



Reference: COVERING LETTER, Item 3

Explanation: *“As EWW is concluding a lengthy and expensive well development program, it is not forecasting any major system expansion in the test period. Furthermore, EPCOR Utilities Inc. acknowledges that it has entered into discussions with the Regional District of Nanaimo for the sale of the utility. As such, EWW’s focus is on maintaining the system in its current state.”*

Request:

- 1.1 What is the status of the discussions between the Regional District of Nanaimo (RDN) and EPCOR Utilities Inc.?
- 1.2 How do the capital expenditure requirements proposed in the Rates Application compare with the 2014 Water System Master Plan projections for the same period? Please explain the rationale for deferrals and/or discrepancies.
- 1.3 Do any of the capital expenditure deferrals introduce an element of future supply and/or quality and/or financial risk for customers?

Response:

- 1.1 EWW acknowledges that it has entered into discussions with RDN regarding the sale of the utility. These discussions were initiated by the RDN. As is customary in commercial negotiations, the parties are subject to a confidentiality agreement which requires that information regarding the potential transaction be confidential until complete.

Any sale of the French Creek Utility will require the approval of the BC Comptroller to ensure customers of the Utility are not harmed in any way by the transfer of ownership.

- 1.2 EWW has planned a number of investments for 2018-2020 which are described in section 3.2 of the Application. These include projects and programs required to replace aging infrastructure (ongoing capital maintenance programs for hydrant and meter



replacement); projects to meet regulatory requirements (well licensing and well decommissioning) and projects to improve reliability (standby generator).

In preparing its 2018-2020 Application, EWW reviewed the 2014 Master Plan including a review of the projects that were identified in the 2014 Master Plan as “Beyond 2018”. EWW considers that these projects, while important, are not critical for completion in the 2018-2020 period. The majority of the “Beyond 2018” projects are system piping projects to increase flow. As these projects were not prioritized in the Master Plan, EWW will review them in the next rate filing application.

- 1.2 No. EWW reviews its capital plans on an ongoing basis to ensure prudent upgrades are planned to ensure the system continues to provide safe and reliable water services. EWW has included the projects that have the potential to have a material impact on the reliability, water quality or financial health of the utility.

EWW’s 2018-2020 capital plan does not include expenditures related to providing additional capacity because there is no capacity shortfall to address. The recent well projects have provided additional capacity. Once the wells have been licensed under the new Water Sustainability Act, and the individual withdrawal ratings are assigned for each well, EWW will review future capacity requirements.



Reference: Section 1.0 OVERVIEW, Item 20, 1.4 2018-2020 Test Period Costs - Capital Related Costs

Explanation: *“Increased capital related costs (depreciation, interest and return on equity) as EWW concludes a six year capital intensive well development program. These assets are expected to be placed into rate base in 2017.”*

Request:

2.1 Has this been done and will it be part of the subject Rates Application assessment?

Response:

2.1 Refer to EWW’s response to CWR-EWW-3.1.



Reference: Paragraph 22, 1.4.1 Comparison of Water Rates

Explanation: *“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...”*

EPCOR CAP Comment 2: The 2014 Water System Master Plan identified many projects to be undertaken in 2018 and beyond to address future water distribution capital needs to ensure a reliable water supply. At the time, the Master Plan identified that the new wells being brought into service would add ~16.9 L/s of max day capability raising the total system max day capability to 52.4 L/s. In addition, the plan stated that the 2031 max day requirement was projected to be 61.3 L/s indicating that there was an additional 8.9 L/s max day requirement to meet the systems 2031 supply needs.

Furthermore, EWW identifies in Item 22 above, that it is facing upward pressures related to aging infrastructure and capital upgrades to meet regulatory requirements.

The EPCOR CAP notes that the Rates Application contains minimal expenditure related to the addition of system supply, the rehabilitation of aging infrastructure, or for regulatory requirement upgrades, during the 2018 – 2020 test period.

Request:

- 3.1 What technical analysis has EPCOR Corporate and or EWW undertaken since the completion of the 2014 Master Plan to conclude that maintaining the system in its current state for the period 2018 – 2020 is in the best interests of EPCOR consumers rather than to pursue projects related to the increased system supply, the replacement of aging infrastructure and capital upgrades to meet regulatory requirements?
- 3.2 How is EPCOR proposing to meet its projected capacity shortfalls?



