Decision **21340-D01-2017**

Alberta Utilities Commission

Horse Creek Water Services Inc.

2016 General Rate Application

October 20, 2017

Alberta Utilities Commission
Decision 21340-D01-2017
Horse Creek Water Services Inc.
2016 General Rate Application
Proceeding 21340

October 20, 2017

Published by the:
Alberta Utilities Commission
Fifth Avenue Place, Fourth Floor, 425 First Street S.W.
Calgary, Alberta
T2P 3L8

Telephone: 403-592-8845
Fax: 403-592-4406

Website: www.auc.ab.ca

Contents

List of tables

1 Summary

1. The Alberta Utilities Commission considered Horse Creek Water Services Inc.'s (HCWS) proposed rates for 2017 and 2018. Based on its determinations regarding operating, maintenance and administration expenses, depreciation, and return, the Commission directs HCWS to maintain its current rates. The Commission also ruled on HCWS' terms and conditions for water service (T&Cs), and approved a tie-in fee of $10,000. The Commission considers that the foregoing results in just and reasonable rates to be borne by customers and will entitle HCWS to recover its reasonable costs and earn a fair return on its rate base.

2 Introduction

2. On February 16, 2016, the Commission received an application from HCWS requesting approval of its forecast revenue requirements and rate base for the 2016 and 2017 test years, in compliance with the direction it received in Decision 20663-D01-2015.[1] As provided for in Rule 011: *Rate Application Process for Water Utilities*, Commission staff worked with HCWS to develop the application. An updated application was filed by HCWS on June 8, 2016.

3. By letter dated September 27, 2016, the Commission advised HCWS customers that it would be holding an information session with a presentation about the application process under Rule 011 on October 13, 2016. At the information session, the Commission provided information with respect to the determination of rates and the regulatory process.

4. Following the information session, on October 21, 2017, the Commission issued notice of the application, and invited interested parties to register their concerns, or support for, the application by November 4, 2016. The Commission filed on the record a copy of the presentation slides given at the information session.

5. The Commission received submissions from Ken Till, Bob and Lorraine Stinn, and Stan Vander Helm prior to the notice of application being issued. In response to the notice of application, the Commission received submissions from Rob Sarabin, Janice Kenny, Karl Stroud, Brent Howard, Gordon Baux, Katie Hayhoe, Kristy-Lynn Hemperek, Gary Walsh, and the Monterra Homeowners Association, representing home owners of Phase I of the Monterra on Cochrane Lakes Development, and MCL Development Corp., a development company, developing phases 4, 5 and 6 of the Monterra on Cochrane Lakes Development. The Monterra Homeowners Association and MCL Development Corp. filed a joint statement of intent to participate in the proceeding and are collectively referred to as the Monterra Group (Monterra).

[1] Decision 20663-D01-2015: Horse Creek Water Services Inc., Continuation of Existing Water Rates, Proceeding 20663, October 1, 2015.

6. On November 21, 2016, HCWS filed correspondence advising that on August 8, 2016, a tax agreement was signed between HCWS and Rocky View County (RVC). Under this agreement, HCWS agreed to pay RVC a total of $590,856.38, in 24 equal monthly payments of $24,619.02 from August 31, 2016 to July 31, 2018. These payments relate to outstanding disposal fees and tax arrears that were incurred by Regional Water Services Ltd. (RWSL) from 2011 until the sale to HCWS in August 2014. HCWS also filed a copy of the executed agreement.

7. On December 7, 2016, the Commission advised that it would proceed with the testing of this application by way of a written process as per Rule 011, and issued a process schedule that included the filing of information requests and responses, intervener evidence and information requests and responses on intervener evidence, rebuttal evidence, argument and reply argument.

8. The Commission and Monterra filed information requests to HCWS in accordance with the process schedule. By letter dated January 18, 2017, HCWS requested additional time to respond to the information requests. HCWS advised that it was currently working to complete the financial year-ends for HCWS and related companies. Completion of the financial year-ends would allow it to respond to the information requests in a more efficient manner. HCWS expected that it would be able to respond to the information requests by February 28, 2017. In addition, HCWS proposed that the updated schedules it would be filing for the 12 months ending September 30, 2016, and forecasts for the 12 months ending September 30, 2017, be expanded and updated to include the financial year-end December 31, 2015 and December 31, 2016, as well as the forecasts for December 31, 2017. Further, given the current timing of the application, HCWS proposed to update its application to formally apply for rates up to and including December 31, 2018.

9. By letter dated January 25, 2017, the Commission extended the deadline for information responses to February 28, 2017, with any revisions, updates or amendments to the application to also be filed by February 28, 2017. The Commission suspended the process schedule and advised that it would establish a revised process schedule following receipt and review of HCWS' information responses and any amended/updated application.

10. HCWS filed its information responses and an updated application on February 28, 2017. HCWS filed additional Excel schedules to support the updated application on March 7, 2017. On March 14, 2017, the Commission established a revised process schedule that included an opportunity for the Commission and parties to ask a second round of information requests on the updated application.

11. On March 14, 2017, the Commission received a motion from Monterra requesting that the Commission issue a number of directions to HCWS with respect to its revised application, in terms of organization for comparison purposes and filing blacklined versions of revised documents and tables. Monterra also requested the Commission direct HCWS to refile its responses in the form prescribed by Section 30 of Rule 001: *Rules of Practice* and to provide more precise references to the phrase "see responses in RIR-AUC."[2]

12. On March 23, 2017, the Commission issued its ruling on the Monterra motion, which directed HCWS to confirm that no changes had been made to the appendices A, B, C, D, E, E.1, F, H, I, J and K, as filed in exhibits 21340-X0009 and 21340-X0010, and Tab 8 of the

[2] Rule 001was amended effective March 24, 2017.

application filed in Exhibit 21340-X0014, provide explanations for changes in exhibits 21340-X0063, 21340-X0064 and 21340-X0065, and to refile its responses to Monterra's information requests, originally filed as Exhibit 21340-X0056, with specific references to the AUC information requests included. The Commission also issued a further revised process schedule.

13. The remainder of the process schedule proceeded as follows:

Process step	Date
Second round of information requests to HCWS on revised application	April 28, 2017
Information responses from HCWS	May 12, 2017
Intervener evidence	May 23, 2017
Information requests to interveners	June 2, 2017
Information responses from interveners	June 16, 2017
Rebuttal evidence from HCWS	July 14, 2017
Argument	August 2, 2017
Reply argument	August 21, 2017

14. The Commission considers that the record of this proceeding closed on August 21, 2017. In reaching the determinations contained in this decision, the Commission has considered the record of this proceeding, including the submissions by each party. Accordingly, references in this decision to specific parts of the record are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider other relevant portions of the record with respect to that matter.

3 Background

15. RWSL was the owner and operator of a water utility serving the residential development known as Monterra on Cochrane Lakes in RVC, near the Town of Cochrane.

16. In August 2014, 1812234 Alberta Ltd. purchased the water and wastewater assets, and assumed certain liabilities from RWSL. 1812234 Alberta Ltd., operating as HCWS, filed an application with the Commission on July 24, 2015, requesting approval to continue charging the existing approved water rates as determined in Decision 2011-061[3] and for updated T&Cs. On September 1, 2015, 1812234 Alberta Ltd.'s name was changed to Horse Creek Water Services Inc.

17. On October 1, 2015, the Commission issued Decision 20663-D01-2015, approving the continuation of existing approved rates for the operation of the water utility serving the customers of HCWS. These rates were approved on an interim, refundable basis effective February 18, 2016. The Commission also ordered that the existing T&Cs continue until otherwise directed by the Commission.

[3] Decision 2011-061: Regional Water Services Ltd., 2007-2010 General Tariff Application, Proceeding 358, Application 1519777-1, February 18, 2011.

18. HCWS provides treated water supply and distribution services to over 150, primarily residential, water customers. Horse Creek Sewer Services Inc. (HCSS), an affiliate of HCWS, provides waste water services to these customers.

4 AUC jurisdiction

19. A jurisdictional issue was brought forward in this proceeding by Monterra, who submitted in argument that the AUC's jurisdiction includes wastewater. Monterra requested the Commission find that HCSS is a "public utility" under the *Public Utilities Act* or that HCSS and HCWS are functionally integrated and therefore part of a single "public utility." Monterra submitted that the AUC has jurisdiction to set rates for both HCWS and HCSS. Monterra cited the modern approach to statutory interpretation and the *Interpretation Act*, RSA 2000, c. I-8, decisions from this Commission and its predecessor, as well as decisions by the Supreme Court of Canada in *ATCO Ltd. v. Calgary Power Ltd.*, [1982] 2 SCR 557 and *Westcoast Energy Inc. v. Canada (National Energy Board)*, [1998] 1 SCR 322, in support of its interpretation that the definition of public utility includes wastewater. Monterra also submitted that HCWS and HCSS are functionally integrated, and treating them as one public utility regulated by the Commission best ensures the attainment of the objects of the *Public Utilities Act*. Monterra submitted that HCSS is a natural monopoly and customers of HCSS require protection.

Views of the Commission

20. The *Public Utilities Act* defines a "public utility" as follows in Section 1(i):

> …
> (iv) a system, works, plant, equipment or service for the production, transmission, delivery or furnishing of water, heat, light or power supplied by means other than electricity, either directly or indirectly to or for the public
>
> (v) an oil pipeline the proprietor of which is declared by the Alberta Energy Regulator to be a common carrier, and
>
> (vi) an electric utility;

21. The definition of "public utility" in the *Public Utilities Act* does not include reference to wastewater or sewage collection. This is in contrast to the definition of a "public utility" in Section 112(1) of the *Public Utilities Act*, in the context of regional services commissions and municipal public utilities, which states:

> 112(1) This section applies, with respect to a regional services commission, to the area within the boundaries of the members of the regional services commission.
>
> (2) In this section
>
> (a) "proprietor commission" means a regional services commission that owns, operates, manages or controls a public utility;
>
> (b) "proprietor municipality" means a municipality that owns, operates, manages or controls a public utility;

> (c) “**public utility” includes, in addition to its defined meaning under section 1, a sewerage or waste management system.** [emphasis added]
>
> …

The definitions of public utility within the *Public Utilities Act* appear to distinguish between the provision and supply of water from the treatment and disposal of wastewater. This is consistent with the distinction between water and sewage in the *Municipal Government Act*, which defines “public utility” as follows:

> 1(1)(y) “public utility” means a system or works used to provide one or more of the following for public consumption, benefit, convenience or use:
>
> (i) water or steam;
>
> (ii) sewage disposal
>
> …
>
> (ix) waste management
>
> …
>
> and includes the thing that is provided for public consumption, benefit, convenience or use;

22. Other legislative definitions with a similar distinction include the *Environmental Protection and Enhancement Act*, which lists defined “activities” in its Schedule of Activities to include the construction, operation or reclamation of “a waterworks system” separately from “a wastewater system.” The *Rural Utilities Act* also clearly delineates the two types of utility services:

> 3(1) Five or more persons who desire to be associated together in a co operative association with the principal object of supplying any one or more of the following:
>
> (a) electricity;
>
> (b) natural gas;
>
> (c) water, primarily for domestic use;
>
> (d) sewage disposal;
>
> (e) water, primarily for domestic use, and sewage disposal,
>
> to its members primarily in a rural area may apply to be incorporated under this Act.

