



EPCOR Water (West) Inc.

**2015 Contribution in Aid of Construction
Final Argument**

December 14, 2015

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1.0 OVERVIEW OF FINAL COMMENTS

1. On August 31, 2015 EPCOR Water (West) Inc. (“EWW”) filed its 2015 Contribution in Aid of Construction Application (“Application”).
2. On November 30, 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 proceeding schedule set out on November 16, 2015, EWW submits these final comments.
4. In the Application, EWR sought the following:
 - i. approval to increase the Contribution in Aid of Construction (CIAC) charge to \$19,000 per lot from \$8,500 per lot;
 - ii. approval for revisions to the Water Tariff;
 - iii. approval to recover the Weighted Average Cost of Capital (WACC) on Future Capacity Receivables Balances;
 - iv. Directions with respect to approved methodologies for funding of future capital programs.
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 capital programs should be fairly allocated between current ratepayers, current and future developers, and future ratepayers. In its 2015 – 2017 Revenue and Rate Application (RRA), EWW demonstrated that a balanced approach was taken to the allocation of these costs. As such, in Order No. 2421 dated June 22, 2015 the Comptroller approved EWW’s forecast and actual costs of EWW’s capital programs and the allocation of these costs.

7. In Order No. 2421 the Comptroller also approved rates that would allow the utility to recover the fair share of costs allocated to current ratepayers.

8. In this Application, EWW has demonstrated that a rate of \$19,000 per lot needs to be charged to current and future developers in order for EWW to recover costs incurred on the portion of capital programs allocated to growth.

9. EWW has also demonstrated that it has taken on risks that were not previously considered in its earlier CIAC applications and that it should be allowed to recover a reasonable return, based on the WACC, for these risks.

10. In section 2 of this Final Submission, EWW outlines the relevant evidence respecting matters in which the Comptroller and interveners expressed interest in this proceeding.

11. In section 3 EWW demonstrates why the Weighted Average Cost of Capital approved in Order No. 2421 is entirely appropriate for a public utility in EWW's position, and is a reflection of the financial and business risks associated with developing wells and other capital infrastructure in French Creek.

12. 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 Comptroller's / Intervener's Interests

2.1 Comptroller of Water Rights

13. In its information requests to EWW, the Comptroller of Water Rights inquired about Weighted Average Cost of Capital and funding of the Deferred Capacity Trust Fund (DCTF).

14. In EWW's Application and in its response to CWR-EWW-1, EWW noted that the DCTF is different from a deferral account in that a DCTF is not intended to ever have a deficit balance. Currently, a deficit exists in EWW's DCTF and is forecast to remain for a long term. On this basis, coupled with the Comptroller's earlier determination that EWW's costs were prudently incurred and properly allocated, EWW submits that a rate of return equal to the approved return on its existing assets is warranted.

2.2 Oceanside Development and Construction Association (ODCA)

15. The ODCA is a volunteer run organization that represents the development community within the Oceanside Region and has expressed concerns with respect to the regulations regarding EWW's management and operation of the utility and EWW's ability to establish development cost rates.

16. As a private utility, EWW is governed by the rules and regulations set forth by the Comptroller of Water Rights. An important process in the governance of the utility is that a RRA should be regularly filed and defended by the utility. EWW believes that the appropriate venue for expressing the ODCA's concerns is during the RRA process.

17. The purpose of an RRA is to determine what a fair and reasonable rate for recovering costs from developers should be. Issues with respect to why costs have increased, fairness of costs and allocation of costs between ratepayers and developers should have been raised by the ODCA during EWW's most recent RRA. The RRA is now complete and customer rates through to December, 2017 have been approved.

18. The ODCA have suggested that this proceeding warrants a public information meeting. Although EWW is prepared to continue to provide OCDA information, EWW believes that the Comptroller's decision for this Application to proceed by way of written process is appropriate. EWW submits that a written process not only provides ratepayers and customers with an opportunity to fully understand the issues raised by this Application but also avoids the additional costs connected with an oral hearing, which costs would ultimately be borne by the ratepayers.

2.3 Windward Developments 2002 Ltd (WD)

19. WD filed an application to develop 54 lots in April, 2014. In November, 2015 based on the timing of the original application EWW accepted a payment of \$459,000 (\$8,500 per lot). EWW submits that as a result, any concerns raised by WD in this Application have been addressed.

2.4 Hans Heringa P. Eng (HH)

20. HH or affiliated companies have had concerns with the management of the water utility since 1995, prior to EWW's ownership of the utility. An application by HH or affiliated companies to develop 2 lots was filed in May, 2015. In November, 2015 EWW accepted a payment of \$8,500.

21. EWW and the Comptroller's office are working on resolution of HH's concerns with the current application and with his other concerns.

3.0 Weighted Average Cost of Capital

22. The reasons why EWW's WACC was approved in its RRA are discussed below:

- 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 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.

Prior to 2009, any potential shortfalls in the DCTF were covered fully by EWW. In 2009, the Comptroller ordered that any short-term shortfalls could be covered based on short term interest rates, an indicative spread, and a 5 basis point administration.

EWW has demonstrated that the shortfalls in the DCTF are forecast to be long-term and as a result are not covered by the Comptroller's 2009 direction. EWW believes that it is fair and reasonable to recover long-term shortfalls based on the WACC.

4.0 CONCLUSION

23. 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.