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INFORMATION REQUEST NO: 1

TO: Corix Multi-Utility Services Inc. (CMUS), Panorama Water

DATE: March 22, 2019

REFERENCE NO: 7536

APPLICATION NAME: 2019 Panorama Water Revenue Requirements Application

This document contains CMUS Panorama Water's (Corix) responses to the following documents.

- A. Information Request Number 1 submitted by Bruce Hamstead on behalf of the Panorama Subdivision Owners Association 2019 (PSOA); and
- B. Questions raised by Mr. Hamstead on behalf of the PSOA in the letter requesting Intervener status dated February 16, 2019.

Section A: Information Request Number 1 submitted by Bruce Hamstead on behalf of the PSOA

1. Recovery of \$490,391 Consumption Deferral Account Balance
 - Is it reasonable to update forecasts and apply for rate revisions once every 9 years?
 - Is it reasonable to wait 9 years to address a growing deficit?
 - Are there any precedents for utilities to recover 9 years' worth of deficits?
 - Corix's actions, or inactions, places the burden accumulated by historical homeowners over 9-year period upon current homeowners to be recovered over a 2-year period. At the very least, the recovery period should be lengthened to reduce the impact.

CORIX RESPONSE:

Annual revenue requirements and rate applications allow utilities to ensure that rates are set in a manner that recovers the annual revenue requirement. Large utilities with significant staff resources tend to file annual rate applications. However, smaller utilities with less staff resources often submit multi-year rate applications. This increases regulatory efficiency and reduces regulatory costs, which ultimately benefits the customers. The last multi-year rate application for Panorama Water was approved effective March 2010. From 2014 onwards, Corix's limited staff resources were focused on researching and preparing to address the water supply issues at Panorama. These issues are described in Section 3.2 of the Application and are summarized as:

- Seasonal turbidity events that result in boil water notices and advisories at Panorama; and
- Risk of damage to the intake at Taynton Creek from potential debris torrents during high mountain stream.

Corix eventually identified an alternative water supply and subsequently applied to the Comptroller for approval of a Groundwater Source Development Program (GSDP) project. The Comptroller approved the GSDP project through Order No. 2498 and the final cost estimate and physical design through Order No. 2531.

The quality and reliability of the water supply at Panorama was the number one priority. Now that these issues are being addressed through the GSDP project, Corix has focused its resources on the revenue requirements and rates for the utility. Going forward, Corix plans to file more frequent revenue requirements and rate applications to ensure that rates are set at an appropriate level and to mitigate the accumulation of high deferral account balances.

Corix initially considered lengthening the recovery period of the Consumption Deferral Account (CDA) to more than 2 years. However, Corix anticipates that it will begin to recover the approved GSDP costs in 2020. Due to the GSDP's project potential impact to customer rates in 2020 the most reasonable approach would be to limit the recovery of the CDA balance to 2 years. Please refer to Corix's response to the Water Comptroller's IR Nos. 15.1, 15.2 and 15.3 in which Corix has provided a scenario analysis regarding the recovery of the CDA balance.

- Is it reasonable to expect 100% recovery of a 9-year deficit that Corix could have acted sooner to mitigate?
 - The oil and gas industry provides a comparable analog where the operating costs of an oil or gas processing facility are recovered from its users according to their use
 - Users agree to pay 100% of operating costs plus overhead (typically ~ 10%) to the operator
 - Operator prepares a budget for the coming year by estimating throughput and associated operating costs arriving at a unit fee (\$/unit processed) to be charged to users throughout the year
 - Operator charges the budgeted unit fee throughout the year; sometimes there are course correction mechanism and sometimes there aren't.
 - Operator prepares a 13th month adjustment to true up actual throughputs and actual costs to arrive at an actual unit fee (\$/unit) to be applicable for the year
 - In case of a deficit, operator invoices users the appropriate amount. In case of a surplus, operator either issues a refund or credits future invoices until arriving at a \$0 balance
 - Such 13th month adjustment must be completed and communicated within 3 to 6 months (depending upon the complexity of the operation) of the close of a year.
 - The accounts of the operator can be audited for up to 2 years after the issuance of the 13th month adjustment notice or the close of the year if no such notice was issued.
 - Users are entitled to a refund if the audit indicates that one was due in absence of a 13th month adjustment notice.
 - Operator is **NOT** entitled to recovery if they fail to issue a 13th month adjustment notice on time.
- Perhaps there could/should be a punitive element applied to Corix's recovery mechanism to encourage them to be more proactive in processing surpluses or deficits. The following example illustrates the effect of a growing 10% per year discount resulting in roughly 2/3 recovery. An argument could be made for a much more punitive mechanism.

