

Order No. 2581

PROVINCE OF BRITISH COLUMBIA
OFFICE OF THE DEPUTY COMPTROLLER OF WATER RIGHTS

IN THE MATTER OF

the Water Utility Act and the Utilities Commission Act

and

EPCOR Water (West) Inc.

**For Approval of 2021-2023
Revenue Requirement and Rates Application**

Effective January 1, 2021

BEFORE:

Jesal Shah, Deputy Comptroller of Water Rights
PO Box 9340 STN PROV GOVT
Victoria, BC V8W 9M1

ORDER 2581

Dated this 1st day of March 2021

WHEREAS:

1. On September 9, 2020 EPCOR Water (West) Inc. (“EWW” or “the Utility”) submitted its 2021-2023 Revenue Requirement and Rates Application (the “Application” or “2021-2023 RRA”) requesting approval of proposed adjustments to its water rates in order to recover EWW’s forecast revenue requirement for the 2021-2023 period.
2. The proposed water rates reflect no general increase or decrease for all rates for each customer class as summarized in the table below:

**Proposed Water Rates
2021-2023
(S)**

	A 2021	B 2022	C 2023
Base Rates			
1 Residential	43.45	43.45	43.45
2 Multi-Residential	39.53	39.53	39.53
3 Commercial	38.39	38.39	38.39
Consumption Rates			
Residential			
4 12-75 cubic meters	1.93	1.93	1.93
5 > 75 cubic meters	1.93	1.93	1.93
Multi-Residential			
6 12-75 cubic meters	1.93	1.93	1.93
7 > 75 cubic meters	1.93	1.93	1.93
Commercial			
8 12-75 cubic meters	0.96	0.96	0.96
9 > 75 cubic meters	0.96	0.96	0.96
10 Fire Hydrants (annual)			
582.84			
11 Standpipes (annual)			
233.14			
12 Availability of Service Charge (annual)			
365.01			

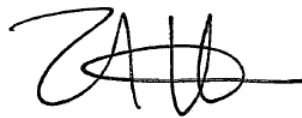
3. EWW has proposed an adjustment to its lower rate tier from 15-75 cubic meters to 12-75 cubic meters which would result in a reduction to the monthly base rates.
4. On October 20, 2020 by Order 2572, Appendix A, the Deputy Comptroller established a regulatory timetable for the written hearing process.
5. On November 13, 2020 EWW advertised its Application by mailing Notices to all its customers. Persons who wished to actively participate in the proceedings were given until December 4, 2020 to register as interveners and the deadline for submission of comments was December 18, 2020. The Epcor French Creek Community Advisory Panel (CAP) registered as an intervener. No other submissions were received.

6. The relevant evidence submitted by the Utility and intervener in the written public hearing process has been reviewed and considered.

NOW THEREFORE, the Deputy Comptroller orders that:

1. EWW is to refile the Application updated to comply 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 two weeks from the date of this Order.

Dated at the City of Victoria, in the Province of British Columbia, this 1st day of March, 2021.



Jesal Shah, P.Eng., MBA
Deputy Comptroller of Water Rights

Attachment: Appendix A - Reasons for Decision and Order

IN THE MATTER OF

An Application by

EPCOR Water (West) Inc.

For Approval of

2021-2023

Revenue Requirement and Rates Application

Effective January 1, 2021

BEFORE:

Jesal Shah, Deputy Comptroller of Water Rights
PO Box 9340 STN PROV GOVT
Victoria BC V8W 9M1

REASONS FOR DECISION AND ORDER

March 1, 2021

1.0 Background

Epcor Water (West) Inc. (“EWW” or “the Utility”) owns and operates the water utility in French Creek, located within the Regional District of Nanaimo, BC. EWW is an investor owned utility and is a wholly owned subsidiary of EPCOR Water Services Inc. (“EWSI”). EWSI is an Alberta corporation and is a wholly owned subsidiary of EPCOR Utilities Inc. (“EUI” or “EPCOR”). EUI is, in turn, wholly owned by the City of Edmonton. EWW is incorporated under the British Columbia *Business Corporations Act*.

