

ORDER NUMBER 2555

PROVINCE OF BRITISH COLUMBIA
OFFICE OF THE COMPTROLLER OF WATER RIGHTS

IN THE MATTER OF
the *Water Utility Act* and the *Utilities Commission Act*
and

Hemlock Utility Services Ltd.

**For Approval of
Revenue Requirements and Water Rates**

BEFORE:

Ted White, Comptroller of Water Rights
PO Box 9340 STN PROV GOVT
Victoria BC V8W 9M1

ORDER 2555

Dated this 27th day of January 2020

Whereas:

1. On May 6, 2019 Hemlock Utility Services Ltd. (“HUS” or “Utility”) made a rate application for approval of its forecast revenue requirements for fiscal years ending April 30, 2020 and 2021 and to increase water rates starting September 1, 2019. The Utility submitted supporting documentation including a statement of actual and forecast cash flows for fiscals 2020 and 2021 and proposed changes to its water tariff terms and conditions (collectively called “the Application”).

2. The proposed rates are:

Customer type	Rates per Quarter	
	Existing per tariff	Proposed
Residential	\$ 49.82	\$ 348.74
Day Lodge	\$ 2,616.50	\$ 5,233.00
Condominium	\$ 57.37	\$ 348.74
Low Commercial	\$ 57.37	\$ 149.46

3. A written hearing process took place with the Utility mailing Notices to all customers on June 21, 2019. The Notice provided customers with an opportunity to submit comments to the Comptroller by July 26, 2019. Seventy-two submissions were received.
4. By Order 2550 dated August 15, 2019 the Comptroller established a regulatory timetable which included one round of information requests. Customers wishing to submit final comments or concerns to the Secretary to the Comptroller were given until September 17, 2019. The Utility submitted their final comments on September 24, 2019.
5. The relevant evidence submitted by the Utility and the customers in a written hearing process has been reviewed and considered.

NOW THEREFORE, the Comptroller orders as follows:

1. The Utility is to deposit into its RRTF, 15% of rates collected effective September 1, 2019 and 20% of rates collected effective May 1, 2020. The Utility is to ensure that deposits to the RRTF are made as rates are billed and collected.
2. The Utility is required to submit the completed depreciation study by end of fiscal 2020, i.e. April 30, 2020.
3. The RRTF deficiency of \$140,000 is to be applied to the final cost of the water treatment upgrade project. For planned replacement of major water system components that may qualify as an RRTF expenditure, the Utility is required to obtain pre-approval from the Comptroller.
4. Pursuant to Section 50 of the *Utilities Commission Act*, a shareholder loan in the amount of \$722,000 is approved. The loan is to be repaid over twelve years at an interest rate of 5% with total principal and interest payments of \$80,124 per year or \$6,677 per month. The Utility is to submit with their annual reporting the shareholder loan repayment details.
5. Future borrowing for major capital projects shall be approved by the Comptroller's office prior to proceeding.
6. Total Revenue Requirements of \$221,912 for 2020 and \$292,863 for 2021 as shown on the attached Schedule A are reasonable and acceptable for rate setting purposes.

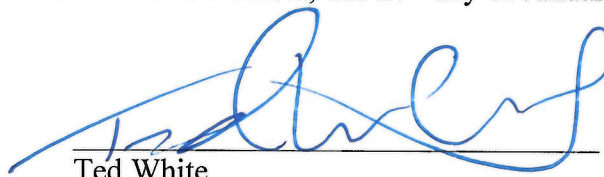
7. The following revised water rates are considered to be fair, equitable, and necessary for the Utility to meet its approved Revenue Requirements:

Water Rates, Per Quarter	Approved	
	2020	2021
Residential Service Flat Rate	<i>eff. Sept 1/19</i> \$ 180.00	<i>eff. May 1/20</i> \$ 234.00
Bunkhouses	3,150.00	4,095.00
Day Lodge	8,956.00	11,642.80
Commercial	197.00	256.00
Condominium - Common Area	197.00	256.00

8. The Utility is to comply with all other determinations and directives in the Reasons for Decision attached as Appendix A.

Accordingly, Hemlock Utility Services Ltd.’s Rate Application, as determined in the Reasons for Decision attached as Appendix A to this Order, is approved effective September 1, 2019 and Water Tariff No. 3 is accepted for filing by the Comptroller.

Dated at the City of Victoria, in the Province of British Columbia, this 27th day of January 2020.



Ted White
Comptroller of Water Rights

Attachment

IN THE MATTER OF

An Application by

Hemlock Utility Services Ltd.

