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June 12, 2015

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Mr. Rick Couroux
Secretary to the Comptroller of Water Rights
Utility Regulation Section
Water Management Branch
Ministry of Forests, Lands and Natural Resource Operations
PO Box 9340 Stn Provincial Government
Victoria, BC V8W 9M1

Dear Mr. Couroux:

**Re: EPCOR Water (West) Inc.
2015-2017 Revenue Requirement and Rate Refiling**

EPCOR Water West Inc. ("EWW") is pleased to submit its 2015-2017 Revenue Requirement and Rates Refiling (the "Refiling"). EWW has made the following adjustments to the Financial Schedules in accordance with the directions given by the Deputy Comptroller of Water Rights ("Comptroller") in Order No. 2420 ("Order 2420"). EWW has attached a refiled version of the Financial Schedules with the following changes. Revised rate schedules are enclosed as Schedule A (Water Rates) and Schedule B (Terms and Conditions).

1. Well Tie-Ins

In Direction 2 of Order 2420, the Comptroller stated:

Recognizing the experience of EPCOR Water Services and the fact that most remaining costs are for known construction activities, the Deputy Comptroller finds that a contingency of 10% should be applied to the Well tie-in projects' budgets for revenue requirement purposes during the 2015-2017 test period. EWW's revised cost apportionment between rate base funding and Developer funding is accepted.¹

Accordingly, EWW has updated the forecast costs for well tie-ins to reflect a 10% contingency, reflected in Financial Schedule 2.4, rows 1, 4 and 5.

¹ Order 2420, Direction 2, page 43.

2. Drew Road Pump Station Upgrades

In Direction 3 of Order 2420, the Comptroller stated:

EWW is to adjust the rate base funding for this project to 91% as identified and is to consider a soft start motor in place of one or two of the VFD motors during the final project design.²

EWW has updated the rate base funding for this project to be 91%, and 9% developer contributed, as reflected in Financial Schedule 2.4, row 16.

3. Dalmatian Drive

In Direction 4 of Order 2420, the Comptroller stated:

In an effort to moderate the impact of the proposed rate increases, the Deputy Comptroller believes it is reasonable to delay this project. During the test period EWW can monitor the number of failures to verify if the corrosion is consistent along the full length of Dalmatian Drive or if the adverse soil conditions are more localized.³

EWW has updated Financial Schedule 2.4, removing \$52,750 for 2016 and 2017 associated with this project, as reflected in line 27.

4. Well Decommissioning

In Direction 5 of Order 2420, the Comptroller stated:

In order to meet the BC Ground Water Regulations, both the Imperial and Lorendunn well are to be closed by 2017. As these wells are considered far less complex closures, an approved cost of \$25 thousand per well is accepted. The Oceanside well closure is to be deferred until the following RRA, at which point a detailed standalone closure cost is to be provided for closure in 2018.⁴

EWW has updated Financial Schedule 2.4, line 9, to reflect the \$50,000 approved in this direction for the two wells identified.

5. Ongoing Capital Maintenance Programs

In Direction 10 of Order 2420, the Comptroller stated:

The addition of six hydrants per year is approved. EWW is to confirm in its refiling that these costs have not been included into the rate calculation of residential, multi-residential or commercial customers.⁵

² Order 2420, Direction 3, page 43.

³ Order 2420, Direction 4, page 43.

⁴ Order 2420, Direction 5, page 44.

⁵ Order 2420, Direction 10, page 44.

Confirmed: The costs for the six hydrants were not included in the rate calculation for residential, multi-residential and commercial customers. In accordance with the 2011 Cost of Service Study, 100% of these costs are allocated to fire protection services.

6. Leak Detection Program

In Direction 12 of Order 2420, the Comptroller stated:

The Deputy Comptroller is not convinced that this leak detection program should proceed at this time when the proposed rate increases are so large.⁶

EWV has removed \$35,000 associated with the leak detection program, reflected in Financial Schedule 2.2, line 8, Contractors and Consultants for 2015.

