Decision **22319-D01-2018**

Alberta Utilities Commission

Blazer Water Systems Ltd.

2019-2020 General Rate Application

November 22, 2018

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1 Summary

1. The Alberta Utilities Commission considered Blazer Water Systems Ltd.'s (Blazer) proposed rates for 2019 and 2020. The Commission approved continuation of Blazer's existing rates as interim rates beginning January 1, 2019, approved Blazer's proposed connection fee, and denied Blazer's request for a revenue deficiency deferral account. The Commission directed Blazer, among other things, to:

(a) update its going in capital rate base,

(b) change certain cost allocation methodologies,

(c) reduce the portion of Blazer's general manager costs allocated to its water rates,

(d) change its depreciation methodology,

(e) change its deemed capital structure,

(f) adopt a new methodology to calculate a Blazer subsidy,

(g) remove the contingency allowance against unexpected works,

(h) file new terms and conditions of service.

2. The findings and determinations listed above are to be included in a compliance filing to this decision, which must be filed by February 22, 2019.

2 Introduction

3. On August 3, 2016, Blazer Water Systems Ltd. (Blazer) filed an application with the Alberta Utilities Commission requesting approval of its 2017-2019 general rate application (GRA). As provided for in Rule 011: *Rate Application Process for Water Utilities*, Commission staff worked with Blazer to develop the application. An updated application was filed by Blazer on January 11, 2017.

4. By letter dated January 13, 2017, the Commission advised Blazer customers that it would be holding an information session with a presentation about the application process on February 14, 2017. In a January 25, 2017 letter, the Commission amended the date of the information session to February 23, 2017. At the information session, the Commission provided information with respect to the determination of rates and the regulatory process.

5. Following the information session, the Commission issued notice of the application on March 3, 2017, and invited interested parties to register their concerns, or support for, the application by March 21, 2017.

6. The Commission received submissions from the following customers: Rabee Alwan, Paul Bennett, Dean Bull, Rhonda Duffee, Trent Edwards, Paul Griffin, Debra Hawker, Ian Herring, Greg Hickaway, Robert Hollingshead, Stephanie Lilly, Steve Lilly, William Sawchuk, Randall Stamp, Matthew Stayner, Mark Trenke, Rick Warters, Eden Wong, Ray Wong, the Bearspaw Village Co-operative (BPV), and Alberta Condominium Corporation 1110886 (the condo corporation).

7. On April 3, 2017, 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 (IRs) and responses, intervener evidence and IRs and responses on intervener evidence, rebuttal evidence, argument and reply argument.

8. Due to changes in Blazer's application, an amended notice of application was issued on June 13, 2018, and another submission was received from Linda Winfield.

9. There were a number of application amendments, deadline extensions and process additions throughout the proceeding. One of the additional process additions was a March 20, 2018 technical meeting with Blazer and certain customers in attendance.

10. The Commission maintained a written process for the application that resulted in the schedule below:

Process step	**Date**
Round 1 IRs to Blazer	April 24, 2017
Information responses from Blazer	June 5, 2017
Round 2 IRs to Blazer	June 27, 2017
Information responses from Blazer	July 14, 2017
Round 3 IRs to Blazer	August 11, 2017
Information responses from Blazer	August 25, 2017
Intervener evidence (Round 1)	September 8, 2017
IRs to interveners	September 22, 2017
Information responses from interveners	October 13, 2017
Rebuttal evidence	October 27, 2017
Round 4 IRs to Blazer	November 17, 2017
Information responses from Blazer	December 1, 2017
Round 5 IRs to Blazer	January 12, 2018
Information responses from Blazer	January 26, 2018
Intervener evidence (Round 2)	February 9, 2018
Technical meeting	March 20, 2018
Argument	April 25, 2018
Round 6 IRs to Blazer	May 18, 2018
Information responses from Blazer	June 1, 2018
Notice of application amendment	June 13, 2018

Process step	Date
Argument	August 10, 2018
Reply argument	August 24, 2018

11. As part of its application, Blazer filed a Microsoft Excel spreadsheet with its financial model, which showed how Blazer's forecast revenue requirements and rates were calculated. The initial financial model included three rate classes and a test period of 2017 to 2019.[1] Blazer updated its financial model on:

(a) February 3, 2017, to reflect a 2018 to 2020 test period;[2]

(b) April 4, 2017, to correct errors;[3]

(c) July 28, 2017, to update some inputs for 2016 actuals and change the tiered rate threshold to 60 cubic metres (m^3)/month;[4]

(d) August 25, 2017, to correct errors;[5]

(e) October 10, 2017, to calculate a revenue requirement and rates for residential irrigation;[6]

(f) December 7, 2017, to add a second potable water rate class;[7] and

(g) June 1, 2018, to treat residential irrigation customers as a single customer. This is the final version of Blazer's financial model.[8]

12. Under Rule 011, after the close of record, the Commission is required to issue a decision on a water rate application within 60 days. On December 19, 2017, the Commission issued a letter exercising its discretion to extend the deadline for the decision to 90 days in accordance with Bulletin 2015-09.[9]

13. The Commission considers that the record of this proceeding closed on August 24, 2018. 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.

1 Exhibit 22319-X0009.
2 Exhibit 22319-X0013.
3 Exhibit 22319-X0013.01.
4 Exhibit 22319-X0076.
5 Exhibit 22319-X0076.01
6 Exhibit 22319-X0109.
7 Exhibit 22319-X0128.
8 Exhibit 22319-X0166.
9 Bulletin 2015-09, Performance standards for processing rate-related applications, March 26, 2015.

3 Background

14. The water facilities were originally built in the late 1980s to service Bearspaw Meadows. According to Blazer, in 1999, the ownership of Blazer changed from the original developer to the golf course developers, who expanded and improved the water treatment plant.[10]

15. Blazer's water system consists of several previously separate and distinct water systems that have been combined into a single water system that is currently owned and operated by Blazer. This amalgamation of the water systems began in 2013.

16. As a condition of Rocky View County's approval of the first phase (now completed) of the Watermark development, Blazer was also required to offer water utility services to the BPV and BRR communities. In order to meet the water needs of BPV, BRR and the Watermark development, it was necessary to expand Blazer's water treatment plant and treated water storage facilities to increase capacity.

17. In 2013, Blazer's production capacity was able to serve approximately 250 homes. Blazer's expansion and upgrade project was completed in December 2014 and its system now has the capacity to serve approximately 1,250 homes.

18. Blazer's water system includes river intake pumps in the Bow River, a raw water pumping station and raw water transmission main, which supply raw water to the irrigation pump house and water treatment plant. The irrigation pump station supplies untreated water through the irrigation water distribution systems to the residential irrigation customers in Lynx Ridge. The water treatment plant and treated water storage supply potable water through the transmission mains and potable water distribution systems to Blazer's potable water customers.[11]

19. Each of the water systems range in age and standards to which the facilities were built. The age of these facilities ranges from 30-years old to the new systems added for the Watermark development. In its application, Blazer stated it expects greater need for maintenance and repairs for the older distribution systems and that those systems will need to be replaced sooner than the newer systems.[12]

20. Blazer's current service area includes Bearspaw Meadows, Lynx Ridge, Lynx Meadows, Lynx Ridge Golf Course, Watermark, BRR and BPV.[13] Blazer provides potable water service to these customers and irrigation water service to Lynx Ridge, Lynx Meadows and Lynx Ridge Golf Course.

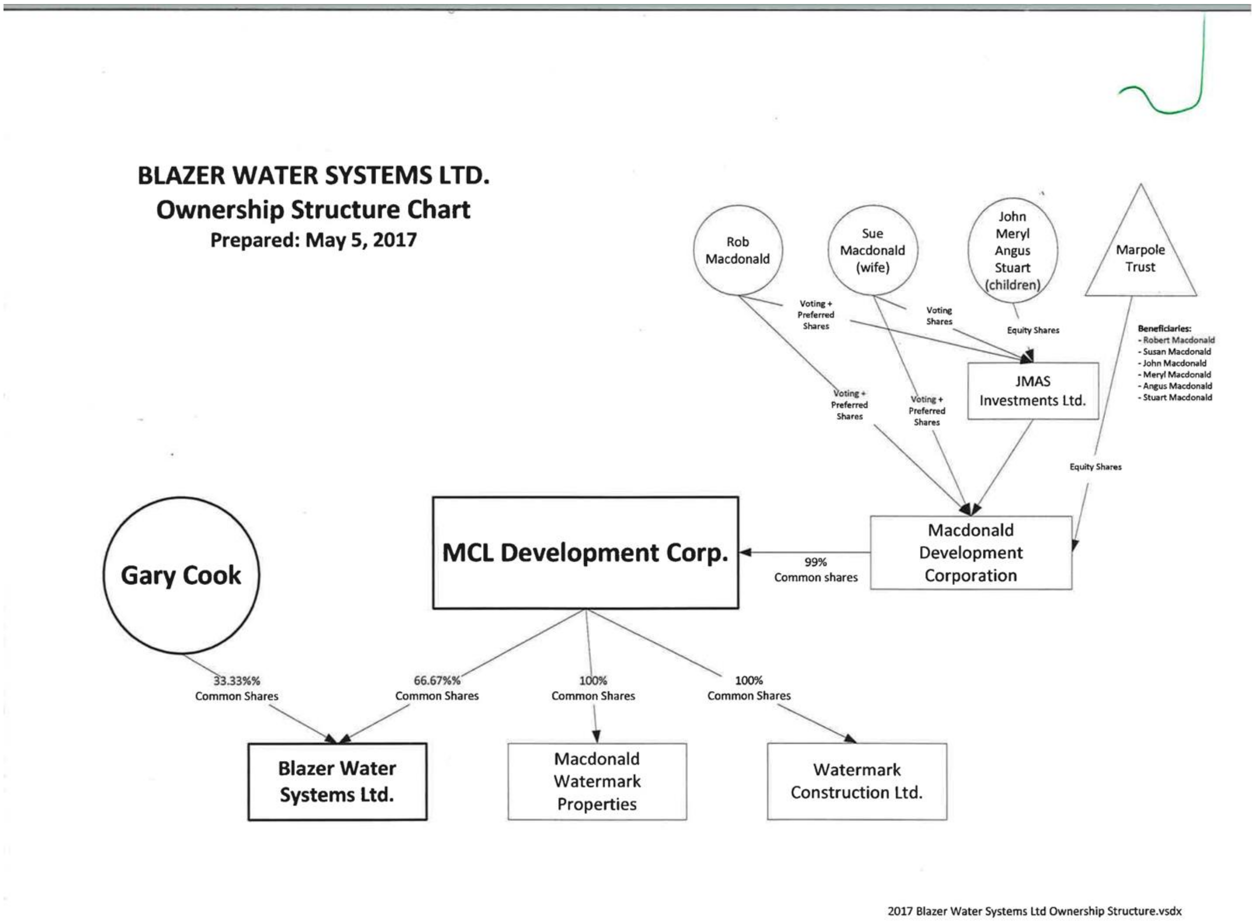
3.1 Corporate structure

21. Blazer is a utility company incorporated under the laws of Alberta. In January 2013, Blazer was purchased by Bearspaw Development LP, which also owns Watermark Development LP, the developer of the Watermark at Bearspaw Community. In April 2016, Macdonald

[10] Exhibit 22319-X0001, section 2.1, PDF page 8.
[11] Exhibit 22319-X0001, section 3.1, PDF page 13.
[12] Exhibit 22319-X0153.02, paragraph 33.
[13] Exhibit 22319-X0001, section 2.3, PDF page 10.

Development Corporation, the owner of Bearspaw Development LP, merged all of its Alberta businesses under MCL Development Corp.[14]

22. In response to a Commission IR,[15] Blazer provided the following chart showing the ownership of Blazer and all related entities:



4 Customer submissions

23. The Commission received a number of submissions from Blazer customers. Some of the submissions on specific issues are addressed in certain sections of this decision. The remainder of customers' submissions are summarized below:

24. Robert Hollingshead, who resides in Watermark at Bearspaw, filed multiple submissions covering various components of Blazer's applications. In his SIP, Mr. Hollingshead referenced an existing agreement that rates are frozen until January 2018, and identified concerns with:

- the magnitude of the rate increase and rate shock

14 Exhibit 22319-X0001, application part I, section 2.1, PDF page 8.
15 Exhibit 22319-X0056, response to Blazer-AUC-2017APR24-3, PDF page 3.

- the proposed block or tiered-consumption rates
- lack of financial documents
- amount of overhead being allocated to Blazer
- and assumptions about future growth.[16]

25. Rabee Alwan, who resides in Watermark, opposed the proposed rate changes and supported the filing of Mr. Hollingshead.[17]

26. Debra Hawker, who resides in the Watermark Villas, also supported the filing of Mr. Hollingshead.[18]

27. Paul Bennett, who resides in Watermark, submitted that the Watermark Villas have low consumption and have a separate irrigation system run by the homeowners association. Mr. Bennett added that the average consumption numbers used in Blazer's calculations are too high, and the cut-off for the tiered-consumption rate should be lower as it currently subsidizes larger water users on the system.[19]

28. Greg Hickaway, who resides in Watermark, opposed the application on the basis of past representations that water rates would remain in line with The City of Calgary rates. Mr. Hickaway compared the proposed rate increase to the current rate of inflation in Alberta and submitted that the increase would have an adverse effect on property values.[20]

29. Randall Stamp, who lives in Watermark, submitted that the proposed rate increase is not warranted, and would force him to sell his property.[21]

30. Rick Warters, who resides in Watermark, stated that Blazer filed misleading data and questionable costs that result in a significant and unreasonable cost increase.[22]

31. Dean Bull, who resides in BPV, submitted that the rates being applied for by Blazer are in no way correlative to other nearby market suppliers of water. He added that ENMAX charges $1.79/m^3 for water in the city of Calgary and the proposed rates by Blazer are 60 per cent higher. For customers with irrigation systems, Mr. Bull stated that the use of over 60 m^3 per month in the spring and summer months can be common, and the rates for usage in excess of 60 m^3 would be 112 per cent higher under the proposal.[23]

32. Linda Warfield, who lives in Bearspaw Meadows Court, objected to the rate increase.[24]

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16 Exhibit 22319-X0011.
17 Exhibit 22319-X0015.
18 Exhibit 22319-X0029.
19 Exhibit 22319-X0017.
20 Exhibit 22319-X0031.
21 Exhibit 22319-X0033.
22 Exhibit 22319-X0018.
23 Exhibit 22319-X0024.
24 Exhibit 22319-X0183.

33. Trent Edwards, who lives in BRR, submitted that the BRR residents were made to believe that belonging to the Blazer water system would be more efficient and effective than their old water system. He stated that to have an increase in fees of 33 per cent is outrageous for a brand-new system. Mr. Edwards submitted that the original agreement with Blazer stated that the BRR residents would never see an increase in fees that would be more than The City of Calgary rates. His understanding was that it would be no more than three per cent per year or the Consumer Price Index (CPI) and the new suggested rate would be well above city rates. He submitted that the AUC should consider limiting the annual increase that can be charged for water consumption.[25]

34. Steve Lilly, who resides in BRR, stated that he is concerned with the proposed increases in both the fixed monthly charge and the variable consumption rates. As a result, water rates will increase by 33 per cent for customers in BRR. Mr. Lilly indicated that the customers in BRR worked with Blazer to have their water system upgraded in 2014 and 2015 and the maintenance of the BRR water system is not currently an issue. He submitted that the increase being requested by Blazer is not justified.[26]

35. Stephanie Lilly, who lives in BRR, commented that the proposed increase in water rates is outrageous for a brand-new system. She noted that BRR customers have paid a lot of money for installation of the water pipeline and she is confused as to why BRR customers are going to be billed more to use their own water system. Ms. Lilly referred to the agreements that BRR customers signed with Blazer in the past, which state that BRR customers would never see an increase in water rates that would be more than The City of Calgary, and the Commission should consider water rates in place for acreage properties in Rocky View County. She encouraged the Commission to consider the proper ownership of the water system and the cleanout valves.[27]

36. Matthew Stayner indicated that he is a BRR home owner and water customer of Blazer. He stated that as a pensioner, any water rate increases by Blazer in excess of the city of Calgary's variable consumption rate plus 10 per cent would negatively affect his finances. He noted that he signed a supply agreement with Blazer in 2014, which stated that his water rate was not to exceed 10 per cent more than The City of Calgary rate.[28]

37. Ray Wong, and Eden Wong, who live in BRR, both commented that they were concerned about the steady increase of the fixed charge over the test period. They submitted that the 33 per cent increase in rates seems excessive.[29]

38. Paul Griffin, who resides in Lynx Ridge, filed a number of submissions both as a personal intervener and on behalf of the condo corporation. Mr. Griffin challenged the past contract executed between Blazer and the Lynx Ridge Golf Course.[30] Mr. Griffin, on behalf of the condo corporation, later submitted that they no longer have any objections to Blazer's most recent financial model.[31]

25 Exhibit 22319-X0045.
26 Exhibit 22319-X0026.
27 Exhibit 22319-X0028.
28 Exhibit 22319-X0036.
29 Exhibits 22319-X0034 and 22319-X0035.
30 Exhibit 22319-X0019.
31 Exhibit 22319-X0181.

39. Ian Herring, who resides in Lynx Ridge, submitted that the rates for the various communities served by Blazer should be consistent, with no cross-subsidization, and should be comparable to The City of Calgary rates. However, Mr. Herring acknowledged that rates should be adequate to ensure system reliability. He also disagreed with the tiered (block) consumption cut-off for potable water and argued that it should be reduced to 20 m^3 per month.[32]

40. Mark Trenke, who resides in Lynx Ridge, opposed the magnitude of the rate increases for residential potable water and irrigation water. Mr. Trenke added that new customers should pay the costs of the capital expansions.[33]

41. William Sawchuk, who resides in Lynx Ridge, noted the large discrepancy in irrigation water rates between the Lynx Ridge Golf Course and the Lynx Ridge residential customers.[34]

42. Rhonda Duffee, who resides in Lynx Meadows, objected to the increased residential irrigation rate and questioned the justification for the increase in potable water rates.[35]

Commission findings

43. As outlined above, some of the customers expressed concern regarding their rates compared to the city of Calgary or other adjacent water utilities. In Alberta, one of the common differences between a municipal public water utility and an investor-owned public water utility is the size of the customer base. For example, one would expect the customer base for The City of Calgary's municipal public water utility to far exceed the customer base for Blazer. Under cost-of-service regulation, the number of customers available to pay the utility's operating costs and expenses reduces the amount any one customer will be required to pay for utility service. As the number of customers increases relative to the cost of providing service, each individual customer will pay a smaller portion of the operating expenses and costs.

44. Some of the interveners submitted that the Commission should consider the water rates of nearby water utilities in its assessment of just and reasonable rates. While nearby water utilities can provide a comparator, the Commission must also consider Blazer's costs and expenses for running its water utility.

45. With respect to the concerns with the magnitude of the requested rate increase, raised by a number of Blazer's customers, the Commission typically considers any rate increase larger than 10 per cent to be rate shock. The rate increase applied with respect to Blazer's potable water rates are greater than 10 per cent. However, there has not been a previous Commission review of Blazer's potable and irrigation water rates. In the current circumstances, Blazer has been operating under a revenue shortfall for some time and will continue to do so unless just and reasonable rates are set. The Commission must ensure that Blazer furnishes safe, adequate and proper service, while maintaining Blazer's property and equipment in a condition that enables it to provide such water service.[36]

32 Exhibit 22319-X0039.
33 Exhibit 22319-X0041.
34 Exhibit 22319-X0021.
35 Exhibit 22319-X0042.
36 Section 88(b) of the *Public Utilities Act* requires that an owner of a public utility shall, with respect to the public utility, furnish safe, adequate and proper service and keep and maintain the owner's property and equipment in a condition that enables the owner to do so.

46. It is incumbent on the Commission to ensure that it sets just and reasonable rates for the utility services while balancing the interests of both the customers and the utility.[37] Customers' submissions have informed the Commission on the issues and concerns with respect to irrigation and potable water service. As detailed in the remaining sections of this decision, the Commission will examine the individual aspects of Blazer's application and customers' views, where applicable, in order to determine just and reasonable water rates.

