

Hemlock Utility Services Ltd
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May 2, 2019

Chris McMillan
Secretary to the Comptroller of Water Rights
Utility Regulation Section
Ministry of Forests, Lands and Natural Resource Operations
PO Box 9340 Stn Prov Govt, Victoria BC V8W 9M1

RE: Rate Increase Application – Hemlock Utility Services Ltd.

MR. McMillan,

With this letter we are officially requesting a rate increase for the water services we provide to the customers at Hemlock Valley Area.

Current Water System:

The Hemlock Water System currently serves 230 customers within the community of Hemlock Valley. The system was installed between 1976 and 1980 and was built to provide raw water to the community. In that time the standards for potable water have changed, resulting in a boil water advisory for the community in 2005. The method of water treatment during that time was a simple chlorine injection on a solar panel. 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 After a year of operation, on October 13, 2016 the boil water advisory was rescinded. Producing potable water has increased the operation and maintenance requirements for the Hemlock Water System.

The daily labour requirements of the treatment facility have drastically changed from the chlorinator that was in place. The daily duties take considerably more time with filter cleaning, UV maintenance and data logging. The building itself requires more upkeep with increased snow removal needs and a backup generator. The Potable water system requires more maintenance than the previous boil advisory system. Cleaning and maintenance projects that were completed every 4 to 5 years are now annual expenses. An operator is required to be on call 24 hours a day for any treatment issues and the facility routinely requires attention. Currently there is one year-round operator, due to the increase in time demands the new water system has placed on our operator, we will be budgeting for an additional operator.

Major leaks have been a regular occurrence in the past 15 years and repairs have been completed. Water mains needs constant maintenance and this will likely be a constant trend until full replacement

occurs. To resolve this issue the water distribution system will need to be replaced, cost for this capital expense is listed below.

Future Projects / Capital Expenses

Replace Water Distribution System (2020-2035)

As listed the above the system is aging, and water mains/fittings are failing, and those failings are expected to increase. Estimated Costs to replace the old distribution system is estimated high at approximately \$3,000,000. (\$300/meter). This can be done in phases throughout the next 10 to 15 years.

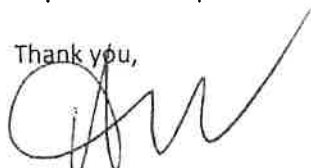
Potable Water Reservoir(2020-2021):

With the Future development of the Resorts Master plan, the peak flow of the treatment system will need to be increased. The daily volume of treated water is sufficient for current use, but the peak GPM may be exceeded in the future. A potable water reservoir will satisfy the peak demands that may occur with the addition of a hotel or housing development. This reservoir will also allow maintenance and cleaning to the system without interruption to services. A rough estimate of \$350,000 for construction of the pipelines and reservoir.

Overall Reason for Rate Increase

The Utility Company has been operating with the rates from the Tariff effect from 1994. The rates from the current Tariff are outdated and do not reflect current costs of the existing system resulting in Utility company operating on a deficit for many years. With the outdated rates and deficits, the Utility company still invested over \$850,000 (mentioned above) in a new treatment facility. The water rate increase of 7 times the current rate vital to Hemlock Utility Services sustainability, and is needed to be able to provide adequate maintenance and upgrades to its current system. Any future expansion may require more capital and will be address at a later date.