EWW 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 is an independent, quasi-judicial regulator responsible for the regulation of private water utilities in British Columbia. Under the *Water Sustainability Act*, the Deputy Comptroller of Water Rights (“Deputy Comptroller”) is authorized to exercise the powers and perform the duties of the Comptroller.

EWW provides service to approximately 2,100 metered accounts with an average consumption of 19.4 cu.m of water per single family residential customer per month (3-year average for residential customers 2017-2019). Every water service within the Utility’s service area is metered. Fire protection service is provided to the residents by means of 179 fire hydrants.

EWW’s distribution system is comprised of two water storage reservoir sites, with a total volume of approximately 4.0 ML, a booster station and 30 km of mainly cement pipe ranging in size from 50 mm to 300 mm in diameter. EWW draws water from 18 active wells in two separate aquifers. Both aquifers provide good quality drinking water but one aquifer has slightly elevated levels of iron and manganese. This requires treatment in order to comply with the Guidelines for Canadian Drinking Water Quality. The Utility is currently supported by four full time employees - one manager, two operators, and one administrative assistance plus a part-time administrative support position.

EWW’s Revenue Requirement and Rates Application is based on a three-year forecast test period from January 1, 2021 to December 31, 2023, consistent with the previous test period approved by the Comptroller in Order 2528 dated June 20, 2018.

2.0 Introduction

On September 9, 2020, EWW submitted its 2021-2023 Revenue Requirement and Rates Application (the “Application” or “RRA”) pursuant to sections 58-60, 89 and 90 of the *Utilities Commission Act*. EWW requests an Order or Orders for the following:

- 1) Approval on a final basis for water rates for the 2021-2023 test period set summarized in Table 1.1-1 below (collectively “Water Rates”)

**Proposed Water Rates
2021-2023
(S)**

	A 2021	B 2022	C 2023
Base Rates			
1 Residential	43.45	43.45	43.45
2 Multi-Residential	39.53	39.53	39.53
3 Commercial	38.39	38.39	38.39
Consumption Rates			
Residential			
4 12-75 cubic meters	1.93	1.93	1.93
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10 Fire Hydrants (annual)	582.84	582.84	582.84
11 Standpipes (annual)	233.14	233.14	233.14
12 Availability of Service Charge (annual)	365.01	365.01	365.01

- 2) Refund of the 2018-2020 deferral account balances by means of a monthly Rate Rider as set out in Financial Schedule 4.0 of the Application.
- 3) Continuation of the consumption deferral account, property tax deferral account, interest deferral account and hearing cost deferral account for the 2021-2023 test period as described in section 6.0 of the Application.
- 4) Approval of the capital structure (60% debt; 40% equity) and the rate of return on equity of 9.75% for the 2021-2023 test period, as described in section 8.0 of the Application.

On October 20, 2020 the Deputy Comptroller issued Order No. 2572 to establish a regulatory timetable for the written hearing process. EWW advertised its Application by mailing Notices to all its customers. Persons wishing to actively participate in the hearing were given until December 4, 2020 to register as an intervener. The Customers wishing to submit comments on the Application were required to do so by December 18, 2020. The Epcor French Creek Community Advisory Panel (CAP) registered as an intervener. The Epcor CAP is represented by several customers and users of the water system. No other submissions were received.

The written hearing process continued with EWW providing responses to all its Information Requests on January 15, 2021 with its Final Submission provided on January 22, 2021. On January 29, 2021 the Intervener provided its Final Submission and on February 5, 2021 EWW provided its Reply Submission. This concluded the evidentiary portion of the written hearing process.

3.0 Issues

Over the past decade and more, EWW has undertaken extensive upgrades and refurbishments of the Utility's infrastructure to ensure reliable, clean, potable water service to the French Creek customers. Fortunately, those improvements are largely complete, and the rate impacts have been rolled into previous revenue requirement and rates applications. By comparison, this Application includes only modest rate increase requests and proposed changes to the rate structure.

