



EPCOR Water (West) Inc.

**2015-2017 Revenue Requirement and Rates
Application
Final Argument**

March 16, 2015

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1.0 OVERVIEW OF FINAL COMMENTS

1. On December 19, 2014 EPCOR Water (West) Inc. (“EWW”) filed its 2015-2017 Revenue Requirements and Rates Application (“Application”).
2. On March 9, 2015 EWW filed its responses to information requests from the Office of the Deputy Comptroller of Water Rights (the “Comptroller”) and from interveners. Responses to questions raised by customers in their submissions were also filed.
3. In accordance with the Comptroller’s Order No. 2408, EWW submits these final comments.
4. In the Application, EWR sought the following approvals:
 - i. approval for annual rate adjustments to recover its forecast revenue requirements for the 2015-2017 test period;
 - ii. approval for revisions to the Water Tariff;
 - iii. approval for its proposed rate rider to recover deferral account balances;
 - iv. continuation of certain deferral accounts;
 - v. approval of its proposed capital structure and rate of return on equity subject to annual adjustment based on the BC benchmark utility return on equity;
 - vi. approval of allowance for funds used during construction; and
 - vii. approvals related to depreciation expense.
5. EWW submits that each of the approvals sought is reasonable and in the public interest. Moreover, to the extent that any concerns were raised in the information requests or customer questions filed in this proceeding, they have all been addressed. As a result, this Application warrants the Comptroller’s approval.
6. The cost of providing water utility services continues to face upward pressures as utilities are required to replace aging infrastructure and invest in capital upgrades to meet regulatory requirements. Further, EWW’s water consumption per customer has declined, and customer

growth has been lower than expected putting an upward pressure on EWW's water rates. EWW's proposed water rates will increase the monthly bill for a residential customer (based on consumption of 20m³ per month) by about \$8.50 per month in 2015. The corresponding increases for this same customer in 2016 and 2017 respectively are expected to be approximately \$5.80 and \$6.50 per month. These increases are driven by five factors: operating costs, capital costs, consumption, customer counts, and the rate rider.¹

7. EWW has demonstrated that the proposed rate increases are within the range of other utilities in area.² Lower than forecast customer growth combined with declining consumption means that the burden of covering costs associated with operating and maintaining a safe, reliable and efficient water system falls to the same pool of customers. When combined with declining usage per customer, primarily as a result of more efficient homes, appliances and responsible water usage, lower volumes translates into increasing rates.³

8. In sections 2 through 7 of this Final Submission, EWW outlines the relevant evidence respecting matters in which the Comptroller and interveners expressed interest in this proceeding. More specifically, section 2 of this Final Submission presents the relevant evidence for EWW's capital program in the past and the current test periods. EWW establishes that it has acted prudently in its capital programs and has established a clearly defined and well-examined capital plan for the upcoming test period that balances the needs of current and future customers.

9. Section 3 establishes that the operating costs EWW built into its proposed rates are both reasonable and prudent in light of key factors on which they should be evaluated. In section 3, EWW argues that its forecast salaries and benefits, which are derived from EWW's actual salaries costs from 2012-2014, are reasonable and should also be approved as the evidence clearly demonstrates that the costs associated with operating the utility are being prudently managed. The explanations of the operating cost categories and year over year variance explanations provided demonstrate that EWW is holding the line on costs where possible and is expecting its operating costs to increase by an average of 5% per year. In section 4, EWW

¹ Table 1.2-4, Application, page 6.

² Figures 1.4.1-1 and 1.4.1-2, Application pages 13-14.

³ MN-EWW-2.1.

explains its public consultations. EWW shows how it maintains contact with its customers in a variety of mediums. EWW shows how it has been transparent and responsive to its customers.

10. In section 5 EWW argues that the 10.05% rate of return on equity requested in the Application is entirely appropriate for a public utility in EWW's position, is consistent with rates of return awarded to other BC utilities and is a reflection of the financial and business risks associated with operating the rate base assets in French Creek.

11. In section 6, EWW demonstrates how the escalators proposed are reasonable and relevant to this utility and this test period. EWW used a number of external sources to establish and validate its escalators including the BC Ministry of Finance.

12. Finally, in Section 7 EWW explains the rate rider and the contributing factors to the large increase in it for the test period. EWW shows that slower than forecast customer growth in the last test period, combined with declining consumption has led to a large deficit in the consumption deferral account.

