Order No. 2548

PROVINCE OF BRITISH COLUMBIA

OFFICE OF THE COMPTROLLER OF WATER RIGHTS

IN THE MATTER OF

the *Water Utility Act* and the *Utilities Commission Act*

and

Corix Multi-Utility Services Inc.
Panorama Water Utility

For Approval of
2019 Revenue Requirements and
Amended Water Rates

BEFORE:

Ted White, Comptroller of Water Rights
PO Box 9340 STN PROV GOVT
Victoria BC V8W 9M1

DECISION AND ORDER NO 2548

Dated this 2nd day of July 2019

File: 0321243

Whereas:

1. On November 26, 2018, Corix Multi-Utility Services Inc. ("CMUS", "the Utility" or "Corix") filed its 2019 Water Rate Application ("the Application") for service to Panorama Mountain Village (Panorama) effective January 1, 2019. In the Application, the Utility requested that the proposed rates be approved on an interim, refundable basis pursuant to Section 89 of the *Utilities Commission Act*.

2. The Comptroller approved the Utility's request for an interim, refundable rate increase effective January 1, 2019. The rates and charges will remain interim and refundable with interest subject to the final decision of the Comptroller.

3. On January 14, 2019 the Utility advertised its Application by mailing Notices to all its customers. Customers were given until February 19, 2019 to register as interveners and/or submit comments. Two parties representing the Panorama Mountain Resort and Panorama Owners Association registered as interveners. In addition, ten customers submitted questions/comments on the Application which the Utility provided responses.

4. On March 12, 2019 by Order No. 2544, Appendix A, the Comptroller established a regulatory timetable for the written hearing process. Order No. 2545 issued on April 4, 2019 approved the Utility's request to revise the regulatory timetable by two weeks. The delay was granted to allow the Utility to provide more complete responses to the questions received in Information Request No 1 and from the Interveners in one complete package.

5. The relevant evidence submitted by the Utility, the interveners and other customers in the written public hearing process has been reviewed and considered.

NOW THEREFORE, the Comptroller orders that:

1. **CMUS is to refile an amended version of the Application that complies with all determinations and directives in the attached Reasons for Decision and Order.**

2. **The refiled Application is expected to be approved provided that it is complete and complies with those determinations and directives.**

3. **The Application is to be refiled within three weeks from today.**

Dated at the City of Victoria, in the Province of British Columbia, this 2nd day of July 2019.

Ted White
Comptroller of Water Rights

Attachment: Appendix A

Appendix A
to Order 2548

IN THE MATTER OF

An Application by

Corix Multi-Utility Services Inc.

For Approval of
2019 Revenue Requirements and
Amended Water Rates

BEFORE:

Ted White, Comptroller of Water Rights
PO Box 9340 STN PROV GOVT
Victoria, BC V8W 9M1

REASONS FOR DECISION AND ORDER

July 2, 2019

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1.0 Background and Introduction

On November 26, 2018 Corix Multi-Utility Services Inc. ("CMUS", "the Utility", or "Corix") filed its 2019 Water Rate Application with the Comptroller of Water Rights for 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 a privately held corporation, Corix Infrastructure Inc., owned by the British Columbia Investment Management Corporation. Corix, headquartered in Vancouver, BC, implements, owns and operates sustainable water, wastewater, and energy utility infrastructure solutions for small to medium-sized communities across North America. Corix's operations span three Canadian provinces and twenty US states.

CMUS is regulated under the *Water Utility Act*, the *Utilities Commission Act* and the *Water Sustainability Act* by the Comptroller of Water Rights ("the Comptroller"). The Comptroller regulates all private water utilities in British Columbia to protect the public interest. The Comptroller ensures that these utilities provide safe and adequate water service at rates that are fair, reasonable and sufficient to operate their water systems sustainably.

Customer rates for the Utility have not changed since the last rate Decision and Order No. 2232 issued by the Comptroller on June 28, 2010. Decision and Order No. 2232 approved a revised revenue requirement and 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.

