REQUESTOR NAME:	Water Utility Regulation Section, Water Management Branch Ministry of Forests
INFORMATION REQUEST NO:	1
TO:	Corix Multi-Utility Services Inc. (CMUS), Panorama Water
DATE:	February 21, 2023
REFERENCE NO:	7915
APPLICATION NAME:	2023-2026 Revenue Requirements & Rate Application

1.0 Reference: Application, pg. 1 & 35, Four year Test Period

Explanation: CMUS states: "In this Application Corix proposes a four-year test period from 2022 to 2026 with continuation of the Revenue Deficiency Deferral Account (RDDA) to smooth rates for customers."

And "The forecast income tax for the Utility is presented in Table 21 below. Corix forecasts that the accumulated tax loss carry forward will be used up in 2025. Therefore, the Utility will be a taxable basis for income tax in 2025. Schedule 9 in the Financial Schedules provides the figures from 2020 to 2026."

Request:

1.1 It has been more customary for the Comptroller to consider a revenue test period up to 3 years. What are the advantages and disadvantages of a 4 year test period that led CMUS to choose this longer test period?

1.2 What safeguards are there to ensure customers are not disadvantaged by the 4 year period?

1.3 If the tax loss carry forward is forecast to be used up in 2025, would it be better to have a 3 year test period?

2.0 Reference: Application, pg. 4, Merger with CII and Southwest

Explanation: Corix states that "The transaction is expected to close by the end of 2023, subject to the satisfaction of all required regulatory approvals and customary closing conditions. This includes a regulatory application to the Comptroller seeking the relevant approvals associated with the merger, which was submitted to the Comptroller on November 16, 2022."

Request:

2.1 To what extent will this merger lead to reduced intercorporate charges to Panorama in 2024 and beyond?

3.0 Reference: Application, pgs. 5-6 and 36, RDDA

Explanation: The Utility is seeking approval to:

a. "proposes "to continue the Revenue Deficiency Deferral Account ("**RDDA**") to smooth rates and for the recovery of the RDDA;
b. that the RDDA be trued-up to actual for the four test years (2023 to 2026) for certain non- controllable items that include deemed interest expense, revenue variances arising from customer consumption differences, and taxes;
c. that the RDDA be trued-up during the test years (2023 to 2026) for potential changes to how the BCUC sets the cost of capital for thermal energy systems, regarding the flow through of potential return on equity and capital structure differences from approved test years, commencing on January 1, 2023 for the entire test year period; and
d. to file the RDDA compliance filing for actual year end results."

And "Corix proposes in this Application that the RDDA be trued-up to actual for the four test years (2023 to 2026) for certain non-controllable items that include deemed interest expense, revenue variances arising from customer consumption differences, and taxes. Revenue variances occur because of differences in forecast consumption due to customer count and customer use. Corix proposes that the RDDA true-up be for the four test years 2023 to 2026.

In this Application, Corix is not proposing to true-up for any differences from approved for O&M expense and plant balances including plant additions and consequential depreciation expense as these expenses are considered to be controllable.

Please refer to Section 5.1.4 that includes a proposal regarding the use of the RDDA for potential ROE and capital structure differences from approved test years (2023 to 2026) arising from how the BCUC sets the cost of capital for thermal energy systems."

Request:

3.1 The RDDA removes many risks. What RRA cost elements remain at risk outside of the true ups of the RDDA?

3.2 By what date each year will CMUS file its RDDA compliance filing?

4.0 Reference: Application, pgs. 8 and 22, GSDP and Hard Water

Explanation: "The Comptroller determined the Groundwater Source Development Program ("**GSDP**") Project to be in the public interest and approved the GSDP project and the use of rate base/rate of return regulation for the Utility through Order No. 2498, dated October 5, 2017."

And "Panorama Water is supplying hard water, which is water that has a high concentration of dissolved minerals such as calcium and magnesium. Continued use of hard water leads to issues such as incrustation and scaling within hot water pipes and industrial, commercial and domestic appliances that heat water or use hot water. Some customers requested that Corix provide a solution to this issue, stating that they are facing increased costs due to increases in maintenance and equipment replacement due to the formation of scale in heating and other infrastructure.

Hard water has historically been supplied to the community. Previously, water was supplied from Taynton Creek which had hard water and was subject to seasonal turbidity and boil water advisories. Presently with the new water system the water source are deep wells not subject to seasonal turbidity. However, the source water continues to be hard.

<u>Health Canada Drinking Water Guidelines</u>

Health Canada's Guidelines for the Canadian Drinking Water Quality recommend hardness levels between 80 and 100 mg/L as $CaCO_3$ to provide acceptable balance between corrosion and incrustation. Prior to the 2019 water upgrade, the total hardness from the Taynton Creek source was 205 mg/L. The current well is 274 mg/L. Based on Health Canada Guidelines water over 180 mg/L is classified as "Very Hard".

