

–BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH–

In the Matter of The Application of Corix
Utah City Heating and Cooling LLC to
Establish a Thermal Tariff with Rates and
Terms of Service

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Docket No. 26-2666-01
Exhibit No. DPU 3.0 DIR
Direct Testimony of
Thomas Allred

Redacted

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

Direct Testimony of

Thomas Allred

September 3, 2026

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1 **INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND EMPLOYMENT FOR**
3 **THE RECORD.**

4 A. My name is Thomas Allred. My business address is 160 East 300 South, Salt Lake
5 City, Utah, 84114. I am employed by the Utah Division of Public Utilities ("Division"
6 or "DPU"), as a Utility Analyst.

7 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

8 A. On behalf of the Division.

9 **Q. IS THIS YOUR FIRST TIME APPEARING BEFORE THE PUBLIC SERVICE**
10 **COMMISSION OF UTAH ("COMMISSION")?**

11 A. Yes.

12 **Q. WOULD YOU SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL**
13 **BACKGROUND FOR THE RECORD?**

14 A. I have a bachelor's degree in economics and have previously worked as a real time
15 power trader and scheduler.

16 **SCOPE OF TESTIMONY**

17 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET.**

18 A. The purpose of my testimony is to provide the Division's analysis, findings, and
19 recommendations to the Commission regarding three areas of Corix Utah City
20 Heating and Cooling LLC's ("Corix," "UCDEU," or the "Company") Application: (1)
21 the proposed Revenue Deficiency Deferral Account ("RDDA"), (2) the proposed
22 Energy Cost Reconciliation Account ("ECRA"), and (3) the proposed Carrying
23 Charge. My analysis is based on the Application and the proposed Thermal Energy
24 Service tariff, the Direct Testimony of Douglas Chong, the Company's financial
25 models, and Company responses to data requests.

26 **Q. PLEASE SUMMARIZE THE INVESTIGATION YOU PERFORMED WHICH**
27 **RESULTED IN YOUR RECOMMENDATION IN THIS CASE.**

28 A. I reviewed the Application, the testimony of the witnesses, and the exhibits,
29 submitted data requests, reviewed responses to data requests as well as Corix's
30 responses to data requests from other parties in the case. I also met with
31 representatives from the Company several times to obtain information. In addition, I
32 researched regulatory proceedings involving other Corix-related utilities in other
33 jurisdictions and in Canada. Furthermore, I reviewed comparable rule requirements
34 for other utilities in Utah.

35 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

36 A. The Division recommends the Commission:

- 37 1. Approve the creation of the RDDA.
- 38 2. Remove the RDDA from the rate base.
- 39 3. Allow the RDDA to accrue the same carrying charge as the ECRA.
- 40 4. Approve the creation of the ECRA.
- 41 5. Order Corix to establish system performance benchmarks.
- 42 6. Implement an ECRA 80/20 cost-sharing safeguard based on system performance
- 43 benchmarks to encourage system efficiency.
- 44 7. Approve the updated carrying charge rate for the ECRA, following Corix's
- 45 confirmation of the calculation error identified in DPU DR. 3.1.
- 46 8. Establish a mandatory annual ECRA audit.

47 **TWO-PART RATE DESIGN**

48 **Q. WHAT IS THE TWO-PART RATE DESIGN PROPOSED BY CORIX?**

49 A. Corix's proposed two-part rate design divides the utility's total revenue requirement
50 into two separate components: the Capacity Charge and the Energy Charge. This
51 design is structured to recover separately the costs of fixed physical infrastructure
52 and the actual variable energy consumption costs.

53 The Capacity Charge is designed to recover the delivery revenue requirement, which
54 includes the non-energy supply costs such as the physical infrastructure, operations
55 and maintenance operating costs, depreciation, and the utility's capital return. It is a
56 fixed monthly charge billed in dollars per kilowatt, multiplied by each building's
57 specific building design capacity.