The Utility currently obtains its water supply through a Provincial license to divert up to a specified volume of water per year from Taynton Creek. The current water works consists of an intake along Taynton Creek feeding a booster pump station, complete with chlorine disinfection, to pump up to a reservoir before entering the distribution system. While the capacity of the raw water intake pipeline is sufficient to meet customer requirements, the water source is subject to seasonal turbidity events that result in boil water notices and advisories due to an inability to meet the Interior Health Authority's drinking water treatment objectives. The intake at Taynton Creek is at risk of damage from potential debris torrents during high mountain stream events.

To address these issues, beginning in 2014 CMUS began the process of identifying an alternative water supply and subsequently applied to the Comptroller for approval of a Groundwater Source Development Program (GSDP) project. The Utility focused on addressing these issues for two years from initial water source assessments to the submission of the final GSDP project application to the Comptroller's office in November 2016. The Comptroller determined the GSDP Project to be in the public interest and approved the GSDP project through Order No. 2498, dated October 5, 2017.

On July 10, 2018, the Utility submitted the final cost estimates and physical design to the Comptroller and requested approval to proceed with construction of the project with an estimated completion date of July 2019. Through Order No. 2531, dated July 30, 2018, the Comptroller ordered that the final cost estimate and the physical design for the GSDP Project were accepted and approval to proceed with the construction of the project was granted.

At this time, the Utility is recommending that the overall rate design, which determines the relative percentage of revenue that is collected through the fixed charges and through the variable charges, remain unchanged.

2.0 Regulatory Orders and Approvals Sought

By Order No. 2541 the Comptroller approved the proposed 2019 water rates on an interim and refundable basis, subject to the completion of a written hearing and issuance of these Reasons for Decision (Decision). The process included Information Requests of the Utility (IR), comments from customers, Information Request Responses by the Utility (IRRs), Final Submissions by the Utility and Interveners, and a Final Reply Submission by the Utility.

Two parties representing the Panorama Mountain Resort and Panorama Subdivision Owners Association (PSOA) registered as interveners. The PSOA actively participated in the process and the Comptroller's office received ten letters of comment from customers.

As part of its IRR to the Comptroller's staff IR, CMUS revised its Application ("Amended Application"). The effect of the revision was to substantially reduce the rate increase sought from 106% for residential customers to 60%. For commercial customers the proposed rate increase was reduced from 143% to 100%.

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.

3.0 Revenue Requirements Issues

The Comptroller considers the following issues as significant in determining the appropriate rates for the Utility in 2019.

The Utility updated its 2019 Forecast for several Operating and Maintenance Expenses in its original Application by replacing projected 2018 figures with 2018 actual figures. The forecast for Corporate Services was also substantially reduced. These changes led to an overall reduction in the Revenue Requirements (IRR pgs. 1-3) The Deputy Comptroller has considered the revisions to the Application in this Decision.

3.1 Corporate Services

"CMUS is currently in the process of preparing regulatory applications for approval of the new Corporate Services allocation for CMUS utilities later this year. The allocation will be based on the Massachusetts Model. In light of this, CMUS proposes that the 2019 forecast Corporate Services cost based on the new methodology is used as a placeholder to determine the 2019 water rates in this proceeding.

The original Application would be amended by replacing the existing 2019 forecast Corporate Services cost of $195,693 with the figure of $63,993, which was determined using the new methodology. This figure of $63,993 results in a reduction in the original forecast 2019 revenue requirement by $131,700 (approximately 28%).

CMUS notes that the final Corporate Services allocation approved by the Comptroller later this year 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." (IRR p.2)

PSOA accepts that the revised approach to Corporate Services Cost is reasonable.

Comptroller Determinations & Directive

The Comptroller accepts the proposed reduction in 2019 Corporate Services cost as seeming to be a more reasonable cost estimate for a utility the size of Panorama. The Massachusetts Model is used by many utilities in North America.

