PROVINCE OF BRITISH COLUMBIA

OFFICE OF THE COMPTROLLER OF WATER RIGHTS

IN THE MATTER OF

the *Water Utility Act*, R.S.B.C. 1996, Chapter 485

and

the *Utilities Commission Act*, R.S.B.C. 1996, Chapter 473

and

Corix Multi-Utility Services Inc. – Panorama Water

Application for 2019 Water Rates

Corix Multi-Utility Services Inc. – Panorama Water

FINAL SUBMISSION

Submitted 29th April 2019

Table of Contents

I. INTRODUCTION

1. This submission summarizes the position of Corix Multi-Utility Services Inc. (“CMUS”) on the Application for 2019 Rates for the Panorama Water Utility (“Application”).

2. This submission briefly reviews the main aspects of the Application and, in light of the information requests, clarifies and provides justification for the approvals sought by CMUS.

II. OVERVIEW

3. CMUS owns and operates the water utility (“the Utility”) providing service to Panorama Mountain Village (“Panorama”). In addition to the water utility, CMUS also owns and operates the propane and wastewater utilities at Panorama. CMUS is a subsidiary of Corix Utilities Inc., which is a subsidiary of a privately held Vancouver-based corporation, Corix Infrastructure Inc. (“Corix”), owned by the British Columbia Investment Management Corporation.

4. Customer rates for the Utility have not been changed since the last rate Decision and Order No. 2232 was issued by the Office of the Comptroller of Water Rights (“Comptroller”), on June 28, 2010. Decision and Order No. 2232 approved a revenue requirement and a water rate and tariff structure effective March 1, 2010. Since March 1, 2010, the Utility has operated under these approved rates and tracked operating costs, revenues and deferral account balances.

5. Based on the Application submitted November 26, 2018, the Comptroller issued Order No. 2541 on January 10, 2019, which approved interim, refundable rates effective January 1, 2019. The rates and charges remain interim and refundable with interest subject to the final decision of the Comptroller.

6. CMUS subsequently amended the Application (Amended Application) with rates based on 2018 actuals and a new 2019 Corporate Services cost, which were all unavailable when the Application was submitted in 2018. CMUS’ justification for the final approvals sought based on the Amended Application are discussed in the Justification section below.

III. APPROVALS SOUGHT

7. Based on the Amended Application, CMUS requests approval for the following pursuant to Sections 59 to 61 and Section 89 of the *Utilities Commission Act*:

   i. A Residential Consumption Charge of $1.88 per cubic meter and a Residential Fixed Charge of $3.09 per bed unit per month, effective January 1, 2019;

   ii. A Commercial Consumption Charge of $1.97 per cubic meter and a Commercial Fixed Charge of $3.43 per bed unit per month, effective January 1, 2019;

   iii. To discontinue annual contributions from customer revenue into the Replacement Reserve Trust Fund (RRTF) and to close the RRTF, effective January 1, 2019;

iv. To recover the deficit balance of $488,398 accumulated in the consumption deferral account.

v. A two year rate rider for all metered customers to recover the deficit balance in the consumption deferral account as follows:

   a. $2.43 per cubic meter effective January 1, 2019; then
   b. $2.38 per cubic meter effective January 1, 2020.

vi. To continue the use of the consumption deferral account going forward and to recover/refund any balance in this deferral account at the end of the year within the following 12 months. Only amounts added to the deferral account from January 1, 2019 onwards would be recovered on a 12 month basis.

IV. JUSTIFICATION

8. This section addresses key topics that were raised through information requests, customer questions, and customer comments.

A. <u>Operating and Maintenance expenses</u>

9. Rate increases at water utilities are necessitated by the increasing revenue requirements of that utility. Revenue requirements for the Panorama Water Utility comprise operating and maintenance (O&M) expenses, administrative and general expenses, an operating margin, contributions to reserve funds and taxes. The amount of the rate increase for each customer group is dependent on the number of customers and customer consumption forecasted for that particular group.