58 The Energy Charge recovers the variable costs to supply energy, including costs
59 such as electricity, natural gas, water, sewer, and chemicals. It is a monthly variable
60 charge billed in dollars per kilowatt-hour based on the Customer's actual metered
61 thermal energy consumption.

62 **Q. WHAT IS THE RDDA, AND HOW DOES IT PERTAIN TO THE TWO-PART RATE**
63 **DESIGN PROPOSED BY CORIX?**

64 A. The RDDA is a tracking mechanism designed to levelize rates alongside Corix's
65 proposed two-part rate structure.

66 Because a district energy system requires large upfront capital investments to build
67 out the central infrastructure, the cost to operate the system is very high in the early
68 years when very few customers are connected.¹

69 Under traditional utility ratemaking, if Corix billed its actual cost of service
70 immediately, the earliest customers would be forced to pay unreasonable rates.
71 Corix proposed the RDDA as a rate levelization tool to allow for reasonable initial
72 rates.

¹ Corix Application, Section 12.4.1 – Traditional vs. Levelized Rates.

Specifically, this levelization is accomplished by establishing a fixed Capacity Charge that does not reflect the true initial cost of serving the first customers; rather, it is intentionally set far below full cost recovery in the early years. The RDDA captures these early-year revenue shortfalls, deferring their collection to a later phase when the expanding customer base pays levelized rates that exceed the actual cost of service.² Corix Exhibit 3.3 compares the levelized rate path to the non-levelized annual cost-of-service rate.

[REDACTED]

Corix proposes to include the RDDA as part of the rate base, where it will earn the Weighted Average Cost of Capital (WACC).

Q. WHAT IS THE ECRA AND HOW DOES IT PERTAIN TO THE TWO-PART RATE DESIGN?

The second component of the two-part-rate design is the Energy Charge, set at \$0.0417 per kWh of thermal energy.⁴ The Energy Charge is calculated using the forecasted energy supply costs for electricity, natural gas, water, and testing supplies needed to serve the connected customers. The forecasted monthly thermal energy usage is multiplied by the base energy charge rate to derive the energy revenue requirement. Because energy supply costs fluctuate based on weather, the forecasted energy revenue requirement will likely differ from the actual revenues recovered month to month through the Energy Charge. This variable component is

² *Id.* Section 12.6.3.3 – RDDA Impact to the Delivery (Capacity) Rate Determination

³ Highly Confidential Corix Ex. 7.1, “DES Fcst” tab.

⁴ Corix Ex. 1.0, Section E – Rate Schedule 1: General Service.

reconciled dollar-for-dollar through the ECRA to reflect actual fuel and energy supply costs. Specifically, the ECRA tracks the variance between actual supply expenses incurred by Corix and the energy revenues collected from customers. Any over- or under-recovery is tracked in the deferred account balance and returned to or collected from ratepayers through annual ECRA rate adjustments.⁵

In short, the ECRA serves as a balancing account to reconcile variable fuel costs under the Energy Charge, while the RDDA acts as a balancing mechanism to recover delivery revenue requirements under the Capacity Charge, deferring early revenue deficits to allow for a levelized rate design.

Q. DOES THE DIVISION OPPOSE THE TWO-PART RATE DESIGN, THE RDDA, OR THE ECRA?

A. No. Corix's proposed two-part rate design composed of a fixed Capacity Charge and variable Energy Charge is consistent with other rate designs within Utah, specifically Rocky Mountain Power⁶ and Enbridge Gas,⁷ which both utilize infrastructure charges and 100% energy pass-through accounts.

The Division agrees that a two-part rate design allows for economic efficiency, fairness, practicality, and stability. Without the implementation of the RDDA, the initial capacity charge would be set to \$58.66 per kW/month, which would be impractically high and unaccommodating of a rate levelization plan.

The rate levelization plan serves the interests of both the Company and ratepayers. The mechanism of the RDDA allows for initial rates to be manageable for customers while also ensuring that future customers pay their fair share of the costs incurred to

⁵ *Id.* 1.0, Section D – Energy Cost Reconciliation Account.

