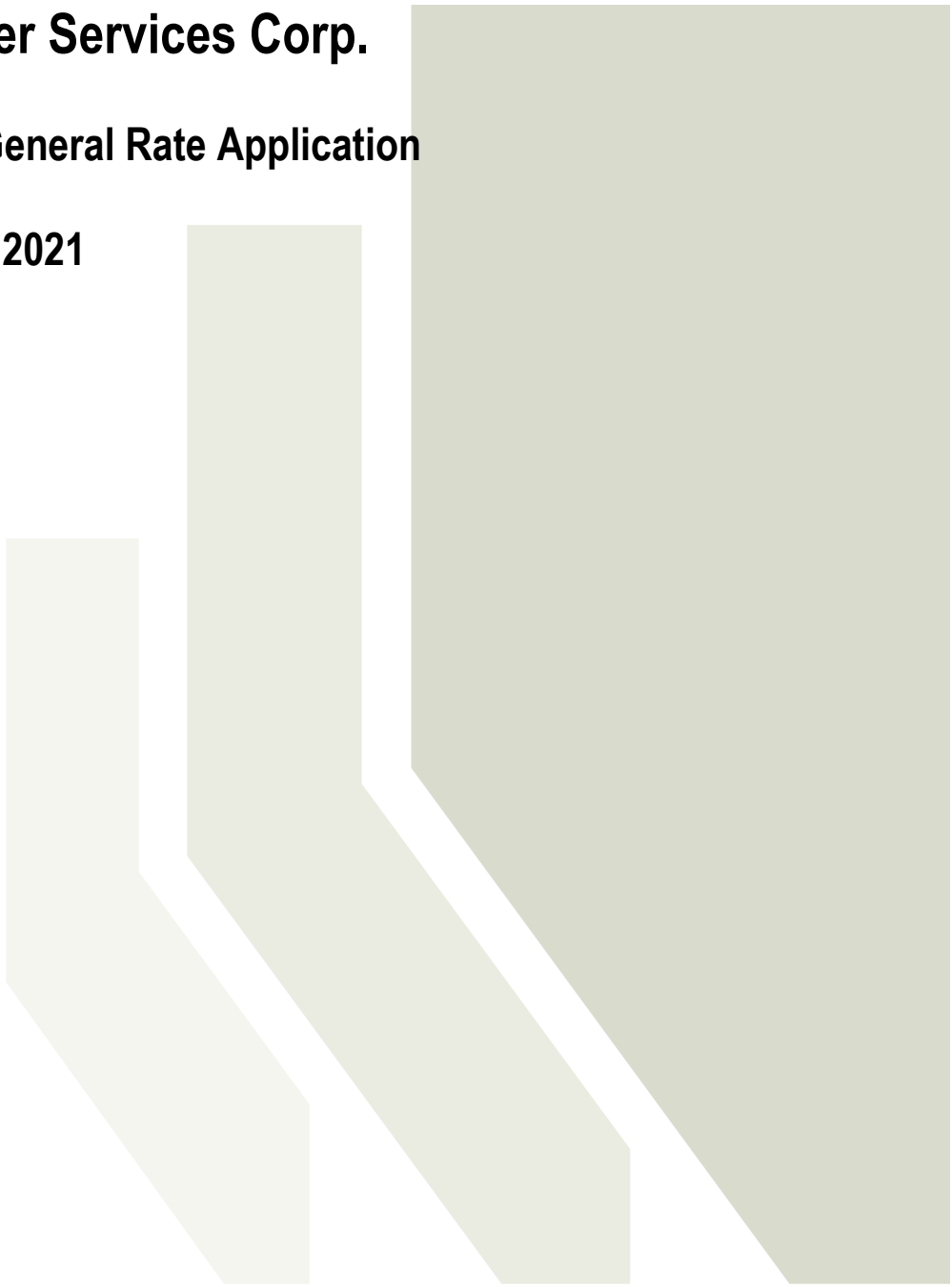




Sage Water Services Corp.

2020-2023 General Rate Application

October 13, 2021



Alberta Utilities Commission

Decision 24695-D01-2021

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1 Decision summary

1. Sage Water Services Corp. (Sage Water) filed a general rate application requesting final water rates up to March 31, 2023. Specifically, Sage Water applied for revenue requirements of \$184,900 from November 19, 2020, to March 31, 2021; \$462,000 from April 1, 2021, to March 31, 2022; and \$473,900 from April 1, 2022, to March 31, 2023 (the test periods).¹ The Alberta Utilities Commission examined Sage Water's applied-for revenue requirements in each of the test periods and for each category of costs. The Commission's review resulted in downward adjustments to several of Sage Water's applied-for amounts. For the reasons set out in this decision, the Commission has approved reduced revenue requirements in each of the test periods, as follows:

- (a) \$156,735 for the period November 19, 2020, to March 31, 2021;
- (b) \$404,005 for April 1, 2021, to March 31, 2022; and
- (c) \$412,366 for April 1, 2022, to March 31, 2023.

2. The Commission also considered a request from Sage Water to change its rate structure from a fixed monthly charge to a tiered rate design, which would include a fixed monthly fee and a fee based on consumption. For the reasons set out in this decision, the Commission has approved the continuation of a fixed monthly rate structure.

3. The Commission then allocated Sage Water's approved revenue requirements to each of Sage Water's customer groups to establish final rates in each of the test periods. The Commission determined that the difference between the existing interim rates and the final rates for two of Sage Water's three customer groups, namely the Prince of Peace School (the school) and the 175 residential condominium units known as the Village, would cause rate shock. To mitigate the rate shock, the Commission determined that it is just and reasonable to use a gradualism approach. This means that the final rates will be imposed incrementally over time. The resulting final rates for Sage Water's customers in each of the test periods are as follows:

¹ Exhibit 24695-X0182, application, Table 6.

Table 1. Final monthly rates for the test periods

Rate class	Stub period (November 19, 2020, to March 31, 2021)	2022 fiscal year (April 1, 2021, to March 31, 2022)	2023 fiscal year (April 1, 2022, to March 31, 2023)
Senior care community (comprising the Prince of Peace Manor and the Prince of Peace Harbour)	\$23,807.71	\$20,671.81	\$20,069.02
School	\$833.69	\$917.06	\$1,008.76
Village*	\$62.74	\$69.02	\$75.92

*Village rate is per residential condominium unit.

4. To true up the difference between the approved final rates and Sage Water's existing interim rates, the Commission also calculated and approved monthly riders. The monthly riders are to be implemented from November 1, 2021, to March 31, 2023:

- (a) a refund of \$1,554.32 to the Prince of Peace Harbour (the Harbour) and the Prince of Peace Manor (the Manor);
- (b) a collection of \$85.15 from the school; and
- (c) a collection of \$6.41 from the Village.

2 Background and procedural history

5. Sage Water operates a water utility which began servicing the Prince of Peace site in 2019. The Prince of Peace site comprises the senior care community, the school and the Village.

6. In Proceeding 24797, the Commission approved interim water rates for Sage Water effective November 19, 2020.

7. On February 8, 2021, Sage Water filed its general rate application for final water rates up to March 31, 2023. Sage Water disclosed that a water pipeline would be completed before the end of 2021 to connect its customers to Rocky View County's Conrich Reservoir. Once the pipeline is completed, Rocky View County will provide water services to the Prince of Peace customers.² Notwithstanding, Sage Water explained that it is applying for final rates up to March 31, 2023, in the event that the pipeline project is further delayed or cancelled.

8. All registered participants in Sage Water's interim rate proceeding were automatically registered in the general rate proceeding.³ The legal committee from the Village continued to represent the majority of registered participants and acted as a sole intervener in Sage Water's general rate application.

9. The Commission considers the close of record to be September 13, 2021.

² Exhibit 24695-X0182, application.

³ Decision 24797-D01-2020: Sage Water Services Corp., Interim Water Rates, Proceeding 24797, November 19, 2020, paragraph 29.

3 Details of the application

10. Since Sage Water started operating the water utility, the school, senior care community and residents of the Village have each paid a fixed monthly fee for water consumption and services.