13. These final comments, in conjunction with EWW's Application and responses to information requests, demonstrate that EWW's Application is just and reasonable, prudent and in the public interest and as such should be approved by the Comptroller.

2.0 CAPITAL

2.1 Capital Programs 2015-2017

14. EWW's capital plan for the 2015-2017 test period is set out in sections 3.2 and 7 of the Application. More detailed descriptions of the capital projects planned for 2015-2017 test period and explanations of the need for each of the capital projects is provided in the Recommended Project Justification Sheets.⁴

15. In Order No. 2310, EWW was directed by the Comptroller to take steps to limit its future capital expenditures when filing its next revenue requirements application for 2015.⁵ EWW complied with this direction by implementing two processes: (i) through EWSI's Project Management Office, the proposed projects were rigorously reviewed;⁶ and (ii) EWW sought the expertise of the engineering firm of Kerr Wood Leidal ("KWL") to complete its 2014 Master Plan.⁷

16. The capital projects successfully completed during the 2012-2014 test period are set out in section 3.1 of the Application. In response to CWR-EWW-5.0, EWW has demonstrated that the implementation of the new billing software has resulted in efficiencies that now allow staff to devote more time to other operational activities.⁸ EWW submits that the completion of the other capital projects has served to enhance the safety and reliability of the system.

17. As noted in the Application at paragraph 52, when EWW determined that the costs associated with the wells projects would go beyond the amounts originally forecast, it identified non-critical projects that could be postponed to the next test period (2015-2017). Deferral of these projects⁹ allowed EWW to maintain capital program costs within the amount approved for the previous test period. Importantly, in consultation with KWL, costs associated with three of

⁴ Application, Appendix D, Master Plan, at pp 71 – 105 of 105.

⁵ Order No. 2310 – EPCOR Water (West) Inc. – Water Tariff and Revenue Requirements 2012-2014.

⁶ CWR-EWW-1.0.

⁷ Application, Appendix A, para 2-3.

⁸ CWR-EWW-5.0.

⁹ Application, para 53

the deferred projects are now anticipated to be less than originally forecast.¹⁰ Five projects deferred from the 2012-2014 test period are included in the capital plan for 2015-2017. EWW submits that its approach to its 2012-2014 capital plan was prudent having regard to the needs of its customers and its obligation to provide a safe and reliable water system.

18. EWW carefully reviewed the Master Plan prepared by KWL and determined that the projects, identified in section 3.2 of the Application, are necessary to address system reliability risks; regulatory risk; adequate asset protection and safety; and ongoing capital maintenance requirements.¹¹ Further evidence on some of these capital projects was provided in EWW's responses to information requests CWR-EWW-01, CWR-EWW-09, CWR-EWW-10, CWR-EWW-12, CWR-EWW-14, CWR-EWW-31, FCRA-EWW-17, FCRA-EWW-19, and FCRA-EWW-20.

19. EWW considers that all of the projects included in its capital plan, identified below, are prudent and necessary for the provision of safe and reliable water services.

20. **Well Tie-Ins:** Once source water approval is received from Vancouver Island Health Authority ("VIHA"), three wells need to be tied in to the system to provide sufficient capacity to meet current and future demands. These projects cannot be deferred as insufficient capacity results in an inability to meet the maximum daily demand. This may further result in water shortages during peak summer demands, could impact the emergency storage and, in turn, the ability to meet fire flow demands throughout the system. This is an unacceptable safety risk. These projects are partially contributed based on the supply and demand analysis in the Master Plan.¹²

21. **Drew Road Pump Station Upgrades:** This project, deferred from the 2012-2014 test period, consists of upgrades to the water treatment plant and pump station. It is required to improve safety and efficiency and to accommodate the additional water supply wells recently constructed. The existing hydraulic restrictions in the pump station will limit water supply

¹⁰ Application, Appendix A, para 4.

¹¹ Application, section 3.0, para 48.

¹² Application, Appendix D, Master Plan p 75-75 of 105.

capacity and aging infrastructure will be vulnerable to failure or downtime. This project cannot be further deferred because of the risk of asset failure.

22. **Dalmatian Drive Project:** There are 50 service connections along Dalmatian Drive that are disintegrating due to corrosion and service line pitting. Failure to replace these service connections will result in continuing water losses and will impose a financial burden on future customers.