**For Approval of
Revenue Requirements and Water Rates**

BEFORE:

Ted White, Comptroller of Water Rights
PO Box 9340 STN PROV GOVT
Victoria, BC V8W 9M1

REASONS FOR DECISION

January 27, 2020

1.0 Background

Hemlock Utility Services Ltd. (“HUS” or “the Utility”) is a privately held corporation that owns and operates a water system serving Sasquatch Mountain Resort, formerly Hemlock Valley Ski Resort, (“the Resort”). In addition to the water system, HUS also provides hydro and sewer services. Under the *Water Utility Act* and the *Utilities Commission Act*, the Comptroller of Water Rights (“the Comptroller”) regulates all privately-owned water utilities in British Columbia. The Comptroller does not regulate the hydro and sewer services provided by HUS.

The Utility commenced local operations in 1977, when the first Certificate of Public Convenience and Necessity (CPCN) was issued for 55 lots. Between 1978 to 1983, six amended CPCNs were issued to expand the service area of the water utility to a total of 295 lots. In June 2009, the Comptroller approved the transfer of the water utility to Hemlock Utility Services Ltd., a subsidiary company of 0762608 BC Ltd. (Berezen Group). Currently, the Utility has 238 residential units and six commercial customers consisting of a day lodge, bunkhouses, firehall, maintenance/workshop buildings, and tube park.

The Utility obtains its water supply through two provincial licences (C052148 and C058861) to divert up to a specified volume of water per year from Cohen Creek. In 2005, the Utility was placed under a boil water advisory by the Fraser Health Authority (FHA). In 2008, the FHA

issued a water contravention order to the Utility because the existing method of treatment did not meet the Ministry of Health’s 4-3-2-1-0 Drinking Water Treatment Objectives. In order to comply with the order, the Utility was required to upgrade the water treatment facility to include chlorination, filtration, and UV disinfection. The new water treatment facility was installed in 2015 and the boil water advisory was removed.

2.0 Introduction

On May 6, 2019 the Utility made a rate application for approval of its forecasted revenue requirements for fiscal years ending April 30, 2020 and 2021 and to increase water rates effective September 1, 2019. The Utility submitted supporting documentation including a statement of actuals for fiscals 2016-2018; forecasted cash flows for fiscals 2019-2021, and proposed changes to its water tariff terms and conditions (collectively called “the Application”).

Customer rates for the Utility have not changed since Water Tariff No. 2 was approved effective October 1, 1998. The Utility requests approval to increase the water rates in order to cover its operating and maintenance costs as well as set aside monies in the Replacement Reserve Trust Fund.

The proposed water rates are:

Customer type	Rates per Quarter	
	Existing per tariff	Proposed
Residential	\$ 49.82	\$ 348.74
Day Lodge	\$ 2,616.50	\$ 5,233.00
Condominium	\$ 57.37	\$ 348.74
Low Commercial	\$ 57.37	\$ 149.46

The Utility advertised the proposed rate increase by sending a Notice to its customers on June 21, 2019. The Notice provided customers with an opportunity to submit comments to the Comptroller by July 26, 2019. Seventy-two submissions were received. By Order 2550 the Comptroller established a Regulatory Timetable to allow for the written hearing process to continue. The Utility was required to respond to an Information Request and customers were given an opportunity to submit final comments by September 17, 2019. The Utility was given until September 24, 2019 to make their final reply submission.

All evidence, including relevant submissions from the Utility and its customers, has been taken into consideration. The issue to be decided by the Comptroller is whether to accept, set aside, or vary the forecasted Revenue Requirements and proposed water rate increase for the fiscal years ending April 30, 2020 and 2021.

3.0 Future development/expansion of the Utility's service area

The Resort Master Plan (RMP) outlines the future development plans for the Resort and surrounding area. The RMP would see a phased development of the current resort and surrounding areas, taking it from a seasonal to year-round resort. The proposed development would be completed in phases and if fully realized would see the controlled recreation area increase from 346 hectares to over 6,000 hectares. The pace of implementing the RMP will be driven by economic conditions and could take many years before buildout is reached. Residential housing, hotel accommodations and commercial services would increase over time and the water system capacity would need to expand to accommodate additional developments at the Resort.

In the next ten years, the Utility estimates that there will be 310 residential units (up from 238 units), a hotel and additional commercial space added to the service area. With the first phase of development, the current water treatment system would likely need to be expanded and a new water reservoir would need to be added constructed. The Utility estimates that the cost of the new reservoir and pipelines to be \$350,000. Existing customers would benefit from the new reservoir as it would allow for maintenance and cleaning of the system without interruption of service.

Comptroller Determinations and Directives

Under current CPCN Guidelines, a utility that is adding additional lots to its service area or amending the customer type for an existing CPCN approved lot is required to submit an application to the Comptroller's office. The CPCN application is reviewed to determine the adequacy of the existing system capacity and works required to serve the new development without adversely affecting existing customers. Approval of a CPCN Amendment authorizing these changes to the Utility's service area is required prior to any construction of the water works. The developer is expected to pay for the capacity expansions and any new capital costs required to provide service. It is expected that the capital costs of the water works will be contributed by the developer with financial support and contributions to other reserves as determined by the Comptroller. Where the additional works would benefit both the developer through future development and existing customers, existing customers may be required to fund a portion of the cost. Where a replacement reserve trust fund has been established, the customers portion may be eligible as an RRTF expenditure.