5 Jurisdiction

47. This is Blazer's first application for approval of water rates with the Commission. The Commission must consider whether Blazer is an owner of a public utility, and if it is a public utility, the Commission may then set rates for Blazer. The *Public Utilities Act* applies to public utilities that the Commission regulates, including water utilities; owners of public utilities are subject to the *Public Utilities Act* and the authority of the Commission. The specific provisions of the *Public Utilities Act* that apply to definitions of an "owner of a public utility" and of "public utility" are found in Section 1:

> **Definitions**
>
> **1** In this Act,
>
> …
>
> (h) "owner of a public utility" means
>
>> (i) a person owning, operating, managing or controlling a public utility and whose business and operations are subject to the legislative authority of Alberta, and the lessees, trustees, liquidators of the public utility or any receivers of the public utility appointed by any court,…
>
> (i) "public utility" means
>
> …
>
>> (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,…

48. Blazer operates "a system, works, plant, equipment or service" for the delivery or furnishing of water directly or indirectly to customers. Blazer processes potable water through a water treatment facility and provides water delivery to customers. Water service is directly provided using Blazer's distribution system to residential customers in Blazer's franchise area. Blazer also provides irrigation water service to a subset of customers. In light of these facts, the Commission is satisfied that Blazer meets the definitions of a "public utility" and an "owner of a public utility" as defined in the *Public Utilities Act.* An owner of a public utility, such as Blazer, is a monopoly provider of a public service in its supply of water directly to customers. It is subject to regulation to ensure that customers receive safe and reliable water service at just and reasonable rates.

[37] See *FortisAlberta Inc v Alberta (Utilities Commission)*, 2015 ABCA 295, paragraph 91.

49. In terms of public utilities, the Commission has broad authority with respect to a public utility's rates, tolls and charges, terms and conditions of service, and the nature and quality of service. In particular, under sections 78 and 78.1 of the *Public Utilities Act* the Commission has the jurisdiction and power to deal with public utilities and the owners of public utilities:

> **Application of Part**
>
> 78(1) This Part applies
>
> > (a) to all public utilities owned or operated by or under the control of a company or corporation that is subject to the legislative authority of Alberta or that has, by virtue of an agreement with a municipality, submitted to the jurisdiction and control of the Commission;
> >
> > (b) subject to subsection (2), to every person owning or operating a public utility to which the jurisdiction of the Legislature extends;
> >
> > (c) to all public utilities owned or operated by or under the control of the Crown, or an agent of the Crown, in right of Alberta;
> >
> > (d) to all utilities and other matters dealt with in Divisions 3 to 6 of this Part to the extent set out in those Divisions.
>
> **Jurisdiction and powers**
>
> 78.1(1) The Commission has all the necessary jurisdiction and power
>
> > (a) to deal with public utilities and the owners of them as provided in this Act;
> >
> > (b) to deal with public utilities and related matters as they concern suburban areas adjacent to a city, as provided in this Act.

50. The Commission's authority to fix just and reasonable rates and terms and conditions of service (T&Cs) is found in Section 89 of the *Public Utilities Act*.

51. Given the above legislative framework, the Commission will exercise its jurisdiction to review the rates proposed by Blazer, the T&Cs and any other issues concerning the public utility, as necessary.

6 Proposed revenue requirement and rates

52. In its initial application, Blazer proposed revenue requirements and rates for a 2017 to 2019 test period. Due to delays in the record development phase for this proceeding, Blazer updated its application to a 2018 to 2020 test period. In reply argument, Blazer amended its requested test period to the years 2019 and 2020, and requested the Commission order that Blazer's rates be made effective as of January 1, 2019.[38]

[38] Exhibit 22319-X0196, reply argument, paragraph 37.

53. Blazer's forecast revenue requirements for the 2019 to 2020 test period are $1,056,289 for 2019 and $1,062,304 for 2020.[39]

54. Blazer's forecast water rates, included in Blazer's financial model, are reproduced in the table below:

Table 1. Forecast water rates

Rate class	2019	2020
	($)	
WPO rate class - residential potable water, excluding BPV and BRR		
Monthly fixed fee	32.24	32.82
Variable consumption charge, up to 60 m^3/month ($/$m^3$)	2.49	2.52
Variable consumption charge, over 60 m^3/month ($/$m^3$)	4.99	5.04
BPV and BRR potable water customers		
Monthly fixed fee	32.24	32.82
Variable consumption charge, up to 60 m^3/month ($/$m^3$)	2.20	2.21
Variable consumption charge, over 60 m^3/month ($/$m^3$)	4.40	4.43
Residential irrigation		
Consumption charge ($/$m^3$)	1.62	1.62
Commercial irrigation		
Consumption charge ($/$m^3$)	0.2204	0.2244

Source: Exhibit 22319-X0153.02, argument, Table 2, PDF page 7.

55. Blazer also requested approval of a revenue deficiency deferral account and terms and conditions of service.

7 Bearspaw Village and Blueridge Rise water co-operatives

History of how Blazer became the provider of potable water to customers in Bearspaw Village and Blueridge Rise

56. Blazer indicated that in 2012, it expanded its service area to include a development called Watermark located in Bearspaw, Alberta. It stated that when the Watermark area is completed and fully occupied, which it estimated to be around 2027, it will contain 478 homes, 101 condominium units, a church and a senior's complex. Blazer noted that as part of the conditions of approval imposed by Rocky View County[40] for the Watermark development, it was required to connect its treated water system to the reservoirs that serve the Bearspaw Village (BPV) Water Co-op[41] and Blueridge Rise (BRR) Water Co-op,[42] in order for Blazer to deliver treated potable water to these reservoirs.[43]

57. In order for Blazer to connect its treated water system to the reservoirs that serve BPV and BRR, and supply treated water to these reservoirs, it agreed to upgrade its water treatment plant and install pipelines.[44]

39 Exhibit 22319-X0166, financial model, Schedule 1.
40 The memorandum of agreement between Rocky View County, Blazer and Watermark Development LP, dated July 17, 2012, is included in Exhibit X0056, starting at PDF page 41.
41 Also known as Bearspaw Village Co-operative Ltd.
42 Also known as the Blueridge Water Utility Corporation.
43 Exhibit 22319-X0001, PDF page 10. Exhibit 22319-X0056, PDF pages 42 and 54.
44 Exhibit 22319-X0056, PDF page 42.

58. Watermark Development LP, the developer of Watermark, agreed to oversee and pay for the installation of the pipelines,[45] with an expected cost of $0.580 million.[46] The installation of the pipelines was forecast to occur in two stages. The first stage involved the construction and connection of several pipelines, including a 75 millimetre (mm) diameter pipeline from the edge of Watermark (Phase 2) running westward to Bearspaw Village Road. The first stage of the work was expected to be completed by December 30, 2012.[47] The second stage of the work was expected to take place once the underground facilities to service Watermark (Phase 5) were installed. As a result of the second stage of the work, the 75 mm diameter pipeline installed as part of the first stage was to be abandoned. The second stage of the work was expected to occur in 2016-2018.[48]

59. Blazer noted that the pipeline work was completed at a cost of $0.844 million.[49] It indicated that it funded the additional $0.264 million above the estimated cost of $0.580 million.[50] Blazer advised that Watermark Development LP maintained its commitment and contributed $0.580 million toward the cost.[51] Blazer explained that the reason for the additional cost was that "ultimately it was decided that it was better to install the distribution system in its correct place, along the future roads in Watermark and also to install the correct size: 200 mm."[52] BPV commented that Blazer recognized the flawed logic in constructing a 75 mm diameter pipeline that would later be abandoned and instead it "correctly choose to construct a larger diameter line earlier."[53] BPV stated that this 200 mm pipeline will be used to serve Bearspaw as well as the Watermark development.[54]

60. In accordance with the memorandum of agreement between Rocky View County, Blazer and Watermark Development LP, dated July 17, 2012 (Blazer and Watermark agreement),[55] Watermark Development LP and Blazer agreed to oversee and pay for the work needed to upgrade Blazer's water treatment plant.[56] It was anticipated that the upgraded water treatment plant would produce 1,270 cubic metres a day (m^3/day) and the estimated cost of the upgrade would be approximately $6.2 million.[57] The additional treatment capacity required to service BPV and BRR was noted to be 450 m^3/day, and the cost of providing the extra treatment capacity to service the BPV and BRR communities was $1.9 million of the total expected $6.2 million upgrade to the water treatment plant. Watermark Development LP agreed to pay for the $1.9 million costs for the additional treatment capacity to service the BPV and BRR.[58]

61. The expansion of Blazer's water treatment plant and treated water storage capacity occurred in 2013 and 2014, and was fully operational on January 1, 2015. Blazer stated that the water production capacity is now 2,160 m^3/day, enough to service about 1,250 homes.

45 Exhibit 22319-X0056, PDF page 42.
46 Exhibit 22319-X0056, PDF page 54.
47 Exhibit 22319-X0056, PDF pages 48-49.
48 Exhibit 22319-X0056, PDF pages 49-50.
49 Exhibit 22319-X0001, PDF page 25.
50 Exhibit 22319-X0056, Blazer-AUC-2017APR24-17(a).
51 Exhibit 22319-X0056, Blazer-AUC-2017APR24-17(b).
52 Exhibit 22319-X0056, Blazer-AUC-2017APR24-17(b).
53 Exhibit 22319-X0062, PDF page 3.
54 Exhibit 22319-X0062, PDF page 3.
55 Exhibit 22319-X0056, PDF page 42.
56 Exhibit 22319-X0056, PDF page 42.
57 Exhibit 22319-X0056, PDF pages 54-55.
58 Exhibit 22319-X0056, PDF page 53.

This capacity will enable Blazer to service the Watermark development, BPV and BRR.[59] The actual cost of the water treatment plant upgrade was $5.644 million.[60]

62. Blazer indicated that the costs associated with the provision of treated water supply to the reservoirs that serve BPV and BRR are covered by agreements between each of BPV, Blueridge Water Utility Corporation (servicing BRR residents) and Blazer.[61] Watermark Development LP is also a signatory to each of these agreements. The first agreement is dated April 15, 2014 and was entered into by Blazer, Watermark Development LP and Blueridge Water Utility Corporation for service to the Blueridge Rise Community (the BRR agreement). The second agreement dated August 21, 2014 was entered into by Blazer, Watermark Development LP and Bearspaw Village Co-operative Ltd. (the BPV agreement). The agreements acknowledge that all rate structures from 2017 forward are subject to the approval of the Commission.[62]

63. In the BRR agreement, Blazer agreed to supply treated water to the Blueridge Rise Community and distribute such water to each of the 18 homes utilizing the existing Blueridge Water Utility Corporation (BWUC) water distribution system.[63] Blazer and BRR agreed to create a self-sustaining contingency fund to be retained by Blazer to use in carrying out replacement, improvement, upgrade and repair work to the BWUC water distribution system. Blazer and BRR would determine a fixed amount which would then be included in monthly bills to fund the contingency fund. The amount would be reviewed annually by Blazer to ensure that the contingency fund is maintained to an appropriate level to cover forecasted expenditures.[64]

64. In the BPV agreement, Blazer agreed to supply treated water to the entire Bearspaw Village community and distribute such water to each of the 88 homes (and one lot) utilizing the existing Bearspaw Village water distribution system.[65]

65. The Commission understands that Blazer and BPV both agreed to create a self-sustaining contingency fund to be collected by Blazer and remitted to BPV on a quarterly basis. A fixed amount would be included in each monthly bill and BPV would disperse monies from the contingency fund as required. [66]

66. The BRR and BPV agreements indicated that Blazer would enter into individual homeowner standard water supply agreements with each of the homeowners in BPV and BRR. Blazer provided a copy of the standard residential customer potable water service agreement.[67] These residential agreements and their rates are subject to approval by the Commission.[68]

67. As discussed previously, the BPV and BRR agreements include sections in which BPV, BRR and Blazer agree that a fixed amount be included in each monthly bill that will be added to

59 Exhibit 22319-X0001, PDF page 10.
60 Exhibit 22319-X0001, PDF page 25. Exhibit 22319-X0166, Schedule 10.
61 A copy of the agreement between Blazer, the BPV Co-op and Watermark Development LP is included in Exhibit 22319-X0003, starting at PDF page 343. A copy of the agreement between Blazer, the Blueridge Water Utility Corporation and Watermark Development LP is included in Exhibit 22319-X0100.
62 Exhibit 22319-X0100, PDF page 2. Exhibit 22319-X0003, PDF page 344.
63 Exhibit 22319-X0100, PDF page 1.
64 Exhibit 22319-X0100, PDF page 3.
65 Exhibit 22319-X0003, PDF page 343.
66 Exhibit 22319-X0003, PDF page 345.
67 Exhibit 22319-X0003, PDF page 335.
68 Exhibit 22319-X0003, PDF page 337.

the contingency fund (contingency fund assessment).[69] Blazer requested that the contingency fund assessment be fixed at the amount of $30 per month and included in each monthly bill."[70] [71]

68. With regard to the BPV and BRR agreements, Blazer requested approval of the continuation of certain provisions from these agreements. Blazer requested, as part of its terms and conditions, approval of: (1) the cost responsibilities and repair or upgrade of the BPV community, as provided in sections 12, 14, 19, 23 and 24 of the BPV agreement; and (2) the cost responsibilities and repair or upgrade of the BRR community, as provided in sections 11, 13, 18, 22 and 23 of the BRR agreement. Blazer requested a minor amendment to Section 14 of the BPV agreement, and a minor amendment to Section 13 of the BRR agreement. Both of the latter provisions address contingency fund amounts.[72]

69. Blazer submitted that the continuation of the sections of the BPV agreement and the BRR agreement described above achieves a fair cost responsibility for the specific BPV and BRR distribution assets. It stated that these assets are aged, and Blazer expects higher maintenance, repair and water losses for these assets.[73]

Commission findings

70. The BPV and BRR agreements each contain a section that deals with the monthly contingency fund assessment that will be added to the bills of the BPV and BRR customers. Blazer has requested that these sections be revised, and replaced by wording that states the monthly contingency fund amount will be $30. The contingency fund allowance is currently governed by the terms of the BPV and BRR agreements. Any revisions to the contingency fund amounts in these agreements must be determined by the Commission. The Commission finds that there is insufficient evidence on the record with respect to calculation of the $30 contingency fund amount. The Commission directs Blazer to provide the calculation of the $30 contingency fund amount and provide an explanation on why this amount should be approved in the compliance filing to this decision. In doing so, Blazer may wish to negotiate the contingency fund amount with customers, prior to filing its proposal in the compliance filing to this decision.

71. With respect to Blazer's request for Commission approval of various other sections of the BPV and BRR agreements, the Commission has the authority to approve terms and conditions of service for utilities it regulates, and any proposed sections for service should be included in Blazer's consolidated terms and conditions of service.

72. The Commission notes that the provisions within the BPV and BRR agreements are similar.

73. In the agreements, Section 18 of the BPV agreement and Section 17 of the BRR agreement both state, "This Supply Agreement is expected to continue in perpetuity subject to government approval, intervention or control."[74] The Commission's approval is also

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69 Exhibit 22319-X0003, PDF page 345.
70 Exhibit 22319-X0153.02, paragraph 133.
71 Exhibit 22319-X0153.02, paragraph 135.
72 The BPV agreement is included in Exhibit 22319-X0003, PDF page 343. The BRR agreement is included in Exhibit 22319-X0100.
73 Exhibit 22319-X0153.02, paragraph 132.
74 Exhibit 22319-X0003, BPV, Section 18, PDF page 346 and Exhibit 22319-X0100, BRR agreement, Section 17, PDF page 3.

contemplated under its regulatory authority[75] and the Commission notes Section 9 of the BPV agreement and Section 8 of the BRR agreement which acknowledges this authority. The sections state: "All aspects of this Supply Agreement are subject to the approval of the Alberta Utilities Commission ('AUC'). If such approval has not been obtained by the time that all other conditions of this Supply Agreement have been met, then Blazer will not allow such lack of approval to prevent its supply and distribution of treated water to [BPV or BRR] pursuant to the terms of this Supply Agreement."[76]

74. Blazer requested that certain sections of each of the BPV and BRR agreements be approved by the Commission as part of this decision. The Commission has reviewed the BPV and BRR agreements. The Commission is not prepared to approve specific sections of the agreements without having an entire set of terms and conditions that would apply to all of Blazer's rate classes.

75. For these reasons, the Commission considers that it is premature at this time to consider Blazer's request for approval of sections of the BPV and BRR agreements. Any sections that Blazer proposes to be approved from the agreements should be included in its consolidated T&Cs, filed as part of its compliance filing. In addition to the sections of the BPV and BRR agreements listed in paragraph 16 above, the Commission considers that Blazer should specifically address whether the fees and billing provisions found in: sections 11 to 14 of the BPV agreement,[77] sections 10 to 13 of the BRR agreement[78] and sections 6 to 9 of the "Residential Customer Potable Water Service Agreement"[79] are to be included in its proposed T&Cs.

76. In accordance with the above directions, the Commission directs Blazer to submit a consolidated terms and conditions of service for approval as part of its compliance filing to this decision.

8 Phase I – Revenue requirement

77. Blazer's proposed revenue requirement for the test period is summarized in the following table:

Table 2. Blazer test period revenue requirement

	2019	2020
	($)	
Operating, maintenance and administrative	615,708	634,587
Depreciation on owner invested capital	172,817	166,004
Allowed return on owner invested capital	267,765	261,713
Total revenue requirement	1,056,289	1,062,304

Source: Exhibit 22319-X0153.02, argument, Table 6, PDF page 33.

75 See Section 89 of the *Public Utilities Act*. Further, as stated in Section 5 of this decision, the Commission's purpose and functions related to rate-setting and utility regulation of certain investor-owned natural gas, electric utilities and water utilities.

76 Exhibit 22319-X0003, BPV agreement Section 9, PDF page 344 and Exhibit 22319-X0100, BRR agreement, Section 8, PDF page 2.

77 Exhibit 22319-X0003, BPV agreement, PDF pages 345-346.

78 Exhibit 22319-X0100, BRR agreement, PDF pages 2-3.

79 Exhibit 22319-X0003, Residential Customer Potable Water Service Agreement, PDF pages 337-338.

78. In its application, Blazer requested approval to treat Lynx Ridge Estates irrigation customers as a single bulk customer and to treat BPV and BRR customers as a separate rate class. It submitted that these requests will not affect its system-wide revenue requirement.[80]

8.1 Operating, maintenance and administration expenses

79. Blazer's forecast operating and maintenance (O&M) and administration costs for the test period are reproduced in the table below:

Table 3. Forecast O&M and administration costs

O&M and administration cost category	2019	2020
	($)	
Water testing	10,467	10,655
Cost of chemicals	27,914	30,243
Tank pumpouts	7,216	7,818
Miscellaneous supplies	351	380
Materials, supplies & maintenance – Water Treatment Plant	21,834	23,656
Materials, supplies & maintenance – Raw Water Pump Station	2,964	3,211
Materials supplies & maintenance – Irrigation Pump Station	2,502	2,547
Materials supplies & maintenance – Distribution System	3,141	3,403
Materials supplies & maintenance – Hydrants	3,951	4,281
Warrantee expenses	393	400
Utilities		
Electricity		
Water plant	33,386	36,172
River pump house	18,522	20,067
Irrigation pump house	11,417	11,622
Communications		
River pump house	5,135	5,228
Water plant	6,586	6,705
Irrigation pump house	3,650	3,716
Diesel	500	500
Natural gas	3,705	3,772
Staffing		
Operations and maintenance contract	177,619	180,816
Vancouver office	3,109	3,165
General manager	87,321	88,893
Administrative staff support	27,854	28,356
Engineering support	77,425	78,819
Government approval and compliance	3,232	3,290
General and administrative expenses		
Customer relations	1,235	1,258
Automobile expenses	1,536	1,563
Bad debts	2,003	2,039
Bank charges and collection fees	2,681	2,729
Corporate creditor fees	1,564	1,592
Computer and internet expenses	6,487	6,604
Insurance	26,112	26,582
Meals, entertainment, office supplies and maintenance	4,061	4,134

80 Exhibit 22319-X0153.02, Blazer Water argument, paragraph 72.

O&M and administration cost category	2019	2020
	($)	
Postage and printing	1,247	1,269
Professional fees	14,000	14,252
Office rent	13,884	14,134
Telephone expense	702	715
Total OM&A costs	**615,708**	**634,587**

80. O&M and administration costs were either designated by Blazer as varying with flow rate or not varying with flow rate. Those costs that vary with flow rate were forecast to increase proportionally to the expected increase in water treatment plant production of 6.3-6.4 per cent and inflation of 1.8 per cent. Those that do not vary with flow rate were forecast to increase at the inflation rate only.[81]

8.1.1 Administrative staff – general manager, administrative support and office rent

81. In rebuttal evidence, Blazer provided a comparison of its general manager costs to the market prices for equivalent services,[82] and submitted that the general manager's salary is below fair market value and is, therefore, reasonable.[83] The analysis in Blazer's rebuttal evidence estimated the general manager's salary to be roughly equivalent to an hourly rate of $36 per hour. Blazer compared its general manger's salary to that of the:

(a) managers' salary rate for Harmony Advanced Water Systems Corporation ($130.50/hour) and Langdon Waterworks Limited ($41.51); and

(b) administrator or accounting personnel for Harmony Advanced Water Systems Corporation ($65.52/hour), Horse Creek Water Services Inc. ($70), and Langdon Waterworks Limited ($75 and $31.53).[84]

82. In response to Commission IRs, Blazer stated that the general manager spends 80 per cent of salaried time on Blazer activities and that this arrangement would remain in place for a period of five to 15 years.[85] Blazer indicated that the general manager derived the 80 per cent estimate based on the general manager's own assessment. It noted that the general manager was originally hired to work on Blazer matters alone. With respect to the remainder of the general manager's time, Blazer stated that the general manager works on two non-Blazer assignments that are temporary assignments. It added that once the temporary assignments reach the stage where ownership of them is transferred to others, the general manager will be working solely on Blazer at full salary.[86]

83. Blazer indicated that the timeline when the general manager is expected to be working solely for Blazer is dependent on the Alberta economy. It stated that "If sales at Watermark were to return to 50 homes per year, the General Manager would complete the larger of the two

81 Exhibit 22419-X0152.02, argument, paragraph 75.
82 Exhibit 22319-X0101, rebuttal evidence, paragraphs 64-71.
83 Exhibit 22419-X0152.02, argument, paragraph 74.
84 Exhibit 22319-X0108, rebuttal evidence, paragraph 66.
85 Exhibit 22319-X0056, Blazer-AUC-2017APR224-26 and Blazer-AUC-2017JUN27-012.
86 Exhibit 22319-X0056, Blazer-AUC-2017APR24-26.

temporary assignments in 5 years and the smaller in 3 years. If sales stay at current levels then these numbers could be 15 years and 10 years."[87]

Views of the parties

84. In its argument, BPV submitted that Blazer has not reduced its general manager and office rent costs to account for the time spent on activities not related to Blazer and argued that these costs should be reduced to 80 per cent of the applied-for values.[88]

85. Blazer responded that the full general manager costs are reasonable and the affiliate arrangement is prudent because customers are not harmed by and derive benefit from the arrangements.[89] Blazer did not explain the specific benefits that result from the affiliate arrangement. Blazer submitted that its benchmarking evidence demonstrates that its regulated customers will pay fair market value, or less for the general manager services and requested that the reasonableness of those costs be assessed based on whether Blazer's estimates of fair market value for equivalent services are reasonable.[90] Blazer quoted two Commission decisions in support of its position on benchmarking and fair market value: Decision 2014-169 (Errata)[91] and Decision 2957-D01-2015.[92]

86. Blazer also argued that the arrangement whereby the general manager also performs services for Blazer's wastewater affiliate results in cost efficiencies and reduces the combined costs that Blazer and its affiliate must collect from their respective customers. Blazer argued further that the 20 per cent of the general manager's time spent on non-Blazer activities does not detract from Blazer's ability to operate the system safely and reliably.[93]

87. With respect to its administrative support position, Blazer noted that the person in this position spends 45 per cent of salaried time on Blazer work. The administrative support salary was forecast to be $60,200 in 2019 and $62,000 in 2020,[94] and the corresponding administrative support costs allocated to Blazer's water rates are $27,854 in 2019 and $28,356 in 2020. These values show that Blazer is allocating approximately 45 per cent of the administrative support position to its water rates.[95]

88. BPV noted that, according to the submission of Mr. Hollingshead,[96] an individual customer, Watermark wastewater treatment fees are calculated as 77.27 per cent of Blazer's potable water rates. BPV submitted that it would appear that Blazer is therefore recovering more than 100 per cent of its administration and overhead costs[97] from customers.

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87 Exhibit 22319-X0070, Blazer-AUC-2017JUN27-012.
88 Exhibit 22319-X0191, argument, PDF page 3.
89 Exhibit 22319-X0196, reply argument, paragraph 9.
90 Exhibit 22319-X0196, reply argument, paragraph 11.
91 Decision 2014-169 (Errata): ATCO Utilities (ATCO Gas, ATCO Pipelines and ATCO Electric Ltd.), 2010 Evergreen Proceeding for Provision of Information Technology and Customer Care and Billing Services Post 2009 (2010 Evergreen Application), Proceeding 240, February 6, 2015, paragraph 222.
92 Decision 2957-D01-2015: Direct Energy Regulated Services, 2012-2016 Default Rate Tariff and Regulated Rate Tariff, July 7, 2015, paragraph 148.
93 Exhibit 22319-X0196, reply argument, paragraph 16.
94 Exhibit 22319-X0056, information response, Blazer-AUC-2017APR24-27(c).
95 Exhibit 22319-X0166, financial model, Schedule 2, row 30.
96 Exhibit 22319-X0016.
97 Exhibit 22319-X0191, argument, PDF page 2.

89. Blazer responded that the 77.27 per cent value is not relevant to the determination of the reasonableness of Blazer's cost. The percentage established by Blazer is simply the ratio established by The City of Calgary of wastewater flow divided by water flow. Blazer explained that it adopted this value because there is no cost-effective method of accurately measuring wastewater flow from a residential dwelling.[98]

Commission findings

90. The Commission does not consider that Blazer's administrative staff costs and office rent are best considered as a benchmark when there are actual costs for these positions and office rent costs available to the Commission. Where the actual salary and proportion of time spent working on Blazer business are known, it is not reasonable to rely on a benchmark, which is an approximation of fair market value.

91. Further, Blazer's fair market value analysis only compared the equivalent hourly rate of the general manager to staff performing similar roles for other water utilities. Blazer's fair market value analysis did not compare the full annual or monthly cost for those staff, and an annual or monthly salary amount would be more reflective of the relative costs of staffing for other water utilities.

92. As noted above, the reasonable amount to allocate to the regulated utility is the annual salary for the staff person multiplied by the proportion of time spent by that staff person working for the regulated utility. In the case of Blazer's general manager, this means that the allocation of the general manager's salary should be set at 80 per cent of the general manager's annual salary. Therefore, the Commission directs Blazer to update its financial model, in its compliance filing, to reflect an allocation of 80 per cent of the general manager's salary to Blazer's revenue requirement.

93. The Commission approves the allocated costs for the administrative staff position and office rent, as filed.

8.1.2 Operations and maintenance contract staff

94. In Schedule 7 of its financial model, Blazer provided the following forecast O&M contract costs for 2017:

Table 4. Blazer operations and maintenance contract rates and hours for 2017

Name/item or equipment	Activity	Hours per day	Hours per year	Hourly rate	Annual billing for 2016/17
Staff costs					
Operator Level 4	Regular Time Blazer Plant Operation within the Plant	4	920	$99.00	$91,080.00
Operator Level 1	Regular Time Assistance at Blazer Plant Operation within the Plant	2	460	$73.00	$33,580.00
Operator Level 2	Weekend Time Blazer Plant Operation within the Plant at Regular Rate because time off in week	1.5	156	$69.00	$10,764.00

98 Exhibit 22319-X0196, reply argument, paragraph 7.

Name/item or equipment	Activity	Hours per day	Hours per year	Hourly rate	Annual billing for 2016/17
Level 2 Operator/ Level 4 Operator 50/50	Statutory Holidays Blazer Plant Operation within the Plant at Overtime Rates (used blended overtime rate)	1.5	18	$101.50	$1,827.00
Various Staff	On Call coverage for emergencies ($5 per day for whole year)				$1,825.00
Manager	Management of staff and operations	0.5	182.5	$99.00	$18,067.50
		Total Hours	**1,736.5**		
Vehicle Costs					
Operator Level 4 Vehicle	Split 50/50 between Blazer & waste water treatment plant				$6,900.00
Operator Level 2 Vehicle	Split 50/50 between Blazer & waste water treatment plant				$3,450.00
Operator Level 1 Vehicle	Split done in Calculation on Rate Calculation for staff - see Schedule 7A				$3,900.00
				Annual Cost	**$171,393.50**

95. The costs in the above table are then inflated by 1.8 per cent for each subsequent year in the test period.[99]

96. Currently, Blazer uses H2o Pro Inc. (H2o Pro) to operate and maintain its water system. In rebuttal evidence, Blazer provided a comparison of H2o Pro's rates to the market hourly rates for water plant operators[100] to support its forecast O&M contract costs. Blazer referred to the hourly rates for operators, a leadhand and a lead operator ranging from $70 per hour to $150 per hour for water utilities that had previously submitted rate applications to the Commission.

97. Blazer also provided a detailed comparison of the hourly rates for various operator levels in its contract with H2o Pro to the contracted hourly rates for Horse Creek Water Services Inc., as follows:

[99] Exhibit 22319-X0166, financial model, Schedule 2, cells F29:I29.
[100] Exhibit 22319-X0101, rebuttal evidence, paragraphs 54-63.

Table 5. Comparison of Blazer and Horse Creek operator contract line items

	Horse Creek Water Services Inc.				Blazer GRA	
Contract date	Jan-15		Jan-16		Aug-17 – Aug-18	
Annual escalation	2% annually/CPI review		CPI			
2017 hourly rates	Applying 30 months inflation		Applying 18 months inflation			
Level IV Operator					$100	$122
Level II Operator					$74	$87
Level I Operator	$93.60	$140.40	$71.90	$107.80	$53	$61
Assistant to Operator			$71.90	$107.80	$52	$59
Lead Operator/Supervisor	$115.70				$100	$122
Engineer			$148.90	$221.30	$105	

Source: Exhibit 22319-X0108, rebuttal evidence, Table 15.

98. Based on this analysis, Blazer submitted that its contract with H2o Pro is at or below fair market value and is, therefore, reasonable.[101]

99. In response to a Commission IR, Blazer stated that prior to a new contract coming into place in August 2016, there had not been an increase in O&M contract rates for the previous three years. Blazer also provided a breakdown of the hours and hourly rates for 2015 and 2016, as set out in the table below:

Table 6. Blazer operations and maintenance contract rates and hours for 2015 and 2016

Position	2015			2016		
	Hours per year	Hourly rates	Total costs	Hours per year	Hourly rates	Total costs
Level IV operator	981	$70	$68,670	992	$70-$99	$77,801.50
Level I operator		$70		248	$69	$17,112.00
Level II operator	102	$70	$7,140	102	$73	$7,446.00
Level II/IV operator	12	$70	$840	12	$69-$99	$1,242.00
Manager		$70		130	$70-$99	$10,985.00
			$76,650			$114,586.50

Source: Exhibit 22319-X0056, information response, Blazer-AUC-2017APR24-25.

100. In a different IR response, Blazer explained that the Level I operator was necessary in 2016 because the operator was unable to complete all required activities with only one person available at the plant. Blazer also stated that, as a Level III Water Plant, its operating approvals from Alberta Environment and Parks (Alberta Environment) require Blazer to have at minimum a Level III operating supervisor and at least one Level I back-up operator,[102] and this means that two operators are required to be certified and available every day of the year, at minimum. Blazer submitted that this requirement was overlooked by the operator in the past.

[101] Exhibit 22319-X0152.02, argument, paragraph 74.
[102] See also Exhibit 22319-X0003, PDF page 271.

101. With respect to the addition of 130 hours for an H2o Pro manager, Blazer submitted that the manager had previously been carrying out work for Blazer, but had not been billing this time.[103] Blazer is now requesting manager hours as part of its forecasts.

102. When requested by the Commission to provide a copy of the current operations contract Blazer has with H2o Pro, Blazer provided a letter specifying the details of the agreement between Blazer and H2o Pro, which Blazer described as "a verbal contract agreement"[104] that "is valid for the period beginning on August 1, 2016 and ends on July 31, 2019."[105]

Views of the parties

103. BPV objected to the level of costs that Blazer forecast for the "operations and maintenance contract" cost category. BPV submitted that the forecast costs in this category be reduced by 24 per cent.[106] BPV indicated that Blazer developed the costs for this category utilizing base hourly costs between $35 and $75 per hour inclusive of benefits, vehicles and profit. These costs result in proposed charge out rates between $79 and $99 per hour. BPV stated that these amounts are excessive.[107]

104. BPV noted the increase in the costs for the O&M contract cost category among the actual of $98,000 in 2015, the projected amount of $98,891 in 2016, and a forecast amount of $171,394 for 2017. It suggested that because the water treatment plant would have gone through its start-up phase in 2015, the plant would have reached steady state operations in 2016, and the operational requirements for 2017 should be similar to 2016.[108]

105. In its evidence, BPV calculated a reasonable charge for water treatment plant operations staff in the order of $128,000 per year, increased by inflation. This estimate was based on two direct hire operators working for $40 per hour, plus a 15 per cent amount, a five per cent overtime allowance and a $2,500 per month vehicle allowance for each operator. BPV allocated the operations staff time evenly between Blazer and its wastewater utility.[109]

106. In response, Blazer indicated that in 2005, BPV agreed to pay $70 per hour for a Level 1 operator with respect to the BPV water distribution system, and in mid-2006, this agreed-upon rate was increased to $75 per hour. Blazer stated that in current dollars, this $75 per hour rate would be equivalent to $89.47.[110] The $75 per hour it agreed to pay for its Level 1 operator was based upon the operator working 1.25 hours per day, 365 days per year. BPV explained that because of this low daily billable time, the hourly rate billed would be higher in order to account for the operator's travel time and other downtime. BPV submitted that with the basic full-time employment being available between the Blazer water treatment plant and the waste water treatment plant, the operator rates for Blazer should be significantly reduced as compared to the rates that are based on working 1.25 hours per day.[111]

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[103] Exhibit 22319-X0070, information response, Blazer-AUC-2017JUN27-011.
[104] Exhibit 22319-X0186, PDF page 1.
[105] Exhibit 22319-X0186, PDF page 1.
[106] Exhibit 22319-X0191, PDF page 4.
[107] Exhibit 22319-X0040, PDF page 2.
[108] Exhibit 22319-X0040, PDF page 2.
[109] Exhibit 22319-X0040, evidence of BPV, PDF page 3.
[110] Exhibit 22319-X0108, PDF page 34.
[111] Exhibit 22319-X0117, PDF page 3.

107. Blazer provided a total amount of $14,282.79 per month for H2o Pro in Exhibit 22319-X0173 (Appendix A), but page 19 of Exhibit 22319-X0165 showed a monthly H2o Pro invoice broken down into two cost codes with amounts of $6,387.50 and $7,895.29, respectively. BPV submitted that there is no explanation for why the lump sum invoiced amount was split into two different cost code amounts. BPV also submitted that the former amount is the same as the amount charged for services in 2015 but there is no explanation as to why this was the case. According to BPV, the $14,282.79 monthly charge took effect on August 1, 2016, implying that the monthly billing for January 1, 2016 through July 31, 2016 must be $6,167.51.[112] BPV submitted that this amount is less than the 2015 charge even though the number of hours and the hourly rates both increased.[113]

108. BPV also questioned how an increase of 223 per cent from $6,387.50 in 2015 to $14,282.79 in the latter half of 2016 can be justified. As such, BPV proposed a 76 per cent reduction to Blazer's O&M contract costs.[114]

109. Mr. Hollingshead also objected to the increases in O&M contract costs and submitted that Blazer is paying substantially more than industry standards for third-party operators. Mr. Hollingshead recommended a reduction in the O&M contract costs to $101,000.[115]

110. In reply argument, Blazer stated that H2o Pro based their assessment of effort on the original, simple and unexpanded Blazer facility, and this was the main reason for the increase. Blazer stated that H2o Pro underestimated the amount of effort required to deal with the expanded and upgraded system.[116]

Commission findings

111. In order to approve a contract for third-party services, the Commission must determine whether or not the rates and prices in the contract are market-based or otherwise supported by evidence. Blazer is relying on comparator utilities to support that its contract with H2o Pro is at or below fair market value.

112. In most instances, the Commission would require that a utility rely on actual bid-tenders or quotes from three or more vendors, along with an explanation of why the utility selected its preferred vendor. Unfortunately, this type of information is unavailable to the Commission because the forecasts for H2o Pro for operator services for Blazer's water system were established based on past agreements for operations service. For the purposes of setting 2019-2020 rates, the Commission is prepared to make a determination on the reasonableness of the O&M costs for services provided by H2o Pro based on the evidence of similar comparators provided by Blazer. However, the Commission expects that in Blazer's next general rate application (GRA), it will provide evidence that it has obtained quotes, proposals or tenders from at least three potential operators to provide O&M service to Blazer's water systems regulated by the Commission. The information to be provided to the Commission must include scope-of-work information for each tender; a comparison of the tenders on each of the itemized services to be provided; the prices or rates for services to be rendered in total and per item; an explanation of

[112] The $6,167.51 was calculated by taking the $144,586.50 contract cost for 2016 and subtracting five months multiplied by the $14,282.79 monthly cost. The remainder was then divided by the remaining seven months.
[113] Exhibit 22319-X0191, argument, PDF page 3.
[114] Exhibit 22319-X0191, argument, PDF page 4.
[115] Exhibit 22319-X0016, PDF page 12.
[116] Exhibit 22319-X0196, reply argument, paragraph 19.

what criteria were used to evaluate the quotes or bid-tenders; and why the operator was selected or preferred for operations service. If potential bidders are concerned with their bids or tenders being made public in Blazer's next GRA, Blazer can apply for confidential treatment of that information, as per Section 28 of the Commission's Rule 001: *Rules of Practice*.

113. For the purposes of this application, the Commission is generally satisfied that the hourly rates for the operators supplied by H2o Pro are generally competitive with rates in other contracts approved by the Commission, as referenced by Blazer.

114. The Commission further accepts Blazer's explanation that, due to the expansion of the water treatment plant and adherence to the operator requirements of Alberta Environment, the increased hours and rates in 2016 were necessary to provide safe and adequate water service. Given that Blazer has paid the operator rates since 2016, while operating at a revenue shortfall, a reduction in Blazer's forecast costs for the operating contract is not warranted.

115. However, the Commission agrees with BPV with respect to the absence of an explanation regarding the splitting of O&M costs on the H2o Pro invoices into two costs codes. Blazer has not explained what these individual cost codes reflect in terms of the service provided by H2o Pro in a given month. As part of its compliance filing to this decision, the Commission directs Blazer to explain the difference between the two different cost codes on the H2o Pro invoices, why the charges are split on the invoices, how the two amounts appearing on the invoices were derived and any potential consequences of not splitting the amounts.

8.1.3 Savings due to Lynx Ridge treated as a single customer

116. In the most recent version of its financial model, Blazer agreed to treat the Lynx Ridge residents as a single customer for residential irrigation water service.[117]

117. BPV submitted that Blazer's O&M and administration costs will be reduced by $56,194 in 2019 if Lynx Ridge is treated as a single customer. BPV submitted further that it is up to Blazer to modify its staffing and expenditures to capture the expected savings resulting from the change to treat Lynx Ridge as a single customer. Recognizing that it would be impractical to capture the full extent of the savings, BPV assumed that Blazer would be able to achieve 70 per cent of those savings, which would result in a reduction in O&M and administration savings of $39,336 for 2019.

118. Blazer responded that the change in number of customers for Lynx Ridge does not result in an actual decrease in costs because Blazer's total revenue requirement remains the same. The $56,194 reduction is a reduction only in the amount allocated to Lynx Ridge for residential irrigation because the number of customers changes from 101 customers to one customer.[118]

119. Blazer provided a description of the O&M and administrative effort to deal with Lynx Ridge irrigation customers, as follows:

(a) 1212 billings per year;

[117] Exhibit 22319-X0166, financial model.
[118] Exhibit 22319-X0196, reply argument, paragraph 27.

(b) 15 telephone calls and 105 emails dealing with administrative matters and customer issues;

(c) 28 visits from the operational staff for irrigation pump station inspections and maintenance;

(d) 178 communications regarding irrigation pump station readouts;

(e) Two calls and one payment regarding system blow-out;

(f) One-time attendance of operational staff for system start-up in spring; and

(g) Five-time attendance of operational staff to deal with suspected leaks.

120. Blazer also acknowledged that its administrative burden related to billing might decrease if Lynx Ridge irrigation customers were converted to a single customer[119] but it did not quantify any cost savings.

Commission findings

121. The Commission agrees with Blazer's submission that its billable costs do not actually decrease by $56,194 per year as a result of treating all Lynx Ridge residential irrigation customers as a single customer but rather that this is simply an allocation of the revenue requirement to fewer customers. However, the fact that the revenue requirement allocated to residential irrigation decreases by $56,194 without an actual decrease in Blazer's costs indicates that the customer base allocator for Blazer's costs is not the best allocator for its O&M and administration costs.

122. Upon review of the operating cost allocators included in the application, the Commission is of the view that all O&M and administration costs that are proposed to be allocated based on the number of customers should be allocated based on volume.