11. In Proceeding 24797, the Commission set Sage Water's then existing fixed monthly water rates, identified in the table below, as Sage Water's interim water rates effective November 19, 2020.⁴

Table 2. Interim water rates

	Monthly charge (\$)	
RESIDENTIAL (the Village)		
Fixed fee	51.85	Includes up to 2,000 imperial gallons (9.1 m ³ [cubic metres]) of water
Maintenance surcharge	5.19	10% of fixed fee
Total monthly charge	57.04	
Overage charges		
		Consumption in excess of base (of 24,000 imperial gallons/year)
First 6,000 imperial gallons	0.05	Per imperial gallon; the overage charges are calculated on an annual basis
Next 6,000 imperial gallons	0.06	
Next 12,000 imperial gallons	0.08	
Next 12,000 imperial gallons	0.25	
Next 60,000 imperial gallons	0.35	
SENIOR CARE COMMUNITY		
Fixed fee	24,200.00	Increased to this amount in April 2019 in anticipation of AUC decision
Total monthly charge	24,200.00	
SCHOOL		
Fixed fee	689.00	Fixed fee – based on average usage of 84 m ³ per month
Maintenance surcharge	68.90	10% of fixed fee
Total monthly charge	757.90*	

*Application shows a total monthly charge of \$757.68. This may be a calculation error.

12. In its application, Sage Water explained that it does not have a rate base as its parent company obtained the water utility assets in a bankruptcy proceeding and the utility assets were not assigned a value by the receiver. Without a rate base, Sage Water based its revenue requirement forecasts on operating expenses and requested a reasonable return in lieu of a return on rate base. Sage Water stated that it included an annual inflation rate of two per cent to estimate future costs over the test periods.⁵ The applied-for revenue requirements are set out in Table 3 below. Sage Water included a stub period from November 19, 2020, to March 31, 2021, to align with the November 19, 2020, effective date established in the Commission's interim rates decision and Sage Water's fiscal year-end.

⁴ Decision 24797-D01-2020 (the Commission's interim rates decision).

⁵ Exhibit 24695-X0182, application, PDF page 9.

Table 3. Sage Water's applied-for revenue requirements

Operating expense categories	Stub period (November 19, 2020, to March 31, 2021)	2022 fiscal year (April 1, 2021, to March 31, 2022)	2023 fiscal year (April 1, 2022, to March 31, 2023)
	(\$)		
Potable water	85,789	235,070	239,771
Operator and customer care fees	14,786	42,592	43,723
Repair and maintenance	3,085	7,869	8,027
Lab analysis (water)	1,464	2,500	2,550
Site maintenance	5,849	10,000	10,200
Pump maintenance	19,133	40,000	40,800
Security	200	696	710
Consultants	9,160	5,000	5,100
Insurance	18,693	57,239	65,825
Bank charges	81	202	206
Legal	64	500	510
Professional fees	9,346	8,400	8,568
Corporate management fees	10,936	30,000	30,000
Office and administration cost sharing	459	1,200	1,224

13. As part of its application, Sage Water also requested approval to change its rate structure from a fixed monthly charge to a tiered rate design including a fixed-fee component. Those tiered rates and estimated monthly charges are identified in the table below.⁶

Table 4. Requested rates in application

	Stub period	2022 fiscal year	2023 fiscal year
RESIDENTIAL AND SCHOOL			
Fixed charge (\$)	15.00	15.00	15.00
Tier 1 rate on first 10 cubic metres (\$ per cubic metre)	13.62	12.75	12.75
Tier 2 rate - greater than 10 cubic metres (\$ per cubic metre)	17.03	15.94	15.94
Estimated monthly charge for residential	\$96.72	\$91.50	\$91.50
Estimated monthly charge for school	\$1,159.08	\$1,086.00	\$1,086.00
SENIOR CARE COMMUNITY			
Fixed charge (\$)	150.00	150.00	150.00
Tier 1 rate on greater than 500 cubic metres (\$ per cubic metre)	17.03	15.94	15.94
Tier 2 rate on first 10 cubic metres (\$ per cubic metre)	21.29	19.93	19.93
Estimated monthly charge	\$24,143.50	\$22,619.00	\$22,619.00

4 Discussion of the issues and findings

14. Under the *Public Utilities Act*, the Commission has jurisdiction to make rules governing the procedures and processes for establishing terms and conditions of service for, and to set the rates of, water utilities. As noted in Decision 21340-D01-2017 and subsequently confirmed by the Alberta Court of Appeal, the Commission's "jurisdiction to deal with public utilities as

⁶ Exhibit 24695-X0211, rate model, rate summary tab.

provided for in the *Public Utilities Act* does not generally extend to wastewater services.”⁷ That is, other than in the very limited circumstances in which Section 112 empowers the Commission to make orders involving the provision of wastewater services by municipal public utilities and regional services commissions, the Commission has no jurisdiction over wastewater. Accordingly, the Commission will not consider in this decision any wastewater rates that are referenced in Sage Water’s application or in intervener submissions.

4.1 Non-contentious issues

15. No concerns were raised by the Village in relation to the following four categories of operating expenses: potable water; operator and customer care fees; lab analysis (water testing); and bank charges. Nevertheless, the Commission examined each of those expense items and determined minor adjustments are required for some as detailed below.

16. The forecast potable water expense for the 2022 fiscal year requires a minor adjustment as a result of an error made in the calculation of the potable water expense, as acknowledged by Sage Water in a response to an information request (IR).⁸ The forecast expenses for operator and customer care fees for the 2022 and 2023 fiscal years also require minor adjustments. The adjustment for the 2022 fiscal year results from updating the expense to incorporate the actual timing of a fee increase from Corix,⁹ as identified by Sage Water in a response to an IR.¹⁰ Since the forecast for the 2023 fiscal year was calculated by inflating the 2022 fiscal year forecast by ██████████,¹¹ an adjustment for the 2022 fiscal year necessitates an adjustment for the 2023 fiscal year.

17. The Commission has calculated the adjustment amounts. The forecast potable water expense for the 2022 fiscal year is reduced by \$386. The forecast expense for operator and customer care fees is reduced by \$172 for the 2022 fiscal year and by \$177 for the 2023 fiscal year.¹²

18. The Commission approves the forecast expenses for lab analysis and bank charges as filed.

4.2 Contentious issues

19. The Village objected to a number of operating expense categories and raised concerns with the quantum of certain expenses. The Commission considered the Village’s submissions when it tested Sage Water’s application through IRs. The Commission considers each of the contentious expense categories below.

⁷ Decision 21340-D01-2017: Horse Creek Water Services Inc., 2016 General Rate Application, October 20, 2017, paragraph 23.

⁸ Exhibit 24695-X0223, SW-AUC2021MAR26-011, PDF page 8.

⁹ Corix Utilities operates the water utility and provides customer care services to Sage Water under a service contract.

¹⁰ Confidential Exhibit 24695-X0262-C, SW-AUC-2021JUN23-CONF-001, PDF page 1.

¹¹ Confidential Exhibit 24695-X0211-C, rate model, C. Operating expenses tab, note in cell L10.

¹² The fee adjustment only applies to operator fees.

4.2.1 Corporate management fees

20. Sage Water explained that it does not have any employees.¹³ Rather, it allocated corporate management fees from its parent company, Sage Properties Corp. (Sage Properties), to the water and wastewater utilities based on estimated time spent managing utility operations.¹⁴

21. In its rate model, Sage Water identified the number of Sage Properties' corporate management positions for 2017 to 2020, the accompanying salaries and benefits (the amounts), and the resulting cost allocations to the water and wastewater utility operations. More specifically, it allocated 15 per cent of the amounts for 2017 to 2019 and 30 per cent of the amounts for 2020 to its water and wastewater operations. Sage Water then took the average annual allocation amount for those four years of \$60,000 as the forecast amount for fiscal years 2022 and 2023. Sage Water proposed a 50-50 split between water and wastewater operations, resulting in a revenue requirement of \$30,000 for corporate management fees annually on water operations.

22. The Village took issue with both the requirement for and the amount of the applied-for corporate management fees, which it argued were unreasonable in light of Sage Water contracting out responsibility for its operations to Corix. Further, the Village submitted that the amount claimed was unreasonable because a percentage of the overall corporate expenses relates to work on the senior care community rather than the utilities,¹⁵ and that Sage Water's hourly rates are "well above industry standards for clerical work."¹⁶

23. The Commission finds that while the day-to-day operations of the water utility require some level of management oversight, such that the corporate management fee expense category is reasonable, Sage Water has provided inadequate support for its applied-for corporate management fees and, more particularly, for the proposed allocation of those fees to its water and wastewater utility operations.