While the hardness levels result in what can be considered poor water quality, the Guidelines for Canadian Drinking Water Quality document indicates that it is of no direct public health concern to utility customers. Furthermore, there is no direction from Interior Health Authority to reduce water hardness.

<u>Water Softening Project Assessment</u>

Given the uncertainty Corix has decided not to request approval for the capital project in this rate application. The high cost of the water softening project, the accumulated RDDA balance, and the proposed rate increases would increase customer bills to higher levels that would unfavourably impact residential customers. Given all this, Corix concludes that customers seeking a water softening solution should consider a point of use solution that would provide a better balance of costs and desired water softness level."

Request:

4.1 During 2022 were there any boil water advisories and were the wells adequate to provide sufficient supply to meet customer demands during the prolonged drought conditions? Please discuss.

4.2 Will CMUS be considering a system wide water softening solution in its next RRA? What are the costs vs benefits of a system wide water softening solution compared to each customer considering their own water softener? Please discuss.

5.0 Reference: Application, pgs. 25 - 26, Deemed Interest Rate

Explanation: "The deemed interest rate on debt financing was determined using the credit spread that reflects BBB or BBB (low) rated debt relative to the 10-year Government of Canada ("**GOC**") bond yield, consistent with the approach outlined for calculating a default debt component for small Thermal Energy System ("**TES**") utilities from the BCUC's GCOC Stage 2 proceeding decision."

Request:

5.1 Please identify the sources used to calculate Table 15.

5.2 Please confirm that the same sources and methodology will be used for the true up in each of the test years.

6.0 Reference: Application, pgs. 27 & 28, ROE

Explanation: "Corix proposes in this Application a return on equity ("**ROE**") of 9.5% which is unchanged from the last rate application approved by Orders No. 2578 and No. 2584. The Comptroller in the last rate application approved the 9.5% ROE based on the approved ROE for the benchmark low-risk utility as determined by the BCUC from time to time, currently set at 8.75%, plus a minimum default equity risk premium above the benchmark utility's return. Corix incorporates a minimum default equity risk premium of 75 basis points, equal to the equity risk premium approved by the BCUC for small TES utilities."

And "Given the potential timing for the changes to how the BCUC sets the cost of capital for thermal energy systems, Corix proposes in this Application for the flow through of potential return on equity and capital structure differences from approved test years, commencing on January 1, 2023 for the entire test period into the RDDA. If the BCUC approves a different ROE and/or capital structure for thermal energy systems, Corix will calculate the differences from the Panorama Water approved test years for the same parameters and flow through those changes in the actual RDDA true-up. For example, if the Comptroller approves a 9.5% ROE, 57.5% debt / 42.5% equity capital structure and the BCUC subsequently approves a different ROE percentage and a different capital structure for small utilities, Corix will settle the re-calculated shortfall or surplus into the RDDA true-up for each year of the test period for which it is applicable."

Request:

6.1 What are the advantages of carrying the ROE and capital structure changes in the RDDA as opposed to flowing the changes through to rates in each of the test years?

7.0 Reference: Application, pg. 33, GDSP final costs

Explanation: "Corix estimates the total variance from the October 2020 cost estimate to be $125,134. This increase is due to inflation pressures, PST on SCADA software, and additional costs for the well consultant for the testing and commissioning of the well."

Request:

7.1 Please expand on reasons for these final cost overruns.

8.0 Reference: Application, pg. 38, Commercial Customers

Explanation: "As shown in Schedule 1, for commercial customers the number of bed units has decreased from 2,429 in 2020 to 2,383 in 2021, due to a commercial customer changing its meter from 2" to 1", which resulted in a bed unit reduction of 55. The current commercial 2,383 bed units are expected to remain constant in the near term as Corix forecasts no changes to commercial customer count or the number of bed units during the forecast period."

Request:

8.1 What is the best estimate of the actual bed units for the commercial customer changing its meter and why is it different from the average forecast?

8.2 Does this call into question the methodology for forecasting commercial bed units? Why?

9.0 Reference: Application, pg. 38, Sales forecast

Explanation: In this Application, the Utility has based the 2023 average customer bed unit consumption on the 2022 results.

Request:

9.1 Is 2022 a representative year, given the Covid pandemic, snow conditions and variations as a result of being a resort community? Why?

9.2 What would the sales forecast be if the Utility used a 3 year average of 2020, 2021, and 2022 actuals?

10.0 Reference: Application, pg. 38, Conservation impact

Explanation: "However, the Utility recognizes that the proposed rate increases could lead to a change in consumption patterns due to conservation. Therefore, the Utility applied a reduction factor to the forecast consumption per bed unit, for both residential and commercial customers, of 1% per year from 2023 to 2026."

Request:

10.1 What is the basis or derivation of the 1% reduction factor?

10.2 If there are no longer summer boil water advisories, wouldn't one expect consumption to rise?

11.0 Reference: Application, pgs. 40 & 41, Customer Rates

Explanation: "The proposed rates shown in the above table reflect the following rate changes: 58% in 2023, 6% in 2024, 5% in 2025, and 2% in 2026. After the discontinuance of the CDA Rate rider at the end of 2022, the rate changes result in residential bill changes of 43% in 2023, 6% in 2024, 5% in 2025, and 2% in 2026 which is further discussed in Section 12."