10. The proposed water rate increases for the Utility are due to a combination of factors that have impacted the Utility since 2010. These are:
    - inflation;
    - increasing third party costs such as electricity costs and chemical costs;
    - increasing general and administrative costs;
    - increasing operating and maintenance costs for an aging water system; and
    - unforeseen changes in the economy resulting in lower than anticipated development.

11. The Bank of Canada's target inflation rate of 2% was applied to the majority of the 2018 actual expenses in order to produce 2019 forecasts. In other cases, 2018 projected figures were adjusted or held constant based on known circumstances.[1] CMUS submits that this is a reasonable approach to developing forecast expenses for 2019.

12. Wages, Corporate Services and Regulatory costs were highlighted during the proceeding and the following points address each expense.

[1] CMUS Panorama 2019 Water Rates Application, pp. 4-8.

Wages

13. The primary increase in 2019 forecast expenses, over those incurred in 2010, was the increase in wages for operators. While there was a similar increase in wages related to the administrative roles, a portion of the 2019 forecast for Wages – Administration ($22,500) was excluded from the 2019 revenue requirement since they will be associated with the management of the ongoing Groundwater Source Development Program (GSDP) project.[2] This $22,500 was approved through Order No. 2351, which addressed the final cost estimate for the GSDP project, and will be included in the subsequent rate application for 2020 rates.[3]

14. Operator wages expense has increased over and above inflation since 2010, primarily due to an increase in the compensation packages provided to operators at Panorama. CMUS provides compensation packages designed to attract and retain skilled operators and experienced managers. The benefits that arise from staff retention outweigh the benefits of wages lower than market that are often accompanied by high turnover. In such a remote location, compensation packages have to be competitive with local municipalities and this has resulted in an increase in operator, administration and management wages over time. In addition, as the utility infrastructure has deteriorated over time the number of operator hours needed to keep it functioning has increased over time.[4]

Corporate Services

15. This expense includes costs related to support functions that are incurred at a corporate level and allocated to each utility operation. Corporate Services costs include, among others, Wages and Benefits, Treasury, Accounting, Legal, Information Technology, Administration and Office Expenses, Consulting, Vehicle, Travel and Training expenses. In the Application, dated November 26, 2018, CMUS forecasted a 2019 Corporate Services cost by applying the 2% inflation rate to the projected 2018 Corporate Services cost. This resulted in a $195,693 Corporate Services cost forecast for 2019.[5]

16. Corix's growth over time necessitated a revision of the allocation practices for its Corporate Services costs. External consultants were hired to review the Corporate Allocation Model (CAM), consider alternatives and make recommendations regarding the most appropriate model for Corix to use going forward. The external consultant recommended the use of new CAM based on the Massachusetts Formula, which is commonly used by utilities to allocate corporate overhead.

17. Subsequent to CMUS filing this Application, Corix developed a new CAM based on the Massachusetts Formula and calculated 2019 forecast allocations for each of its utilities.[6] Corix is currently in the process of preparing regulatory applications for approval of the new Corporate Services allocation for CMUS utilities.

18. In light of the subsequent application regarding the new CAM and 2019 forecast allocations, CMUS proposes that the revenue requirements in this application be based on the 2019 forecast Corporate

[2] CMUS Panorama 2019 Water Rates Application, p. 6.
[3] Ibid.
[4] CMUS response to Comptroller IR No. 1, Question 6.2, p. 9.
[5] CMUS Panorama 2019 Water Rates Application, Table 1, p. 5; p. 7.
[6] CMUS response to Comptroller IR No. 1, Cover Letter, p. 2.

Services cost calculated by the new CAM, which is $63,993.[7] This new figures reduces the original revenue requirement in the Application, dated November 26, 2019, by $131,700 (approximately 28%).[8] This figure would serve as a placeholder figure for the determination of 2019 water rates until the final 2019 forecast Corporate Services cost figure is approved by the Comptroller.

