

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

INFORMATION REQUEST NO: 1

TO: Hemlock Utility Services Ltd.

DATE: August 20, 2019

REFERENCE NO: 7527

APPLICATION NAME: 2019 Hemlock Water Revenue Requirements and Water
Rates Application

1.0 Reference: Application – Cover Letter, pg. 1, para. 2.0

Explanation: Hemlock Utility Services Ltd. (“HUS” or “the Utility”) states that “In 2015, a new treatment facility, which cost the company over \$850,000 was constructed to meet the current drinking water standards. After a year of operation, on October 13, 2016 the boil water advisory was rescinded.”

Request:

- 1.1 When did the Utility first receive a quote for the cost of the project? Was an action plan developed at this time to offset/recoup costs?
- 1.2 Why did the Utility not apply for a rate increase sooner, knowing that this project would require significant capital?
- 1.3 What is the useful life of the water treatment plant?
- 1.4 Was the Utility ordered to complete this project? If so, by whom and when? How long did the project take from when the order was received? Why did it take this amount of time to complete the project?
- 1.5 How many boil water advisories have the customers had since the implementation of the new treatment system? If any, how was the system compromised and what was done to remedy the situation? Does the treatment facility offer any new form of protection from the weather elements that have historically been an issue for water quality?

2.0 Reference: Application – Cover Letter, pg. 2, paras. 5 & 6

Explanation: HUS states that: “A potable water reservoir will satisfy peak demands that may occur with the addition of a hotel or housing development.” This project is estimated to cost \$350,000. Another project, which requires gradual replacement of the water distribution system, is estimated to take 10-15 years and cost \$3,000,000.

Request:

- 2.1 Please provide an estimate on the number of customers that will be served by the Utility in the next 10 years.
- 2.2 Identify how many customers will be commercial and how many will be residential.
- 2.3 Identify which of these customers will be in any way related to Ralph Berezan, Berezan

Group, Berezan Juniper Enterprises, or Sasquatch Mountain Resort.

- 2.4 How does the Utility plan on financing these projects? Does the Utility expect these projects to be funded by the customers? If customer funded, has the Utility formulated a proactive plan to avoid rate shock?

3.0 Reference: Application, Projected Cash Flow Statement, Forecast 2019

Explanation: Projected Cash Flow Statement, Forecast 2019 column

Request:

- 3.1 As the Utility's fiscal year-end is April 30th, please update the Projected Cash Flow Statement to include 2019 Actuals.

4.0 Reference: Application, Projected Cash Flow Statement, Connections/No. of Units

Explanation: The Projected Cash Flow Statement includes actual and projected number of units. No revenue is reported from the bunkhouse units until 2018, though the current approved Water Tariff No. 2, Schedule D, has rate of \$139.25 per quarter for each Bunkhouse unit.

Request:

- 4.1 Provide information regarding the bunkhouse units. Has the Utility billed the Resort for the Bunkhouses? If so, how has revenue for the bunkhouse been recorded?
- 4.2 Provide the rationale for using different unit measurements for the bunkhouse in the Rates section compared to the Revenue section. How many bed units are in a bunkhouse unit?
- 4.3 On average, how many people live in the bunkhouse each year? Provide historical data for the last 10-15 years if possible.
- 4.4 Provide an explanation for the projected increase in residential service. Specifically, regarding the proposed additional residential connections (20 additional residential connections by 2021). Will these connections be condos or cabins?

5.0 Reference: Application, Projected Statement of Cash Flows, Rates

Explanation: HUS provides actuals and proposed rates for residential and commercial customers. Actual rates reported for the low commercial and condominium common area are different from the rates set out in Water Tariff No. 2. The current approved rate for the low commercial users is \$229.48 annually (\$57.37 per quarter), however a rate of \$199.28 per annum was charged to these customers and only beginning in 2018. Moreover, no revenue is recorded for 2016 & 2017 from the condominium common area, the day lodge, or the bunkhouse.