23. Based on the foregoing, the Commission is of the view that the definition of “public utility” in the *Public Utilities Act* deliberately excludes provision of wastewater services, except in relation to the supply by municipal public utilities and regional services commissions on order under Section 122. The Commission does not consider that reading in wastewater or sewage into the definition of “public utility” in Section 1(i) can be justified. Accordingly, the Commission concludes that its jurisdiction to deal with public utilities as provided for in the *Public Utilities Act* does not generally extend to wastewater utilities.

24. Although the Commission does not accept that HCSS is a public utility under the Commission's jurisdiction, it is responsible for approving HCWS' rates. As part of its investigation into HCWS' rates, the Commission will consider whether there is any improper cross-subsidization of costs between HCWS and HCSS. In approving just and reasonable rates for HCWS, the Commission will only approve costs, or the applicable portion of costs, associated with the provision of water service. Any costs associated with the provision of wastewater service should not be included in HCWS' rates. Therefore, some examination of HCSS' costs may be required to the extent that they are common costs shared with HCWS or to the extent that HCWS is being required to bear costs that are more properly attributed or allocated to HCSS. The Commission will not, however, set rates for HCSS.

4.1 Recommendation of Monterra

25. Monterra proposed two different alternatives[4] with respect to the rates to be charged by HCWS. Monterra recommended that the Commission approve its requested rates for an integrated water utility (both HCWS and HCSS), including specific operating, maintenance and administration expenses, depreciation, working capital, and return, resulting in the following rate structure:

Table 1. Integrated water utility rate structure

	2015	2016	2017	2018
Water Rates	($)			
Monthly fixed charge ($/customer/month)	65.00	60.00	55.00	50.00
Variable potable water usage charge	2.72	2.69	2.66	2.63
Tie-Fee to potable water system	900.00	900.00	900.00	900.00
Potable water availability charge	42.00	42.00	42.00	42.00
Waste water rates				
Monthly fixed charge ($/customer/month)	70.00	70.00	70.00	60.00
Variable waste water usage charge	1.62	1.62	1.62	1.59
Tie-Fee to waste water System	900.00	900.00	900.00	900.00
Waste water service availability charge				31.50

26. Alternatively, Monterra recommended the Commission approve rates for the potable water utility, consisting of specific OM&A expenses, depreciation, necessary working capital, return and waste water revenue off-sets, which would result in the following rate structure:[5]

[4] Exhibit 21340-X0096.01, Monterra evidence.
[5] While Monterra calculated the rate structure out to 2024, for consistency's sake, the Commission has only included the values to 2018 in the table.

Table 2. Alternate water utility rate structure

	2015	2016	2017	2018
Water rates	($)			
Monthly fixed charge ($/customer/month)	55.00	40.00	25.00	18.00
Variable water usage charge	2.65	2.55	2.45	2.35
Tie-Fee to water system	0.00	0.00	0.00	0.00
Water availability charge	42.00	42.00	42.00	18.00
Waste water rates				
Monthly fixed charge ($/customer/month)	70.00	70.00	70.00	70.00
Variable waste water usage charge	1.62	1.62	1.62	1.62
Tie-Fee to waste water system	12,500.00	12,500.00	12,500.00	12,50.00
Waste water service availability charge				0.00

27. While the Commission determined that its jurisdiction does not include wastewater, the Commission has considered the proposals put forward by Monterra, and the impact these recommendations would have on HCWS proposed rates. In considering the rate models that support Monterra's proposed rates, the Commission finds the calculations to be overly complex for a small water utility. Further, the models do not appear to be consistent with the stand-alone utility approach preferred by the Commission in determining and setting utility rates. While there may be shared costs between HCWS and HCSS, the Commission generally reviews such costs on a case by case basis making specific determinations, rather than the approach taken by Monterra, which relies on a series of assumptions that support an off-setting amount to HCWS' revenue requirement.

28. To the extent that Monterra's proposals include setting rates for HCSS, the Commission will not approve the same based on its conclusions above regarding jurisdiction over wastewater. However, the Commission will consider Monterra's recommendations as they relate to expenses that are shared between HCWS and other related entities, including HCSS. The Commission considers these and other recommendations made by Monterra below.

5 Proposed rates

29. In its revised 2016 application, HCWS indicated that the water treatment plant was originally built to service 875 residential units, whereas HCWS currently has 157 customers, with the following rates:

Table 3. HCWS current rates

	Usage	$
Monthly fixed charge		70.00
Tier one	<30 m^3	1.62/m^3
Tier two	30-60 m^3	2.71/m^3
Tier three	>60 m^3	3.79/m^3

30. HCWS prepared the following historical and forecast information setting out the proposed revenue requirement and revenue on current rates:

Table 4. Historical and forecast revenue requirement and revenues

	2015 actual	2016 actual	2017 forecast	2018 forecast
	($)			
Operating, maintenance and administration expense	307,040	318,833	315,190	319,306
Depreciation expense	366,521	372,985	378,983	379,031
Amortization of CIAC*	(353,216)	(353,227)	(353,270)	(353,313)
Return on rate base	34,162	70,682	78,982	87,282
Total revenue requirement	**354,507**	**409,273**	**419,885**	**432,306**
Reconciliation of revenue requirement				
Residential revenue, existing rates	204,302	202,363	206,896	208,613
Other revenue	1,908	2,440	975	825
Total revenue, existing rates	206,210	204,803	207,871	209,438
Revenue deficiency	**148,297**	**204,470**	**212,014**	**222,868**

* Contribution in aid of construction (CIAC).

31. Based on the historical and forecast revenue requirement, HCWS proposed the following two options:[6]

1. Continue with existing rates
Under the existing rates, HCWS has forecast that the yearly revenue deficiency will continue to grow. HCWS will accept this deficiency, as long as the proposed tie-in fees of $16,500 are approved, on the basis that the tie-in fees would cover the revenue deficiency.

2. Adopt new rates
If the proposed tie-in fee of $16,500 is not approved, or cannot be used for the revenue deficiency, HCWS requested approval of the following new rates:

Table 5. HCWS proposed new rates

	Usage	2016 (year one)	2017 (year two)	2018 (year three)
		($)		
Fixed monthly charge		100.00	105.00	110.00
First tier	<20 m^3	1.86/m^3	2.14/m^3	2.46/m^3
Second tier	20-40 m^3	3.12/m^3	3.59/m^3	4.13/m^3
Third tier	>40 m^3	4.36/m^3	5.01/m^3	5.77/m^3

32. In determining just and reasonable rates for HCWS, the Commission considers HCWS' proposed revenue requirement in the sections that follow.

6 Exhibit 21340-X0007.01, General Rate App HCWS vs 2 part 1, Section 8.4, PDF pages 47-48.

6 Operations and administration expenses

33. HCWS provided the following breakdown of the operating and administrative expenses for 2015 and 2016, and forecasts for 2017 and 2018.

Table 6. Schedule 4.4 expenses by type

	12 mths to Dec 31, 2015 actual	12 mths to Dec 31/2016 actual	12 mths to Dec 31, 2017 forecast	12 mths to Dec 31, 2018 Forecast f
	($)			
Operating expenses:				
Operator services	85,015	88,451	93,216	94,894
Chemicals	12,958	11,727	12,500	12,725
Consulting fees	8,428	11,819	8,400	8,551
Lab testing	4,594	7,185	5,900	6,006
Repairs and maintenance	28,901	43,238	30,000	30,000
Utilities	39,318	42,363	43,110	43,886
Vehicle expenses	1,003	0	0	0
Memberships and permits	0	0	0	0
Safety supplies and expenses	0	427	300	305
Insurance	16,041	12,674	13,000	13,234
Travel and entertainment	558	0	25	25
	196,816	**217,884**	**206,451**	**209,627**
Administrative expenses:				
Salaries and wages	77,811	70,709	77,039	78,426
Professional fees	10,981	4,408	4,950	5,039
Advertising and promotion	0	741	0	0
Insurance	0	106	1,250	1,273
Bank charges	1,792	1,308	1,440	1,466
Office expenses	2,154	2,298	2,120	2,158
Computer costs	5,327	6,043	6,240	6,352
Vehicle expenses	403	1,200	1,200	1,222
Rate application costs	0	860	1,000	0
Rent	6,411	5,172	5,200	5,294
Repairs and maintenance	0	1,405	600	611
Training and memberships	0	239	780	794
Telephone	2,351	2,100	2,400	2,443
Travel and entertainment	2,994	4,360	4,520	4,601
	110,224	**100,949**	**108,739**	**109,679**
Total expenses	**307,040**	**318,833**	**315,190**	**319,306**

6.1 Operating expenses

34. In considering the operating expenses, the Commission has not specifically dealt with each line item category listed above. The Commission accepts the amounts proposed by HCWS as filed except to the extent that they are otherwise addressed below.

6.1.1 Operator services

35. Operator services are the amounts paid to Aquatech Canadian Water Services Inc., (Aquatech). Aquatech is contracted by HCWS to operate and maintain the water treatment plant and distribution system. HCWS indicated that operator costs are expected to increase starting in 2017 as there is a requirement in place by Alberta Environment and Parks that turbidity levels are reported on a daily basis. This is expected to increase operator services expenses by at least $525 per month.

36. As part of its review of this application, the Commission requested HCWS to provide support for and explain the process by which Aquatech was selected as the contractor to provide the day to day operations and maintenance of the water supply system. HCWS stated:

> Aquatech Canadian Water Services Inc. (Aquatech) were the operators of the Monterra Water System when it owned by Regional Water Services Ltd. (RWSL). HCWS has continued to use Aquatech for three main reasons:
>
> (i) Aquatech is already familiar with the water treatment system and as such, extra costs that would arise from bringing a new operator on board were avoided.
>
> (ii) A comparison quote from Corix Utilities was obtained in January 2015 (Appendix K). This quote is comparable to what is already being charge by Aquatech, when considering the Corix contract is dated January 2015 and Aquatech contract January 2016. Prices across the board have increased in the past year.
>
> (iii) Corix Utilities is the operator of Parr Utilities, a company related by common ownership. By using two different operators for these two companies, management believes that costs can be kept down due to the competition that exists. Also, it is believed that management has a better understand of the operational costs that are required to run a water treatment plant by continuously comparing the two competing operators.[7]

37. Monterra obtained an independent quote from H2O Pro Inc. (H2O Pro) for the operation of the combined water and wastewater systems. The annualized monthly estimate for water treatment and distribution including hydrant inspections in the spring and fall was $57,260. Monterra argued that the H2O Pro estimate provides a proxy for just and reasonable expenses for the combined operation of the water and wastewater systems.

38. HCWS considered Monterra's quote from H2O Pro and argued that the quote was for only 1.75 hours per day versus Aquatech's quote of three hours per day. Thus, the H2O Pro quote was skewed and not a good comparison. HCWS considered that 1.75 hours a day was fine for testing, but was not enough to properly manage the water treatment system.

---

7 Exhibit 21340-X0007.01, General Rate App HCWS vs 2 part 1, Section 8.4, PDF page 65.

Commission findings

39. The Commission reviewed the Aquatech contract, and finds that the contract sets out the components included in the water treatment plant and distribution system, and provides a contract price for operating the water treatment plant and distribution system. The Commission finds that the contract does not include the inclusion of any wastewater system assets or the costs for the operation and maintenance of those assets.