Customers seem relatively satisfied with their Utility service and in both its Information Requests and Final Submission the Intervener states that "we think the EWW water system is operating quite well" (IR & Final Submissions p. 1). However, several issues were raised during the course of Information Requests and Responses and in the Final Submissions. They are addressed and determined in the following sections.

3.1 Rate Structure

In order to promote water conservation, follow industry best practices, and integrate input from the Epcor French Creek Community Advisory Panel (CAP), EWW explored three potential alternatives to update the current rate structure in preparation of the Application: variable rate for all monthly consumption, inclining rate structure and adjustment to its lower tier rates.

EWW found that average residential customers use approximately 11 cu.m (cu.m) in colder months, which represents indoor consumption, with consumption increasing to between 20 cu.m. and 32 cu.m in warmer months, as outdoor usage increases. EWW further states that it is common practice in the water industry to align a utilities' first consumption tier with basic indoor household water usage. To better align base consumption with indoor usage, while balancing customer bill increases, EWW is proposing a reduction to its base consumption from 15 cu.m per month down to 12 cu.m per month. The Utility believes this alternative provides a balance between incenting water conservation and minimizing bill increases. (Application sections 1.1)

The information requests focused on whether EWW should be doing more to promote conservation. The Intervener's Final Submission encouraged EWW to assess further rate structure changes and share the results with the CAP. (Intervener Final Submission p. 2)

In its Reply, EWW states:

"EWW's proposed change to rate structure, a reduction to the consumption included as part of the base rate, will incent conservation while remaining sensitive to the customer experience. EWW acknowledges that an inclining rate structure, which provides a strong financial incentive to reduce consumption, would be more effective but submits that this structure is not workable at this time. As stated in Section 1.1.1 of the Application, "a clear communication strategy would have to be rolled out in conjunction with the rate change explaining to customers that discretionary water consumption had become relatively more expensive" if the revised rate structure were to realize its potential to incent conservation. Based on feedback from the French

Creek CAP meeting, it was determined that the current pandemic would likely reduce the success of a communication campaign.

Additionally, as a result of the COVID-19 pandemic restrictions, residential customers are spending more time at home and thus using more water in their homes than would be typical. As EWW contemplated the feedback received by at least two CAP members that this may not be the best time to implement an inclining rate structure, EWW realized that it risked eroding trust with customers if it implemented a rate structure that penalized high consumption, at a time when many customers were forced to consume high levels of water due to the pandemic restrictions. The French Creek rate structure contains a fixed charge that is applied to a base volume. The rate structure change proposed in the Application is intended to more closely align base consumption with indoor usage, thus reducing the number of bills with usage significantly lower than the base consumption amount. EWW anticipates that this change will encourage customers to be mindful of conservation.

In developing the 2024-2026 rates application, EWW will analyze and communicate the effectiveness of this rate structure change, and will evaluate whether additional rate structure changes are required to incent conservation.” (EWW Reply, paragraphs 8-11)

Deputy Comptroller Determinations

The Deputy Comptroller views the proposed change to the base rate volume of residential and commercial customers as a first start to promote wise use of water by aligning the base volume more closely with indoor household water usage. However, EWW will soon need additional supply to meet customer growth and conservation efforts like inclining rates may be of assistance to further promote the wise use of water and forestall the need for new supply. In particular, EWW is to assess whether reducing the base rate to 10 or 11 cubic meters and both reducing the volume threshold and/or increasing the rate of the top consumption tier would lead to significant conservation of water use.

The proposed decrease in the base volume is approved. EWW is directed to undertake detailed analyses of the benefits of further conservation measures, to share those results with CAP, and to include proposals in its next RRA filing for 2024-2026 rates.

3.2 System Master Plan and Groundwater/System Capacity Study with the Regional District of Nanaimo (RDN)

Appendix C of the Application includes the update to the System Master Plan developed by Stantec Consulting Ltd. Both the Intervener and Comptroller’s staff pursued issues related to the Stantec analyses.