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Actual									
Total Consump. Revenue Variance	(\$19,398)	(\$71,123)	(\$73,835)	(\$48,818)	(\$47,244)	(\$60,151)	(\$65,915)	(\$51,499)	(\$52,409)
Accumulated Consumption Deferral Account Balance	(\$19,398)	(\$90,521)	(\$164,356)	(\$213,174)	(\$260,418)	(\$320,569)	(\$386,484)	(\$437,983)	(\$490,392)
Recoverable Amount	20.0%	30.0%	40.0%	50.0%	60.0%	70.0%	80.0%	90.0%	100%
Recoverable									
Total Consump. Revenue Variance	(\$3,880)	(\$21,337)	(\$29,534)	(\$24,409)	(\$28,346)	(\$42,106)	(\$52,732)	(\$46,349)	(\$52,409)
Accumulated Consumption Deferral Account Balance	(\$3,880)	(\$25,217)	(\$54,751)	(\$79,160)	(\$107,506)	(\$149,612)	(\$202,344)	(\$248,693)	(\$301,102)
									61.4%

- A combination of an extended recovery term and partial recovery would seem appropriate in the circumstances

CORIX RESPONSE:

In Order No. 2232, the Comptroller determined that Corix should set up the deferral account and directed Corix to bring forward any excess revenue or deficit at the next revenue requirement application. No date or time limit was set by the Comptroller on when that revenue requirement application was to occur. Therefore, to penalize the utility by retroactively imposing a time limit for recovery of the deferral account balance after the balance has been established would be unfair and punitive in nature.

The water utility industry and the oil and gas industry are separate industries with different rules, regulations, business practices and customer base. There could be key differences justifying the penalty in the oil and gas industry that are not relevant to the water utility industry. Corix considers this an inappropriate comparison as the similarities and differences between the water and the oil and gas industry were not explored.

Furthermore, Corix has already been negatively impacted by rates that have not adequately recovered revenue requirements. Even with the recovery of the Consumption Deferral Account balance for each year since 2010, Corix would not have enough annual revenue to recover all of its revenue requirements for that each year. The table below further illustrates this point. The addition of a punitive element would further exacerbate Corix’s losses.

Table 1: Panorama Water Historical Operating Margin after CDA Recovery

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating Margin (Loss)	\$ (70,533)	\$ (105,909)	\$ (117,216)	\$ (178,013)	\$ (264,590)	\$ (191,177)	\$ (204,342)	\$ (218,245)	\$ (238,277)
Annual CDA Balance	\$ (19,398)	\$ (71,123)	\$ (73,835)	\$ (48,818)	\$ (47,244)	\$ (60,151)	\$ (65,915)	\$ (51,499)	\$ (50,415)
Operating Margin (Loss) after CDA recovery	\$ (51,135)	\$ (34,786)	\$ (43,381)	\$ (129,195)	\$ (217,345)	\$ (131,027)	\$ (138,427)	\$ (166,746)	\$ (187,862)

Going forward, Corix plans to file more frequent revenue requirements and rate applications to ensure that rates are set at an appropriate level and to mitigate the accumulation of high deferral account balances.

2. Use of RRTF

- Justify allocating 100% of RRTF (funds intended to cover repair and replacement) to fund new GSDP (addition of new water sourcing facilities).
- It would be reasonable to allocate some of such reserve funds while retaining a reserve of funds for the intended purpose for the modified facilities.