40. Also, the Aquatech contract is with a third-party supplier. The service contract and associated rates have been negotiated between HCWS and Aquatech. The Commission finds that these facts support the approval of HCWS' contract with Aquatech and the resulting operator services expenses.

41. The Commission also accepts HCWS' position that it selected Aquatech because they were familiar with the water treatment plant. Enabling a continuation of safe and reliable service, while avoiding costs that may be incurred with a new operator having to become familiar with the water treatment plant, thereby controlling the costs associated with providing utility service.

42. The estimate provided by H2O Pro did not include expenses associated with non-routine services, parts, and subcontractors. The Commission is of the view that this may explain the difference between HCWS forecast expenses and H2O Pro's estimated costs.

43. The Commission also acknowledges the strategy of HCWS' parent company to use a competing operator for an affiliated water utility. According to this strategy, competition between the two providers is stimulated, allowing HCWS to receive the benefit of lower operator service expenses.

44. Based on these findings, the Commission accepts HCWS' forecast of operator services expenses for 2017 and 2018.

6.1.2 Repairs and maintenance

45. HCWS provided actual repairs and maintenance expenses for 2015 and 2016 of $28,901 and $43,238 respectively. These expenses were due to needed repairs and maintenance as a result of the water treatment plant not being properly maintained while it was being operated by RWSL. The majority of these costs were related to media filter repairs, pump rebuilding and ultraviolet light replacement. HCWS expected that repairs and maintenance would continue to be $30,000 for 2017 and 2018.

46. A concern was expressed by a registered participant, Mr. Howard, with respect to these expenses, which were listed as $50,511 in 2015 and $50,000 in 2016 in the original application. Mr. Howard agreed that this work was necessary and completed. However, he suggested that these amounts should be amortized as they are not necessary on an annual basis, or they could be considered as a capital improvement since the utility was not maintained on its required schedule under RWSL.[8]

Commission findings

47. The Commission is of the view that in order for a utility to provide safe and reliable service, it must be allowed to collect a reasonable amount in revenue requirement related to

[8] Exhibit 21340-X0025, Brent Howard letter, PDF page 1.

repairs and maintenance. The Commission agrees with Mr. Howard that the work completed in 2015 and 2016 was necessary and completed, and is properly included in HCWS' revenue requirement.

48. Further, the Commission is satisfied that HCWS has properly included amounts for repair and maintenance as an operational expense to be recovered within the year they were incurred.

49. The Commission has reviewed the forecast repair and maintenance expenses of $30,000 for each of 2017 and 2018. Given that the average actual repair expenses for 2015 and 2016 is $36,070, the Commission finds that the forecast repair and maintenance expenses are consistent with past experience, and appear reasonable. On this basis, the Commission approves HCWS repair and maintenance expenses of $30,000 for each of 2017 and 2018.

6.1.3 Insurance

50. HCWS indicated its actual insurance expenses were $16,041 for 2015 and $12,674 for 2016. HCWS forecast amounts of $13,000 for 2017 and $13,234 for 2018 related to the following properties:

- 264100 Monterra Dr. Cochrane, AB T4C 0A7
- 264088 Monterra Dr. Cochrane, AB T4C 0A7
- NW 04-26-05 W5, Cochrane, AB T4C 0A7

51. A portion of HCWS' insurance expense was related to property owned by HCSS.[9] As HCWS' insurance coverage includes portions of two calendar years, likewise, its annual insurance expense covers two calendar years. HCWS' insurance broker, advised that of its insurance expense of $14,058, which covered the period from November 14, 2016 to November 14, 2017, approximately $2,200 was for HCSS.

52. HCWS allocated a portion of the insurance amount to HCSS based on the information received from its insurance broker. The revised insurance expense amount was reflected in its updated financial schedules.[10]

53. Monterra did not specifically comment on HCWS' actual and forecast insurance expense amounts. Rather, Monterra was of the view that insurance expense was a shared operation, maintenance and/or administrative expense between HCWS and HCSS. As such, this amount and other amounts associated with integrated operations, should be treated as wastewater revenue off-set amounts in determining the rates for an integrated utility.[11]

54. Mr. Howard considered that HCWS' insurance expense was two times the 2012 insurance expenses of an affiliate company, Parr Utilities Ltd. Current financial statements for Parr Utilities Ltd. were not available for direct comparison.[12]

---

[9] Exhibit 21340-X0056.01, response to HCWS-Monterra-2016JAN06-006(h).
[10] Exhibit 21340-X0055, response to HCWS-AUC-2017JAN06-011(a).
[11] Exhibit 21340-X0101, response to MONTERRA-AUC-2017JUN2-002.
[12] Exhibit 21340-X0025, Brent Howard letter, PDF page 2.

Commission findings

55. The Commission has compared the insurance expenses filed in the original application with the insurance expenses in the updated application. While the actual and forecast periods in the original application were based on a September 30 year-end, the updated application is based on a December 31 year-end. The Commission considers this makes a direct comparison difficult, however, since it is the same operating company, such a comparison will help inform the Commission as to the reasonableness of the insurance expense.

56. The total insurance expense in the original application for the 2015 actual, 2016 and 2017 forecast period ending September 30, 2017 was $53,795. For the 2015 actual, 2016 actual and 2017 forecast period ending December 30, 2017, in the updated application, the total insurance expense was $41,715. The difference between the two amounts represents a reduction of $12,080. On an annualized basis, this represents a reduction of $4,026.

57. The Commission does not have the information to explain why the annualized reduction of $4,026 is higher than the insurance amount of $2,200, attributable to HCSS. However, the Commission finds this information supports that HCWS removed the insurance expenses related to HCSS from its operating expenses. Thus, the cross subsidization between HCWS and HCSS has likely been eliminated.

58. Considering the 2017 and 2018 forecast insurance expense amounts of $13,000 and $13,234, the Commission finds these amounts represent a 2.5 per cent increase in 2017 and a 1.8 per cent increase for 2018, based on the 2016 actual amount. Given that these percentage increases are small, the Commission finds the increases for 2017 and 2018 to be reasonable.

59. Given the reduction in the insurance expense amount, and the relatively small increases in the forecast insurance expense amounts for 2017 and 2018, the Commission approves HCWS insurance expenses as forecast.

6.1.4 Utilities

60. HCWS' utility expenses are comprised of electricity charges from EPCOR and natural gas charges from Cochrane Lake Gas Co-op.[13] HCWS reported actual costs for 2015 and 2016 of $39,318 and $42,363, and forecast costs for 2017 and 2018 of $43,110, and $43,886.

61. Monterra argued there was cross-subsidization of utility costs between HCWS and HCSS. Electricity metered at the water treatment plant was being used to operate the wastewater lift station. Monterra estimated that operating the wastewater lift station incurred electricity costs of $300 to $400 per month.[14]

62. HCWS indicated there was one sewer lift station that may be part of its electricity charges. While the electricity used at the sewer lift was not split out on its electricity bill, HCWS estimated that the lift station would incur costs of $200 per month or $2,400 on an annual basis.[15] HCWS provided sample copies of its electricity and natural gas invoices.[16]

---

[13] Exhibit 21340-X0055, response to HCWS-AUC-2017JAN06-011(b).
[14] Exhibit 21340-X0101, response to MONTERRA-AUC-2017JUN2-003.
[15] Exhibit 21340-X0056.01, response to HCWS-Monterra-2016JAN06-006(h).
[16] Exhibit 21340-X0061, information requested support, PDF pages 1-15.

Commission findings

63. The Commission has reviewed the electricity invoices from EPCOR, which are from three random billing periods: February 2016, March 2016 and September 2016. The Commission finds that electricity consumption is for two metered sites, the pumping station located at the Bow River and the water treatment plant. The Commission agrees with the parties that electricity to run HCSS' sewer lift station is included in the electricity charges billed to HCWS.

64. While HCWS considered the sewer lift station incurred electricity costs of $2,400 annually, Monterra argued this number could be as high as $4,800 annually. The Commission finds that there is insufficient evidence on the record to determine electricity costs incurred at the sewer lift station. In addition, the Commission finds that EPCOR may not be able to separate out the consumption used at the sewer lift station.[17]

65. On this basis, the Commission finds that HCWS is cross-subsidizing HCSS. Further it appears that HCWS has not provided sufficient evidence to support the reasonableness of its forecast utility expenses. On this basis, the Commission directs HCWS to reduce its forecast electricity expenses by $4,800 per year for 2017 and 2018.

6.2 Administrative expenses

6.2.1 Salaries and wages

66. Salary and wage expenses for 2015 and 2016 were $77,811 and $70,709 respectively, with HCWS forecasting 2017 and 2018 salary and wage expenses of $77,039 and $78,426 respectively. The salary and wage expense was an allocation of costs from Windermere Water and Sewer Company Inc.[18] (Windermere) for four employees (a president, controller, account analyst, and front desk reception) and an amount for employee benefits.[19] Windermere is an affiliate of HCWS.

67. HCWS stated "allocation of the salary and wages is in relation to the estimated time spent by staff on the operations, office administration and accounting duties as required by HCWS."[20]

Commission findings

68. Given that salaries and wages are approximately 70 per cent of the administrative expenses and are allocated from an affiliate of HCWS, the Commission wanted to better understand these costs to ensure the allocated amounts result in just and reasonable rates.

69. In response to the Commission's information request,[21] HCWS provided the following information regarding its salaries and wages:

---

[17] Exhibit 21340-X0056.01, response to HCWS-Monterra-2016JAN06-006(h).
[18] Exhibit 21340-X0007.01, General Rate App HCWS vs 2 part 1, PDF page 7, lines 57-58.
[19] Exhibit 21340-X0055, response to HCWS-AUC-2017JAN06-003.
[20] Exhibit 21340-X0007.01, General Rate App HCWS vs 2 part 1, PDF page 7 line 58 to PDF page 8 line 60.
[21] Exhibit 21340-X0055, response to HCWS-AUC-2017JAN06-003.

Table 7. Total salaries and wages allocated from Windermere

	2015	2016	2017	2018
	($)			
President	36,452	37,800		
Controller	10,932	9,507		
Account analyst	14,129	10,000		
Front desk reception	5,156	3,836		
Subtotal	**66,669**	**61,143**		
Benefits	11,141	9,566		
Total	**77,810**	**70,709**	**77,039**	**78,426**

70. The services provided by the positions listed in Table 7 are shared between four utility companies; HCWS, HCSS, Parr Utilities Ltd. and Windermere. The salaries are allocated to HCWS based on the following percentages:

- president 35 per cent
- controller 25 per cent
- account analyst 20 per cent
- front desk reception 21 per cent

71. While HCWS indicated that the actual time is not tracked to determine the percentages, but rather it is estimated each quarter based on the time spent. The Commission finds that it is not clear how these percentages are estimated.

72. Further, the Commission questions whether allocating on a time percentage is the best method for all employee classifications. However, given that this is a small water utility, the Commission must weigh the simplicity associated with estimating time spent against the potential cost and increased accuracy that may result from a more detailed and involved allocation methodology. Accordingly, the Commission directs HCWS in its next rate application to fully support and explain the methodology it uses to allocate salary and wages, which should include a discussion of alternative allocation methodologies. In addition, HCWS should also provide support for the total salaries and wages received by the employees.