With respect to the Groundwater/System Capacity Study with the RDN, EWW notes that water supply in the French Creek area is interconnected with other regions and EWW’s customers will benefit from collaboration with the suppliers of water into those regions. Collaboration may identify other options available for EWW to secure long-term sources of water and provide the opportunity to share information and share in research costs. The specific cost and cost-sharing

details, as well as the scope of the research, have not been finalized but the RDN has requested that EWW contribute matching funds of \$150,000 toward the cost of the study, which is higher than the \$52,500 included in the proposed rates for the 2021-2023 term. Once the terms of reference, timing and participation details are known, EWW will share this information with the CAP.

In its Final Submission the Intervener states that:

“... we feel it is time for EWW to take a more proactive approach in the upcoming rate period to address forecast capacity beyond 2023.

In particular, we think that the information provided in the Stantec French Creek Water System Master Plan Update 2020 raises questions as to whether the EWW water system will have adequate water supply for the period beyond 2023 which is less than 3 years from now. We don't think that the EWW planning horizon should be limited to just the current test period.”
(Intervener Final Submission ps. 1-2)

EWW replies that:

“EWW develops a master plan periodically in order to obtain third party expertise on the overall requirements of the system. A new master plan is appropriate when the inputs to the most recent master plan have changed significantly. This occurs when customer growth has deviated significantly from growth previously forecast and/or new deficiencies in the system are identified. However, in the absence of important changes to the system or the requirements of the system, the development of a new or updated master plan is not a prudent cost. EWW agrees with the statement contained in the Final Submission of CAP that information about future plans should be communicated to CAP members and customers on a timely basis. EWW will continue to provide information when it is available.

Securing long-term sources of supply for EWW's growing customer base at a reasonable cost will be achieved through collaboration and negotiation with the RDN and other stakeholders, through the groundwater supply study and through a Church Road Main Twinning Study.”
(EWW Reply paras. 12 &13)

Deputy Comptroller Determinations

The Deputy Comptroller agrees with the Utility that collaboration and negotiation with the RDN is a priority. Following that resolution, the results of that study will put the Utility in a better position to assess future supply and system development. However, the Deputy Comptroller is concerned that the cost sharing for the groundwater supply study should be equitable. EWW will be required to defend the final cost sharing agreement. Perhaps cost sharing should be based on number of customers, current or future supply needs or some other reasonable metric.

3.3 Utility Operating costs

The proposed rate increases in this test period are modest and are offset by a rate rider to refund deferral account balances from the 2018-2020 period. The Deputy Comptroller considers that EWW is generally well run and, therefore, has very few issues with the operating and capital plans for the test period. The following cost items are identified, either because of their significant cost or consideration of the proposed cost escalator.

3.3.1 Shared costs with EPCOR

EWW obtains certain services from EUI and EWSI (referred to as inter-corporate service) which are necessary to enable EWW to carry on business as the owner and operator of the Utility. This structure allows EWW to focus on its core business of water operations and meeting customer needs while reducing administrative and shared-services costs compared to that of a stand-alone utility. This allows EWW to benefit both from the extensive experience and expertise that resides within other members of the EPCOR group and from economies of scale and scope that arise from the EPCOR group's inter-corporate services approach to its business operations.

The decreases in corporate service charges are primarily attributable to increased growth in EWSI's other operations. During the 2017 to 2020 period, total EUI Corporate Services and EWSI Shared Services costs escalated in line with the 2017 to 2020 forecast. Over this same period, EWSI's other operations have grown at a faster pace than EWW, this results in a reduction to the percentage of intercorporate service charges allocated to EWW from 0.55% to 0.44%.