⁶ *Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations*, Docket 24-035-04, (June 28, 2024), Application for a General Rate Increase; *Rocky Mountain Power*, Utah Tariff Schedule No. 1 - Residential Service

⁷ *Application of Enbridge Gas Utah to Increase Distribution Rates and Charges and Make Tariff Modifications*, Docket 25-057-06, (May 1, 2024), Application; *Enbridge Gas Utah*, Utah Natural Gas Tariff, Section 2.06 Gas Balancing Account Adjustment Provision, PSCU 700, page 2-9.

provide utility services. It also allows Corix to be fairly compensated by allowing a recovery of the deferred revenues.

ENERGY COST RECONCILIATION ACCOUNT

Q. DOES THE DIVISION HAVE ANY CONCERNS REGARDING THE ECRA?

A. It does. The Division is concerned that the ECRA mechanism exposes ratepayers to potentially high energy costs that could arise from operational inefficiencies. The Division acknowledges that Corix is limited in its control over its energy supply costs, which includes things like electricity, natural gas, and water, as these commodities must be purchased from third-party utilities. However, the Company does maintain direct control over its operational system efficiency. As Corix confirmed in its response to DPU Data Request 3.2,⁸ the Company directly manages key operational drivers to maintain system efficiency. A dollar-for-dollar energy cost pass-through mechanism eliminates the Company's financial incentive to optimize plant efficiency or minimize fuel and electricity consumption. Given that end users will most likely be billed on a square-footage basis,⁹ they are less likely to conserve their thermal energy usage. Without regulatory safeguards, ratepayers bear 100% of the financial burden if Corix operates its system inefficiently.

Q. WHAT REGULATORY SAFEGUARDS DOES THE DIVISION PROPOSE TO ENSURE SYSTEM EFFICIENCY?

A. The Division proposes that the Commission require Corix to establish baseline heat-rate and coefficient of performance benchmarks based on design specifications. If the system operates within an approved performance standard, 100% of fuel costs may be passed through to ratepayers. However, if key operational benchmarks are not met, excess fuel costs above the benchmarks are shared between the Company and the Customer, with Corix absorbing 20% of the excess costs and the ratepayers absorbing the other 80%.

⁸ Corix Response to DPU Data Request 3.2 (Included as DPU Exhibit 3.3).

⁹ Corix Ex. 1.0 Section B, Subsection 3(a) – Fair Allocation of Thermal Energy Costs.

**Q. HOW SHOULD THE COMMISSION DETERMINE THE BASELINE
PERFORMANCE METRICS FOR THIS EFFICIENCY SAFEGUARD?**

A. The Commission can refer directly to the baseline operation inputs embedded in the Corix's financial model or require Corix to submit proposed technical benchmarks as a condition of tariff approval. Corix maintains various operational drivers within its control—including cooled chiller coefficients of performance, condensing boiler thermal efficiencies, and distribution supply temperatures.¹⁰ The Commission can adopt these parameters as baseline performance metrics. Alternatively, the Commission can order Corix to file formal operational efficiency targets in a compliance filing prior to rate applications. These performance markers can ensure that the ECRA protects the Company against market commodity prices outside of its control while also ensuring that ratepayers do not bear 100% of the financial burden for system inefficiencies.

**Q. DOES THE DIVISION HAVE ANY RECOMMENDATIONS REGARDING THE
PROPOSED ECRA AUDIT PROCEDURES?**

A. Yes. In the proposed tariff, it simply states: "All items recorded in the Unrecovered Energy Supply Costs account and subject to regulatory audit."¹¹ It does not set an automatic annual schedule for these audits, instead it leaves them open ended and merely establishes that the account is open to being audited.

The Division recommends that the Commission mandate Corix to file its annual ECRA true-up reports and supporting calculations with the Commission each year, making those filings subject to mandatory annual audit by the Division.