7. Model Validation and Rezoning Study

In Direction 13 of Order 2420, the Comptroller stated:

The Deputy Comptroller considers that the Model Validation and Rezoning Study can be delayed until there is substantial growth to be added to the system or during the next Master Plan update, whichever comes first.⁷

EWV has removed \$30,000 associated with the Model Validation and Rezoning Study, reflected in Financial Schedule 2.2, line 8, Contractors and Consultants for 2015.

8. Taste and Odour Study

In Direction 15 of Order 2420, the Comptroller stated:

The Deputy Comptroller agrees with FCRA that this project should be cancelled and that EWV staff visit the two CAP members to verify their odour and taste concerns.⁸

EWV has removed \$25,000 associated with the Taste and Odour Study, reflected in Financial Schedule 2.2, line 8, Contractors and Consultants for 2015.

EWV confirms that staff will visit the two CAP members with taste and odour concerns by July 31, 2015.

⁶ Order 2420, Direction 12, page 44.

⁷ Order 2420, Direction 13, page 44.

⁸ Order 2420, Direction 15, page 45.

9. Master Plan Update

In Direction 16 of Order 2420, the Comptroller stated:

The Master Plan update cost is to be removed from the test period operating costs.⁹

EWW has removed \$26,000 associated with the Master Plan update, reflected in Financial Schedule 2.2, line 8, Contractors and Consultants for 2017.

10. Telecommunications Costs

In Direction 18 of Order 2420, the Comptroller stated:

Operations and maintenance costs are to be reduced for the lower telecommunications costs and reduced use of contractors and consultants.¹⁰

EWW has reduced the telecommunications costs, as it proposed in response to CWR-EWW-19.1, reflected in Financial Schedule 2.2, line 11. The costs for contractors and consultants have been reduced by \$3,500, as indicated above, as reflected in Financial Schedule 2.2, line 8.

11. Salaries and Benefits

In Direction 20 of Order 2420, the Comptroller stated:

The Deputy Comptroller directs that, for revenue requirement purposes, the test period escalator for EWW's salaries and benefits is to remain at 2%/year.¹¹

EWW has updated the salaries and benefits escalator to 2% per year, reflected in Financial Schedule 2.1, row 4, which is then used to escalate the Salaries and Benefits amounts in Financial Schedule 2.2, lines 1-3.

12. Power Cost Escalators

In Direction 21 of Order 2420, the Comptroller stated:

Power cost escalators should be corrected to 4.5% for 2016 and 3.6% for 2017.¹²

These changes are reflected in Financial Schedule 2.1, row 3, which is then used to escalate power costs in Financial Schedule 2.2, row 9.

⁹ Oder 2420, Direction 16, page 45.

¹⁰ Order 2420, Direction 17, page 45.

¹¹ Order 2420, Direction 20, page 45.

¹² Order 2420, Direction 21, page 45.

13. Cost Escalators for Other Operating Costs

In Direction 22 of Order 2420, the Comptroller stated:

Cost escalators for Other Operating Costs for the test period are to be set at 1.6% for 2015, 1.9% for 2016 and 2.0% for 2017.¹³

EWW has adjusted the BC CPI escalator as directed by the Comptroller. These changes are reflected in Financial Schedule 2.1, row 1. EWW has applied these escalators to the forecast operations and maintenance costs in Financial Schedule 2.2.

14. Capital/Construction Cost Escalator

In Direction 23 of Order 2420, the Comptroller stated:

In these circumstances, the Deputy Comptroller concludes that a very small reduction in the capital/construction cost escalator to 3.5% in each year is appropriate for the test period.¹⁴

EWW has adjusted the Construction CPI escalator as directed. These changes are reflected in Financial Schedule 2.1, row 3. EWW has applied these escalators to the forecast capital expenditures in Financial Schedule 2.4.