The proposed residential rate is \$1,394.96 annually (\$348.74 per quarter) per residential unit.

Request:

- 5.1 Confirm the water rates charged to each customer class since Berezan Group acquired the water system.
- 5.2 How many customers were in each customer class in each year?
- 5.3 Provide the rationale for charging condos and cabins the same residential rate.
- 5.4 Provide a breakdown of the residential units split between detached single family homes, condominium units and cabins.
- 5.5 Is there a rate for seasonal use? If so, how many customers does the Utility estimate will take advantage of the seasonal rate?

6.0 Reference: Application, Projected Statement of Cash Flows, Revenue

Explanation: Residents accounted for 76% of total revenue generated in 2018. The proposed 2021 rates will see residential units covering 90% of total revenue. Many of these residences are used only a few times a year.

Request:

- 6.1 What are the commercial rates based on?
- 6.2 Explain why the residential service flat rate is increasing by 600% when the commercial rates are not increasing similarly. For example, the rate for the Day Lodge is increasing 100%. What is the Utility's rationale for having residents account for such a significant portion of the revenue?
- 6.3 Provide a listing of the existing commercial connections and their single family equivalents. What is the water used for at these locations?

7.0 Reference: Application, Projected Cash Flow Statements, Bank Charges

Explanation: Bank charges includes interest "paid to lender - Berezan Juniper Enterprises. It is based on 5% of the borrowed value. This interest amount is not including the cost of the water building. This is based on needed contributions to sustain operations while the water division was running as a deficit for many years".

Request:

- 7.1 What is the original borrowed value and terms of repayment?
- 7.2 Provide the terms of the agreement between HUS and Berezan Juniper Enterprises.

- 7.3 Provide the reasoning for HUS knowingly operating at a deficit for many years. Why did HUS take out a loan instead of raising rates?
- 7.4 How long has the Utility been making payments to Berezan Juniper Enterprises as a part of the agreement regarding the “needed contributions”. What is the total amount that has been paid to Berezan Juniper Enterprises for this agreement?
- 7.5 Separate credit card related charges from loan interest payable charges for all years where this expense contained both.

8.0 Reference: Application, Projected Statement of Cash Flows, Loan Interest

Explanation: The term of the loan is 5% interest over 12 years with a total borrowing amount of \$861,828.

Request:

- 8.1 What is the rationale for a 5% interest rate and a repayment term of 12 years? What other options were explored? What makes these terms the most appealing?
- 8.2 Is the loan spread out over the useful life of the water treatment plant? If not, why?

9.0 Reference: Application, Projected Statement of Cash Flows, Hydro

Explanation: Expense for Hydro increases \$1,000 each year in the forecast.

Request:

- 9.1 Explain why a hydro increase of \$1,000 per year is fair and reasonable. How much more power is the Water Division of HUS expected to use? Why?

10.0 Reference: Application, Projected Statement of Cash Flows, Management Fees

Explanation: The Utility has submitted a cost breakdown of the proposed management duties. It includes 140 hours annually at \$60/ hour for bookkeeping, 48 hours annually at \$150/hour for budgeting and year-end review, and 92 hours annually at \$150/hour for Executive Management duties.

Request:

- 10.1 Provide a detailed explanation for bookkeeping duties, budget/year-end review, and executive/management duties. Include the rationale for the amount allocated to each.
- 10.2 How does the Utility determine the costs for these activities? Is it based on a percentage of revenue or actual hours spent on management duties?
- 10.3 How did the Utility determine that \$60/hour is a reasonable amount for bookkeeping

duties?

11.0 Reference: Application, Projected Statement of Cash Flows, Wages

Explanation: “Wages are paid by Sasquatch Mountain Resort for our Operator, full wage for operator gets allocated to Hemlock Utility Services Ltd. Hemlock Utility allocates wages between divisions based on time spent on each division. This time is tracked by operations manager and allocated accordingly. An annual estimate for this operation is \$20,000.”