73. In considering the allocated amount for salaries and wages, HCWS explained:

> The President has been spending a large portion of his time dealing with the General Rate Application, further development and Repairs and Maintenance with respect to the plant. The Analyst bills HCWS customers monthly (Windermere Water and Sewer and Parr only bill quarterly) and the Controller has been spending a significant amount of time with the GRA as well as dealing with questions with respect to the GRA. The Front Desk Receptionist has been assisting the Controller and President, as well assisting with customer inquiries as they come in. If anything, the above percentages are lower than actual time spent and considered more than fair. It is expected that the massive amount of time spent on revising the GRA as well as answering questions on the GRA will result in

> increased wages in 2017. This has been reflected in the forecast by increasing the Controller allocation to 28% in 2017.[22]

74. The Commission acknowledges that the regulatory process associated with this application may have required additional time or resources on behalf of HCWS. Although HCWS has not provided forecasts of the allocated amount of the controller's time spent for 2017 and 2018, the overall salaries and wages forecast for those two years has increased by approximately 10 per cent from the 2016 amount.

75. Further, HCWS submitted that:

> Increasing the Controller allocation to 28% in 2017 (and continuing in 2018), still does not cover the actual amount of time spent on the GRA. The allocation for 2018 is still considered to be fair.[23]

76. The Commission has also considered the account analyst position, which is based on an annual salary. According to the allocation percentage for this function, and the amounts allocated in 2015 and 2016, the annual salary expense for this position has dropped from $70,465 in 2015 to $50,000 in 2016. While this decrease has not been explained, it has resulted in a small decrease in the wages and salaries allocated to HCWS.

77. The Commission recognizes that Parr Utilities Ltd. and Windermere provide water and wastewater services in the Windermere area of British Columbia. If Parr Utilities Ltd. and Windermere are of similar size and complexity as HCWS and HCSS, it would not be unreasonable to expect a more equal allocation of the wages and salaries, resulting in a higher wage and salary expense being allocated to HCWS. In support of the current level, HCWS stated that "…if anything, the above percentages are lower than actual time spent and considered more than fair."[24]

78. The Commission finds the proposed salary and wage amounts appear to be reasonable based on this evidence. The Commission approves HCWS' forecast salary and wage amounts respectively for 2017 and 2018 of $77,039 and $78,426, subject to the direction above regarding additional evidence supporting the allocation of salaries and wages in future applications.

6.2.2 Rent

79. HCWS proposed a rent expense of $5,200 for 2017 and $5,294 for 2018. These amounts were allocated to HCWS for the Windermere offices located in Invermere, British Columbia, which is the location for all of the administrative duties performed on behalf of HCWS.

80. HCWS indicated that the allocated rent expense amount was determined using the same percentage base as salary allocations multiplied by the square feet of the office spaces used by the president, controller, account analyst, and front desk reception, multiplied by a commercial rental rate of $15 per square foot. Common area costs were also included in the rent expense and were based on the actual common area costs of the prior year and the same allocation rate as rent.

---

22 Exhibit 21340-X0055, response to HCWS-AUC-2017JAN06-003(c).

23 Exhibit 21340-X0082, response to HCWS-MONTERRA-2017APR28-018(a).

24 Exhibit 21340-X0055, response to HCWS-AUC-2017JAN06-003(c).

Commission findings

81. The annual rent expense amount of approximately $5,200 translates into a monthly amount of $433. The Commission finds that the rent amount appears reasonable, given the requirement to house staff to perform the administrative duties of HCWS.

82. In future applications, HCWS is directed to provide further support for its rent expense, including the total amount of office space being allocated and support for the commercial rental rate.

83. The Commission approves HCWS' rent expense of $5,200 for 2017 and $5,294 for 2018.

6.2.3 Other administrative expenses

84. In support of its computer expenses, HCWS indicated that its accounting, billing and customer management is carried out on Microsoft Dynamics Great Plains software. The forecast expenses respectively for 2017 and 2018 of $6,240 and $6,352 includes the annual maintenance fee for software support as well as monthly computer maintenance provided by Diekri Technology. The total expenses are then allocated to HCWS.[25]

85. In support of training and membership expenses, forecast to be $780 in 2017 and $794 in 2018, HCWS indicated that these amounts are allocated to HCWS, based on the controller's chartered professional accountant (CPA) membership as well as a forecast of CPA professional development expenses. To date the forecast of professional development expenses have been higher than the actual expenses.[26]

86. The travel and entertainment expenses forecast for 2017 of $4,520 and $4,601 for 2018, relate to the expenses incurred by the president as he travels back and forth from Alberta to British Columbia. These costs are allocated between the four utility companies. HCWS indicated that "the travel costs to have one President overseeing a number of companies is far more cost effective than having a different President overseeing the utilities in each Province."[27]

Commission findings

87. Of the remaining administrative expenses, the Commission is of the view that office expenses, computer costs, vehicle expenses, repairs and maintenance (related to administrative expenses), training and memberships, telephone, and travel and entertainment, are shared costs, a portion of which are allocated to HCWS.

88. As discussed above, in support of shared service costs that are allocated to HCWS, HCWS must fully support the amounts that are allocated, and the methodology used to allocate these amounts must be explained. The Commission directs HCWS in its next rate application to identify all expenses that are the result of an allocation to HCWS, and fully support the total expense amount, the amount allocated to HCWS, and the allocation methodology.

89. The Commission has reviewed the remaining administrative expenses, including the categories of professional fees and bank charges. The Commission is of the view that these expenses are necessary for the day to day operation of HCWS. Further, the actual and forecast

---

25 Exhibit 21340-X0055, response to HCWS-AUC-2017JAN06-011(e).
26 Exhibit 21340-X0055, response to HCWS-AUC-2017JAN06-011(f).
27 Exhibit 21340-X0055, response to HCWS-AUC-2017JAN06-011(g).

amounts for these expenses as shown in Table 6 are consistent across the four year period and are relatively low. On this basis, the Commission considers these amounts to be reasonable.

90. The Commission approves the remaining forecast administrative expenses as filed.

7 Rate base

91. In its application, HCWS provided Schedule 4.2 Rate Base, which detailed the gross plant in service and associated accumulated depreciation, as shown below.

Table 8. Schedule 4.2 – Rate Base

	12 mths to Dec 31, 2015 actual	12 mths to Dec 31, 2016 actual	12 mths to Dec 31, 2017 forecast	12 mths to Dec 31, 2018 forecast
	($)			
Gross plant in service				
Beginning of year	14,170,713	14,175,724	14,769,478	14,771,878
End of year	14,175,724	14,769,478	14,771,878	14,772,678
Mid-year	14,173,219	14,472,601	14,770,678	14,772,278
Accumulated depreciation				
Beginning of year	183,010	549,531	922,515	1,301,498
End of year	549,531	922,515	1,301,498	1,680,530
Mid-year balance	366,270	736,023	1,112,007	1,491,014
Mid-year plant in service	13,806,948	13,736,578	13,658,671	13,281,264
Add: working capital	341	418	436	444
Mid-year rate base	**13,807,289**	**13,736,996**	**13,659,107**	**13,281,708**
Less: mid-year CIAC	12,777,498	12,424,676	12,073,028	11,721,336
Mid-year rate base net CIAC	**1,029,791**	**1,312,320**	**1,586,079**	**1,560,372**

Source: Exhibit 21340-X0063, Excel schedules to support 2016 GRA revised February 28, 2017, Tab-Sch 4.2 Rate Base.

92. With respect to these values, HCWS submitted:

> In order to account for the assets that were purchased, HCWS took the net book values of each of the capital assets in the RWSL statements and used these values as the opening balances, as this was the limited information available. The difference between the

> purchase price of $1,039,999 and the total net book value of the capital assets of $14,169,312.98 was deemed a 'contribution in aid of construction'.[28]

93. Monterra considered that the owner-invested capital in the combined potable water assets and waste water assets was equal to the purchase price paid by HCWS to acquire the assets. Monterra did not oppose HCWS' methodology for determining no-cost capital, which was the difference between the purchase price and the net book value of the assets.[29]

94. In calculating its proposed rates, Monterra recommended that the purchase price of the assets be allocated between HCWS and HCSS. Monterra requested that the Commission fix the going-in owner-invested capital in the potable water assets in the amount of $743,121, with the remaining $296,879 of the purchase price allocated to owner-invested capital in the waste water assets.[30]

95. Registered participants, pointed out that the assets were bought for $1.04 million payable over 10 installments.[31] This purchase price should be used for capitalization purposes,[32] and the water rates should be recalculated using the purchase price.[33]

Commission findings

96. The Commission continues to hold the view stated in Decision 2011-061:

> 16. The Commission determines a rate base and fixes a fair return on rate base pursuant to Section 90 of the *Public Utilities Act*:
>
> > (1) In fixing just and reasonable rates, tolls or charges, or schedules of them, to be imposed, observed and followed subsequently by an owner of a public utility, the Commission shall determine a rate base for the property of the owner of a public utility used or required to be used to provide service to the public within Alberta and on determining a rate base it shall fix a fair return on the rate base.
>
> 17. The Commission must give due consideration to the cost of that property when first committed to public use and to the prudent acquisition cost to the owner of the public utility. From the gross rate base determined according to these considerations, the Commission is required to deduct depreciation, amortization or depletion. Net working capital is added to rate base, but capital "contributed by" or paid for, in whole or in part, by customers is deducted. This so-called "contributed capital" is deducted from rate base so that the owner earns neither a further return on this capital, nor further return of capital (i.e. depreciation) because customers have already paid for it at zero acquisition cost to the owner.
>
> 18. The objective of establishing a proper rate base is to allow the Commission to fulfill its second duty under Section 90 of the *Public Utilities Act*, namely to fix a fair return on the rate base. In fixing a fair return, the Commission is required to "give due

28 Exhibit 21340-X0055, response to HCWS-AUC-2017JAN06-009(a).
29 Exhibit 21340-X0117, Monterra argument, paragraphs 81-82.
30 Exhibit 21340-X0117, Monterra argument, paragraph 102.
31 Exhibit 21340-X0020, statement of intent to participate, Brent Howard.
32 Exhibit 21340-X0016, statement of intent to participate, Stan Vander Helm.
33 Exhibit 21340-X0021, statement of intent to participate, Rob Sarabin.

> consideration to all those facts that, in the Commission's opinion, are relevant."
> Typically, the Commission determines the fair return on the mid-year average rate base, determined according to the opening and year-end rate base amounts for each test year. [footnotes removed]

97. The Commission recognizes the difficulty in determining the rate base to be used for regulatory purposes in this case, given the limited information that was available to HCWS at the time the utility was purchased out of receivership.[34] The Commission considers this situation to be unique, in that the assets and liabilities of RWSL were purchased out of receivership for an amount that is substantially less than the book value of the assets. This fact, and its impact on rates, appears to be recognized by all parties, including HCWS.

