)

BRITISH COLUMBIA SUSTAINABLE ENERGY ASSOCIATION (BCSEA) SUBMISSION DATED DECEMBER 28, 2011

BCSEA submits that its position is to favour a first year effective rate of \$87.97 per MWh plus ten percent with an escalation rate of 3.56 percent for the following reasons:

- The electricity benchmark is somewhat understated because it does not include BC Hydro's Basic Charge;
- Near-term reduction of BC Hydro's rate increases should not be taken as a given;
- Intergenerational equity favours the lower escalation rate of 3.56%; and
- A ten percent premium above the electricity benchmark is not unreasonable for the RDE's DEU rate.

However, BCSEA acknowledges that RDE's proposed rate structure is reasonable. (BCSEA Submission)

COMMISSION DETERMINATION

After reviewing the submissions, the Commission Panel determines that the rates proposed by RDE for the first five years of its operation are fair, reasonable and not unduly discriminatory. The Panel acknowledges the uncertainty related to BC Hydro rate increases – both short-term and long-term. BC Hydro's proposed F2012-F2014 reduced rate increases are the subject of an on-going Commission proceeding. Furthermore, the impact of deferral account balances and other significant issues on future rate increases is unknown. Similarly, the Panel recognizes the intergenerational equity concern highlighted by BCSEA. At the same time, however, the Panel must be insightful of RDE's concern over near-term competitiveness of rates for customers of alternative heating systems. The DEU concept as a key element in the River District community sustainability strategy may not succeed unless the rates offered are competitive. Finally, because RDE has committed to reviewing the escalation rate in five years' time, the Commission Panel finds the middle scenario recommended by RDE as being reasonable.