However, to minimize any retroactive ratemaking, the proposal that any difference in 2019 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, will only be considered if CMUS presents compelling evidence that a change is necessary and significant.

In future applications, CMUS must demonstrate that the proposed Corporate Services charges are less than what the Utility would face on a stand-alone basis.

3.2 Operating and Maintenance (O&M) Expenses

Section 4 of the Application details the O&M expenses of the Utility. As part of its response to information requests the Utility updated its 2018 Projected expenses to 2018 Actuals. CMUS then amended its Application based on the 2018 Actuals to update the 2019 forecast. IRR Table

3 updates the O&M expenses from the Application (Table 1). The updated Table 1 shows that the 2018 Actual Total O&M was $547,178 or 13% higher than the Projected 2018 figure of $484,216 included in the Application. A lower than projected Wages-Operators figure was unable to offset higher than anticipated Corporate Services costs and Regulatory Costs.

As the majority of the 2019 forecast O&M expenses were escalated up from 2018 figures, the 2019 forecast O&M was automatically updated. The updated Table 1 shows that the 2019 Forecast Total O&M was $523,836 or 12% higher than the projected 2018 figure of $466,200 included in the Application.

During the IR process, the Comptroller's staff were most interested in the significant increases to Wages-Operators and Wages-Administration. Corporate Services were also a concern and were discussed in the preceding section of this Decision.

In response to an IR regarding the escalation of Wages- Operators, CMUS responded that:

"The actual cost for Wages-Operators was $73,274 at the end of August 2018. The budgeted forecast allowed for an additional $44,472 from September 1 to December 31, 2018. This totaled the $117,746 that was presented in Table 1 of the Application. Corix notes that this was a projected figure and that the actual cost for Wages-Operators in 2018 was $101,069. The actual cost in 2018 represents an 11% increase over the actual costs for Wages-Operators incurred in 2017.

Corix resources allocated to the GSDP project are the Management costs incurred to oversee the GSDP project. These were deducted from Line 17 Wages – Administration. As indicated in note 2 of Appendix A in the Application, the 2019 forecast for Wages - Administration has been reduced by $22,500 to account for Corix Administration Costs of $2,500 per month associated with the administrative costs of managing the GSDP project. The $2,500 per month of Administration Costs were approved through Order No. 2531 which addressed the final cost estimate for the GSDP project. The Utility will request to recover these costs in the subsequent rate application to be filed in 2019.

Corix is proposing to update its Wages-Operators forecast for 2019. Instead of $119,964, Corix now forecasts $103,090. The methodology to determine the 2019 forecast remains consistent with the methodology used for the Application, however the 2018 actual figure was used as a starting point. In the Application Corix used the 2018 year end projections as the starting point. Please see Appendix C to this IR No. 1, which provides updated financial schedules based on Corix's amendments to the Application." (IRR 2.3)

With respect to Wages-Administration the Utility responded to queries regarding the increase to this cost and the rationale for the 15% allocation of the Operations Manager and the Utility Administrator as follows:

"The cost increased for the reasons provided below:

- Corix hired a new regional manager and operations supervisor in November 2015. In such a remote location, compensation packages have to be competitive with local municipalities. In order to attract the right talent the compensation was higher than that of the outgoing manager.

- In addition to the new Regional Manager and Operations Supervisor, Corix also created a new Full-Time Administrator position in 2016. The Administrator works with the operational staff to order materials, issue purchase orders for purchase or repair of equipment, schedule service inspections, meter replacements and other miscellaneous administrative tasks for the utility.

Our records indicate that the 15% allocator has been used for Panorama Water since 2011. Corix does not have records of the allocator prior to 2011 so it could have been used prior to 2011 as well. The 15% allocator is a reasonable estimate of the amount of time and effort the administrative staff, including the Operations Manager, spends tending to the Water Utility.

