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|---|---|
| **REQUESTOR NAME:** | Water Utility Regulation Section, Water Management Branch<br>Ministry of Forests, Lands, Natural Resource Operations and Rural Development |
| **INFORMATION REQUEST NO:** | 1 |
| **TO:** | Corix Multi-Utility Services Inc. (Corix), Okanagan Landing |
| **DATE:** | February 3, 2022 |
| **REFERENCE NO:** | 7786 |
| **APPLICATION NAME:** | 2022 to 2024 Water Rate Application ("Application") |

## 1.0 Reference: Application, pg. 8, section 4, Operating and Maintenance Expenses

. **Explanation:** Corix states: "Actual 2020 costs were lower than anticipated due to the Covid-19 pandemic. Projected 2021 reflects actual costs incurred, plus budgeted costs to year end."

**Request:**

1.1 Further explain how costs were lower due to the COVID-19.

**Corix Response:**
Costs related to maintenance were delayed mostly due to lack of availability of third parties and supplies. In addition to COVID-19 impacts, labour costs and common admin allocations for 2020 were lower given that this was the first year of operation and scheduling and cost allocations were still in a trial phase in year one.

1.2 Update Table 1: Operating and Maintenance Expenses with Actuals for 2021.

**Corix Response:**
Table 1 has been updated to include Actuals for 2021. See below.

**Table 1: Operating and Maintenance Expenses (Updated with Actual 2021)**

**Corix Multi-Utility Services Inc.** **Schedule 2**
**Okanagan Landing Utilities**
**Schedule of Operating and Maintenance Expenses**

| Line No. | Expense | Actual 2020 | Projected 2021 | Actual 2021 | Forecast 2022 | Forecast 2023 | Forecast 2024 |
|---|---|---|---|---|---|---|---|
| 1 | | | | | | | |
| 2 | **Cost of Goods Sold** | | | | | | |
| 3 | Chlorine and Supplies | $0 | $0 | $0 | $0 | $0 | $0 |
| 4 | Contracting | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | Billing & Customer Care | 1,714 | 1,748 | 2,126 | 1,783 | 1,819 | 1,855 |
| 6 | Water Testing | 1,092 | 2,161 | 3,322 | 1,767 | 1,802 | 1,838 |
| 7 | Wages and Salaries | 15,903 | 23,289 | 24,291 | 25,461 | 26,246 | 26,771 |
| 8 | Utilities | 1,770 | 2,629 | 3,133 | 2,253 | 2,298 | 2,344 |
| 9 | **Total Cost of Goods Sold** | **$20,479** | **$29,827** | **$32,872** | **$31,264** | **$32,165** | **$32,809** |
| 10 | | | | | | | |
| 11 | **Selling, General and Administration Expenses** | | | | | | |
| 12 | Advertising | $0 | $0 | $0 | $0 | $0 | $0 |
| 13 | Accounting | 542 | 63 | 0 | 64 | 66 | 67 |
| 14 | Vehicles/Travel | 2,798 | 3,151 | 3,261 | 3,285 | 3,351 | 3,418 |
| 15 | Insurance | 1,052 | 855 | 850 | 872 | 890 | 907 |
| 16 | Licenses and Permits | 0 | 150 | 150 | 153 | 156 | 159 |
| 17 | Hydrant Maintenance | 0 | 472 | 473 | 481 | 491 | 501 |
| 18 | Repairs and Maintenance | 172 | 1,000 | 27 | 1,020 | 1,040 | 1,061 |
| 19 | Office Expenses | 355 | 447 | 454 | 456 | 465 | 475 |
| 20 | Shop Supplies | 156 | 159 | 0 | 162 | 165 | 169 |
| 21 | Common Admin Allocation | 1,360 | 3,738 | 3,838 | 3,916 | 4,011 | 4,091 |
| 22 | Corporate and Regional Services | 415 | 1,548 | 1,306 | 3,691 | 3,761 | 3,836 |
| 22 | Bad Debt | | | 560 | | | |
| 22 | Regulatory Costs | 0 | 1,000 | 0 | 1,000 | 1,000 | 1,000 |
| 24 | **Total Selling, General and Administration** | **$6,850** | **$12,583** | **$10,920** | **$15,101** | **$15,396** | **$15,684** |
| 25 | | | | | | | |
| 26 | **Total Operating and Maintenance Expenses** | **$27,329** | **$42,411** | **$43,792** | **$46,365** | **$47,561** | **$48,492** |

## 2.0 Reference: Application, pg. 15, section 5 and Appendix 1: Schedule DS-2, Depreciation Study

**Explanation:** Corix has calculated the Depreciation Study based on the plant values of the previous owner (Okanagan Landing Utilities Ltd.) shown in Table 3 and in Appendix 1. The results show that the original plant value escalated by Canada CPI is $317,575 and annual depreciation is $7,291 using a 2.3% depreciation rate.

**Request:**

2.1 Resubmit the Depreciation Schedule using costs of all water components based on today's current replacement costs. The schedule should be completed and certified by the Utility's professional engineer.