98. The Commission finds that in calculating its rate base, HCWS determined an offsetting amount which it applied to take into account the purchase price of RWSL's assets. HCWS stated that it used the net book value of the capital assets of $14,169,313 and subtracted the purchase price of $1,039,999 and deemed the amount of $13,129,314 to be a contribution in aid of construction (CIAC).[35] The Commission agrees with HCWS that the CIAC amount is "… deemed to have been 'contributed' to the company from outside."[36]

99. The Commission also agrees with Monterra that:

> 83. … the capital "contributed by" or paid for by RWSL (an affiliate of the original developer) and/or its creditors should not be included in the Integrated Water Utility's rate base, such that Horse Creek earns neither a further return on this capital, nor further return of capital (i.e. depreciation). Other parties have already paid for such capital at zero acquisition cost to Horse Creek.
>
> 84. The Monterra Group takes no position as to the specific amount of no-cost contributed capital to be included in the Integrated Water Utility rate base, so long as Horse Creek is only entitled to recover its own costs and a reasonable rate of return on the actual owner-invested portion of the rate base…[37] [footnote removed]

100. The Commission finds that by including CIAC in its calculation of rate base, HCWS has followed basic regulatory principles, and the resulting return and depreciation amounts will reflect the amount HCWS has paid to acquire the water utility system. The Commission considers that the resulting amounts for return and depreciation will be fair to the utility and its customers.

101. Considering the allocation of the purchase price raises the issue as to what the total cost of the assets purchased from the receiver was. While parties agree that the assets were purchased out of receivership for $1,039,999,[38] HCWS advised that it signed a tax agreement with RVC on August 8, 2016, in which it would pay RVC $590,856.38 over twenty four equal monthly

34 Exhibit 21340-X0055, response to HCWS-AUC-2017JAN06-009(a).
35 Exhibit 21340-X0007.01, General Rate App HCWS vs 2 part 1, Section 4.6.
36 Exhibit 21340-X0056.01, response to HCWS-Monterra-2016JAN06-003(d).
37 Exhibit 21340-X0117, Monterra argument, paragraph 83-84.
38 The asset purchase agreement shows $1,040,000.

installments. This amount related to outstanding disposal fees and tax arrears incurred by RWSL from 2011 until the sale in August 2014.[39]

102. HCWS applied to include the whole amount of $590,856.38 as a capital addition to the raw water pipeline account. Monterra did not support this treatment given that:

> (a) the Waste Water Debt relates to outstanding disposal fees owed by RWSL to RVC for disposing waste water;
> (b) there is a waste water lift station located on the Lands subject to RVC's registered interest regarding the Waste Water Debt; and
> (c) the waste water lift station located on the Lands is part of the Waste Water Assets nominally owned by HCSS.[40] [footnotes removed]

103. HCWS indicated that:

> [It] did not include the Rocky View County ("RVC") Debt originally in the rate base, or as part of the purchase price of the assets from Regional Water Services Ltd. ("RWSL"), as HCWS expected to come to an agreement with the RVC in which the overall debt would ultimately be collected from RWSL, or, if not, the amount payable by HCWS would, at the least, be reduced significantly. HCWS also offered the RVC 200 existing sewer lots in return for the $590,856. Unfortunately, RVC was unable to collect the debt from RWSL, nor would RVC accept the sewer lots in exchange, and as such, attached the debt to the tax arrears of the land held by HCWS as per the agreement dated August 8, 2016 (see HCWS response to HCWS-AUC-2017JAN06-001 in Exhibit 21340-X0055 for further discussion).
>
> The outcome of this Agreement with respect to the debt resulted in HCWS now needing to request that the amount be included in its rate base, as for all intents and purposes, this amount is a delayed portion of the overall purchase price of the assets from RWSL.[41]

104. Further HCWS stated:

> The full amount invested in Water Utility assets is $1,630,855. This is made up of $1,039,999 per the APA [asset purchase agreement] (with $1 of the purchase price being the purchase price for the sewer assets), and $590,856 for the RWSL debt to RVC as discussed in d).[42]

105. The Commission finds according to the APA, HCWS is responsible for "the outstanding sewer servicing fees and the applicable interest owing to the RVC, which shall be assumed by the Purchaser as contemplated in this Agreement and the Vesting Order."[43] Thus, the Commission is prepared to accept the $590,856 as part of the purchase price.

106. The Commission finds that HCWS' purchase of the assets was contingent upon it assuming the liability with RVC. On this basis, the Commission is of the view that the total purchase price for the assets is $1,630,855 ($1,039,999 + $590,856).

---

39 Exhibit 21340-X0033, letter advising of Rocky View debt payment.
40 Exhibit 21340-X0096.01, Monterra evidence, paragraph 28.
41 Exhibit 21340-X0082, response to HCWS-MONTERRA-2017APR28-012(b).
42 Exhibit 21340-X0056.01, response to HCWS-Monterra-2016JAN06-001(g).
43 Exhibit 21340-X0043, Attachment IR001-B_Asset Purchase Agreement, Article 2.3 – Excluded Liabilities, PDF page 7.

107. Given the Commission's view that the total purchase price of the assets was $1,630,855, the Commission finds that both HCWS' and Monterra's proposed allocation of the purchase price between HCWS and HCSS must be reconsidered.

108. In determining how to allocate the purchase price, the Commission finds that the methodology employed by Monterra to allocate the purchase price between HCWS and HCSS reflects the value that is inherent in both the water and wastewater assets. The Commission used this methodology[44] to produce the following asset valuations:

Table 9. Commission-approved allocation of total purchase price to water and wastewater assets

Description	2013 replacement valuation	Apportioned amount for purchase price
Water system	($)	
River intake and pipeline to raw water pump station	370,886	22,224
Raw water pump station	305,968	18,334
Raw water well	877,507	52,581
Raw water pumps	331,261	19,850
Off site raw water supply main	4,068,634	243,797
Water treatment plant	2,580,667	154,636
Treated water reservoir	2,191,713	131,330
Raw water reservoir aeration	378,592	22,686
Raw water reservoir	3,391,487	203,221
Distribution mains & hydrants	2,334,131	139,864
Water services	457,023	27,385
Meters	98,800	5,920
Machinery and equipment	11,248	674
Water licence	2,000,000	119,842
Land	49,500	2,966
Total water system	**19,447,417**	**1,165,310**
Sewer system		
Sewer services	533,716	31,981
Sewage collection system	2,526,349	151,382
Sewage pump station	1,384,246	82,945
Wastewater pipeline to Cochrane town boundary	3,300,000	197,739
Land & easements	25,000	1,498
Total sewer system	**7,769,311**	**465,545**

109. Based on this methodology, the Commission approves a rate base value for regulatory purposes of the water utility system of $1,165,310.

44 Exhibit 21340-X0096.01, Monterra evidence, paragraphs 48-52, and Exhibit 21340-X0114, 2017-08-02 Horse Creek Water Rate Model revised and adjustable through Con, Schedule 1.

110. The Commission recognizes that HCWS is a new entity, and this is the first time that HCWS has come before the Commission to have its rates tested. To effect the rate base value of the water utility system of $1,165,310, the Commission directs HCWS to update its regulatory schedules to remove the capital addition of $590,856 in 2016 to the raw water pipeline, and update its plant continuity schedule (Schedule 4.2.1) and other associated schedules to reflect the asset values determined in Table 9. HCWS may allocate the asset values in Table 9 to the current asset categories that comprise the total plant in service shown on Schedule 4.2.1.

111. Based on this direction, the Commission finds that HCWS will no longer need to track the initial CIAC amount of $13,129,314, as the asset value for regulatory purposes will be reflected in the rate base and other associated schedules.

112. The Commission directs HCWS to refile its regulatory schedules to reflect this change.

8 Depreciation expense

113. HCWS proposed the following amounts for depreciation, less amortization of CIAC, resulting in the following net depreciation amounts:

Table 10. HCWS actual and forecast depreciation amounts

	2015 actual	2016 actual	2017 forecast	2018 forecast
	($)			
Depreciation	366,521	372,985	378,983	`
Amortization of CIAC	(353,216)	(353,227)	(353,270)	(353,313)
Net Depreciation	13,305	19,708	25,713	25,718

114. HCWS mainly used depreciation rates that were derived directly from what was approved in Decision 2011-061 as shown below:

Table 11. Depreciation rates

HCWS description	Table 7 Decision 2011-061 description	HCWS depreciation rate	Table 7 Decision 2011-061 depreciation rate
		(%)	
Storage reservoir	Reservoir	2.0	2.00
Treatment plant	Water treatment plant	3.0	3.00
Raw water pipeline	Transmission mains	2.0	2.00
Raw water pump station	Water pump station	4.0	4.00
Raw water well	Transmission mains	2.0	2.00
Machinery and equipment	Equipment	20.0	7.00
Meters	Meters	3.0	2.00

115. The only depreciation rate that differs from those approved in Decision 2011-061 is the rate for equipment. HCWS proposed a rate of 20 per cent, whereas the approved rate was seven per cent. HCWS indicated that the 20 per cent was derived from standard practices, and is a standard rate used for accounting and tax purposes.

116. Monterra's rate model used the 2014 owner invested capital year-end amounts as the owner-invested capital opening balance for the 2015 test year. The model determined year end amounts for each test year by adding capital additions net of depreciation expenses, for each capital asset account.

117. Monterra used depreciation rates set out in: "Private Water Utilities in BC, Regulated Under the Water Utility Act and Utilities Commission Act Financial Guidelines for Certificate of Public Convenience and Necessity (CPCN) Applications November 2016." The Commission has summarized Monterra's proposed depreciation amounts below:

Table 12. Monterra's proposed depreciation amounts

	2015	2016	2017	2018
	($)			
Depreciation	11,932	12,601	12,835	13,063

118. Monterra argued that HCWS is subsidizing HCSS by allocating the purchase price in the amount of $1,039,999 to the water utility assets, and:

> … treating the entire amount of the wastewater debt ($590,856) as an owner-invested capital addition to the water utility assets, specifically allocated to the "Raw Water Pipelines," which results in an increase in depreciation expense of $5,908.46 in 2016 and about $12,000 in subsequent years.[45]

Commission findings

119. The Commission has provided its findings on the rate base values in the section above. Based on these new rate base values, the Commission directs HCWS to update its depreciation expense – Schedule 4.5 and accumulated depreciation continuity schedule – Schedule 4.2.2 to reflect the updated rate base values.

120. The Commission has reviewed the depreciation rates proposed by HCWS, which reflect the depreciation rates approved by the Commission for RWSL in Decision 2011-061, with an increase in the depreciation rate to 20 per cent for machinery and equipment. The Commission acknowledges HCWS' argument that the increase to the depreciation rate for machinery and equipment is a standard accounting and tax rate.

121. The Commission recognizes that depreciation rates, are based on the expected life of the physical assets. Since the assets used by HCWS to provide water service have not changed, the Commission considers this supports the continued use of the depreciation rates previously approved in Decision 2011-061. In the absence of a depreciation study, the Commission finds the proposed depreciation rates reasonably reflect the life expectancy of the physical assets. Based on these findings, the Commission approves HCWS' depreciation rates as filed including the increase for machinery and equipment.

122. Monterra questioned HCWS' composite depreciation rate of 2.69 per cent, which was approved in Decision 2011-061. While HCWS did not propose to update its composite depreciation rate, in response to Monterra[46] it calculated a composite depreciation rate of 2.60 per cent. While the difference between the two composite depreciation rates is small, the

[45] Exhibit 21340-X0101, response to MONTERRA-AUC-2017JUN2-004.
[46] Exhibit 21340-X0082, response to HCWS-MONTERRA-2017APR28-016(c).