In response to IR 19.1 from the Comptroller's staff, EWW confirmed that there have been no changes to the methodology for allocating Inter-corporate Service Charges between the approved 2018-2020 RRA and the 2021-2023 RRA Application. In IRR 31.2, the Utility advised that it would provide the Comptroller with a table of the actual direct service charges for 2018-2020 and the forecast Direct Charges for the test period, during the week of March 29 to 31, 2021 once these regulated financial statements are completed.

Deputy Comptroller Determinations

Inter-corporate Service Charges are a significant portion of the Utility's operating costs. In previous proceedings the Deputy Comptroller has confirmed that the allocated costs are reasonably allocated within the EPCOR group of companies and the costs are less than EWW could expect to incur on a stand-alone basis. The costs are now less than in the previous test period as a result of growth in EWSI's associated companies.

The proposed Inter-Corporate Service Charges are approved.

3.4 Return on Rate Base

3.4.1 Capital Structure

EWW is proposing no change to the capital structure approved by the Deputy Comptroller in Decision 2528. EWW proposes the common equity ratio to remain at 40%.

3.4.2 Return on Equity (ROE)

EWW applied a 100 basis points equity risk premium, as approved by the Comptroller in Order 2528, above the ROE for 2016 set by the BCUC for its low risk benchmark utility (BCUC Order G-129-16).

In response to Comptroller staff IR 24.1 noting that the BCUC had not reset its benchmark ROE since 2016, the Utility responded:

“EWW has been informed by e-mail that the BCUC will likely review the low risk benchmark utility ROE again in 2021. It is unlikely that the results of that review would be finalized and available for incorporation into EWW’s rates for billing of January 2021 consumption. EWW is not proposing to re-open or amend its 2021-2023 Revenue Requirement and Rates Application for the incorporation of newly available inputs such as the low risk benchmark ROE.”

3.4.3 Cost of Debt

EWW reflects new debt issuances from EUI through deemed inter-company loans. The cost of inter-company debt for EWW is determined to be equal to the long-term cost of debt applicable to its parent company, EUI (rated A(low) by DBRS and A- by Standard & Poor’s) plus an EWW risk premium (based on a BBB rated company) and a transaction premium. The cost of inter-company debt and use of the BBB rating to determine EWW’s risk premium was approved as part of Order 2528.

In response to Information Response 26.1 from Comptroller staff, EWW updated its forecast of debt to December 2020, identifying a small reduction in the forecast cost of new debt. The Utility went on to state: “As EWW is only issuing \$165 thousand of new debt over the 2020-2023 period, with \$3,302 thousand of prior outstanding debt, updating debt rates has a minimal impact on EWW’s return on debt and revenue requirement.”

Deputy Comptroller Determinations

The Deputy Comptroller accepts that the capital structure of 40% equity and 60% debt remains appropriate for the risk profile of the Utility.

It is recognized that the BCUC has not reset its benchmark ROE for five years and intends to review it in 2021. EWW is directed to reflect any changes to the BCUC Benchmark ROE for 2022 or 2023 into its calculation EWW’s approved ROE for those years and to advise the Comptroller’s office.

Recognizing that the updated cost of new debt has minimal impact on the overall cost of debt during the test period, the Application forecast of cost of debt is accepted.

3.5 Salaries and Wages

The Utility forecasts two significant changes to its operating staff. First, the Operations Manager's time has been reduced to 0.6 of a full time equivalent to recognize his managerial responsibility at the Britannia Mine Water Treatment Plant, and this has allowed the hire of a 0.25 FTE casual operator. The second proposed change is an increase in Senior Manager support from Alberta to increase that FTE from 0.06 to 0.22.

