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July 7, 2021

Sent via eFile

<b>BCUC GENERIC COST OF CAPITAL EXHIBIT A-6</b>
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To: All Registered Parties

**Re: British Columbia Utilities Commission – Generic Cost of Capital – Project No. 1599176 – Reasons for Decision and Amended Scope**

Further to the above-noted matter, enclosed please find British Columbia Utilities Commission Order G-205-21 with reasons for decision and amended scope.

Sincerely,

*Original signed by:*

Patrick Wruck  
Commission Secretary

/jo  
Enclosure



**ORDER NUMBER**  
**G-205-21**

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

and

British Columbia Utilities Commission  
General Cost of Capital Proceeding

**BEFORE:**

D. M. Morton, Panel Chair  
A. K. Fung, QC, Commissioner  
K. A. Keilty, Commissioner  
T. A. Loski, Commissioner

on July 7, 2021

**ORDER**

**WHEREAS:**

- A. By Order G-66-21 dated March 8, 2021, pursuant to section 82 of the *Utilities Commission Act*, the British Columbia Utilities Commission (BCUC) established a Generic Cost of Capital (GCOC) Proceeding;
- B. By the March 22, 2021 registration date for participants, a total of five Affected Utilities and five Other Utilities registered. Seven non-utility parties and two Other Utilities registered as Interveners;
- C. By Order G-156-21 dated May 21, 2021, the BCUC established the scope of the proceeding and set out a two-stage proceeding to establish public utilities' cost of capital;
- D. By Order G-156-21, the BCUC also sought submissions from registered utilities and interveners on whether deferral account financing costs should be addressed as a scope item in the GCOC Proceeding, and by June 4, 2021, the BCUC received ten submissions; and
- E. The BCUC has reviewed the submissions received and considers that the review of deferral account financing costs is appropriate for the GCOC Proceeding.

**NOW THEREFORE** for reasons set out in Appendix A to this order, the BCUC establishes that deferral account financing costs is in scope in the GCOC Proceeding and will be reviewed after the completion of Stage 1 and Stage 2 of the GCOC Proceeding. The scope of the GCOC Proceeding is amended as set out in Appendix B of this order.

**DATED** at the City of Vancouver, in the Province of British Columbia, this 7<sup>th</sup> day of July 2021.

BY ORDER

*Original signed by:*

D. M. Morton  
Commissioner

Attachments

British Columbia Utilities Commission  
Generic Cost of Capital Proceeding

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**REASONS FOR DECISION**

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**1.0 Background**

On May 21, 2021, the British Columbia Utilities Commission (BCUC) issued Order G-156-21 to establish the scope for the Generic Cost of Capital (GCOC) Proceeding. In Appendix A of Order G-156-21, as noted in Section 2.1.5, Industrial Customers Group (ICG) submitted that deferral account financing costs should be reviewed as part of the GCOC Proceeding.

ICG suggested that the Panel should consider the appropriate deferral account financing costs in this GCOC proceeding for all utilities in BC because ICG views that deferral account financing is a significant cost to ratepayers.<sup>1</sup> ICG suggested the scope of the GCOC Proceeding should include the following:

- Whether deferral accounts be financed at the utilities return on common equity, long-term debt rate, short-term debt rate, weighted average cost of debt, or weighted average cost of capital; and
- The principles that should guide the BCUC when determining the financing costs for various deferral accounts.

In Order G-156-21, the Panel noted that other participants did not have the opportunity to make submissions on ICG's proposal on the inclusion of deferral account financing costs as part of the scope in the GCOC proceeding. Accordingly, the Panel invited participants to provide their submissions by Friday, June 4, 2021 on the following:

Whether deferral account financing costs should form as part of the scope of the GCOC proceeding.

- a. If so, should the Panel review this matter in Stage 1, Stage 2, or initiate a Stage 3 process?
- b. If not, why not?

**2.0 Submissions Received**

The BCUC received responses from the following participants in accordance with Order G-156-21:

- British Columbia Hydro and Power Authority (BC Hydro)
- Creative Energy Vancouver Platforms Inc. (Creative Energy)
- Corix Multi-Utility Services Inc. (Corix)
- FortisBC Alternative Energy Service Inc. (FAES)
- FortisBC Inc. (FBC) and FortisBC Energy Inc. (FEI) (collectively FortisBC)
- Pacific Northern Gas Ltd. (PNG) and Pacific Northern Gas (N.E.) Ltd. (PNGNE) (collectively PNG)
- Clean Energy Association of BC (CEABC)
- Commercial Energy Consumers Association of British Columbia (CEC)
- Industrial Customers Group (ICG)
- Residential Consumer Intervener Association (RCIA)

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<sup>1</sup> Exhibit C5-2, ICG, pp. 1–2.