19. CMUS notes that the final 2019 forecast Corporate Services allocation approved by the Comptroller may differ from the placeholder figure proposed in the Amended Application and proposes that any difference in revenues due to the difference in Corporate Services allocation figures be recovered from/refunded to customers in a manner to be determined at that time.

20. CMUS submits that this approach regarding the Corporate Services cost is reasonable and should be approved as requested.

<u>Regulatory Costs</u>

21. In the Application, CMUS did not propose the use of a deferral account for regulatory costs that were greater or lesser than forecast during 2019. This is because CMUS intends to file a subsequent rate application in 2019 for 2020 rates. The application for 2020 rates could involve the use of a deferral account for regulatory costs to true-up any differences between:
    - 2019 Forecasts and 2019 Actuals; and
    - 2020 Forecasts and 2020 Actuals (if any).

22. At that time, CMUS would request an amortization period for the recovery/return of the balance in the deferral account. However, CMUS is not opposed to establishing a deferral account for regulatory costs at the end of this proceeding as the actual regulatory costs may be higher than projected.[9]

B. <u>Operating Margin Proposal</u>

23. The Operating Margin is determined by the Comptroller based on the return on equity (ROE) of a designated benchmark low risk utility and a specified equity risk premium. In the prior rate application, the Operating Margin was calculated using the ROE allowed by the British Columbia Utilities Commission (BCUC) on the benchmark low risk utility (FortisBC Energy Inc.), plus two-times the risk premium awarded by the BCUC to Pacific Northern Gas (PNG).

24. In Order No. 2232 the Comptroller limited the calculated Operating Margin to 9.5%, noting that the calculated Operating Margin of 10.8% exceeded the maximum allowable under the CPCN Financial Guidelines (10%) and that no risk premium should be allowed if a deferral account is set up for consumption estimates.[10]

[7] CMUS response to Comptroller IR No. 1, Cover Letter, p. 2.; Question 5.1, pp. 6-7.
[8] CMUS response to Comptroller IR No. 1, Cover Letter, p. 2.
[9] CMUS response to Comptroller IR No. 1, Question 11.2, p. 14.
[10] Order No. 2232 with attached Decision with Reasons, dated June 28, 2010, p. 6.

25. CMUS proposes one modification to the original formula for determining Operating Margin. Instead of tying the risk premium to PNG, CMUS proposes that the risk premium should instead be equal to the minimum default equity risk premium for small thermal energy system (TES) utilities as determined by the BCUC in Order G-47-14.[11] The proposed modification would result in an Operating Margin of 9.5% for the Utility, calculated using the ROE allowed by the BCUC on the benchmark low risk utility plus the risk premium allowed for small TES utilities.

26. CMUS is comprised of TES utilities regulated by the BCUC and water utilities regulated by the Comptroller. CMUS is proposing an efficient approach to determining the Operating Margin that ties the Operating Margin directly to CMUS utilities, as opposed to PNG. PNG is a natural gas distribution utility that is owned by AltaGas Ltd. with service areas in northern BC. Due to the above, it is more appropriate to have an Operating Margin based on utilities directly related to CMUS Panorama Water.

27. Furthermore, the proposed formula has been approved by the Comptroller through Decision and Order No. 2512 regarding CMUS's Cultus Lake Water utility. Approval of this proposal would result in consistency across CMUS's two water utilities (serving Panorama and Cultus Lake) and the following CMUS small TES utilities:

   - UniverCity District Energy System at Burnaby Mountain
   - University of British Columbia (UBC) Neighbourhood District Energy System (NDES)

28. CMUS submits that the Operating Margin proposal is reasonable and notes that it stays below the maximum limit of 10% as defined in the Comptroller's CPCN Financial Guidelines.