23. **Well Decommissioning:** This project involves the decommissioning of three wells no longer in use. EWW must complete this project to comply with the *Ground Water Protection Regulation*.¹³

24. **Well Rehabilitation:** This project is necessary to maintain existing capacity or to restore lost capacity and is essential to the prudent management of EWW's most valuable assets. As noted in the Application, EWW's consultant has indicated that wells should be rehabilitated every five to ten years to extend their useful lives.¹⁴ EWW submits that this project must be completed to avoid more rapid deterioration of well capacity.

25. **System Balancing and Storage Control:** This project is required to address system redundancy and fireflows and is required for public safety.

26. **Church Road Complex Upgrades:** This project is required to improve system operation, efficiency and well capacity monitoring. Failure to complete this project will result in an unacceptable system risk.

27. **Church Road Reservoir Upgrades:** This project is required to prevent the possible contamination of stored potable water. As stated in CWR-EWW-13, this project cannot be further deferred as the interim solution of using Xyprex grout is no longer viable.

¹³ BC Reg 299/2004, s.9.

¹⁴ Application, section 3,2, para 91.

28. **Meter Replacements:** Meter replacement is part of EWW's ongoing capital program and is necessary to ensure accurate water usage and billing. Failure to complete this project will result in the costs of non-revenue water being imposed on all customers. EWW believes that it is prudent to follow industry standard and replace meters on a 20-year cycle.¹⁵

29. **Hydrants:** EWW plans to add additional hydrants because hydrant coverage in certain areas does not meet the guidelines from the Master Municipal Construction Document ("MMCD") Design Guideline Manual.¹⁶ Costs of the additional hydrants are fully allocated to fire protection services and are not recovered through rates charged to residential, multi-residential or commercial customers.¹⁷

30. EWW submits that for the reasons noted above, the proposed capital projects included in its 2015-2017 capital plan are necessary and appropriate and should be approved as filed.

2.2 Wells Projects

31. Section 3.1.1 of the Application provides detailed information about EWW's wells projects. Further evidence was submitted in EWW's answers to information requests CWR-EWW-02, CWR-EWW-28, FCRA-EWW-12, FCRA-EWW-15, FCRA-EWW-16, FCRA-EWW-17, FCRA-EWW- 18 and FCRA-EWW-19.

32. The purpose of the wells projects was to ensure the reliable source of supply for EWW's customers, to discontinue drawing water from French Creek to meet VIHA requirements and to meet expected customer growth.¹⁸ EWW drilled five successful wells, two of which have already been placed in to service. Following the receipt of source water approval from VIHA, it is expected that the remaining three new wells will be in service in 2015/2016. With five new wells in service, there will be sufficient capacity to meet current maximum daily demands with additional capacity available to supply new customers.¹⁹

¹⁵ CWR-EWW-10.1.

¹⁶ Application , Appendix D, p 85 of 105.

¹⁷ CWR-EWW-14.1.

¹⁸ Application, section 3.1.1.1, para 59.

¹⁹ Application, section 3.1.1.1, para 61.

33. EWW successfully obtained alternate and additional sources of water supply; however, development of this supply was challenging. Necessary but unanticipated expenses were incurred for each project. These expenses are detailed in section 3.1.1.3 of the Application and CWR-EWW-02 and are summarized below. Increased costs were necessitated by:

- work required to comply with the *BC Water Act Regulations* and the *Fisheries Act*, including water removal costs;
- additional work required to meet VIHA approval such as costs associated with new monitoring wells, repairs to existing monitoring wells and data collection from neighbouring wells;
- repairs to nearby non-conforming wells;
- the need to purchase a custom screen required to seal off between aquifers;
- the need to purchase a custom wellhead seal required by an artesian well; and
- site access issues including construction of access roads and culverts, forest clearing near highways and site leveling.

34. EWW recognizes that costs associated with the wells projects exceeded forecast costs however, the additional expenditures were reasonable, prudent and necessary to properly develop and tie in wells of sufficient capacity, meet American Water Works Association guidelines for screening and testing, to comply with applicable legislation and to address concerns of nearby landowners.

35. For the reasons noted above, EWW submits that the costs incurred for the wells projects were both necessary and prudently incurred. These costs are reasonable and should be approved as filed.

3.0 OPERATING COSTS

36. EWW's operating costs are described in section 5.0 of the Application, as well as in its responses to various information requests noted below. EWW's operating cost forecast for the 2015-2017 test period is based on its 2015-2017 operational plan, described in section 2.2 of the Application.