123. Similarly, the Commission is of the view that the time-of-use allocator included in the financial model referenced in Section 8.1.3 above is unnecessary, and that seasonal use of potable and irrigation systems will be adequately captured by allocating those costs based on volume. Accordingly, the Commission directs Blazer to change the customer base allocator to volume based and to remove the time-of-use allocators from its O&M cost schedules, and reflect these changes in its financial model in its compliance filing to this decision. If there are any costs that cannot reasonably be allocated based on volume, Blazer is to provide an explanation of why that is the case, along with an alternative allocation proposal for any costs that cannot be allocated by volume, in its compliance filing to this decision.

124. Given that each Lynx Ridge customer will still receive individual potable water bills, the Commission considers that any actual reduction in O&M and administration costs associated with transitioning Lynx Ridge to a single residential irrigation customer will likely be immaterial. Therefore, the Commission finds that it will not direct a reduction to Blazer's revenue requirement for reduced billing costs as a result of the transition of Lynx Ridge irrigation services to a single customer bill.

[119] Exhibit 22319-X0137, information response, Blazer-AUC-2018JAN12-006(d).

8.2 Rate base

125. Blazer requested approval of its owner-invested capital rate base amounts for the test period, as set out in the table below:

Table 7. Summary of owner-invested capital rate base

	2019	2020
	($)	
Opening balance	5,199,675	5,076,859
Closing balance	5,076,859	4,960,855
Mid-year owner-invested total capital utility plant in service	5,138,267	5,018,857
Necessary working capital	86,414	87,736
Mid-year net rate base	5,224,681	5,106,593

Source: Exhibit 22319-X0153.02, argument, Table 1, PDF page 18.

126. Blazer submitted that its rate base is just and reasonable because:

(a) It is based on the prudent acquisition costs of the original water utility assets and subsequent additions, less depreciation based on the estimated useful life of each asset.

(b) It appropriately accounts for contributions received from developers and customers as no-cost contributed capital, for which Blazer is not requesting return nor depreciation.

(c) Requested capital additions are for prudently incurred costs or reasonable forecasted costs for its facilities to meet the needs of the existing and forecast customer base, and to meet County of Rockyview fire protection requirements.[120]

8.2.1 Owner-invested capital and gifted capital

127. Blazer requested approval of its going-in rate base based on:

(a) Using 2014 year-end net book value of $520,248,[121] based on the $875,000 original cost of the owner-invested capital net depreciation expenses of $354,752 applied in the 2013 and 2014 fiscal years.

(b) Allocating the original owner-invested capital to specific assets using the methodology set out in Schedule 8 of the financial model.

(c) Adding owner-invested capital in the year in which such costs were incurred.

(d) Reporting contributed capital amounts separately from owner-invested capital and excluding contributed capital from depreciation expenses and allowed return on capital in revenue requirement.

[120] Exhibit 22319-X0153.02, argument, paragraph 35.

[121] Exhibit 22319-X0153.02, Blazer requests a determination that the original owner-invested capital was $520,248 at 2014 year-end. The Watermark developer acquired Blazer and its assets in January 2013, for a total purchase price of $2.4 million.

(e) Including necessary working capital requirements, calculated in Schedule 6 of the financial model.[122]

128. Blazer submitted that it has invested in necessary capital additions after the 2013 acquisition and acknowledged that the Commission has not previously considered the need for Blazer's water treatment plant expansion, acquisition of additional facilities or the reasonableness of the associated costs.

8.2.1.1 Water treatment plant upgrade and expansion

129. Blazer requested approval of the need for the water treatment plant upgrade and expansion. It further requested a determination that the associated costs were prudently incurred and the approval of the addition of those costs to Blazer's rate base, net applicable depreciation.

130. Blazer stated that the total cost of the upgrade was approximately $5.64 million. $1.9 million of the cost was a contribution from the Watermark developer, which represented the cost of providing only additional treatment plant capacity to accommodate BPV and BRR. Blazer's agreement with BPV and BRR, discussed in Section 7 of this decision, allowed for $150,000 of that $1.9 million to be treated as owner-invested capital. The remaining $3.74 million was financed by a loan from Blazer's parent. The total owner-invested capital in the water treatment plant upgrade is $3.89 million.[123]

131. Blazer submitted that the costs to construct the potable water facilities were incurred because staging construction based on staged residential development would have resulted in reduced efficiencies and higher costs. Blazer added that it made reasonable design and construction decisions to ensure the required capacity target is achievable when service was required. According to Blazer, the installed capacity, including duplicate filters and treatment trains, allows Blazer to reliably meet its customers' needs even if one train or set of filters is not able to operate. Blazer added that the majority of the treated water reservoir's volume is needed for firefighting purposes, and that the rest is used for dealing with differences between the maximum daily demand (MDD)[124] and peak hour demand, and as an emergency reserve.[125]

Commission findings

132. Because Blazer was not regulated by the Commission at the time of the utility acquisition and the water treatment plant expansion, the Commission is not able to assess, or determine, the prudency of the costs for past development of the potable and irrigation water systems prior to Blazer being regulated by the Commission. The Commission now has authority over Blazer's rates applied for in its 2019-2020 application.

133. The Commission is prepared to make a determination on whether or not it will accept the costs-to-date as part of determining the opening rate base balance, as of January 1, 2019. In order to do this, the Commission considers that it is necessary to update the opening rate base numbers to reflect the significant amount of time that has passed since Blazer filed its initial application with the Commission. Accordingly, the Commission directs Blazer to update Schedule 12 of the

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122 Exhibit 22319-X0153.02, argument, paragraph 41.
123 Exhibit 22319-X0153.02, argument, paragraph 46 and Table 3.
124 Exhibit 22319-X0108, on PDF page 43 of its rebuttal evidence, Blazer defines MDD as the maximum three consecutive day average of past recorded flows.
125 Exhibit 22319-X0153.02, argument, paragraph 54.

financial model to reflect the actual net book value as of December 31, 2018, in its compliance filing to this decision. As part of this direction, the updated net book value must take into account any findings and determinations of the Commission in the other sections of this decision.

8.2.1.2 Gifted capital to connect to the BPV water system

134. As noted in Section 7, in order for Blazer to connect its treated water system to the reservoirs that supply potable water to BPV and BRR, Blazer agreed to upgrade its water treatment plant and install new pipelines.[126] Blazer noted that the pipeline work was completed at a cost of $0.844 million[127] and that it funded the additional $0.264 million above the estimated cost of $0.580 million.[128] BPV disagreed that Blazer funded this additional cost.[129] Blazer subsequently confirmed that it did not fund the additional $0.264 million but rather the amount was paid for by BPV. However, Blazer stated that there is no effect on the revenue requirement because it has already treated the $0.264 million as gifted capital. Blazer did note that Schedule 10 and Schedule 13 of its financial model had to be corrected to reflect the party who paid the $0.264 million, and this would be reflected in a revised version of the financial model that Blazer would be submitting later in the proceeding.[130]

Commission findings

135. The Commission acknowledges that the $0.264 million was treated as gifted capital by Blazer in its June 2018 financial model. Despite its comment that it would update Schedule 10 and Schedule 13 of its financial model to reflect the correct treatment of the $0.264 million, Blazer only updated Schedule 10 of the June 2018 financial model. The Commission finds that to ensure completeness and accuracy of the June 2018 financial model, Schedule 13 also needs to be updated. During its review of the June 2018 financial model, the Commission noted that in addition to an update being required for Schedule 13, Schedule 11 (formerly Schedule 10) also needs to be updated. The Commission therefore directs Blazer, in the compliance filing, to update Schedule 11, Excel cell H13; and Schedule 13, Excel cells H63-H66 of the June 2018 financial model, in order to properly account for the funding of the $0.264 million as gifted capital.

8.2.2 Forecast capital additions

136. Blazer requested approval for a number of forecasted capital additions during the test period, which are set out in Schedule 9 of the financial model. Blazer submitted that these capital projects are necessary to ensure that Blazer can continue to provide safe and reliable water service to existing customers, to accommodate expected additional connecting customers, and to support that the forecast costs for its capital projects are reasonable.[131]

137. The largest capital addition is the river intake improvements, with forecast capital costs of $100,000 for engineering, investigation and corresponding approvals in 2017, and a further $800,000 for construction in 2018. In its application, Blazer stated that the infiltration facilities were damaged during a flood in 2005 and rendered inoperable in a second 2013 flood that covered the infiltration gallery with a large depth of gravel. Blazer stated that it is now operating

126 Exhibit 22319-X0056, PDF page 42.
127 Exhibit 22319-X0001, PDF page 25.
128 Exhibit 22319-X0056, Blazer-AUC-2017APR24-17(a).
129 Exhibit 22319-X0096, BPV-AUC-2017SEP22-005.
130 Exhibit 22319-X0070, Blazer-AUC-2017JUN27-007 and Blazer-AUC-2017JUN27-010.
131 Exhibit 22319-X0153.02, paragraph 58.

three low-lift river pumps with fish screens, with capacities that vary with the river level. Blazer submitted that intake system improvements will require engineering anticipated for 2017 and construction in 2018 and 2019.[132]

138. In rebuttal evidence, Blazer added that the investment in the river intake is required to comply with Alberta Environment requirements that mandate Blazer produce MDD 2.5 times its average annual demand. Blazer added that Alberta Environment suggests that the peak hourly demand be two to five times the MDD, depending on the community size.[133]

139. In response to Commission IRs, Blazer stated that continued use of submersible pumps is not within the scope of its current operating permit from Alberta Environment and that it has made attempts to re-establish the infiltration gallery to an operational condition, but those attempts have failed. Blazer added that an infiltration gallery is more expensive but requires less long-term maintenance. Further, submersible pumps would require Alberta Environment and federal Fisheries Department approval.[134]

140. In argument, Blazer noted that design work for the intake is proceeding and installation is now anticipated in spring 2019.[135]

141. Other capital additions that are required include $60,000 for a power supply upgrade to the river pump house; $60,000 for meter and controls improvements at the irrigation pump station; and an annual contingency allowance against unexpected works, in the amount of $40,000 per year.

142. Schedule 9 of Blazer’s financial model describes this contingency allowance as:

> Emergency repairs as necessary, as an example a watermain break occurring in the winter can cost between $30,000 and $40,000. This is likely to occur in the older parts of the Blazer system.[136]

143. The Commission asked an IR about the legal or regulatory precedents for the approval of a contingency allowance and about Blazer’s access to financing for emergency expenses. Blazer responded that The City of Calgary uses a similar mechanism, called an emergency fund. Blazer stated that it has not researched the matter but it “cannot imagine that a prudent waterworks manager would not maintain such a fund for unforeseen events in the upcoming budget year.”[137] Blazer also stated that it does not have access to financing through financial lending institutions but its parent company will make loans to Blazer.

Views of the parties

144. BPV objected to the annual capital additions of $40,000 in 2017, 2018, 2019 and 2020 that Blazer classified as “contingency allowance against unexpected works.” BPV submitted that while it understands the potential need for a contingency amount, it does not agree that this amount be increased by $40,000 each year, which would result in a contingency allowance

132 Exhibit 22319-X0001, application, part 1, PDF page 13.
133 Exhibit 22319-X0108, rebuttal evidence, PDF page 43.
134 Exhibit 22319-X0056, response to Blazer-AUC-2017APR24-7, PDF page 7.
135 Exhibit 22319-X0153.02, paragraph 60.
136 Exhibit 22319-X0166, financial model, Schedule 9, cell H28.
137 Exhibit 22319-X0056, Blazer-AUC-2017APR24-21.

balance of $140,975 in 2020.[138] BPV recommended that the contingency allowance capital additions be $40,000 in 2017, $4,100 in 2018, $2,100 in 2019 and $2,200 in 2020.[139] BPV stated that these figures will result in an annual undepreciated value of the contingency allowance assets of approximately $40,000.[140]

145. Mr. Hollingshead objected to the intake demand figures provided by Blazer in support of its river intake replacement project. Mr. Hollingshead submitted that these figures implied unreasonably high water consumption rates for customers. He added that Blazer's projections for customer growth were unreasonably high and referenced the significant consumption of raw irrigation water by the Lynx Ridge Golf Course. Lastly, Mr. Hollingshead questioned why the flood damage to the river intake was not paid for through insurance.[141]

146. In rebuttal evidence, Blazer noted that the flood damage occurred prior to Macdonald Development Corporation's acquisition of Blazer.[142]

Commission findings

147. Given the expansion of Blazer's water treatment plant and its forecasted customer base growth, the Commission considers that replacement of the infiltration gallery is necessary for the continued safe and reliable operation of Blazer's water utility. As noted by Blazer, continued use of the submersible pumps would require provincial and federal approvals, and would lead to increased maintenance costs. The Commission accepts that Blazer has attempted to recover the previous infiltration gallery in order to continue service to customers and approves Blazer's decision for replacement of these systems.

148. However, consistent with the Commission's findings with respect to the opening net book value of rate base, the Commission considers that Blazer's proposed capital costs for the river intake replacement should be updated to reflect the time that has passed since Blazer filed its application to the Commission in January 2017. Accordingly, the Commission directs Blazer to file, as part of its compliance filing to this decision, updated actuals for costs associated with the river intake replacement, the costs incurred to date for the replacement, and to update its forecast for any remaining costs for this project.

149. Because the contingency allowance is included in Blazer's capital costs, the Commission considers that Blazer would not actually be collecting the $40,000 contingency allowance on an annual basis. Rather, Blazer is proposing to collect return and depreciation on the contingency amount. Noting that this appears to be different than what was perceived by customers, the Commission nonetheless finds that it is not reasonable for Blazer to add $40,000 to Blazer's rate base as a contingency allowance. In the event of unforeseen capital additions for upgrades or improvements, a contingency allowance included in rate base would not result in significant funds being available for any emergency repairs but would only increase the capital costs included in rate base.

150. In the event that emergency repairs are needed, the Commission expects that Blazer would source financing to address the repairs. At the time of receiving financing or in its

[138] Exhibit 22319-X0191, PDF page 7.
[139] Exhibit 22319-X0192, Schedule 9.
[140] Exhibit 22319-X0191, PDF page 7.
[141] Exhibit 22319-X0016, PDF pages 6-10.
[142] Exhibit 22319-X0108, rebuttal evidence, PDF page 56.

subsequent rate application, Blazer would be able to file an application with the Commission to add the costs of financing to its revenue requirement on a go-forward basis.

151. Furthermore, capital additions have to be tangible assets that are used, or required to be used, in the provision of utility service. The Commission finds that a contingency amount for possible unexpected works is not a regulatory cost that relates to a tangible capital asset, i.e., that it is an amount that is unrelated to an asset that is required for regulatory service. An asset is only included in rate base when it is operational. For these reasons, the Commission directs Blazer, in the compliance filing, to exclude any capital additions or asset amounts for "contingency allowance against unexpected works." In the event that Blazer has capital additions during 2019 and 2020 that are not included as part of its approved forecast, it can apply as part of its next rate application to have the undepreciated capital cost of these capital additions added to rate base, and collect depreciation and return on the undepreciated capital cost. The Commission will assess the prudency of the 2019 and 2020 capital additions or asset amounts at that time, including any variance from forecast amounts.

152. Accordingly, the Commission denies Blazer's proposal to include an annual $40,000 contingency allowance, and directs Blazer to reflect this finding in its compliance filing to this decision.

8.3 Depreciation

153. In the June 2018 financial model, Blazer included the following amounts for depreciation on its owner invested capital: $172,817 for 2019 and $166,004 for 2020.[143] The capital assets, which Blazer identified as having been funded fully or partially through owner-invested capital (debt and equity), and the proposed depreciation rates for these capital assets for 2019 and 2020, are included in the following table:

Table 8. Capital assets funded fully or partially through owner-invested capital, and proposed depreciation rates on these capital assets for 2019 and 2020

Capital asset description	Proposed depreciation rate for 2019 and 2020 (%)
River intake	4.00
Raw water pump station (RWPS) building and wet well	3.33
RWPS equipment and river intake pumps to replace intake lost in 2013 flood	20.00
RWPS controls	20.00
Raw water supply line to irrigation pump station and water treatment plant	2.00
Irrigation pump station building	5.00
Irrigation pump station equipment	10.00
Irrigation pump station controls	20.00
Irrigation water supply lines	2.00
Water treatment plant building number one	4.00
Building equipment in water treatment plant building number one	10.00
Water treatment plant process equipment in building number one	3.33
Pumps and mechanical equipment in building number one	10.00
Motor Control Centres (MCCs) and controls in building number one	20.00
Reservoir number one	3.33
Reservoir number two	3.33
Reservoir number three	3.33

[143] Exhibit 22319-X0166, Schedule 1. Exhibit 22319-X0166, Schedule 12, includes the details of the capital assets and the depreciation rates.

Capital asset description	Proposed depreciation rate for 2019 and 2020 (%)
Water treatment plant building number two	2.00
Building equipment at building number two location	6.67
Water treatment plant in building number two	2.00
Pumps and mechanical equipment in building number two	6.67
MCCs and controls in building number two	20.00
Generator in building number two	6.67
Reservoir number four	1.25
Supply line and distribution system for Bearspaw Meadows	3.33
Supply line and distribution system for Lynx Ridge	3.33
Meters	6.67
Tools	20.00
Software development	33.33
Computers and furniture	20.00
Contingency allowance against unexpected works	5.00

154. Blazer indicated that the depreciation rates for each capital asset were calculated based on the expected life of the asset, and the rate related to each capital asset is the inverse of the asset's life expectancy.[144]

155. As described in Section 7, Blazer has a rate base investment of $0.150 million with regard to the agreements it has with BPV and BRR, related to the capital expenditures associated with the connection of Blazer's system to the BPV and BRR water systems, including the upgrade to the water treatment plant. The $0.150 million is not attributable to any individual capital asset.

156. Blazer calculated annual depreciation on the $0.150 million using a rate of 14.19 per cent. The 14.19 per cent is the average of the depreciation rates for the following assets: river intake (four per cent); raw water pump station building and wet well (3.33 per cent); raw water pump station equipment and river intake pumps (20 per cent); raw water pump station controls (20 per cent); raw water supply line to irrigation pump station and water treatment plant (two per cent); tools (20 per cent); software development (33.33 per cent); computers and furniture (20 per cent); and contingency allowance (five per cent).[145] Blazer's resulting annual depreciation calculated using those rates is as follows: $21,278 for 2015; $18,259 for 2016; $15,669 for 2017; $13,447 for 2018; $11,789 for 2019; and $10,116 for 2020.[146] Blazer submitted that applying an annual depreciation rate of 14.19 per cent to the capital expenditures of BPV and BRR to connect to the Blazer system of $0.150 million is reasonable because it is based on the depreciation rates applicable to those water utility assets.

Views of the parties

157. BPV objected to the method being used by Blazer to calculate the depreciation expense on the $0.150 million of the agreed-upon invested capital. BPV's interpretation of the treatment of the $0.150 million, as set out in the BPV agreement, is that the amount solely relates to the costs associated with the expansion of the water treatment plant.

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144 For example, for a capital asset that has an expected life of 25 years, the annual depreciation rate for that asset would be four per cent of the original cost, calculated as 1/25.

145 Exhibit 22319-X0166, Schedule 12.4.

146 Exhibit 22319-X0166, Schedule 12.4, cells O56, U56, AA56, AG56, AM56, AS56.

158. BPV submitted that the share of the depreciation attributable to the $0.150 million should be 3.93 per cent, which it calculated by dividing the $0.150 million by the total invested capital cost of the water treatment plant upgrade of $3.815 million.[147] In calculating its recommended potable water rates, BPV applied the 3.93 per cent to the depreciation expense associated with the following assets: water treatment plant building number two; landscaping at building number two; building equipment at building number two; water treatment plant in building number two; pumps and mechanical equipment in building number two; meter and control chambers and controls in building number two; generator in building number two; and reservoir number four. BPV also applied the 3.93 per cent to the depreciation expense associated with the capital additions made to these assets after the initial investment of $3.815 million was made. BPV submitted that the depreciation expenses associated with the water treatment plant expansion assets that should be allocated to it are $4,121 for 2015; $3,891 for 2016; $3,688 for 2017; $3,506 for 2018; $3,344 for 2019; and $3,197 for 2020.[148]

159. While BPV objected to Blazer's use of the average depreciation rates for the assets listed in paragraph 156, in order to determine the depreciation rate associated with the $0.150 million, BPV did not object to being allocated a share of the annual depreciation expense for these assets. In addition, BPV submitted that the depreciation on these assets should be allocated between the BPV/BRR rate class and the WPO (potable water customers other than BPV and BRR customers) rate class on the basis of water consumption. Such an allocation results in an allocation of 23.6 per cent for the BPV/BRR rate class, and an allocation of 73.4 per cent for the WPO rate class.[149]

160. In keeping with its recommendation of 3.93 per cent for its share of the depreciation expense for Blazer's water treatment plant expansion assets, BPV recommended that it be allocated 3.93 per cent of the annual undepreciated value of these assets, when calculating return on rate base. BPV also recommended that it be allocated 23.6 per cent of the annual undepreciated value of the assets described in paragraph 156 above.