- **A CPCN Amendment application is required prior to expansion of the Utility's authorized service area.**
- **The developer is expected to pay for the capacity expansions and any new capital costs required to provide service.**

4.0 Revenue Requirements

Revenue Requirements ("RR") include forecast operating expenses, RRTF provisions, repayment of approved capital loans and operating margin. In order to ensure that the Utility

continues to provide its customers with adequate water service, it is necessary for the water rates to generate enough revenue to cover forecasted RR. The Utility has reported a net loss in each year since 2016 and the current water rates are insufficient for the Utility to cover its RR. Operating losses are not recoverable through customer rates and are to be subsidized by the Utility's owner.

The Comptroller considers the following issues as significant in determining the appropriate rates for the Utility in 2020 and 2021.

4.1 Bank Charges

Bank Charges consist of bank/credit card fees and interest paid to Berezan Juniper Enterprises, a related company. The credit card merchant account is used for all three divisions and fees are allocated to each division based on a percentage of revenue collected via credit card.

The interest paid to Berezan Juniper Enterprises is calculated at 5% of the borrowed value and does not include the cost of the water treatment upgrade project. The borrowed value of the intercompany balance increases each year when there are insufficient funds to cover expenses. The interest cost is based on the intercompany balance and there are no set terms of repayment.

In its Information Request Response (IRR), the Utility separated actual bank charges and interest due on the intercompany balance for 2016 through to 2019 (IRR 7.5):

	2016	2017	2018	2019
Bank charges	\$ 686	\$ 744	\$ 916	\$ 795
Interest on due balances	\$ 6,545	\$ 6,545	\$ 8,942	\$ 9,000
Total bank Charges	\$ 7,231	\$ 7,289	\$ 9,858	\$ 9,795

Comptroller Determinations & Directive

Past losses and interest accruing on those past losses are not recoverable through customer rates. Rates are set to recover future revenue requirements and cannot be made retroactive. It is the Utility's responsibility to review rates on a regular basis and make a rate application when necessary.

The Utility's request to recover interest accrued on past losses is not warranted. An annual budget of \$1,000 for bank charges related to bank and credit card fees should be adequate.

- **A forecast of \$1,000 per year for Bank Charges expense is approved for 2020 and 2021.**

4.2 Insurance

In the original Application, insurance cost for fiscal 2019 was forecast to be \$11,000 and was based on the prior year's actual insurance cost. In IRR, the Utility updated its forecast 2019 figures with 2019 actuals. The actual insurance cost for 2019 was substantially reduced from

\$11,000 to \$3,871. The Utility changed insurance providers in 2019 and annual insurance premiums with the new provider will be less than in previous years. HUS allocates the insurance amount equally between all three divisions.

Comptroller Determinations & Directives

Based on the actual insurance cost for 2019, insurance cost in the amount of \$4,000 for 2020 is approved. A slightly higher amount is approved for 2021 to take into consideration any minor increases to the annual premium. HUS' method of allocating the insurance cost equally among the three division is acceptable.

- **Insurance expense of \$4,000 for 2021 and \$4,200 for 2022 are approved.**

4.3 Management Fees

Management Fees are forecast to increase from \$10,313 (2019 Actual) to \$24,480 per year for 2020 and to \$30,968 per year for 2021. Included in management fees are wages for the accounting staff to complete billing and bookkeeping duties as well as the executive time spent to review year-end/budgets and overall management decisions related to the water system. The Utility calculated the proposed Management Fee based on 8% of the total forecast revenue. The Utility states that the percentage of revenue method "is a simplified method used to calculate management fees and is standard in other private enterprises". The Utility also provided the average hours HUS spends on the water division for management and bookkeeping tasks. Annually, 140 hours are spent on bookkeeping duties, 48 hours for budget/year-end review and 92 hours for executive/management duties, for a total of 280 hours.

Comptroller Determinations and Directives

While an increase to Management Fees is warranted, the Utility's method of basing the proposed management fee as a percentage of revenue is not approved. For rate setting purposes, management fees should be based on recovery of actual costs and/or fair compensation for actual time spent on these duties. The Comptroller accepts the total hours spent on the water division as provided by the Utility and finds that a management fee of \$28,000 per year (\$21,000 for management and \$7,000 for billing and bookkeeping) should be adequate compensation for this size and type of water utility.

The Utility should keep detailed time reports (position, actual time spent and on what specific tasks) and submit to the Comptroller with the next rate application to support any futures increases to Management Fees.