Since 2011 the amount of time and effort required by the manager and administrator for Panorama Water relative to the other Panorama utilities has not changed. The following utilities are managed by the Operations Manager and Utility Administrator:

- the Water Utility;
- the Sewer system and Wastewater Treatment Plant;
- the Propane Utility; and
- Ten Operations and Maintenance Service Contracts for third-party utilities in the East
- Kootenay Region." (IRR 4.0)

In its Final Submission the Utility added that these expenses increased over and above inflation since 2010, primarily due to an increase in compensation packages to attract and retain skilled operators and managers. (CMUS Final Submission pg. 3)

In its Final Submission PSOA states that: "PSOA understands and appreciates that O & M expenses have appreciated over the years since the last rate increase and has no issue with the revised cost forecasts. Therefore, the PSOA has no objection in principle to the fact that water rates need to be increased to supply our community with a safe and sustainable potable water system."

Comptroller Determinations & Directive

The revised forecasts of 2019 expenses for Wages-Operators and Wages-Administration are accepted. However, the Comptroller is concerned that these expenses seem substantial for a water utility the size of Panorama. CMUS is directed to provide comparative information in its next revenue requirements application to substantiate its forecast expenses. CMUS may wish to compare itself to other similar ski resorts like Sun Peaks Resort or to Epcor's water utility near Parksville, BC.

3.3 Sales Forecast and Consumption Deferral Account (CDA)

Section 5 of the Application deals with forecast sales and revenues. Total consumption for the Utility customers dropped from 117,767 m3 in 2010 to 102,048 m3 in 2018. An increase in the residential customer count during this time was insufficient to offset the significant drop in commercial consumption between 2010 and 2011.

CMUS generates its 2019 sales forecast by forecasting residential consumption on a monthly basis using the forecast number of bed units and a rolling average of the actual month's consumption per bed unit for the previous three years. The commercial forecast was generated in the same manner as the residential forecast.

The Utility updated its sales figures for 2018 Actuals and that created a small reduction in to the 2019 sales forecast. (IRR 9.1)

IR Table 5: Updated Table 3 showing Utility Customers and Revenues (With 2018 Actuals)

	Actual	Actual	Actual	Projected	Forecast	Actual	Updated Forecast
	2015	2016	2017	2018	2019	2018	2019
Residential							
No. of customers	274	283	287	288	288	290	291
No. of bed units (bu)	1,814	1,936	1,996	2,017	2,017	2,030	2,058
Consumption (m^3)	21,353	22,044	24,027	24,957	24,097	25,809	24,824
Revenue	$109,612	$116,670	$121,207	$121,255		$122,287	
Commercial							
No. of customers	34	34	37	37	37	37	37
No. of bed units (bu)	2,346	2,462	2,438	2,438	2,438	2,438	2,438
Consumption (m^3)	69,405	72,107	78,216	77,091	75,587	77,564	75,745
Revenue	$200,502	$208,653	$231,214	$219,831		$213,470	

Notes:
1) Number of residential customers excludes 29 Standby residential customers at the end of 2018.
2) Consumption period runs from January to December inclusive.
3) No. of bed units represents the annual average.
4) 2018 Revenues reflect actual revenues received.

"The Utility proposes 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. In the rate rider discussion below, the Utility addresses the recovery of the current projected 2018 balance in the consumption deferral account. The Utility proposes the continued use of a deferral account for consumption for the following reasons:

i. Given that Panorama is largely a resort town, the Utility remains susceptible to consumption risk as consumption can be impacted by 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.

ii. Another way in which the Utility could reduce this risk is through the use of rate design and the fixed and variable charges. While approximately 90% of costs are fixed, only 48% of the revenue requirement will be collected through fixed charges (including the Standby Charge). The Utility has designed rates to maintain the current percentages of revenue through fixed and variable charges. In the subsequent rate application to be filed in 2019 the Utility will undertake a review of its rate design to determine if and how any changes are needed. However, the Utility notes that rate design takes into account other aspects, including the encouragement of efficient use of the system and the reduction of wasteful use of water. The amount of costs recovered through fixed charges can impact how customers use water in the system. Consideration for this, and other rate design principles may impact how much of the costs can be recovered through fixed charges.