Commission findings – depreciation rates and methodology

161. In Section 8.2.1.1 of this decision, the Commission has directed Blazer to update Schedule 12 of the June 2018 model, in order to reflect the actual net book value as of December 31, 2018. The Commission considers that the actual net book values as of December 31, 2018, is the starting point for determining the depreciation expense for 2019 and 2020.

162. The Commission reviewed the depreciation rates proposed by Blazer, as set out in Table 8 above, and finds them acceptable for depreciating its capital assets, because they are based on the expected lives of the capital assets, which is an underlying principle of depreciation. The Commission approves the depreciation rates for 2019 and 2020, as filed.

163. During its review of the proposed depreciation expenses for 2019 and 2020,[150] the Commission notes that with respect to any capital additions in these years, Blazer calculated a full year of depreciation expense in the year that the capital asset was added. This is contrary to

[147] Exhibit 22319-X0191, PDF page 6.
[148] Exhibit 22319-X0192, Schedule 12.4, sum of rows 25-32 for columns O, U, AA, AG, AM, AS.
[149] Exhibit 22319-X0191, PDF page 6.
[150] As included in Exhibit 22319-X0166, Schedule 12.

generally accepted regulatory depreciation, in which depreciation commences either in the month after the capital asset is added, or a half-year depreciation is taken on the capital asset for the year in which it is added. This "half-year rule" is intended to account for the timing of capital additions during a year. The Commission considers that for simplicity, Blazer should use the half-year rule in accounting for capital additions. Therefore, the Commission directs Blazer, in the compliance filing, to include a half-year depreciation expense in 2019 on the capital additions forecast for 2019, and to include a half-year depreciation expense in 2020 on the capital additions forecast for 2020. Further, this approach must be used in Blazer's future regulatory filings.

164. During its review of the proposed depreciation expenses for 2019 and 2020, the Commission identified that Blazer has calculated depreciation expense on a declining balance basis, as opposed to a straight-line basis. For accounting purposes, under the straight-line basis of depreciating a capital asset, with the exception of the first year and the last year because of the half-year principle, the depreciation expense for all other years is the same. Under the declining balance basis, the depreciation expense is different each year because the annual depreciation expense is the approved rate multiplied by the opening net book value. The Commission has illustrated this concept in the following table:

Table 9. Straight line depreciation versus declining balance depreciation, both with the half-year rule - assuming an original capital asset cost of $1,000,000 with a depreciation rate of 10 per cent

	Straight line basis of depreciation			Declining balance basis of depreciation		
Year	Opening net book value	Depreciation expense	Closing net book value	Opening net book value	Depreciation expense	Closing net book value
	($)					
One	0	50,000	950,000	0	50,000	950,000
Two	950,000	100,000	850,000	950,000	95,000	855,000
Three	850,000	100,000	750,000	855,000	85,500	769,500
Four	750,000	100,000	650,000	769,500	76,950	692,550
Five	650,000	100,000	550,000	692,550	69,255	623,295
Six	550,000	100,000	450,000	623,295	62,330	560,965
Seven	450,000	100,000	350,000	560,965	56,096	504,869
Eight	350,000	100,000	250,000	504,869	50,487	454,382
Nine	250,000	100,000	150,000	454,382	45,438	408,944
Ten	150,000	100,000	50,000	408,944	40,894	368,050
Eleven	50,000	50,000	0	368,050	36,805	331,245

165. Based on the assumptions used in the illustration set out in Table 9, the initial cost of $1,000,000 would be recovered through the depreciation rates in eleven years, if the straight line basis was used. If the declining balance basis was used, it would take over 100 years to recover the initial cost of $1,000,000. The Commission finds that the declining balance basis is not representative of the period for which the capital asset will be in service, and consequently it should not be used to determine depreciation expense for the purpose of determining depreciation included in Blazer's water rates. Therefore, the Commission directs Blazer, in the compliance filing to this decision, to adopt the straight-line basis of calculating depreciation for 2019 and 2010, including the half year rule as directed above. Further, this approach must be used in Blazer's future regulatory filings.

166. For the actual capital assets as of December 31, 2018, the Commission directs Blazer, in the compliance filing to this decision, to calculate the depreciation for these assets for 2019 and 2020 by dividing the net book value of these assets, as of December 31, 2018, by their remaining

expected life, and taking into account the rates found in Table 8 above. For the capital additions in 2019, the Commission directs Blazer, in the compliance filing to this decision, to calculate the depreciation on these assets for 2019 by multiplying the cost of these additions by the applicable rates set out in Table 8 above, and multiplying the resulting figure by 50 per cent, in order to account for the half-year rule.

167. For the capital additions in 2019, the Commission directs Blazer, in the compliance filing, to calculate the depreciation on these assets for 2020 by multiplying the cost of these additions by the applicable rates set out in Table 8 above. For the capital additions in 2020, the Commission directs Blazer, in the compliance filing, to calculate the depreciation on these assets for 2020 by multiplying the cost of these additions by the applicable approved rates set out in Table 8 above, and multiplying the resulting figure by 50 per cent, in order to account for the half-year rule.

Commission findings – depreciation on invested capital for connection to Bearspaw Village and Blueridge Rise water systems

168. As part of the BPV and BRR agreements, it was agreed that no more than $0.150 million of the capital expenditures required for Blazer to connect to and serve the BPV and BRR customers would be included in rate base. No party objected to Blazer including this $0.150 million in rate base.

169. In the June 2018 financial model, Blazer separately included this $0.150 million in its rate base. It then calculated depreciation on this using the average of the depreciation rates for nine separate assets. This resulted in a depreciation rate of 14.19 per cent for the $0.150 million.

170. As mentioned in the views of the parties section above, BPV objected to Blazer's calculated depreciation rate. It submitted that the depreciation expense associated with the $0.150 million should be 3.93 per cent of the depreciation expense for the assets related to the water treatment plant expansion. BPV calculated the 3.93 per cent by dividing the $0.150 million, by the total initial invested capital cost of the water treatment plant of $3.815 million.

171. The Commission finds that the water supply agreements did not specify how any depreciation on the $0.150 million was to be calculated and reflected in Blazer's water rates. BPV's interpretation was that the $0.150 million relates entirely to the capital costs associated with the expansion of the water treatment plant. Blazer did not provide any submissions on this interpretation. The Commission accepts BPV's interpretation as reasonable for determining the depreciation expense associated with the $0.150 million. Similarly, the Commission rejects Blazer's depreciation rate of 14.19 per cent for the $0.150 million. A simple average of nine depreciation rates, which range from two per cent to 33.33 per cent, consisting of assets that do not relate to the expansion of the water treatment plant, is not reflective of the depreciation associated with BPV's and BRR's share of the water treatment plant expansion. The BPV proposal, which calculates the depreciation expense by using the total invested capital cost of the water treatment plant, more accurately reflects the depreciation associated with the specific assets. This proposal essentially allocates the $0.150 million proportionately across all the capital assets associated with the initial expansion of the water treatment plant, and the BPV and BRR potable water rate class is allocated a proportionate share of the resulting depreciation expense for the water treatment plant expansion.

172. The Commission directs Blazer, in the compliance filing to this decision, to include a separate asset of $0.150 million for its investment in the BPV/BRR connection to the Blazer water system. The Commission further directs Blazer, as part of the compliance filing, to calculate the opening net book value of this asset as of January 1, 2019, by applying 3.93 per cent of the depreciation for all years, up to and including 2018, for the assets associated with the $3.815 million investment. These assets are the water treatment plant building number two; landscaping at building number two; building equipment at building number two; water treatment plant in building number two; pumps and mechanical equipment in building number two; meter and control chambers and controls in building number two; generator in building number two, and reservoir number four.

173. The Commission also directs Blazer, as part of the compliance filing to this decision, to calculate the depreciation expense associated with the $0.150 million for 2019 and 2020, as 3.93 per cent of the depreciation expense associated with the initial investment of $3.815 million for these assets. In order to facilitate this calculation, the Commission directs Blazer, in the compliance filing, to track and depreciate the $3.815 million of capital assets identifying each capital asset separately, and to track and depreciate any subsequent capital additions for these assets separately.

Commission findings – depreciation on subsequently invested capital for assets related to the expansion of the water treatment plant

174. BPV proposed that for the assets listed in paragraph 158 above, depreciation on any capital additions to these assets made subsequent to the initial investment of $3.815 million, should be allocated to the BPV and BRR potable water rate class, using the 3.93 per cent factor it calculated with respect to the initial investment. The Commission denies this proposal. The 3.93 per cent factor was calculated based on the cost allocation of the initial investment and does not reflect any capital additions that were made subsequent to the initial investment. Depreciation on the capital additions made subsequent to the initial investment should be allocated on the same basis as other capital assets. The Commission considers that the use of water consumption as an allocator is acceptable. The Commission therefore directs Blazer, in the compliance filing, to allocate the depreciation on any capital additions made subsequent to the $3.815 million on the assets listed in paragraph 158 above, on the basis of water consumption.

Commission findings – depreciation on other capital assets

175. As mentioned previously, Blazer calculated a depreciation rate on the $0.150 million related to its investment for the connection of the BPV and BRR water systems, by using a simple average of the depreciation rates for nine capital assets that were unrelated to the water treatment plant expansion. These assets are the river intake; raw water pump station building and wet well; raw water pump station equipment and river intake pumps; raw water pump station controls; raw water supply line to irrigation pump station and water treatment plant; tools; software development; computers and furniture; and contingency allowance.

176. Blazer did not allocate any of the depreciation on the specific assets listed in paragraph 158 to the BPV and BRR potable water rate class. However, BPV did not object to being allocated a share of the depreciation expense on these assets, and suggested that the expense be allocated on the basis of water consumption.

177. The Commission is of the view that the BPV and BRR potable water rate class should be allocated depreciation on these assets, because these assets are used to provide service to the BPV and BRR potable water customers, along with the potable water service provided to other customers. For this reason, the Commission finds that using water consumption as an allocator, in order to allocate the depreciation on these assets is an acceptable method for depreciation on the nine capital assets. The Commission directs Blazer, in the compliance filing, to allocate depreciation on the nine assets listed in paragraph 158 between the two potable water rate classes on the basis of water consumption.

8.4 Return on debt and equity and capital structure

178. Blazer included an item in its revenue requirement for each of 2019 and 2020 that it described as "allowed return on owner invested capital." Blazer calculated this revenue requirement item for 2019 and 2020 using the following parameters: mid-year rate base, return on equity (ROE) of 8.50 per cent, debt cost of 4.00 per cent, deemed equity ratio of 25 per cent, and a deemed debt ratio of 75 per cent.[151]

179. Blazer noted that the 8.50 per cent ROE was the figure approved by the Commission in its 2016 generic cost of capital (GCOC) decision.[152] Blazer commented that it is unable to secure conventional bank financing, and the 4.00 per cent debt cost reflects the actual cost of the financing it has received from its parent company. Blazer stated that the deemed capital structure of 75 per cent debt and 25 per cent equity was understood to be acceptable to the Commission when conventional bank financing is unavailable to a smaller water utility. Blazer noted this deemed capital structure was approved in previous Commission decisions,[153] specifically, Decision 2009-108[154] and Decision 3258-D01-2015.[155]

180. Blazer stated that a 25 per cent deemed equity ratio is lower than its actual equity percentage and may be unreasonably low to ensure that the company remains financially viable. It commented that the Commission determines the deemed capital structure in its GCOC proceedings based on variations in business risks, with utilities that are found to have higher business risk being awarded a higher deemed equity ratio. Blazer submitted that it has a smaller customer base compared to the utilities that the Commission examines as part of the GCOC proceeding, and because of this, Blazer presents a higher risk for investors.[156]

181. While Blazer requested a deemed capital structure of 75 per cent debt and 25 per cent equity in calculating its revenue requirement for each of 2019 and 2020, it commented that this request was being made "unless the AUC considers that Blazer's circumstances may reasonably justify a higher deemed equity percent than the applied-for 25 percent, given Blazer's size and risk."[157]

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151 Exhibit 22319-X0166, Schedule 1.
152 Decision 20622-D01-2016: 2016 Generic Cost of Capital, Proceeding 20622, October 7, 2016.
153 Exhibit 22319-X0001, PDF pages 36-38.
154 Decision 2009-108 (Errata): Langdon Waterworks Limited, Errata to Decision 2009-108: Water Rates for Langdon Waterworks Limited Rule 011- Rate Application Process for Water Utilities, Applications 1508905-1 and 1508928, July 28, 2009.
155 Decision 3258-D01-2015: Langdon Waterworks Limited, 2014-2015 General Rate Application, Proceeding 3258, Application 1610617-1, March 20, 2015.
156 Exhibit 22319-X0153.02, paragraphs 66-68.
157 Exhibit 22319-X0153.02, paragraph 63.

182. BPV indicated that in the June 2018 financial model, Blazer has used an equity rate of return of 8.50 per cent. BPV stated that Blazer has taken it upon itself to use a higher equity rate of return than it did in its earlier submissions. BPV commented that it is presumptuous of Blazer to base its water rate calculations on something other than the standard rate of return. BPV submitted that it trusts that the Commission will review this issue and reduce the rate of return that Blazer has used, as necessary.[158] No recommendation was made on the amount of reduction that should apply to Blazer's ROE.

Commission findings

183. The Commission has reviewed the various financial models submitted by Blazer during the course of this proceeding, and notes that the applied-for ROE of 8.50 per cent for 2019 and 2020, as well as the 25 per cent deemed equity ratio for these years, has not changed between the various financial models submitted to the Commission. The only difference was for past years. Blazer used an ROE of 8.30 per cent for 2015 and 2016, and increased this to 8.50 per cent for 2017 and subsequent years. The Commission finds that these ROE percentages are in accordance with the ROEs approved in the 2016 GCOC decision, and the 2018 GCOC decision.[159] Consequently, the Commission denies BPV's submission to reduce the rate of return of 8.50 per cent that Blazer has used for each of 2019 and 2020.

184. The Commission considers that Blazer is also entitled to include a return on debt and equity invested in the financing of rate base, and included as part of its revenue requirement for each of 2019 and 2020. This is an acceptable practice in regulatory ratemaking for public utilities. The return on debt is usually based on the actual or forecast debt balances, as well as the actual or forecast interest rates associated with the debt. The return on debt is intended to cover the interest expense for the debt. The ROE is intended to compensate the owners of the utility for the funds they have invested in the rate base, which includes any earnings that are retained in the company.

185. In the case of Blazer, there is no equity investment reflected on the financial statements, because the share capital was issued at an original cost of two dollars. Blazer had an accumulated deficit in its financial statements as of December 31, 2017.[160] These facts support that the rate base has been funded entirely by debt. The entire debt has been provided by the shareholders of Blazer, and therefore, the Commission considers that this debt can be treated partially as debt and partially as equity, for ratemaking purposes. This means that even though Blazer may be required to pay interest on the entire debt balance owing to its shareholder, this full interest amount on the debt will not be included for ratemaking purposes. Only the debt expense associated with the approved debt component of the capital structure will be included in the return on debt. The remaining debt expense will be excluded from the revenue requirement, but it will be replaced with the ROE component. The Commission considers that this balance between equity and debt achieves fairness to Blazer and its customers.

186. The Commission acknowledges the submission of Blazer that capital structure in the Commission's GCOC proceedings is determined in part by assessing business risk. The Commission finds that because of the small size of Blazer's operations, it can be considered to

[158] Exhibit 22319-X0191, PDF page 7.
[159] Decision 22570-D01-2018: 2018 Generic Cost of Capital, Proceeding 22570, August 2, 2018.
[160] Exhibit 22319-X0187, PDF page 3.

have greater business risk and have greater investment risk than the utilities included in the generic cost of capital proceeding.

187. The Commission approved a deemed capital structure of 63 per cent debt and 37 per cent equity for the majority of the utilities in the 2018 GCOC decision, with the exception of AltaGas Utilities Inc., whose deemed capital structure was approved at 61 per cent debt and 39 per cent equity. The Commission considers that Blazer, as a small water utility, has more business risk and investor risk than larger regulated utilities and likely more than a utility, for example, that is the size of AltaGas Utilities Inc. In its submissions, Blazer referred to Horse Creek Water Services Inc., which in 2017, had an approved capital structure of 60 per cent debt and 40 per cent equity.[161] Horse Creek Water Services Inc. is another small water utility that operates in Rocky View County. Accordingly, the Commission finds that a deemed capital structure of 60 per cent debt and 40 per cent equity for Blazer for 2019 and 2020 is warranted given the size of Blazer's operations and its business risk.

188. The Commission therefore directs Blazer, in the compliance filing to this decision, to calculate and show separately the return on debt and return on equity figures for 2019 and 2020, using the following parameters: an ROE of 8.50 per cent; a deemed equity ratio of 40 per cent; an interest rate of 4.00 per cent; and a deemed debt ratio of 60 per cent.

8.5 Blazer subsidy, revenue deficiency deferral account and connection fee

189. In its original application, Blazer acknowledged that it has a low customer count in relation to the facilities that have been built, and that it would place an unfair burden on existing customers to require them to fully support the overbuilt facilities. Blazer proposed a mechanism whereby existing customers pay a rate that is consistent with those paid in similar communities surrounding Calgary. Blazer also proposed to forego 100 per cent of its allowed return on owner invested capital in 2017, declining at 15 per cent per year thereafter. Blazer referred to this as the "Blazer subsidy" and submitted that it would be re-examined in Blazer's next GRA.[162]

190. The Blazer subsidy was used to calculate Blazer's proposed connection fee. Blazer forecast its cumulative revenue shortfall, up until the time that the percentage of allowed return foregone would reach zero. This resulted in a forecast total deficiency amount of $1.92 million.

191. Blazer then divided the total deficiency amount by the 1,000 new connections that it expects to come from the most imminent future development, which is called the Hawkwood Lands. This resulted in a connection fee of $1,920. Blazer stated that these connection fees will be charged to a land developer and will have no impact on customers being provided water services by Blazer.[163]

192. In argument and in the final version of its financial model, Blazer changed its approach for calculating the Blazer subsidy. In its argument, Blazer proposed that the Blazer subsidy should only apply to the WPO rate class. Blazer also amended its proposed subsidy to the following:

[161] Decision 21340-D01-2017: Horse Creek Water Services Inc., 2016 General Rate Application, Proceeding 21340, October 20, 2017.
[162] Exhibit 22319-X0001, application, Section 11.7, PDF page 39.
[163] Exhibit 22319-X0001, application, Section 12.8, PDF page 44.

(a) 2019: 26.5 per cent of its allowed return

(b) 2020: 21.5 per cent of its allowed return[164]

193. Blazer stated that it set its subsidy so as to achieve the average of the reasonably expected rates for the midpoint of the test period and to result in the variable charges of $2.50/m^3$ in 2018, $2.54/m^3$ in 2019 and $2.52/m^3$ in 2020. Without the subsidy, Blazer submitted that it would have to charge the following rates to recover its full revenue requirement:

Table 10. WPO potable water rates without Blazer subsidy

	2019	2020
Fixed Charge, $/month	32.24	32.82
Consumption Charge, up to 60 $/m^3$	3.86	3.52
Consumption Charge, over $/m^3$	7.71	7.04

Source: Exhibit 22319-X0153.02, argument, Table 1.

194. Blazer requested approval of a revenue deficiency deferral account for Blazer's forecast revenue deficiency during the test period. Based on the difference between its forecast revenue collected under proposed rates and its forecast revenue requirement, Blazer forecast a revenue deficiency of $211,534 in 2019 and $164,879 in 2020. Under this proposal, Blazer forecast that its annual revenue deficiency will decrease to zero by the end of 2024.