- **Management Fees, including billing & bookkeeping, of \$28,000 per year are approved for 2020 and 2021.**

4.4 Wages

The Utility proposes an increase in Wages from \$27,833 (Actual 2019) to \$65,000 per year starting in 2020. Currently, the Utility has one certified operator (operations manager). The operations manager is responsible for the water, sewer, and electricity divisions and wages are allocated between the three divisions based on the time spent. Due to the water treatment upgrades, the duties required to maintain the water system have increased and the Utility intends to hire an additional operator to support the operations manager.

In IRR 11.3, the Utility provided a detailed description of the duties required to maintain the water system, including but not limited to:

Treatment plant operation:

Cartridge Filter cleaning and maintenance, Profimat 100micron self cleaning filter maintenance, UV cleaning and maintenance, monitor/adjust chlorine dosing system, maintain turbidity sensor, Free chlorine sensor maintenance, monitor/adjust distribution pumps based on usage and lead/lag cycles, backup generator operation and maintenance, 24/7 response to alarm call outs, record keeping and logging of all work completed, data collection and spreadsheet management, PLC troubleshooting, weekly water samples, yearly detailed water sample, all ordering and pickups, communications with Fraser health, yearly reports.

Distribution System:

Monitor and respond to distribution system failures and water main leaks, locating water service boxes for homeowners and new builds, responding to freezing events and water leaks inside lot lines, maintenance to pressure reducing stations, maintenance and cleaning to the emergency balancing tank reservoir, 24/7 response to potential house fires (bypass treatment and engage emergency reservoir), Fire hydrant maintenance, Posting of boil water notices during adverse events.

In addition to the operator wages, a portion of the general manager's wages is allocated to HUS. The Resort allocates 30% of the general manager's time to HUS which is split evenly between the three divisions. Therefore 10% of the general manager's wage is allocated to the water division. The general manager provides support to the operator, including scheduling, project planning and approvals.

Comptroller Determinations & Directives

The Utility provided sufficient information to warrant hiring an additional operator to provide support to the operations manager (certified operator). This will ensure that the Utility is able to provide adequate coverage to complete routine monitoring and maintenance as well as to respond to service call-outs which will likely increase due to an aging system and customer demands. Currently, the Utility estimates that the operations manager spends 530 hours per year on the water division at an annual cost of \$20,000. Therefore, a budget of \$20,000 per year should be adequate to hire an additional operator to support the operations manager. An

additional \$10,000 per year is reasonable for the allocation of the general manager's time to provide general oversight.

The Utility should keep detailed time reports tracking the actual time spent and on what specific tasks by the operations manager, general manager and additional operator to support any future increases to Wages.

- **Total Wages of \$50,000 per year for 2020 and 2021 are approved.**

4.5 Professional Fees

The Utility has forecast \$1,350 per year for Professional Fees to cover the cost of year-end accounting duties prepared by external accountants. In IRR 12.0, the Utility explained that the external accountants are responsible for preparing year-end financial statements and tax returns for the Utility Company. The total cost is allocated evenly between the three divisions. The cost of having the Utility's financial statements audited is not a proposed expense put forward by the Utility in this application but was suggested by a few customers.

Comptroller Determinations and Directives

The cost of preparing audited financial statements can be quite prohibitive for small utilities and the cost would be recoverable through customer rates. The Comptroller will consider whether this expense is necessary in the future and may require the Utility to provide an estimate for having their external accountants prepare either a review or audited year-end engagement.

- **The forecast cost of \$1,350 per year for Professional Fees is reasonable for a notice to reader engagement and is approved.**
- **The Utility is to ensure that future annual report filings to the Comptroller include a copy of HUS' consolidated financial statements complete with balance sheet showing intercompany balances and shareholder loan, supporting notes and schedules as prepared by the external accountant.**

4.6 Repairs & Maintenance

The Utility forecast total Repairs and Maintenance (R&M) for fiscals 2020 and 2021 to be \$60,000 which was based on their estimate for 2019 actual expenditures. In IRR, the Utility reported that actual costs for fiscal 2019 were \$74,987. The average R&M expenditure between 2016 and 2019 was \$42,225 per year.

HUS allocates R&M costs to each division based on the actual costs directly incurred for each division. Approximately 40% of the R&M expenditures for the water division in 2019 were paid to Sasquatch Limited Partnership, a related party.

In the Application, the Utility provided a breakdown of the R&M expenditures which includes \$6,100 per year for chemicals, \$15,000 per year for snow clearing, \$20,500 per year for other repairs such as water main/pipe leaks and \$20,000 per year for miscellaneous projects. The

miscellaneous projects include items such as 1) fire hydrant and leak analysis which is to be performed by a third party in the 2020 fiscal year, and 2) water main leak analysis to find leaks in the system.

