EPCOR Water (West) Inc.

2015-2017 Revenue Requirement and Rates Application

Reply Submission

March 27, 2015

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1.0 OVERVIEW OF FINAL COMMENTS

1. In accordance with the Comptroller's Order No. 2408, the following materials have been filed. On December 19, 2014 EPCOR Water (West) Inc. ("EWW") filed its 2015-2017 Revenue Requirements and Rates Application ("Application"). On March 9, 2015, EWW filed its responses to 114 information requests from the BC Comptroller of Water Rights ("Comptroller") and from interveners. On March 16, 2015, EWW submitted its Final Comments in support of its Application. On March 23, 2015, the French Creek Residents' Association ("FCRA") filed its final submission taking issue with several of EWW's submissions.

2. EWW is pleased to submit the final document in this proceeding, its Reply Submission.

3. Through its Application, responses to information requests and Final Comments, EWW has demonstrated that the utility is prudently managed and that the approvals sought are just, reasonable and in the public interest. Operating the utility in the public interest requires that it be maintained in a condition that is safe, efficient and reasonable. All of the anticipated costs identified in the Application, support this goal. Further, all of the projects identified for the 2015-2017 test period are required to ensure supply, protect utility assets and preserve public safety. These projects are not unnecessary polish[1] as suggested by the FCRA; instead, they are required to maintain reliable and consistent service.

4. The objections raised by the FCRA are not supported. In most instances, they are mere assertions. In this Reply Submission, EWW addresses the FCRA's objections and establishes that its Application is accurate, prudent and merits Comptroller approval.

5. EWW acknowledges that Comptroller approval of this application will result in rate increases. Consistent with the cost of service regime, the proposed increases are designed to recover the costs to provide service. The increases proposed by the FCRA[2] are inconsistent with cost of service principles for rate making and must be rejected by the Comptroller.

[1] FCRA Final Comments, page 7.
[2] Ibid at page 7.

6. The remaining submissions of the FCRA will be addressed in the sections which follow. Section 2 will reply to submissions related to capital expenses. Section 3 addresses operating expenses. Section 4 will respond to intervener comments related to return on equity and section 5 will respond to submissions about rate riders and deferral accounts. Section 6 will address comments related to public consultation and rate comparisons and finally, section 7 will conclude this Reply Submission.

2.0 CAPITAL

7. The intervener disputes the need for many of the projects identified by EWW in its capital plan for the 2015-2017 test period. EWW submits that the FCRA has advanced little support for its position other than to state that the projects impose a financial burden on ratepayers. EWW acknowledges this financial impact but submits that the projects are necessary for the continued safe and reliable operation of the utility.

2.1 Comptroller Direction

8. By Order 2310, the Comptroller directed EWW to take steps to limit its future capital expenditures when filing its next revenue requirements application for 2015. The FCRA has suggested that EWW did not comply with this direction and further stated "[w]e believe EWW makes plans, employs consultants and spends funds in excess of what is required to operate this small utility at a reasonable cost for it's [sic] customers..."[3] EWW strongly objects to this statement and has demonstrated its compliance by implementing two processes: (i) review of capital projects by EWSI's Project Management Office and (ii) consultation with the engineering firm of Kerr Wood Leidal.

9. Further, although the FCRA asserts that EWW did not comply with the direction, no support for this assertion is advanced. To the contrary, EWW has demonstrated that the proposed capital projects have been carefully reviewed and pared down to only those required for the provision of safe and reliable water services.[4]

[3] FCRA Final Comments, page 1.
[4] CWR-EWW-01.

2.2 Well Rehabilitation

10. The FCRA suggests that the well rehabilitation project should be spread over two rate periods to lessen the impact on the proposed rates.[5] EWW disagrees with this suggestion, because, as was clearly presented in Appendix D, wells should be rehabilitated every 5-10 years to extend their useful life.[6] The FCRA seems to suggest that because of the three new wells being tied-in in the next test period, no wells should be rehabilitated because present system capacity will be fully met. EWW never suggested that the well rehabilitation project was necessary to add capacity to the system, but rather to maintain existing capacity.[7] The FCRA also suggests that because this project was deferred in the last test period, it would be appropriate to defer it further. EWW disagrees with this assertion. As stated above, wells should be rehabilitated every 5-10 years. This project has already been delayed, and any further delay will unnecessarily degrade these assets.

