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VIA EMAIL

October 30, 2020

Ministry of Forests, Lands, Natural Resource Operations and Rural Development  
Water Management Branch  
Utility Regulation Section  
PO Box 9340 Stn Prov Govt  
Victoria, BC V8W 9M1

Attention: Chris McMillan, Secretary to the Comptroller of Water Rights

Dear Mr. McMillan:

**Re: Corix Multi-Utility Services Inc.  
Panorama Water Utility Revenue Requirement & Rate Application for 2020 to 2022  
Response to Information Request No. 1 and Revised Application**

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Corix respectfully submits its responses to the information requests (IR) listed below:

- IR No. 1 from the Office of the Comptroller of Water Rights (Comptroller);
- Trappers Way Residential Group (Trappers Way); and
- Panorama Subdivision Owners Association (PSOA)

In the response to Information Request No. 1 Corix has included three confidential attachments in response to Trappers Way Question 3.6.3 (Confidential Attachment 1) and Question 5.1 (Confidential Attachment 2) and PSOA Questions 2.1 and 2.2 (Confidential Attachment 3). Corix respectfully requests that this information be kept confidential due to its commercially sensitive nature. These confidential documents are provided solely to the Comptroller and the Interveners for this hearing. Interveners may only use this information for the purposes of this hearing. It is not to be reproduced and/or disseminated to other parties. Corix will post on its website the public responses without the confidential materials.

### **REVISION TO APPLICATION**

Corix proposes to revise the Amended Application filed on June 30, 2020 for the Contribution in Aid of Future Construction amount found in its Water Tariff in Schedule B.

#### **A) Comptroller Information Request No. 1 Question 18.2**

The Comptroller in IR1 Question 18.2 asked the following:

“Epcor Water West has recently applied for a CIAC of approximately \$21,000 per new customer. Please discuss whether a significant CIAC would be appropriate for Panorama Water.”

**B) Panorama Water Tariff No. 4 effective January 1, 2019**

Presently, Panorama Water Tariff No. 4 effective January 1, 2019 states the following:

**Schedule “B” - Contribution in Aid of Future Construction**

Where as a result of premises becoming qualified as authorized premises a greater number of units require or may require service from the utility, thus utilizing waterworks capacity presently or in the future, then, upon application for an extension of service, in addition to the connection charge and any main extension costs, the charge shown below shall be paid.

For each domestic service premises qualifying as authorized premises	\$1,300 per bed unit
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Note: A bed unit is defined in the Definitions section.

**C) Corix Proposal for Updating the CIAC**

Corix provided a response to the information request. In the interest of regulatory efficiency Corix proposes to revise its Amended Application (dated June 30, 2020) by also updating its Schedule “B” - Contribution in Aid of Future Construction \$1,300 per bed unit to \$1,585 per bed unit to be effective on January 1, 2021.

The \$1,300 per bed unit was last approved in Water Tariff No. 3 effective March 1, 2010. Corix proposes to escalate the \$1,300 per bed unit at a compounding rate of 2% per year for 10 years. This yields a figure of \$1,585 per bed unit.

The Comptroller had previously issued an interim Order No. 2570 approving interim rates effective March 1, 2020. Considering this is a late proposal in the proceeding, an effective date of January 1, 2021 for the change in CIAC would provide adequate notice to future customers wishing to connect to Panorama Water. Presently, Panorama Water is not aware of any current application to connect where the CIAC in Schedule B would be applicable.

Corix submits that escalating the previously approved CIAC in 2010 to 2020 dollars at a 2% escalator, resulting in a figure of \$1,585 per bed unit, would be reasonable and justifiable. A revised figure of \$1,585 would balance the interests of existing customers and future customers. Existing customers would benefit from both a higher contribution and added load from future customers. An updated CIAC would have future customers pay for its fair share of costs.

Corix also submits that a contribution of \$2,100 per bed unit (~\$21,000 per customer), similar to EPCOR Water (West) Inc., cannot be justified without performing a much more detailed cost analysis. However, a detailed cost analysis will require additional time and cost to prepare. There is also no assurance that this analysis will result in a rate that is materially different than that achieved by simply updating the 2010 figure for general inflation. Corix submits that an updated figure based on a 2% escalator provides a reasonable balance between the sometimes conflicting objectives of securing cost recovery from new customers while coincidentally keeping costs low enough to attract new customers onto the system to contribute to its ongoing viability.

Corix is including this late request for regulatory efficiency. If Corix does not amend the CIAC rates in the current proceeding, then Corix would need to file a separate application and incur additional regulatory costs in order to affect a potential update to rates in 2021. Alternatively, Corix could address the CIAC in its next

revenue requirement application, which is expected to be in 2023.; however, in that case any new customers would have CIAC rates applied based on the current \$1,300 per bed unit for at least the next 3 years.

**D) Request to Amend Schedule B**

Corix proposes the following for Water Tariff No. 5 with the changes underlined and highlighted in red:

**Schedule “B” - Contribution in Aid of Future Construction**

Where as a result of premises becoming qualified as authorized premises a greater number of units require or may require service from the utility, thus utilizing waterworks capacity presently or in the future, then, upon application for an extension of service, in addition to the connection charge and any main extension costs, the charge shown below shall be paid.

For each domestic service premises  
qualifying as authorized premises

Effective March 1, 2020: \$1,300 per bed unit

Effective January 1, 2021: **\$1,585** per bed unit

Note: A bed unit is defined in the Definitions section.

**E) Revised Application with CIAC Proposal (“Revised Application”)**

On June 30, 2020 Corix filed an Evidentiary Update with an Amended Application for Panorama Water. In ‘Section 1.2 Regulatory Approvals Sought’ it outlined the detailed requests.

**As explained above Corix, submits a Revised Application for the requests found in Section 1.2 Regulatory Approvals Sought in the June 30, 2020 Amended Application plus the request to amend Schedule B for the CIAC (see above in section D).**

**CLARIFICATION TO APPLICATION**

Corix in response to Comptroller Information Request No. 1 Question 16.1 provides a clarification to the Deemed Interest Rate that would be used to true-up the proposed Revenue Deficiency Deferral Account (RDDA).

Corix proposed for the RDDA to true-up its actual interest costs. For clarity, Corix proposes to calculate the actual annual deemed interest rate by averaging the actual monthly deemed interest rates. The actual annual deemed interest rate will be calculated based on the actual rates for the 10 Year Benchmark Canada Yield and the actual 10 Year Corporate Credit Spreads for each month. The resulting average deemed interest rate for the year would then be used to true up the RDDA.

## **FINANCIAL MODEL**

Corix has not included an updated financial model due to time constraints. An updated model would correct for adjustments uncovered in the information request process such as Comptroller IR1 Q. 25.3 Other Income, electricity cost update in Comptroller IR1 Q. 6.1, and updated GSDP project costs. An updated model would have a minor effect on the aggregate revenue requirements and the RDDA balances in each of the test years from 2020 to 2022. However, the output from a revised financial model would have no impact on the proposed rates. The proposed rates remain as outlined in the Amended Application filed on June 30, 2020, which provided targeted revenues to be collected from customers for the three test years. Any under or over recovery of costs in each year would impact the RDDA balances rather than the customer rates. Corix proposes to file the financial model schedules, including any applicable decision adjustments, after the Comptroller's Decision on the Revised Application.

All of which is respectfully submitted,

Sincerely yours,

**Corix Multi-Utility Services Inc.**



Ron Zink  
Director, Financial Planning & Analysis

cc: Elena Oliphant  
Intervenors

**REQUESTOR NAME:** Water Utility Regulation Section, Water Management Branch  
Ministry of Forests, Lands, Natural Resource Operations and  
Rural Development

**INFORMATION REQUEST NO:** 1

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

**DATE:** September 18, 2020

**REFERENCE NO:** 7677

**APPLICATION NAME:** 2020-2022 Water Revenue Requirements Application

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**1.0 Reference: Amended Application, pg. 7, approval request #5**

**Explanation:** CMUS states: “That the rates applied for in request 4a above be set effective March 1, 2020 as interim rates. Also, that the rate change applied for in request 4b above to be effective August 1, 2020 as interim rates, and hence reflected on the August bill sent to customers. Corix requests that the interim rates be subsequently adjusted if and as required based on the Comptrollers’ final decision when rendered on this application, with any refund or additional charges to be accounted for with interest, retroactive to March 1, 2020.”

**Request:**

1.1 Further explain the rationale for the final rates becoming effective March 1, 2020 when the interim rates became effective August 1, 2020.

**Corix Response:**

The rationale for the March 1, 2020 date was because the original application (February 28 Application) was made on February 28, 2020 seeking a March 1, 2020 effective date for a proposed increase on that date. The February 28 Application also requested interim rates on March 1, 2020 so that the regulatory process could proceed and allow any subsequent permanent Order finalizing the rate that may be higher or lower than what was requested to be made effective on a permanent basis. Subsequently, Corix filed an Evidentiary Update on June 30, 2020 with an Amended Application that requested that March 1, 2020 rates be set on an interim basis, but that they be based on prior rates. The Amended Application also requested an interim rate increase to be effective August 1, 2020. The 2020 rate application had a gap from the initial rate change date to the amended rate change date since Corix delayed the start of the rate change due to COVID-19. The rationale for preserving the March 1, 2020 date was to provide the Comptroller with the flexibility to either independently approve or modify both the Interim Rate effective March 1 and the Interim Rate effective August 1 when issuing its final rate order. If the Comptroller decided that a different rate than the proposed interim rate be made from March 1, 2020 to July 31, 2020, the Comptroller would not be able to do so if the rates were not categorized as interim from March 1, 2020 onwards.

Note that in response to Comptroller IR1 Question 18.1, Corix proposes to update Water Tariff Schedule B for the Contribution in Aid of Future Construction from \$1,300 per bed unit to \$1,585 per bed unit. Corix proposes to maintain the \$1,300 per bed unit effective from March 1, 2020 to the end of 2020. Corix then proposes to amend the CIAC to \$1,585 on January 1, 2021. The explanation on timing of the change in rates is explained in the response to Question 18.1.

1.2 What would be the impact if the effective date for final rates was set as August 1, 2020?

**Corix Response:**

If the Comptroller issues a final decision that the rates should be unchanged from March 1, 2020 to July 31, 2020, then it would be a simple matter of converting the Interim March 1 rates to Permanent and making any required adjustments to the Interim August 1 rates. As Corix's financial modelling already reflects the proposed Interim Rates from March 1 to July 31, converting those interim rates to permanent would not change any of the quantitative analyses included herein.

**2.0 Reference: Amended Application, pg. 12, section 2.3, Well #1**

**Explanation:** Corix states that "Upon system commissioning, excess levels of sediment were encountered with one of the two previously developed wells ("Well #1"). Corrective work was undertaken on Well #1 to address the sedimentation; however, the problem still persists. This remediation work was undertaken in January 2020."

**Request:**

2.1 What is the current status of Well #1 and will it remain functional over the longer term?

**Corix Response:**

Following unsuccessful attempts to rectify the sediment issue, and on the advice of technical advisors, Well #1 (designated as Well 15-01) has been abandoned and Well 20-03, has been developed as a replacement. It has not been fully commissioned. Work is in progress to place Well 20-03 into service.

2.2. If Well #1 cannot be relied on for a long term supply, what actions does the Utility recommend?

**Corix Response:**

Well 20-03 will be the back up source to Well 15-02 (the well placed into service in February 2020).