Comptroller Determinations and Directives

Based on the average of actual R&M costs for 2016 to 2019, an R&M budget of \$45,000 per year should be adequate to cover the cost of snow clearing, chemicals, routine maintenance and minor repairs/maintain the system on an ongoing basis. Year to year changes in actual R&M costs may fluctuate due to weather conditions and can be unpredictable/when problems arise, therefore \$45,000 per year represents a more reasonable normalized expense. Fire hydrant and watermain replacement costs may qualify for funding from the RRTF and therefore are not included in the approved R&M amount. The Utility should undertake a detailed/comprehensive plan on the proposed projects and submit to the Comptroller for pre-approval.

- **Repairs & Maintenance expense of \$45,000 per year for 2020 and 2021 are approved.**

4.7 Replacement Reserve Trust Fund

The Comptroller requires regulated water systems to set up and maintain a RRTF to ensure funds are available to replace water system components when required. The monies are set aside in a restricted bank account and no releases are allowed without the written authorization of the Comptroller. In the event the water system is sold or transferred, the RRTF is to be transferred with the system for the beneficial interest of the customers. Ideally, annual RRTF deposits should be equal to standard depreciation rates for water system components, generally around 2% of the total capital cost per year. This is calculated using Schedule A (Standard Depreciation Rates for Private Water Utilities in British Columbia) found in the CPCN Guide.

Order 1417 dated May 1, 1990 required the Utility to establish and maintain a RRTF with annual deposits in accordance with its approved water tariff. As per Water Tariff No. 2, the Utility is required to deposit \$6.87 from the residential quarterly flat rate to the RRTF, approximately 14% of the quarterly flat rate. Similarly, the Utility is required to deposit the equivalent portion from the other customer rates to the RRTF. As at fiscal 2019, the Utility is required to have \$146,000 set aside in the RRTF. This is based on the Utility billing the correct rates as set out in Water Tariff No. 2 for all customer classes, including commercial units owned by the Resort. The Utility has not contributed the required amounts to the RRTF.

Starting in 2020, the Utility proposes to contribute \$82,000 per year to the RRTF. This amount is based on an estimate provided by the Utility of the current replacement value of the water system.

Comptroller Determinations and Directives:

While the Comptroller supports the Utility's proposal to increase RRTF contributions to match the annual depreciation, it is prudent to adopt a phased-in approach to strike a balance between

setting aside adequate funds to pay for water system replacements as needed and the impact on customer rates. Therefore, RRTF contributions should be set at 15% of all rates collected for 2020 with an increase to 20% for 2021. At the approved water rates, annual RRTF deposits will increase from \$8,000 (Actual 2019) to \$33,287 (Forecast 2020) and to \$58,573 (Forecast 2021). This will ensure that monies are available to pay for water system replacements as and when required.

In the Application, the Utility submitted a depreciation schedule estimating the replacement value and annual depreciation for the water system. The depreciation schedule is incomplete and should be reviewed with the Utility's engineer. The Utility is required to resubmit the completed depreciation schedule, certified by their engineer by end of fiscal 2020.

The water treatment upgrades were a necessary expenditure and the final cost of \$862,000 has been approved as an authorized expenditure. It is appropriate to apply the RRTF deficiency towards the total project cost with the remaining balance to be repaid with a shareholder loan as determined in Section 4.8.

- **The Utility is to deposit into its RRTF, 15% of rates collected effective September 1, 2019 and 20% of rates collected effective May 1, 2020. The Utility is to ensure that deposits to the RRTF are made as rates are billed and collected.**
- **The Utility is required to submit the completed depreciation study by end of fiscal 2020, i.e. April 30, 2020.**
- **The RRTF deficiency of \$140,000 is to be applied to the final cost of the water treatment upgrade project. For planned replacement of major water system components that may qualify as an RRTF expenditure, the Utility is required to obtain pre-approval from the Comptroller.**

4.8 Capital Loan

In order to comply with FHA's order to install additional treatment, the Utility was required to complete an upgrade of the existing water treatment infrastructure. On November 4, 2014, FHA issued a construction permit authorizing the Utility to proceed with construction of the proposed water treatment upgrades, consisting of filtration, UV disinfection, chlorination, storage tanks, pumps, and a new treatment building. The project was completed in 2015 and in 2016 FHA removed the permanent boil water advisory.

The Utility submitted copies of invoices and engineer certified as-built drawings to support the final project cost of \$862,000 (net of GST). The project cost was funded by a shareholder loan and the Utility requests approval for the loan to be repaid over twelve years at an interest rate of 5%. Total proposed principal and interest payments would be \$95,650 per year.

In IRR 1.5, the Utility estimates that there have been four boil water advisories put in place since the water treatment upgrade project was completed in 2016. The advisories were the result of heavy rains causing high levels of turbidity as the reservoir is an open area. With the

improvements made to the system, the Utility can monitor turbidity levels and issue boil water advisories until the runoff from the mountains has time to settle.

The Utility requires approval from the Comptroller for any long-term borrowing pursuant to Section 50 of the *Utilities Commission Act*.