11. For these reasons, EWW submits that well rehabilitation is a prudent capital expense in that it will assist to extend the working life of the existing wells. Well rehabilitation is an important part of the EWW's prudent management of its assets. Additionally, this process serves to restore lost capacity, allows for inspection of down-hole components and allows for replacement/rebuild on a structured basis. Without proper rehabilitation, it is possible that total supply capacity will erode more quickly than anticipated with the result that new wells will have to be drilled sooner than expected.

12. EWW maintains that this project is necessary for the prudent operation of the utility and submits that it warrants Comptroller approval.

13. The FCRA pointed out a discrepancy in well rehabilitation on page 2 of its Final Comments. Table 7.1-1 included $118 thousand rate base and $47 thousand contributed capital for this category in 2015. The amounts for 2015 were for Springhill Road No. 2A Replacement Well (RWs1), tie-in to system, line 1 of Financial Schedule 2.4. This should not have been

[5] FCRA Final Comments, page 1.
[6] Application, Appendix D, page 78 of 105.
[7] CWR-EWW-9.3.

classified as Well Rehabilitation in Table 7.1-1. The correct cost for well rehabilitation is $81 thousand.

2.3 System Balancing and Storage Control

14. The FCRA stated,

> "It is not reasonable to expect that leaving a valve open on a line under French Creek would offer an increase in existing pressure or flow for either section when existing flows on each side exceed present and forecast flow volumes; nor why this need has arisen now when available volumes were lower (and thus so were pressures during peak hours) in prior years from fewer existing wells in service…[8]

15. EWW's evidence indicate that the valve needs to be left open to balance the flow between the different sides of the system; however, the master planning review determined that there are some times when the valve needs to be closed to ensure proper storage levels are maintained in the reservoirs of each side of the system. Manual operation of this valve does not allow for automatic response in the case of fire flows; consequently, it is proposed to automate the control of the valve to ensure two objectives can be met – system balancing in the case of fire flows and reservoir filling during normal operations.

2.4 Model Validation and Rezoning Study

16. The FCRA submitted "with volume flows having drastically improved with the new wells in-service and the wells to be tied-in, there are no volume issues and therefore sustainability of pressures even in peak periods has also improved."[9] EWW submits that this anecdotal evidence provided by the FCRA is really irrelevant to this project because their statements have nothing to do with required fire flows during system peak.

[8] FCRA Final Comments, page 1.
[9] FCRA Final Comments, page 3.

17. The Model Validation and Rezoning Study is a precursor to a much larger project (Project #6) identified in the Master Plan. Project # 6 is required to increase available fire flow in the system and to improve water pressure. This study needs to be completed to ensure that the scope of the future Project #6 is properly established and when it should be initiated, given the current and future needs of the system. Modelling can only be used accurately for capital planning if it has been validated by field work. Consequently, the Model Validation and Rezoning Study is prudent for the current test period and is needed to establish the timing of future Project # 6 .

2.5 Meter Replacements

18. The FCRA suggests that the meter replacement costs proposed by EWW should be spread over two test periods to “defray the cost impact.”[10] Yet, on the other hand, the FCRA notes that it “does not disagree”[11] with the 20 year replacement cycle. These two statements are self-contradictory, because spreading meter replacements over a longer period of time would violate the 20 year replacement cycle. EWW submits that if the industry practice of replacement on a 20-year cycle is accepted, it necessarily follows that failure to adopt this practice will result in a high level risk that meters will fail.

19. The FCRA also disputes the prudency of expenditures on meters on the basis that any gains that customer may enjoy as a result of avoiding costs for non-revenue water are offset by the costs of the meter replacements. There are other justifications for the meter replacements – new meters are being upgraded to newer technology – touch readers – which also reduces the time it takes to read and bill, reducing monthly operating costs and allowing time for operators to perform other important tasks.

[10] FCRA Final Comments, page 2.
[11] FCRA Final Comments, page 2.