**3.0 Reference: Amended Application, pg. 15, Wages and Salaries**

**Explanation:** "Corix has used an escalator specifically for increases in wages and salaries. This escalator is held constant at 3% throughout the forecast term and is the figure approved by executive management at CII. Given the challenges that Corix and the market as a whole have experienced in attracting and retaining qualified staff, this figure was determined to be a reasonable increase to encourage staff retention and maintain a level higher than the target inflation rate, while minimizing increases to fixed costs for Corix."

**Request:**

3.1 Given recent economic events and Covid19, would it not be more appropriate to use an escalator of 1-2% to account for the forecast drop in inflation and a less robust economy due to the impact of Covid19? Please discuss.

**Corix Response:**

As noted in the Amended Application, the 3% labour escalator was used to attract and retain qualified staff. Corix submits an escalator of 2% or lower would be inconsistent with this objective. Although the pandemic and the resulting economic fallout has negatively impacted many industries, the Utility industry is an essential service and demand for qualified Operators remains strong. In fact, Corix has lost Operators to other entities during the pandemic, but fortunately none have been lost from the Kootenay region. If Corix's compensation levels are deemed to be less attractive than its competitors (including Municipalities and Regional Districts), Corix's ability to attract new staff and retain existing staff will be compromised, which could have a material adverse impact on the quality and reliability of the services provided.

A recent CBC News article supports this position by noting that the economy may be headed to a K-shaped economic recovery.<sup>1</sup> In a K-shaped recovery, the hardship is not equally shared. The article states: "The K pattern may be visible in Friday's unemployment data. Effectively the upward pointing bar of the K includes that group of people with stable incomes who are able to keep doing their jobs using their computers from home. Those people, usually in management, administrative or technical kinds of jobs, have traditionally been better paid. Teachers and medical professionals are in that group." Although not able to perform their jobs exclusively from home, certified Utility Operators certainly fall within the group that would be classified in the upper bar of the K shaped recovery.

See also the response to Trappers Way IR No. 1 Question 4.1.2 for salaries for water operators. In that response the demand for skilled trades still appears to be robust as the employers are either utilities or municipal governments with a continued requirement for skilled trades operators.

**4.0 Reference: Amended Application, pg. 16, Contracting**

**Explanation:** "The costs for the use of outside contractors for operations services. In this Evidentiary Update the Forecast 2020 cost is based on the costs incurred to May with an estimate to year end. As this cost is sporadic in nature Corix developed the Forecast 2021 is based on an average of the cost of

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<sup>1</sup> CBC News, "Watching Friday's jobs data for the dreaded K-shaped recovery: Two-speed recovery has already hit housing, stocks and, increasingly, jobs," October 7, 2020, <https://www.cbc.ca/news/business/jobs-data-k-shaped-recovery-canadian-economy-splits-pittis-1.5752687>

the five preceding years and then future years are escalated at CPI.”

**Request:**

4.1 With the completion of the Groundwater Source Development Program (GSDP), Panorama now has a relatively new system, so why wouldn't one expect the need for external contractors for operations services to be reduced during the 2020-2022 period?

**Corix Response:**

Contracting costs are primarily for electrical contractors that are occasionally needed. Corix does not have certified electricians on staff. The Contracting Forecast 2020 of \$838 is based on the estimated year end spend based on actual costs to May and forecast costs to year end. The Contracting Forecast is relatively nominal in cost. If electricians are not required in the year, the savings will be captured in the proposed true-up to actual costs for the Revenue Deficiency Deferral Account (RDDA) which will be to the benefit of ratepayers.

Corix has provided costs for Line 2 Chlorine and Supplies, Line 4 Billing & Customer Care, Line 5 Water Testing to continue with GSDP in place.

See also the Response to Trappers Way IR No. 1 Question 2.1 regarding chlorine costs.

4.2 Provide the cost figures for each of the five years that were used to generate the forecast 2021 expense. What percentage escalator was used for 2022?

**Corix Response:**

The historical 5 years to generate the cost for Forecast 2021 is shown in Table 1: Operating and Maintenance expenses. Corix understands this question is primarily directed at Line 3 Contracting in Table 1: Operating and Maintenance Expenses. However, Corix has also provided an explanation of the other external services.

With regards to Table 1: Operating and Maintenance Expenses (p. 13, Amended Application), it shows the Line 3 Contracting Forecast 2021 figure of \$721. This is the average of the previous five years (\$1,033+ \$1,547 + \$67 +\$120 + \$838). The Forecast 2022 figure of \$735 is the \$721 from 2021 escalated by 2.0% CPI.

For the other external costs:

Line 2 Chlorine and Supplies Forecast 2021 is the average of 2016 to 2020 in Table 1.

Line 4 Billing & Customer Care in 2021 is based on the 2020 unit cost per customer multiplied by the number of customers forecast for 12 monthly bills escalated at CPI of 2.0%.

Line 5 Water testing Forecast 2021 is based on the Forecast 2020 cost of \$6,096 escalated at CPI of 2.0%.

**5.0 Reference: Amended Application, pg. 16, Wages and Salaries Allocations**

**Explanation:** “Corix’s costs for Wages and Salaries include the costs allocated to the Utility for the:



- Two full-time operators that split their time operating and maintaining all three utilities at Panorama;
- Four operators who primarily work on Operating Contracts that Corix has with clients in the Kootenay region and that occasionally assist the two full-time operators with field work for the Utility;
- One Utility Administrator; and
- An Operations Manager.”

**Request:**

5.1 Provide the cost allocations for the operators and administration between the water utility, wastewater utility, the propane utility and any other endeavors for each of the past 5 years.

**Corix Response:**

The table below provides the allocations between the two full time operators at Panorama. The current two operators have been working at Panorama since 2016.

<b>Panorama Two Full time Operators</b>	2016	2017	2018	2019
Panorama Water	31%	27%	27%	32%
Panorama Wastewater	58%	68%	62%	58%
Panorama Propane	6%	2%	3%	1%
Other Operations	6%	3%	8%	10%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.00%</b>

The table below provides the allocations for the other operators who work at Panorama as required, but who are focused on non-Panorama operating contracts. Note that in 2015 the operators were organized and resourced differently than in 2016 and the following years. For 2015 the allocations are for all operators in Panorama and Kootenay when there was one operator position based at Panorama.

<b>Other Operators - Kootenay Operations</b>	2015	2016	2017	2018	2019
Panorama Water	10%	6%	3%	6%	4%
Panorama Wastewater	20%	11%	7%	9%	6%
Panorama Propane	4%	1%	5%	1%	0%
Other Operations	67%	82%	86%	84%	89%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

It should be noted that the presence of these “Other Operators” is a significant benefit to Panorama, if they were not available, the work they complete would need to be performed either by the existing operators on overtime or (where possible) by external contractors, both of which represent more expensive alternatives. In a worst case scenario, a third dedicated Panorama operator would be required. This scenario would have sub-optimal staff utilization if sharing of

resourcing from Kootenay Ops was not available.

The table below provides the allocations for Administration personnel.

<b>Administration</b>	2015	2016	2017	2018	2019
Panorama Water	15%	15%	15%	15%	15%
Other	85%	85%	85%	85%	85%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**6.0 Reference: Amended Application, pg. 17, Electricity expense**

**Explanation:** “In this Evidentiary Update, Corix has reviewed its most recent electricity bills since the GSDP project was placed into service in February 2020. Corix has updated the 2020 to 2022 Forecast based on the latest electricity consumption information for the new pumping requirements from the well to the reservoir and the operations of the water treatment plant. The February 28 Application assumed a 10% increase in costs. The Forecast 2020 electricity amount is estimated at \$83,536 which reflects costs to date, latest forecast electricity consumption and the BC Hydro rate decrease on April 1, 2020. The Forecast 2021 cost is \$92,470 and the Forecast 2022 cost is \$93,092. The Forecast 2021 and 2022 costs reflect full year electricity consumption with the new plant and anticipated BC Hydro rate changes. Corix will need a longer period of time to monitor and optimize its water operations and procedures.”

**Request:**

6.1 Provide a table of electricity consumption and cost including the months of May through August 2020.

**Corix Response:**

Please see below the table of consumption and electric bills. Panorama Water presently has three meters for its water system: two from BC Hydro (well and water treatment plant) plus one from Toby Creek Electrical (reservoir). Prior to the GSDP project the electrical supply was provided from Toby Creek Electrical (water treatment plant). After the GSDP project there are two additional meters from BC Hydro.

**Electricity Costs**

BC Hydro WELL	Invoice Date	kWh Usage	Amount
	4/16/2020	23,056	\$2,904
	6/4/2020	28,768	\$3,586
	8/5/2020	33,423	\$4,162
	10/5/2020	22,625	\$2,824

BC Hydro WTP	Invoice Date	kWh Usage	Amount
	4/20/2020	50,880	\$6,394
	6/8/2020	63,840	\$7,939
	7/7/2020	36,000	\$3,763
	8/6/2020	39,840	\$4,137
	9/4/2020	29,520	\$3,158
	10/6/2020	15,120	\$1,763

Toby Creek Electrical	Month	Amount
	Apr-20	\$1,835
	May-20	\$1,577
	Jun-20	\$1,457
	Jul-20	\$1,431
	Aug-20	\$2,434
	Sep-20	\$16
	Oct-20	\$33

The historical consumption from BC Hydro shows a large increase in consumption from April to June 2020. The peak consumption use was in the BC Hydro June invoice. Corix was able to track the increased consumption to water system leaks. A full explanation is provided in the response Trappers Way IR No. 1 Question 3.5. As the repairs to the distribution system were made from May to September the electric consumption correspondingly also decreased.

Toby Creek Electrical billed the above invoice amounts. Corix has been seeking an explanation of the bills. This week, Toby Creek Electrical has confirmed that the electrical costs for the freshwater pumphouse from February 20, 2020 to September 2020 should have been approximately \$700 total for the whole period. Toby Creek will be reviewing its meter reads in detail and issue revised bills along with a bill credit.

Since the water leaks appears to be addressed, Corix forecasts that the revised electrical bill for 2021 is estimated at \$55,000. This estimate is based on the latest estimated BC Hydro consumption information in the October 2020 bills and updated Toby Creek Electrical bill. The BC Hydro consumption was estimated for a full year by using the latest available billing month to calculate the daily consumption and adjusting the daily amount by 25% since September is a shoulder month for consumption. The August and September consumption measured by the BC Hydro bills has lower consumption due to system leaks that were repaired but also natural lower use in September due to lower monthly seasonal customer demand.

## **7.0 Reference: Amended Application, pg. 21-22, Allocations from Panorama and Kootenay Ops**

**Explanation:** “In this Evidentiary Update, the Allocations from Panorama & Kootenay Ops line item includes an additional amount for a common asset allocation cost that was inadvertently omitted from the February 28 Application, and has now been included in this Amended Application.”

### **Request:**

7.1 Further explain the nature of the “common asset allocation” and its allocation methodology.

### **Corix Response:**

The common assets include computers, the telephone system, office equipment, VT SCADA, and furniture. Panorama Water is allocated 13.75% of the depreciation expense associated with these assets, based on the “expected use” methodology noted in the Evidentiary Update.

## **8.0 Reference: Amended Application, pg. 28, Table 5**

**Explanation:** The substantial increases in corporate cost allocations seems to be driven by the increase in rate base.

### **Request:**

8.1 Why is it reasonable to increase corporate cost allocations for the rate base increases when one might expect there to be less corporate involvement now that the system has been upgraded? Please discuss.