Commission directs HCWS to update its composite depreciation rate to reflect the asset values approved in this decision. And to apply the updated composite depreciation rate as required.

123. The Commission directs HCWS to update its regulatory schedules with the depreciation amounts that will result based on the Commission's directions and findings on rate base and depreciation.

9 Return

124. HCWS provided Schedule 4.7 - cost of capital[47] which details the weighted average cost of capital and the proposed return for the 12-month periods ending December 31, 2015, 2016, 2017 and 2018.

Table 13. HCWS proposed return

	2015 actual	2016 actual	2017 forecast	2018 forecast
	($)			
Return on rate base	34,162	70,682	78,982	87,282

125. HCWS stated that:

> The funds required to comply with the Asset Purchase Agreement [APA] are being paid for by the parent company of HCWS. The parent company is not charging interest on the funds loaned, so as such, the cost rate used is based on the AUC approved Rate of Return on Common Equity of 8.3%.[48]

126. Monterra argued that under the terms of the APA,[49] there is no interest or other cost of debt payable by HCWS or HCSS to the seller during the 10-year payment period, therefore the portion of the purchase price owing to the seller in a given test period should be considered as debt with a corresponding interest rate of zero per cent.

127. Monterra also submitted that the allowed return should be based on the following capital structure and associated returns:

(1) A deemed debt/equity ratio of 25/75 [75/25];

(2) A cost of debt rate (i.e. interest) equal to 3.5%; and

(3) An allowed return on equity of:

 (i) 8.30% for the 2015 and 2016 test years; and

 (ii) 8.50% for the 2017 and 2018 test years.[50]

---

47 Exhibit 21340-X0063, Excel schedules to support 2016 GRA revised February 28, 2017, Schedule 4.7 Cost of Capital.

48 Exhibit 21340-X0007.01, General Rate App HCWS vs 2 part 1, Section 4.7 Cost of Capital, lines 664-667.

49 See Exhibit 21340-X0043, Attachment IR001-B_Asset Purchase Agreement, which sets out the terms and conditions for the purchase of the sale of RWSL by the receiver to 1812234 Alberta Ltd.

50 Exhibit 21340-X0096.01, Monterra evidence, paragraph 63.

Commission findings

128. In considering the amount of return that HCWS should be allowed to collect as part of its revenue requirement, there are three components used to determine the return amount: the return on equity, the cost of debt, and capital structure. Capital structure is the percentage of the company financed by debt versus the percentage of the company financed by equity, also known as the debt/equity ratio.

129. In considering the three components used to determine return as it applies to HCWS, the Commission has reproduced HCWS' return calculation based on the December 31, 2015 – actual portion of HCWS cost of capital Schedule 4.7:

Table 14. HCWS cost of capital – Schedule 4.7

	Capital	%	Cost rate	Product	Cost of capital
	(%)		(%)	(%)	($)
December 31, 2015 - actual					
Long-Term debt	699,999	5.124	0.000	0.000	0
Due to parent company	411,589	3.013	8.300	0.250	34,162
Common equity (deficit)	(227,395)	-1.664	0.000	0.000	0
Contributions and grants	12,777,498	93.528	0.000	0.000	0
	13,661,691	100		0.250	34,162

Return on equity

130. In Decision 20622-D01-2016[51] the Commission approved an allowed return on equity for the major natural gas and electric utilities in Alberta of 8.3 per cent for 2016 and 8.5 per cent for 2017. The Commission also allowed the approved return on equity of 8.5 per cent for 2017 to continue on an interim basis for 2018.

131. Monterra's recommendation for return on equity is consistent with the Commission's findings in Decision 20622-D01-2016. On this basis, the Commission finds that HCWS should apply these return on equity percentages to the approved debt/equity ratio in calculating its return.

Cost of debt

132. In considering the cost of debt to be applied to HCWS' capital structure, the evidence on the record of this proceeding is that the total amount agreed upon for the purchase of the utility of $1,040,000, is to be paid to the receiver with an initial payment of $140,000, and nine equal payments of $100,000 with no interest being added to the purchase price.[52] Likewise, the tax agreement that HCWS entered into with RVC for the repayment of $590,856.38, will be paid over 24 monthly installments of $24,619.02, with no interest being added to the amount to be repaid.[53] Thus there are no implied amounts of interest on the payments HCWS is required to make in purchasing the utility.

51 Decision 20622-D01-2016: 2016 Generic Cost of Capital, Proceeding 20622, October 7, 2016.
52 Exhibit 21340-X0043, Attachment IR001-B_Asset Purchase Agreement, PDF pages 7-8.
53 Exhibit 21340-X0034, Rocky View County tax agreement, PDF page 2.

133. The Commission also finds that HCWS has received advances from its parent company to run operations, pay the $100,000 to the receiver, and fund other repairs, maintenance and expenses.[54] Of these amounts, the parent company is not charging interest on the funds loaned.[55] Based on this information, the Commission is of the view that HCWS is fully debt financed, with an interest free loan.

134. While the debt due to the parent company is being provided at zero cost, the Commission is of the view that if HCWS was a stand-alone utility, it would not receive debt financing at zero per cent. The Commission considers that the funds provided by the parent company should earn a debt return to accurately reflect the true cost of utility service.

135. Monterra suggested a debt rate of 3.5 percent. It is not clear to the Commission what debt rate a small water utility would be able to obtain if it was able to obtain third party financing, however, the Commission will take this into account in its determination of capital structure. In the absence of any other evidence, the Commission accepts Monterra's recommendation and directs HCWS to apply a debt return rate of 3.5 per cent to the approved debt/equity ratio in calculating its return.

Capital structure

136. The Commission is of the view that HCWS should be allowed to earn a return. Considering the capital structure of HCWS, the Commission does not accept HCWS' proposal that its return be calculated based on the amount due to the parent company. Financing a utility with 100 per cent equity may harm customers with higher rates, particularly if a large portion of the utility could be financed with debt, which typically has a lower return compared to equity. As a result, the Commission will deem a capital structure in order to achieve a balance between customers and the utility.

137. Monterra recommended a deemed capital structure of 75 per cent debt and 25 per cent equity. As discussed in the 2016 generic cost of capital (GCOC) decision, there are a number of factors, such as credit metrics, embedded cost of debt, and business risks typically considered when determining a capital structure. The Commission considers that many of these factors may be difficult to quantify or determine for a small water utility. While the Commission has approved capital structures for water utilities of 75 per cent debt and 25 per cent equity in the past,[56] such a debt/equity ratio may not be reasonable for HCWS.

138. The Commission recognizes the submission from HCWS that it is targeting a capital structure of 60 per cent debt and 40 per cent equity, based on advice from its accountants.[57] Such a capital structure may be supported by the Commission's findings in the 2016 GCOC decision. Due in part to its small size, AltaGas Utilities Inc. was awarded a capital structure of 59 per cent debt and 41 per cent equity. Given the small size of HCWS, the Commission is of the view that its proposed capital structure could be reasonable.

---

54 Exhibit 21340-X0055, response HCWS-AUC-2017JAN06-016(c).
55 Exhibit 21340-X0007.01, General Rate App HCWS vs 2 part 1, Section 4.7 Cost of Capital, lines 664-667.
56 Decision 3258-D01-2015: Langdon Waterworks Limited, 2014-2015 General Rate Application, Proceeding 3258, Application 1610617-1, paragraph 211.
57 Exhibit 21340-X0082, response to HCWS-MONTERRA-2017APR28-013(f).

139. The Commission approved a debt return of 3.5 per cent which is lower than the average debt rate of large utilities of 4.77 per cent.[58] The Commission does not expect that HCWS would be able to obtain as favourable financing rates as the large utilities. On this basis the Commission finds that approving a debt/equity ratio of 60/40, as compared to 75/25 recommended by Monterra, balances the lower debt return awarded to HCWS relative to the industry average. On this basis, the Commission finds the debt/equity ratio of 60/40 is reasonable.

140. Given that the Commission is of the view that a deemed capital structure balances the interests of customers and the utility, the Commission directs HCWS to apply the deemed capital structure of 60 per cent debt and 40 per cent equity, to its current capital structure, which is fully debt financed. The Commission directs HCWS to apply the corresponding returns on equity and debt approved above. Further, the Commission directs HCWS to update its regulatory schedules showing the deemed capital structure being applied to the rate base of HCWS of $1,165,310, and to carry these calculations through to 2018.

10 Terms and conditions

10.1 Rates and rules for water service

141. HCWS completely revised and submitted new T&Cs of rates and rules for water service on February 28, 2017.[59] The Commission finds that the T&Cs, are comprised of typical definitions, clauses and provisions commonly found in other utilities T&Cs. The Commission approves HCWS' T&Cs subject to the specific findings and directions below.

142. In Section 1.3 – Forecast Information, HCWS' T&Cs state in part:

> The Utility may require the Customer at the property to provide forecasts of water use for the Premises for a specific period of time.

143. The Commission is of the view that a typical residential customer may not know or be able to forecast their expected water use. Business or commercial customers, depending on their use of water, may have an estimate of their requirements. The utility will need to take this into account when working with customers to provide service. The Commission directs HCWS to update this section by adding the following wording:

> The Utility may ~~require~~ <u>assist</u> the Customer at the property to provide forecasts of water use for the Premises for a specific period of time.

144. In Section 2.7(b) – Change in Ownership or Tenancy of Property of HCWS' T&Cs it states:

> (b) if a new owner is leasing or renting a Premises and wants the Utility bill sent to a tenant, …
>
> and

---

[58] Decision 20622-D01-2016, Table 18.
[59] Exhibit 21340-X0009.01, General Rate App HCWS vs 2 part 3.

> In the event that a previous owner or tenant vacates the Premises leaving an outstanding Utility bill, the Utility's agreement to provide Water Service is subject to the new property owner paying the outstanding balance owing on the water bill.

145. While this section refers to a "new owner" the Commission is of the view that it could be the original owner renting the premises. The Commission directs HCWS to update this section by deleting the following word:

> (b) if an ~~new~~ owner is leasing or renting a Premises and wants the Utility bill sent to a tenant, …

146. With respect to dealing with unpaid utility bills, the Commission will not require a new owner to take responsibility for unpaid bills of a former owner or tenant, as proposed by HCWS in its T&Cs. The Commission directs HCWS to delete the following clause in this section and Section 10.9(b):

> In the event that a previous owner or tenant vacates the Premises leaving an outstanding Utility bill, the Utility's agreement to provide Water Service is subject to the new property owner paying the outstanding balance owing on the water bill.

147. In Section 5.1(b) – Security for Payment of Bills, HCWS' T&Cs state:

> (b) exceed an amount equal to the estimate of the total bill for the six (6) highest consecutive months' consumption of water by the Customer or applicant for the Premise, provided such estimate is not less than \$100.00. If there is no water usage history for the Premise, then a similar Premise's water usage may be used.