**Corix Response:**
Corix has obtained an external professional engineer to prepare the Depreciation Schedule as requested in Question 2.1 since Corix does not have internal resources to satisfy the request. The external engineer has not yet completed the Depreciation Schedule. Corix will file the Depreciation Schedule as soon as possible.

## 3.0 Reference: Application, pg. 18, section 6, Future Capital Upgrade Phases

**Explanation:** Corix states that the two priorities in order of sequence are: Phase 1: Distribution System Upgrade, and then Phase 2: Water Treatment Upgrade, and that a study is needed to assess the current condition of the approximately 50-year-old water system.

**Request:**

3.1 Provide an update on the status of the third-party study to inspect the water system components, condition and wear.

**Corix Response:**
A third-party study has not yet commenced.

A preliminary review of the water system indicates that the existing water mains are 4" and 6" PVC. Water mains with minimum size of 6" are required for fire flow protection. The existing 4" water mains do not meet current standards for fire flow. This means that all 4" water mains that connect to hydrants must be upgraded to 6" to meet current standards.

Since the summer of 2021, Corix has been in discussions with the RDNO regarding the transfer process for a sale of the OLU water utility assets to the Regional District of North Okanagan (RDNO). Corix has had meetings and correspondence on the matter. The RDNO made a site visit to OLU and has been receptive to the potential acquisition of the water utility. On January 20, 2022, the RDNO provided further information on RDNO's Utility Acquisition Policy No. ENG-WTR-002[1]. On February 17, 2022, Corix submitted an Expression of Interest (EOI)[2] to RDNO to request connection of the OLU distribution system to the RDNO system. The EOI requirements include "the owners' approval to transfer of the utility to RDNO for the consideration of $1.00" and "support from Interior Health (IH) and/or other governing bodies".

[1] Regional District of North Okanagan, Utility Acquisition Policy (Water/Wastewater Systems) https://www.rdno.ca/sites/default/files/2021-04/ENG_002_WTR_Utility_Acquisition.pdf

[2] 002-ENG-WTR - Utility Acquisition Policy, Expression of Interest phase, page 3 of 14

On February 23, 2022, the Interior Health Authority (IHA) provided a letter to the RDNO with a copy to Corix regarding the EOI for Okanagan Landing Utilities and its amalgamation with the Greater Vernon Water Utility. The letter of support from IHA stated the following:

> "We strongly support the amalgamation of the above noted water system with the Greater Vernon Water Utility. Upon completion of the amalgamation process, this water system will become part of the Grater Vernon Water Distribution System, under ownership of the Regional District of North Okanagan (RDNO).
>
> Limited number of connections and inaccessibility to Provincial and Federal grants, make any improvement for small water systems extremely challenging. Upon conversion and acquisition by RDNO, the above water system as part of the Greater Vernon Water Utility will become eligible to make use of available financial grants which are not available to private utilities.
>
> We support the application and we believe the conversion and acquisition of this system by RDNO will be consistent with the goal of supplying sustainable, safe, and clean water to the residents of this community."

If the RDNO accepts the EOI submission, the transfer process may then progress to the next phase. In this next phase "the Requesting Utility must have a Comprehensive Utility Assessment ("CUA") completed by a professional engineer who is registered with the Association of Professional Engineers and Geoscientists of BC".[3] Corix has engaged a third-party engineer to complete the CUA and is waiting for a response from the RDNO regarding the submitted EOI. In the CUA phase, the study will assess the current conditions of the existing water utility and determine the upgrades necessary in order to satisfy the RDNO requirements.

3.2 Why does Corix believe the distribution system upgrade should be a higher priority than the water treatment upgrade considering the water source does not meet IHA 43210 Drinking Water Objectives?

**Corix Response:**
In the Application's Section 7.1 Future Ownership and Operation of OLU Corix considered there are two long-term ownership options for OLU.

<u>Option 1: Corix Long-Term Ownership</u>
The first option was to own and operate the private utility. In this option Corix upgrades the water distribution system, where necessary, and later upgrades the water treatment. Any upgrades of the water distribution system would be to ensure that customers continue to receive water on a reliable basis at the level of service presently provided. If a review indicates minimal or no upgrades are required, then Corix may then address the water treatment issue. As discussed in Section 6.2 of the Application, the most cost-effective solution to obtain treated water is to obtain the water from the RDNO as a wholesale bulk water customer. However, the

[3] 002-ENG-WTR - Utility Acquisition Policy, Comprehensive Utility Assessment phase, page 3 of 14

RDNO does not permit this option since OLU is a private utility. Obtaining this treated water source is only possible if the RDNO owned the water utility.

Note that in May 2021 a water leak was discovered at a curb stop connection to a residence of the Utility. The cost to repair was $2,510. For this repair the utility was reimbursed through a disbursement from the utility's Replacement Reserve Trust Fund (RRTF) as approved by the Comptroller. As of Oct 31, 2021 the RRTF had $41,577 to which the $2,510 would then be withdrawn to pay for the water leak. If the water leak in 2021 is indicative of future problems in the distribution system, it would be more cost effective to address a strategic distribution upgrade rather than a patchwork of repairs that could be more expensive for customers in the long run.