C. Replacement Reserve Trust Fund proposals

29. CMUS requests approval to discontinue annual contributions from customer revenue into the Replacement Reserve Trust Fund (RRTF) and to close the RRTF effective January 1, 2019.[12] This proposal resulted in questions and comments during the review process. CMUS submits that its RRTF proposal is reasonable due to the following:

   i. The RRTF provides funds collected from customers to pay for future repair and replacement of the water system infrastructure. CMUS anticipates that significant future capital expenditure will be limited in the near to medium term after the completion of the GSDP project.

   ii. Future capital project requirements will be financed using the rate base approach. Under the rate base approach, CMUS will incur the costs for capital projects and then recover those costs from customers only after the infrastructure/facility goes into service. The value

[11] CMUS Panorama 2019 Water Rates Application, p. 15.
[12] CMUS Panorama 2019 Water Rates Application, pp. 11-12.

of the assets will be recovered from customers over time through depreciation based on the approved useful life of the asset.

iii. Upon completion of the GSDP project, rate base will be established and customers will begin to pay the cost of capital for the GSDP project. If the RRTF contributions continue after rate base is established, customers will be paying:
   a. to cover operating costs;
   b. the capital costs for the GSDP project; and
   c. contributing to the reserve fund for future capital projects.

CMUS submits that the sum of this will have a considerable impact on customer rates and it is unnecessary to be contributing to the reserve fund for future capital projects after rate base has been established.

30. If the Comptroller determines that RRTF contributions should continue, this would result in a material increase of $100,000 (approximately 26%) to the forecast 2019 revenue requirements, resulting in significant rate impacts for customers. The impact of maintaining RRTF contributions to potential 2019 customer rates and bills was presented in Schedules 5, 8 and 9 of Appendix C in the CMUS Response to Comptroller IR No. 1. Table 1 below compares a summary of the RRTF options.

Table 1: Comparison of proposed rates (No RRTF) and potential rates with the RRTF

Annual Rate Increase (relative to existing rates)	**WITH RRTF**		**NO RRTF *(Proposed)***	
	2019 Rate	**% Increase**	**2019 Rate**	**% Increase**
Residential Basic Charge *(per bed unit per month)*	$ 3.95	38%	$ 3.09	8%
Residential Consumption Charge *(per cu. meter)*	$ 2.42	37%	$ 1.88	6%
Commercial Basic Charge *(per bed unit per month)*	$ 4.33	52%	$ 3.43	20%
Commercial Consumption Charge *(per cu. meter)*	$ 2.49	41%	$ 1.97	12%

31. CMUS submits that the request regarding the RRTF is reasonable and should be approved for the points made above.

D. Proposed Rates

Rate increases of Residential versus Commercial

32. The topic of rate design was raised during the proceeding.[13] CMUS submits that the approach to determining the rate increases for each customer group is just and reasonable.

33. Based on the 2019 forecast number of bed units and consumption for both residential and commercial customers, Corix set the 2019 proposed rates so that residential customers would pay the same percentage of the revenue they did in 2017. Commercial customers would also pay the same percentage of the revenue they did in 2017.[14]

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[13] CMUS response to Comptroller IR No. 1, Question 18.1, pp. 27-28.
[14] CMUS response to Comptroller IR No. 1, Question 13.1, pp. 16-17.

34. The table below compares the percentage of revenue received through each of the charges for residential and commercial customers for 2017, 2018 and the forecast for 2019. [15,16] The data shows that the proposed 2019 rates will result in a percentage of revenue from each charge consistent with previous years.

Table 2: Percentage of Revenue

Type of Revenue	Percentage of Revenue		
	Actual 2017	**Actual 2018**	**Forecast 2019**
Residential			
• Fixed Charges	20%	20%	20%
• Variable Charges	12%	13%	13%
• Standby Charges	2%	2%	2%
Commercial			
• Fixed	26%	24%	26%
• Variable	39%	40%	39%
Total ***(with rounding)***	100%	100%	100%

35. An alternative approach, used occasionally by large utilities, could involve a thorough rate design exercise with a Cost of Service Allocation Study[17]. However, this is a costly and resource intensive exercise that is difficult for a small utility to absorb. CMUS submits that in lieu of a Cost of Service Allocation Study and a Rate Design exercise, the approach to increasing the rates is reasonable.