CORIX RESPONSE:

Corix has already received approval to “use funds from the reserve trust funds towards the cost of the GSDP Project upon submission and review of invoices” in Order No. 2498, dated October 5, 2017. This proposal was part of the GSDP Project Application and was reviewed prior to the Comptroller’s release of Order No. 2498. The discontinuation of the RRTF is discussed in response to the IR below.

3. Discontinuation of the RRTF

- Termination of the RRTF due to the compounding impact of the added costs of the GSPD and the historical \$490,391 deficit balance might be a bit of an over-reaction
- Perhaps a suspension of the RRTF until the **recoverable amount** (see above) of the deficit has been recovered would make more sense. After such recovery has occurred, the RRTF could be reinstated at a new level that is appropriate for the modified facilities: i.e. lower than \$100,000 per year
 - “With the installation of a ground source water supply replacing a surface water supply and a new reservoir replacing the old reservoir during 2019, the Utility anticipates that significant future capital expenditure will be limited in the near to medium term.”

CORIX RESPONSE:

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.

To understand the context behind each point above, please refer to Sections 6.1 and 6.3 in the Application.

Section B: Responses to questions raised by Mr. Hamstead on behalf of the PSOA in the letter requesting Intervener status dated February 16, 2019.

1. Corix claims that cost increases since 2010 have caused them to effectively lose money yet they have provided only selective financial information for the years 2015, 2016, 2017 and projected costs for 2018 & 2019. What costs that were projected by Corix to establish the 2010 rates have exceeded their forecasts used to determine the 2010 rates?

CORIX RESPONSE:

Table 1 of the Application shows actual Operating and Maintenance (O&M) Costs for 2015, 2016 and 2017, along with projections for 2018 and the 2019 forecast. These O&M Costs are broken down into the appropriate groups and include Selling, General and Administrative (SG&A) expenses. Appendix A of the Application expands Table 1 to show annual historical data back to 2010. Corix's rates at Panorama are based on an Operating Margin model as opposed to a rate base model. This means that rates are set to recover O&M costs plus an approved Operating Margin of 9.5% of the O&M costs. The Financial Schedules in the Appendices of the Application, along with the explanations provided throughout the Application and the responses to the Information Requests should provide enough information for a decision to be made regarding the proposed 2019 rates.

While actuals varied positively and negatively relative to their 2010 forecast, the primary cost in 2010 that exceeded the approved forecast was the Corporate Services cost. This actual cost exceeded the forecast cost for 2010 by \$77,868. The Operating Loss for 2010 was \$70,533. Please refer to the response to the Water Comptroller IR No. 5.1 for a discussion of how Corporate Services costs are determined and can be impacted. Given that Corix is reviewing the use of a new Corporate Allocation Model for 2019 rates, the 2010 Corporate Services forecast variance should not have any weight in this proceeding.

2. In their table: Schedule of Operating & Maintenance Expenses for the years 2018/2019, the biggest expense increase is in Operators Wages - +23% for 2018 over 2017 and +25% for 2019 over 2017. An explanation of these large wage increases should be provided.

CORIX RESPONSE:

Please see the response to Water Comptroller IR No. 2.3.

3. With respect to the Consumption Deferral Account, it seems counter intuitive to blame the consumers for Corix's poor forecasting of consumption over the past nine years. Surely, Corix had sufficient data on which to base their rate application for 2010 and should have foreseen that increased water rates lead consumers to find ways to limit water usage. Further, what if anything has Corix done, or is doing, to determine water losses through leakage, etc., which they are treating but not billing to users? Should the Comptroller of Water Rights determine that the "charge back" of the Consumption Deferral Account to the users of Corix water services be "correct", then it would be our recommendation that the recovery of this amount be spread across five (5) years and not the two (2) years as presently proposed.