   As such, the Utility proposes the use of a deferral account to reduce the risk of consumption variance.

iii. Furthermore, should customers consume more than was forecast for the period, the deferral account would end the period with a surplus balance. This surplus would be refunded to customers throughout the following year." (Application pgs.17-18)

In their Final Submissions, the PSOA agrees with CMUS that an annual recovery/refund of the CDA is appropriate.

Comptroller Determination

The 2019 updated sales forecast is accepted along with the annual recovery of future CDA balances.

3.4 Recovery of the 2010-2018 CDA balance

"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.*"

Schedule 6 provides details of the Consumption Deferral Account. From 2010 through to 2018 the Utility has calculated the revenue variance due to consumption variance, while excluding any variance due to the number of bed units associated with the number of customers. For each of the years from 2010 to 2018, the Utility calculated the actual consumption rate. The difference between the calculated consumption rate and the approved consumption rate was then multiplied by the Metered Usage (Consumption) Rate to derive the revenue variance due to the consumption variance. At the end of 2018 the accumulated balance in the deferral account is projected to be a deficit of $490,391." (Application p. 17)

The actual balance is now established at $488,398 at the end of 2018. (IRR 15)

The Utility proposes to recover the deficit in the CDA account via a rate rider over a two year period. The size of the CDA account deficit, the 8 year period over which it accumulated and the proposed two year recovery period were issues pursued by the PSOA and Comptroller staff.

In response to IRs, CMUS provided estimates of the required rate rider if the CDA deficit were to be recovered in 3 or 4 years. Table 7, IRR 15 shows that the rate rider would drop from about $2.40 /cu.m. in the 2 year recovery to about $1.60 over 3 years and $1.20 over 4 years. In response to a request to consider rate shock implications, the Utility concluded that the 2 year recovery minimized the substantial rate shock that the rate base additions of the GSDP will cause in 2020.

IR Table 7: Consumption Deferral Rate Rider Scenario Analysis

	Forecast			
	2019	2020	2021	2022
Forecast Annual Consumption (cu. meter)				
Annual Consumption - Residential	24,824	25,323	25,477	25,227
Annual Consumption - Commercial	75,745	77,124	76,811	76,560
Total Annual Consumption	100,569	102,447	102,288	101,787
Calculation of rate rider to recover deferral account balance				
Rate Rider (1 year recovery) (per cu. meter)	$ 4.86	$ -	$ -	$ -
Rate Rider (2 year recovery) (per cu. meter)	$ 2.43	$ 2.38	$ -	$ -
Rate Rider (3 year recovery) (per cu. meter)	$ 1.62	$ 1.59	$ 1.59	$ -
Rate Rider (4 year recovery) (per cu. meter)	$ 1.21	$ 1.19	$ 1.19	$ 1.20

In its Final Submission the Utility defended itself from a proposal that a punitive element be applied to the CDA recovery since CMUS had allowed the deferral account to grow for 8 years without seeking recovery. The Utility argues that Order 2232 did not establish a date when the next RRA would occur; comparisons to the oil and gas industry are inappropriate; and CMUS has already been negatively impacted in its reduced earnings during the 8 year period.

In its Final Submission the PSOA states that: "Having delayed for over **eight years** before making this massive CDA accrual public to the **current** users of their system, a request to recover these costs in just two years is deemed by the PSOA to be unreasonable and would therefore request at a minimum a four (4) year repayment period. ***In addition, in order to incent future diligent management of the CDA by CMUS, the PSOA requests that the Comptroller consider a punitive, partial recovery of the existing CDA amount."***

Comptroller Determinations & Directive

Given the long delay in seeking recovery of the existing CDA deficit, the Comptroller directs that a 4 year rate rider be established. Recognizing his legal responsibilities to both customers and Utility shareholders as set out in the UCA, and because the Utility has faced reduced earnings during the 8 year period, the Comptroller does not approve a further punitive award against the Utility. The amendment to future CDA recovery to a rolling one year recovery will rectify the current situation in future years.

