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**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-205-11**

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

and

An Application by FortisBC Energy Inc.
for a Certificate of Public Convenience and Necessity for
Approval of Contracts and Rate for Public Utility Service to Provide Thermal Energy Service
to Delta School District Number 37

BEFORE: L. O'Hara, Panel Chair/Commissioner
R. Revel, Commissioner December 2, 2011
D. Morton, Commissioner

ORDER

WHEREAS:

- A. By Commission Order G-141-09 dated November 26, 2009, the British Columbia Utilities Commission (Commission) approved for FortisBC Energy Inc. (FEI, then Terasen Gas Inc.) a Negotiated Settlement Agreement (NSA) for the 2010 and 2011 Revenue Requirements and Delivery Rates proceeding which included approval for the provision of Alternative Energy Services (AES) defined to include geo-exchange, solar thermal and district energy systems;
- B. The NSA accepted General Terms and Conditions Section 12A: Alternative Energy Extensions (GT&C 12A) as the economic screening tool for AES projects and provided that FEI could make application for acceptance of project-specific contracts as a rate under the Alternative Energy class of service;
- C. The NSA prescribed that the Certificate of Public Convenience and Necessity (CPCN) threshold of \$5 million would apply to AES projects brought forward in 2010 and 2011;
- D. On October 7, 2011, FEI filed an application with the Commission for approval, pursuant to sections 59-61 of the *Utilities Commission Act* (Act) and Commission Order G-141-09, of Thermal Energy Services (TES) contracts between FEI and Delta School District Number 37 (Delta SD) and a new rate for thermal energy services provided to Delta SD under those contracts (Initial Filing);
- E. In the Initial Filing, FEI proposed to own and operate the thermal energy systems located on the Delta SD sites as agreed with Delta SD, and sought acceptance of an expenditure schedule on the project costs pursuant to section 44.2 of the Act;

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-205-11**

2

- F. In the Initial Filing, FEI requested interim approval of the rates and rate design contained within the contracts by October 31, 2011 as the price established for the installation of the thermal facilities was contingent on the Commission granting approval by November 1, 2011;
- G. On October 25, 2011, via Commission Order G-179-11, the Commission denied FEI's request for interim approval and directed FEI to advise the Commission if it intended to proceed with the Initial Filing as filed, notwithstanding the denial of the interim approval, or withdraw the Initial Filing;
- H. On November 28, 2011, FEI filed an application for a Certificate of Public Convenience and Necessity for the construction and operation of thermal energy projects at 19 individual sites for the Delta SD, under sections 45 and 46 of the Act, and for the approval of rates and rate design established by an Energy System Rate Development Agreement and individual Energy System Service Agreements entered into between FEI and Delta SD, as just and reasonable rates under sections 59-61 of the Act (Application);
- I. The Thermal Energy Upgrade Project (Project) described in the Application will provide thermal energy upgrades that involve the replacement of conventional boilers with high efficiency, condensing boilers at eight sites, the conversion of existing thermal plants to geo-exchange systems at 11 sites, and the retrofit or replacement of existing mechanical infrastructure at all 19 sites;
- J. The Project will take place over two years with a total estimated cost of \$6.5 million, of which Delta SD will be contributing \$1.357 million as a Contribution in Aid of Construction;
- K. FEI will own, operate and maintain the new thermal facilities and will develop a single pooled cost-of-service based rate, developed pursuant to FEI's GT&C 12A, for thermal energy consumed with provision that the rate initially charged will be a market-based rate to facilitate the transition from Delta SD's current costs of energy to the cost-of-service rate;
- L. FEI proposes that the Application be reviewed in a written hearing process and requests approval of the Application effective March 1, 2012 on the basis that the design build contract that FEI has entered into with Johnson Controls L.P., on which the Project costs and timeline are based, is contingent upon the Commission approving the Application by March 1, 2012;
- M. The Commission considers that establishing a written public hearing and regulatory timetable for the registration of Interveners and for the review of the Application, is necessary and in the public interest.
- N. The Commission considers that the evidence provided in the Application in regard to FEI's request for an incremental 50 basis point risk premium in the cost of service is not developed sufficiently to support the request and that FEI be directed to provide supplemental evidence in this regard.

NOW THEREFORE the Commission orders as follows:

1. The Application will be examined by a written public hearing process and the Regulatory Timetable attached as Appendix A has been established.

**BRITISH COLUMBIA
UTILITIES COMMISSION**

**ORDER
NUMBER G-205-11**

3

2. The Application, together with any supporting materials, will be made available for inspection at the FortisBC Energy Inc. office, 16705 Fraser Highway, Surrey, BC, V4N 0E8 and at the British Columbia Utilities Commission, Sixth Floor, 900 Howe Street, Vancouver, B.C., V6Z 2N3, and will also be available on the FortisBC Energy Inc. website at www.fortisbc.com.
3. FEI shall provide a copy of the Application to all registered Interveners and Interested Parties who have registered in the Inquiry into FortisBC Energy Inc.'s Products and Services in Alternative Energy Solutions and Other New Initiatives; the FortisBC Energy Utilities 2012 – 2013 Revenue Requirements and Natural Gas Rates Applications and the Natural Gas Marketers licensed under the Fortis BC Energy Customer Choice Program.
4. FEI shall publish a notice of the Application and Written Public Hearing Process, attached as Appendix B to this Order, in the Delta Optimist and the Surrey Leader.
5. Interveners or Interested Parties should register with the Commission, in writing or electronic submission, by Wednesday, December 14, 2011. Interveners should specifically state the nature of their interest in the Application and identify generally the nature of the issues that they may intend to pursue during the proceeding, and the nature and extent of their anticipated involvement in the review process.
6. The Commission will hold confidential the information in the Application that FEI has requested be held confidential.
7. FEI shall file supplemental evidence by Friday, December 9, 2011 to support FEI's request for an additional risk premium for the thermal class of service above the benchmark return on equity (ROE) that applies to FEI's natural gas class of service. Additionally FEI is to provide supplementary evidence on the difference in risks, both favourable and unfavourable, of the Delta SD project as a stand-alone activity when compared to FEI's natural gas class of service. This evidence should provide an explanation of the rationale and precedents for a separate ROE within the same utility as well as a risk-factor-by-risk-factor comparison of the proposed thermal class of service to both the FEI natural gas class of service and to the Corix Multi-Utility Service Inc. UniverCity project referenced in the Application. Also, FEI is to include evidence on the appropriateness of its debt financing cost and its appropriate rate for (i) the thermal class of service and (ii) for Delta SD project as a stand-alone activity based on its risks.