### *Submissions by Parties to exclude deferral account financing costs scope item*

BC Hydro, Corix, FAES, FortisBC, and PNG submit that the review of deferral account financing costs should be excluded from the GCOC Proceeding since this matter is already considered in a utility's Revenue Requirement Application (RRA). FortisBC further submits that deferral account financing costs is a question of how the approved cost of capital should be applied to specific components of the revenue requirement for individual utilities.<sup>2</sup> Moreover, some parties submit that deferral account financing costs should be considered on a case-by-case basis, not as a part of the GCOC Proceeding.<sup>3</sup>

Additionally, some utilities submit that deferral account financing costs can be considered in other proceedings and is not appropriate in the GCOC Proceeding. For example, FortisBC submits that there was already a generic public process related to regulatory deferral accounts which resulted in the [Regulatory Account Filing Checklist](#).<sup>4</sup> BC Hydro submits consideration of the issues related to deferral accounts outweighs any potential regulatory efficiencies that could be gained by considering these issues within this proceeding.<sup>5</sup> Further, Corix suggests that if the BCUC intends on addressing deferral account financing costs in a generic proceeding, then a proceeding should be established solely for that purpose, as opposed to an additional topic within the GCOC Proceeding because the current scope of the GCOC proceeding is already large and extensive.<sup>6</sup>

### *Submissions by Parties to include deferral account financing costs scope item*

There were five parties who support that deferral account financing costs should be reviewed as part of the GCOC Proceeding. The CEC, RCIA and ICG submit that the deferral account financing costs should be included in Stage 1 of the GCOC Proceeding. Creative Energy and CEABC submit that this item should be reviewed in Stage 2 of the GCOC Proceeding.

With respect to parties suggesting deferral account financing costs be reviewed in Stage 1, they note that the topic is generic in nature. The appropriate time to consider principles and make determinations should be at the same time when the BCUC considers other issues, including the use of a Benchmark Utility and the return on equity automatic adjustment mechanism (ROE AAM), which will affect all utilities.<sup>7</sup> Further, the CEC submits that financing costs can represent a significant burden on ratepayers and deserves dedicated attention that may not be readily reviewed in an RRA or other applications in which a deferral account may be proposed and approved.<sup>8</sup>

With respect to parties suggesting deferral account financing costs be reviewed in Stage 2, they note that addressing the item in Stage 2 would maintain a clear separation of scope items from matters in Stage 1.<sup>9</sup> Further, deferral account financing costs should be considered in relation to specific utilities or utility groups<sup>10</sup> which will be assessed in Stage 2 of the GCOC Proceeding. This process will promote regulatory efficiency and a cost-effective review.<sup>11</sup>

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<sup>2</sup> Exhibit B2-3, FortisBC, p. 2.

<sup>3</sup> Exhibit B6-3, Corix, p. 2.

<sup>4</sup> Exhibit B2-3, FortisBC, p. 2.

<sup>5</sup> Exhibit C8-2, BC Hydro, p. 2.

<sup>6</sup> Exhibit B6-3, Corix, p. 3.

<sup>7</sup> Exhibit C5-3, ICG, p. 1.

<sup>8</sup> Exhibit C6-3, CEC, p. 2.

<sup>9</sup> Exhibit B7-3, Creative Energy, p. 2.

<sup>10</sup> Exhibit C9-2, CEABC, p. 1.

<sup>11</sup> Exhibit B7-3, Creative Energy, p. 2.

### 3.0 Panel Determination

**The Panel determines that the review of deferral account financing costs should be within the scope of the GCOC Proceeding and will be reviewed after the completion of Stage 1 and Stage 2. The scope of the GCOC Proceeding is amended as set out in Appendix B of this Order G-205-21.**

#### *Deferral Account Financing Scope Item in the GCOC Proceeding*

While the Panel acknowledges that deferral accounts are reviewed in a utility's RRA, the Panel disagrees with parties' submission that the topic of financing costs on deferral accounts is adequately considered in RRAs. This issue is exacerbated when different applicants seek different treatment in each RRA, resulting in inconsistent applications of carrying costs.