REVENUE DEFICIENCY DEFERRAL ACCOUNT

**Q. DOES THE DIVISION AGREE WITH CORIX THAT THE RDDA SHOULD BE PART
OF RATE BASE?**

¹⁰ Corix Response to DPU Data Request 3.2 (Included as DPU Exhibit 3.3).

¹¹ Corix Ex. 1.0, Section D – Audit Procedures.

172 A. No. The Division disagrees with Corix's assertion that the RDDA belongs in rate
173 base simply because it is classified as a regulatory asset. Rate base represents the
174 net capital investment that is used and useful in providing service. It's the foundation
175 on which the utility is allowed the opportunity to earn an approved rate of return.
176 Traditional rate base items—in this case, boilers, chillers, distribution piping—
177 represent physical capital investments that are used and useful and depreciate over
178 time. Fair WACC returns on these investments are already fully captured and
179 calculated in within [REDACTED]. These returns serve as a primary driver
180 of the delivery revenue requirement, which Corix proposes to recover through the
181 Capacity Charge.

182 The RDDA is an administrative account representing uncollected revenue deferrals.
183 Allowing a full WACC return on administrative tracking account unfairly compensates
184 the Company with returns already embedded in the delivery revenue requirement.
185 While Corix does not immediately collect its full delivery revenue requirement due to
186 levelized rates, its return is not lost. It is deferred with full recovery.

187 **Q. WHAT CARRYING CHARGE DOES THE DIVISION RECOMMEND TO ACHIEVE**
188 **A FAIR RECOVERY OF THE RDDA BALANCE?**

189 A. To enable a fair recovery, the Commission should remove the RDDA from rate base
190 and allow it to carry the same charge proposed for the ECRA, discussed below. A
191 debt-only carrying rate on a deferred balance is supported by established regulatory
192 precedent. For example, similar deferred accounting mechanisms—the ECRA and
193 other established mechanisms such as Enbridge Gas' deferred energy 191
194 Account¹² and Rocky Mountain Power's Energy Balancing Account¹⁴—accrue
195 carrying charges matched to short-term debt rates rather than a full WACC return.

¹² Highly Confidential Corix Ex. 7.1, "Sch3-RateBase" tab.

¹³ *Enbridge Gas Utah*, Utah Natural Gas Tariff, Section 8.07 – Calculation of Carrying Charge.

¹⁴ *Rocky Mountain Power*, Electric Service Schedule No. 94, Energy Balancing Account; No. 300, Regulation Charges.

**Q. HOW DOES THIS COMPOUNDING MECHANISM CREATE
INTERGENERATIONAL EQUITY CONCERNS?**

A. Forcing customers to pay a full WACC return on top of the RDDA balance violates intergenerational equity principles. As previously stated, the authorized delivery revenue requirement already factors in a full WACC return on the costs incurred to provide utility service. By incorporating the RDDA balance directly into rate base, Corix would earn a compounding return at its authorized WACC rate. Then the interest would be capitalized and added to the balance of the RDDA. This inflates the delivery revenue requirement, which widens the shortfall between collected and uncollected revenues, perpetuating the cycle. Future ratepayers should not be responsible for full equity returns on interest compounded on deferred revenue.

**Q. DOES THE DIVISION HAVE CONCERNS REGARDING THE RISK OF AN
UNSTABLE OR OVERLY INFLATED RDDA BALANCE?**

A. The Division is concerned that the biggest risks to the RDDA balance—higher than expected “non-controllable costs” and delayed customer connections, combined with the compounding interest—present a real risk that the RDDA balance might accumulate large balances that will disproportionately affect future ratepayers rather than serving its purpose of a rate stabilizing mechanism.

This hypothetical example apparently materialized in other Corix district energy systems in British Columbia, Canada. In both Corix’s Burnaby Mountain¹⁵ and UBC Neighborhood District Energy Systems,¹⁶ the RDDA faced scrutiny in recent rate cases for accumulating large balances, which resulted in steep rate increases and extensions of the target pay off date. In both cases, Corix acknowledged that customer build-out delays and escalating costs drove the increases to the RDDA balance.