DATED at the City of Vancouver, in the Province of British Columbia, this *second* day of December 2011.

BY ORDER

Original signed by:

L. O'Hara
Panel Chair/Commissioner

Attachments

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REGULATORY TIMETABLE

| ACTION | DATE |
|--|------------------------------|
| FEI Submission of Supplemental ROE Evidence | Friday December 9, 2011 |
| Registration of Interveners and Interested Parties | Wednesday, December 14, 2011 |
| Commission Information Request No. 1 to FEI | Friday, December 16, 2011 |
| Participant Assistance/Cost Award Budgets | Wednesday, December 21, 2011 |
| Intervener Information Request No. 1 to FEI | Friday, December 23, 2011 |
| FEI Response to Information Requests No. 1 | Thursday, January 5, 2012 |
| Submission of Intervener Evidence, if any | Thursday, January 12, 2012 |
| Commission Information Request No. 2 to FEI | Monday, January 16, 2012 |
| Intervener Information Request No.2 to FEI | Monday, January 16, 2012 |
| Information Requests on Intervener Evidence | Wednesday, January 18, 2012 |
| FEI Response to Information Requests No. 2 | Wednesday, January 25, 2012 |
| Intervener Response to Information Request | Wednesday, January 25, 2012 |
| FEI Final Submissions | Thursday, February 2, 2012 |
| Intervener Final Submissions | Friday, February 10, 2012 |
| FEI Reply Submissions | Friday, February 17, 2012 |

PUBLIC NOTICE

BRITISH COLUMBIA UTILITIES COMMISSION

DECEMBER 2, 2011



FORTISBC ENERGY INC. APPLICATION FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO PROVIDE REGULATED PUBLIC UTILITY THERMAL ENERGY SERVICES TO DELTA SCHOOL DISTRICT NUMBER 37

On November 28, 2011, FortisBC Energy Inc. (FEI) applied to the British Columbia Utilities Commission (Commission) for a Certificate of Public Convenience and Necessity for the construction and operation of thermal energy projects at a number of individual schools throughout Delta School District Number 37 (Delta School District) and for approval of the rates and rate design established by an Energy System Rate Development Agreement and individual Energy System Service Agreements for each site entered into between FEI and Delta School District under which FEI will provide thermal energy services to the school sites.

The Delta School District Thermal Energy Project will provide 19 of the Delta School District's buildings with thermal energy upgrades that involve replacing conventional boilers with high efficiency, condensing boilers at eight sites, the conversion of existing thermal plants to geo-exchange systems at 11 sites, and retrofit or replacement of existing mechanical infrastructure at all 19 sites. Once complete, FEI will own, operate and maintain the new thermal facilities. The project will take place over two years and the total estimated cost of the project is \$6.5 million, of which the Delta School District will be contributing \$1.357 million.

FEI will charge the Delta School District a single pooled regulated rate for thermal energy consumed. The rate will ultimately be cost-of-service based but initially will be a market-based rate to facilitate the transition from the current costs of energy.

HOW TO GET INVOLVED

The Commission is initiating a review of FortisBC Energy Inc.'s Application. To view the timetable for this hearing and the Application go to www.bcuc.com select "Current Applications" under "Quick Links" and scroll to "FortisBC Energy Delta School District 37 Thermal Energy Service Contracts CPCN."

If you wish to participate actively in the review process, you may apply to be registered as an Intervener or an Interested Party with the Commission in writing by Wednesday, December 14, 2011 with the Commission Secretary, using the contact information at the end of this notice. Interveners will receive a copy of the Application as well as all hearing documents. You may also apply to become an Interested Party. As an Interested Party, you will receive an executive summary of the Application and a copy of the Commission's decision when it is issued.

All submissions and/or correspondence received from Interveners, and letters of comment from the public relating to the Application will be placed on the public record and posted to the Commission's website.

VIEW THE APPLICATION

The Application and all supporting documentation are available on the Commission's website on the "Current Applications" page. If you would like to review the material in hard copy, it is available to be viewed at the locations below:

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| <p>British Columbia Utilities Commission Sixth Floor, 900 Howe Street Vancouver, BC V6Z 2N3 Commission.Secretary@bcuc.com Phone: 604-660-4700 Toll Free: 1-800-663-1385</p> | <p>FortisBC Energy Inc. 16705 Fraser Highway Surrey, BC V4N 08E</p> |
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FOR MORE INFORMATION OR TO REGISTER

For more information or to register, please contact Ms. Alanna Gillis, Acting Commission Secretary using the Commission contact information above.