2.6 Hydrants

20. The FCRA did not make a clear submission regarding the hydrant program, except to say, "EWW says 'available fire protection may be compromised' which does not support comments that public safety is unacceptable."[12] EWW does not claim to understand what point the FCRA is trying to make with this sentence. However, to be perfectly clear, EWW has never made any statement that can be interpreted as saying "public safety is unacceptable.

21. EWW's plans to add hydrants are driven by the intention to ensure sufficient fire protection. The current level of hydrant coverage does not meet the guidelines from the MMCD. If a significant fire occurred, fire protection may be compromised, which presents an unacceptable public safety and insurance risk for both the utility and the water users. As a result, EWW maintains that it is necessary to include hydrants in its capital program for the 2015-2017 test period.

22. The FCRA takes issue with EWW's reference to hydrant replacement in its response to CWR-EWW-1.0. EWW included this part of the capital plan in its response to CWR-EWW-1.0 because the question asked which capital programs could be delayed or cancelled to lessen the rate increases. Although the costs associated with the additional hydrants are fully allocated to fire protection services, they will result in hydrant rate increases charged to the Regional district of Nanaimo, and as such, are relevant to EWW's response.

2.7 Apportioning of Well Costs

23. EWW strongly disagrees with the FCRA's request that the Comptroller "require allocations to be returned to apportionments originally approved in RRW 2012-2014.[13] This request disregards the evidence of provided in Appendix D, and would violate the regulatory construct that developers pay only for new development.

[12] FCRA Final Comments, page 2.
[13] FCRA Final Comments, page 2.

24. In its Application, EWW proposed that the allocation of costs for the wells be changed from 80:20 (developer : rate base) to 29:71 (developer : rate base). The reason for this proposed change was clearly laid out in Section 8 of Appendix D:

> The supply capacity for a water system must exceed the maximum daily demand to avoid water shortages during peak summer demands. In rating the supply capacity, it is normal practice to exclude the largest well to provide a level of safety to deal with maintenance emergencies that may occur during peak demands.[14]
>
> The Springhill well projects (Project ID 18 and 19) scheduled to be completed in the 2015-2018 period will together add an estimated 15.3 L/s of additional capacity. Of the 15.3 L/s, 10.8L/s is required to address existing demands; the remaining (4.5L/s or 29%) will provide supply capacity for futures developments. This project is therefore 29% developer funded.[15]

25. Additionally, as set out in the response to FCRA-EWW-17, the original allocation was based on forecast capacity. On the basis of the update provided in the Master Plan, a portion of the supply capacity from the new wells is required for existing customers and the remaining portion of supply will be for future developments. EWW submits that the portion of the new well capacity required to address existing demands is properly allocated to rate base.

2.8 Contingency Allowances

26. EWW maintains that a 20% contingency allowance in its forecast for its wells program is reasonable and rejects the FCRA's suggestion that a 5% contingency allowance for the well tie-in projects "is ample for work remaining to be completed."[16] In response to FCRA-EWW-15.1, EWW explained that there are two remaining variables for the well tie-in projects:

- EWW has not yet received VIHA source water approval. It is quite possible that these approvals may be contingent upon additional work to be completed.

[14] Application, Appendix D, page 41 of 105.
[15] Application, Appendix D, page 75 of 105.
[16] FCRA Final Comments, page 6.

- Costs for construction for the tie-in is not yet complete. As the difficulties encountered with the well projects shows, there may be other factors arise during construction that cannot be reasonable forecast at this time.

27. For these reasons, EWW submits that a 5% contingency as proposed by the FCRA is unreasonable and without any basis.

2.9 Church Road Complex Upgrades

28. The FCRA has described the portion of the Church Road Complex Upgrade involving the magnetic flow meter as “a nice little upgrade”.[17] The purpose of the magnetic flow meter is to measure ground water supply production.[18] This is a key part of prudent utility management and as such EWW submits that not only should the magnetic flow meter but all elements of the Church Road Complex Upgrade should be approved.

[17] FCRA Final Comments, page 6.
[18] Application, Appendix D, page 82 of 105.