### **Corix Response:**

A corporate cost allocation is inherently an estimate of a reasonable allocation of shared costs that are not directly assignable. Corix proposes to use an industry standard three factor model employing a Massachusetts Formula where the three factors are equally related. The three factors for the composite allocator are Gross Revenue, Headcount, and Gross Property, Plant & Equipment (Amended Application, Table 3, p. 27). Regulators in North America including the BCUC and Alberta Utilities Commission have used a three factor equally weighted formula that does not overweight each factor. As the allocation is a reasonable estimate of costs, fairness is the objective rather than preciseness. A review of the three factors shows that it includes labour measured by headcount, cash flow measured by revenues; and infrastructure investment as measured by Gross PP&E.

Corix operates both regulated and unregulated utilities and services across North America. Where Corix provides a service through an O&M contract but does not own the infrastructure assets that utility would receive allocations primarily based on headcount and revenues plus any nominal assets (e.g. small equipment), reflecting the absence of responsibility for the management of the underlying assets.

Most regulated public utilities have all three factors: Revenues, Headcount, and PPE (assets). In

fact, the utility industry is primarily an infrastructure asset management business, where the corporate entity provides asset stewardship and safe-guarding of assets through operating, maintaining, insuring, protecting (physical, cyber, and legal), and long term planning for upgrades, rehabilitation and/or replacement.

Panorama Water with its GSDP project has significant capital infrastructure assets with an average life of 51 years, where portions of it will last up to 75 years.<sup>2</sup> This capital investment is reflected in the rate base of the utility. The asset stewardship and safeguarding function along with associated revenues is the primary driver on why Panorama Water faces an increase in corporate cost allocations.

## **9.0 Reference: Amended Application, pg. 28**

**Explanation:** “In this Evidentiary Update, Table 5 above has been updated and is consistent with the BCUC CAM Application.”

### **Request:**

9.1 Has the BCUC CAM Application been approved? If yes, please provide those sections of the Reasons For Decision that apply to the Corporate Functions cost allocations?

### **Corix Response:**

The hearing for the BCUC CAM Application is still underway. It has completed 2 rounds of information requests and is in the process of arguments, and by Order G-229-20A the Reply Argument was filed on October 26, 2020. Based on the current regulatory timetable, a decision is expected near the end of December 2020 or early 2021.

## **10.0 Reference: Amended Application, pg. 29, Table 6, Shared Services Canada Functions**

**Explanation:** The Human Resources allocation methodology is based on headcount and the Massachusetts is composite.

### **Request:**

10.1 Why wouldn't this allocator be solely Headcount? What benefit does the Massachusetts formula add for Human Resources?

### **Corix Response:**

Table 6, Item 2 Shared Services Canada Allocation Methodology should have only stated “Headcount” and not both “Headcount; Massachusetts Model Composite Allocator”. Corix confirms that this correction to only Headcount is consistent with the table filed with the BCUC

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<sup>2</sup> See also response to Panorama Subdivision Owners Association IR1 Question 1.5

in Table 10 in the BCUC CAM Application.

## 11.0 Reference: Amended Application, pg. 32, Table 9, Regional Services

**Explanation:** The percentage allocated to Panorama Water rises to 2.7% in 2021 and 2022.

### **Request:**

11.1 Is the completion of the GSDP the sole reason for the increase?

#### **Corix Response:**

The GSDP is the sole reason for the increase. The GSDP with higher assets and revenues in those years results in a higher allocated percentage.

11.2 Why is this allocation fair if the improved system at Panorama Water might lead to less external services in the future? Please explain your proposal.

#### **Corix Response:**

See also the explanation provided in response to Question 8.1 above. On pages 31 and 32 of the Amended Application, it explains “Regional Services Costs are allocated from the regional cost centre to each utility based on the pro-rated allocations developed for the Corporate Services Costs. For example, if all the utilities in Region #1 accounted for 20% of the Corporate Services Costs allocations and one utility (e.g. Utility A) accounted for 5% of the Corporate Services Costs allocations in Region #1, then Utility A would be allocated 25% (5 divided by 20) of the total Regional Services Costs in Region #1.”

Over the long-term Panorama Water with its higher asset base would require more regional cost attention to oversee and maintain the assets and safeguard the assets. Regional Services Costs provide support for the local utilities in the region. Its allocators are consistent with the allocations utilized for Corporate Services Costs. The Corporate Services Costs are primarily allocated using the Massachusetts Model Composite Allocator which equally weights three factors: Gross Revenue, Headcount, and Gross Property, Plant & Equipment. Regional Services would also be contributing to asset stewardship and safeguarding of assets. The GSDP Project has added over \$7.5 million of assets for which Corix’s responsibility is to operate and maintain for the benefit of customers.

The GSDP Project brings Panorama’s water to a level that meets Interior Health’s Water 4-3-2-1-0 Drinking Water Objective.<sup>3</sup> The prior water source from the Taynton Creek water source was subject to seasonal turbidity events that result in frequent boil water notices and advisories due to an inability to meet the Interior Health Authority’s drinking water treatment objectives.

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<sup>3</sup> Interior Health 4-3-2-1-0 Drinking Water Objective  
[https://www.obwb.ca/fileadmin/docs/43210\\_Drinking\\_Water\\_Objective.pdf](https://www.obwb.ca/fileadmin/docs/43210_Drinking_Water_Objective.pdf)

The long-term solution approved by Comptroller Order No. 2498 was a groundwater source development program that involved a large capital investment. The assets placed in service require asset stewardship with an average life of 51 years. During this period management and support services will be providing services to ensure that the assets are maintained and provide safe and reliable service during routine periods, emergencies, adverse weather, and any other natural disasters. In an emergency or natural disaster Corix personnel would be available both regionally and throughout the Corix affiliates to provide expertise and assistance when needed.

## **12.0 Reference: Amended Application, pg. 33 & Table 10B, Corporate and Regional Services**

**Explanation:** “In this Evidentiary Update the changes from the February 28 Application are as follows:

- Costs of the COO Regulated Utilities cost center were previously allocated to Regional Services Costs and now have been moved to Corporate Services Costs. This is shown as a reduction in Regional Services Costs offset by an allocation of costs in Corporate Services Costs. The costs associated with the COO Regulated Utilities more appropriately should originate from the Corporate Services Costs.
- Table 10B shows the updated total Corporate Services Costs and Regional Services Costs are lower by \$9,863 in 2020, higher by \$17,475 in 2021, and higher by \$34,229 in 2022.
- The changes above reflect the latest estimates of the pooled Corporate Services Costs and latest forecast allocators. These forecast cost allocation amounts are consistent with the methodology in the BCUC CAM Application in section 3.5 Known and Measurable Changes.

In this Evidentiary Update the change in Corporate Services Costs from \$75,006 in 2020 to \$90,077 in 2021 and to \$109,224 in 2022 reflect the revised estimated June 30<sup>th</sup> balances for Gross Revenues and Gross Property, Plant & Equipment. Higher Gross Revenue in 2020 and 2021 are reflected in a higher percentage allocation in 2021 and 2022. The GSDP Project is not fully reflected in plant until June 30, 2021 which impacts the 2022 cost allocation. The figures for 2021 and 2022 are the latest estimates and are subject to change until the actual results are known for June 30<sup>th</sup>, 2020 and June 30<sup>th</sup>, 2021, respectively.”

### **Request:**

12.1 Further explain why the changes to Corporate and Regional Services leads to such large increases in costs for Panorama Water.

### **Corix Response:**

In summary the GSDP project with its \$7.5 million assets and associated revenue requirements has a direct and significant impact on the Gross Property Plant & Equipment factor and the Gross Revenues factor used in the Massachusetts Formula. These two factors are the primary reason the indicative forecast allocated costs for Panorama go up in 2021 and 2022.



In the February 28 Application the forecast for 2021 and 2022 only reflected changes in the overall Total Corporate Services Cost to be allocated from CII. The Total Corporate Services Cost went down in 2021 and then up in 2022. This is reflected in Table 10A in the Amended Application where initially it was \$81,370 for 2020, \$77,659 for 2021, and \$80,003 in 2022. The February 28 Application did provide indicative forecast years for 2021 and 2022 but it did not include Known and Measurable Changes (Bargain Acquisition Adjustment, Asset Impairment Adjustment, and Approved Major Capital Projects) as applied for in the BCUC CAM. The absence of Known and Measurable Changes results in indicative figures that are not reflective of utilities' unique circumstances and those with substantial capital investments in the forecast period. The prior methodology (without Known and Measurable Changes) was suitable for mature stable utilities but not utilities with significant capital build programs since the indicative forecast costs did not anticipate changes in assets, revenues, and headcount; thus providing an inappropriate outlook on what would be the future allocated costs. Because of this issue, Corix proposed Known and Measurable Changes in the BCUC CAM Application to better reflect the indicative allocated costs based on known information.

The primary reason for the allocated cost increases in 2021 and 2022 is the application of Known and Measurable Changes which provides a more reliable estimate of the indicative allocated forecast costs. For Panorama Water, the indicative figures reflected the forecast Gross PP&E, Gross Revenues and Headcount for the three years. The GSDP project has added significant assets, which is reflected in the 2021 and 2022 allocated forecast. The completion of the GSDP Project also has revenue impacts, which are included in Gross Revenues in determining the allocation of costs.

Note the actual 2022 allocation will be based on the actual Property Plant & Equipment as of June 30, 2021, actual Gross Revenues for the trailing 12 months as of June 30, 2021, and the actual Headcount as of June 30, 2021. The indicative allocation forecast with the application of Known and Measurable Adjustments for 2021 and 2022 is a better estimate of what may be the actual results. Actual results may vary from the indicative forecasts if Panorama's actual Gross PP&E, Gross Revenues, and/or Headcount is different; if the other utilities have differences in the those three factors; if new Utilities are added; and also if the Total Corporate Services Cost is different. As stated above, the indicative allocations provide an estimate based primarily from the impact of GSDP.

### **13.0 Reference: Amended Application, pg. 34, Stand Alone costs**

**Explanation:** "As a standalone utility, the costs to obtain these specialized services through contractors or third-party consultants would be significantly higher. Given its geographic location, in the absence of paying significant out-of-pocket expenses for travel costs from larger urban centres, there is some question as to whether Panorama Water as a stand-alone entity would even have access to necessary specialty resources as required."

And: "This sharing of pooled specialized resources allows a small utility operation such as Panorama Water to have the immediate capability and cost effectiveness of a much larger utility."



**Request:**

13.1 Further substantiate the above assertions with a couple examples of specialized services provided more economically from Corporate and Regional Services.

**Corix Response:**

Some examples of specialized services include Information Technology Services, Compliance Services, and Legal Services.

**IT Services**

- Panorama has access to a number of skillsets on the technology side that a small utility would struggle to bring to the table. Panorama leverages a fair portion of in-house expertise and infrastructure to ensure the consistent availability and security of the complex control and monitoring system that operations uses to conduct their daily activities. This shared infrastructure and support gains economies of scale across a large number of systems, amortizing the up-front costs over a larger base of utilities, and reducing reliance on outside third-party vendors.

The cost to support individual software platforms includes WIMS (Water Information Management System) and LUCITY (maintenance management system) would not be sustainable by one small utility. The cost to purchase software, licence fees, hardware, upgrades and ongoing support is much more cost effective at the corporate and regional level than by a stand-alone utility.

WIMS is a central repository of water quality data. It provides automatic notifications when results are outside parameters and the water testing lab can directly upload to WIMS to improve communications and accuracy. LUCITY is a computerized maintenance management system. It is a program with automatic record keeping of maintenance and supports the utility to conduct periodic work. It is central to a preventative maintenance program. LUCITY is a large investment that is shared with other utilities that a small stand-alone utility could not afford to acquire. These IT systems also include Corix subject matter experts that will be able to operate the system. These economies of scale occur when costs are shared amongst the utilities.