195. As an offset to reduce the deferral account balance, Blazer requested approval of a $2,000 connection fee to be charged to new potable water customers connecting to Blazer's system.[165]

196. Blazer explained that it was not proposing to apply the subsidy to BPV/BRR rates because they are already significantly reduced as a result of the BPV/BRR Blazer-invested capital methodology. Blazer also submitted that there is no expected customer growth in the BPV and BRR communities, meaning that connection fees collected from new WPO customers to reduce BPV/BRR rates would result in undue cross-subsidization between rate classes.[166]

197. In its round 2 IRs, the Commission asked Blazer to comment on the reasonableness of reducing Blazer's rate base by deeming a portion of its water system as plant held for future use. Blazer responded that it does not consider that approach to be appropriate. Blazer stated that there is no excess capacity in its water system beyond that which is used or required to be used to provide reliable water utility services. Blazer added that it is good practice and cost efficient to build a plant with a 10- to 15-year capacity horizon in mind. Blazer's expansion was brought into service in 2015, and so good practice required that capacity be able to meet anticipated 2025 needs, at which point Blazer projects a customer base of 776. Blazer also stated that Alberta Environment requires two sets of filters and at least two treatment trains, so that if one set fails, the utility is still able to provide sufficient supply of treated water. With respect to its treated water reservoir, Blazer submitted that it also does not have any excess capacity because the majority of the volume is needed for firefighting purposes, independent of the number of customers served. The balance of the reservoir's capacity is used for dealing with the differences between peak hour demand and maximum daily demand, as well as an emergency reserve.

164 Exhibit 22319-X0153.02, argument, paragraph 95.
165 Exhibit 22319-X0153.02, paragraph 98.
166 Exhibit 22319-X0153.02, argument, paragraph 104.

Blazer concluded by stating that it prudently sized the facility and that, as demand from the Hawkwood Lands increases, the raw water transmission mains are expected to be used at or near their maximum capacity. Therefore, Blazer submitted that the rate base is appropriate and should not be reduced.[167]

198. No interveners objected to the Blazer subsidy or Blazer's proposed connection fee.

Commission findings

199. The Commission agrees with Blazer that it is unreasonable to expect its existing customers to pay the entire cost of Blazer's water system that was built over capacity. Blazer's water treatment plant has a production capacity of 25 litres per second or 2,160 m^3/day, which is enough to service approximately 1,250 homes.[168] Blazer is forecasting a customer base of 560 homes in 2019 and 596 homes in 2020.[169] This means that Blazer's customer base will be approximately 45 per cent of what it could serve in 2019 and 48 per cent in 2020.

200. Blazer proposed to address the overbuilt nature of its water system by foregoing a percentage of its allowed return on owner-invested capital, and by determining that percentage in a manner that arrives at rates, which Blazer submits are within the range of rates charged by other water utilities in the area surrounding the city of Calgary.

201. In the view of the Commission, it is not reasonable to calculate the Blazer subsidy by selecting a percentage of allowed foregone return in order to arrive at arbitrary variable rates that are charged to customers.

202. A more reasonable approach would be to forego a proportion of depreciation and return on owner-invested capital, and to base that proportion on the ratio of forecast customer base to customer capacity. The calculation of the latter approach can be shown as to forego 55 per cent of the depreciation and return forecasted for 2019 (100 minus 45) and 52 per cent in 2020 (100 minus 48).

203. According to Schedule 1 of Blazer's financial model, the combined depreciation and return in 2019 is $440,582 and in 2020 is $427,717. Fifty-five per cent of the 2019 depreciation and return is $242,320, and 52 per cent of the 2020 deprecation and return is $222,412. The subsidies included in the revenue requirement are $216,661 and $234,740, for 2019 and 2020, respectively. The Commission is of the view that this change in the subsidy amount, an increase in 2019 and decrease in 2020, will result in a subsidy within the range of that proposed by Blazer but is determined through a more reasonable method. Accordingly, the Commission directs Blazer to update its financial model, in the compliance filing, such that the subsidy is calculated based on foregoing a percentage of Blazer's depreciation and return (calculated like the example in the preceding paragraph), and whereby that percentage is calculated by dividing the forecast number of homes for the year by 1,250 (the number of homes the water treatment plant can currently serve).

204. The Commission also considers that it is reasonable to charge a capital cost recovery fee, called a "connection fee," for the lots that developers of new properties will be connecting to Blazer's water system. Such a charge will ensure that new customers pay, through individual lot

[167] Exhibit 22319-X0070, response to Blazer-AUC-2017JUN27-001.
[168] Exhibit 22319-X0001, application, Section 2.5, PDF page 10.
[169] Exhibit 22319-X0001, application, Table K, PDF page 32.

prices, their fair share of the capital costs of the Blazer water system. The system has been built to a size sufficient to provide water service to those new customers. The Commission considers that this connection fee should be charged to the developer of new lands who will sell these lots to individual customers. Therefore, the Commission directs Blazer to add a clause to its terms and conditions of service, to reflect this direction and the charge of the connection fees to developers. The Commission approves Blazer's proposed 2019 and 2020 connection fees, as filed.

205. An exception to the above is that there may be existing homes that are not part of new developments who choose to connect to Blazer's water system. Accordingly, the Commission directs Blazer to indicate in its compliance filing to this decision whether it intends to charge the connection fee to new customers who are not part of new developments, and to include a proposal on how it will address existing homes that are not part of new developments, but require connection to Blazer's water system (and corresponding terms and conditions of service).

206. Although the Commission has approved Blazer's proposed connection fee, the Commission does not accept that Blazer's proposed revenue deficiency deferral account is warranted. Approval of a deferral account would imply that, if future connection fee revenues are insufficient, Blazer could apply to the Commission to recover remaining balances in the deferral account through its potable water rates. The Commission finds that a deferral account is not warranted because it has approved a set fixed connection fee for recovery in the test years that provides certainty in recovery of connection fee amounts for Blazer.

207. In the view of the Commission, the excess capacity due to overbuilding Blazer's water system means that Blazer should bear the revenue deficiency in its operations until the customer base grows to a level sufficient to fully support the system's capital costs that are required for utility service. However, as stated above, it is also reasonable for Blazer to collect a connection fee to offset some of that revenue deficiency as future water customers are added to the system.

9 Phase II – Allocation and rate design

208. Blazer requested approval of rates for four customer classes: the WPO customer class (potable water customers other than BPV/BRR customers), the BPV/BRR customer class, the residential irrigation customers class (Lynx Ridge), and commercial irrigation (the Lynx Ridge Golf Course).

209. Blazer proposed a detailed system to allocate its O&M, administration, and capital costs to arrive at a revenue requirement allocation, as set out in the table below:

Table 11. Allocation of revenue requirement among customer classes

	2019	2020
	($)	
Blazer system-wide	**1,056,289**	**1,062,304**
WPO	812,645	820,901
BPV/BRR	127,408	128,609
Residential irrigation	64,563	61,720
Commercial irrigation	51,673	51,074

Source: Exhibit 22319-X0153.02, argument, Table 9, PDF page 37.

210. The following sections of this decision discuss the proposed allocators for O&M and administration costs, and capital.

9.1 O&M and administration allocators

211. Blazer allocated certain shared or common O&M and administration costs by weighing the following parameters: number of customers, annual consumption of the customer group (volume), time of use of the system (e.g., irrigation system only operates six months per year), or by some combination of these three parameters. Schedule 3 of Blazer's financial model sets out the proposed allocation factor for each of Blazer's O&M and administration cost categories.

9.1.1 Materials supplies and maintenance at the raw water pump station and electricity – river pump house

212. BPV objected to the method used to allocate the following cost categories: (1) the materials supplies and maintenance at the raw water pump station; and (2) the electricity – river pump house.[170] Blazer allocated each of these cost categories to the four customer groups based on a function of water consumption and time of use.[171] BPV submitted that the allocation should be based entirely on water consumption.

213. It submitted that electrical consumption and pump maintenance is dependent upon the volume of water pumped, and not on the number of months that a pump is used. BPV submitted that Blazer itself stated in Schedule 2 of the June 2018 model that the costs in these two categories vary with the level of water consumption.[172]

214. Blazer responded that, with respect to both cost categories referred to by BPV, because the golf course and residential irrigation customers only use their irrigation systems about six months per year, certain administrative, O&M costs are not applicable to these customers when their irrigation systems are not in use. It stated that these certain costs were allocated between irrigation and potable water customers based, in part, on time of use.[173]

215. With respect to the cost category of materials supplies & maintenance at the raw water pump station, Blazer submitted that these costs can relate to matters which are dependent of water consumption such as wear on a pump impeller, or they can be entirely independent of water consumption such as building maintenance.[174] Blazer stated that pumps require little or no maintenance as a result of non-operating periods.[175] Blazer indicated that the time-of-use component of the cost allocator accounts for the period when the raw water pump station is not used for irrigation.[176]

216. With respect to the specific cost category of the electricity at the river pump house, Blazer indicated that the irrigation system does not require electricity to operate once the system finishes operating for the summer season.[177]

170 Exhibit 22319-X0191, PDF page 2.
171 Exhibit 22319-X0166, schedules 2.1, 2.2, 2.3 and 2.4.
172 Exhibit 22319-X0191, PDF page 2.
173 Exhibit 22319-X0137, Blazer-AUC-2018JAN12-006.
174 Exhibit 22319-X0137, Blazer-AUC-2018JAN12-007.
175 Exhibit 22319-X0196, PDF page 10.
176 Exhibit 22319-X0137, Blazer-AUC-2018JAN12-007.
177 Exhibit 22319-X0196, PDF page 10.

217. BPV replied to Blazer in stating that even if the irrigation system is not used during the off months, the costs associated with the overall system for these off months cannot be off-loaded to other customer groups. It suggested that the Blazer system was built to provide adequate capacity for all customers during periods of peak use. BPV argued that just because the needed capacity of the system is less for irrigation users during the winter than it is for the summer, this does not mean that the costs of having the full system in place can be avoided by the irrigation users.[178]

Commission findings

218. The Commission agrees with the submission of BPV that on Schedule 2 of the June 2018 model, Blazer indicated that the costs for these two cost categories vary with flow rate.[179] This would indicate that a water consumption allocator may be appropriate rather than a combined allocator based on a function of water consumption and time of use.

219. In support for its allocation based on water consumption and time of use, Blazer identified building maintenance as an example of a cost that is not dependent on water consumption. Blazer did not list any other specific costs for the materials supplies and maintenance at the raw water pump station cost category that are independent of water consumption. The costs associated with the building maintenance were not provided to assist the Commission in assessing the amount of the expenses that are dependent upon water consumption compared to those that are not dependent on water consumption. The building maintenance costs would have further informed the Commission on the proposal to use a water consumption and time-of-use allocator.

220. Blazer justified the use of the allocator by stating that it accounts for the period when the raw water pump station is not used for irrigation. The Commission considers that even if irrigation customers are not using the raw water pump station, they still have to pay their share of any non-water consumption maintenance expenses at the raw water pump station to maintain the facilities. Blazer's use of an allocator based on a function of water consumption and time of use does not reflect the need for maintenance of the raw water pump station in the rates of the irrigation customers.

221. With regard to the electricity expense at the river pump house, Blazer indicated that the irrigation system does not require electricity to operate once the system finishes operating for the summer season. Blazer did not provide any analysis of the electricity expense at the river pump house in order to indicate what drives that expense. The Commission considers that such an analysis would indicate the variable and fixed nature of the electricity cost at the river pump house, and whether the expense has aspects that are independent of water consumption, e.g., maintenance of equipment and whether electricity services are paid year round or only seasonally. Without this analysis, Blazer's choice of allocator is not sufficiently supported.

222. Based on its findings above, the Commission denies Blazer's use of an allocator based on a function of water consumption and time of use for the two cost categories described in paragraph 212 above. Accepting Blazer's submission that some of the costs in these two cost categories vary with flow rate, and in the absence of any analysis regarding how much of the costs are independent from water consumption, the Commission directs Blazer, in the

178 Exhibit 22319-X0132, PDF page 2.
179 Exhibit 22319-X0166, Schedule 2.

compliance filing, to use water consumption as the sole allocator for the following two cost categories: (1) materials supplies and maintenance at the raw water pump station; and (2) electricity – river pump house.

9.1.2 O&M and administration cost categories applicable to BPV and BRR

223. BPV submitted that certain O&M and administration cost categories are not applicable to the BPV/BRR rate class, and should not be allocated to this rate class. BPV identified these cost categories as follows: materials and maintenance for the distribution system; materials and maintenance of hydrants; warranty expenses; advertising and promotion; bad debts; bank charges/collection fees; and corporate creditor fees. BPV stated that Blazer has not extended any warranty provisions to BPV. BPV added that Blazer has not experienced any bad debt or collection fee costs in its dealings with BPV. BPV stated that it is responsible for the costs associated with its water distribution system, and it reimburses Blazer separately for these costs.[180] Moreover, BPV submitted there is no need for Blazer to advertise its system for the benefit of its residents.[181]

224. With respect to the advertising and promotion costs, Blazer commented that although it has the right to provide service within the franchise area, there are many existing homes in the area that rely on water from pre-existing ground wells. Blazer submitted that its advertising can persuade people to join the Blazer system. It argued that having new customers joining the Blazer system can result in lower rates for existing customers. Blazer pointed out that some of the expenditures in the advertising and promotion cost category are made in connection with the maintenance of its website, which provides benefits to existing customers.[182]

225. For bad debts and collection charges, Blazer stated that its bad debt from customers' non-payment adversely effects customers who pay their bills on time. In addition, Blazer commented that its collection expenses help mitigate the adverse effect of bad debts on existing customers.[183]

226. In its June 2018 financial model, Blazer allocated costs to BPV/BRR for the following cost categories: materials and maintenance for the distribution system; materials and maintenance of hydrants; and advertising and promotion. Blazer did not allocate costs to BPV/BRR for the other cost categories described in paragraph 223 above, which include the following: warranty expenses; bad debts; bank charges/collection fees; and corporate creditor fees.[184]

227. With respect to the allocation of the costs in the "materials and maintenance for the distribution system" cost category, Blazer indicated that these costs should be allocated entirely to the potable water user rate classes. It noted that the BPV/BRR rate class "should pay some part of this as they get benefits."[185] Blazer allocated the costs between the WPO rate class and the BPV/BRR rate class using 50 per cent of the allocator derived on the number of customers. This

180 Exhibit 22319-X0040, PDF pages 3-4.
181 Exhibit 22319-X0096, BPV-AUC-2017SEP22-004.
182 Exhibit 22319-X0108, PDF page 51.
183 Exhibit 22319-X0108, PDF page 51.
184 Exhibit 22319-X0166, Schedule 2.4.
185 Exhibit 22319-X0166, schedules 2.3 and 2.4.

resulted in the following allocation percentages: 9.45 per cent for BPV/BRR rate class;[186] and 90.55 per cent for the WPO rate class.[187]

228. For the allocation of the costs in the "materials and maintenance of hydrants" cost category, Blazer indicated that these costs should be allocated entirely to the potable water user rate classes. Blazer allocated 2/37, or 5.405 per cent of the costs to the BPV/BRR rate class,[188] and the remaining 94.595 per cent of the costs to the WPO rate class.[189]

Commission findings

229. BPV submitted that certain cost categories are not applicable to the BPV/BRR potable water rate class, and should not be allocated to the rate class. In summary, BPV identified these cost categories as follows: (1) materials and maintenance for the distribution system; (2) materials and maintenance of hydrants; (3) warranty expenses; (4) advertising and promotion; (5) bad debts; (6) bank charges/collection fees; and (7) corporate creditor fees. In the June 2018 financial model, Blazer only allocated costs to the BPV/BRR potable water rate class for cost categories (1), (2) and (5), even though in previous versions of its financial model it had allocated a share of these costs to the BPV and BRR customers, when they were part of the proposed single potable water rate class.

230. Despite its argument that it should not be allocated any of the costs in the seven cost categories listed in paragraph 229, BPV included allocations to it for cost categories (1), (2) and (4) in its reworking of the June 2018 financial model.

231. The Commission finds for cost categories (1) materials and maintenance for the distribution system; (2) materials and maintenance of hydrants; and (3) warranty expenses, that Blazer has not identified whether any of the forecast costs in these three categories specifically relate to the BPV and BRR water systems. The Commission is aware that recovery of certain O&M expenses relating to the BPV and BRR water distribution systems are covered under the water supply agreements between Blazer and BPV, and Blazer and BRR. The Commission directs Blazer, in the compliance filing, to remove any costs from its 2019-2020 revenue requirement for the three cost categories listed above that relate specifically to the BPV and BRR water systems, and are to be reimbursed through the contingency funds, as set out in the water supply agreements. The Commission finds that for any remaining expenses in these cost categories that are included in Blazer's revenue requirement, the BPV and BRR potable water rate class should be allocated a portion of these costs, because they are overall system costs and they cannot be distinguished between the two potable water rate classes themselves, or from other potable water rate classes.

232. With respect to the costs of advertising and promotion, which Blazer subsequently described as "consumer relations," the Commission considers that the BPV/BRR rate class should bear its allocated portion of these costs. Blazer indicated that some of the expenditures in this category are for website maintenance, which the Commission considers is beneficial to Blazer's customers, including BPV and BRR. However, Blazer indicated that there are also advertising expenditures included in this cost category, in order to attract new customers. The

186 Exhibit 22319-X0166, Schedule 2.4.
187 Exhibit 22319-X0166, Schedule 2.3.
188 Exhibit 22319-X0166, Schedule 2.4.
189 Exhibit 22319-X0166, Schedule 2.3.

Commission considers that a regulated water utility with a designated franchise area is not required to advertise in order to provide utility service. The Commission therefore denies the inclusion of any advertising expenditures, but approves the charges for website maintenance. The Commission directs Blazer, as part of the compliance filing, to exclude any advertising expenditures from this cost category and to rename it "consumer relations." The Commission directs Blazer, as part of the compliance filing, to include a breakdown of the non-advertising expenditures that will remain in this cost category for 2019 and 2020, in accordance with the Commission's direction.

233. The Commission must address the bad debt cost category. These costs are not tracked by rate class and reported by rate class, and there is no way to determine how much of the actual bad debt expenses are caused by any particular rate class. Consequently, there is insufficient support for forecasting bad debts by rate class, as proposed by Blazer. While BPV submitted that Blazer has not experienced any bad debts in its dealings with BPV, no information was available on the record about expected bad debts of the BRR customers, who form part of the BPV/BRR potable water rate class. Based on this, the Commission denies BPV's submission that it should not be allocated any costs for bad debts.

234. With respect to bank charges/collection fees, the Commission considers that bank charges are an overall administration expense that cannot be isolated by specific rate classes. Therefore, the Commission finds that these expenses should be allocated to all rate classes. Similar to bad debts, unless collection fees are tracked and reported by rate class, there is no way to confirm how much of the actual collection fee expenses are caused by any particular rate class. While BPV submitted that Blazer has not experienced any collection fees in its dealings with BPV, no information was available on the record about expected collection fees of the BRR customers, who form part of the BPV/BRR potable water rate class. Based on these considerations, the Commission denies BPV's submission that it should not be allocated any costs for bank charges/collection fees.

235. The Commission considers that for future reporting purposes, it would be beneficial for Blazer to report bank charges separately from collection fees, because these are different expenditure types. Bank charges are an administrative type expense, as opposed to the bill collection that result in collection fees. The Commission therefore directs Blazer to establish separate general ledger accounts for bank charges and collection fees, starting in 2019, and to record the actual expenditures in the applicable account, starting in January 2019.

236. For corporate creditor fees, the Commission considers that these expenditures are an overall administration expense that cannot be isolated by rate classes. Therefore, the Commission finds that these expenses should be allocated to all rate classes. Consequently, the Commission denies BPV's submission that it should not be allocated any costs for corporate creditor fees.

9.1.3 Other O&M and administration cost allocators

237. The Commission has reviewed Blazer's O&M and administration cost allocators. Other than the findings above, and the Commission's finding in Section 8.1.3 disallowing the use of the customer base and time-of-use allocators, the Commission approves Blazer's other proposed O&M and administration allocators.

9.2 Capital allocators

238. Blazer requested approval of its methodology to allocate owner-invested capital in shared assets, based on MDD for all rate classes. Shared assets include the river intake, raw water pump station and raw water supply line. The MDD allocator resulted in 39.7 per cent of shared assets being allocated to the golf course, 16.8 per cent allocated to residential irrigation and 43.4 per cent allocated to potable water customers.[190]

239. The irrigation pump station and water supply lines are only used by residential irrigation customers and are allocated 100 per cent to the residential irrigation customer class. Tools, software, computers and furniture, and the contingency allowance are allocated between irrigation and potable based on consumption and time of use, and between commercial and residential irrigation based on consumption. All other capital cost categories were allocated to potable water rates.[191]

240. The proposed capital cost allocators were not contested by interveners.

Commission findings

241. The Commission has reviewed Blazer's proposed capital cost allocators. In Section 9.1 above, the Commission determined that the time-of-use allocator is not reasonable for allocating O&M and administration costs. The Commission considers that the same reasoning applies to allocation of capital costs. Accordingly, the Commission directs Blazer to update its capital cost allocators, in its compliance filing to this decision, to remove the time-of-use allocator and replace it with the consumption allocator.