15. Deferral Account Balances

In Direction 24 of Order 2420, the Comptroller stated:

EWW has adequately explained and detailed its actual costs and variances from approved amounts for 2012-2014 to support recovery of the deferral account balances at December 31, 2014 through rate riders in 2015 to 2017. They are approved. However, EWW should first update its Table 6.1-1 to include actual 2014 amounts with adjustments to be made in its Application refiling. The Deputy Comptroller accepts the continuation of the four deferral accounts (CDA, PTDA, IDA and HCDA) for the 2015 to 2017 test period with carrying costs as proposed.¹⁵

EWW has adjusted its deferral account balance to 2014 actuals. This is reflected in column D of Financial Schedule 3.1, and is used to calculate the Rate Rider in Financial Schedules 3.4 and 4.0. Table 6.1-1 is reproduced below.

¹³ Order 2420, Direction 22, page 45.

¹⁴ Order 2420, Direction 23, page 45.

¹⁵ Order 2420, Direction 24, page 45.

Table 6.1-1

**Deferral Account Balances and Disposition through 2015-2017 Rate Riders
2012-2017**

(\$ thousands)

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Deferral Account Balances And Disposition		A 2012A	B 2013A	C 2014A	D 2015F	E 2016F	F 2017F
1	Deferral Accounts						
2	Balance, Beginning of Year	173	244	314	305	209	107
3	Current Year Deferrals						
4	Consumption	120	117	94	-	-	-
5	Property Taxes	1	0	(2)	-	-	-
6	Interest	(9)	(14)	(10)	-	-	-
7	Hearing Costs	6	13	1			
8	Current Year Deferrals	117	116	84	-	-	-
9	Amounts Refunded through (Recovered from) Rate Rider	(46)	(50)	(93)	(96)	(102)	(107)
10	Balance, End of Year	244	310	305	209	107	-
11	Carrying Charges						
12	Balance, Beginning of Year	19	22	29	47	32	16
13	Current Year Carrying Charges						
14	Mid-Year Deferral Account Balance	209	277	310	257	158	54
15	Weighted Average Cost of Debt	6.38%	6.01%	5.89%	5.79%	5.68%	5.65%
16	Current Year Carrying Charges	13	17	18	15	9	3
17	Amounts Refunded through (Recovered from) Rate Rider	(10)	(10)		(31)	(25)	(19)
18	Balance, End of Year	22	29	47	62	41	-
19	Disposition of Deferral Accounts						
20	Deferral Accounts	244	310	305	209	107	-
21	Carrying Charges	22	29	48	62	41	19
22	Total	266	339	397	271	148	19

16. Depreciation Rates

In Direction 26 of Order 2420, the Comptroller stated:

EWW has adequately explained its change in depreciation rates and forecast depreciation expenses for the 2015 to 2017 test period and they are approved after adjustments are made with the required Application refileing for reduction in forecast capital projects.¹⁶

EWW has updated its forecast capital projects as directed by the Comptroller. Depreciation expenses are reflected in Financial Schedule 2.6, lines 7 through 10.

¹⁶ Order 2420, Direction 26, page 46.

In preparing its Refiling, EWW found a discrepancy between the proposed and approved 60 year depreciation of concrete reservoirs in its Application¹⁷ and the depreciation used in Financial Schedule 2.5 for Structures and Improvements. EWW has corrected this in the Refiling in Financial Schedule 2.5. As stated in EWW's response to CWR-EWW-20.2, because the reservoir was developer funded, there is no impact on EWW's rate base, nor the customer rates as a result of this correction.

17. Working Capital Allowance

In Direction 27 of Order 2420, the Comptroller stated:

EWW's forecast working capital allowance is reasonable as it bills customers quarterly in arrears. However, EWW is to amend its forecast working capital allowance in its Application refiling for the 2015 to 2017 test period after making required adjustments to Operating Expenses.¹⁸

EWW has updated its working capital allowance, after making the required adjustments to operating expenses. This is reflected in Financial Schedule 2.6, lines 22 through 26.

18. Return on Equity

In Directions 30 and 31 of Order 2420, the Comptroller stated:

The Deputy Comptroller considers that the ROE premium over the BCUC low risk benchmark energy utility is to be 100 bp.