148. The Commission finds the security requirement, which could equal the estimate of the total bill for the six highest consecutive months' consumption of water by the customer, to be excessive. This is particularly so in light of HCWS' proposal to disconnect if an account is overdue for one month or more.[60] The Commission is of the view that the amount of the security deposit should be related to a similar time frame as the disconnection period. Therefore, the Commission finds that the security deposit amount should not exceed the highest of two consecutive months. The Commission directs HCWS to make this change to its T&Cs:

> (b) exceed an amount equal to the estimate of the total bill for the ~~six (6)~~ two (2) highest consecutive months' consumption of water by the Customer or applicant for the Premise, provided such estimate is not less than \$100.00. If there is no water usage history for the Premise, then a similar Premise's water usage may be used.

149. In Section 10.1 – Basis for Billing of HCWS' T&Cs it states:

> … The total amount of each bill is due and payable within twenty (20) days of the date of issue.

60 Based on Section 13.3 – Discontinuance With Notice, HCWS may disconnect after one month of non-payment plus a 15-day notice period.

150. Further, Schedule C – Service Charges, lists a late payment charge of:

Late payment charge	1.5% per month on outstanding balance as defined in Section 10 (Billing)

151. The Commission has considered HCWS' proposed late payment charge in light of its findings in Decision 2012-343.[61] In Decision 2012-343, the Commission found that clarification with respect to the "statement date", the "due date" and the "current charges due date" for determining the start date for the calculation of the late payment penalty was required. The Commission considers that the same reasoning applies to HCWS' T&Cs. Accordingly, the Commission directs HCWS to update Section 10.1 as follows:

> 10.1 Basis for Billing | The Utility will bill the Customer in accordance with the applicable Schedules attached to these Terms and Conditions, payable at the Utility's office or at any duly authorized collecting agency. The total amount of each bill is due on the date of issue. A late payment charge may be incurred if the total amount owing is not paid ~~and payable~~ within twenty (20) days of the date of issue.

152. In addition, the Commission directs HCWS to clearly identify and label the issue date on its bills, and submit a sample bill confirming this change.

153. Section 11.1 – Back Billing of HCWS' T&Cs states:

> When Required | The Utility may, in the circumstances specified herein, charge, demand, collect or receive from its Customers in respect of a Service rendered thereunder a greater or lesser compensation than that specified in the subsisting schedule applicable to that Service.

154. Section 11.2 of the T&Cs articulates a non-exhaustive list of circumstances in which previous consumption amounts may need to be corrected and a revised bill issued. In these situations, the Commission considers that any billing corrections to reflect greater or lesser charges to a customer should be limited to the six-month period prior to the consumption error being discovered. The "back billing" provisions in HCWS' T&Cs should be limited accordingly.

155. The Commission directs HCWS to add the following wording to Section 11.1:

> Any back billing charges or refunds shall be limited to the six month period immediately preceding the month in which the billing error was discovered. HCWS is not entitled to collect from a customer any amount undercharged of any kind more than 6 months before the date of the bill.

156. Section 12.1 – Administration Charges on Services of HCWS' T&Cs states:

> … The Utility will add a charge of 15% of the cost of the works for overhead and administration.

157. The 15 per cent charge is also listed as a footnote in Schedule C – Service Charges. Given that a utility earns a return on its invested capital, in addition to being allowed an

---

[61] Decision 2012-343: Direct Energy Regulated Services, 2012-2014 Default Rate Tariff and Regulated Rate Tariff, Proceeding 1454, Application 1607696-1, December 21, 2012, Section 6.2.

opportunity to recover its operating expenses, the Commission finds that the practice of adding a charge of fifteen per cent for overhead and administration would allow HCWS to earn an additional return beyond the return approved by the Commission. On this basis the Commission directs HCWS to remove all references to the additional charge of 15 per cent and amend any customer charges accordingly.

158. Section 14.4 – Responsibility Before Delivery states:

> The Customer is responsible for all expense, risk and liability with respect to
>
> (a) the use or presence of water before it passes into the Customer's Premises, and
>
> ….

159. A plain reading of subsection (a) suggests that a customer would be responsible for water prior to the water being delivered to the customer. It is unclear to the Commission how a customer could be expected to assume this responsibility and liability. The Commission directs HCWS to remove subsection (a) from Section 14.4 or to revise the section to clarify the intent of this section. If HCWS revises the section rather than removing the subsection altogether, HCWS should explain the reasoning of the subsection in the refiling of its T&Cs.

160. In addition, the Commission noticed that some references within the T&Cs are not correct, for example: Section 11.7 Under-Billing, refers to Section 12.4 (Tampering/Fraud) whereas Tampering/Fraud is Section 11.4. The Commission directs HCWS to review and correct these and any other administrative errors it discovers to ensure the document is internally consistent and up to date.

161. The Commission directs HCWS to update any other provisions of its T&Cs as required due to directions and findings of the Commission in this decision.

10.2 Tie-in fee

162. In Schedule A – Water Service Connection and Tie-in Fees of its T&Cs, HCWS proposed a tie-in fee of $16,500. In its rebuttal evidence, HCWS indicated that it would be willing to accept a connection charge of $10,000.[62]

163. Under its integrated water utility proposal, Monterra recommended a combined water and waste water tie in fee of $1,800.[63] Alternately, under its proposal for a water utility with waste water offsets, given the existing $12,500 tie in fee for waste water, Monterra recommended that there should be no separate water tie-in fee or other form of prescribed developer contribution.[64]

164. Registered participants considered that the amount of the tie-in fee was having a direct impact on property values. Developers were not eager to pay the high rates,[65] resulting in a "slow amount of new hookups,"[66] delaying the completion of the development.[67] Participants considered this was negatively impacting home values.

62 Exhibit 21340-X0111, HCWS rebuttal letter, PDF page 3.
63 Exhibit 21340-X0117, Monterra argument, Schedule B, paragraph 19(c).
64 Exhibit 21340-X0117, Monterra argument, Schedule C, paragraph 22(c).
65 Exhibit 21340-X0027, statement of intent to participate, Katie Hayhoe.
66 Exhibit 21340-X0026, statement of intent to participate, Gordon Baux.

Commission findings

165. The Commission is of the view that connection and tie-in fees should represent the cost of connecting a new customer to the water distribution system. In Decision 2011-061, the Commission approved a tie-in fee of $25,000,[68] as part of RWSL's revenue deficiency deferral account. At the time, RWSL had forecast that it would recover a maximum of eight per cent of its revenue requirement through rates by 2010.[69] Similarly, HCWS has proposed to continue with its current rates as long as the proposed tie-in fee "can be approved and used to cover the growing shortfall that will continue under the existing rate structure."[70]

166. While the Commission has made some changes to HCWS' proposed revenue requirement, some that increase and others that decrease the proposed amount, the Commission does not expect that these changes will eliminate HCWS' forecast revenue deficiencies of $212,014 in 2017 and $222,868 in 2018.[71]

167. The Commission has considered the proposed tie-in fee in light of HCWS' detailed potential upgrades over the next five years, which totalled $4,000,000:

- $1.4 million – lines to the plant are weak and will need to be repaired
- $0.8 million – the water treatment plant is approximately 12 years old and it is expected that a new D.A.F [dissolved air flotation] system will be needed
- $0.4 million - the existing D.A.F system will need a retrofit in the next 5 years
- $0.4 million – HCWS will need to put in larger reservoirs to handle the increased potable water storage for 1,500 customers
- $0.5 million – HCWS has discovered a water loss of 30% from the plant to the homes at present. This issue will need to be explored and cameras run in all lines
- $0.5 million – other costs in order to deal with unforeseen expenses that will result due to the age and state of the existing system[72]

168. HCWS stated that:

> The tie-in fees will be contributed to a reserve fund and in turn, the fund will then be [used] to deal with the $4 million in estimated future costs.[73]

and:

> HCWS has agreed to retain water availability for MCL for 10 years for up to 550 lots. This density was approved by RVC when the agreement was signed in 2014.
>
> HCWS does not have to supply MCL with water for new developments after 2024 and/or for more than 550 lots. If the 550 lots are developed, <u>the proposed $10,000.00 per lot for hook-up fees would generate $5,500,000 in order to maintain the plant for 15 years</u>.[74] [underlining added]

67 Exhibit 21340-X0020, statement of intent to participate, Brent Howard.
68 Decision 2011-061, paragraph 237.
69 Decision 2011-061, paragraph 188.
70 Exhibit 21340-X0007.01, General Rate App HCWS vs 2 part 1, PDF page 48.
71 Exhibit 21340-X0063, Excel schedules to support 2016 GRA revised February 28, 2017, Tab-Sch 4.1 Rev Req.
72 Exhibit 21340-X0055, response to HCWS-AUC-2017JAN06-007.
73 Exhibit 21340-X0082, response to HCWS-MONTERRA-2017APR28-014(q).
74 Exhibit 21340-X0111, HCWS rebuttal letter, PDF page 2.

169. Based on these submissions, the Commission finds that HCWS will use funds received from the tie-in fee as a revenue deficiency offset, to fund future capital costs, and maintain the plant.

170. The Commission approved RWSL's tie-in fee to fund a revenue short fall as set out in Decision 2011-061. Given that HCWS has a forecast revenue short fall for 2017 and 2018, it would be reasonable to continue to approve HCWS' proposed tie in fee to help offset the shortfall.

171. The Commission also finds that the additional uses of these funds supports granting the tie-in fee, and in part provides support for the level of the proposed tie-in fee. The Commission considers that Monterra's proposed tie-in fees would be too low, based on the forecast revenue shortfall for 2017 and 2018 and the potential expenses and costs of $4,000,000 over the next five years that will be covered by the tie-in fee. If the tie-in fee is too low, it may further compound the revenue deficiency, which may impair the ability of HCWS to continue to provide safe and reliable service.

172. The Commission also recognizes the submissions made by registered participants, that HCWS' rates (including the connection fee) are impacting future development. However, HCWS' rates should allow the utility to recover its prudently incurred costs and provide for the opportunity to earn a reasonable rate of return. The costs associated with developing, maintaining and operating these privately owned systems are not insignificant.

173. The Commission considers that the reduction of the tie-in fee to $10,000 from $25,000 is a significant decrease. The Commission considers that setting the tie-in fee at $10,000 balances the need of the utility to fund future maintenance and expansion while maintaining the current rates and rate stability for current customers. Thus, the Commission finds the proposed tie-in fee is reasonable in these circumstances.

174. Based on these findings, and the fact that the connection fee will be contributed to a reserve fund to finance future costs, the Commission approves the tie-in fee of $10,000, and directs HCWS to update its T&Cs to reflect this amount. To the extent that the tie-in fee is used to fund capital expenditures, the Commission directs HCWS to record any amounts received from the tie-in fee as a customer contribution, which will reduce the rate base of the utility.

175. However, the Commission also considers that this level of the tie-in fee should not continue indefinitely. The Commission is of the view that as the utility expands its customer base, the revenue shortfall will decline. The Commission directs HCWS to monitor its revenue shortfall on a going forward basis, and report the shortfall amount to the Commission, including the supporting regulatory schedules, and the number of new customers on an annual basis, commencing with the 2017 year end. In addition, the Commission also directs HCWS to track the amount it receives from the tie-in fee and whether these amounts are used to offset the revenue deficiency or fund capital expenditures. Based on this information, the Commission may reconsider the amount of the tie-in fee.