E. Consumption Deferral Account

Recovery of Consumption Deferral Account Balance

36. CMUS proposes to recover the deficit balance of $488,398 accumulated in the consumption deferral account (CDA), which includes 2018 actual figures.[18]

37. As part of the 2010 Decision on the Utility's previous water rate application, the Comptroller directed the Utility to:

> "… set up a Deferral Account to record the difference between actual and forecast consumption and any resulting revenue excess or deficit to be brought forward with the next Revenue requirements Application as either credits or rate riders on customers' accounts."[19]

[15] CMUS response to Comptroller IR No. 1, Question 13.1, pp. 16-17.
[16] CMUS response to Comptroller IR No. 1, Appendix C, Schedule 5.
[17] Sometimes referred to as a Fully Allocated Cost Study or Fully Allocated Cost of Service.
[18] CMUS response to Comptroller IR No. 1, Appendix C, Schedule 6.
[19] Order No. 2232 with attached Decision with Reasons, dated June 28, 2010, p. 6.

38. CMUS has complied with this directive and since there is a deficit in the account, this deficit should be recovered through rate riders as stated in Order No. 2232. The treatment of the balance in the CDA should be consistent regardless of whether it is a deficit balance or surplus balance.

Penalty fee on the CDA balance

39. During the proceeding, one intervener raised the topic of partial recovery of the CDA and a punitive element being applied to the CDA. CMUS submits that this is unnecessary and unreasonable for the following reasons:

    a. Order No. 2232 did not established a date or time limit on when the next revenue requirement was to occur. To penalize the utility by retroactively imposing a time limit or establishing a punitive element for the recovery of the CDA balance after the balance has been established would be unfair and punitive in nature.

    b. Comparisons between the water utility industry and the oil and gas industry are inappropriate and unreasonable. The water utility industry and the oil and gas industry are separate industries with different rules, regulations, business practices and customer bases. Since the similarities and differences between the water utility and the oil and gas industries were not explored, CMUS considers this comparison inappropriate.

    c. CMUS has already been negatively impacted by rates that have not adequately recovered revenue requirements. Even with the recovery of the Consumption Deferral Account balance for each year since 2010, CMUS would not have enough annual revenue to recover all of its revenue requirements for each year. This was illustrated in Table 1 in response to the 2019 Panorama Subdivision Owners Association (PSOA) IR No. 1.[20] The addition of a punitive element would further exacerbate CMUS's annual losses.

Continued use of the CDA

40. CMUS proposes to continue using the CDA going forward and to recover/refund any balance in this deferral account at the end of the year within the following 12 months. Only amounts added to the deferral account from January 1, 2019 onwards would be recovered on a 12 month basis.

41. Panorama is largely a resort town. As such, the Utility remains susceptible to consumption risk relating to unfavourable weather conditions during the peak seasons (warmer than usual winters, summers with many forest fires in the region), as well as the economy of nearby regions. One of the ways for the Utility to reduce this consumption risk is through the use of a deferral account which is trued up periodically.

42. While approximately 90% of costs are fixed, only 48% of the revenue requirement will be collected through fixed charges (including the Standby Charge).[21] Since a portion of the fixed costs will be recovered by variable charges this increases the risk of achieving full cost recovery. One solution to reduce this risk would be to set rates so that the fixed charge recovers all the fixed costs. However,

[20] CMUS response to PSOA IR No. 1, Question 1, pp. 2-3.
[21] CMUS Panorama 2019 Water Rates Application, p. 17.

this approach may have unwanted implications and should not be carried out unless the impacts are thoroughly considered. For example, a relatively high fixed charge may discourage conservation, which could then result in the utility having to invest more capital to increase system capacity. This in turn increases customer rates.[22]

43. CMUS submits that the consumption risk remains present and this warrants the continued use of the CDA as proposed.

F. Recovery period for the existing CDA balance

44. The Utility proposes that the deficit of $488,398 in the CDA be recovered over two years with a rate rider of $2.43 per cubic meter effective January 1, 2019 which is then reduced to $2.38 per cubic meter effective January 1, 2020 based on the current forecast consumption for 2020.