Response:

- 3.1 EWW reviews its capital plans on an ongoing basis to ensure prudent upgrades are planned to ensure the system continues to provide safe and reliable water services. EWW has planned a number of investments for 2018-2020 which are described in section 3.2 of the Application. These include projects and programs required to replace aging infrastructure (ongoing capital maintenance programs for hydrant and meter replacement); projects to meet regulatory requirements (well licensing and well decommissioning) and projects to improve reliability (standby generator).

In preparing its 2018-2020 Application, EWW reviewed the 2014 Master Plan including a review of the projects that were identified in the 2014 Master Plan as “Beyond 2018”. EWW considers that these projects, while important, are not critical for completion in the 2018-2020 period. Ewes 2018-2020 capital plan does not include expenditures related to providing additional capacity because there is no capacity shortfall to address. The recent well projects have provided additional capacity. Once the wells have been licensed under the new Water Sustainability Act and the individual withdrawal ratings are assigned for each well, EWW will review future capacity requirements.

- 3.2 Refer to EWW’s response to CAP-EWW-3.1 above and to CAP-EWW-6.2



Reference: Section 2, SYSTEMS OPERATIONS, Item 36, 2.2 2018-2020 Operational Plan

Explanation: *“In addition to these continuing operational programs, EWW is planning the following operational initiatives:*

- Monitoring and optimization of new wells, determining how EWW’s water draw is affecting the aquifers; and*
- Adjusting water draws based on licensing due to the implementation of the Water Sustainability Act.”*

Request:

4.1 Are there any specific concerns that EPCOR customers could be negatively impacted by the adjusting of water draws due to the implementation of the Water Sustainability Act?

Response:

4.1 Refer to EWW’s response to CWR-EWW-8.1.



Reference: Section 3, CAPITAL PROGRAMS, Item 39

Explanation: *“EWW is committed to completing the capital program approved by the Comptroller in Order 2420. EWW has set an ambitious schedule to meet this goal by December 31, 2017 but acknowledges that some projects may be not be completed by that date due to weather or contractor availability that may affect cost management...”*

Request:

5.1 Has this program been completed as scheduled?

Response:

5.1 No, the approved capital program was not fully complete as of December 31, 2017. The following projects remain outstanding:

- i. The completion of the well projects was delayed due to a change in project scope as detailed in the Application (paragraph 48). The well projects are expected to be completed early summer 2018 (depending on weather and contractor availability).
- ii. One hydrant was not completed due to the snow storm in December 2017 that caused a safety issue for the installation. The Drew Road project completion was delayed as required equipment (variable frequency drives) did not arrive in time. The equipment was installed in January 2018 and the programming will be completed in February 2018.

As indicated in the Application, section 3.0 (paragraph 39), the costs for the capital program approved by the Comptroller in Order 2420 are appropriately included in the 2015 – 2017 rates period and not in the 2018 – 2020 capital forecast.



Reference: Item 41, 3.1.1 2015-2017 Capital Programs Overview

Explanation: *“During 2015-2017, the focus of EWW’s capital program was primarily to address supply issues associated with upgrading aging well infrastructure, replacing water supply from French Creek, developing sufficient supply to reliably meet existing customer demand and preparing for expected future demands. EWW is continuing to work with VIHA to put Church Road (TWs1) and Springhill Road (ACs1) into service. EWW expects this work to be completed by the end of 2017.”*

Request:

- 6.1 Was this work completed by the end of 2017?
- 6.2 Did the 2015-2017 programs develop sufficient supply to reliably meet existing customer demand and to what extent did it prepare to meet expected future demands?

Response:

- 6.1 Refer to EWW’s response to CWR-EWW-3.1.
- 6.2 There is no capacity shortfall at this time. In the 2014 Master Plan the max day demand was estimated to be 46.3 L/s. With the expected additional capacity from the new wells of approx. 16.9 L/s the total production will be approx. 52.4 L/s. With a population growth projection of less than 1% there is sufficient supply for future growth and time to develop new supply when needed. Once the wells have been licensed under the new Water Sustainability Act and the individual withdrawal ratings are assigned for each well, EWW will review future capacity requirements.