24. Viewed objectively, Sage Water's applied-for expenses for corporate management fees appear excessive considering the relative size of the utility operations, the small number of water and wastewater customers, and the contracted responsibilities of Corix. The Commission observes that Corix is performing the technical operations of the water utility in conjunction with billing services. Notwithstanding, the applied-for operating expense for corporate management fees is only 30 per cent lower than that for operator and customer care fees.¹⁷ The division of responsibility between, and the disproportionate relationship of the fees for, management versus technical operations supports that the requested expenses for corporate management fees are not reasonable.

25. In the absence of persuasive evidence to the contrary, the Commission considers that a more reasonable allocation of corporate management fees to the water utility is 10 per cent. This is the same allocation as proposed by Sage Water for corporate audit fees to the water and wastewater utility operations.¹⁸ The Commission recalculated the corporate management fees

¹³ Exhibit 24695-X0223, SW-AUC-2021MAR26-005(a), PDF page 4.

¹⁴ Exhibit 24695-X0211, rate model, corporate management fee tab.

¹⁵ Exhibit 24695-X0217, PDF page 3.

¹⁶ Exhibit 24695-X0236, PDF page 2.

¹⁷ Exhibit 24695-X0199, operator and customer care fees are \$39,049 in fiscal 2021. $((\$39,049 - \$30,000 / \$30,000) \times 100 = 30\%)$.

¹⁸ Exhibit 24695-X0265, SW-AUC-2021JUN23-008, PDF page 10.

forecast for the 2022 and 2023 fiscal years using the allocation percentage of 10 per cent. The resulting amount is \$40,000, of which 50 per cent is related to the water utility operations. The resulting approved forecast for Sage Water for each of the 2022 and 2023 fiscal years is \$20,000. This translates to a monthly amount of \$1,666.67, which the Commission has applied to the 4.4 months of the stub period, for a resulting approved forecast of \$7,333 in the stub period.

4.2.2 Office and administration cost sharing

26. Sage Water submitted that its applied-for office and administration expenses are reasonable because those expenses have been forecast based on historical data.¹⁹ The Village asserted that the applied-for office and administrative cost sharing expenses should be rejected as “Corix is doing the management.”²⁰

27. The Commission has already confirmed that, as the owner of a “public utility,” Sage Water operates, manages or controls “a system, works, plant, equipment or service” for the delivery or furnishing of water directly to customers.²¹ Corix operates the water utility system under contract to Sage Water, but as the owner Sage Water is required to manage the services provided under that contract. The Commission therefore finds that it is reasonable for Sage Water to have a distinct operating expense for office and administration cost sharing related to the responsibilities it continues to have in relation to managing and controlling the water utility, including its oversight of the contract with Corix.

28. The Commission also finds the quantum of the applied-for costs to be reasonable relative to the size of the utility and approves those costs as filed.

4.2.3 Repair and maintenance

29. Sage Water stated that everything in its cost forecast is a normal maintenance item and that its forecast maintenance costs, excluding emergency repairs, are based on historical costs and input from Corix.²² Sage Water indicated that it included, as part of its repair and maintenance program for fiscal 2022, costs to address certain deficiencies identified in the engineering assessment report submitted to Rocky View County, which Sage Water has committed to address.²³

30. The Village stated that, when compared to the cost of its own pipeline repairs, which it filed on the record,²⁴ Sage Water’s forecast repair and maintenance expenses are unreasonable.²⁵

31. The Commission accepts that everything in Sage Water’s cost forecast is a normal maintenance item, including the repair work required for the deficiencies identified in the engineering assessment report submitted to Rocky View County. On this basis and because Sage Water’s forecast costs are based on historical costs, the Commission finds that

¹⁹ Exhibit 24695-X0182, application, PDF page 9.

²⁰ Exhibit 24695-X0217, PDF page 4.

²¹ Proceeding 24797, Exhibit 24797-X0267, Ruling and request for comments on interim rates.

²² Exhibit 24695-X0182, application, PDF page 10.

²³ Exhibit 24695-X0265, PDF pages 1 to 2. Sage Water explained that valve deficiencies noted in the engineering assessment report are excluded from the forecast because repairs for these deficiencies are not required for the day-to-day operations of the utility.

²⁴ Exhibit 24695-X0234.

²⁵ Exhibit 24695-X0217, PDF page 3.

Sage Water's applied-for repair and maintenance expenses are reasonable and they are approved as filed.

32. The Commission acknowledges the Village's evidence of its own pipeline repair costs, but finds that evidence does not persuasively refute the reasonability of Sage Water's forecast expenses for repairs and maintenance for the water utility system as a whole.

4.2.4 Site maintenance

33. Sage Water derived its forecast for site maintenance for the stub period by first prorating the actual expenses for April 1, 2020, to December 31, 2020, to the period for November 19, 2020, to December 31, 2020. This resulted in an amount of \$849. It then added a forecast amount of \$5,000 for January 1, 2021, to March 31, 2021. The resulting forecast for the November 19, 2020, to March 31, 2021, stub period is therefore \$5,849. Sage Water forecast \$10,000 for the 2022 fiscal year and \$10,200 for the 2023 fiscal year by applying a two per cent inflation factor to the 2022 fiscal year forecast.

34. The Village indicated that site maintenance charges are not valid expenses because the water reservoirs are located inside the school and are therefore reliant on the school for maintenance.²⁶ It further argued that in Sage Water's documents, site maintenance includes "grounds maintenance, road repairs, etc. which are attributable to all their property, and is not our concern."²⁷

35. Sage Water refuted that road repairs are included in the rate model. It explained that site maintenance includes annual hydrant testing and repairs as well as water room security panel maintenance.²⁸

36. The Commission considers that site maintenance costs represent a valid expense category for a water utility. Accordingly, reasonable site maintenance costs are recoverable by Sage Water notwithstanding that the water reservoirs are located within the school. However, for the reasons that follow, the Commission finds that not all of Sage Water's forecast costs for site maintenance are sufficiently supported.

37. Sage Water provided some details regarding the actual expenses from April 1, 2020, to December 31, 2020,²⁹ but offered no support for the additional forecast amount of \$5,000. Likewise, no details about or support for the \$10,000 forecast amount for the 2022 fiscal year was provided. The \$10,200 forecast for the 2023 fiscal year was obtained by applying a two per cent inflation factor to the 2022 fiscal year forecast.

38. The Commission further notes that some non-recurring amounts, such as alarm call outs, lock box installation, security panel replacement, and a thermo imaging study were categorized as site maintenance.³⁰ The total non-recurring amount is at least \$2,938 for the period from April 1, 2020, to December 31, 2020.³¹

²⁶ Exhibit 24695-X0217, PDF page 3.

²⁷ Exhibit 24695-X0217, PDF page 3.

²⁸ Exhibit 24695-X0265, SW-AUC-2021JUN23-006(a), PDF page 8.

²⁹ Exhibit 24695-X0225.

³⁰ Exhibit 24695-X0225.

³¹ Exhibit 24695-X0225, non-recurring expenses of \$1,160.25 and \$1,778.05 as noted by Sage Water.

39. In view of the foregoing, the Commission has disallowed a portion of the applied-for costs and approves site maintenance expenses as detailed below.

40. As noted, there is no description of how Sage Water arrived at the \$5,000 forecast for the January 2021 to March 2021 portion of the stub period. The actual costs for April 1, 2020, to December 31, 2020, were \$5,559.26,³² which included non-recurring costs of \$2,938. Excluding the non-recurring expenses of \$2,938 from the \$5,559 for April 1, 2020, to December 31, 2020, results in \$2,621 for recurring expenses in this nine-month period. This is approximately \$290 per month. The Commission finds it reasonable to use \$290 per month as the forecast for January 2021 to March 2021, which is \$870. Combining this amount with Sage Water's forecast of \$849 for the period from November 19, 2020, to December 31, 2020, results in an approved forecast of \$1,719 for the stub period.