3.5 Replacement Reserve Trust Fund

The Replacement Reserve Trust Fund (RRTF) provides funds collected from customers to pay for future repair and replacement of the infrastructure that makes up the water collection and distribution system. The fund is managed by the Utility under the direction of the Comptroller. Interest earned is retained in the fund. Funds may only be released to the Utility by authority of the Comptroller.

The PSOA pursued the rationale for discontinuing the RRTF in its IRs and in its Final Submission. In Response to PSOA IR 3, the Utility responds that:

"Section 6.1 in the Application provides an overview of the Replacement Reserve Trust Fund and Section 6.3 provides reasons why Corix proposes to discontinue annual contributions from customer revenue into the RRTF and to close the RRTF effective January 1, 2019. The following summarizes reasons provided in the Application.

i. Corix anticipates that significant future capital expenditure will be limited in the near to medium term.

ii. Once rate base is established 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 to cover operating costs, the capital costs for the GSDP project and also contributing to the reserve fund for future capital projects. Corix considers that the sum of these will have a considerable impact on customer rates. The elimination of the RRTF serves to reduce this potential impact.

iii. Future capital project requirements will be financed using the rate base approach. Under the rate base approach, Corix will incur the costs for capital projects and then recover those costs from customers only after the infrastructure/facility goes into service. The value of the assets will be recovered from customers over time through depreciation based on the approved useful life (in years) of the asset. This is in contrast to customers contributing in advance for a future capital expenditure as was done through the RRTF approach.

iv. Discontinuance of the RRTF contributions would result in a material reduction of $100,000 to the forecast 2019 revenue requirements and associated bill impacts for customers."

In its Final Submission the PSOA states that:

"The PSOA is fundamentally opposed to the removal of the RRTF despite the "positive" impact it would have on the proposed water rates. The proposal under CMUS point 29 (I & ii) would have the effect of "kicking the can down the road" in terms of cost of long-term maintenance/upgrading of the new GSDP system.

CMUS proposes to "incur the costs for capital projects and then recover these costs from customers only after the infrastructure/facility goes into service". Having an RRTF is insurance against the possibility (likelihood) of a significant cost for maintenance or upgrading of the water system in the future with resultant "rate shock" for users of the system. Having an RRTF ensures that **present** users of the system contribute to the future maintenance of the system and that these costs are not born only by the then future **current** users of the system.
As opposed to CMUS point 31 in the CMUS Final Submission, the PSOA submits that the request for the removal of the RRTF is **not** reasonable and should **not** be approved.
The PSOA would instead ***propose that the RRTF be suspended until the current CDA, adjusted at the discretion of the Comptroller of Water Rights, is recovered over the term prescribed by the Comptroller (2, 3 or 4 years). The RRTF would then be reinstated in the year after such recovery.*** "

Comptroller Determinations & Directive

It is generally thought that the need for a RRTF is diminished once a utility has become sufficiently established and of sufficient size to move to rate base, rate of return regulation. Panorama is to move to that regulatory model in 2020 when the GSDP comes into rate base. The Comptroller agrees with CMUS that future additions to rate base after 2020 should be limited and should be able to be financed by the Utility and recovered in depreciation expense over the useful life of the asset.

However, the Comptroller is not opposed to allowing the PSOA to lead evidence in 2023 after the four year recovery of the existing CDA on why the RRTF should be reestablished. The RRTF is discontinued until grounds for its reestablishment are met.

3.6 Regulatory Costs

This expense covers the costs for the preparation of and regulatory review of this Application. Regulatory costs were incurred in 2018 and are forecasted for 2019. The 2019 regulatory cost forecast includes estimated costs for CMUS staff during the regulatory review of this Application plus an estimate of $8,000 of costs associated with any consultant the Comptroller's office may hire for the review of this Application. The total regulatory cost for this application is forecasted to be $18,500. The Utility proposes to recover these costs through rates effective January 1, 2019.