37. During the 2015-2017 test period, EWW will continue a number of its ongoing operational activities including, updating of operational procedure, well performance monitoring ensuring sustainability, water quality assurance program including testing and reporting to the VIHA, and annual updating of EWW's site-specific Emergency Response Plan. EWW also plans to conduct four operational programs: the Leak Detection Program, the Model Validation and Rezoning Study, the Geotechnical Study on Drew Road Reservoirs, and the Taste and Odour Study.

38. Over the three-year test period, EWW's operating costs are expected to increase by an average of 5% per year relative to the operating costs forecast for 2014.²⁰ These increases are primarily driven by general inflation and one-time increases in operating costs associated with the four operational programs described above, and updating the Master Plan in 2017.

39. The sections that follow refer to EWW's operating cost categories and demonstrate that EWW has provided a comprehensive and transparent explanation of the costs that form the basis for EWW's applied-for revenue requirement. EWW submits that its forecast operating costs for the 2015-2017 test period are based on an appropriate methodology, are reasonable and should be approved.

3.1 Salaries and Benefits

40. EWW's salaries and benefits costs are described in section 5.1 of the Application as well as in response to information requests CWR-EWW-18.0 and FCRA-EWW-26.0. EWW operates with a very small staff, approximately four full time equivalents. Consequently, the impact of

²⁰ Application, Financial Schedule 2.2

any vacancies, restructuring or shifts in the level of capital work is magnified for EWW as compared to larger utilities. Because of its location, EWW also strives to make efficient use of its local staff, having them work on operating or capital programs, as need dictates, and this requires greater flexibility in the salaries and benefits cost forecasts. In the 2015-2017 test period, management oversight services include oversight and leadership for EWW staff to ensure the operations meet EPCOR's work and product quality standards and conform to company policies and procedures. It is senior management's responsibility to ensure that safety, asset management and environmental risk management programs are adapted to the various sites and implemented throughout the BC region of the company.²¹ As EWW explained, these management oversight costs are not directly related to capital work to be completed in the test period.²²

41. As stated above, the impact of staff vacancies and organizational restructuring has a more magnified impact on salaries and benefits than would be seen in a larger utility. This is evidenced in the differences between the 2014 forecast and actual costs.²³ These one-time occurrences affect only the 2014 actuals, and demonstrate the potential volatility in these costs.

42. EWW demonstrated that the average rate of increase to salaries and benefits during the last test period was 1.8%, below the allowed wage and salary escalator of 2.0%, approved by the Comptroller. The volatility during the time period was primarily due to changes in management staff and the amount of overtime incurred by EWW staff.²⁴

43. Annual fluctuations in salaries and benefits expenses are generally due to increases and decreases in the levels of capital work where employees' time and expenses are charged to capital projects.²⁵ EWW notes that it has limited staff, who do their best to internally manage as much of the capital and operating work associated with the utility as possible.

44. EWW submits that for the reasons noted above, the forecast of salaries for the 2015-2017 test period are based on appropriate methodology, are reasonable and should be approved.

²¹ Application, Section 5.0.

²² CWR-EWW-18.2, FCRA-EWW-26.3

²³ CWR-EWW-18.1.

²⁴ CWR-EWW-18.3

²⁵ Application, Section 5.1

3.2 Operations and Maintenance

45. EWW's operations and maintenance costs are described in section 5.4 of the Application as well as in its responses to information requests CWR-EWW-1.0, CWR-EWW-4.0, CWR-EWW-5.0, CWR-EWW-6.0, CWR-EWW-7.0, CWR-EWW-26, FCRA-EWW-7.0, FCRA-26.0, and FCRA-EWW-28.0

46. EWW proposes to conduct a Leak Detection Program in 2015 in order to address water losses in the system,²⁶ which often exceed the 15% recommended maximum by the American Water Works Association. Delaying or cancelling this program presents a financial risk to customers now and in the future.²⁷ By examining the system leaks, EWW hopes to reduce the rate of leakage, thereby reducing overall costs to the system which must be recovered eventually. By reducing water losses, the operating costs are reduced, the system capacity is increased and the need for capital upgrades is reduced.²⁸ If EWW were to defer this project, the financial burden would be borne by its future customers.