41. Absent detailed support for the \$10,000 forecast for fiscal 2022, the Commission considers that \$290 per month for April 2020 to December 2020 for recurring expenses is a reasonable basis to establish the forecast for fiscal 2022. This results in a forecast of \$3,480 for the 12-month period. The Commission finds that a total forecast of \$4,500 for 2022 is reasonable, as it allows for some inflation with respect to the recurring expenses and also allows for some unexpected site maintenance costs that may arise. The Commission further finds that it is reasonable to inflate the 2022 forecast by two per cent for fiscal 2023, which results in an approved 2023 forecast of \$4,590. The Commission therefore approves forecasts of \$1,719 for the stub period, and \$4,500 and \$4,590 for each of 2022 and 2023 for site maintenance costs.

4.2.5 Pump maintenance

42. In its application, Sage Water included forecast expenses for pump maintenance, explaining that the fire pumps service the fire suppression systems for the school building, the senior care community, as well as fire hydrants for all ratepayers. The Village argued that the pump maintenance expenses should be disallowed as they apply to the fire suppression system reservoir that only services the Manor and the school.³³

43. When asked whether pump maintenance costs should be allocated to only those who benefit from the fire suppression system, Sage Water reiterated that the fire pumps service the fire suppression systems for the school building and the Manor, as well as fire hydrants for all ratepayers.³⁴ Sage Water further explained that it operates and maintains the water system as a whole and does not allocate costs specifically to ratepayers because it cannot predict what repairs will be needed from year to year and to whom those repairs would specifically relate.³⁵

44. The Commission is satisfied that all ratepayers benefit from the fire suppression system. The evidence is that the fire suppression system consists of two fire pumps.³⁶ Fire pump number 1 is located in the water distribution room,³⁷ serviced by the large reservoir underground against the west side of the school³⁸ and services sprinklers in the Harbour as well as fire hydrants throughout the Prince of Peace site. Fire pump number 2 is located in the school boiler

³² Exhibit 24695-X0225.

³³ Exhibit 24695-X0236, PDF page 3.

³⁴ Exhibit 24695-X0265, SW-AUC-2021JUN23-002(a), PDF page 3.

³⁵ Exhibit 24695-X0265, SW-AUC-2021JUN23-002(c), PDF pages 3-4.

³⁶ Exhibit 24695-X0013.

³⁷ Exhibit 24695-X0013.

³⁸ Exhibit 24695-X0265, SW-AUC-2021JUN23-002(a), PDF page 3.

room,³⁹ serviced by the small reservoir beneath the school building⁴⁰ and services the sprinklers in the school and the Manor as well as two hydrants in front of the Harbour and the Manor. Notwithstanding, for the reasons that follow, the Commission finds that Sage Water has failed to justify that the full forecast amounts for pump maintenance should be included in its utility rates and approves only a portion of those costs as set out below.

45. The forecast expense for pump maintenance for the stub period was derived by first prorating the actual expenses for April 1, 2020, to December 31, 2020, to the period of November 19, 2020, to December 31, 2020. This resulted in an amount of \$4,133. Sage Water added a forecast amount of \$15,000 for January 1, 2021, to March 31, 2021, and the resulting forecast for the November 19, 2020, to March 31, 2021, stub period is therefore \$19,133. Sage Water provided some details regarding the actual expenses from April 1, 2020, to December 31, 2020,⁴¹ but no detail about or support for the additional forecast amount of \$15,000.

46. Sage Water's pump maintenance forecast for the 2022 fiscal year was \$40,000, with no details provided about the composition of these costs. Sage Water derived its forecast for the 2023 fiscal year of \$40,800 by applying a two per cent inflation factor to the 2022 fiscal year forecast.

47. The forecasts for fire pump maintenance also include a number of recurring and non-recurring expenses such as the weekly fire pump maintenance, emergency generator test, emergency jockey pump replacement, as well as fire pump evaluation and repair work.⁴² During the period from April 1, 2020, to December 31, 2020, \$2,212 was shown as non-recurring.⁴³

48. In view of the foregoing, the Commission has recalculated the allowable forecast expenses for pump maintenance as follows.

49. As already observed, the forecast for January 1, 2021, to March 31, 2021, is \$15,000. There is no description of how this forecast was arrived at, other than a note that stated "Major pump repairs completed; assuming same level of pump maintenance going forward due to aging equipment."⁴⁴ The actual costs for April 1, 2020, to December 31, 2020, were \$27,194,⁴⁵ which averages to \$3,022 per month, and include some non-recurring costs. The Commission considers that the \$3,022 per month for April 2020 to December 2020 is a good basis upon which to establish the forecast for January 2021 to March 2021. The Commission finds that a forecast of \$9,000 for January 2021 to March 2021 is reasonable, as it allows for the recurring expenses and also allows for some unexpected costs that may arise. Combining this amount with Sage Water's forecast of \$4,133 for the period from November 19, 2020, to December 31, 2020, results in an approved forecast of \$13,133 for the stub period.

50. The actual costs for April 1, 2020, to December 31, 2020, were \$27,194, which include non-recurring costs of \$2,212. Excluding the non-recurring expenses of \$2,212 from the \$27,194 for April 1, 2020, to December 31, 2020, results in \$24,982 for recurring expenses for this

³⁹ Exhibit 24695-X0013.

⁴⁰ Exhibit 24695-X0265, SW-AUC-2021JUN23-002(a), PDF page 3.

⁴¹ Exhibit 24695-X0225.

⁴² Exhibit 24695-X0225.

⁴³ Exhibit 24695-X0225.

⁴⁴ Exhibit 24695-X0211, rate model, note in cell H33.

⁴⁵ Exhibit 24695-X0225.

nine-month period, which is approximately \$2,775 per month. The Commission considers that the \$2,775 per month is a good basis upon which to determine the forecast for fiscal 2022. The Commission finds that a forecast of \$35,000 for fiscal 2022 is reasonable, as it allows for some inflation with respect to the recurring expenses and also allows for some unexpected costs that may arise. The Commission further finds that it is reasonable to inflate the 2022 forecast by two per cent for fiscal 2023, which results in an approved 2023 forecast of \$35,700.

51. The Commission notes that pump maintenance expenses comprise a substantial portion of Sage Water's total revenue requirement, but information relating to the nature and frequency of maintenance is lacking in the application. Going forward, the Commission expects Sage Water to provide more information on the necessity for and frequency of pump maintenance, a description of any relevant standards for pump maintenance, and details of its tendering and bid evaluation process for selecting a pump maintenance contractor.

4.2.6 Insurance

52. Sage Water applied for an increase in its insurance premiums over the test years, and proposed a reallocation of insurance costs between the utility operations, the senior care community, and the school. For the reasons that follow, the Commission finds that Sage Water did not provide sufficient evidence to demonstrate that the quantum of the proposed increase is reasonable, or to support the proposed reallocation.

53. Sage Water advised that its utility operations are insured under an umbrella policy and that its insurance broker was unable to provide details on how the insured value was allocated as between the utility operations, the senior care community, and the school by the various underwriters to the policy.⁴⁶ It submitted that the doubling of insurance premiums in fiscal 2019 for the group of assets was a direct result of a water line break that caused a significant insured loss.⁴⁷

54. Sage Properties has a number of insurance policies. Two of the policies renew annually on October 31, one of the policies renews annually on January 8, and three of the policies renew annually on January 11. In preparing the forecasts for fiscal 2022 and 2023, Sage Water assumed that the premiums for the policies to be renewed in these fiscal years would increase by 15 per cent from the previous premiums.⁴⁸ Sage Water then allocated a portion of the overall premium costs for each of the three test periods to each of the water and wastewater operations, the senior care community, and the school, based on the estimated insured values of those facilities. Based on the estimated insured values, the resulting percentage allocated to the water and wastewater operations was [REDACTED]. Later, Sage Water increased the allocation to the water and wastewater operation to 32 per cent and correspondingly reduced the percentage allocation to the senior care community, and the school. Sage Water explained that because there had been significant increase in its actual insurance premiums in 2018-2019 because of a water distribution line break, it chose to increase the allocation to the water and wastewater operations

⁴⁶ Exhibit 24695-X0223, SW-AUC-2021MAR26-009(a), PDF page 6.

⁴⁷ Exhibit 24695-X0223, SW-AUC-2021MAR26-009(b), PDF pages 6-7.