Specific to cyber security the infrastructure presence is part of an enterprise wide SCADA cyber security apparatus that seeks to eliminate threats as such as ransomware, denial of service and intrusion threats. The infrastructure also reduces costs by providing secure remote access and alarming to operations reducing operator callout, key to a system remotely situated such as Panorama. Lastly, infrastructure enables the secure sharing of information with other platforms such as our daily rounds capture tool and asset management systems automating the collection of information and reducing time spent on these activities.

**Compliance Services**

- Compliance Services provides environmental support for permits, amendments, ongoing

changes to new regulation and performance tracking. The fulfillment of these requirements is much more cost effective at the regional level compared to alternatives such as obtaining third party consultants or obtaining full time staff at the local utility level. In a larger company, subject matter experts such as in Health, Safety, and Environment (HSE) can provide and perform specialized services much better than a generalist in a utility. A stand-alone utility generalist would need to be hired to perform many different tasks but would not have the qualifications of a specialist. Corix provides a corporate governance structure with the HSE groups that take into account leading practices in the industry. As part of governance, key performance indicators are tracked annually to ensure safe and reliable operations.

## Legal Services

- Legal Services provides legal advice on utility matters that may arise and legal review of contracts. Using in-house legal counsel and sharing the specialized utility legal expertise is much more efficient. The in-house lawyer provides continuity of legal advice and familiarity with utility and company practices. The alternative would be to obtain external legal counsel for these services. External counsel would need to learn (and be compensated for) what an in-house counsel would already be familiar with. External counsel would not be fully familiar with prior legal cases within the company that would shorten the time to deal with the legal matter. When there is enough in-house legal work to employ an inhouse full-time lawyer it is less expensive than hiring an external legal counsel to perform the same work. Hiring external counsel would entail paying for the overhead of the external law firm which is not inexpensive.

Since Corix operates many small utility systems there is enough legal work to hire full time lawyers. A small utility since as Panorama Water does not have enough legal work to justify hiring in-house legal counsel, so the only alternative would be to hire external counsel or do without legal advice.

### 14.0 Reference: Amended Application, pg. 35, Snowmobile

**Explanation:** “The current snowmobile is 13 years old and approaching end of life. Costly repairs have been needed to keep it operational.”

#### **Request:**

14.1 When is the snowmobile scheduled for replacement?

#### **Corix Response:**

The snowmobile is budgeted to be replaced in 2021 but the priority of the replacement has been downgraded, as Corix no longer relies on it daily. With the upgrade to the GSDP water system, daily reliance on the snowmobile has been reduced, as operators no longer need to access the surface water intake. Corix will continue to assess if the snowmobile replacement is required in the upcoming winter by using alternative access methods to reach the reservoir.

See also the response to Trappers Way IR No. 1 Question 12.2

14.2 What is the cost of a replacement snowmobile and its life expectancy?

**Corix Response:**

The cost is \$15,000 and the life expectancy is 10 years. Depending on use the life may be extended with lighter use or lower with heavier use.

14.3 What repair costs have been incurred in the last two years?

**Corix Response:**

In the last two years maintenance costs totaled approximately \$1,100. Service included pre-season commissioning and parts such as a drive belt and ski carbides.

**15.0 Reference: Amended Application, pg. 37, GSDP Project Costs**

**Explanation:** “At this time the system is operational; however, the GSDP project will not be complete until late 2020. Further work is required in the Spring/Summer to complete work on the well and supply mains, and decommissioning of the old assets, where required, is scheduled in the Fall.”

**Request:**

15.1 Provide a full update on the status of the GSDP.

**Corix Response:**

Commissioning

Originally the project was scheduled to complete construction, with commissioning of the new water source, treatment and storage system, in October 2019. Upon commissioning, it was discovered that Well #1 (designated as Well 15-01) was producing excess sediment and exceeding acceptable turbidity thresholds. Sediment was introduced into the water supply mains and contaminated the UV reactors. UV components were flushed and decontaminated. Commissioning was delayed while addressing the issues with Well 15-01. A decision was made to attempt to redevelop Well 15-01 rather than incur the expense of drilling a new well. Redevelopment efforts undertaken in December 2019 to January 2020 were unsuccessful. The decision was then made to drill and develop a new well in proximity to the existing well infrastructure, with the work scheduled for the spring of 2020. Permission was granted by Interior Health Authority to proceed with system commissioning employing the remaining Well 15-02. Permission was granted with the understanding that the former surface intake, treatment and storage systems would remain as a contingency in the event Well #2 (Well 15-02) failed. Therefore, demolition and decommissioning of the former treatment and storage systems was postponed until Fall 2020. The new water source, treatment and storage systems went into production on February 11th, 2020.

Well 20-03 Drilling and Development

Due to the Covid-19 pandemic and social distancing guidelines, progress on new well construction was delayed. On May 11, 2020, a site meeting at Panorama was conducted with the Well Consultant (Ryan Rhodes, Western Water Associates) to select a location for the new well. Site clearing and grubbing was undertaken to prepare for the drilling contractor.

JR Drilling mobilized to site July 20th and commenced drilling:

- Site #1 – Drilled 10” bore. Aquifer thickness was deemed inadequate
- Site #2 – Drilled 6” pilot bore. Aquifer was deemed acceptable. Drilled 10” bore. Pumping tests revealed that the well was not capable of recharging to meet the design flow capacity (22 l/s).

At this point, the decision was made to drill the well proximal to Well 15-02, as it was known to produce adequate quantity and quality of water. Since the two wells were not designed to operate concurrently, draw down from either well impacting the other would not be a significant concern.

- Site #3 – Drilled a 6” pilot bore. Aquifer was acceptable. Drilled 10” bore. Pumping tests were successful.

Well drilling concluded August 30th. The Well Consultant recommended that Precision Pumps perform well development work, since this contractor had successfully developed Well 15-02, the functioning well. Precision Pumps mobilized to site September 3rd, 2020 and commenced development work until September 10th. Development work concluded that Well 20-03 is producing sediment upon start up and at higher flow rates. It is expected that this well will clean up over time and operating restrictions will prevent sedimentation of the water system.

Financial Update

The Financial Update on the GSDP project is shown below. In the Amended Application on page 35 it included Table 11: Total GSDP Project Costs (before reserve fund withdrawals and excluding AFUDC). The tables below show Table 11 in the Amended Application (June 2020 Evidentiary Update) and the October 2020 Updated spend for the project, as well as the difference between the cost forecasts. Overall Corix, expects to exceed the total GSDP Project cost by \$57,399 from the June 2020 Evidentiary Update Forecast. The higher cost estimate is primarily from drilling two unsuccessful wells in the summer when only one well was budgeted.

**Table 11: Total GSDP Project Costs (before reserve fund withdrawals and excluding AFUDC)**

	Total GSDP Project Cost*
Approved through Water Comptroller Order No. 2531	\$ 6,934,974
<b>Final Cost estimate, June 2020 Evidentiary Update</b>	<b>\$ 7,572,618</b>
Difference	\$ 637,644

\* - Before approved reserve funds withdrawals and before Allowance for Funds Used During Construction (“AFUDC”)

**Table 11: Total GSDP Project Costs (before reserve fund withdrawals and excluding AFUDC)**

	<b>Total GSDP Project Cost*</b>
Approved through Water Comptroller Order No. 2531	\$ 6,934,974
<b>Final Cost estimate, October 2020 Update</b>	\$ 7,630,017
Difference	\$ 695,043

\* - Before approved reserve funds withdrawals and before Allowance for Funds Used During Construction (“AFUDC”)

**Difference Table 11: Total GSDP Project Costs (before reserve fund withdrawals and excluding AFUDC)**

	<b>Total GSDP Project Cost*</b>
Final Cost estimate, October 2020 Update	\$ 7,630,017
Final Cost estimate, June 2020 Evidentiary Update	\$ 7,572,618
<b>Difference</b>	<b>\$ 57,399</b>

\* - Before approved reserve funds withdrawals and before Allowance for Funds Used During Construction (“AFUDC”)

**16.0 Reference: Amended Application, pg. 39, Table 14, Deemed Debt Financing**

**Explanation:** The GOC 10-Year bond yield has been affected by the Government response to Covid19.

**Request:**

16.1 Recalculate Table 14 using the average of the GCOC 10-Year bond yield for August 2020 and the current premium for BBB-BBB(low) bonds.

**Corix Response:**

The recalculated Table 14 is presented below assuming figures for August 2020 based on a point in time without a 12 month rolling average of the 10 Year Canada Benchmark Bond:

**Table 14: Debt Financing (Recalculated for August 2020)**

	Rate
GCOB 10-Year Bond Yield (August 2020) <sup>4</sup>	0.61%
BBB-BBB(low) Premium (August 2020)	2.02%
Issuance Fee	0.25%
<b>Deemed Interest Rate</b>	<b>2.88%</b>

Corix notes that the proposed deemed interest rate of 3.64% in the Amended Application was calculated using a 12 month rolling average of the 10 Year Canada Benchmark Bond.<sup>5</sup> For comparison purposes, Corix has updated the deemed interest rate for the August 2020 using the methodology proposed in the Amended Application. This is shown in the table below.

**Table 14: Debt Financing (Recalculated for August 2020)**

	Rate
GCOB 10-Year Bond Yield (August 2020, 12 month rolling average)	1.00%
BBB-BBB(low) Premium (August 2020)	2.02%
Issuance Fee	0.25%
<b>Deemed Interest Rate</b>	<b>3.27%</b>

Corix proposed for the RDDA to true-up its actual interest costs. **For clarity, Corix proposes to calculate the actual annual deemed interest rate by averaging the actual monthly deemed interest rates. The actual annual deemed interest rate will be calculated based on the actual rates for the 10 Year Benchmark Canada Yield and the actual 10 Year Corporate Credit Spreads for each month.** The resulting actual average deemed interest rate for the year would then be used to true up the RDDA.

Month	Deemed Interest Rate %	GOC Benchmark Bond Yield 10-year %	Corporate Spread 10-Year Term %	Issuance Fee %
January 2020	3.28	1.31	1.72	0.25
February 2020	3.12	1.21	1.66	0.25
March 2020	3.01	0.88	1.88	0.25
April 2020	5.11	0.56	4.30	0.25

<sup>4</sup> V122543: Government of Canada benchmark bond yields - 10 year, August 2020

<sup>5</sup> The use of the 12 month rolling average was explained on page 39 of the Amended Application.

May 2020	3.58	0.54	2.79	0.25
June 2020	3.40	0.54	2.61	0.25
July 2020	3.04	0.48	2.31	0.25
August 2020	2.88	0.61	2.02	0.25
September 2020	2.75	0.57	1.93	0.25
Actual Deemed Average (Year to Date for 2020)	3.35			

The above table shows the actual monthly results for 2020 up to August 2020. The average deemed interest up to September 2020 is 3.35%.

Corix has recently been able to obtain monthly corporate credit spreads from two national banks. Corix notes that the proprietary corporate credit spread information is subject to provision and willingness from the bank providers. Corix will endeavor to calculate the deemed interest rate on a monthly basis when it can obtain the information. There may be months where Corix is unable to obtain the information from both banks or the information is unavailable for a particular month. In such cases, Corix would approximate the credit spread based on the information available to Corix. Corix submits the use of the proposed actual deemed interest rate calculation is fair and objective based on external party sources. Instead of relying on an application forecast prepared prior to the application date to set rates and cost recovery, the use of actual deemed interest rates better reflects the true cost.

16.2 What is the difference in bond yield premium between BBB rated debt and BBB(low) debt? Why is the Utility not considered at least BBB rated because of the proposed RDDA and the minimal competition from alternative water options?