47. The Model Validation and Rezoning Study is a precursor to a much larger project identified in the 2014 Master Plan. The Master Plan, Appendix D, completed by KWL, identified that there are deficient peak hour pressures in the Wembley area as well as numerous fire flow deficiencies elsewhere in the Main Pressure Zone which are related to low residual pressures in the Wembley area.²⁹ KWL proposed Project #6 – New Wembley Road Area Pressure Zone to address these deficiencies for an estimated \$2.7 million in the next test period (post 2017).³⁰ In order to validate the water model and the recommended upgrades in this project, the Model Validation and Rezoning Study is required. EWW submits that it must complete the proposed study in the 2015-2017 test period so that it can complete proposed Project # 6 in the post 2017 test period. Delay of Project # 6 is an unacceptable risk as an inability to provide adequate fireflows throughout the system would present a public safety and insurance risk.³¹

²⁶ Application, Section 2.2

²⁷ CWR-EWW-1.1

²⁸ CWR-EWW-7.1

²⁹ Appendix D, page 52 of 105.

³⁰ Appendix D, page 87 of 105.

³¹ CWR-EWW-1.1.

48. The Geotechnical Study on the Drew Road Reservoirs is required to address the deterioration of the reservoirs on Drew Road.³² This study is required in order to assess the current condition and need of repairs on these reservoirs to avoid potential catastrophic failure during the current or future test period.³³

49. EWW proposes a Taste and Odour Study in order to address anecdotal evidence provided by members of the Community Advisory Panel (“CAP”) at the meeting held on December 10, 2014.³⁴ EWW acknowledges that information differs from the results of the Customer Satisfaction Survey which indicates that 83% of EWW’s customers are satisfied with the tap water quality.³⁵ Although the experience of unpleasant taste and odour may be experienced by only some customers, because all of EWW’s customers expect the same quality, including taste and odour, the study cost would be borne by all customers.³⁶

50. Finally, EWW proposes to update its Master Plan in 2017 before filing a rate application for the subsequent test period. EWW uses a reputable engineering firm such as KWL because it has the experience and knowledge to analyze the French Creek system, including maintaining the hydraulic model and undertaking development review.³⁷ By not completing a new Master Plan in 2017, there is the potential for negative operational impacts due to inadequate system modelling and updates from actual development.³⁸ A Master Plan Update is also required to inform EWW’s capital plan for the post 2017 test period.

51. Through the information provided in its Application and responses to information requests, EWW submits that its forecast operations and maintenance costs are reasonable and should be approved as filed.

³² Appendix D, page 84 of 105.

³³ CWR-EWW-1.1.

³⁴ Application, section 2.2, pages 20-21.

³⁵ Appendix C, page 10 of 54.

³⁶ CWR-EWW-26.1.

³⁷ FCRA-EWW-24.2.

³⁸ CWR-EWW-1.1.

3.3 Inter-Corporate Service Charges

52. EWW's inter-corporate service charges are described in sections 4.6 and 5.6 of the Application, Appendices F-1 to F-3 as well as EWW's responses to information request CWR-EWW-21.0.

53. EWW explained the refinements that were made to the corporate services allocation methodologies since those approved by the Comptroller for EPCOR Water White Rock Inc.'s ("EWR") 2014-2017 Revenue Requirement and Rates application in CWR-EWW-21.1. As noted, the differences are minor, and reflect how EPCOR is reviewing the allocations on an annual basis.

54. EWW further showed how the services received by EWW through inter-corporate services are an excellent value for the money spent. These services, if obtained elsewhere as a stand-alone utility would cost rate-payers substantially more than those currently paid to EWSI.³⁹

55. Through the information provided in the Application and responses to information requests, EWW submits that its forecast of inter-corporate service charges are reasonable and should be approved as filed.

4.0 PUBLIC CONSULTATIONS

56. A number of customer submissions requested a public meeting. A number of comments suggested that EWW had not provided enough information about the rate increase. EWW does not agree with this suggestion and argues that it has consulted the public throughout the last test period, and throughout this rate application process.

57. EWW maintains regular contact with its CAP. CAP is a group of EWW's customers with whom EWW communicates through meetings and other correspondence. In 2013 and 2014,

³⁹ CWR-EWW-21.4.