EWW's proposals regarding the BCUC AAM and ROE rate changes during the test period are accepted.¹⁹

EWW has adjusted its return on equity ("ROE") to 9.75%, which is 1.00% (100 basis points) above the benchmark BC utility of 8.75%. This is reflected in Financial Schedule 2.1 row 9 and in Financial Schedule 2.6, row 34.

Should the British Columbia Utilities Commission adjust the benchmark ROE for 2016 or 2017 through the automatic adjustment mechanism, EWW will file an application with the Comptroller for an adjustment to its ROE for these years.

¹⁷ Application, Section 4.7, page 46, CWR-EWW-20.2.

¹⁸ Order 2420, Direction 27, page 46.

¹⁹ Order 2420, Directions 30 and 31, page 46.

19. Forecast 20 Year Debt Rate

In Direction 33 of Order 2420, the Comptroller stated:

The forecast 20 year debt rate for new funding during the test period years is to be revised to 5.0% throughout the test period and any actual differences will flow to the interest deferral account.²⁰

EWW has updated its forecast cost of debt as directed. This is reflected in Financial Schedule 2.1, row 8 and Financial Schedule 2.7, row 11 for the years 2015-2017.

20. Availability of Service Charge

In Direction 34 of Order 2420, the Comptroller stated:

The Water Tariff changes will be accepted following review of the refiling with the corrected charges from CWR-EWW-25.1 and other corrections to be made as stated by EWW in its other IR responses.²¹

EWW has updated its Annual Availability of Service Charge, as proposed in CWR-EWW-25.1. This is reflected in Financial Schedule 1.3, line 27. The updated Availability of Service Charge is also reflected in Schedule 1, Water Rates from 2015-2017, and Schedule B-1, Water Tariff No. 4.

The combined impact of all of the above revisions results in reductions to EWW’s total revenue requirement of \$96,095 in 2015, of \$17,488 in 2016, and \$55,437 in 2017.

The revised revenue requirements for 2015, 2016 and 2017 are in row 17 of Financial Schedule 2.8. The final rates were established through smoothing the annual rate adjustments over the 2015-2017 period and to recover the total revenue requirement for the 2015-2017 period as shown in Financial Schedule 1.3.

The revised rate increases compared to the applied-for rate increases are presented below:

Rate Class		2015	2016	2017
Residential	Application	11.9606%	11.9606%	11.9606%
	Refiling	10.0175%	10.0175%	10.0175%
Multi-Res	Application	11.9606%	11.9606%	11.9606%
	Refiling	10.0175%	10.0175%	10.0175%
Commercial	Application	11.9606%	11.9606%	11.9606%
	Refiling	10.0175%	10.0175%	10.0175%

²⁰ Order 2420, Direction 33, page 46.

²¹ Order 2420, Direction 34, page 46.



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Additional Water Use	Application	11.9606%	11.9606%	11.9606%
	Refiling	10.0175%	10.0175%	10.0175%
Fire Protection	Application	11.9606%	11.9606%	11.9606%
	Refiling	10.0175%	10.0175%	10.0175%

These changes are reflected in row 10 of the Revenue Requirement and Revenue table in Financial Schedule 1.3.

EWV proposes to apply the final water rates and rate riders shown in attached Schedule A during its July billing period for consumption beginning April 1, 2015.

There will be a refund of \$11,556 to customers to reflect the difference between EWV's 2015 interim water rate increase and its 2015 final water rate increase, based on consumption from January to March 2015. EWV proposes to issue this refund to its customers by adjusting the 2015 rate rider charged to residential customers for consumption after April 1, 2015. The calculation of the refund and rate rider is presented on Financial Schedule 4.1.

EWV will deliver two paper copies of the Refiling to the Comptroller's office next week and can provide any additional copies upon your request.

Please contact me at (780) 412-8817 or Darrell Manning, Director Regulatory and Shared Services, at (780) 412-3041 if you have any questions.

Sincerely,

[Original signed by]

Carmen Piercey
Senior Manager Regulatory
EPCOR Water Services Inc.
Attachments

cc: Ron Simmons
Chief Financial Advisor
Utility Regulation Section
Water Management Branch
Ministry of Natural Resource Operations