⁴⁸ For example, if the premium for one of the policies that renewed on October 31, 2020, was \$10,000, Sage Water assumed that the premium for that policy would increase by 15 per cent to \$17,250 when it renewed on October 31, 2021, and that it would increase by another 15 per cent to \$19,837.50 when it renewed on October 31, 2022.

from [REDACTED] to 32 per cent for the test periods. Of the 32 per cent allocated amount, 50 per cent is allocated to Sage Water and 50 per cent is allocated to the wastewater operations.

55. In the application, Sage Water did not provide a detailed analysis of the insurance expense, by policy, for each of the test periods by month. In response to a Commission IR, Sage Water provided this detailed information, with the first month being November 2020.⁴⁹ The Commission reviewed this information and considers that it is the most accurate way to forecast the insurance expense, because it incorporates Sage Water's estimated premium increases in the month of renewal, as explained in greater detail below. Using this information, and prorating the insurance premium allocated to Sage Water for November 2020 to reflect the stub period start date of November 19, 2020,⁵⁰ the resulting insurance costs are \$18,838.50 for the stub period; \$56,235 for fiscal 2022⁵¹; and \$64,672.50 for fiscal 2023.⁵² The Commission considers this is the starting point against which to assess the reasonableness of the forecasts for insurance expense.

56. Sage Water stated that it was advised by its insurance broker in January 2021 that a 15 to 30 per cent increase in insurance premiums was indicative of the overall trend in the insurance industry and not specifically related to Sage Water. On that basis, in forecasting its insurance expenses, Sage Water applied a 15 per cent increase to its corporate insurance premiums on renewal in each of 2022 and 2023.

57. A 15 per cent year-over-year increase in insurance premiums is significant and must be reasonably supported by evidence. The Commission finds that Sage Water's reference to advice received from its broker, on its own, does not provide sufficiently persuasive evidence supporting the asserted overall trend for these years.

58. While there is insufficient evidence to support the claimed increase in corporate insurance premiums, the Commission considers that an inflationary increase is likely and therefore reasonable and so approves an increase of two per cent in each year. The two per cent is reflective of the amount Sage Water used for inflation in fiscal 2023.

59. The Commission also finds that Sage Water has offered insufficient evidence to justify the proposed adjustments to the initial allocations. While the Commission accepts that the increase in insurance premiums in fiscal 2019 for the entire group of assets was a direct result of a water distribution line break that caused a significant insured loss, the flooding occurred in the school, which houses the water utility plant. This is an important link for the Commission to consider. Furthermore, the incident involved the water pipes connecting the fire suppression system. The interconnected nature of the facilities makes it difficult to pinpoint demarcation points for cost causation.

60. The Commission views that, absent persuasive evidence to the contrary, the initial allocations provide the most logical and reasonable approach to allocating insurance costs because the best information on the record relates to the appraisal reports and the total insured value of the various facilities. On the basis of that information, the Commission finds that

⁴⁹ The detailed information is included in Exhibit 24695-X0264, in the worksheet "Allocation by month."

⁵⁰ November 19 to November 30 is 12 days. 12 days is 40 per cent of the days in November.

⁵¹ Exhibit 24695-X0264, worksheet "Allocation by month," Excel cell X23.

⁵² Exhibit 24695-X0264, worksheet "Allocation by month," Excel cell AK23.

██████████, which is the initial percentage allocation, is the most reasonably supported allocation of corporate insurance premiums to the water and wastewater operations.

61. Having regard to the foregoing, the Commission has recalculated the allowable forecast insurance expenses as follows:

- (a) The corporate insurance premiums identified in paragraph 55 above for each of the test periods were reduced to exclude the unsupported 15 per cent forecast increase.
- (b) The resulting figures were then increased by the approved two per cent inflationary amount on renewal.
- (c) ██████████ of those figures was then allocated to water and wastewater operations.
- (d) Finally, 50 per cent of the figure for combined water and wastewater operations was allocated to water operations.
- (e) The resulting approved insurance expenses are \$12,952 for the stub period; \$37,416 for fiscal 2022; and \$38,165 for fiscal 2023.

62. As insurance costs comprise a significant portion of Sage Water's revenue requirement, going forward, the Commission expects that Sage Water will include at least three insurance quotes in its rate applications as cost comparisons would be helpful for the Commission in assessing the reasonableness of forecast insurance expenses.

4.2.7 Security

63. Sage Water's profit and loss statement for April to December 2020 identified water room security monitoring fees as an expense. The Village argued these fees were unnecessary as the water room is located inside the school.⁵³

64. Based on the quantum of the allocated security fee and the Commission's experience with smaller water utilities, the Commission is satisfied that security monitoring fees are a reasonable expense and that the forecast security expenses are reasonable. The Commission approves the security expenses as filed.

65. The Commission views that there is a potential opportunity for Sage Water to mitigate flooding incidents through the use of an advanced security monitoring system that connects to water detection devices. While a more advanced system could increase security monitoring costs, the impact of a flood incident would likely be minimized if such a system was in place. In future applications, the Commission encourages Sage Water to consider including security monitoring options intended to detect flooding incidents that would therefore mitigate related costs, including insurance premium increases due to flooding.

4.2.8 Consultants

66. Sage Water listed several consultants who provide recurring and non-recurring services.⁵⁴

⁵³ Exhibit 24695-X0205.

⁵⁴ Exhibit 24695-X0225.

- (a) Three consultants were contracted to contribute to the engineering report required by Rocky View County to assess the water distribution infrastructure. The IBI Group provided the water infrastructure assessment report; Corix provided an inspection of pumps report; and Systems Mechanical completed a facility assessment at pumping facilities.
- (b) Paul Kiervin was contracted to deliver water meter read notices.

67. The Village objected to consultant entries for the IBI Group because in the Village's view, the IBI Group was mainly hired to prepare Sage Properties' lands for their subdivision application.⁵⁵

68. Sage Water submitted that the fees expensed for the IBI Group only relate to the water infrastructure assessment portion of the report and there were no costs related to Sage Properties' subdivision and planning allocated to Sage Water.⁵⁶ Sage Water stated that the estimated cost for the water assessment report was included in the operating budget for fiscal 2021. Additionally, Sage Water explained that the forecast amounts in its rate model beyond fiscal 2021 are a budget for consulting work that may be required for future assessments of the water system infrastructure.⁵⁷

69. The Commission is not satisfied that consultant costs related to future assessments of the water system infrastructure are warranted. As Sage Water indicated, Rocky View County is expected to complete its pipeline construction project by October 2021.⁵⁸ With an imminent projected completion date, further water system studies do not appear to be likely if Rocky View County has not already requested them.

70. It is also unclear on the evidence whether Sage Water still requires the water meter read notices service, as Sage Water reported that Corix has been going on site since March 2021 to pick up water meter read forms and to follow up with residential customers.

71. For these reasons, the Commission finds that Sage Water has not justified the inclusion of the proposed consultant costs in rates for the fiscal years 2022 and 2023 and disallows all consultant fees for fiscal years 2022 and 2023.

4.2.9 Professional fees

72. The Commission finds that Sage Water's forecast expenses for professional fees are not sufficiently supported by the evidence and so it has disallowed a portion of those costs.

73. Sage Water's forecast expense for professional fees for the stub period was derived by first prorating its actual expenses of \$2,265 for the period of April 1, 2020, to December 31, 2020, to the period of November 19, 2020, to December 31, 2020. This resulted in an amount of \$346. Sage Water added a forecast amount of \$9,000 for January 1, 2021, to March 31, 2021, and the resulting forecast for the November 19, 2020, to March 31, 2021, stub period is therefore \$9,346. Sage Water provided some details regarding the actual expenses from April 1, 2020, to

⁵⁵ Exhibit 24695-X0236, PDF page 3.

⁵⁶ Exhibit 24695-X0265, SW-AUC-2021JUN23-009(b), PDF pages 11-12.

⁵⁷ Exhibit 24695-X0265, SW-AUC-2021JUN23-004(a), PDF page 6.

⁵⁸ Exhibit 24695-X0182, application.

