

Independent Review of the British Columbia Utilities Commission

Corix Written Comments

June 13, 2014

On May 11 Corix met with members of the Task Force appointed to conduct an independent review of the British Columbia Utilities Commission (“BCUC” or “Commission”). Corix appreciates the opportunity to meet with the Task Force and based on discussions from that meeting and a review of the “scope” from the review terms of reference Corix provides the following additional comments.

In British Columbia Corix currently operates several small energy systems including district energy, propane, natural gas, electric distribution and geothermal systems. We are pursuing several local opportunities for additional district energy systems and have been an active participant in recent BCUC processes including the ongoing Inquiry into FortisBC Alternative Energy Services, the Generic Cost of Capital proceeding, and the 2012 FortisBC Revenue Requirements proceeding. We operate regulated water and energy systems in smaller communities throughout North America and our experience in other jurisdictions may be interest to the Task Force.

It is our understanding that the purpose of this review is to develop recommendations for improving the efficiency and effectiveness of the Commission and that these recommendations will be presented in a report to the government from which potential legislation would be drafted. We further understand that it is not the intent of this review process to circumvent or replace Commission initiatives currently underway. In particular, the Commission’s Alternative Energy Services Inquiry has been underway since the spring of 2012 and after significant time and resources expended by many parties, our understanding is that the Commission intends to issue several policy and procedural changes of key importance to the further development of the thermal energy services market, including proposed legislative changes. It is hoped that the current BCUC review will complement the work of the AES Inquiry.

The items listed in the Scope in the Terms of Reference include several that Corix wishes to comment on.

- 1. A review of comparable utility regulators and models in other jurisdictions, along with key benchmarks.*

As mentioned previously, Corix has considerable experience in other jurisdictions and we currently operate regulated utilities in 2 provinces and 16 US states. Our experience is that those regulatory jurisdictions that function the most effectively recognize that the way to best achieve safe, reliable and cost efficient utility services is through clear rules and procedures that encourage prudent utility investments through progressive approaches such as DSIC¹ mechanisms, future test years,

¹ Distribution System Improvement Charge (DSIC) was first implemented in Pennsylvania in approximately 1996 and allows for rate increases, outside of a general rate proceeding, for non-revenue producing investments to replace aging infrastructure. Benefits of the program include more efficient and timely investment of capital, significant

timely decisions, and regulation that is tailored to the size of the utility. From our perspective while the BCUC currently is characterized by many of these best practices or is in the process of adopting them – as demonstrated by the previous discussion regarding the AES process and the proposed changes arising from that process – there is room for improvement particularly related to the regulatory burden on small utilities.

2. BCUC processes:

a. Existing levy funding model and possible alternatives;

The existing levy funding process recognises the relative size and customer base of each utility and the ability to fund the Commission’s work. Corix believes the existing approach or a similar model based on consumption and/or customer base is the preferred model for funding.

b. Timeliness, effectiveness, efficiency and cost of reviews;

In the past the review period for applications has often taken longer than desired. The review process could be made more effective by tailoring the regulatory process/requirements to the size of the utility (usually based on number of customers) as is done in many other jurisdictions. Time limits on the review process can also assist in setting clear expectations for all parties.

c. Standing/funding for interveners;

Corix supports the current approach.

d. Review processes:

d.i. Conventional oral and written public hearings;

d.ii. Alternative review processes, including expedited hearing processes and negotiated settlement processes;

Conventional hearings for large traditional utilities have a purpose in that they provide an evidence-based record with a detailed review of all issues. However these types of processes may only be required periodically – every few years depending on specifics on issues or changing conditions – with less onerous processes in intervening years.