3.0 OPERATING EXPENSES

3.1 Salaries

29. The FCRA took issue with four aspects of the forecast salaries for EWW. EWW submits that each of these objections is unfounded as demonstrated below.

30. First, the FCRA suggests that EWW did not explain the increase of $17 thousand in benefits from 2014 decision to 2014 forecast.[19] In its Application, EWW did in fact provide this explanation in paragraph 139 of its Application which states that the $17 thousand increase in benefits is directly associated with the labour and salary in line 1 of Table 5.1-1.[20] The benefits cost is calculated as a percentage of labour and salaries costs.

31. Second, the FCRA states that EWW provides "no explanation for the high cost indicated for 2013A in Table 5.1-1 of the Application which also substantially exceeded Decision." [21] However, on Schedule 5 of Appendix G-3, 2013 Results, EWW reported the following comparison of actual amounts compared to decision amounts for 2013 as presented below:

2013 Operating Expenses

	Cost Category	A **Filed 2013**	B **Actual 2013**	C **Variance**
1	**Salaries and Benefits**	**283,194**	**303,689**	**20,495**
2	Salaries	361,777	332,530	(29,247)
3	Benefits	77,221	73,870	(3,351)
4	Cost Recoveries	(155,804)	(102,711)	53,093

32. As shown above, actual salaries were $29,247 lower than the decision amount and actual benefits were $3,351 lower than the decision amount. The difference came in cost recoveries which were $53,093 lower than the decision amount. This fluctuation was clearly explained in the Application:

[19] FCRA Final Comments, page 2.
[20] Application, Section 5.1, page 51, para. 139.
[21] FCRA Final Comments, page 2.

> Fluctuations in salary and benefits costs when comparing year-over year, are generally due to increased capital work where time and expenses would be transferred to capital projects… Salary transfers to capital can fluctuate significantly from one year to the next. This is primarily due to the nature of a small utility like EWW. The few staff that operate the Utility may spend time on capital projects, but when the operating requirements of the Utility demand their time and energy, outside contractors are often engaged to complete capital work, which in turn will reduce the amount of salary transfers to capital.[22]

33. Third, the FCRA suggests that the $60 thousand forecast for management oversight should be included in inter-corporate services.[23] EWW disagrees with this proposal because these management oversight services relate directly to the operations of the French Creek Utility and reflect the time spent by Director of Municipal Operations to provide 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.[24] Therefore, these management oversight costs are properly recorded in salaries and benefits of the utility. The $60 thousand cost for management oversight includes a portion of salary plus other costs associated with providing management oversight duties including travel, accommodations, sectional overhead, membership dues and telecommunications.

34. Fourth, the FCRA suggests that EWW's salaries were escalated at a rate higher than that approved by the Comptroller in Order 2310. The FCRA correctly notes the $87 thousand increase in salaries and benefits from the 2014 decision to 2014 forecast amounts. In paragraph 139 of the Application, EWW explains that the $87 thousand increase in salaries and benefits is due to three factors: a $60 thousand cost for management oversight, explained above, a $17 thousand cost for the associated benefits, and a $10 thousand decrease in salary transfers to capital. If you exclude the highly volatile salary transfer to capital, and only consider salaries, line 2 of Financial Schedule 2.2, the increase is $59,862 from 2014 decision to 2014 forecast, or only the amount for management oversight. These were legitimate costs that were incurred by

[22] Application, Section 5.1, page 50, para. 137.
[23] FCRA Final Comments, page 4.
[24] EWW response to CWR-EWW-18.2.

EWW for those services, but were not recovered. Apart from the costs for management oversight, the increases to salaries over the past test period have matched those approved by the Comptroller in Order 2310.

35. In addition, EWW demonstrated in its response to CWR-EWW-18.3 that gross salaries and benefits have increased by an average rate of 1.8% per full time equivalent. The 2014 actual amounts were lower than 2014 forecast amounts, and were explained in response to CWR-EWW-18.1. There were one-time adjustments related to: management reorganization in BC Operations, adjustments to management oversight charges for 2014, and an adjustment to employee vacation entitlement. These one-time adjustments were specific to 2014 only and are not expected to recur in 2015.