December 31, 2020,⁵⁹ and indicated that these expenses included an allocation of the costs for the Specified Procedures Report by MNP LLP.⁶⁰ Sage Water's application did not provide any further detail about or support for the additional forecast amount of \$9,000 for January 1, 2021, to March 31, 2021. Sage Water forecast \$8,400 for professional fees for the 2022 fiscal year, comprising \$4,500 for the Specified Procedures Report⁶¹ and \$3,900 for audit fees.⁶² Its forecast for the 2023 fiscal year of \$8,568 was derived by applying a two per cent inflation factor to its 2022 fiscal year forecast.

74. Sage Water stated that the allocated costs for the Specified Procedures Report will likely not be required for the 2021-2023 fiscal years unless requested by the Village.⁶³ Notwithstanding, Sage Water's forecasts for each of the three test periods include \$4,500 for the Specified Procedures Report. The Commission accepts Sage Water's evidence that a Specified Procedures Report will likely not be required in each of the 2021, 2022 and 2023 fiscal years, and accordingly, has removed these costs from each of the test periods.

75. The resulting forecast for fiscal 2022 after the \$4,500 reduction is \$3,900, which represents the forecast audit fees for fiscal 2022. The Commission considers that this is also a reasonable forecast for the audit fees for the fiscal year ending March 31, 2021. Since the stub period comprises only a portion of the fiscal year ending March 31, 2021, the Commission finds that only the \$1,421⁶⁴ prorated portion of the forecast audit fees for the fiscal period ending March 31, 2021, should be included. The Commission therefore approves forecast professional fees of \$1,421 for the stub period; \$3,900 for fiscal 2022; and \$3,978 for fiscal 2023, which was derived by applying a two per cent inflation factor to the approved amount for the 2022 fiscal year.

4.2.10 Legal

76. Sage Water identified a \$420 expense to maintain a corporate registered office as part of its legal fees.⁶⁵ The Village stated that is not responsible for any legal fees. It added that the formation of three utility corporations was an "unnecessary waste of money for such a small enterprise."⁶⁶

77. The Commission is satisfied that the cost of maintaining a registered office is a valid expense for a water utility. Further, based on the quantum of the allocated legal fee and the Commission's experience with similarly sized water utilities, the Commission is also satisfied that the forecast legal expenses are reasonable and approves them as filed.

4.2.11 Reasonable return

78. Sage Water explained that its parent company obtained the water utility in a bankruptcy proceeding where the utility assets were not assigned a value and therefore, a return on rate base

⁵⁹ Exhibit 24695-X0225.

⁶⁰ Exhibit 24695-X0265, PDF page 10.

⁶¹ Exhibit 24695-X0265, PDF page 10.

⁶² Exhibit 24695-X0211, worksheet "C. Operating Expenses," Note d: "Professional fees includes allocation of estimated audit fees from parent company plus cost of utilities special report."

⁶³ Exhibit 24695-X0265, SW-AUC-2021JUN23-008(b), PDF page 10.

⁶⁴ November 19, 2020, to March 31, 2021, is 133 days. $133/365 \times \$3,900$ is \$1,421.

⁶⁵ Exhibit 24695-X0225.

⁶⁶ Exhibit 24695-X0217, PDF page 3.

is not possible.⁶⁷ It requested a reasonable return margin in its application as it has an obligation to provide water services.⁶⁸

79. Sage Water stated that the number of ratepayers is fixed and there is no opportunity to bring in additional customers. Given a fixed ratepayer base and revenues under \$500,000, Sage Water considers its operational risk to be high as it has a reduced ability to recover unforeseen costs.⁶⁹ Sage Water explained that it requested a 2.5 per cent return margin based on its review of Decision 2941-D01-2015⁷⁰ for regulated electric utilities. Sage Water argued that “the decision outlines a reasonable rate of return at an after-tax margin in the range of 1.25% to 1.75% depending on the provider (for electrical services) with an allowable return margin of 1.5%.”⁷¹

80. The Commission finds that Sage Water’s request for a 2.5 per cent after-tax return on its approved costs is reasonable, and approves it. In connection with established ratemaking principles followed by the Commission, Sage Water would be entitled to a return calculated using the net book value of its capital assets as the starting point. Sage Water has no discernible values for the capital assets that comprise the water operation. In the absence of capital asset values, the Commission considers that calculating a return component based on a percentage of Sage Water’s costs is the next best alternative. This is consistent with how the return margin is determined for the regulated rate option providers that the Commission regulates. Those providers have few capital assets and on that basis, the Commission has determined that calculating their return using a percentage of costs is fair.

81. The Commission finds that while the 2.5 per cent after-tax return for Sage Water is higher than the 1.25 per cent to 1.75 per cent range examined⁷² for the regulated rate option providers, the higher percentage return is reasonable as it reflects the increased financial and operating risk faced by Sage Water as a small water utility, as compared to the much larger regulated rate option providers.

4.2.12 Approved revenue requirements

82. A summary of the approved forecast operating expenses is provided below:

Table 5. Sage Water’s approved revenue requirement stub period – 2023

Operating expense categories	Stub period (November 19, 2020, to March 31, 2021)	2022 fiscal year (April 1, 2021, to March 31, 2022)	2023 fiscal year (April 1, 2022, to March 31, 2023)
	(\$)		
Potable water	85,789	234,684	239,771
Operator and customer care fees	14,786	42,421	43,546
Repair and maintenance	3,085	7,869	8,027
Lab analysis (water)	1,464	2,500	2,550
Site maintenance	1,719	4,500	4,590
Pump maintenance	13,133	35,000	35,700

⁶⁷ Exhibit 24695-X0182, application.

⁶⁸ Exhibit 24695-X0182, application.

⁶⁹ Exhibit 24695-X0182, application.

⁷⁰ Decision 2941-D01-2015: Direct Energy Regulated Services, ENMAX Energy Corporation and EPCOR Energy Alberta GP Inc., Regulated Rate Tariff and Energy Price Setting Plans – Generic Proceeding: Part B – Final Decision, paragraph 200, Proceeding 2941, Application 1610120-1, March 10, 2015.

⁷¹ Exhibit 24695-X0182, application.

⁷² Decision 2941-D01-2015.

Operating expense categories	Stub period (November 19, 2020, to March 31, 2021)	2022 fiscal year (April 1, 2021, to March 31, 2022)	2023 fiscal year (April 1, 2022, to March 31, 2023)
	(\$)		
Security	200	696	710
Consultants	9,160	-	-
Insurance	12,952	37,416	38,165
Bank charges	81	202	206
Legal	64	500	510
Professional fees	1,421	3,900	3,978
Corporate management fees	7,333	20,000	20,000
Office and administration cost sharing	459	1,200	1,224
Return margin revenue	5,089	13,117	13,389
Total revenue requirement	156,735	404,005	412,366

4.3 Rate structure

83. When Sage Water assumed water operations at the Prince of Peace site, it maintained the fixed-fee structure set by the previous operator. It noted in its application that only the fixed-fee charge for the senior care community increased on April 1, 2019.⁷³

84. In its application, Sage Water requested to change its rate structure to a two-step tiered structure to include a fixed monthly fee and a fee based on consumption, as set out in Table 4. Sage Water explained that the fixed monthly fee component of the two-step rate structure was determined using the fixed-fee amount per Rocky View County's Master Rate Bylaw for 2020 for East Rocky View Water Service.⁷⁴

85. The Commission asked Sage Water whether the frequency of meter reads would change under the proposed tiered rate structure.⁷⁵ Sage Water stated the following:

Meter reads would not be completed monthly but would continue to be completed at the end of each quarter. The tiered water rates would be assessed based on the average per month for the quarter. The meter reads will be completed for quarters ending June, September, December, and March with the customer invoices issued quarterly in the month subsequent to quarter end. Sage Water currently incurs customer care costs based on quarterly meter reads and invoicing, therefore there will be no change in costs.⁷⁶

86. As an alternative to changing the rate structure, the Commission asked Sage Water to comment on the possibility of leaving the current interim rate structure in place and adjusting the fixed monthly fees to collect any shortfalls between the approved revenue requirements and the revenue under the current interim rates.⁷⁷ Sage Water responded that it is agreeable to this possibility on the condition that the increases are applied only to the Village and the school.⁷⁸

⁷³ Exhibit 24695-X0182, application, PDF page 7.

⁷⁴ Exhibit 24695-X0182, application, PDF page 10.