**Corix Response:**

Corix is unable to quantify the difference in bond yield premium between BBB rated debt and BBB(low) debt. Theoretically, BBB(low) debt should require a higher premium than BBB rate debt since BBB(low) has a riskier profile. However, there are only a handful of companies in the utility industry in Canada that are clearly BBB or BBB(low). Also, the issue of split credit ratings among the credit rating agencies complicates matters. When calculating the corporate credit spread, Corix has included utility companies that are clearly BBB or BBB(low). It has not included any debt issuers in a split credit rating with a single BBB or BBB(low) where the consensus rating is higher.

For example, Emera Inc. is a utility company with a split credit rating: BBB- (S&P); Baa3 (Moody's); and BBB (Fitch). BBB- is equivalent to BBB(low). Baa3 is equivalent to BBB(low). Corix confirms that Emera Inc. is a comparable company for inclusion in the deemed interest calculation. For comparison, Fortis Inc. is utility company with a split credit rating: BBB(high) (DBRS); BBB+ (S&P); and Baa3 (Moody's). Moody's rates both Emera Inc. and Fortis Inc. as both Baa3. However, the debt markets have consistently required Emera Inc. to have larger



corporate credit spreads than Fortis Inc. Based on the realized corporate credit spreads, it appears that the credit market considers Fortis Inc. to be less risky than Emera Inc. Corix confirms that it has not included Fortis Inc. as a comparable BBB or BBB(low) utility since the markets have clearly assessed Fortis Inc. as less risky than BBB despite Moodys assessment. In another comparison, Inter Pipeline Ltd. is an energy infrastructure company with a credit rating of BBB (DBRS) and BBB- (S&P). Inter Pipeline, though it meets the BBB/BBB(low) criteria, has higher credit spreads and is predominantly a mid-stream energy transportation company rather than a utility company. For those reasons Inter Pipeline has not been included in the peer comparison.

With regards to the second part of the question, Corix considers that the proposed inclusion of BBB(low) and BBB- utility companies is appropriate given the limited number of companies that qualify. As the market is dynamic new utilities companies may emerge or existing utility companies may merge with a larger company.

Corix has limited resources and any further refinement of the credit spread between BBB and BBB- would require expert consultant advice that would increase costs to the utility and to ratepayers. Corix submits its proposed methodology is objective, from an external source, fair, has a low cost to obtain, and is reasonable for ratepayers.

The BCUC in the GCOC Stage 1 Decision commented on the Stand-Alone Principle:

“The Panel reaffirms the long history and importance of the stand-alone principle in Canadian utility regulation. The determinations on the benchmark ROE and capital structure in this Decision are based on this principle. Therefore, there is no reason to deviate from this principle even in the case of small utilities or projects whether or not they are part of a larger utility. These projects can represent either a “new” utility with a greenfield operation and no historical performance data or an existing facility being developed into a TES project. Each project needs to be considered individually and independently.”<sup>6</sup>

BCUC stated with regard to the Equity Risk Premium for a TES Project:

“In reference to the Stage 1 Decision, the Panel confirms that the default debt component of the capital structure is set to track a benchmark credit spread that reflects BBB or BBB(low) rated debt relative to the 10 year Government of Canada bond yield.”<sup>7</sup>

The stand-alone principle evaluates each utility as a stand-alone entity regardless of who owns the utility. Panorama Water is a very small utility. Also, it has a less diverse customer and

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<sup>6</sup> BCUC GCOC Stage 1 Decision, p. 100, [https://www.bcuc.com/Documents/Proceedings/2013/DOC\\_34699\\_BCUC-GCOC-Stage1DecisionWEB.pdf](https://www.bcuc.com/Documents/Proceedings/2013/DOC_34699_BCUC-GCOC-Stage1DecisionWEB.pdf)

<sup>7</sup> BCUC GCOC Stage 2 Decision, p. 123, [https://www.bcuc.com/Documents/Proceedings/2014/DOC\\_41123\\_03-25-2014-BCUC-GCOC-Stage-2-Decision-WEB.pdf](https://www.bcuc.com/Documents/Proceedings/2014/DOC_41123_03-25-2014-BCUC-GCOC-Stage-2-Decision-WEB.pdf)



economic base. As a small utility it faces risks that large monopolies like FortisBC Energy and BC Hydro do not have since any losses in a specific community is recovered from other customers due to postage pricing and common services areas for these large utilities in BC. Panorama Water like many other small utilities operate as a stand-alone utility in a community or small area. Panorama Water cannot recover any stranded costs from other Corix owned water utilities unlike FortisBC and BC Hydro. Because of this it faces much greater risk. Panorama Water as a stand-alone utility is too small to issue any bonds and thus would not be able to receive a credit rating on its own. As a small utility, Corix does not have the ability to offload the risk of the utility to other ratepayers. A large natural monopoly like FortisBC with many locations in BC within the same regulated service area, has the ability to have other ratepayers pay for costs that occur in specific communities.

Corix agrees that it has minimal competition from alternative water options. Likewise, other regulated utilities like thermal energy systems have limited options as the development and homes are sized to have a single source of energy supply. Small utilities like Panorama Water and TES projects have limited geography and a limited amount of customers. Other than the service delivered, small water and energy systems are very much similar in service and risk profile and are considered rate regulated utilities in BC. They have a small number of customers and a relatively small asset base when compared to the large natural monopolies.

16.3 Would the Utility agree that a more recent estimate of its deemed cost of debt is more reasonable since Covid19 has changed expectations of bond yields during the term of this test period? Please discuss.

**Corix Response:**

Please see the response to Question 16.1. Since Corix is proposing an RDDA that captures differences in interest rates, the proposal in response to Question 16.1 would address actual deemed interest rates for the test years proposed.

**17.0 Reference: Amended Application, pgs. 39-40, Return on Equity**

**Explanation:** “Corix proposes a return on equity (“ROE”) based on the approved ROE for the benchmark low-risk utility as determined by the BCUC from time to time, currently set at 8.75%, plus a minimum default equity risk premium above the benchmark utility’s return. Corix proposes a minimum default equity risk premium of 75 basis points, equal to the equity risk premium approved by the BCUC for small TES utilities.”

**Request:**

17.1 Why does Corix believe that the BCUC benchmark utility after tax ROE of 8.75% remains appropriate in this Covid19 era?

**Corix Response:**

The required return on equity for a given equity investment is comprised of four components: The underlying Risk Free Rate of Return, the Market Risk Premium, the Industry Specific Premium, and the Company Specific Premium. While the first component (risk free rate of return) is based on government bonds and has indeed decreased, the other components that comprise ROE have not necessarily exhibited the same trend. In fact, given that Panorama is a resort community and that COVID has had a significant negative impact on tourism, one could make a very reasonable argument that the increase in the company specific risk premium applicable to this particular utility will offset the decrease in the underlying risk free rate.

An analysis of the bond markets supports this conclusion. The bond market is an objective indicator of utility risk from a debt holder's perspective. The table below shows the changes in the Corporate Spread for 10 Year Term Canada for BBB and BBB- utilities. The market disruption was pronounced in April 2020 where the spread peaked at 4.30%. Prior to Covid19 the corporate spread hovered around 2.00%. Since April 2020, the spreads have steadily declined to the October 2020 spread of 1.96% a level very similar to twelve months earlier (October 2019) which was 1.97%.

With regard to the benchmark equity return of 8.75%, given the observed results from the recent corporate credit spreads, the business and financial risks at this time appear to be normalized and similar to prior to Covid19. As such, Corix submits that the BCUC benchmark utility after tax ROE of 8.75% remains appropriate in the Covid19 era until it is changed by the BCUC. Notwithstanding this, Corix believes that it is in the best interest of utilities and rate payers to follow the standard benchmarks established by an independent third party regulator rather than incurring the significant costs and effort associated with establishing separate ROE's for each utility. To date the BCUC has not indicated any change to the benchmark rate, but if such a change were to be adopted Corix would modify its ROE accordingly from the first day of the month following such change, and any increase or decrease in ROE would flow through the RDDA to the benefit or detriment of the ratepayers.

Corporate Spread 10-Year Term	
Month	Yield
May 2019	2.12
June 2019	2.14
July 2019	1.93
August 2019	1.91
September 2019	2.02
October 2019	1.97
November 2019	1.94
December 2019	1.84
January 2020	1.72
February 2020	1.66
March 2020	1.88
April 2020	4.30
May 2020	2.79
June 2020	2.61
July 2020	2.31
August 2020	2.02
September 2020	1.93
October 2020	1.96

17.2 When will the BCUC be adjusting the benchmark ROE? If it is to be adjusted based on an automatic adjustment clause, what would it be adjusted to based on August 2020 interest rates?

**Corix Response:**

The BCUC has not adjusted its low risk benchmark utility ROE since it released its 2013 BCUC Generic Cost of Capital Stage 1 Decision where it decided on 8.75%.<sup>8</sup> The BCUC looked into the automatic adjustment mechanism and on page 90 of the Stage 1 Decision stated:

“Given the advantages, the Commission Panel adopts a two variable model AAM to determine the benchmark ROE on an annual basis commencing in the 2014 calendar year. The AAM formula will operate until December 31, 2015. The implementation of the model is subject to conditions outlined in Section 6.3.3.”

On page 91 the BCUC went on to state:

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<sup>8</sup> BCUC Generic Cost of Capital Proceeding (Stage 1) Decision and Order G-75-13 dated May 10, 2013, p. 80  
[https://www.bcuc.com/Documents/Proceedings/2013/DOC\\_34699\\_BCUC-GCOC-Stage1DecisionWEB.pdf](https://www.bcuc.com/Documents/Proceedings/2013/DOC_34699_BCUC-GCOC-Stage1DecisionWEB.pdf)

“To deal with this the Commission Panel directs that any change in ROE resulting from the AAM formula be subject to an actual long Canada bond yield of 3.8 percent being met or exceeded. Accordingly, the AAM formula will not be operative as long as the long Canada bond yield is below 3.8 percent.”

After the GCOC Proceeding Stage 1 Decision, the BCUC issued its Decision and Order G-129-16 dated August 10, 2016.<sup>9</sup> On page 89, the BCUC looked into the automatic adjustment mechanism (AAM) and determined the following:

“The Panel is not persuaded that continuing to rely on an AAM to update FEI’s ROE on an annual basis is appropriate or will necessarily meet the Fair Return Standard. Therefore, the Panel suspends further use of an AAM as a mechanism to adjust FEI’s ROE on an annual basis.”

Corix is not aware of any changes to the suspension of the AAM. The September 2020 long term Canada Bond Yield is at 1.08%.<sup>10</sup> The current long Canada yield is well below the 3.8 percent in the BCUC GCOC Proceeding Stage 1 Decision; however, it should be noted that government bond yields are only one component of a required return on equity, as indicated in the response to Question 17.1 above. As such, there can be no certainty that lower bond yields will result in a lower benchmark rate of return in light of the potential mitigating measures of the remaining ROE determinants.

17.3 Presuming that the proposed RDDA is approved, would Corix agree that the risk to the Panorama utility is less than its TES utilities? Why or why not?

**Corix Response:**

If the proposed RDDA for Panorama Water is approved, Corix does not agree that the risk to the Panorama is less than its TES utilities. The response below to Question 17.4 provides analysis of the RDDA and the allowed return of Corix TES utilities and EPCOR Water (West) Inc. The Corix response to Trappers Way IR No. 1 Question 15.1 provides a comparison of Panorama Water to a similar risk TES utility not owned by Corix (Shannon Estates).