¹⁵ *Burnaby Mountain District Energy Utility 2024-2025 Revenue Requirement and Rates*, BCUC Project No. 1213, <https://www.bcuc.com/OurWork/ViewProceeding?applicationid=1213>

¹⁶ *UBC Neighbourhood District Energy System 2025 to 2027 Revenue Requirement and Rates*, BCUC Project # 1316, <https://www.bcuc.com/OurWork/ViewProceeding?applicationid=1316>

Q. HOW DO CUSTOMER BUILD OUT DELAYS IMPACT THE RDDA?

Delayed customer connections are major component of RDDA growth. Because the Capacity Charge is a fixed rate bill on a per-kilowatt basis of connected building design capacity, the utility's billed revenue is directly limited by the timing of new customer connections. New customer connections expand the billable customer base, which translates into additional revenues. Because new revenues are dependent on customer connections, delays in the customer build-out schedule directly result in additional revenue deferrals placed into the RDDA.

DPU Chart 1 presents the hypothetical impact of all customer connections being delayed by one, three, and six months. Note that the analysis maintains the proposed annual 2% Capacity Charge escalation and does not assume the implementation of additional mitigation measures or any other adjustments to the Company's application.

DPU Chart 1¹⁷

Impact of ALL customers connection being delayed	Scenario	Scenario	Scenario	Scenario
Months of delay	0	1	3	6
First year RDDA balance is above 20%	2028	2028	2028	2028
RDDA max. Balance	34,093,158	37,829,097	45,684,085	56,466,257
RDDA max. Balance year	2034	2035	2035	2038
RDDA recovery year	2041	2042	2044	2046
Incremental carrying charge incurred	0	2,322,978	7,103,408	15,692,825

¹⁷ Corix Response to DPU Data Request 4.2 (Included as DPU Exhibit 3.4).

Q. HOW MIGHT THE RDDA CALCULATION METHODOLOGY IMPACT RDDA GROWTH?

A. The RDDA captures the difference between actual delivery revenues and the total allowed delivery cost of service. The actual delivery cost of service is the sum of actual non-controllable delivery costs and forecast approved controllable delivery costs.¹⁸ As confirmed by Corix in response to DPU Data Request 3.4, the approved delivery revenue requirement will likely differ from the approved forecast. Corix cites the primary reason for the differences as the uncertain timing of customer connections.¹⁹

Under Corix's proposed calculation (matching actual revenues against total allowed delivery costs), the Company is unaffected by any build-out delays. If actual revenues fall short due to inefficient operations or delayed customer connections, 100% of the revenue shortfall is deferred to the RDDA for a future guaranteed recovery. Corix faces no financial impact because revenue shortfalls are fully capitalized into the RDDA at a high return.

The Division disagrees with Corix that the Company's shareholders should not be responsible for forecasting timing differences. Customer connection timing and real estate development schedules are standard business risks.²⁰ A traditional utility cannot retroactively bill future customers for the uncollected revenue shortfalls caused by the construction delays of future customers. The RDDA should not insulate the Company from build-out delays through a 100% actual-cost deferral mechanism that shifts the Company's forecasting risks entirely onto ratepayers. The Division believes that the RDDA should serve as a rate-levelization mechanism that balances risk between ratepayers and the utility, rather than serve as vehicle to guarantee a full return on investment despite how the risks materialize. Thus, the Division proposes that the Commission authorize a change in the calculation from

¹⁸ Corix Ex. 1.0, Section E – Calculation of the RDDA.

¹⁹ Corix Response to DPU Data Request 3.4 (Included as DPU Exhibit 3.3).