3.2 Leak Detection Program

36. The FCRA states, "EWW plans to spend a further $35,000"[25] on the Leak Detection Program and argues that EWW has not supported this proposed spending. For clarification, no money has been spent on the Leak Detection Program to date. The Master Plan clearly recommends that the Leak Detection Program should be completed in order to determine if additional savings can be achieved.[26] Leak detection is the least expensive way of adding effective capacity, it saves costs on chemicals, and it reduces stress on wells and other components during high usage periods. The Master Plan also notes that EWW's current leakage of 16% is above the national average of 13%. As EWW stated in its Final Comments, deferring this project would simply put the financial burden on its future customers.

37. On page 3 of its Final Comments, the FCRA also pointed to the Leak Detection Program and Model Validation and Rezoning as being a portion of $92 thousand in table 7.1-1. This is correct. As identified in paragraph 151, referred to by the FCRA, the remaining amount was for the Aesthetic Study. The FCRA also noted EWW's response to CWR-EWW-19.1-1 in which the cost of the Leak Detection Program is $30 thousand and the cost of the Model Validation and

[25] FCRA Final Comments, page 3.
[26] Application, Appendix D, page 31 of 105.

Rezoning Study is $35 thousand. The numbers were transposed in the response. The corrected amounts are $35 thousand for the Leak Detection Program and $30 thousand for the Model Validation and Rezoning Study.

3.3 Master Plan Update

38. The FCRA states that it sought engineering advice on how often the system Master Plan should be updated, and suggests that it "should not need to updated or revisited for a water utility earlier than 8 to 10 years."[27] Unfortunately, the FCRA did not provide the source of this engineering advice, nor a copy of the report it solicited, so that it could be properly tested and examined by the Comptroller for reasonableness. Apart from this unsourced "engineering advice" there is nothing on the record to indicate that an update to the Master Plan should be conducted at a time interval other than that proposed by EWW.

39. As EWW stated in response to CWR-EWW-8.1, updating the Master Plan before the beginning of the next test period will provide a prudent plan to ensure that EWW will be able to continue to provide safe and reliable water service to its customers. Without an update of its Master Plan to guide its capital expenditures for the upcoming test period, EWW may not have sufficient information to determine system upgrade requirements and there is risk that capital expenditures will be higher or lower than necessary to provide safe and reliable water services.

40. The FCRA correctly pointed out a discrepancy in the cost of the Master Plan on page 4 of its Final Comments. In its response to CWR-EWW-1.1, EWW incorrectly put the cost of the Master Plan update at $45 thousand. The correct amount is $26 thousand.

[27] FCRA Final Comments, page 3.

3.4 Inter-corporate Services

41. The FCRA states that there will be an increased cost for inter-corporate services of $79,000 for the new test period.[28] EWW assumes that the FCRA derived this number by adding the inter-corporate services charges for 2015, 2016 and 2017 ($598 thousand) and compared that to the total for 2012, 2013 and 2014 ($518 thousand). The increase in inter-corporate service charges in the upcoming test period reflect the addition of asset usage fees, which were explained in Section 5.6 of the Application:

> The $16 thousand increase in corporate service charges from the 2014 forecast to the 2015 forecast is primarily due to a $21 thousand charge for corporate asset usage fee. In error, this charge was not previously allocated to EWW. EWW should have been charged this fee as it benefits from the services which the corporate asset usage fee covers.[29]

42. Apart from the addition of the corporate asset usage fee in the 2015 forecast, the escalation in inter-corporate services charges is the 2% escalator. In response to CWR-EWW-21.2, EWW confirmed that all other EPCOR utilities are allocated corporate asset usage fees.

43. The FCRA also suggests that the $60 thousand for management oversight and $17 thousand for benefits should be included in the inter-corporate services charges.[30] EWW disagrees with this assessment as explained in section 3.1 above.