The response below to Question 17.4 shows that Corix’s Dockside Green Energy utility has a

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<sup>9</sup> BCUC Decision and Order G-129-16 [https://www.bcuc.com/Documents/Proceedings/2016/DOC\\_46971\\_08-10-2016\\_FEI\\_CEC-ROE-2016\\_Decision.pdf](https://www.bcuc.com/Documents/Proceedings/2016/DOC_46971_08-10-2016_FEI_CEC-ROE-2016_Decision.pdf)

<sup>10</sup> V39056: Government of Canada Benchmark Bond Yields - Long-Term 2020-09-22, [https://www.bankofcanada.ca/rates/interest-rates/lookup-bond-yields/?lookupPage=lookup\\_bond\\_yields.php&startRange=2010-09-23&rangeType=dates&dFrom=2020-09-22&dTo=2020-09-22&rangeValue=1&rangeWeeklyValue=1&rangeMonthlyValue=1&series%5B%5D=LOOKUPS\\_V39056&submit\\_button=Submit](https://www.bankofcanada.ca/rates/interest-rates/lookup-bond-yields/?lookupPage=lookup_bond_yields.php&startRange=2010-09-23&rangeType=dates&dFrom=2020-09-22&dTo=2020-09-22&rangeValue=1&rangeWeeklyValue=1&rangeMonthlyValue=1&series%5B%5D=LOOKUPS_V39056&submit_button=Submit)

higher ROE and an RDDA without a review process. Corix UniverCity Burnaby has an ROE the same as Panorama, and an RDDA without a review process. Corix UBC NDES has a less comprehensive RDDA than proposed for Panorama as UBC's RDDA only includes uncontrollable costs and excludes controllable costs. EPCOR Water West has a higher ROE by 0.25% but a lower equity thickness. EPCOR's deferral accounts do not include differences in labour costs.

Panorama Water faces unique risks that are not typically present in TES projects and other small utilities. Panorama Water at Panorama Mountain Resort is only accessible by one road. A disruption to the road would impair access to Panorama Water's facilities. Also, any long-term access issues to the resort, would greatly affect the existing customer base and also the future viability of the utility, which may lead to stranded assets.

Corix has proposed a comprehensive RDDA in the 3-year Test Year period given the uncertainty in stabilizing its operational costs. Corix also proposes an RDDA for Panorama Water with a regulatory review process that places risk on the utility to prudently incur its costs. If the Comptroller determines a cost is not prudent it can disallow that, in which case it would not be included in the RDDA. This risk incents Corix to act reasonably to operate in an efficient and effective manner to provide safe and reliable service.

#### 17.4 Do the TES utilities have an equivalent to the RDDA covering business and financial risks?

##### **Corix Response:**

Please find below additional information regarding the following BCUC TES utilities owned by Corix with a Revenue Deficiency Deferral Account (RDDA) plus EPCOR Water (West) Inc.

##### Corix Dockside Green Energy Utility

The BCUC by Order G-166-18 established a Revenue Deficiency Deferral Account (RDDA) for Dockside Green.<sup>11</sup> The RDDA is to be used to mitigate customer rate increases until future build-out in the community provides sufficient revenue to cover the utility's costs of operations, including any allowed return. Subsequently, BCUC Order G-248-19 reaffirmed the continuation of the RDDA and a five year levelized rate structure.<sup>12</sup>

In Order G-248-19 the BCUC approved a deemed capital structure of 57.5 percent debt and 42.5 percent equity. The BCUC also approved a return on equity (ROE) of 9.75 percent which is based on the current low risk benchmark ROE plus 100 basis points.

##### Corix Neighbourhood Utility Service at UniverCity Burnaby

UniverCity Burnaby in its application sought approval of a revenue deficiency deferral account which is used to record those portions of revenue requirements that are not recovered in the

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<sup>11</sup> BCUC Order G-166-18 <https://www.ordersdecisions.bcuc.com/bcuc/orders/en/343660/1/document.do>

<sup>12</sup> BCUC Order G-248-19 [https://www.bcuc.com/Documents/Proceedings/2019/DOC\\_55914\\_G-248-19-Corix-DGE-Reasons-for-Decision.pdf](https://www.bcuc.com/Documents/Proceedings/2019/DOC_55914_G-248-19-Corix-DGE-Reasons-for-Decision.pdf)

early stages of development, with the goal of complete recovery of the funds over the 20-year period.<sup>13</sup> The BCUC by Order C-7-11 and Decision dated May 6, 2011 approved UniverCity's establishment of a revenue deferral account in order to capture the revenue requirement variances under the levelized rate approach.

The BCUC in its GCOC Stage 2 Decision approved a common equity ratio for UniverCity shall be set at 42.5 percent and the equity risk premium at 75 bps from the benchmark low risk utility.<sup>14</sup>

#### Corix UBC Neighbourhood District Energy System (NDES)

For UBC NDES, the BCUC by Order G-84-15 approved a 20-year levelized rate structure through which a portion of the annual revenue requirements is deferred in the early stages of development and the accounting treatment of the revenue deficiency deferral account<sup>15</sup>. Cost changes to items that are categorized as controllable costs will not be included in the RDDA. This would include Corix's internal labour and administrative charges, and all reasonably foreseen maintenance charges.<sup>16</sup>

Also, by Order G-84-15 the BCUC approved a deemed capital structure of 57.5 percent debt and 42.5 percent equity and a return on equity of 9.5 percent.<sup>17</sup>

#### EPCOR Water (West) Inc.

The Comptroller by Decision and Order No. 2519 dated May 15, 2018 approved for EPCOR a 100 basic point premium to the BCUC low risk benchmark utility, which was at 8.75%, and also approved a capital structure of 40% common equity and 60% debt. The Comptroller also approved continuation of the four deferral accounts (consumption deferral account, property taxes deferral account, interest expense deferral account, and hearing cost deferral account) for the 2018 to 2020 test period with carrying costs as proposed.<sup>18</sup>

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<sup>13</sup> UniverCity Neighbourhood Utility Service Application to British Columbia Utilities Commission For a Certificate of Public Convenience and Necessity, p. 12, [https://www.bcuc.com/Documents/Proceedings/2010/DOC\\_26551\\_B-1\\_Corix\\_UniverCity-Burnaby\\_CPCN-Application.pdf](https://www.bcuc.com/Documents/Proceedings/2010/DOC_26551_B-1_Corix_UniverCity-Burnaby_CPCN-Application.pdf)

<sup>14</sup> BCUC Generic Cost of Capital Stage 2 Decision, p. 128, [https://www.bcuc.com/Documents/Proceedings/2014/DOC\\_41123\\_03-25-2014-BCUC-GCOC-Stage-2-Decision-WEB.pdf](https://www.bcuc.com/Documents/Proceedings/2014/DOC_41123_03-25-2014-BCUC-GCOC-Stage-2-Decision-WEB.pdf)

<sup>15</sup> BCUC Order G-84-15 [https://www.bcuc.com/Documents/Proceedings/2015/DOC\\_43702\\_G-84-15-Corix-UBC-NDES-Reasons-Decision.pdf](https://www.bcuc.com/Documents/Proceedings/2015/DOC_43702_G-84-15-Corix-UBC-NDES-Reasons-Decision.pdf)

<sup>16</sup> Corix UBC NDES Application, p. 41, [https://www.bcuc.com/Documents/Proceedings/2015/DOC\\_43085\\_B-1\\_Corix\\_UBC-NDES-Final-Rates-Application.pdf](https://www.bcuc.com/Documents/Proceedings/2015/DOC_43085_B-1_Corix_UBC-NDES-Final-Rates-Application.pdf)

<sup>17</sup> BCUC Order G-84-15, Directive 4 [https://www.bcuc.com/Documents/Proceedings/2015/DOC\\_43702\\_G-84-15-Corix-UBC-NDES-Reasons-Decision.pdf](https://www.bcuc.com/Documents/Proceedings/2015/DOC_43702_G-84-15-Corix-UBC-NDES-Reasons-Decision.pdf)

<sup>18</sup> EPCOR Water (West) Inc. Decision and Order 2519 <https://www.epcor.com/products-services/water/rate-applications/Documents/decision-and-order-no-2519.pdf>

Comparison of Utilities: Deferral, Return on Equity, and Equity Thickness					
	Revenue Deficiency Deferral Account (RDDA)?	Regulatory Review of the RDDA Balance for formal acceptance	Equity Thickness % (Equity to Total Capital of Debt and Equity)	Risk Premium on low risk benchmark ROE%	ROE%
Panorama Water (as proposed)	Yes	Yes	42.5%	0.75%	9.50%
Dockside Green	Yes	No	42.5%	1.00%	9.75%
UniverCity Burnaby	Yes	No	42.5%	0.75%	9.50%
UBC NDES	Yes, for uncontrollable costs. Controllable costs not included in the RDDA	No	42.5%	0.75%	9.50%
EPCOR Water West	No RDDA. Instead four deferral accounts for consumption, property taxes, interest, and hearing cost.	No	40%	1.00%	9.75%

The above table shows a comparison of three Corix thermal energy utilities regulated by the BCUC and EPCOR Water, a rate base utility, regulated by the Water Comptroller. Panorama Water has the same RDDA and ROE as UniverCity Burnaby. Panorama Water has the same RDDA as Dockside Green but Dockside Green has a 0.25% higher ROE. Panorama Water has the same ROE as UBC NDES but UBC NDES has an RDDA that covers only uncontrollable costs.

For the two water utilities, Panorama Water has a lower ROE than EPCOR Water West, 9.50% compared to 9.75%. However, Panorama Water has a higher equity thickness at 42.5% while EPCOR's is at 40.0%. Panorama Water has an RDDA while EPCOR does not. Instead EPCOR has 4 deferral accounts that cover revenue differences (consumption), tax differences (taxes), interest (cost of debt), and hearing cost. EPCOR's deferral accounts appear to be similar to UBC NDES where uncontrollable costs are included in the deferral. The key difference between Panorama Water and EPCOR is that labour cost differences are not included in EPCOR's



deferral accounts.

In the Amended Application in Section 7.3.2 RDDA Compliance Filing for Actual Year-End Results, Corix stated on page 49:

“The actual year-end RDDA balance is filed with the Comptroller for acceptance. In the interest of transparency, Corix proposes that if the capital expenditures and/or Operating and Maintenance expenses in each given test year are 10% above the approved amounts, the Comptroller automatically initiates a brief special review process practice to ensure that that costs incurred are prudent and reasonable. If there are minor variances below the 10% threshold, the Comptroller would conduct its compliance review in the normal manner. The Comptroller at its discretion for any significant over-spending on capital expenditures and/or O&M may wish to conduct a detailed review.”

Corix has proposed for the three year test period an RDDA that captures differences from approved to actual because of the commencement of the GSDP project that fundamentally changes the operation and service provided to customers. Panorama Water changed its water source from Taynton Creek to ground source water. This change has been met with technical risks as evidenced by the initial drill of the failed Well #1. Also, during the summer Corix has faced water leaks in its system which it has addressed. These risks have not fully stabilized as of yet. Corix expects it will take another season of operation to monitor the water system. For these reasons, Corix has proposed an RDDA that includes all differences. When Panorama Water achieves operational stability a deferral mechanism similar to EPCOR’s deferral accounts may be appropriate in the next revenue requirement application.

Corix in the Amended Application proposed safeguards for customers so that Corix would face risks in applying its actual costs to the RDDA for the differences. Corix proposed to file in its Annual Report to the Comptroller, the variances from budgeted costs, and for the Comptroller to review and accept the actuals with differences going into the RDDA. If some costs were found to be inappropriate in that review, the Comptroller would be able to disallow all or a portion of the variance. This proposal provides an appropriate incentive for Corix to spend reasonably and prudently and if costs are not prudent then the utility will be at risk for the disallowance. Corix believes this review mechanism provides a reasonable balance and incentive for Corix to operate the water system safely and effectively.