242. The Commission is satisfied that all other capital cost allocators reflect the underlying drivers of the costs and finds that the resulting allocations of capital costs are reasonable. Accordingly, the Commission approves Blazer's allocations for all capital costs that do not use the time-of-use allocator.

9.3 Rate calculation

9.3.1 Fixed monthly charge

243. Blazer's proposed fixed monthly charge for potable water is the same for the WPO and BPV/BRR rate classes, for 2019 and 2020. Blazer stated that it selected its proposed fixed monthly charges to equal the average of fixed water rates for other water utilities in the Calgary area.[192] Schedule 14 of Blazer's financial model provided comparator water utilities and their 2016 fixed monthly charges that Blazer used to determine the average fixed monthly charge.

244. The Commission considers that setting the monthly fixed charge to equal the average of other water utilities in the Calgary area is a reasonable approach and, therefore, approves Blazer's proposed monthly fixed charges of $32.24 for 2019 and $32.82 for 2020.

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[190] Exhibit 22319-X0153.02, argument, paragraph 83.
[191] Exhibit 22319-X0166, Schedule 12.5.
[192] Exhibit 22319-X0166, Schedule 3, cell J14.

9.3.2 Forecast of consumption for the purposes of calculating BPV/BRR rates

245. BPV did not agree with the forecast water consumption figures used by Blazer to calculate the variable consumption rates for the BPV/BRR rate class for 2019 and 2020.[193]

246. Blazer indicated that it based the rate structure on the average monthly water consumption of all of its potable water customers, which it calculated as 21.3 m^3 for consumption less than 60 m^3 and 4.3 m^3 for consumption above 60 m^3. The calculations were based on 2016 data.[194]

247. BPV argued that the water consumption figures Blazer used in determining the BPV/BRR rates are too low.[195] BPV submitted that the data for 2016 shows average monthly water consumption for BPV of 26.2 m^3 for consumption less than 60 m^3, and 4.3 m^3 for consumption above 60 m^3.[196]

248. BPV analyzed the water consumption data that Blazer provided for the first ten months of 2017. Based on its analysis, BPV stated that the average water consumption per month for each connection in the BPV/BRR rate class should be 27.1 m^3 for consumption less than 60 m^3, and 4.3 m^3 for consumption above 60 m^3. BPV submitted that these figures should be used to determine its rates for 2019 and 2020.[197]

249. Blazer responded that the use of different consumption values for different customers who all use the same system would be unreasonably administratively onerous.[198]

Commission findings

250. In its June 2018 financial model, Blazer designed the potable water rates for both rate classes, using the average water consumption for all of its potable water customers. BPV objected to the use of the overall average water consumption for both rate classes, and submitted that the rates should be designed separately. It argued that the potable water rates for the BPV/BRR potable water rate class should be designed using just the average water consumption for its particular rate class, and likewise, for the other potable water rate class.

251. The Commission agrees with the submission of BPV. If there are two separate rate classes, then the rates for each should be designed incorporating, where possible, the data available for each rate class. Average water consumption for the BPV/BRR potable water rate class is available to Blazer and the Commission finds that this data should be used rather than the average of the two different rate classes. To do otherwise, depending on the underlying data, could result in a rate subsidy between the two different rate classes.

252. The Commission therefore directs Blazer, in the compliance filing to this decision, to design the potable water rates for the two potable water rate classes using average water consumption data specific to those rate classes. The Commission further directs that the average

193 Exhibit 22319-X0191, PDF page 9.
194 Exhibit 22319-X0196, PDF page 15. Exhibit 22319-X0166, Schedule 3.3 and Schedule 3.4.
195 Exhibit 22319-X0191, PDF page 9.
196 Exhibit 22319-X0132, PDF page 5.
197 Exhibit 22319-X0191, PDF page 9.
198 Exhibit 22319-X0196, PDF page 15.

water consumption data should use the actuals for 2016. This is the last full year for which actuals are available.

9.3.3 Number of potable water rate classes

253. In its argument and June 2018 financial model, Blazer proposed two potable water rate classes: potable water for BPV and BRR, and the WPO rate class. This is in contrast to Blazer's initial application in which there was a single potable water rate class for all customers.

Views of the parties

254. BPV suggested that if a system-wide rate structure for potable water customers is to be implemented, then there must also be a system-wide set of responsibilities for Blazer that are the same for all customers. BPV submitted this would include Blazer accepting responsibility for the cost of any repairs and maintenance of the BPV and BRR water distribution systems without additional compensation. BPV further submitted this would include Blazer taking responsibility for the costs of any lost water on the BPV and BRR water distribution systems. BPV noted that currently the customers of BPV and BRR are responsible for both of these items.[199]

255. BPV commented that it can appreciate the merits of having one set of potable water rates. However, it stated that its acceptance of this concept would have to be based upon BPV being truly equal to other customers. Specifically, BPV and BRR would no longer be responsible for the cost of the maintenance, repair and replacement of their respective water distribution systems, nor for payment of the water losses associated with these systems. BPV submitted it is prepared to forgo the benefit of having the BPV portion of water treatment plant number two previously provided solely for BPV, as gifted capital, but only if Blazer assumes full responsibility for BPV's water distribution system without further charges.[200]

Commission findings

256. The Commission considers that Blazer's proposal for two potable water rate classes is acceptable, and it aligns with the implementation concerns raised by BPV if a single rate were approved by the Commission. This is reflected in the BPV and BRR agreements. Because of the traditional arrangements under these agreements for items such as contingency funds and gifted capital, there is currently a requirement for different potable water rates for the customers of BPV and BRR, and the remaining potable water customers. At the present time, the customers of BPV and BRR cannot be considered as part of a homogeneous class of potable water customers, for which one set of rates could be used. Therefore, the Commission approves Blazer's request for two potable water rate classes.

257. If Blazer considers that a single potable water rate class is advisable, such a proposal should be included as part of a future rate application. Because there are merits in having a single rate class for residential water customers, e.g., reduces complexity and promotes homogeneity among customers, the Commission encourages Blazer to discuss the use of a single rate class with its customers prior to filing its next GRA with the Commission.

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[199] Exhibit 22319-X0062, PDF page 2.
[200] Exhibit 22319-X0191, PDF page 10.

9.3.4 Tiered water consumption rates

258. Blazer proposed variable consumption rates that are split into two tiers or blocks. The first block is for volumes up to 60 m^3 per month. The second block is for volumes exceeding 60 m^3 per month and is charged at double the variable rate for the first block.[201]

Views of the parties

259. BPV submitted there is no basis to charge a higher variable rate for monthly water consumption in excess of 60 m^3. It indicated that the water treatment plant is not running at full capacity, and therefore, there is no reason to curtail consumption. BPV commented that if Blazer's goal is to reduce the amount of water that is drawn from the river, then a higher variable rate should also be used for the Lynx Ridge Golf Course, because that customer is the single largest user of the water from the river.[202]

260. Blazer submitted that the use of a higher variable rate is intended to incent water conservation and the efficient use of the existing system. It submitted this is good practice in the water industry. Blazer noted that in 2015 and 2016, only six per cent of its customers consumed over 60 m^3 of water per month.[203]

261. Mr. Hollingshead also opposed the tiered consumption rates, particularly because residents in Watermark have to irrigate their lawns to meet stringent landscaping requirements put in place by Macdonald Development Corp. Mr. Hollingshead provided copies of the landscaping requirements and he included an excerpt showing that residents are required to have underground irrigation systems and outlining the minimum tree planting requirements.[204]

262. In his SIP, Mr. Bennett submitted that the proposed cut-off[205] for increased water rates "subsidizes the inefficient and wasteful heavy water users in the system."[206] Mr. Bennett added that a much lower threshold would be fairer for all users and would promote more responsible use of water resources.

263. Mr. Herring also disagreed with the proposed threshold and stated that he would support a lower threshold.[207]

Commission findings

264. The Commission considers that Blazer's proposed block rate structure should act as an incentive to customers to monitor their monthly potable water use. If water use is reduced because customers are aware of the increased rate for monthly consumption above 60 m^3, this will also help reduce those O&M expenses that vary with flow rate to the benefit of the utility and customers.

265. The Commission considers that the threshold of 60 m^3 is not overly restrictive, given that a threshold of 40 m^3 was initially proposed by Blazer. The Commission finds that this

201 Exhibit 22319-X0153.02, argument, paragraph 11.
202 Exhibit 22319-X0191, PDF page 11, and Exhibit 22319-X0040, PDF page 5.
203 Exhibit 22319-X0196, PDF page 15.
204 Exhibit 22319-X0016, submission of Mr. Hollingshead, PDF page 3.
205 At the time of Mr. Bennett's submission, Blazer was proposing a 40 m^3/month threshold for its tiered rate structure.
206 Exhibit 22319-X0017, PDF page 2.
207 Exhibit 22319-X0039, PDF page 2.

determination to approve a block rate structure is not unreasonable given that in 2015 and 2016 only six per cent of its customers consumed over 60 m^3 of water per month. For these reasons, the Commission approves the use of 60 m^3 as the threshold for the block rate structure.

9.3.5 Lynx Ridge golf course

266. On January 9, 2013, an agreement was signed between Blazer and MGC Golf Inc. (the Lynx Ridge Golf Course agreement), in which Blazer agreed to provide irrigation water to MGC at a price of $0.20 per m^3, inflated annually by CPI.[208] This is Blazer's proposed commercial irrigation water rate for Lynx Ridge Golf Course. The agreement only relates to irrigation water supply.

267. Blazer requested approval of continuation of its commercial irrigation rates based on the existing agreement with the golf course and considering the value of benefits to the Blazer system provided by the golf course. Blazer submitted that its commercial irrigation rate is not unjustly discriminatory because the golf course provides benefits to the rest of Blazer's system. Blazer estimated the value of those benefits to be more than $100,000 per year.[209]

268. Blazer added that it believes it is contractually obligated to maintain the rates set out in the agreement with Lynx Ridge Golf Course and that its commercial irrigation rates are just and reasonable.[210]

269. Based on its proposed allocation of forecast costs and its expected revenue collection from the Lynx Ridge Golf Course, Blazer forecast a deficit of approximately $25,000 in commercial irrigation revenue for each of 2019 and 2020. Blazer submitted that it accepts the shortfalls as being reasonably representative of the value of the benefits that the Blazer system and its customers receive from the golf course.[211]

Views of the parties

270. BPV took issue with the water rates that Blazer proposes to charge Lynx Ridge Golf Course. BPV submitted that the rates charged to the golf course should be based on the cost-of-service analysis that Blazer had undertaken, and was modified by BPV. Based on its modified cost-of-service analysis, BPV recommended that Lynx Ridge Golf Course be charged the following rates: $0.386/$m^3$ in 2018; $0.449/$m^3$ in 2019; and $0.439/$m^3$ in 2020.[212]

271. Blazer responded that its owners are accepting the cost of the shortfall associated with the rates being charged to Lynx Ridge Golf Course, and there is no subsidy provided to the golf course by existing or future customers.[213]

272. Mr. Hollingshead objected to the commercial irrigation rates. Further, he submitted that it is apparent that the golf course will not be contributing any capital going forward.[214]

208 Exhibit 22319-X0003, application, part 3, PDF pages 351-358.
209 Exhibit 22319-X0108, rebuttal evidence, PDF page 30.
210 Exhibit 22319-X0153.02, argument, paragraph 110.
211 Exhibit 22319-X0153.02, argument, paragraph 115.
212 Exhibit 22319-X0191, PDF page 7, and Exhibit 22319-X0192, Schedule 3.1.
213 Exhibit 22319-X0196, PDF page 14.
214 Exhibit 22319-X0016, PDF page 6.

Commission findings

273. Blazer was not regulated by the Commission at the time it signed the agreement with Lynx Ridge Golf Course. An unexecuted copy of the agreement was filed with the Commission.[215]

274. Due to Blazer's application and this decision, Blazer is now regulated by the Commission on a go-forward basis.[216] The Commission considers that the Lynx Ridge Golf Course agreement remains in force. In the agreement under the "Term and Termination" section, there is a provision stating, "The term of this Agreement shall be for so long as MGC [MGC Golf Inc. which operates Lynx Ridge Golf Course] requires irrigation water to be supplied by Blazer."[217]

275. The Commission acknowledges the evidence provided by Blazer with respect to the benefits it believes are provided by the golf course as a commercial customer as well as the concerns and evidence of interveners with respect to the commercial irrigation water rates charged to Lynx Ridge Golf Course.

276. The Commission has made a number of determinations and directions in this decision concerning Blazer's O&M and administration costs, capital costs, and the corresponding allocation of those costs to derive Blazer's rates. The Commission is of the view that approval of Blazer's costs and allocations in this decision result in just and reasonable cost allocation to the commercial irrigation rate class and to other irrigation customers. The Commission's approval is also contemplated within the Lynx Ridge Golf Course agreement, which states, "The obligations of the parties to this Agreement are subject to receipt by the relevant party of any and all required statutory and regulatory approvals under all relevant legislation."[218] The Commission finds that its approval of rates under its statutory authority[219] takes precedent over the rates set in a commercial agreement. However, if Blazer wishes to charge the costs to the Lynx Ridge Golf Course that were previously agreed to under the Lynx Ridge Golf Course agreement, then any additional revenue shortfall for that rate class will be to the account of Blazer's shareholders and not reflected in the revenue requirement.

277. The Commission directs Blazer to notify the Commission of any amendment to the Lynx Ridge Golf Course agreement and any proposed increases to Lynx Ridge Golf Course rates, in its next general rate application to the Commission.

10 Approved rates

278. Given the findings, determinations and directions in this decision, the Commission is unable to approve final 2019 and 2020 rates for Blazer at this time. In order to protect Blazer and its customers, the Commission approves the continuation of Blazer's current rates on an interim refundable basis, as of January 1, 2019. Once final rates for the test period are approved, Blazer

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[215] Exhibit 22319-X0003, PDF page 350.

[216] See Section 4 of this decision, regarding Blazer's designation as a public utility. In accordance with this decision, Blazer is now subject to the Commission's jurisdiction.

[217] Exhibit 22319-X0003, PDF page 355, Section 14 of the Lynx Ridge Golf Course agreement.

[218] Exhibit 22319-X0003, PDF page 357, Section 22 of the Lynx Ridge Golf Course agreement.

[219] See Section 89 of the *Public Utilities Act*. Further, as stated in Section 5 of this decision, the Commission's purpose and functions related to rate-setting and utility regulation of certain investor-owned natural gas, electric utilities and water utilities.

will be able to true up the revenue collected from January 1, 2019 to the date that final rates take effect, in order to account for the difference in interim and the final rates. The difference between the interim and final rates approved will either be collected from customers or refunded to customers.

11 Compliance with directions from Proceeding 20930

279. In 2015, the Commission considered a complaint from Mr. Russell Kish with respect to Blazer's residential irrigation charges. The complaint was considered in Proceeding 20930, and on October 26, 2015, the Commission issued a letter that included the following findings and directions:

(a) Blazer was directed to discontinue charging $60 per month for residential irrigation immediately (which Blazer refers to as AUC Direction #1).

(b) Blazer was ordered to not charge any more than the $20 per month rate for residential irrigation (which Blazer refers to as AUC Direction #2).

(c) Blazer was directed to retain the incremental revenue collected through the $60 per month charge in a deferral account, which is to be included as part of a future rate application by Blazer (which Blazer refers to as AUC Direction #3).

(d) Blazer should include and justify a proposed irrigation rate in its future rate application (which Blazer refers to as AUC Direction #4).[220]

280. Blazer responded to the Commission's letter by filing its own letter, dated December 2, 2015, and the Commission issued Disposition 20930-D01-2015[221] on December 18, 2015.

281. In argument, Blazer submitted that it has continued to comply with AUC Direction #1 and AUC Direction #2, and that it has complied with AUC Direction #4 in the current application. With respect to AUC Direction #3, Blazer submitted that it has, for each Lynx Ridge Estates customer, separately accounted for and held in a deferral account the following:

(a) Amounts collected in excess of the $20 per month residential irrigation charge from August 1, 2015 to November 30, 2015.

(b) The difference between the $95 per month flat potable water fee and the amounts Blazer collected based on the unapproved potable water rates charged from August 1, 2015 to November 30, 2015.

282. Blazer requested approval to dispose of these deferral account balances to Lynx Ridge Estates customers by way of a one-time credit or charge.[222] In response to a Commission IR, Blazer indicated that there is a surplus owing to Lynx Ridge customers of $23,840 and a deficit collectible from customers of $19,101.79, for a net balance of $4,349.67 that has been retained in

220 Exhibit 20930-X0006, AUC letter - Response to complaint re Blazer Water Systems and Exhibit 22319-X0153.02, PDF page 60.
221 Disposition 20930-D01-2015, Response to Blazer Water Systems Ltd. Letter to the AUC, December 18, 2015.
222 Exhibit 22319-X0153.02, argument, paragraph 143.

the deferral account. Blazer proposed implementing the one-time credit or charge to customers in the month following the Commission's decision on this application.[223]

Commission findings

283. The Commission has reviewed Blazer's submission with respect to compliance with the Commission's letter of October 26, 2015, as well as Blazer's proposal to dispose of the deferral account balance. The Commission approves Blazer's request to implement the one-time credit or charge in the month following issuance of this decision and directs Blazer to include, in its compliance filing to this decision, confirmation that the one-time credit or charge to customers has been implemented.

284. Other than implementation of the credit to customers, referred to as AUC Direction #3, the Commission finds that Blazer has complied with the Commission's October 26, 2015 letter.

12 Terms and conditions of service

285. Blazer requested approval of its publicly available T&Cs under which it currently operates. The T&Cs were provided as Schedule E to Blazer's argument.[224] Blazer submitted the standard form potable water service agreement that some customers had signed has now expired and is no longer in force. Blazer also requested approval of the continuation of the Lynx Ridge Golf Course agreement and continuation of certain provisions from the BPV agreement and BRR agreement.[225]

286. Blazer requested that certain provisions from the water supply agreements in place with BPV and BRR be continued, and made part of its T&Cs. Blazer also requested that the monthly contingency fund amounts to be included on the bills for the BPV and BRR customers, be set at $30 for each of 2019 and 2020.

Commission findings

287. The Commission addressed the Lynx Ridge Golf Course agreement in Section 9.3.5 above.

288. Blazer requested that certain sections of each of the BPV and BRR agreements be approved by the Commission as part of this decision. The Commission is unprepared to approve specific sections of the agreements without having an entire set of T&Cs that would apply to customers. Therefore, the Commission considers that it is premature at this time to consider Blazer's request for approval of sections of the BPV and BRR agreements. Any sections Blazer proposes from these agreements should be included in its consolidated T&Cs, filed as part of its compliance filing. The Commission directs Blazer to submit its consolidated T&Cs of service for approval as part of its compliance filing to this decision.

223 Exhibit 22319-X0165, response to Blazer-AUC-2018MAY17-005, PDF page 16.
224 Exhibit 22319-X0157.
225 Exhibit 22319-X0153.02, paragraph 126.

289. With respect to the T&Cs provided by Blazer,[226] the Commission finds that there are a number of areas in which the T&Cs are deficient. Some key areas where additional information is needed in Blazer's T&Cs include:

(a) Definitions

(b) The process for a new customer to request water service

(c) The rights and obligations of Blazer and the customer, throughout the term of service

(d) Billing

(e) Cancellation of service

(f) Liability

(g) Schedules of fees and charges

290. The Commission recommends that Blazer examine the T&Cs of service included in Commission decisions for other water rate applications (e.g., Horse Creek Water Services Inc.[227]). Accordingly the Commission directs Blazer to file a new consolidated T&Cs of service, as part of its compliance filing to this decision.

291. In response to a Commission IR, and with respect to treating residential irrigation customers as a single customer, Blazer proposed two sections to facilitate that arrangement, as follows:

> (i) **Customer Relations:** The property manager for the Condominium Corporation (the "**Property Manager**") would be responsible for addressing all customer-specific concerns from the 101 residents residing in the Lynx Ridge community. The Property Manager would be the sole interface with Blazer and would deal directly with Blazer's General Manager. There would be no direct contact between any of the 101 individual residents and Blazer's operational or engineering staff. In the event of an issue on the property of one of the 101 LRE [Lynx Ridge Estates] residents, that issue would be referred by such a resident to the Property Manager for resolution. There would be no calls to Blazer by individual residents. Any calls relating to the irrigation system would be directed to the Property Manager, who would contact Blazer and act as the single point of contact with Blazer on behalf of the LRE residents.
>
> (ii) **Billing**: Blazer would issue one bill per month throughout the irrigation season, typically April to October, to the Property Manager. The Property Manager would be responsible for collecting from the individual LRE residents. That billing would be based on the actual consumption readings at the two bulk irrigation meters located at the Residential Irrigation Pump Station. The monthly bill to the Property Manager would be settled within 30 days. In the event of late payment, Blazer would be entitled to shut off the irrigation water supply until such time as payment was received.[228]

226 Exhibit 22319-X0157.
227 Decision 23098-D01-2018: Horse Creak Water Services Inc., Terms and Conditions of Service, January 11, 2018.
228 Exhibit 22319-X0165, response to Blazer-AUC-2018MAY17-001, PDF page 7.