44. The FCRA further states that the "high level of these inter-corporate service charges are not acceptable and must be reduced."[31] The FCRA does not state what the inter-corporate service charges should be reduced to and on what basis this should be done. In fact, in response to CWR-EWW-21.4, EWW demonstrated that for the inter-corporate service charges of approximately $200 thousand each year, EWW receives a level of administrative support and service expertise that would ordinarily not be available to a small stand-alone utility. EWW went on to

[28] FCRA Final Comments, page 4.
[29] Application, page 55, para. 159.
[30] FCRA Final Comments, page 4.
[31] FCRA Final Comments, page 4.

demonstrate some key examples of the services it receives as part of the inter-corporate service charges, and how these could not be received at this cost on a stand-alone basis.

4.0 RETURN ON EQUITY

45. In support of its position that EWW's return on equity should match the British Columbia Utility Commission ("BCUC") low risk utility benchmark return, the FCRA argues that "the size of our utility is irrelevant in this regard and EWW actually has no risk"[32] and goes on to identify five reasons for its argument. EWW disputes these claims and notes that including a risk premium for small sized utilities has been accepted by other regulators in determining a utility's cost of capital. Contrary to the FCRA's suggestion, the BCUC has accepted that the small size of a utility does increase the level of business risk faced by that utility and this higher risk is recognized in a risk premium above the benchmark rate of return.[33]

46. Negative events have a much greater impact on the entire system for small utilities and small utilities are more dependent on individual customers for cost recovery. With the lack of economic diversity in the service area, limited growth prospects and concentration of assets, a small utility such as EWW has less ability to diversify its risks. As a consequence, negative events are likely to have greater impact on the earnings or viability of a smaller company. The impact of small size has frequently been exhibited in lower debt ratings for companies whose financial parameters are stronger than their larger peers.

47. It is incorrect to state that EWW has "no risk." EWW faces many business and financial risks including market/demand risks associated with small customer base and limited customer diversity, potential deterioration of revenues due to lost customers, declining consumption trends; political/regulatory risks including risk of cost disallowances and changing regulation; and supply/physical risks associated with water sources, geography, environmental standards and age/condition of infrastructure. EWW faces both short-term risks associated with year-to-year variability in earnings due to the combination of economic factors and regulatory framework and

[32] FCRA Final Comments, page 5.
[33] BCUC Generic Cost of Capital Proceeding (Stage 2) Decision, dated March 25, 2014, Sections 3.1.1, 3.2.7.

long-term risks associated with recovering its capital-intensive investments over extended periods of time and which investments have very limited alternative uses.

48. The FCRA's claim that EWW is "guaranteed a profit" is misleading and false. While EWW is allowed to include a fair return on its investment (as determined by the regulator) in its proposed water rates, the actual returns earned by EWW are dependent on EWW's actual performance and could be significantly lower than the forecast allowed returns if actual costs are higher than expected. Given the three year timeframe (2015-2017) over which EWW is required to forecast costs, there is a risk of incurring higher actual costs relative to the amounts forecast at the time of preparing its Application.

49. Furthermore, as EWW outlined in its response to CWR-EWW-23, with respect to contributed assets, EWW faces a significant risk of not recovering these costs through developer contributions in a reasonable timeframe if customer growth does not develop in the EWW service territory. This situation compounds the business risks for EWW relative to those of EPCOR White Rock Water Inc. ("EWR") which does not face the same supply issues as EWR and does not have a Deferred Capacity Trust Fund ("DCTF").

50. For the reasons stated in EWW's evidence and Final Comments, EWW's proposed return on equity is fair and reasonable considering the business and financial risks of EWW compared to the BCUC benchmark utility and compared to EWR.

5.0 DEFERRAL ACCOUNTS AND RATE RIDERS

51. EWW's proposed calculation of carrying costs on deferral account balances is consistent with the Comptroller's previous approvals. As such, EWW submits that the Comptroller should approve the proposed methodology as filed.

52. The FCRA has proposed a different methodology based on the erroneous view that its proposal would provide an incentive to the utility to provide more accurate forecasts. Specifically, the FCRA proposes that "the profit/return portion of the consumption volume shortfall charge should be removed or credited back as a separate accounting entry"[34] to reduce the amount returned to EWW through the rate riders. In the opposite case where the consumption volumes are higher than forecast and a customer refund is issued, the FCRA proposes that the profit/return portion would be included in the refund to customers.