An additional operator is also said to be required as “maintenance duties have significantly increased with the water system”.

Also included is “10% of the wage of the general manager of the Resort. Approximately 10% of his time is being used on Utility Services projects”.

Request:

- 11.1 How many certified operators does the Utility employ? How many hours per week are spent on water activities and at what hourly rate?
- 11.2 How many hours are spent on hydro and sanitation? Provide a breakdown.
- 11.3 Provide a description of the activities undertaken by the full-time operator. What are the activities that will require the attention of a second operator?
- 11.4 Provide clarification on the claim regarding the general manager of the Resort that states, “10% of his time is being used on Utility Services projects.” Is 10% of his time used on all of the Utility projects including sanitation and hydro? Or, is the 10% allocation specific to water? If the allocation is just for water, what are the allocations for hydro and sanitation? Include the rationale that determined a 10% allocation was the best option.
- 11.5 What are the activities of the General Manager that necessitate his time being spent on the Utility? Provide a breakdown of the activities and the number of hours spent on each during the year.
- 11.6 What is the General Manager’s annual salary?
- 11.7 Who is the Operations Manager? Who pays their wage? Is any of their time spent on utilities?

12.0 Reference: Application, Projected Cash Flow Statement, Professional Fees

Explanation: “These fees are the year-end accounting fees performed by the external accountants.”

Request:

- 12.1 Describe the year-end duties completed by the external accountants.
- 12.2 How is the cost allocated between the water, sewer and electricity divisions?
- 12.3 Provide the consolidated financial statements for Hemlock Utility Services for the last 3 years. Include information on the allocation methodology of expenses on the income statement.

13.0 Reference: Application, Projected Statement of Cash Flows, Repairs & Maintenance

Explanation: “Chemicals for the Water Treatment plant purchased thru Cleartech Industries are approximately \$5,600 per annum”.

“Snow clearing around the hydrants and road to water building estimated at \$15,000 per annum based on actual cost of 2017. ... done and payable to the Resort”.

“Contingency for other repairs such as water main/pipe leaks, estimated average at \$20,500 per annum.”

“Miscellaneous projects \$20,000”.

Request:

- 13.1 Provide invoices from 2017 and 2018 for the chemicals purchased from Cleartech Industries.
- 13.2 According to residents’ comments and concerns, snow removal costs no more than \$1,000 per year per home. Explain how the clearing of the watershed and hydrants costs considerably more.
- 13.3 Explain the rationale for forecasting \$40,500 in miscellaneous and planned repairs. R&M has not exceeded \$40,500 in the last three years, and this only accounts for 68% of the projected repairs and maintenance expense for 2020.

14.0 Reference: Application, Projected Statement of Cash Flows, Expenses, Related Party Transactions

Explanation: Many expense items are payable to the Resort. For example, HUS states that “Rent is payable to the Resort for use of the office and inventory storage”.

Request:

- 14.1 For each expense item listed on the Statement of Projected Cashflows, indicate the dollar amount being charged or paid to a related party. Please format similarly to the provided

table.

EXPENSES	2017	2018	Amount to Related Party 2017	Amount to Related Party 2018
Bank Charges	\$ 7,289	\$ 9,858		
Loan Interest				
Bad Debt		50		
Hydro	4,317	5,882		
Insurance	10,396	8,445		
Licenses, Dues & Fees	571	586		
Management Fees	7,017	8,982		
Office Supplies				
Wages	36,152	27,837		
Professional Fees	1,348	2,930		
Automotive				
Rent	300	300		
Repairs and Maintenance	38,473	40,287		
Telephone	1,514	1,694		
Testing				
Professional Development		1,237		
TOTAL EXPENSES	107,377	108,088		

14.2 Please also identify who the related party is and what relationship makes them a related party.