While the Panel recognizes that there had been a public review process related to regulatory deferral accounts which resulted in the Regulatory Account Filing Checklist (Checklist), the content of the Checklist is not meant to be prescriptive guidelines or rules. The purpose of the Checklist is to assist entities when filing regulatory account requests, providing considerations when filing an application, descriptions of the different regulatory account types and facilitating an efficient review by the BCUC. Further, while the Panel acknowledges that one of the considerations included in the Checklist includes proposing a carrying cost for the balance in the regulatory account and explaining why it is appropriate, there is no guidance on whether a consistent approach is necessary, desired, or fair. In the Panel's view, future proceedings could benefit from generically considering the principles that should guide the BCUC in determining the appropriate financing costs for various regulatory or deferral accounts.

With respect to process, the Panel notes Corix's submission that the current scope of the GCOC proceeding is large and extensive. However, the Panel is not persuaded that a separate proceeding should be established solely to address deferral account financing costs. Some of the evidence gathered in Stages 1 and 2 of the GCOC proceeding may help inform issues related to determining the appropriate financing costs for various regulatory or deferral accounts. Therefore, the Panel finds that regulatory efficiency is better served by reviewing deferral account financing costs after completion of Stage 1 and Stage 2 in this GCOC Proceeding, while it is still topical amongst participants.

As a clarification, the Panel recognizes that the existence, or lack of, variance and other deferral account treatment can affect a utility's business risks which is a consideration for determining the cost of capital for a utility. The extent to which the use of variance or deferral mechanisms impact the risk of a utility in BC is likely to be relevant to issues to be reviewed within the scope of Stages 1 and 2 of the GCOC Proceeding.

#### *Timing*

The Panel finds that the effective date to address the topic of deferral account financing costs will depend on the timing and progress of Stage 1 and Stage 2 of this proceeding. It would be premature now to decide on the timing and, therefore, no further Regulatory Timetable is established in this order.

British Columbia Utilities Commission  
Generic Cost of Capital Proceeding

**AMENDED SCOPE**

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**PROCEEDING SCOPE – Stage 1**

1. Whether a Benchmark Utility is appropriate to determine the cost of capital of public utilities.
  - a) If the establishment of a Benchmark Utility is warranted, then:
    - i. Whether the Benchmark Utility should continue to be FortisBC Energy Inc. (FEI), some other utility, or a hypothetical utility.
    - ii. The determination of the allowed return on equity (ROE) and deemed capital structure of the Benchmark Utility.
    - iii. The effective date for which the Benchmark Utility's cost of capital will take effect.
  - b) If the establishment of a Benchmark Utility is not warranted, then determine the process for public utilities to establish their individual cost of capital.
2. Whether re-establishment of a formulaic ROE automatic adjustment mechanism (AAM) is warranted. If a return to the use of a formulaic ROE AAM is warranted, then:
  - a) The specifications of the ROE AAM formula.
  - b) The frequency that the ROE AAM will apply (i.e. annually or some other frequency) and to whom the ROE AAM will apply.
  - c) The date for which the ROE AAM will take effect.
3. The criteria, off-ramps, or other triggers to warrant a future cost of capital proceeding.
4. Any other items that may arise during the proceeding to be considered in Stage 1. The Panel will communicate any additional items to participants.

**PROCEEDING SCOPE – Stage 2**

1. The groupings of public utilities for cost of capital determinations.
2. The establishment of the cost of capital for public utilities, or groups of public utilities, except for BC Hydro.
3. Whether any range or default in the equity component and equity risk premium is warranted for public utilities, or groups of public utilities.
4. Whether the determination of a deemed interest rate is warranted. If warranted, then:
  - a) The circumstances where a deemed interest rate is required.
  - b) The determination of the deemed interest rate where required.
  - c) Whether an interest rate AAM is warranted.

- d) The effective date for which the deemed interest rate or interest rate AAM will take effect.
5. Any items that may be identified during the proceeding to be considered in Stage 2. The Panel will communicate any additional items to participants.

**PROCEEDING SCOPE – After Completion of Stage 1 and Stage 2**

1. Deferral account financing costs.
2. Other matters as may arise out of Stage 1 and Stage 2.