⁷⁵ Exhibit 24965-X0214, SW-AUC-2021MAR26-002(c).

⁷⁶ Exhibit 24695-X0223, SW-AUC-2021MAR26-002(c), PDF page 2.

⁷⁷ Exhibit 24965-X0214, SW-AUC-2021MAR26-002(a).

⁷⁸ Exhibit 24695-X0223, SW-AUC-2021MAR26-002(a), PDF page 2.

Sage Water submitted that it increased the fixed-fee water rate for the senior care community effective April 1, 2019, and by doing so, it has effectively collected the increased rate.⁷⁹

87. The Commission finds the proposed tiered rate structure mechanism contemplated by Sage Water to be inaccurate because averaging the quarterly meter reads into monthly averages may not reflect true monthly consumption. It could result in customers not being charged the second tier usage rates even though they may have used more than the first tier volumes in a particular month. Moreover, implementation of a rate based, in part, on water consumption, cannot be reasonably effected without a fully functional meter at the school.

88. In view of the anticipated transfer of the water utility to Rocky View County, the Commission finds that by maintaining the current interim rate structure to develop final rates, the complexity of truing up interim rates to final rates under the tiered rate structure and the need for an immediate water meter replacement at the school would be avoided.⁸⁰

4.4 Final rate determination

89. Rates are designed based on approved revenue requirements. There is a minimum revenue requirement that a utility requires to operate and maintain its financial viability. In Sage Water's situation, the utility business has been operating with a static customer base on fixed rates that were not designed with a proper allocation methodology. When the revenue requirement that a utility needs to operate and the rates charged to recover that revenue requirement are not appropriately linked, the path forward to align the two will not be straightforward.

90. Determining final rates for the three customer groups for each of the test periods starts with the approved forecast amounts for each of the operating expense categories and the reasonable return for each of the three test periods. Those approved amounts are set out in Table 5, and reflect the decisions made by the Commission described previously.

91. The next step is to allocate the approved forecast amounts to each of the three customer groups. These allocations are intended to reflect the principle of cost causation, namely that those customer group(s) for whom the costs are incurred should pay for those costs through their rates. The Commission considers that, except for customer care fees, the rest of the forecast costs should be allocated to the customer groups on the basis of water usage.⁸¹ In the absence of a detailed cost-of-service study, which entails time and cost that is not likely to be warranted given the size of this water utility, the Commission considers that basing the allocation on the available water usage data is the fairest way to allocate the costs. While that data is imperfect given the absence of a fully functional meter at the school, it is the best evidence available to the Commission. It is also representative of the costs incurred, especially the cost of the water itself,

⁷⁹ Exhibit 24695-X0223, SW-AUC-2021MAR26-002(a), PDF page 2.

⁸⁰ In light of the Commission's decision to continue with fixed rates, the unreliability of the school's water meter is not an issue. However, any future application for tiered or volumetric rates would need to include a request for meter repairs or replacement.

⁸¹ Forecast annual water usage by customer group for 2021-2023 is included in Exhibit 24695-X0211, worksheet "B. Financial Projection," Excel cells G67-G69, H67-H69 and I67-I69. The forecast annual water usage by customer group is the same for all three years. The resulting percentage of the total annual water usage is 52.43 per cent for the senior care community (15,000/28,608); 3.52 per cent for the school (1,008/28,608); and 44.05 per cent for the Village (12,600/28,608). These percentages were used by the Commission to allocate all forecast costs, with the exception of the customer care fees.

which represents at least 55 per cent of Sage Water's total costs in each of the three test periods.⁸² The Commission considers that the costs for customer care fees should be allocated to the three customer groups on the basis of the number of bills.⁸³ The senior care community and the school each receive a single bill, while the Village receives 175 bills per quarter (one for each condominium unit).⁸⁴ Sage Water incurs more costs producing the bills for the Village as a whole and consequently this customer group should reasonably be allocated more of those costs.

92. Once all costs are allocated to each of the three customer groups, the resulting monthly fixed rates for each of the three customer groups are calculated by dividing the total costs allocated to the customer group by the number of months in the test period and then by the number of customers. The Commission used 4.4 months for the stub period and 12 months for each of fiscal 2022 and fiscal 2023. For each test period, the Commission counted the senior care community as one customer, the school as one customer, and the Village as 175 customers. The resulting monthly fixed rates using this allocation methodology are set out in the table below.

Table 6. Rates using full allocation methodology

Rate class	Stub period (November 19, 2020, to March 31, 2021)	2022 fiscal year (April 1, 2021, to March 31, 2022)	2023 fiscal year (April 1, 2022, to March 31, 2023)
Senior care community	\$18,403.52	\$17,328.18	\$17,690.34
School	\$1,239.26	\$1,167.47	\$1,191.84
Village*	\$91.31	\$86.69	\$88.47

*Village rate is per residential condominium unit.

93. The Commission compared the rates in Table 6 for the school and the Village to the existing interim rates that these customers pay, being \$757.90 and \$57.04, respectively. The resulting increases for the stub period would be \$481.36 or 64 per cent for the school, and \$34.27 or 60 per cent for the Village. The Commission typically considers any rate increase for a customer group that exceeds 10 per cent to constitute rate shock for the customers in that group. Typically, the Commission mitigates rate shock by "gradualism," which is the practice of phasing in rate increases over a longer period of time to allow customers to eventually pay their fair share of the allocated costs.

94. The Commission considers that it is just and reasonable to use gradualism in this case. The Commission will therefore set the final rates for the stub period for the school and the Village by increasing the current interim rates by 10 per cent. This will be followed by a further 10 per cent increase for the 2022 fiscal year, and another 10 per cent increase for the 2023 fiscal year. The resulting rates for the senior care community will be set to recover the remaining amounts of the approved revenue requirements for each of the test periods, after accounting for the revenues to be collected through the final rates for the school and the Village. The final monthly rates for each customer group for each of the test periods are set out in the table below.

⁸² $\$85,789 \div \$156,735$ is approximately 55 per cent in the stub period, $\$234,684 \div 404,005$ is approximately 58 per cent in fiscal 2022, and $\$239,771 \div \$412,366$ is approximately 58 per cent in fiscal 2023.

⁸³ Customer care fees are comprised predominantly of billing costs.

⁸⁴ The resulting percentages for allocating the customer care fees are therefore 0.56 per cent for the senior care community (1/177); 0.56 per cent for the school (1/177) and 98.88 per cent for the Village (175/177).

Table 7. Final monthly rates for the test periods

Rate class	Stub period (November 19, 2020, to March 31, 2021)	2022 fiscal year (April 1, 2021, to March 31, 2022)	2023 fiscal year (April 1, 2022, to March 31, 2023)
Senior care community	\$23,807.71	\$20,671.81	\$20,069.02
School	\$833.69	\$917.06	\$1,008.76
Village*	\$62.74	\$69.02	\$75.92

*Village rate is per residential condominium unit.

95. As is evident from Table 7, final rates for the school and the Village are higher than the interim rates, whereas final rates are lower than the interim rates for the senior care community by \$192 in 2021. The rates for the senior care community will be progressively reduced by a further \$3,136 in 2022, and by \$603 in 2023, while rates for the Village and the school will progressively increase in each of those years.⁸⁵ Progressively decreasing rates for the senior care community, while increasing rates for the school and the Village will allow Sage Water to recover the money it requires to run the utility; and, over the test years, bring rates for all three classes more in line with those calculated on the basis of a pure or full allocation methodology while mitigating rate shock to any customer group.

96. For these reasons, the Commission is satisfied that in the circumstances of this small water utility with a relatively small number of customers, this approach to setting final rates is just and reasonable.

4.5 True-up of interim rates to final rates

97. Interim rate orders are generally used by the Commission to mitigate against rate shock and to ensure the financial integrity of a utility while an application to establish final rates is before the Commission for consideration.

98. When the Commission approves interim rates, those rates function as placeholders and remain in place until the Commission approves final rates. The period that interim rates are in place is referred to as the interim period. Interim rates are put in place for the protection of the utility and customers until final rates are approved, but the level at which interim rates are set is not determinative in any way of the level at which the Commission will set final rates. When reviewing an application for final rates, the Commission conducts a more in-depth review of the costs that underpin a utility's rates. For this reason, approved final rates may end up being higher, lower, or the same as the approved interim rates. Once final rates are approved by the Commission, these final rates are substituted for the placeholder interim rates, generally starting from the date on which interim rates were set.