292. The Commission's findings and directions with respect to treating Lynx Ridge residents as one customer group for billing and cost allocation purposes were included in Section 8.1.3 of this decision. Some further discussion of the additional sections proposed in the above IR is warranted because these provisions are proposed to be included in Blazer's consolidated T&Cs of service.

293. In its July 6, 2018 submission, the condo corporation stated that it is prepared to develop a process within the Lynx Ridge Estates community so that all residents no longer directly contact a Blazer staff member and will be directed to only contact the property manager regarding irrigation water concerns or questions. The property management company would be responsible for collecting billed amounts from Lynx Ridge residents.[229]

294. The Commission considers that the submissions of Blazer and the condo corporation are reasonable because it will consolidate billing and will not affect the safe and reliable water service to customers. The sections proposed in paragraph 291 of this decision are approved, as filed. Accordingly, the Commission directs Blazer to reflect the changes required to its T&Cs of service regarding a single customer bill to the condo corporation in its T&Cs, to be filed as part of its compliance filing to this decision.

13 Order

295. It is hereby ordered that:

(1) The existing water rates are approved as interim rates commencing January 1, 2019, until such time as the Commission approves final rates.

(2) Blazer Water Systems Ltd. is directed to submit a compliance filing to this decision to reflect the Commission's findings and directions, on or before February 22, 2019.

Dated on November 22, 2018.

Alberta Utilities Commission

(original signed by)

Neil Jamieson
Commission Member

[229] Exhibit 22319-X0181.

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
Blazer Water Systems Ltd. (Blazer) Regulatory Law Chambers
Alberta Condominium Corporation 1110886 (the condo corporation)
Rabee Alwan
Bearspaw Village Co-op
Paul Bennett
Dean Bull
Rhonda Duffee
Trent Edwards
Paul Griffin
Debra Hawker
Ian Herring
Greg Hickaway
Robert Hollingshead
Stephanie Lilly
Steve Lilly
William Sawchuk
Randall Stamp
Matthew Stayner
Mark Trenke
Rick Warters
Linda Winfield
Eden Wong
Ray Wong

Alberta Utilities Commission Commission panel N. Jamieson, Commission Member Commission staff A. Sabo (Commission counsel) C. Arnot C. Burt 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 BPV and BRR agreements each contain a section that deals with the monthly contingency fund assessment that will be added to the bills of the BPV and BRR customers. Blazer has requested that these sections be revised, and replaced by wording that states the monthly contingency fund amount will be $30. The contingency fund allowance is currently governed by the terms of the BPV and BRR agreements. Any revisions to the contingency fund amounts in these agreements must be determined by the Commission. The Commission finds that there is insufficient evidence on the record with respect to calculation of the $30 contingency fund amount. The Commission directs Blazer to provide the calculation of the $30 contingency fund amount and provide an explanation on why this amount should be approved in the compliance filing to this decision. In doing so, Blazer may wish to negotiate the contingency fund amount with customers, prior to filing its proposal in the compliance filing to this decision. .... Paragraph 70
2. In accordance with the above directions, the Commission directs Blazer to submit a consolidated terms and conditions of service for approval as part of its compliance filing to this decision. .... Paragraph 76
3. As noted above, the reasonable amount to allocate to the regulated utility is the annual salary for the staff person multiplied by the proportion of time spent by that staff person working for the regulated utility. In the case of Blazer's general manager, this means that the allocation of the general manager's salary should be set at 80 per cent of the general manager's annual salary. Therefore, the Commission directs Blazer to update its financial model, in its compliance filing, to reflect an allocation of 80 per cent of the general manager's salary to Blazer's revenue requirement. .... Paragraph 92
4. However, the Commission agrees with BPV with respect to the absence of an explanation regarding the splitting of O&M costs on the H2o Pro invoices into two costs codes. Blazer has not explained what these individual cost codes reflect in terms of the service provided by H2o Pro in a given month. As part of its compliance filing to this decision, the Commission directs Blazer to explain the difference between the two different cost codes on the H2o Pro invoices, why the charges are split on the invoices, how the two amounts appearing on the invoices were derived and any potential consequences of not splitting the amounts. .... Paragraph 115
5. Similarly, the Commission is of the view that the time-of-use allocator included in the financial model referenced in Section 8.1.3 above is unnecessary, and that seasonal use of potable and irrigation systems will be adequately captured by allocating those costs based on volume. Accordingly, the Commission directs Blazer to change the customer base allocator to volume based and to remove the time-of-use allocators from its O&M cost schedules, and reflect these changes in its financial model in its compliance filing to this decision. If there are any costs that cannot reasonably be allocated based on volume, Blazer is to provide an explanation of why that is the case, along with an alternative

allocation proposal for any costs that cannot be allocated by volume, in its compliance filing to this decision. .... Paragraph 123

6. The Commission is prepared to make a determination on whether or not it will accept the costs-to-date as part of determining the opening rate base balance, as of January 1, 2019. In order to do this, the Commission considers that it is necessary to update the opening rate base numbers to reflect the significant amount of time that has passed since Blazer filed its initial application with the Commission. Accordingly, the Commission directs Blazer to update Schedule 12 of the financial model to reflect the actual net book value as of December 31, 2018, in its compliance filing to this decision. As part of this direction, the updated net book value must take into account any findings and determinations of the Commission in the other sections of this decision. .... Paragraph 133

7. The Commission acknowledges that the $0.264 million was treated as gifted capital by Blazer in its June 2018 financial model. Despite its comment that it would update Schedule 10 and Schedule 13 of its financial model to reflect the correct treatment of the $0.264 million, Blazer only updated Schedule 10 of the June 2018 financial model. The Commission finds that to ensure completeness and accuracy of the June 2018 financial model, Schedule 13 also needs to be updated. During its review of the June 2018 financial model, the Commission noted that in addition to an update being required for Schedule 13, Schedule 11 (formerly Schedule 10) also needs to be updated. The Commission therefore directs Blazer, in the compliance filing, to update Schedule 11, Excel cell H13; and Schedule 13, Excel cells H63-H66 of the June 2018 financial model, in order to properly account for the funding of the $0.264 million as gifted capital. .... Paragraph 135

8. However, consistent with the Commission's findings with respect to the opening net book value of rate base, the Commission considers that Blazer's proposed capital costs for the river intake replacement should be updated to reflect the time that has passed since Blazer filed its application to the Commission in January 2017. Accordingly, the Commission directs Blazer to file, as part of its compliance filing to this decision, updated actuals for costs associated with the river intake replacement, the costs incurred to date for the replacement, and to update its forecast for any remaining costs for this project. .... Paragraph 148

9. Furthermore, capital additions have to be tangible assets that are used, or required to be used, in the provision of utility service. The Commission finds that a contingency amount for possible unexpected works is not a regulatory cost that relates to a tangible capital asset, i.e., that it is an amount that is unrelated to an asset that is required for regulatory service. An asset is only included in rate base when it is operational. For these reasons, the Commission directs Blazer, in the compliance filing, to exclude any capital additions or asset amounts for "contingency allowance against unexpected works." In the event that Blazer has capital additions during 2019 and 2020 that are not included as part of its approved forecast, it can apply as part of its next rate application to have the undepreciated capital cost of these capital additions added to rate base, and collect depreciation and return on the undepreciated capital cost. The Commission will assess the prudency of the 2019 and 2020 capital additions or asset amounts at that time, including any variance from forecast amounts. .... Paragraph 151

10. Accordingly, the Commission denies Blazer's proposal to include an annual $40,000 contingency allowance, and directs Blazer to reflect this finding in its compliance filing to this decision. .... Paragraph 152

11. During its review of the proposed depreciation expenses for 2019 and 2020, the Commission notes that with respect to any capital additions in these years, Blazer calculated a full year of depreciation expense in the year that the capital asset was added. This is contrary to generally accepted regulatory depreciation, in which depreciation commences either in the month after the capital asset is added, or a half-year depreciation is taken on the capital asset for the year in which it is added. This "half-year rule" is intended to account for the timing of capital additions during a year. The Commission considers that for simplicity, Blazer should use the half-year rule in accounting for capital additions. Therefore, the Commission directs Blazer, in the compliance filing, to include a half-year depreciation expense in 2019 on the capital additions forecast for 2019, and to include a half-year depreciation expense in 2020 on the capital additions forecast for 2020. Further, this approach must be used in Blazer's future regulatory filings. .... Paragraph 163

12. Based on the assumptions used in the illustration set out in Table 9, the initial cost of $1,000,000 would be recovered through the depreciation rates in eleven years, if the straight line basis was used. If the declining balance basis was used, it would take over 100 years to recover the initial cost of $1,000,000. The Commission finds that the declining balance basis is not representative of the period for which the capital asset will be in service, and consequently it should not be used to determine depreciation expense for the purpose of determining depreciation included in Blazer's water rates. Therefore, the Commission directs Blazer, in the compliance filing to this decision, to adopt the straight-line basis of calculating depreciation for 2019 and 2010, including the half year rule as directed above. Further, this approach must be used in Blazer's future regulatory filings. .... Paragraph 165

13. For the actual capital assets as of December 31, 2018, the Commission directs Blazer, in the compliance filing to this decision, to calculate the depreciation for these assets for 2019 and 2020 by dividing the net book value of these assets, as of December 31, 2018, by their remaining expected life, and taking into account the rates found in Table 8 above. For the capital additions in 2019, the Commission directs Blazer, in the compliance filing to this decision, to calculate the depreciation on these assets for 2019 by multiplying the cost of these additions by the applicable rates set out in Table 8 above, and multiplying the resulting figure by 50 per cent, in order to account for the half-year rule. .... Paragraph 166

14. For the capital additions in 2019, the Commission directs Blazer, in the compliance filing, to calculate the depreciation on these assets for 2020 by multiplying the cost of these additions by the applicable rates set out in Table 8 above. For the capital additions in 2020, the Commission directs Blazer, in the compliance filing, to calculate the depreciation on these assets for 2020 by multiplying the cost of these additions by the applicable approved rates set out in Table 8 above, and multiplying the resulting figure by 50 per cent, in order to account for the half-year rule. .... Paragraph 167

15. The Commission directs Blazer, in the compliance filing to this decision, to include a separate asset of $0.150 million for its investment in the BPV/BRR connection to the Blazer water system. The Commission further directs Blazer, as part of the compliance

filing, to calculate the opening net book value of this asset as of January 1, 2019, by applying 3.93 per cent of the depreciation for all years, up to and including 2018, for the assets associated with the $3.815 million investment. These assets are the water treatment plant building number two; landscaping at building number two; building equipment at building number two; water treatment plant in building number two; pumps and mechanical equipment in building number two; meter and control chambers and controls in building number two; generator in building number two, and reservoir number four. .... Paragraph 172

16. The Commission also directs Blazer, as part of the compliance filing to this decision, to calculate the depreciation expense associated with the $0.150 million for 2019 and 2020, as 3.93 per cent of the depreciation expense associated with the initial investment of $3.815 million for these assets. In order to facilitate this calculation, the Commission directs Blazer, in the compliance filing, to track and depreciate the $3.815 million of capital assets identifying each capital asset separately, and to track and depreciate any subsequent capital additions for these assets separately. .... Paragraph 173

17. BPV proposed that for the assets listed in paragraph 158 above, depreciation on any capital additions to these assets made subsequent to the initial investment of $3.815 million, should be allocated to the BPV and BRR potable water rate class, using the 3.93 per cent factor it calculated with respect to the initial investment. The Commission denies this proposal. The 3.93 per cent factor was calculated based on the cost allocation of the initial investment and does not reflect any capital additions that were made subsequent to the initial investment. Depreciation on the capital additions made subsequent to the initial investment should be allocated on the same basis as other capital assets. The Commission considers that the use of water consumption as an allocator is acceptable. The Commission therefore directs Blazer, in the compliance filing, to allocate the depreciation on any capital additions made subsequent to the $3.815 million on the assets listed in paragraph 158 above, on the basis of water consumption. .... Paragraph 174

18. The Commission is of the view that the BPV and BRR potable water rate class should be allocated depreciation on these assets, because these assets are used to provide service to the BPV and BRR potable water customers, along with the potable water service provided to other customers. For this reason, the Commission finds that using water consumption as an allocator, in order to allocate the depreciation on these assets is an acceptable method for depreciation on the nine capital assets. The Commission directs Blazer, in the compliance filing, to allocate depreciation on the nine assets listed in paragraph 158 between the two potable water rate classes on the basis of water consumption. .... Paragraph 177

19. The Commission therefore directs Blazer, in the compliance filing to this decision, to calculate and show separately the return on debt and return on equity figures for 2019 and 2020, using the following parameters: an ROE of 8.50 per cent; a deemed equity ratio of 40 per cent; an interest rate of 4.00 per cent; and a deemed debt ratio of 60 per cent. .... Paragraph 188

20. According to Schedule 1 of Blazer's financial model, the combined depreciation and return in 2019 is $440,582 and in 2020 is $427,717. Fifty-five per cent of the 2019 depreciation and return is $242,320, and 52 per cent of the 2020 deprecation and return is $222,412. The subsidies included in the revenue requirement are $216,661 and $234,740,

for 2019 and 2020, respectively. The Commission is of the view that this change in the subsidy amount, an increase in 2019 and decrease in 2020, will result in a subsidy within the range of that proposed by Blazer but is determined through a more reasonable method. Accordingly, the Commission directs Blazer to update its financial model, in the compliance filing, such that the subsidy is calculated based on foregoing a percentage of Blazer's depreciation and return (calculated like the example in the preceding paragraph), and whereby that percentage is calculated by dividing the forecast number of homes for the year by 1,250 (the number of homes the water treatment plant can currently serve). .... Paragraph 203

21. The Commission also considers that it is reasonable to charge a capital cost recovery fee, called a "connection fee," for the lots that developers of new properties will be connecting to Blazer's water system. Such a charge will ensure that new customers pay, through individual lot prices, their fair share of the capital costs of the Blazer water system. The system has been built to a size sufficient to provide water service to those new customers. The Commission considers that this connection fee should be charged to the developer of new lands who will sell these lots to individual customers. Therefore, the Commission directs Blazer to add a clause to its terms and conditions of service, to reflect this direction and the charge of the connection fees to developers. The Commission approves Blazer's proposed 2019 and 2020 connection fees, as filed. .... Paragraph 204

22. An exception to the above is that there may be existing homes that are not part of new developments who choose to connect to Blazer's water system. Accordingly, the Commission directs Blazer to indicate in its compliance filing to this decision whether it intends to charge the connection fee to new customers who are not part of new developments, and to include a proposal on how it will address existing homes that are not part of new developments, but require connection to Blazer's water system (and corresponding terms and conditions of service). .... Paragraph 205

23. Based on its findings above, the Commission denies Blazer's use of an allocator based on a function of water consumption and time of use for the two cost categories described in paragraph 212 above. Accepting Blazer's submission that some of the costs in these two cost categories vary with flow rate, and in the absence of any analysis regarding how much of the costs are independent from water consumption, the Commission directs Blazer, in the compliance filing, to use water consumption as the sole allocator for the following two cost categories: (1) materials supplies and maintenance at the raw water pump station; and (2) electricity – river pump house. .... Paragraph 222

24. The Commission finds for cost categories (1) materials and maintenance for the distribution system; (2) materials and maintenance of hydrants; and (3) warranty expenses, that Blazer has not identified whether any of the forecast costs in these three categories specifically relate to the BPV and BRR water systems. The Commission is aware that recovery of certain O&M expenses relating to the BPV and BRR water distribution systems are covered under the water supply agreements between Blazer and BPV, and Blazer and BRR. The Commission directs Blazer, in the compliance filing, to remove any costs from its 2019-2020 revenue requirement for the three cost categories listed above that relate specifically to the BPV and BRR water systems, and are to be reimbursed through the contingency funds, as set out in the water supply agreements. The Commission finds that for any remaining expenses in these cost categories that are included in Blazer's revenue requirement, the BPV and BRR potable water rate class

should be allocated a portion of these costs, because they are overall system costs and they cannot be distinguished between the two potable water rate classes themselves, or from other potable water rate classes. .... Paragraph 231

25. With respect to the costs of advertising and promotion, which Blazer subsequently described as “consumer relations,” the Commission considers that the BPV/BRR rate class should bear its allocated portion of these costs. Blazer indicated that some of the expenditures in this category are for website maintenance, which the Commission considers is beneficial to Blazer’s customers, including BPV and BRR. However, Blazer indicated that there are also advertising expenditures included in this cost category, in order to attract new customers. The Commission considers that a regulated water utility with a designated franchise area is not required to advertise in order to provide utility service. The Commission therefore denies the inclusion of any advertising expenditures, but approves the charges for website maintenance. The Commission directs Blazer, as part of the compliance filing, to exclude any advertising expenditures from this cost category and to rename it “consumer relations.” The Commission directs Blazer, as part of the compliance filing, to include a breakdown of the non-advertising expenditures that will remain in this cost category for 2019 and 2020, in accordance with the Commission’s direction. .... Paragraph 232

26. The Commission considers that for future reporting purposes, it would be beneficial for Blazer to report bank charges separately from collection fees, because these are different expenditure types. Bank charges are an administrative type expense, as opposed to the bill collection that result in collection fees. The Commission therefore directs Blazer to establish separate general ledger accounts for bank charges and collection fees, starting in 2019, and to record the actual expenditures in the applicable account, starting in January 2019. .... Paragraph 235

27. The Commission has reviewed Blazer’s proposed capital cost allocators. In Section 9.1 above, the Commission determined that the time-of-use allocator is not reasonable for allocating O&M and administration costs. The Commission considers that the same reasoning applies to allocation of capital costs. Accordingly, the Commission directs Blazer to update its capital cost allocators, in its compliance filing to this decision, to remove the time-of-use allocator and replace it with the consumption allocator. .... Paragraph 241

28. The Commission therefore directs Blazer, in the compliance filing to this decision, to design the potable water rates for the two potable water rate classes using average water consumption data specific to those rate classes. The Commission further directs that the average water consumption data should use the actuals for 2016. This is the last full year for which actuals are available. .... Paragraph 252

29. The Commission directs Blazer to notify the Commission of any amendment to the Lynx Ridge Golf Course agreement and any proposed increases to Lynx Ridge Golf Course rates, in its next general rate application to the Commission. .... Paragraph 277

30. The Commission has reviewed Blazer’s submission with respect to compliance with the Commission’s letter of October 26, 2015, as well as Blazer’s proposal to dispose of the deferral account balance. The Commission approves Blazer’s request to implement the one-time credit or charge in the month following issuance of this decision and directs Blazer to include, in its compliance filing to this decision, confirmation that the one-time credit or charge to customers has been implemented. .... Paragraph 283

31. Blazer requested that certain sections of each of the BPV and BRR agreements be approved by the Commission as part of this decision. The Commission is unprepared to approve specific sections of the agreements without having an entire set of T&Cs that would apply to customers. Therefore, the Commission considers that it is premature at this time to consider Blazer's request for approval of sections of the BPV and BRR agreements. Any sections Blazer proposes from these agreements should be included in its consolidated T&Cs, filed as part of its compliance filing. The Commission directs Blazer to submit its consolidated T&Cs of service for approval as part of its compliance filing to this decision. .... Paragraph 288

32. The Commission recommends that Blazer examine the T&Cs of service included in Commission decisions for other water rate applications (e.g., Horse Creek Water Services Inc.). Accordingly the Commission directs Blazer to file a new consolidated T&Cs of service, as part of its compliance filing to this decision. .... Paragraph 290

33. The Commission considers that the submissions of Blazer and the condo corporation are reasonable because it will consolidate billing and will not affect the safe and reliable water service to customers. The sections proposed in paragraph 291 of this decision are approved, as filed. Accordingly, the Commission directs Blazer to reflect the changes required to its T&Cs of service regarding a single customer bill to the condo corporation in its T&Cs, to be filed as part of its compliance filing to this decision........ Paragraph 294

34. It is hereby ordered that:

    (1) The existing water rates are approved as interim rates commencing January 1, 2019, until such time as the Commission approves final rates.

    (2) Blazer Water Systems Ltd. is directed to submit a compliance filing to this decision to reflect the Commission's findings and directions, on or before February 22, 2019.

.... Paragraph 295