EWW met with its CAP members three times each year.⁴⁰ Not only that, but when EWW scheduled a meeting to present the Application, and learned that at least one CAP member would be unable to attend, EWW scheduled an additional meeting that same day to ensure that it could communicate this information to all members that were able to attend.⁴¹ As a result of these meetings, EWW adjusted its Application to include the Taste and Odour Study to examine complaints of water quality that two CAP members reported on behalf of themselves and their neighbours.⁴² The presentation made at these two meetings, along with the meeting minutes were provided to the public in Appendices B-1 and B-2 of the Application.

58. EWW does not only rely on CAP to maintain contact with its customers, but also provides quarterly newsletters, operational updates and water conservation information to customers (mailed with bills).⁴³ EWW maintains current and historical information on its website, including all the documentation related to this Application and as well as the Annual Performance Reports provided to VIHA. EWW has also explained in its Notice of Application that paper copies of the Application would be available at its office.

59. For the reasons stated above, EWW submits that it strives to maintain regular contact with its customers through a variety of methods, including face-to-face interactions through CAP meetings, newsletters, bill inserts, and its French Creek website.

⁴⁰ FCRA-EWW-7.3.

⁴¹ FCRA-EWW-5.1.

⁴² Application, Section 2.2, pages 20-21.

⁴³ Application, page 18.

5.0 COST OF CAPITAL

5.1 Rate of Return on Equity

60. EWW's proposed rate of return on equity ("ROE") is described in section 8.2 of the Application and in its responses to information requests CWR-EWW-23 and FCRA-EWW-25.⁴⁴ EWW maintains that the proposed 130 basis point premium is reasonable because it faces a higher risk than that of the benchmark utility.⁴⁵ In addition, this 1.3% premium is the same as that previously approved by the Comptroller in EWW's two previous rate filings.⁴⁶

61. EWW recognizes that the Comptroller recently approved the ROE for EWR at 100 basis points above the BCUC benchmark. However, as indicated in its responses to CWR-EWW-23 and FCRA-EWW-25, EWW's risk is higher than that of both the benchmark utility and EWR for the following reasons:

- EWW's business risk has remained the same over the last two test periods. For each of those test periods, the Comptroller has determined that an appropriate rate of return on equity was 1.3% above that determined for the benchmark utility.
- The BCUC assessed the benchmark utility's ROE at 8.75%. EWW is less than 1% of the size of the benchmark utility and as such faces a higher risk. In a small utility, negative events have a much more significant impact.
- Although EWW faces a business risk similar to that of EWR; because of its smaller size, EWW's risk is higher. EWW's risk is also higher for reasons unique to its location. French Creek has a lack of economic diversity and limited growth prospects.
- A significant portion of the investment in the utility, which is required for new capacity additions, is funded through the Deferred Capacity Trust Fund ("DCTF"). EWW faces the additional business risk associated with the requirement to pre-fund capital projects costs associated with new capacity

⁴⁴ Application, Section 8.2, para 191.

⁴⁵ Application, Section 8.2, para 189.

⁴⁶ Order No. 2310 – EPCOR Water (West) Inc. – Water Tariff and Revenue Requirements 2012-2014; Order No. 2222 – EPCOR Water (West) Inc. - Water Tariff and Revenue Requirements 2009-2011.

additions and then recover these costs through the DCTF. EWW does not earn a rate of return on its funding of these capital projects and there is a significant risk to EWW of not recovering these costs through developer contributions in a reasonable timeframe if customer growth does not develop in the EPCOR's service territory.

62. On the basis of all of these factors, EWW submits that its request for a 1.3% risk premium is reasonable and should be approved.

5.2 Cost of Debt

63. EWW reflects new debt issuances through deemed inter-company loans.⁴⁷ EWW proposes to use the same approach to determine the cost of new long-term inter-company debt previously approved by the Comptroller: the cost of intercompany debt is proposed to be equal to the long-term cost of debt applicable to its parent company plus a risk premium and a transaction premium.⁴⁸ The risk premium applied to EWW is based on the spread between the cost of a new 20-year debt issue of EUI and the cost of the same issue to a BBB rated company. EUI charges its subsidiaries an interest rate for borrowing that reflects each subsidiary's own risks on a stand-alone basis. This approach ensures that there is no cross-subsidization between the individual businesses.

64. EWW submits that its cost of debt forecast is reasonable and to the extent that there are differences between forecast and actual interest rates, they will be reflected in the interest rate deferral account for the test period. On this basis, EWW requests approval for its cost of debt as filed.