Thank you,



Ralph Berezan
President

**HEMLOCK UTILITY SERVICES LTD.
PROJECTED CASH FLOW STATEMENTS
FOR THE YEARS ENDING APRIL 30**

	ACTUAL			Forecast	Proposed Rate increase	
	2016	2017	2018	2019	2020*	2021
RATES:						
Residential service flat rate	\$ 199.28	\$ 199.28	\$ 199.28	\$ 199.28	\$ 1,394.96	\$ 1,394.96
Bunkhouse (each bed)					232.49	232.49
Day Lodge			10,466.00	10,466.00	20,932.00	20,932.00
Low Usage Commercial service flat rate			199.28	199.28	597.84	597.84
Condominium - Common Area			199.28	199.28	1,394.96	1,394.96
	-	-	-	-	-	-
	-	-	-	-	-	-
NO. OF UNITS:						
Residential service flat rate	230	230	230	232	244	250
Bunkhouse (each bed)			95	95	95	95
Day Lodge			1	1	1	1
Low Commercial (cat shop/ lift main / fire)	4.00		4.00	4.00	4.00	4.00
Condominium			2.00	2.00	2.00	2.00
	-	-	-	-	-	-
	234	230	332	334	346	352
REVENUE:						
Residential	45,854	45,723	45,452	44,330	267,434	348,740
Bunkhouse (each Unit)			1,903	1,903	11,043	11,043
Day Lodge			10,466	10,466	20,932	20,932
Low Commercial	797	797	797	797	1,993	2,391
Condominium					2,192	2,790
Hookup			1,000	400	2,400	1,200
Interest						
Other	890	260	260			
TOTAL REVENUE:	47,541	46,780	59,878	57,896	305,994	387,097
EXPENSES:						
Bank charges	7,231	7,289	9,858	10,000	10,000	10,000
Loan Interest					28,212	40,050
Bad Debt	168		50			
Hydro	1,924	4,317	5,882	5,000	6,000	7,000
Insurance	9,693	10,396	8,445	11,000	11,000	11,000
Licenses, Dues & Fees	455	571	586	600	600	600
Management Fees	7,131	7,017	8,982	6,369	24,480	30,968
Office Supplies	132			1,000	1,000	1,000
Wages	38,384	36,152	27,837	40,000	65,000	65,000
Professional Fees	1,348	1,348	2,930	1,350	1,350	1,350
Automotive	793			500	500	500
Rent	300	300	300	300	300	300
Repairs & Maintenance	15,151	38,473	40,287	60,000	60,000	60,000
Telephone	2,494	1,514	1,694	1,584	2,184	2,184
Testing						
Professional Development	1,254		1,237	2,000	2,000	2,000
Income taxes						
TOTAL EXPENSES	86,457	107,377	108,088	139,703	212,626	231,952
NET CASH	- 38,916	- 60,597	- 48,210	- 81,806	93,369	155,145
Lesss Loan - Principal payments					35,555	55,600
Add Authorized releases from Replacement Reserve Trust Fund						
Less Income Taxes						
Less Replacement Reserve Trust Fund Contributions					82,000	82,000
ADJUSTED NET CASH	- 38,916	- 60,597	- 48,210	- 81,806	- 24,186	17,545

* Year 2020- rate increase occurs partial year effective September 1, 2019, estimated revenue includes prorated amounts.

1. Bank Charges:
 - a. This account consists of Bank fees and Credit Card Fees and Interest
 - a. The Credit Card Merchant account used is for all three divisions (Sani, Water, Electrical), so we allocated the fees to each department based on percentage of revenue collected via credit card.
 - b. Interest is 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 water division was running as a deficit for many years.
2. Loan Interest:
 - a. Interest Portion of the Shareholder loan for the Water building construction. Loan rate 5% and amortized over 12 years.
3. Hydro:
 - a. Hydro paid based on usages and metered by the Electrical division of Hemlock Utility Services.
4. Insurance:
 - a. Paid to Gougeon Insurance. The amount for Hemlock Utility Services is allocated equally between all three divisions.
5. License fees & Dues:
 - a. Amounts included in this account are fees for annual reports, and fees paid for Water Act Revenue payments.
6. Management fees:
 - a. These costs are to cover wages for accounting team for bookkeeping, account receivable and cash management duties.
 - b. History is based on 15% percentage of revenue, which was undervalued for the time administration and executives time spent on this division.
 - c. Proposed management fee is calculated at 8% of revenue. This calculation is a better reflection of cost. Below is the average time spent on the Water division accounting and management duties:
 - a. 140 hours annually on bookkeeping duties at \$60/hr for a total of \$8400
 - b. 48 hours annual for budget/yearend review at \$150/hr for a total of \$7200
 - c. 92 hours annual for Executive/Management duties at \$150/hr for a total of \$13,800
7. Office Supplies:
 - a. General supplies for the office, stamping, paper, mail etc...
8. Wages:
 - a. 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.

- b. Increase in 2019-2020 is for an additional operator required to support the current operator, as the maintenance duties have significantly increased with the water system. Estimated wages for support operator would be approx. \$20,000-30,000 per year depending on the projects.
 - c. Included in wages is also 10% of the wage of the general manager of the Resort . Approximately 10% of his time is being used on Utility Services projects, which include working with Operator on various scheduling and planning tasks.
- 9. Professional Fees:
 - a. These fees are the year- end accounting fees performed by the external accountants.
- 10. Automotive:
 - a. Hemlock Utility uses the vehicles that are under the Resort ownership. The Resort will bill Utilities its share of mileage/maintenance.
- 11. Rent:
 - a. Rent is payable to the Resort for use of the office and inventory storage.
- 12. Repairs and Maintenance:
 - a. Chemicals for the Water Treatment plant purchased thru Cleartech Industries are approximately \$5,600 per annum.
 - b. Snow Clearing around the hydrants and road to water building estimated at \$15,000 per annum based on actual cost from 2017. Snow Clearing is done and payable to the Resort.
 - c. Contingency for other repairs such as water main/pipe leaks, estimated average at \$20,500 per annum. This is hard to budget for, as every water main and pipes are different, depending on time of year, excavation required etc.
 - d. Miscellaneous projects 20,000
 - e. Maintenance Program/software \$500/ annual
- 13. Telephone
 - a. Water building has its own phone line at \$120 per month billed monthly by Telus.
 - b. Emergency line is billed to Utilities and allocated equally to each division, \$12 per month per division.
 - c. Wireless connection communication upgrade. Estimated \$50/month.
- 14. Professional Development
 - a. A Budget for courses for the operators if required.