The Senior Manager support will include but is not limited: to Government liaison activities with the Ministry of Forests, Land, Natural Resource Operations & Rural Development, and the Vancouver Island Health Authority; CAP Committee meetings and presentations; capital project oversight (project management, vendor evaluation, etc.); review and input into operational studies to be completed over the 2021 to 2023 test period; and vacation coverage for the EWW operations manager position. (Application para. 109)

EWW defended its proposed increase in Senior Manager support in Comptroller staff Information Response 20.1 to say:

“Although the level of capital investment over the 2021-2023 period are relatively low, the focus over this rate period is strategic planning to ensure the utility is carefully positioned to ensure that future growth can be accommodated at a reasonable cost to customers. EWW has experienced increased involvement with the RDN Board of Directors, the surrounding communities seeking consistent water use strategies and other users sharing the aquifers EWW draws from. This coordination and strategic planning will involve studies and negotiations, both of which will require senior-level oversight and direction. Including the Sr. Manager Regional Operations and the Sr. Manager Project Development in strategic decision making will ensure that the critical decisions made over the 2021-2023 period, which will affect French Creek customers' service and rates for many years into the future, are prudent.”

The Application also proposes an escalation factor for Wages and Salaries of 2.70% in each of 2022 and 2023. In response to Comptroller staff IR 17, EWW provided updated calculations that result in a reduction in the escalator to 1.6%.

Deputy Comptroller Determinations

The Deputy Comptroller accepts the revisions to staffing as being reasonable and within the purview of Utility management, although EWW is directed to report on the actual time spent by Alberta Senior Managers in support of EWW in its next RRA.

The Wages and Salaries escalator for 2022 and 2023 is to be reduced to 1.6%.

3.6 Continuation of deferral accounts

EWW has applied for continuation of the consumption deferral account, property tax deferral account, interest deferral account and hearing cost deferral account for the 2021-2023 test period. These deferral accounts were previously approved by Order 2528 for the 2018-2020 test period. For the 2021-2023 test period, EWW proposes that the total net balance of \$257 thousand in the four deferral accounts, at December 31, 2020, including applicable carrying costs, be refunded to customers through a rate rider for the years 2021 through 2023.

Deputy Comptroller Determinations

The proposed rate rider refund methodology is approved based on actual balances as at December 31, 2020. The deferral accounts have worked well in past test periods and are approved for their continuation in the current test period.

3.7 Working Capital

In IR 23, Comptroller staff queried whether the 45 days of working capital requirements remained applicable with automatic payment options and a new billing system. EWW responded that:

“EWW currently offers an automated payment option to customers. Approximately 15% of EWW customers use the automated payment option. With EWW’s current billing system, automated payments still require manual processing, as a result EWW has not realized material changes to its cash collection process.

In conjunction with the evaluation of a new billing system EWW is working with its bank to potentially improve automated payment processing which may impact EWW working capital requirements in the future. EWW intends to complete a lead lag study as part of its 2024-2026 Revenue Requirement and Rates Application to determine working capital impacts of automated payment processing.”

And “EWW is in the early stages of evaluating potential billing systems. At this time EWW is unable to determine if a new billing system will impact EWW’s working capital needs in 2022 and 2023. EWW intends to complete a lead lag study as part of its 2024-2026 Revenue Requirement and Rates Application, once the new billing system is implemented, to determine the working capital impacts of the new billing system.”

Deputy Comptroller Determination

The proposed action of undertaking a review of working capital requirements as part of the next RRA is accepted.

3.8 Tariff changes

EWV provided revised tariff pages to incorporate the rate and rate design changes in the Application. **The Tariff changes will be approved based on the rates determined from these Reasons for Decision.**

4.0 Refiling of Application

Based on the various determinations made in these Reasons for Decision, EWW will need to refile its forecast 2021-223 Revenue Requirements and Rates Application, with supporting schedules, to comply with all directives of the Deputy Comptroller.

Deputy Comptroller Determination & Directive

EWW is to refile the Application by within two weeks from the date of this Order to comply with all determinations and directives in these Reasons for Decision. The refiled Application, with adjustments as identified in these Reasons for Decision, will be approved following review of the refileing by EWW of the 2021-2023 Revenue Requirements and Rates, with supporting schedules, to comply with those directives.

Dated at the City of Victoria, in the Province of British Columbia, this 1st day of March 2021.



Jesal Shah, P.Eng., MBA
Deputy Comptroller of Water Rights