Comptroller Determinations & Directives:

The Utility was non-compliant with its FHA operating permit and the water treatment upgrades were a necessary expenditure. A review of the documentation submitted by the Utility was completed by the Section Head of Utility Engineering which determined that the cost of the water treatment upgrade was prudently incurred. The final project cost of \$862,000 is to be used to offset the \$140,000 deficiency in the RRTF with the remaining balance of \$722,000 to be repaid through the shareholder loan. It is appropriate to finance the project cost with a loan and repay through rates rather than use the RRTF. The RRTF has been depleted and will be needed for future water system component replacements. The repayment terms proposed by the Utility are reasonable and comparable to commercial lending terms provided by major financial institutions.

The Utility's explanation for the recent boil water advisories is reasonable and boil water advisories may be necessary from time-to-time due to the weather conditions as the reservoir is susceptible to the elements. The Utility should continue to monitor the situation and advise customers accordingly.

- **Pursuant to Section 50 of the *Utilities Commission Act*, a shareholder loan for \$722,000 is approved. The loan is to be repaid over twelve years at an interest rate of 5% with total principal and interest payments of \$80,124 per year or \$6,677 per month. The Utility is to submit with their annual reporting the shareholder loan repayment details.**
- **Future borrowing for major capital projects shall be approved by the Comptroller's office prior to proceeding.**

4.9 Operating Margin

Operating margin (net cash flow income) is calculated as percentage of total approved operating expenses and is meant to cover working capital needs (expenses incurred before revenues collected) and unexpected expenses. As shown on Schedule A, approved Forecast 2020 column, shows a net loss of \$13,405, based on annualizing forecast revenue and expenses for 2020. For 2021, operating margin is expected to be \$11,034.

Comptroller Determinations & Directives

A nominal operating margin is allowable. For 2020, the Utility will incur a net loss or may break-even due to the timing of the rate increase and when approved expenses will be incurred for 2020. In 2021, an operating margin equivalent to 7.7% of total approved expenses is acceptable. Net cash flow income is to remain with the water division to meet cash flow needs

and cover unexpected costs. The parent company is expected to subsidize the water utility operations as and when required.

- **Operating margin of 7.7% of total approved operating expenses or \$11,034 for 2021 is approved.**
- **Total Revenue Requirements of \$221,912 for 2020 and \$292,863 for 2021 as shown on the attached Schedule A are reasonable and acceptable for rate setting purposes.**

5.0 Tariff Amendments and Customer Rates

5.1 Customer classes

The Utility applied to increase the residential service flat rate from \$49.82 to \$348.74 per quarter, equivalent to a 600% increase, effective September 1, 2019. The residential service flat rate is applied to single family detached homes/cabins, multi-family townhomes, and condominiums. The Utility does not have the data to support who would use more water or less water between the different types of residential customers and felt it would be best to keep the rate the same for simplicity (IRR 5.3).

Proposed increases to the other customer classes including the day lodge and commercial users were shown to increase by different percentages. In particular, the proposed rate for the day lodge, owned by the Resort, would have seen the quarterly rate increase by 100% or from \$2,616.50 to \$5,233 per quarter. The Utility explained that as water usage is not metered they do not have a real indicator as to what the day lodge should be charged. The proposed rate for the day lodge was derived from comparing the day lodge rate to the municipal rates charged to casino and restaurant businesses located in different cities. (IRR 6.1)

Currently, there are five bunkhouses used for staff accommodations. The total number of beds between all five bunkhouses is 105. As the bunkhouses are different sizes, it was determined that it would be appropriate to calculate the rate by taking the proposed residential rate and dividing by 6 people per house (average 3 beds in a home and 2 people per bed). This resulted in a cost of \$232.49 per annum per bed at the proposed rate and is equivalent to 17.5 single family residential equivalents. (IRR 4.0)

Comptroller Determinations & Directives

The Utility did not justify its proposal to vary percentage rate increases between the various classes of customers that ranged from 100% to 600%.

- **Rate increases should increase by the same percentage for all classes of customers except that the bunkhouse rate should be calculated at the equivalent of 17.5 single family residential equivalents as proposed by the Utility.**

- **For future rate applications, the Utility should obtain, consider and provide to the Comptroller, detailed information for all customers (single family detached units, condominiums, townhomes and commercial users). The detailed information should include the number of bedrooms and number of suites (where applicable), bed units or equivalents and bed unit equivalent information for each commercial customer with an overall total number of bed units or bed unit equivalents.**

5.2 Seasonal rates

In the proposed Tariff the Utility added a clause to Schedule C for a seasonal rate equivalent to 50% of the full-time residential flat-water rate. Asked to estimate how many customers could potentially take advantage of this option, the Utility responded that it could not provide an estimate because it does not have historical data on seasonal usage. (IRR 5.5).