In response to Comptroller staff IR 11 regarding the possibility of establishing a Regulatory Deferral Account (RDA), CMUS responded that: "At this time, Corix is not opposed to establishing a deferral account for regulatory costs at the end of this proceeding as the actual 2018 regulatory costs were higher than projected. Corix estimates that 2019 regulatory costs related solely to this application will also be higher than initially forecasted. The regulatory costs associated with this application was $19,631 in 2018 and are forecasted to be $12,000 for Corix staff in 2019. This excludes the Comptroller's use of a consultant. This cost was determined based on the job sheets used to track time working on this Application. An adjustment was made to account for time spent working on the rate application associated with the GSDP project costs. Initially Corix began background work on one rate application that would incorporate increases in O&M and GSDP project costs. At the end of September 2018 it was realized that two separate applications would have to be made, one in 2018 and one in 2019. Corix estimated that prior to the realization of two separate rate applications, roughly half the time was spent working on GSDP-related topics. Corix then adjusted the hours logged to arrive at the 2018 Actual regulatory cost of $19,631."

The PSOA withholds comment on this issue until the 2020 RRA.

Comptroller Determinations

The Comptroller is aware that costs for his staff's consultant are budgeted less than the $8,000 included in the Application. This will partially offset the increased cost expected by CMUS.

The regulatory costs in the Application are accepted and no RDA is required this year.

3.7 Operating Margin

The Utility proposes to maintain the use of the original formula approved by the Comptroller with one modification. The Utility proposes that instead of tying the risk premium to Pacific Northern Gas (PNG), 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. The Utility proposes that the Operating Margin be calculated using the ROE allowed by the BCUC on the benchmark low risk utility plus the risk premium allowed for small TES utilities.

CMUS is comprised of TES utilities regulated by the BCUC and water utilities regulated by the Comptroller. The Utility considers that this is an efficient approach to determining the Operating Margin which ties the Operating Margin directly to CMUS utilities, as opposed to PNG.

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 and CMUS' UniverCity District Energy System at Burnaby Mountain. The Utility's proposal acknowledges the change in the ROE for FEI since 2010 from 9.5% to 8.75% and stays below the maximum limit of 10% as defined in the Comptroller's CPCN Financial Guidelines.

The proposed operating margin is 8.75% + 0.75 = 9.5%

PSOA has no objection to the Operating Margin proposal submitted by CMUS in their Final Submission so long as it does, in fact and in practice, remain below the "maximum limit of 10% as defined in the Comptroller's CPCN Financial Guidelines".

Comptroller Determination

The proposed operating margin of 9.5% is accepted.

3.8 Poor water pressure at 1741 Greywolf Drive

"Corix made several attempts to measure the water pressure experienced at 1741 Greywolf Drive. There was no flow and 0 psi at the hose bibb. Water pressure measurements are done at the hose bibb as the pressure gauge will securely attach to the threading. Corix assumes that the hose bibb was shut off for winterization. Corix was unsuccessful in its attempts to contact the owner to turn on the hose bibb.

While each customer is expected to have an on-premise PRV for their specific residence, the distribution system also has PRVs serving different sections of the system. 1741 Greywolf Drive is located on a section of the distribution system where the water pressure from 1730 Greywolf Drive to 1901 Greywolf Drive is regulated by a PRV (Greywolf PRV). The remainder of Greywolf Drive and all other roads are serviced by other PRV's. In June 2018 the Greywolf PRV was recorded having an inlet pressure of 135 psi and an outlet pressure of 80 psi.

In lieu of a water pressure measurement at the subject location, Corix measured the following pressures on that section of the distribution system:

- 1911 Greywolf Drive (upstream of PRV): 64 psi
- 1891 Greywolf Drive (downstream of PRV): 48 psi
- 1797 Greywolf Drive (downstream of PRV, bottom of hill of Forest Ridge): 44 psi
- 1734 Greywolf Drive (across the street from subject house, same elevation): 24 psi.