11 Approved rates and additional directions

176. In the previous sections of this decision, the Commission has provided its findings and directions with respect to various aspects of HCWS' revenue requirement and rate base. In order to determine updated rates to reflect all of these findings, HCWS would be required to update and refile its application. The Commission has reviewed HCWS' proposal to remain on existing rates and, in combination with the approved connection fee addressed above, the Commission finds that this proposal results in rates that are reasonably reflective of the rates that would result from this refiling. The Commission considers that this approach avoids the necessity of additional regulatory process that would further delay the approval of final rates for HCWS and therefore HCWS is not required to refile its application. The Commission considers that this approach is consistent with the purpose of Rule 011 which is, *inter alia*, to "provide an efficient, cost effective process to mitigate the full regulatory process which is often costly for small water utilities…." The Commission also considers that its findings and direction with respect to HCWS' revenue requirement and rate base will provide guidance and assistance to HCWS on how to manage its regulatory schedules in future rate applications.

177. The Commission directs HCWS to maintain its current rates as detailed below:

Table 15. Commission-approved rates for HCWS

	Usage	($)
Monthly fixed charge		70.00
Tier one	<30 m3	1.62/m^3
Tier two	30-60 m3	2.71/m^3
Tier three	>60 m3	3.79/m^3

These rates will be effective as of November 1, 2017. Further, the interim rates approved in Decision 20663-D01-2015 shall be deemed as final rates. Given that no change in rates has been implemented, no true-up between interim and final rates is required.

178. The Commission directs HCWS to refile its T&Cs with the updates and changes directed by the Commission within 31 days of this decision for review and final approval. Further process may be required to approve the revised T&Cs.

179. The Commission also directs HCWS to update its regulatory schedules based on the findings and directions of the Commission in this decision and file those schedules and any other requested documentation for acknowledgement within 90 days of this decision.

12 Order

180. It is hereby ordered that:

(1) Horse Creek Water Services Inc. current interim rates approved in Decision 20663-D01-2015 are approved as final rates effective February 18, 2016.

(2) Horse Creek Water Services Inc. shall file a copy of its terms and conditions for water service, incorporating the approvals and directions in this decision by November 20, 2017.

(3) Horse Creek Water Services Inc. shall file a copy of its regulatory schedules incorporating all the directions and findings in this decision, by January 18, 2018.

Dated on October 20, 2017.

Alberta Utilities Commission

(original signed by)

Neil Jamieson
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) **Company name of counsel or representative**
Horse Creek Water Services Inc. (HCWS)
K. Till
B. and L. Stinn
S. Vander Helm
R. Sarabin
J. Kenny
K. Stroud
B. Howard
G. Baux
K. Hayhoe
K. L. Hemperek
G. Walsh
Monterra Homeowners Association (Monterra) Regulatory Chambers

Alberta Utilities Commission Commission panel N. Jamieson, Commission Member Commission staff A. Sabo (Commission counsel) K. Kellgren (Commission counsel) C. Burt B. Clarke C. Arnot C. Malayney D. Mitchell

Appendix 2 – Summary of Commission directions

This section is provided for the convenience of readers. In the event of any difference between the directions in this section and those in the main body of the decision, the wording in the main body of the decision shall prevail.

1. The Alberta Utilities Commission considered Horse Creek Water Services Inc.'s (HCWS) proposed rates for 2017 and 2018. Based on its determinations regarding operating, maintenance and administration expenses, depreciation, and return, the Commission directs HCWS to maintain its current rates. The Commission also ruled on HCWS' terms and conditions for water service (T&Cs), and approved a tie-in fee of $10,000. The Commission considers that the foregoing results in just and reasonable rates to be borne by customers and will entitle HCWS to recover its reasonable costs and earn a fair return on its rate base. .... Paragraph 1
2. On this basis, the Commission finds that HCWS is cross-subsidizing HCSS. Further it appears that HCWS has not provided sufficient evidence to support the reasonableness of its forecast utility expenses. On this basis, the Commission directs HCWS to reduce its forecast electricity expenses by $4,800 per year for 2017 and 2018. .... Paragraph 65
3. Further, the Commission questions whether allocating on a time percentage is the best method for all employee classifications. However, given that this is a small water utility, the Commission must weigh the simplicity associated with estimating time spent against the potential cost and increased accuracy that may result from a more detailed and involved allocation methodology. Accordingly, the Commission directs HCWS in its next rate application to fully support and explain the methodology it uses to allocate salary and wages, which should include a discussion of alternative allocation methodologies. In addition, HCWS should also provide support for the total salaries and wages received by the employees. .... Paragraph 72
4. In future applications, HCWS is directed to provide further support for its rent expense, including the total amount of office space being allocated and support for the commercial rental rate. .... Paragraph 82
5. As discussed above, in support of shared service costs that are allocated to HCWS, HCWS must fully support the amounts that are allocated, and the methodology used to allocate these amounts must be explained. The Commission directs HCWS in its next rate application to identify all expenses that are the result of an allocation to HCWS, and fully support the total expense amount, the amount allocated to HCWS, and the allocation methodology. .... Paragraph 88
6. The Commission recognizes that HCWS is a new entity, and this is the first time that HCWS has come before the Commission to have its rates tested. To effect the rate base value of the water utility system of $1,165,310, the Commission directs HCWS to update its regulatory schedules to remove the capital addition of $590,856 in 2016 to the raw water pipeline, and update its plant continuity schedule (Schedule 4.2.1) and other associated schedules to reflect the asset values determined in Table 9. HCWS may allocate the asset values in Table 9 to the current asset categories that comprise the total plant in service shown on Schedule 4.2.1. .... Paragraph 110

7. The Commission directs HCWS to refile its regulatory schedules to reflect this change. .... Paragraph 112

8. The Commission has provided its findings on the rate base values in the section above. Based on these new rate base values, the Commission directs HCWS to update its depreciation expense – Schedule 4.5 and accumulated depreciation continuity schedule – Schedule 4.2.2 to reflect the updated rate base values. .... Paragraph 119

9. Monterra questioned HCWS' composite depreciation rate of 2.69 per cent, which was approved in Decision 2011-061. While HCWS did not propose to update its composite depreciation rate, in response to Monterra it calculated a composite depreciation rate of 2.60 per cent. While the difference between the two composite depreciation rates is small, the Commission directs HCWS to update its composite depreciation rate to reflect the asset values approved in this decision, and apply the updated composite depreciation rate as required. .... Paragraph 122

10. The Commission directs HCWS to update its regulatory schedules with the depreciation amounts that will result based on the Commission's directions and findings on rate base and depreciation. .... Paragraph 123

11. Monterra suggested a debt rate of 3.5 percent. It is not clear to the Commission what debt rate a small water utility would be able to obtain if it was able to obtain third party financing, however, the Commission will take this into account in its determination of capital structure. In the absence of any other evidence, the Commission accepts Monterra's recommendation and directs HCWS to apply a debt return rate of 3.5 per cent to the approved debt/equity ratio in calculating its return. .... Paragraph 135

12. Given that the Commission is of the view that a deemed capital structure balances the interests of customers and the utility, the Commission directs HCWS to apply the deemed capital structure of 60 per cent debt and 40 per cent equity, to its current capital structure, which is fully debt financed. The Commission directs HCWS to apply the corresponding returns on equity and debt approved above. Further, the Commission directs HCWS to update its regulatory schedules showing the deemed capital structure being applied to the rate base of HCWS of $1,165,310, and to carry these calculations through to 2018. .... Paragraph 140

13. The Commission is of the view that a typical residential customer may not know or be able to forecast their expected water use. Business or commercial customers, depending on their use of water, may have an estimate of their requirements. The utility will need to take this into account when working with customers to provide service. The Commission directs HCWS to update this section by adding the following wording: ...... Paragraph 143

> The Utility may ~~require~~ assist the Customer at the property to provide forecasts of water use for the Premises for a specific period of time.

14. While this section refers to a "new owner" the Commission is of the view that it could be the original owner renting the premises. The Commission directs HCWS to update this section by deleting the following word: .... Paragraph 145

> (b) if an ~~new~~ owner is leasing or renting a Premises and wants the Utility bill sent to a tenant, …

15. With respect to dealing with unpaid utility bills, the Commission will not require a new owner to take responsibility for unpaid bills of a former owner or tenant, as proposed by

HCWS in its T&Cs. The Commission directs HCWS to delete the following clause in this section and Section 10.9(b): .... Paragraph 146

> In the event that a previous owner or tenant vacates the Premises leaving an outstanding Utility bill, the Utility's agreement to provide Water Service is subject to the new property owner paying the outstanding balance owing on the water bill.

16. The Commission finds the security requirement, which could equal the estimate of the total bill for the six highest consecutive months' consumption of water by the customer, to be excessive. This is particularly so in light of HCWS' proposal to disconnect if an account is overdue for one month or more. The Commission is of the view that the amount of the security deposit should be related to a similar time frame as the disconnection period. Therefore, the Commission finds that the security deposit amount should not exceed the highest of two consecutive months. The Commission directs HCWS to make this change to its T&Cs: .... Paragraph 148

> (b)... exceed an amount equal to the estimate of the total bill for the ~~six (6)~~ two (2) highest consecutive months' consumption of water by the Customer or applicant for the Premise, provided such estimate is not less than $100.00. If there is no water usage history for the Premise, then a similar Premise's water usage may be used.

17. The Commission has considered HCWS' proposed late payment charge in light of its findings in Decision 2012-343. In Decision 2012-343, the Commission found that clarification with respect to the "statement date", the "due date" and the "current charges due date" for determining the start date for the calculation of the late payment penalty was required. The Commission considers that the same reasoning applies to HCWS' T&Cs. Accordingly, the Commission directs HCWS to update Section 10.1 as follows: .... Paragraph 151

> 10.1.... Basis for Billing | The Utility will bill the Customer in accordance with the applicable Schedules attached to these Terms and Conditions, payable at the Utility's office or at any duly authorized collecting agency. The total amount of each bill is due on the date of issue. A late payment charge may be incurred if the total amount owing is not paid ~~and payable~~ within twenty (20) days of the date of issue.

18. In addition, the Commission directs HCWS to clearly identify and label the issue date on its bills, and submit a sample bill confirming this change. .... Paragraph 152

19. The Commission directs HCWS to add the following wording to Section 11.1: .... Paragraph 155

> Any back billing charges or refunds shall be limited to the six month period immediately preceding the month in which the billing error was discovered. HCWS is not entitled to collect from a customer any amount undercharged of any kind more than 6 months before the date of the bill.

20. The 15 per cent charge is also listed as a footnote in Schedule C – Service Charges. Given that a utility earns a return on its invested capital, in addition to being allowed an opportunity to recover its operating expenses, the Commission finds that the practice of adding a charge of fifteen per cent for overhead and administration would allow HCWS to earn an additional return beyond the return approved by the Commission. On this basis

Table·15.→ Commission-approved·rates·for·HCWS¶

	Usage	($)
Monthly fixed charge		70.00
Tier one	<30 m^3	1.62/m^3
Tier two	30-60 m^3	2.71/m^3
Tier three	>60 m^3	3.79/m^3

27. The Commission directs HCWS to refile its T&Cs with the updates and changes directed by the Commission within 31 days of this decision for review and final approval. Further process may be required to approve the revised T&Cs. .... Paragraph 178

28. The Commission also directs HCWS to update its regulatory schedules based on the findings and directions of the Commission in this decision and file those schedules and any other requested documentation for acknowledgement within 90 days of this decision. .... Paragraph 179