²⁰ Note that the Division's proposed return on equity includes a premium for greenfield risks.

the proposed methodology to instead record the difference in Commission-approved forecasted revenues minus forecasted costs. Restructuring the RDDA calculation to forecast revenues minus forecast costs requires the Company to assume forecasting risk and incentivizes it to manage operations efficiently. Changing the calculation to only allow forecast revenues minus forecast costs shifts operational connection delays onto Corix instead of ratepayers. If customer connections lag, matching forecasted revenues against forecast costs ensures that the deferral mechanism only captures expected, planned revenue shortfalls instead of actual build out delays. This reinforces the levelized rate design mechanism by keeping the levelization model predictable and stable, preventing delayed customer connections from ballooning the deferred account balance out of proportion and shifting the risk onto future ratepayers.

This recommendation aligns with recent regulatory precedent established by the British Columbia Utilities Commission (“BCUC”) involving the same previously mentioned Corix thermal utilities: the Burnaby Mountain District Energy Utility²¹ and the UBC Neighborhood District Energy System.²² In both cases, the BCUC ordered Corix to amend the RDDA calculation to record the differences between the BCUC-approved forecast revenues and forecast cost of service.²³ The BCUC reasoned that amending the calculation would force the utility to bear forecasting risk and incentivize efficient operations.²⁴ The Commission should adopt the same safeguard to balance the risk of build-out delays equally, as opposed to forcing ratepayers to absorb 100% of the financial burden of lagging customer connections.

CARRYING CHARGE

Q. WHAT IS THE PROPOSED CARRYING CHARGE AND HOW DOES IT IMPACT THE ECRA?

²¹ DPU Ex. 3.1.

²² DPU Ex. 3.2.

²³ DPU Ex. 3.1, 3.2.

²⁴ Id.

287 A. Corix proposes an initial carrying charge equal to the daily average interest rate of
288 the proceeding 12-month period published by the Federal Reserve of St. Louis for
289 the Ice BofA BBB US Corporate Index Effective Yield. On or before November 1st of
290 each year, the Company will file with the Commission a recalculation of this carrying
291 charge based on the index's trailing 12-month average, which will go into effect on
292 January 1st of the following year. This charge is applied to the outstanding balance in
293 the ECRA. When Corix experiences an interim over-collection or under-collection of
294 variable energy expenses, interest accumulates on the monthly net balance in the
295 ECRA until the annual true-up rate adjustment resets the account to zero. The
296 carrying charge also applies to customer deposits, billing variances, and deferred
297 customer payment plans.

298 **Q. DID THE DIVISION IDENTIFY ANY ISSUE WITH THE PROPOSED CARRYING**
299 **CHARGE?**

300 A. The Division identified an error in the calculation of the initial proposed carrying
301 charge, which it pointed out to Corix in the Division's third set of data requests, 3.1.²⁵
302 Corix confirmed the miscalculation and agreed to file a correctly calculated carrying
303 charge in its rebuttal testimony.

304 **Q. DOES THE DIVISION APPROVE OF THE PROPOSED CARRYING CHARGE?**

305 A. Yes. The Division supports the proposed carrying charge, as it accurately reflects
306 the specific risk profile of a greenfield thermal utility like Corix. This rate appropriately
307 captures the short-term debt costs the Company would incur to cover operational
308 cash-flow timing differences for which the carrying charge is intended. Additionally,
309 the Division finds the methodology practical, as basing the rate on a publicly
310 available corporate yield index makes the calculation easily verifiable.

311 CONCLUSION

312 **Q. CAN YOU SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS?**

²⁵ Corix's response to DPU Data Request 3.1 (Included as DPU Exhibit 3.3).

313 A. The Division supports Corix's proposed two-part rate design and the creation of both
314 the RDDA and the ECRA to enable long-term rate levelization. The Commission
315 should order Corix to establish technical performance benchmarks tied to an 80/20
316 cost-sharing mechanism to protect ratepayers from system inefficiencies and
317 approve the updated carrying charge rate following Corix's correction of its initial
318 calculation error. The DPU recommends removing the RDDA from the rate base,
319 denying it a full WACC return and instead applying the same debt-index carrying
320 charge used for the ECRA. The DPU also recommends modifying the RDDA
321 calculation to measure approved forecasted revenues against forecasted costs
322 rather than actuals.

323 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

324 A. Yes.