CORIX RESPONSE:

Corix has not placed blame on any party regarding the Consumption Deferral Account balance. Corix does not have enough data to accurately pinpoint the cause(s) for the reduction in consumption per bed unit. A reduction in average consumption per bed unit could have been caused by a combination of factors such as:

- Price elasticity of demand;
- Reduced consumption due to less visitors to their secondary home in Panorama as a result of:
 - their financial situation;
 - warmer than normal winters during the ski season; or
 - forest fires during the summer.

As noted in the response to the PSOA IR No. 1 on page 1 of this document, Corix’s main priority from 2014 was to identify an alternative water supply in order to address seasonal turbidity events that result in boil water notices and advisories. Now that the GSDP project is underway, Corix can begin to look at how to address other issues within the distribution system. There are plans for an upcoming meter calibration testing initiative in order to identify defective meters as well as potential sources and magnitude of system losses behind the meter. In addition, a new Operations Management System was rolled out company-wide. This asset management program will enable staff to better monitor overall system integrity at the various utilities.

Corix initially considered lengthening the recovery period of the CDA balance to more than 2 years. However, Corix anticipates that it will begin to recover the approved GSDP costs in 2020. Due to the GSDP’s project potential impact to customer rates in 2020 the most reasonable approach would be to limit the recovery of the CDA balance to 2 years. Please refer to Corix’s response to the Water Comptroller’s IR Nos. 15.1, 15.2 and 15.3 in which Corix has provided a scenario analysis regarding the recovery of the CDA balance.

4. In asking for the proposed increases, Corix is in fact asking, for a cumulative year over year increase of 9%. We cannot reconcile this percentage increase with increases in the CPI over these same years. While it would be futile to argue that costs have not increased over this time, would it not have been better to “rate buffer” the required increase over a period of time (3 – 4 years) to allow business and residents to adjust budgets to cover these increased overall costs (residential 106% and commercial 143%)? We are quite sure that were the reverse the case, Corix would be asking for “time to pay”.

CORIX RESPONSE:

Please see the response to PSOA question 3 above.

5. The PSOA asks for a clear explanation as to why Corix wishes to remove the Replacement Reserve Trust Fund Account. How would Corix intend to pay for any catastrophic failure(s) at their plant or within their general supply infrastructure? Every Condominium Association in BC must have a properly accounted and regulated Replacement Reserve Fund to mitigate the cost of unforeseen expense(s). Why would this water utility be permitted to operate without such a contingency fund? It seems, on its face, to be a foolish idea.

CORIX RESPONSE:

Please see the response to PSOA IR No. 4 (Discontinuation of the RRTF).

6. Another concern is a failure by Corix within the materials presented, to present a financial analysis for the rates fully costed against current and future infrastructure and operational costs and showing profit for the private utility – a basic asset management report and long-term financial plan should be available for review.

CORIX RESPONSE:

As discussed in Question 1 of Section B of this document, 2019 rates are based on an approved Operating Margin model. This means that rates are set to recover O&M costs plus an approved Operating Margin of 9.5% of the O&M costs. Corix's financial schedules provide the information relevant to the determination of the 2019. Information on assets and associated depreciation is not relevant to the decision being made. In the future, Corix will switch from an Operating Margin model to a rate base model that takes the assets and associated costs into consideration. Long-term financial plans are typically not included in a revenue requirements and rates application as these applications are typically submitted every one to three years.

7. It would also be helpful if Corix had presented within the distributed materials, what the utility has been doing to address in-house cost management opportunities, such as implementing a systematic water loss management and pressure reduction system for the water distribution system itself.

CORIX RESPONSE:

As noted in the response to the PSOA IR No. 1 on page 1 of this document, Corix's main priority from 2014 was to identify an alternative water supply in order to address seasonal turbidity events that result in boil water notices and advisories. Now that the GSDP project is underway, Corix can begin to look at how to address other issues within the distribution system. There are plans for an upcoming meter calibration testing initiative in order to identify defective meters as well as potential sources and magnitude of system losses behind the meter. In addition, a new Operations Management System was rolled out company-wide. This asset management program will enable staff to better monitor overall system integrity at the various utilities.