In the absence of the proposed RDDA, Corix would be required to file proposed forecast Test Year expenses to set rates. However, as described above, Corix has not stabilized its operations with the new wells and reservoir thus any estimate is subject to actual differences. Hypothetically, if test year expenses were approved there is uncertainty in either direction on whether the actual costs would be higher or lower than the approved test year amounts. If the test year amounts were overstated, Corix would over-earn. If the test year amounts were understated, Corix would under-earn. This uncertainty would likely lead to the need for annual rate filings for the next two to three years, resulting in higher regulatory costs that would flow through to the rate payers. Given the uncertainty of operations, Corix submits that earning its approved allowed rate of return without variances would be reasonable for both the ratepayers



and shareholder. Corix also submits that the proposed RDDA and review process provides an incentive for Corix to operate efficiently and effectively while still being at risk for cost overruns.

### **18.0 Reference: Amended Application, pg. 43, Table 16, Forecast Rate Base for the Utility**

**Explanation:** CIAC for new additions. Table 16 does not seem to show any collections for new additions during the test period.

#### **Request:**

18.1 Identify the level of CIAC currently required from the tariff and explain if it is to be applied to new customer additions during the test period.

#### **Corix Response:**

Water Tariff No. 5, Schedule “B” - Contribution in Aid of Future Construction states on page 12:

“Where as a result of premises becoming qualified as authorized premises a greater number of units require or may require service from the utility, thus utilizing waterworks capacity presently or in the future, then, upon application for an extension of service, in addition to the connection charge and any main extension costs, the charge shown below shall be paid.

For each domestic service premises qualifying as authorized premises unit	\$1,300 per bed
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Note: A bed unit is defined in the Definitions section.”

No CIAC was included in the 2020 to 2022 test period since the incremental customer additions were from the Availability of Service (Standby) customers.

18.2 Epcor Water West has recently applied for a CIAC of approximately \$21,000 per new customer. Please discuss whether a significant CIAC would be appropriate for Panorama Water.

#### **Corix Response:**

The current tariff specifies \$1,300 per bed unit for customer contributions. The \$1,300 rate was last set in Water Tariff No. 3 effective March 1, 2010. If each customer was equal to 10 bed units, the contribution from the customer would be \$13,000. An update to the \$1,300 per bed unit based a 2% escalator compounded for 10 years results in a figure of \$1,585 per bed unit. At 10 bed units per customer the contribution would total \$15,850 per customer.

A contribution of \$21,000 (similar to EPCOR) would be comparable to an updated CIAC yielding a contribution of \$15,850 assuming 10 bed units per customer. In other words, the proposed \$1,585 per bed unit is comparable to the \$2,100 per bed unit at EPCOR ( $\$21,000 / 10$  bed units).

Corix submits that escalating the previously approved CIAC in 2010 to 2020 dollars at a 2% escalator resulting in a figure of \$1,585 per bed unit would be reasonable and justifiable. A revised figure of \$1,585 would balance the interests of existing customers and future customers. Existing customers would benefit with a higher contribution from future customers and added load from future customers. An updated CIAC would have future customers pay for its fair share of costs.

Corix submits that a contribution of \$2,100 per bed unit (~\$21,000 per customer) similar to EPCOR would not be justified without performing a more detailed cost analysis. However, a detailed cost analysis will require additional time and cost to prepare. Corix submits an updated figure based on a 2% escalator since it was last set provides a reasonable charge to balances cost recovery of new customers and the incentive to attract new customers onto the system to contribute to the viability of the water system.

**Corix proposes to revise its Amended Application (dated June 30, 2020) by also updating its Schedule “B” - Contribution in Aid of Future Construction \$1,300 per bed unit to \$1,585 per bed unit to be effective on January 1, 2021.**

The Comptroller has previously issued an interim Order No. 2570 approving interim rates effective March 1, 2020. Considering this is a late proposal in the proceeding, an effective date of January 1, 2021 for the change in CIAC would provide adequate notice to future customers wishing to connect to Panorama Water. Presently, Panorama Water is not aware of any current applications to connect where the CIAC in Schedule B would be applicable.

## **19.0 Reference: Amended Application, pg. 46, Income Taxes**

**Explanation:** “The forecast income tax for the Utility is presented in Table 19 below. Income tax is paid at the legal entity level, Corix, as opposed to being paid by each individual utility within the Corix portfolio, such as this Utility. However, it is standard industry practice for each utility that is a subsidiary business unit to a tax-paying legal entity, to incorporate the recovery of income taxes into its annual revenue requirement under the assumption that the Utility is a stand-alone legal entity.”

And “The actual CDA balance at December 31, 2019 is \$383,272 based on the approved 4-year amortization of the CDA and the 2019 actual consumption variance. Use of this tax-loss carry forward balance reduces the revenue requirement used to calculate customer rates, since it results in no taxable income for the Utility for several years.”

**Request:**

19.1 Confirm that the Utility has not requested a premium to its after tax ROE during the years 2020 through 2013. If there is any such premium, explain why it would be appropriate?

**Corix Response:**

Corix did not request a premium to its after tax ROE during the years 2013 to 2020, nor has it requested in the Test Years in this Amended Application any premium to after tax ROE of 9.5%.

The current permanent rates were last set for January 1, 2019 by Decision and Order No. 2548 dated July 2, 2019 and Decision Order No. 2551 dated August 23, 2019. On page 12 of Order 2548 the Comptroller accepted the proposed operating margin of 9.5%. The 9.5% is composed of 8.75% for the BCUC benchmark low risk utility plus 0.75% risk premium.

For 2020 to 2022 the Amended Application requests an ROE of 9.5% using a rate base methodology instead of an operating margin methodology. Any future income tax costs will be included in the Revenue Requirement calculation based on when they would have been paid if the utility was a stand-alone legal entity.

**20.0 Reference: Amended Application, pgs. 47-49, Revenue Deficit Deferral Account**

**Explanation:** “However, due to the size of the GSDP capital project, current customer rates, and the current number of customers, Corix is proposing the use of a RDDA to phase-in and smooth the GSDP related rate increase over several years. This leads to a revenue requirement shortfall in the initial years of operation, followed by surplus revenue in later years to reduce the balance of the RDDA.”

And “Corix proposes that the RDDA be true-up to actual costs for the three test years (2020 to 2022).”

And “The RDDA would capture the true-up to actual for the following: revenues, operating and maintenance expenses, depreciation/amortization, taxes, interest, and rate base.”

**Request:**

20.1 Since the RDDA would capture virtually all business risks of the Utility and since there are no cost effective substitutes for the water supply, shouldn't the Utility be considered lower risk than BBB-BBB(low) for both deemed debt and ROE calculations? Please discuss.

**Corix Response:**

Please refer to the response to Comptroller Questions 17.3 and 17.4.

## **21.0 Reference: Amended Application, pg. 54, Rate Analysis**

**Explanation:** “The existing rate structure satisfies Principles 2, 3, 4, 5, 7 and 8. The existing rate structure recovers approximately 48% of the annual revenues from the fixed basic charge and the remainder 52% from the variable metered rates.”

And... “In this Amended Application, the Utility does not propose any changes to the existing customer classes or rate structures.”

### **Request:**

21.1 Recognizing the uncertainty related to future consumption levels due to the higher rates and the reliable availability of potable water year round, does the Utility agree that the focus on rate design principles and rate design changes should be delayed until the next revenue requirements and rates review in 2023?

### **Corix Response:**

Given the uncertainty of conservation adopted by customers, Corix submits it is premature to implement significant changes in the rates structure of customers. The current rate structure continues to be reasonable and fair for customers. Should consumption levels vary significantly from those reflected in the financial projections underlying this Application, Corix concurs that it may be necessary to revisit the rate design in its next filing.

## **22.0 Reference: Amended Application, pg. 58, RDDA Recovery**

**Explanation:** “In this Amended Application, Corix considers that Scenario E with an RDDA recovery in 2026 provides the optimal balance of smooth rates and relative rate stability compared to Scenario D, keeps the maximum RDDA balance at a reasonable level, and recovers the outstanding RDDA balance in a reasonable time period.”

### **Request:**

22.1 For comparative purposes, please show the indicative rate increases required to fully recover the RDDA in 2025.

### **Corix Response:**

The requested calculation (denoted Scenario G) is shown below:

Scenario G: RDDA Recovery in 2025	2020	2021	2022	2023	2024	2025	2026
<b>June 2020 Evidentiary Update</b>							
Total Revenue Requirements (excl. CDA Rider 1)	\$928,944	\$1,069,944	\$1,102,213	\$1,118,592	\$1,239,197	\$1,256,849	\$1,116,723
Rate Residential ( <i>Fixed and Metered Charge</i> )	71%	25%	30%	28%	8%	15%	-32%
Rate Commercial ( <i>Fixed and Metered Charge</i> )	71%	25%	30%	28%	8%	15%	-32%
Target % Recovery of Total Rev. Req. (excl CDA)	52.5%	74.4%	93.2%	118.0%	115.8%	131.2%	100.0%
Target Revenue Requirement	\$487,701	\$795,795	\$1,027,761	\$1,319,938	\$1,434,990	\$1,649,553	\$1,116,723
RDDA Balance (\$)	\$441,242	\$715,391	\$789,844	\$588,497	\$392,704	\$0	\$0
Residential Bill Impact	25%	54%	29%	16%	9%	15%	-32%
Commercial Bill Impact	26%	50%	28%	10%	7%	15%	-33%

The above Scenario G has the RDDA fully recovered in 2025. However, for 2025 it would require a 15% rate increase to recover the \$392,704 outstanding RDDA balance in 2024. The 2025 rates would have a total target revenue requirement of \$1.65 million which is 131.2% of the total revenue requirement of \$1.257 million which has no drawdown of the RDDA. Note that the 2024 rates had an implicit annual RDDA drawdown of roughly \$196,000 per year. For additional information, the table includes 2026. The 2025 rates have a 131.2% target recovery factor. In 2026 since the RDDA is fully recovered with a \$0 balance, the target recovery factor is set at 100% to recover the \$1,116,723 revenue requirement for 2026. However, since the 2025 rates includes an accelerated recovery of the RDDA, the 2026 rates would decrease by 32%.

Corix has provided below a Scenario E (updated) with the additional years 2025 to 2027.

Scenario E (updated): RDDA Recovery in 2026	2020	2021	2022	2023	2024	2025	2026	2027
<b>June 2020 Evidentiary Update</b>								
Total Revenue Requirements (excl. CDA Rider 1)	\$928,944	\$1,069,944	\$1,102,213	\$1,118,592	\$1,239,197	\$1,198,006	\$1,175,566	\$1,121,883
Rate Residential ( <i>Fixed and Metered Charge</i> )	71%	25%	30%	28%	8%	0%	-7%	-16%
Rate Commercial ( <i>Fixed and Metered Charge</i> )	71%	25%	30%	28%	8%	0%	-7%	-16%
Target % Recovery of Total Rev. Req. (excl CDA)	52.5%	74.4%	93.2%	118.0%	115.8%	119.5%	113.5%	100.0%
Target Revenue Requirement	\$487,701	\$795,795	\$1,027,761	\$1,319,938	\$1,434,990	\$1,431,618	\$1,334,659	\$1,121,883
RDDA Balance (\$)	\$441,242	\$715,391	\$789,844	\$588,497	\$392,704	\$159,093	\$0	\$0
Residential Bill Impact	25%	54%	29%	16%	9%	0%	-7%	-16%
Commercial Bill Impact	26%	50%	28%	10%	7%	-1%	-7%	-16%

Scenario E (updated) shows that RDDA balance at \$0 at the end of 2026. This scenario has no rate change in 2025. For 2026 there is a 7% rate decrease to achieve the \$0 RDDA balance by year end. In 2027 another 16% rate decrease is required. The 2027 rate decrease is required because the 2026 rates has an implicit drawdown of the RDDA balance and the drawdown is no longer required in 2027.