Comptroller Determinations and Directives

A seasonal rate would create a financially unviable situation and increase the cost of operating the system to the full-time residents. Water rates are set to ensure that the utility can recover its approved Revenue Requirements. Customers benefit from having water available at all times and it would be difficult and more costly to monitor seasonal usage.

Water rates are determined on the assumption that all customers pay the full-time rate to ensure the Utility's financial viability. To consider a seasonal rate would increase the burden to the few full-time residents when seasonal users benefit from always having water available.

- **The proposal to add a seasonal rate to Schedule C of Water Tariff No. 3 is not warranted and is denied.**

5.3 Water Rates

The proposed Water Rates are in excess of what is required to cover approved Revenue Requirements. Effective September 1, 2019 and May 1, 2020 the following revised water rates are considered to be fair, equitable, and necessary for the Utility to meet its approved Revenue Requirements:

	Approved	
	2020	2021
Water Rates, Per Quarter	<i>eff. Sept 1/19</i>	<i>eff. May 1/20</i>
Residential Service Flat Rate	\$ 180.00	\$ 234.00
Bunkhouses	3,150.00	4,095.00
Day Lodge	8,956.00	11,642.80
Commercial	197.00	256.00
Condominium - Common Area	197.00	256.00

Comptroller Determinations & Directives

- **The water rates as shown above are found to be adequate and are approved.**

5.4 Water Tariff Amendments

The other minor proposed changes to the Utility's existing filed Water Tariff No. 2 terms and conditions are warranted since the proposed changes were properly advertised, a review was conducted, and the changes are reasonable and in the public interest.

Comptroller Determination & Directive

- **It is appropriate to approve the other proposed minor changes to the terms and conditions of service in the Utility's Tariff and issue Water Tariff No. 3 effective September 1, 2019.**

5.5 Minimizing Rate Shock/Future Rate Applications

The Comptroller notes that water rates were last set in 1997, which is an unacceptable period of time between rate applications. The Utility should review its revenue requirements at least every three years to ensure the Utility's water rates are sufficient to meet operational requirements and protect the financial position of the Utility. It is the Utility's responsibility to regularly review the rates and ensure rates are adequate to recover the cost of service being provided to its customers. In general, customers are more tolerant of regular, smaller increases than one significant rate increase.

Comptroller Determinations & Directives

- **The Comptroller requires the Utility to review its water rates for adequacy and file a report with the Comptroller, as well as an application for revised rates if required, on or before April 30, 2021.**

6.0 Summary of Comptroller Directives

- **A CPCN Amendment application is required prior to expansion of the Utility's authorized service area.**
- **The developer is expected to pay for the capacity expansions and any new capital costs required to provide service.**
- **The Utility is to ensure that future annual report filings to the Comptroller include a copy of HUS' consolidated financial statements complete with balance sheet showing intercompany balances and shareholder loan, supporting notes and schedules as prepared by the external accountant.**
- **The Utility is to deposit into its RRTF, 15% of rates collected effective September 1, 2019 and 20% of rates collected effective May 1, 2020. The Utility is to ensure that**

deposits to the RRTF are made as rates are billed and collected.

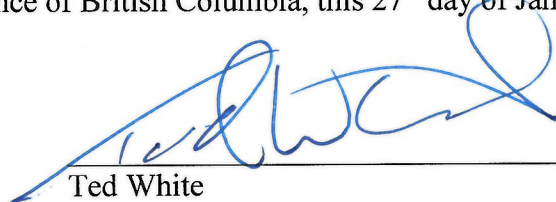
- The Utility is required to submit the completed depreciation study by end of fiscal 2020, i.e. April 30, 2020.
- The RRTF deficiency of \$140,000 is to be applied to the final cost of the water treatment upgrade project. For planned replacement of major water system components that may qualify as an RRTF expenditure, the Utility is required to obtain pre-approval from the Comptroller.
- Pursuant to Section 50 of the *Utilities Commission Act*, a shareholder loan in the amount of \$722,000 is approved. The loan is to be repaid over twelve years at an interest rate of 5% with total principal and interest payments of \$80,124 per year or \$6,677 per month. The Utility is to submit with their annual reporting the shareholder loan repayment details.
- Future borrowing for major capital projects shall be approved by the Comptroller’s office prior to proceeding.
- Total Revenue Requirements of \$221,912 for 2020 and \$292,863 for 2021 as shown on the attached Schedule A are reasonable and acceptable for rate setting purposes.
- For future rate applications, the Utility should obtain, consider and provide to the Comptroller, detailed information for all customers (single family detached units, condominiums, townhomes and commercial users). The detailed information should include the number of bedrooms and number of suites (where applicable), bed units or equivalents and bed unit equivalent information for each commercial customer with an overall total number of bed units or bed unit equivalents.
- The following revised water rates are considered to be fair, equitable, and necessary for the Utility to meet its approved Revenue Requirements:

	Approved	
	2020	2021
Water Rates, Per Quarter	<i>eff. Sept 1/19</i>	<i>eff. May 1/20</i>
Residential Service Flat Rate	\$ 180.00	\$ 234.00
Bunkhouses	3,150.00	4,095.00
Day Lodge	8,956.00	11,642.80
Commercial	197.00	256.00
Condominium - Common Area	197.00	256.00

- The Comptroller requires the Utility to review its water rates for adequacy and file a report with the Comptroller, as well as an application for revised rates if required, on or before April 30, 2021.