45. Information requests on this proposal questioned the use and impact of a recovery period of three or four years, instead of the proposed two years.[23]

46. A two year recovery period should be approved, instead of three or four year periods, for the two reasons (A and B) discussed below.

(A) Combined bill impact - Rate rider and Groundwater Source Development Program (GSDP) costs

47. The GSDP project costs are anticipated to have a sizeable impact to customer rates beginning in 2020.[24] A preliminary rate analysis of customer rates with GSDP project costs included for 2020 showed that the two year recovery period minimized rate shock for customers when both 2019 and 2020 were considered.[25] A three or four year recovery period would reduce the rate shock for 2019 rates but increase the rate shock for 2020 (relative to a two year recovery period).

48. The two year recovery period serves to balance, or smooth, the rate increases for both 2019 and 2020 by increasing the size of the rate increase in 2019 and reducing the size of the rate increase in 2020. Relative to the three and four year options this improves rate stability for the customer.

(B) Difference in average bill based on each recovery scenario

49. CMUS calculated the 2019 total bill impact to the average residential and average commercial customer for scenarios involving two, three and four year recovery of the CDA balance. The results are reflected in the points below.[26]

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[22] CMUS response to Comptroller IR No. 1, Question 18.1, p. 28.
[23] CMUS response to Comptroller IR No. 1, Questions 15.1 – 15.3, pp. 18-23.
[24] CMUS response to Comptroller IR No. 1, Question 15.3, pp. 21-23.
[25] Ibid.
[26] CMUS response to Comptroller IR No. 1, Question 15.2, pp. 19-21.

50. Based on 2017 bed units and consumption for an average customer, the difference in total 2019 bill between a three year CDA rate rider and the proposed two year CDA rate rider is a reduction of[27]:

    a. $67.76 annually ($5.65 per month) for a residential customer; and
    b. $1,711 annually ($142.60 per month) for a commercial customer.

51. Based on 2017 bed units and consumption for an average customer, the difference in total 2019 bill between a four year CDA rate rider and the proposed two year CDA rate rider is a reduction of[28]:

    a. $101.64 annually ($8.47 per month) for a residential customer; and
    b. $2,566.51 annually ($213.88 per month) for a commercial customer.

52. CMUS considers that the figures shown above do not represent a material difference that necessitates the further delay of the recovery of historical costs.

53. Considering the above two reasons (A and B) and the number of years of under-recovery of operating costs, CMUS considers it reasonable to have a two year rate rider for the CDA balance. The data presented does not provide a compelling reason to further delay the recovery of the CDA balance from two years to three or four years.

V. CONCLUSION

54. The rate increase requests in the Amended Application are necessary in order to recover revenue requirements that have reasonably increased since customer rates were last changed in 2010.

55. The CDA and rate rider requests in the Amended Application are consistent with Order No. 2232 and a two year recovery period was proposed based on proposed 2019 rates and potential 2020 rates.

56. Throughout the proceeding, CMUS adequately clarified and justified each request in the Amended Application.

57. Section 59(1) of the *Utilities Commission Act* (UCA) states that:

    "A public utility must not make, demand or receive
    (a) an unjust, unreasonable, unduly discriminatory or unduly preferential rate for a service provided by it in British Columbia, or
    (b) a rate that otherwise contravenes this Act, the regulations, orders of the commission or any other law."

[27] CMUS response to Comptroller IR No. 1, Question 15.2, pp. 19-21.
[28] Ibid.

The requests in the Amended Application results in rates that are just and reasonable and are not discriminatory or unduly preferential or that contravenes the UCA, regulations, orders of the commission or any other law.

Langley, BC

April 29, 2019

ALL OF WHICH IS RESPECTFULLY SUBMITTED

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