Option 2: Sale and Connection to RDNO

In the Application's Section 7.1 the second option was for Corix to ready the water system for a sale to the RDNO. In order to sell to the RDNO Corix would be required to upgrade the water distribution system to RDNO's standards. In this option Corix does not upgrade the water treatment system since the RDNO already has treated water. On February 23, 2022 the Interior Health Authority provided a strong letter of support for the sale and connection to the RDNO consistent with the goal of supplying sustainable, safe, and clean water to OLU customers.

If the Utility is able to meet the CUA standards for the distribution system, then the RDNO could supply the treated water through its system that is already available in the surrounding neighborhoods. If this happens, then the OLU customers would not be burdened with the additional cost of water treatment if it can be supplied by the RDNO at a reasonable cost. At this time, the sale option to the RDNO is the most promising option and should be pursued to the extent it remains feasible and beneficial to customers.

If the sale option to the RDNO, is closed and no longer an option, Corix would need to re-evaluate on whether to embark on a water treatment upgrade before any distribution system upgrade. Regardless of the priority, increases in the RRTF contribution portion of customer rates would be required as discussed throughout the Application.

3.3 What form of treatment would be required to meet IHA's objectives? Would installing a chlorination system be adequate? Why or why not? What would the cost be?

**Corix Response:**

To meet the IHA 43210 Drinking Water Objective the Utility would require two forms of treatment for surface water, such as UV and chlorine. A source water assessment would need to be conducted to determine the treatment required, and a source water protection plan may be required depending on the results of the source water assessment and treatment requirements. OLU has several operational issues beyond water treatment including only one source water well (no redundancy), no fire flow protection (no fire pump), no reservoir (if a fire pump was installed), and no backup power source during power outages. Given these challenges when a power fault occurs the system loses positive pressure that compromises the water system.

In Section 6.2 of the Application Corix explored a number of options for treated water supply.

An engineered solution upgrade for two water treatment methods would cost over $200,000 (preliminary high-level estimate) that may meet IHA's treatment objectives, but this does not address the operational issues noted above. Adding fire pumps, a reservoir, and a generator would cost another $200,000 (again, preliminary high-level estimate).

3.4 What is Corix's timeline for meeting IHA's objectives?

**Corix Response:**
At this time IHA has not mandated a requirement for water treatment so there is no urgency. However, the IHA may mandate a requirement with an associated deadline at any time. A mandate may occur if a water sample shows high concentrations of certain metals/minerals, which may cause IHA to make a water treatment mandate. If a mandate were to occur, Corix expects it would be given up to two years to implement a treatment solution that would satisfy the water quality mandate.

Corix anticipates if the sale process to RDNO progresses, the IHA objectives can be met upon the sale and transfer of the water utility to the RDNO.

3.5 Does Corix have a preliminary estimate of what the Distribution System Upgrade would cost? Could this project be completed in phases or on an as needed basis? Why or why not

**Corix Response:**
Corix does not yet have a preliminary estimate of the Distribution System Upgrade. If the sale to the RDNO requires certain improvements to be made those improvements would drive the project schedule and timing. Corix would have a better understanding of the potential costs once the CUA for the RDNO is completed.

If a sale to the RDNO was not possible, Corix would review the distribution system deficiencies and would address as needed or in phases to reduce cost to customers.

The cost to conduct the CUA study including concept development, preliminary design, detailed design, contract documents and tendering plus the Depreciation Study is approximately $30,000. Corix intends to seek reimbursement of these costs through the RRTF as the costs are incurred. This estimate does not include the cost of construction services, materials, and administration which is additional. Corix will keep the Comptroller apprised of the cost of the distribution system upgrade as the CUA study progresses.

3.6 Would Corix consider providing financing to pay for the proposed upgrades? Why or why not.

**Corix Response:**
OLU is presently an Operating Margin utility whereby upgrades for existing infrastructure is paid for by the customer through replacement reserve trust funds or assessment fees. In Operating Margin utilities, the owner does not normally invest in the assets as this methodology does not allow for recovery of the value of the assets and the associated financing costs. If OLU

was a Rate Base utility, then Corix would finance all the required projects as approved by the Comptroller.

The RDNO Utility Acquisition Policy in the section Expression of Interest states in 1a "the owners' approval to transfer of the utility to RDNO for the consideration of $1.00". This means that the RDNO will only take over ownership and operation of the assets by purchasing it for $1. Since OLU is an Operating Margin utility, Corix would be able to sell it to the RDNO. However, if Corix funded the utility projects or OLU was a rate base utility the only path to sell to the RDNO would be if the customers reimbursed the funds that Corix had invested into the utility.

Corix would consider providing temporary financing to pay for the proposed upgrades if it would assist in the timely transfer of the utility to the RDNO. However, this temporary financing would need to be re-paid by customers prior to the transfer of the utility to the RDNO in order to ensure Corix receives fair, just and reasonable treatment in the transaction.

If a sale to the RDNO was not possible, then Corix would consider applying to the Comptroller to change the utility from Operating Margin to Rate Base, to allow Corix to invest in the water utility on a permanent basis.