### 23.0 Reference: Amended Application, pg. 61, Table 29, Forecast Annual Bill Comparison

**Explanation:** The Utility has compared its annual rates with other utilities.

**Request:**

23.1 In Table 29, Windermere has the lowest costs and Spur Valley has the highest costs. Please provide more information on these utilities, such as water source and number of customers, to add context as to why one has such low rates and the other has much higher rates.

**Corix Response:**

**Windermere Water**

Background:

RDEK indicates that Windermere Water in 2019 had 632 connections.<sup>19</sup>

RDEK describes Windermere water as:

“Windermere’s water is drawn from Lake Windermere and pumped from the Lake Pumping Station to the Water Pumping Station that is located beside the Windermere Public Beach. During this transfer, chlorine gas is used to disinfect the water. It is then pumped to the distribution system and across Highway 93/95 to 1250m<sup>3</sup> and 1600m<sup>3</sup> concrete reservoirs. This process is monitored using instrumentation and alarm dialers to notify operators of problems. These sites are frequented 5 days per week and processes are verified and recorded”<sup>20</sup>

Windermere Water was previously supplied by Parr Utilities Ltd. ("Parr"). In September 2018 the Regional District of East Kootenay ("RDEK") took over the ownership and operations of the water treatment plant.<sup>21</sup> RDEK upon acquisition of Windermere Water embarked on the Windermere Water Upgrade after a successful referendum. For billing purposes, starting July 1, 2020, Windermere water transitioned to the East Side Lake Windermere Water System and began to be charged those rates. Since early June 2020, new water was entering the Windermere water system from the East Side Lake Windermere water system.<sup>22</sup>

RDEK in its 2013 Annual Report noted the following for Windermere water:

“A Boil Water Notice (BWN) was issued on June 26th and wasn’t rescinded until July 24th. The cause for the BWN was due to high turbidity levels which exceeded 5 NTU. Signs were installed at town entrances, door to door notification occurred,

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<sup>19</sup> RDEK Annual Water System Report 2019, p. 1,  
[http://www.rdek.bc.ca/web/utilityreports/AnnualWater\\_ReportMay\\_202020b.pdf](http://www.rdek.bc.ca/web/utilityreports/AnnualWater_ReportMay_202020b.pdf)

<sup>20</sup> RDEK Annual Water System Report 2019, p. 8,  
[http://www.rdek.bc.ca/web/utilityreports/AnnualWater\\_ReportMay\\_202020b.pdf](http://www.rdek.bc.ca/web/utilityreports/AnnualWater_ReportMay_202020b.pdf)

<sup>21</sup> RDEK Windermere Water About <https://www.windermerewater.com/about.php>

<sup>22</sup> RDEK Windermere Water Upgrade <https://engage.rdek.bc.ca/windermere-water-upgrade>

as well as email notification to those on the RDEK's email list."<sup>23</sup>

RDEK in its 2014 Annual Report noted the following for Windermere water:

“Kerr Wood Leidal Consulting Engineers conducted the Windermere Water Improvement Options Assessment which ultimately provided the Windermere Water System with three options for treated water;

- o Purchase existing Parr Utilities water treatment plant
- o Purchase bulk water from Parr Utilities
- o Build a standalone treatment plant at the existing Windermere reservoir site”<sup>24</sup>

**Corix analysis (Windermere Water):**

Based on the above publicly available information, it appears that Windermere's previous water system was poor quality with boil water notices. The Kerr Wood Leidal recommendations indicates that continuing with the then current water situation was not an option. It appears the low tariff rate for Windermere was for service with poor water quality and with possibly little historical capital invested in the system. Given the recent developments at Windermere where it is now connected to the East Side Lake Windermere Water System, the Windermere customers will no longer be paying a tariff that is equivalent to \$246 per year. Instead the East Side Lake Windermere annual cost is estimated to be \$541, which is higher than the previous Windermere annual cost as a stand-alone water system.

**Spur Valley Water**

RDEK indicates that in Spur Valley in 2019 had 73 connections.<sup>25</sup>

RDEK describes Spur Valley Water:

“The community of Spur Valley is supplied with water from a groundwater well situated just south of the community. The water is chlorinated and then pumped to two reservoirs before being distributed to residents. The RDEK has the capability to fully monitor the entire process through Spur Valley's SCADA system which alerts the operators of any potential problems. The RDEK assumed ownership and operational control of the Spur Valley water system in October 2015 and operators are on site 2-3 times per week.”<sup>26</sup>

The Invermere Valley Echo in its news report of October 13, 2015 provides some context to Spur Valley prior to the acquisition by RDEK and subsequent capital upgrades:

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<sup>23</sup> RDEK Annual Annu Water System Report 2013, p. 7  
[http://www.rdek.bc.ca/web/utilityreports/Annual\\_Water\\_Systems\\_Report\\_2013.pdf](http://www.rdek.bc.ca/web/utilityreports/Annual_Water_Systems_Report_2013.pdf)

<sup>24</sup> RDEK Annual Water System Report 2014, p. 7,  
[http://www.rdek.bc.ca/web/utilityreports/Annual\\_Water\\_Systems\\_Report\\_2014.pdf](http://www.rdek.bc.ca/web/utilityreports/Annual_Water_Systems_Report_2014.pdf)

<sup>25</sup> RDEK Annual Water System Report 2019, p. 1,  
[http://www.rdek.bc.ca/web/utilityreports/AnnualWater\\_ReportMay\\_202020b.pdf](http://www.rdek.bc.ca/web/utilityreports/AnnualWater_ReportMay_202020b.pdf)

<sup>26</sup> RDEK: About the Spur Valley Water System,  
[https://www.rdek.bc.ca/departments/engineering/water\\_systems/spur\\_valley1/](https://www.rdek.bc.ca/departments/engineering/water_systems/spur_valley1/)



“Spur Valley water upgrade nearing completion  
A well and a treatment facility with a chlorination system were recently installed in the area under the Spur Valley Water Upgrade plans.

The process aims to transfer ownership of the water system from the Spur Valley Improvement District (SVID) to the RDEK, which requires the SVID to dissolve through a provincial order in council.

“Spur Valley petitioned some time ago for us to take over the water system and proceed with upgrades to the water system to remove the boil water notice,” said Brian Funke, RDEK engineering services manager. “We went ahead with those plans and the board approved funding towards Spur Valley... the upgrades are now completed.”<sup>27</sup>

**Corix analysis (Spur Valley Water):**

Based on the above publicly available information, it appears that Spur Valley Water has a relatively higher cost water system because it has a small customer base (73 connections), it has a groundwater well, supply is by pumped/gravity, with chlorine disinfection, and two reservoirs (Concrete 125m<sup>3</sup> & 222m<sup>3</sup>).

Spur Valley’s system has been recently installed since RDEK acquired it in 2015 with capital upgrades to improve the water system quality. Table 29 in the Amended Application page 61 indicates that Spur Valley has a relatively high cost system at \$1,084 annually.

Spur Valley shares many similarities with Panorama Water. Similarities in the system include groundwater source, pumped/gravity supply, chlorine disinfection, and a reservoir. Both upgrades were implemented to remove boil water notices. Notable differences are that Panorama Water has UV disinfection while Spur Valley does not and Panorama Water at 328 metered customers in 2019 has more customers than Spur Valley at 73.

23.2 Epcor Water West is another utility regulated by the Water Utility Regulation Section on rate base/rate of return methodology. Please provide the residential rate equivalent for that utility based on an annual consumption of 86.1 cubic metres.

**Corix Response:**

The Epcor Water West annual metered residential bill is \$556 based on annual consumption of 86.1 cubic metres.

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<sup>27</sup> The Invermere Valley Echo, “RDEK Briefs: Fairmont OCP underway: The process of creating a new Official Community Plan (OCP) for the Fairmont Hot Springs and Columbia Lake area has begun.”, Oct. 13, 2015 6:00 p.m <https://www.invermerevalleyecho.com/news/rdek-briefs-fairmont-ocp-underway/>

## 24.0 Reference: Amended Application, pg. 63, Bottled water savings

**Explanation:** “Corix notes that these cost increases may be mitigated by customers who would no longer require to purchase bottled water due to the prior frequent boil water advisories.”

### **Request:**

24.1 Provide a rough estimate of the bottled water cost savings that a full time residence in Panorama might save by now having a reliable year round supply of potable water.

### **Corix Response:**

Statistics Canada indicates that in British Columbia for 2017 the use Average daily residential use per capita of the population served was 291 Litres per person per day for potable water.<sup>28</sup> Of the potable water, a portion would be used for drinking, cooking, washing dishes, and oral personal hygiene. During times of a Boil Water Notice or Water Quality Advisory customers may purchase bottled water instead. Assuming a person uses 5 litres per day and there is a household of two, the daily bottled water use would be 10 litres. Assuming the cost of bottled water at \$0.30 per litre.<sup>29</sup> This means 10 litres use would cost approximately \$3 per day for the household.

Assuming that a boil water advisory or Water Quality Advisory is for 60 days, the household would spend \$180 per year.

The cost estimate assumes the household would purchase the bottled water from the store with the cost of transportation to the residence not included. Home delivery of bottled water if available would cost more. The estimate provided in this analysis would differ based on household size, actual usage of bottled water per person, delivery costs to the residence, and the duration of the notice or water advisory.

## 25.0 Reference: Amended Application, Schedule 1

**Explanation:** Schedule 1 provides a more detailed breakdown of customers and revenues.

### **Request:**

25.1 Note #3 identifies the potential of a 24 townhouse addition between 2023 and 2025. Please provide an update on the likelihood of this addition occurring.

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<sup>28</sup> Statistics Canada, Potable water use by sector and average daily use Table: 38-10-0271-01 (formerly CANSIM 153-0127) <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3810027101>

<sup>29</sup> In Lower Mainland the cost of 15 Litres is approximately \$4.50 or \$0.30 per litre for pick-up service. In Panorama the cost would be the same or higher given that Panorama is in a non-urban area.

**Corix Response:**

Corix contacted the developer about future development plans. There is a conceptual plan for 20 SFH lots (Trapper's Ph 3) and a Townhouse project (# of units unspecified). Corix does not expect that these projects will be completed by 2022. The timing of future house additions are uncertain and depends on housing demand and the ability of developers to provide supply.

25.2 Line 37 identifies a small amount of other income in 2018 and 2019. What was that other revenue and why is none expected during the test period?

**Corix Response:**

The other income in 2018 in 2019 are for admin charges, turn on fees, and connection fees.

Since there are new connections expected in the test years, the financial model should include \$275 for each of the test years.

25.3 Line 37 does not include any connection fees revenue in the test period. Why are there no connection fees from the 3 projected new customers?

**Corix Response:**

The new connected customers (converted from standby customers) should have additional revenue in each year for a \$50 turn-on fee plus a \$225 residential connection charge. The Test Years (2020 to 2022) in the Amended Application have one additional customer in the forecast for each year, therefore Line 37 Other Income should include additional revenue of \$275 for each of the test years.