

September 9, 2020

---

Chris McMillan  
Secretary to the Comptroller of Water Rights  
PO Box 9340 STN PROV GOVT  
Victoria, BC V8W 9M1

**Subject:** Corix Panorama Water Rate Application For 2020 Rates

Dear Chris:

On behalf of several residents of Trappers Way, Panorama, I wish to register as an Intervener, regarding the subject application by Corix Panorama. Upon review of the application, the comments and concerns regarding the rate increases are provided in the attachment. In addition, I would like to receive from Corix Panorama information on how sewer rates are established and a breakdown of Operations and Maintenance costs for sewage. These sewer rates currently represent 62% of our total water bill from Corix. Thank you.

[Redacted signature block]

---

**1.0 GENERAL:**

The rate increases being requested by Corix seem to be exorbitant given that they will raise water rates 148% (1.49x1.29x1.29) from current rates by 2022 (in 1.5 years). As an essential service with no competition, Corix appears to be taking advantage of their position. While Corix is entitled to recover the costs of the new Groundwater Source Development Program (GSDP) project, and past losses that they are claiming, this should occur over a longer period of time. It appears that they are trying to recover the costs of past deficits and projected deficits in the shortest time possible (e.g. Rate Rider and RDDA). Based on their submission, their annual operating and maintenance total expenses are projected to be exceeded by 56% with revenues in 2020 without a rate increase.

**2.0 COMMENTS AND CONCERNS:**

2.1 On page 33, Corix is requesting a Return on Equity (ROE) of 9.5% based on the BCUC benchmark rate of 8.75% for large low risk utilities, e.g. Fortis, and a minimum default equity risk premium of 0.75% based on small Thermal Energy Storage (TES) utilities benchmarks. Given that there should be less risk for a water utility than a TES utility, please consider reducing this risk premium by at least 0.25% to help reduce rates.

2.2 On page 11, Operations and Maintenance (O&M) expenses, insurance rates are being increased by 906% in 2020. Is this due to the increase in value of physical plant per the GSDP project?

2.3 On page 11, O&M expenses are decreasing by 32% from 2018 to 2022, yet rates are increasing substantially due to the cost recovery methodology for the GSDP project and not due to increasing O&M costs.

2.4 On page 11, Corporate and Regional services (112k\$ in 2022) are greater than wages and salaries for the Corix Panorama employees (110k\$ in 2022), which suggests a top heavy organization. Granted, these charges are shown to be decreasing from 2018. Approximately, 25% of these services represent IT support charges (pages 24,25). Do 1.1 FTEs assigned to the water utility (page 15) warrant such costs? This seems excessive. Furthermore, 2.1% of the regional services costs are being applied to the water utility. Do 1.1 FTEs represent 2.1% of Corix regional employees?

2.5 On page 33, the capital structure is set at 57.5% debt with a deemed interest rate of 3.64% and 42.5% as equity with an ROE of 9.5%. The rationale was a BCUC decision that identified this capital structure as "a reasonable balance" in a previous situation. Fortis BC in a 2016 rate base decision was allowed an ROE of 8.75% and an equity ratio of 38.5%, both of which result in lower rates than what Corix is proposing. Given the substantial increase in rates being proposed by Corix a capital structure of 42.5% may not be a "reasonable balance". Please consider reductions in the ROE and equity ratio for Corix to reflect a reduction in the rate increase.

2.6 On page 39, Corix is forecasting a needed revenue increase of 63% by 2022 yet is requesting a rate increase of 148% to presumably make up for the shortfall, in 1.5 years. Please consider the recovery of this shortfall over a longer period of time to reduce the rate increase.

2.7 On page 41, Corix is forecasting a taxable income of 109k\$ by 2021 and using past losses as a tax write-off. By 2023, this taxable income rises to \$389k\$ and a net income of 284k\$. This represents a Return on Asset (ROA) of 284k\$/7249k\$ or 3.9%. The average ROA for water utilities in North America is 2.84% per [CSIMarket.com](http://CSIMarket.com). Given the substantial return that the proposed rate increase will provide in 2023 and beyond, consideration should be given to reducing the requested rates.