99. More specifically, once final rates are approved, the Commission calculates the difference between: (1) what the utility's revenue would have been during the interim period if final rates had been in place; and (2) what the utility's revenue was during the interim period when interim rates were charged. If the final rates are higher than the interim rates, customers will be required to pay the difference to Sage Water, through a mechanism and over a time period approved by the Commission. If, on the other hand, the final rates are lower than the

⁸⁵ Dollar amounts are rounded to the nearest dollar for ease of read.

interim rates, Sage Water will be required to reimburse customers for the difference through a mechanism and over a time period approved by the Commission.

100. An interim rates order essentially allows all parties to preserve rates at an approved level while the Commission hears from the applicant and all parties about what the final rates should be. An interim rates order also allows for appropriate adjustments once the final rates are determined. In this way, an interim rate order protects both the utility and its customers.

101. In this application, the Commission calculated Sage Water's final rates and found them to be higher than interim rates for the school and the Village and lower than the interim rates for the senior care community. This means that the school and the Village are required to pay the difference to Sage Water through a rate rider and the senior care community is entitled to be reimbursed through a rate rider.

102. The Commission recognizes the uncertainties around the timing of the utility asset transfer to Rocky View County and views that it would be practical for Sage Water to implement the riders as soon as possible. For efficiency purposes, the Commission has calculated and approves the riders set out in Table 8 for the true-up of interim rates to final rates for Sage Water, effective November 1, 2021, until March 31, 2023.

Table 8. Rate rider

Rate class	Rider effective November 1, 2021 to March 31, 2023
Senior care community	\$(1,554.32)
School	\$85.15
Village*	\$6.41

*Village rider is per residential condominium unit.

103. Combining the final monthly rates with the riders, the Commission approves the final monthly bill amounts as set out in Table 9:

Table 9. Final approved bill amounts

Rate class	Customer bill effective November 1, 2021	Customer bill effective April 1, 2022
Senior care community	\$19,117.49	\$18,514.70
School	\$1,002.21	\$1,093.92
Village*	\$75.43	\$82.33

*Village bill is per residential condominium unit.

104. The Commission reminds Sage Water that the approved rider is to be in effect only from November 1, 2021, to March 31, 2023. Any bills issued after March 31, 2023, must exclude the rider amounts included in Table 8. If Sage Water requires approval of rates beyond March 31, 2023, it would be required to file another rate application with the Commission.

105. Using the interim rates and the final approved billed amounts set out in Table 9, the Commission calculated the resulting revenues for the three test periods. These amounts are set out in the table below:

Table 10. Sage Water's revenues for the test periods

Rate class	Stub period (November 19, 2020, to March 31, 2021)	2022 fiscal year (April 1, 2021, to March 31, 2022)	2023 fiscal year (April 1, 2022, to March 31, 2023)
Senior care community	\$106,480.00 ⁸⁶	\$264,987.46 ⁸⁷	\$222,176.37 ⁸⁸
School	\$3,334.76 ⁸⁹	\$10,316.36 ⁹⁰	\$13,127.01 ⁹¹
Village	\$43,920.80 ⁹²	\$135,872.64 ⁹³	\$172,890.59 ⁹⁴
Total	\$153,735.56	\$411,176.46	\$408,193.96

Note: some differences may result between the numbers in the table and the numbers resulting from the calculations in the footnotes, due to rounding.

106. Sage Water's total revenues over the three test periods is therefore \$973,105.98.⁹⁵ This is the same as the total of the approved revenue requirements for the three test periods in Table 5.⁹⁶

4.6 Terms and conditions of service

107. Sage Water confirmed in an IR response that certain references to its Water System Tariff Terms and Conditions are incorrect.⁹⁷ The Commission directs Sage Water to update the following and submit the revised terms and conditions as a post-disposition document:

- (a) References in Section 13.3 should be references to sections 13.8, 13.9, 13.10 and 13.11.
- (b) References in sections 13.8, 13.9, 13.10 and 13.11 should be references to Section 13.3.
- (c) References in Section 16.2(e) should be references to Section 16.2(d).

4.6.1 Security deposits

108. The Village stated that every unit is required to pay a \$100 deposit when applying for utility service from Sage Water and its predecessor, but to its knowledge, refunds on security deposits were not issued.⁹⁸

109. Sage Water submitted that it does not hold security deposits from customers, and it was unaware of any security deposits when it assumed operations of the water utility in November

⁸⁶ \$24,200 x 4.4 months.

⁸⁷ (\$24,200 x 7 months)+(\$19,117.49 x 5 months).

⁸⁸ \$18,514.70 x 12 months.

⁸⁹ \$757.90 x 4.4 months.

⁹⁰ (\$757.90 x 7 months)+(\$1,002.21 x 5 months).

⁹¹ \$1,093.92 x 12 months.

⁹² \$57.04 x 4.4months x 175 customers.

⁹³ (\$57.04 x 7 months x 175 customers)+(\$75.43 x 5 months x 175 customers).

⁹⁴ \$82.33 x 12 months x 175 customers.

⁹⁵ \$153,735.56+\$411,176.46+\$408,193.96.

⁹⁶ \$156,735+\$404,005+\$412,366.

⁹⁷ Exhibit 24695-X0223, SW-AUC-2021MAR26-004(a) to (c), PDF page 3.

⁹⁸ Exhibit 24695-X0217, PDF page 5.

2016.⁹⁹ It added that there is no interest earned on security deposits because Sage Water does not hold security deposits.¹⁰⁰

110. Section 17 of Sage Water's Tariff Terms and Conditions is a provision for security for payment of bills.¹⁰¹ In general, the Commission considers the inclusion of such a provision, which gives Sage Water the ability to require security deposits, to be reasonable. However, the Commission finds that any complaint or dispute related to the return of security deposit amounts is outside the scope of the current proceeding.

5 Other matters

111. The Commission has approved final rates up to March 31, 2023. In the event Rocky View County completes the water pipeline connection to customers at the Prince of Peace site prior to March 31, 2023, the Commission directs Sage Water to notify the Commission of the exact date that Rocky View County will start providing water utility service to the site.

6 Order

112. It is hereby ordered that:

- (1) In accordance with the findings in this decision, Sage Water's revenue requirements for the 2020-2023 test period are approved in Table 5.
- (2) The approved bill amounts, as set out in Table 9, are approved on a final basis.

Dated on October 13, 2021.

Alberta Utilities Commission

(original signed by)

Kristi Sebalj
Panel Chair

(original signed by)

Carolyn Hutniak
Commission Member

⁹⁹ Exhibit 24695-X0223, SW-AUC-2021MAR26-004(d), PDF page 3.

¹⁰⁰ Exhibit 24695-X0223, SW-AUC-2021MAR26-004(f), PDF page 4.

¹⁰¹ Exhibit 24695-X0017, PDF pages 12-13.

(original signed by)

Vera Slawinski
Commission Member

Appendix 1 – Proceeding participants

Name of organization (abbreviation) Company name of counsel or representative
Sage Water Services Corp. (Sage Water)
Prince of Peace Legal Committee Individual residents of Prince of Peace Village

Alberta Utilities Commission
Commission panel
K. Sebalj, Panel Chair
C. Hutniak, Commission Member
V. Slawinski, Commission Member
Commission staff
N. Sawkiw (Commission counsel)
E. Chu
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. Sage Water confirmed in an IR response that certain references to its Water System Tariff Terms and Conditions are incorrect. The Commission directs Sage Water to update the following and submit the revised terms and conditions as a post-disposition document:
 - (a) References in Section 13.3 should be references to sections 13.8, 13.9, 13.10 and 13.11.
 - (b) References in sections 13.8, 13.9, 13.10 and 13.11 should be references to Section 13.3.
 - (c) References in Section 16.2(e) should be references to Section 16.2(d).
 paragraph 107

- 2. The Commission has approved final rates up to March 31, 2023. In the event Rocky View County completes the water pipeline connection to customers at the Prince of Peace site prior to March 31, 2023, the Commission directs Sage Water to notify the Commission of the exact date that Rocky View County will start providing water utility service to the site..... paragraph 111