- **The proposal to add a seasonal rate to Schedule C of Water Tariff No. 3 is not warranted and is denied.**
- **It is appropriate to approve the other proposed minor changes to the terms and conditions of service in the Utility's Tariff and issue Water Tariff No. 3 effective September 1, 2019.**
- **The Utility is to comply with all determinations and directives in this Reasons for Decision.**

Dated at the City of Victoria, in the Province of British Columbia, this 27th day of January 2020.



Ted White
Comptroller of Water Rights

HEMLOCK UTILITY SERVICES LTD.
PROJECTED CASH FLOW STATEMENT
FOR THE YEARS ENDING APRIL 30th

	Actual			Proposed by Utility		Approved Forecast	
	2016	2017	2018	2019	2020	2021	2021
				Actual	Forecast	2020	2021
Water Rates, Per Quarter							
Residential Service Flat Rate, per quarter	\$ 49.82	\$ 49.82	\$ 49.82	\$ 49.82	\$ 49.82	\$ 49.82	\$ 49.82
Bunkhouses	139.25	139.25	139.25	139.25	139.25	139.25	139.25
Day Lodge	2,616.50	2,616.50	2,616.50	2,616.50	2,616.50	2,616.50	2,616.50
Commercial	57.37	57.37	57.37	57.37	57.37	57.37	57.37
Condominium - Common Area	57.37	57.37	57.37	57.37	57.37	57.37	57.37
No. of Connected Units							
Residential	229	230	230	233	233	233	238
Bunkhouses (17.5 SFREs)	1	1	1	95	1	1	17.5
Day Lodge	1	1	1	1	1	1	1
Commercial (Lift Maint Building, Cat Shop, Firehall & Tube Park)	2	4	4	4	4	4	4
Condominium (Common area)	1	2	2	2	2	2	2
Total Connected Units	234	230	238	335	241	258	263
REVENUE:							
Residential	45,854	45,723	45,452	44,330	46,508	348,740	222,768
Bunkhouses			1,903	1,903	2,785	11,043	16,380
Day Lodge			10,466	10,466	10,466	20,932	35,824
Low Commercial	797	797	229	797	797	2,391	4,096
Condominium	-	-	-	-	-	2,192	2,048
Hookup/Connection Fees	890	260	1,000	400	2,000	1,200	1,000
Other	47,541	46,780	59,310	57,856	68,750	387,096	292,863
TOTAL REVENUE							
Bank Charges & Interest	686	744	916	1,000	795	1,000	1,000
Interest on due balances	6,545	6,545	8,942	9,000	9,000	9,000	9,000
Bad Debt	168		50		296		
Hydro	1,924	4,317	5,882	5,000	6,839	7,000	7,000
Insurance	9,693	10,396	8,445	11,000	3,871	11,000	4,200
Licenses, Dues & Fees	455	571	586	600	515	600	600
Management Fees	7,131	7,017	8,982	6,369	10,313	30,968	28,000
Office Supplies	132			1,000	410	1,000	1,000
Wages	38,384	36,152	27,837	40,000	27,833	65,000	50,000
Professional Fees	1,348	1,348	2,930	1,350	4,020	1,350	1,350
Automotive	793			500	3,457	500	500
Rent	300	300	300	300	300	300	300
Repairs and Maintenance	15,151	38,473	40,287	60,000	74,987	60,000	45,000
Telephone	2,494	1,514	1,694	1,584	1,665	2,183	2,183
Professional Development	1,254		1,237	2,000		2,000	2,000
TOTAL EXPENSES	86,458	107,377	108,088	159,703	144,301	191,901	143,133
NET CASH (LOSS)	38,917	60,597	48,778	81,807	75,551	121,581	149,730
Less: Loan - Principal & Interest Payments	-	-	-	-	63,767	95,650	80,124
Less: Annual RRTF contribution	8,000	8,000	8,000	8,000	82,000	82,000	58,573
ADJUSTED NET CASH	46,917	68,597	56,778	81,807	75,551	17,545	11,034
RRTF Contribution Rate (From Rates Collected)							
Operating Margin (as % of Total Expenses)							
Revenue Requirements							
				0.0%	305,994	9.1%	292,863
						221,912	
						15.0%	20.0%
						0.0%	7.7%