⁴⁷ Application, section 8.3, para 192.

⁴⁸ Order 2310

6.0 ESCALATORS

65. EWW submits that the cost escalation factors proposed in the Application are appropriate for EWW's circumstances. EWW's proposed escalators are described in section 4.3 of the Application. EWW relied on written evidence prepared by Dr. David Ryan entitled, "Forecast Values of Escalators for 2014 – 2017"⁴⁹ (Appendix E to the Application, the "Escalators Report") which was prepared in September 2013 for the EWR 2014-2017 Revenue Requirement and Rates Application. EWW submits that the Escalators Report is also applicable to this Application.

66. In the information request process, the Comptroller expressed concerns about the relevance of EWW's evidence to support its proposed escalation factors for salary and construction costs given recent collapse in oil prices affecting inflation forecasts and the recent drop in the Bank of Canada lending rate.⁵⁰ EWW submits that the evidence provided by Dr. Ryan for salary escalators and construction cost escalators for 2016 and 2017 is still relevant and this position is supported by more recent salary forecasts obtained from the BC Ministry of Finance.⁵¹

67. In a report released on February 17, 2015, following the Bank of Canada's reduction in the prime lending rate and the recent drop in oil prices, the BC Ministry of Finance published its forecast salary escalators. Despite the economic changes, the Ministry's forecast salary escalators were 2.7% for 2016 and 2.8% for 2017. This compares to EWW's proposed salary escalator, based on Dr. Ryan's report, of 2.7% for 2016 and 2.7% for 2017. Dr. Ryan's report was prepared in 2013 based on medium term forecasts of the Conference Board of Canada and BC Ministry of Finance. As the conclusions drawn in the recent report from BC Ministry of Finance are very close to those drawn by the Escalators Report, EWW submits that the report is still relevant for this Application.

⁴⁹ Application, Appendix E.

⁵⁰ CWR-EWW-16.1

⁵¹ Table CWR-EWW-16.1-1

68. EWW provided evidence drawn from several different capital/construction price indexes and compared them to figures for all-item CPI and for BC, and that evidence formed the basis for the capital/construction escalators EWW built into its proposed revenue requirement. The most transparent and fair approach is to rely on the best industry-specific data available and reflect those data in the cost escalators, which EWW has done. EWW submits that its cost escalators are reasonable and in the public interest, and should be approved as filed.

7.0 DEFERRAL ACCOUNTS AND RATE RIDERS

69. EWW's four deferral accounts are described in section 6.0 of the Application:

- i. the Consumption Deferral Account;
- ii. the Property Tax Deferral Account;
- iii. the Interest Deferral Account; and
- iv. the Hearing Costs Deferral Account.

70. For the 2015-2017 test period, EWW proposes that the total net balances for the four deferral accounts,⁵² plus applicable carrying costs, be recovered by means of a rate rider. As explained in section 6.1 of the Application, the total balance of \$349 thousand largely reflects lower than forecast consumption volumes compared to amounts approved for the 2012-2014 period. The lower than forecast consumption during the 2012-2014 test period was primarily driven by two factors: (i) residential customer growth was lower than forecast; and (ii) consumption per customer was lower than forecast for residential customers.

71. EWW has adopted current utility practices whereby deferral accounts are excluded from the revenue requirement, a rate rider is utilized for recovery of balances and carrying costs are applied based on EWW's weighted average cost of debt. EWW proposes to continue this methodology of recovery in the 2015-2017 test period as approved in Order 2310. Financial Schedule 4.0 provides the derivation of the Rate Rider effective January 1, 2015 to December 31,

⁵² \$349 thousand as of December 31, 2014, Financial Schedule 3.1 of the Application.

2017 for each rate class. In the Application, EWW also proposes to continue the four deferral accounts for the 2015-2017 Test Period.⁵³

72. EWW notes that no objections or concerns were raised in respect of EWW's continuation of its four deferral accounts in the 2015-2017 test period and EWW submits that this continuation should also be approved as filed. EWW considers that its proposed recovery mechanism of the deferral accounts by way of rate riders is reasonable and should be approved as filed.

8.0 CONCLUSION

73. For the reasons provided in these final comments, EWW respectfully submits that the record demonstrates that the Application is just and reasonable, prudent and in the public interest and should be approved by the Comptroller as requested in section 1.0 above.

⁵³ Application, Section 6.3.