There are significant size differences among regulated utilities in BC, from large traditional utilities serving over a million customers to those with only a handful of customers. New entrants in the market such as district energy utilities are growing in number and the regulatory model that is set up to oversee the large incumbent utilities can be overly burdensome to these much smaller utilities. The Commission’s proposed thermal energy system (TES) guidelines (as part of the ongoing AES proceeding) are meant to address this issue, however there still may be opportunity to obtain further efficiencies in the review requirements for “stream B” utilities.

progress in replacing aging infrastructure, enhanced service quality, avoidance of rate shock, and others. (NAWC website)

d.iii. Involvement of the BCUC in alternative regulatory processes;

In the past these processes have used an outside moderator to facilitate discussions, with Commission staff, providing a key role in gathering input from all parties and developing draft decisions for review by participants. Staff have a detailed knowledge of the parties and issues and should continue to be involved.

d.iv. Generic proceedings on specific issues that apply to more than one utility;

These are useful approaches to dealing with specific issues outside of regular revenue requirement proceedings, however the costs in time and resources have generally restricted participation to larger traditional utilities. The recent Generic Cost of Capital proceeding is an example. Corix was the only small utility participant during the initial Stage 1 of the proceeding, and while PACA funding covered external costs, internal costs were significant and these were necessarily absorbed by our shareholder. During Stage 2 of the process, PACA funding was not available and while a combined approach with other small thermal energy utilities helped to defray costs, it was a significant dedication of time and resources. A recognition of the limited resources available to smaller utilities would help in tailoring future generic proceedings to attract a broader range of participants.

d.v. Opportunities to make hearing processes more efficient and more focused;

There are significant size differences among regulated utilities in BC, from those serving over a million customers to those with only a handful of customers. Regulatory hearing processes both oral and written need to be tailored to recognize these significant differences. As mentioned previously, the Commission's proposed TES guidelines will go some ways toward recognizing these differences, but further tweaking for dealing with "stream B" utilities may be required.

d.vi. The role, effectiveness and use of guidelines and policies;

Commission issued guidelines and policies provide an easily accessed source of information that can facilitate effective participation in regulatory processes.

d.vii. Application cycle (turnaround) times and establishing timelines for reviews and decisions;

Many jurisdictions have legislated maximum review periods for filings. Defined timelines can improve efficiency and provide clarity for all parties.

d.viii. Coordinated regulatory processes.

3. Structure, resource needs and performance of the BCUC (including but not limited to):

a. Review the use of stakeholder representation models in other jurisdictions and implications on the role of staff;

Corix has experience in operating in jurisdictions where there is a separate designated consumer advocate distinct from Commission staff. Our experience is that these types of alternative approaches with a separate regulatory oversight body to represent consumer interests can result in a more adversarial process that only serves to increase the costs to all parties, and ultimately the customer, and directs attention and resources away from the real issues of determining what are the justifiable costs of providing reliable, safe and efficient quality of service.

The current PACA funding approach provides for a review mechanism to ensure interveners receiving funding have contributed to the outcome of the process. This qualifying check is absent in a permanent paid advocate model.

We would encourage caution when considering changing the current approach.

Corix had no comments for sections 3(b) through 3(d)

4. In consultation with the Minister of Justice and the Minister Responsible for Core Review, any other matters arising over the course of the review that the Task Force considers significant.

The energy sector as overseen by the BCUC in the province is regulated on a cost of service approach. Where this has been allowed to operate as designed, with utilities earning a reasonable return on invested capital subject to prudence reviews by the Commission, and customer rates based on the full cost of providing the service, the model has worked well in efficiently allocating resources and ensuring customers receive safe, reliable and cost effective energy service.

In contrast to the provision of energy service, water service in the province has traditionally been supplied to end-use customers at prices that do not cover the full cost of service, with the result that the resource is not used as efficiently as it should be and, since revenues fail to cover the full cost of service, too often infrastructure falls into disrepair. This is particularly true for smaller communities with aging water systems. A regulatory model similar to that used for energy would attract needed investment, ensure safe, reliable and cost effective service and improve water use efficiency. Alberta as well as the majority of US states are examples where this approach is used.