2.8 On page 41, Comptroller Order No. 2548, directed Corix to: "recommend phase-in options to smooth the GSDP related rate increases over several years". Corix has proposed a Revenue Deficiency Deferral Account (RDDA) that would be paid off in 6 years, by 2026. The proposed rate increase has profit to pay off this RDDA starting in 2023. The proposed Scenario B on page 51 has the RDDA being paid off in 2025 with a surplus. This impact on rates is compounded by pay off of the rate rider by 2022. Please consider the proposed rate increase be reduced so that the RDDA is actually paid off over "several years", e.g. over at least 6 years, i.e. no sooner than 2027.

2.9 On page 44, Corix has forecasted growth in customer count by 1 residential customer in each of 2020, 2021 and 2022. In 2020 alone, there have been 3 new homes completed on Trappers Way and 2 more that will commence construction before year end. There are also a number of homes under construction in the Greywolf subdivision. This will increase the number of residential customers and subsequently revenues more than forecast. More room to consider a reduction in rate increase.

2.10 On page 46, it is identified that 85% of the costs of providing water to Panorama are fixed costs. This means that the service is available to all customers at any time including the provision of firewater to protect property whether residents are present or not; yet, approximately 48% of the annual revenues are from the fixed basic charge and the remainder 52% from the variable metered rates (page 46). This has the effect of having the most impact of the rate increase on those who are full time residents or frequently at Panorama. For example, I am a full time resident at Panorama and will see my annual costs for water increase from \$2790 per year to \$4234 per year with the proposed rate increase for an essential service, based on my water usage and sewer charges. Given that the rate increase has been prompted by the building of physical plant, a fixed cost, more of the rate increase ought to be attributed to the fixed charge rate, i.e. charge per bed unit. This is supported by the Corix statement on page 47 "Residential customers have a load factor of approximately 57%. Commercial customers have a load factor of approximately 47%. The results show that residential customers have a marginally better capacity utilization. This indicates that residential customers given their favourable capacity utilization impose a lower cost to the water system than commercial customers." This leads to the question as to why residential customers have a greater rate increase than commercial customers per page 54.

2.11 On page 55, a comparison is made with local utilities. What is readily apparent is that the resulting costs of the rate increases for Panorama water will be more than double what nearby communities such as Edgewater, Canal Flats, Windermere and Invermere charge in 2020 and more than triple by 2022. Rationale for this difference is presented as follows:

2.11.1 Small customer base. Both Edgewater and Canal Flats would have arguably as low a customer base as Panorama.

2.11.2 Staffing of municipalities being able to be shared among other responsibilities. Is that not the same for Corix who also provides staffing for sewage disposal propane distribution and meter reading?

2.11.3 Water source from surface water less costly than from groundwater. Is surface water not a significant source for Panorama water?

2.11.4 Service area terrain requiring higher pumping electricity consumption due to mountainous nature. Electricity costs are less than 10% of O&M costs per page 11.

2.11.5 Water utilities that are in compliance with the applicable provincial/regional drinking water quality program requirements typically cost more to construct and operate. Do not the other local utilities have to comply with applicable water quality program requirements?

2.11.6 Municipal systems sometimes receive grants from the provincial/federal governments to undertake large capital projects. Did Corix apply for government grants? The federal government has on many occasions said that they are committed to provide all Canadians with drinkable water.

2.11.7 Systems that do not include the cost for the provision of fire protection are typically cheaper to operate and maintain than systems that provide fire protection. Hydrant maintenance is less than 2% of O&M costs per page 11.

2.12 On page FS-30, it is apparent that the fixed charge rates that Panorama is proposing are as much as 90% less than the other comparative utilities. Furthermore, the consumption charges by these utilities are typically 70% less than the rates proposed by Corix. Per the comment made in 2.10, this suggests that more of the rate increase ought to be applied to the fixed charge than to metered consumption. This would also reduce the uncertainty of forecasting required revenues as the sensitivity of this forecast to variable consumption is reduced.

### **3.0 CONCLUSION:**

Based on the above, it is concluded that there is opportunity for the water comptroller to reduce and restructure the proposed Corix rate increases to minimize the short term impact on the consumer of the costs of the GSDP project. This project was implemented in part, to finally provide us with a domestic water supply that provides year round drinkable water, which our federal government regards to be a human right.