53. For clarification, EWW does not apply any profit or return component to the consumption deferral account. However, it does include carrying costs on the total deferral account balance as calculated in Financial Schedule 3.1. EWW's proposed calculation of carrying costs on deferral account balances from 2012-2014 is based on the weighted average cost of debt and is in accordance with the methodology approved by the Comptroller in Order 2222 and in Order 2310. In Order No. 2310, the Comptroller also accepted EWW's proposal to continue the existing deferral accounts and rate riders to recover deferral account balances over the three year period 2012-2014.

54. EWW rejects the FCRA's proposal for two reasons. First, the use of the consumption deferral account mechanism to adjust to actual consumption volumes removes the consumption forecasting risk for both the utility and its customers and both sides are treated equally by EWW's proposed application of carrying costs. Second, the FCRA's proposal to only include carrying costs in cases where there is a refund issued to customers would not provide the utility with incentive to accurately predict consumption volumes. In fact, it would bias the utility toward underestimating consumption volumes to ensure rate increases are sufficient to avoid

[34] FCRA Final Comments, page 6.

having to recover revenues later through the deferral account mechanism. For these reasons, EWW's practice of including carrying costs on prior period deferral account balances (both positive and negative), which has previously been approved by the Comptroller, is fair and reasonable and should be continued.

6.0 ESCALATORS

55. The FCRA questioned the EWW's proposed escalators, pointing to the recent slump in oil prices.[35] In CWR-EWW-16.1, EWW responded to the Comptroller on the issue of the use the proposed escalators in light of recent economic events, particularly the drop in the price of oil. EWW pointed out that the conclusions drawn by Dr. Ryan in Appendix E, notably in relation to the proposed salary escalator, are very close to the most recent BC Ministry of Finance salary escalators. EWW also submitted that the report prepared by Dr. Ryan in last 2014 was a medium term forecast, specifically prepared for economic conditions in BC, and remains relevant today. For these reasons, EWW submits that the forecast escalators are reasonable and should be approved as filed.

7.0 PUBLIC CONSULTATION

7.1 CAP Meeting

56. The FCRA stated that they are "aggravated by the implications and perceptions put forth by EWW relative to a CAP meeting help on December 10, 2014 for discussion of the RRA 2015-2017."[36] EWW is not disputing any information put forward by the FCRA in relation to this Community Advisory Panel ("CAP") meeting. The facts are that EWW initiated a meeting with the CAP to review the Application. As one CAP member was unable to attend the meeting, EWW proposed to set up another time that would accommodate his schedule. EWW had no intention of implying anything other than that, and certainly regrets any aggravation this has caused the CAP member in question.

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[35] FCRA Final Comments, page 5.
[36] FCRA Final Comments, page 4.

57. The fact remains that EWW works diligently to maintain regular contact with its customers, including its CAP members. Before filing the Application, EWW took steps to obtain feedback from as many of its CAP members as possible.

7.2 Rate Comparisons

58. The FCRA provided a graph of rate comparisons that purports to represent a comparison of residential water rates and costs for Oceanside water purveyors.[37] Unfortunately, as the FCRA has not provided the sources of its information, EWW is unable to verify the unsourced graph and cannot comment directly on the comparisons provided by the FCRA.

59. However, EWW notes that in making the rate comparisons provided in the Application it took the following approach. EWW selected water utilities that provide similar services, including fire protection, including all eight of the RDN water utilities, of which only four appear on the FCRA graph. EWW located the specific rates from the respective by-laws and provided those sources in the Application for the Comptroller to be able to verify our results. EWW contacted the utilities directly where the applicable parcel tax was not published with the by-law, and obtained the information directly, and made that available upon request. Finally, in comparing EWW's 2017 rates to the surrounding communities, EWW escalated the 2014 rates for surrounding communities by 4% per year which EWW considers to be a reasonable and conservative estimate. EWW recognizes that these comparisons are imperfect at best, but they provide a reasonable basis upon which the Comptroller can consider the proposed rates to those of the surrounding communities.

7.0 CONCLUSION

60. For the reasons provided in this Reply Submission, 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.

[37] FCRA Final Comments, page 8.