And "In order to smooth, or phase-in, rate increases, the Utility proposes the continued use of the Revenue Deficiency Deferral Account ("**RDDA**")."

Request:

11.1 Please discuss why the Utility did not use the RDDA to further smooth rates and mitigate the rate shock of the 2023 rate increases.

12.0 Reference: Application, pg. 48 and Appendix 1, Back Billing

Explanation: "Corix proposes to add a new section (Section 26) in the Panorama Water Tariff No. 6 tariff to include back-billing. The proposed wording will be substantially identical to the wording previously approved by the Comptroller and included in the current Water Tariff No. 2 for Corix's Cultus Lake Water Utility …"

Request:

12.1. What is the "… the applicable limitation period provided by law" identified in Tariff clause 26.3?

12.2. In Tariff clause 26.5, what is the current interest rate charged on "unpaid accounts"? How can one be sure that interest would not be charged on under-billing resulting from a previously estimated bill issued by the Utility?

12.3. In the case of over-billing by the Utility (section 26.7), shouldn't the customer expect to receive an interest rate credit equal to that charged for under-billing? Please discuss whether this low rate could become an incentive for the Utility to issue high estimated bills?

13.0 Reference: Application, Tables, Projected 2022

Explanation: At the time of filing the Application, the final 2022 costs and revenues were not known.

Request:

13.1 Please update and refile all Tables and Schedules that have "Projected 2022" costs or revenues with "Actual 2022" costs and revenues.

13.2 Are there any surprises to individual costs or revenues as a result of updating to 2022 Actuals?

14.0 Reference: Application, pg. 18, Table 6, Corporate Cost Allocations

Explanation: Table 6 provides the 2023 Corporate Cost Allocations to Panorama.

Request:

14.1 Please expand Table 6 to include the Corporate Service Costs for each year from 2020.

14.2 For any years that have increased total Corporate Costs greater than 2% from the previous year, please explain why the increase exists.

14.3 What economies of scale have been achieved as a result of acquisitions by Corix to spread Corporate costs over a larger base?

15.0 Reference: Application, pgs. 18-20 and Schedule 2, Corporate and Regional Costs

Explanation: Corporate and Regional Costs have risen dramatically since 2020.

Request:

15.1 Please provide a detailed explanation of why these costs have nearly doubled in 3 years and now make up more than 50% of Total selling, general and administration costs?

16.0 Reference: Application, pg. 10

Explanation: Consumer Price Index (CPI)

Request:

16.1 Based on recent statements of the BOC, would it not be more appropriate to reduce expected inflation in 2024 to 2.5% rather than 3%? Please explain.

17.0 Reference: Application, pgs. 30-31, Schedule 2, Wages and Salaries

Explanation: "Labour-related costs are escalated based on Corix's senior leadership's direction regarding the workforce budgets. The annual escalation is 4.3% in 2023, and 3% each year thereafter. Given the challenges that Corix and the market as a whole have experienced in attracting and retaining qualified staff, this figure was determined to be a reasonable increase to encourage staff retention and maintain a level higher than the target inflation rate, while minimizing increases to fixed costs for Corix."

Request:

17.1 Why were Wages-Operators so much lower in 2021compared to other years?

17.2 Please identify the "challenges" that Corix has faced in finding and retaining operators in the Kootenays. What staff turnover has occurred in the past 3 years?

17.3 To what extent did the acquisition of Columbia Ridge bring efficiencies in operations for the 6 full-time operators and why is that not apparent in the overall costs for Panorama?

18.0 Reference: Application, pg. 14 and Schedule 2, Common Admin. Allocation

Explanation: "Historically these costs existed, and the above utilities and operations received administrative services, but the allocation was given based on different factors. Prior to 2021, an allocation of 25.7% was applied to shared costs, but the area was split into two cost centres at that time; therefore, some shared costs were omitted from the calculation. For 2021, the allocations to Panorama Water for shared costs were based on the expected time the shared resources would be working on Panorama Water activities relative to the expected time that they will be working on activities for other utilities or operations. This resulted in an allocation percentage of 13.75% of a combined cost centre for the entire region. In 2022, following an organizational restructuring, and to be consistent with standard cost causation and cost recovery practices, Corix began allocating the Common Admin costs according to a consistent allocation methodology as used in all other allocations across the business. This individual line item in operating expenses will receive one allocation encompassing all shared administrative costs for the Kootenay business unit. This approach reduces the administrative burden by streamlining processes within the accounting department."

Request:

18.1 Common Admin. Costs have doubled since 2021. Please further explain why the Common Admin Costs allocated to Panorama Water are so high. What shared costs were previously omitted?

18.2 Please provide a detailed explanation of the "consistent allocation methodology as used in all other allocations across the business".