Reference: Item 44, 3.1.1.1 Well Projects (Rows 1 – 4)

Explanation: *“The four well projects, rows 1-4 of Table 3.1.1-2, cost \$641 thousand more than forecast...”*

EPCOR CAP Comment 3: The 2015-2017 Rate Decision, Section 3.1 2012-2014 Capital Programs, Deputy Comptroller Determinations, Page 8, states: *“The Deputy Comptroller is very concerned with the EWW inability to have forecast the cost of the well programs with any accuracy.”* Page 9 states: *“The Deputy Comptroller does not find a level of cost overruns related to the well program that would warrant punitive action, but EWW will be expected to improve its forecasting ability for future capital additions. EWW should rely on advice and training from EWSI that should be provided within the existing Inter-corporate cost allocations of EWSI.*

Furthermore, the Summary of the Deputy Comptroller Determinations, Item # 2 on page 45 of the 2015 - 2017 Rate Decision states: *“... 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.”*

The cost overruns identified in Item 44 are significant. The forecast of \$1,335,000 for the “four well projects” in rows 1 – 4 of Table 3.1.1-2 represents a 92% increase over the 2015 - 2017 Decision amount of \$694,000.

Presumably, EWW had incorporated the Deputy Comptrollers previous concerns related to improving its forecasting ability and incorporated contingencies in all capital estimates at a level appropriate to the nature and type of capital investment.



Request:

- 7.1 Explain the reasons for these significant cost overruns and how they could have been avoided. Was EWSI consulted in the preparation of the project estimates?
- 7.2 What measures has/will EWW put in place to better estimate and manage planned and future project costs?

Response:

- 7.1 As mentioned in section 3.1.1.1 of the Application (paragraph 44), the cost overruns were primarily due to EWW inadvertently not including Allowance for Funds Used During Construction (“AFUDC”) or Capital Overhead costs in its forecast in the 2015-2017 RRA. EWSI’s project management processes and controls would typically catch this type of omission. However, because the project details contained in the 2014 Master Plan were inputted directly into EWW’s 2015-2017 RRA due to time constraints, missing some of the regular project management processes, the omission of AFUDC was not identified. The remainder of the cost overruns was due to additional unanticipated costs incurred to satisfy the VIHA request to add additional protection in the sanitary control boundary for ACS1 and TWS1 wells.

EWSI was not consulted in the preparation of the project estimates but has general oversight of capital projects through the EWSI Water Capital Steering Committee.

- 7.2 EWW will require contractors bidding on EWW projects to provide more detailed cost estimates. Additionally, given the nature of the work planned for the 2018 – 2020 time period (i.e. work that has been done before), EWW will be able to rely on historical cost information to support its cost forecasts. As such, EWW expects that the cost forecasts will be more accurate. EWW notes, however that underground work (wells) is always difficult to estimate due to the unknown condition below the surface. In future, EWW will aim to complete the master plan updates in a more timely manner so that project management processes and controls are not missed.



Reference: Section 4, METHOD AND KEY ASSUMPTIONS, Item 93, 4.6 Inter-Corporate Services

Explanation: *“As a member of the EPCOR group of companies, EWW obtains certain services from EUI and EWSI (referred to as inter-corporate service) which are necessary to enable EWW to carry on business as the owner and operator of the Utility. This structure allows EWW to focus on its core business of water operations and meeting customer needs while reducing administrative and shared-services costs compared to that of a stand-alone utility. Furthermore, this structure allows EWW to benefit both from the extensive experience and expertise that resides within other members of the EPCOR group and from economies of scale and scope that arise from the EPCOR group’s inter-corporate services approach to its business operations.”*

Request:

8.1 By way of specific examples, what were the benefits that EUI and EWSI provided in the 2015 – 2017 test period?

Response:

8.1 A detailed description of the corporate shared services provided by EUI to its subsidiaries is provided in Appendix D-2 to the Application. A detailed description of the shared services provided by EWSI to EWW is provided in Appendix D-3 to the Application. EUI and EWSI provided these ongoing support services to EWW during the 2015-2017 test period.

Some specific examples of the benefits that EUI and EWSI provided in the 2015-2017 test period include: business computer and billing software system safety and security; capital project oversight; purchasing and contract management; health safety and environment oversight and emergency response planning; community relations and community advisory panel; regulatory; payroll processing, talent management; finance support.