At the beginning of April 2019 Corix adjusted the Greywolf PRV which now has an inlet pressure of 130 psi and an outlet pressure of 94 psi. Despite this increase on the Greywolf PRV the pressure readings at each home are dependent on the settings of each on-premise PRV." (IRR 17.3)

CMUS identified that the ideal operating range for domestic water supply is 40-60 psi and that the GSDP will not rectify the water pressure at this residence. (IRR17.1 &17.2)

If the recent increase in outlet pressure at the Greywolf PRV is not sufficient for this customer, the Utility suggests the customer can have a booster pump installed for their residence.

Comptroller Determination & Directive

The Utility should continue its efforts to improve service to this residence and report back on this issue in its 2020 RRA.

4.0 Rate Design

The Utility recommended that the overall rate design, which determines the relative percentage of revenue that is collected through the fixed charges and through the variable charges, remain unchanged for 2019 and that the Utility will consider rate design changes for 2020.

Comptroller Determinations & Directive

As part of its 2020 RRA, the Utility is to include proposals for the design of its rates, considering the addition of the GSDP to the system and the large rate base addition involved. Also, CMUS will be moving to a rate base, rate of return regulatory model at that time. The rate structure should balance the competing rate design objectives of fairness, stability of revenue requirement recovery, water conservation, etc.

5.0 Phase in of 2020 rate base due to the GDSP Project

In response to Comptroller staff IR 15.3, CMUS made preliminary rate increase calculations for 2020 that indicated that the GSDP would result in an extremely large rate increase, if implemented in one year.

Comptroller Directive

The Utility is directed to recommend phase in options to smooth the GSDP related rate increases over several years.

6.0 Refiling of Application

Based on the various determinations made in these Reasons for Decision, CMUS will need to refile its forecast 2019 Revenue Requirement and Rates, with supporting schedules, to comply with all the directives of the Comptroller and other updates CMUS has noted in its information responses.

Comptroller Determinations & Directive

CMUS is to refile the Application by July 23, 2019 to comply with all determinations and directives in these Reasons for Decision and Order 2548. The Application, with adjustments as identified in these Reasons for Decision, will be approved following review of the refiling by CMUS of the 2019 Revenue Requirement and Rates, with supporting schedules, to comply with those directives.

Summary of Comptroller Directives

1. **The Comptroller accepts the proposed reduction in 2019 Corporate Services cost. In future applications, CMUS must demonstrate that the proposed Corporate Services charges are less than what the Utility would face on a stand-alone basis.**

2. **Operating and Maintenance (O&M) Expenses: The Comptroller is concerned that these expenses seem substantial for a water utility the size of Panorama. CMUS is directed to provide comparative information in its next revenue requirements application to substantiate its forecast expenses.**

3. **Given the long delay in seeking recovery of the existing CDA deficit, the Comptroller directs that a 4 year rate rider be established. The Comptroller does not approve a further punitive award against the Utility.**

4. **The Comptroller is not opposed to allowing the PSOA to lead evidence in 2023 after the four year recovery of the existing CDA on why the RRTF should be reestablished. The RRTF is discontinued until grounds for its reestablishment are met.**

5. **1741 Greywolf Drive: The Utility should continue its efforts to improve service to this residence and report back on this issue in its 2020 RRA.**

6. **As part of its 2020 RRA, the Utility is to include proposals for the design of its rates, considering the addition of the GSDP to the system and the large rate base addition involved.**

7. **The Utility is directed to recommend phase in options to smooth the GSDP related rate increases over several years.**

8. **CMUS is to refile the Application by July 23, 2019 to comply with all determinations and directives in these Reasons for Decision and Order 2548. The Application, with adjustments as identified in these Reasons for Decision, will be approved following review of the refiling by CMUS of the 2019 Revenue Requirement and Rates, with supporting schedules, to comply with those directives.**

Dated at the City of Victoria, in the Province of British Columbia, this 2nd day of July, 2019.

Ted White
Comptroller of Water Rights