



French Creek Community Advisory Panel Rate Application Meetings December 10, 2014 – Meeting Notes

Attending:

Community Advisory Panel (CAP) Members: Geoff Williams, Rob Williams, Tim Pritchard, Joe Stanhope, Gary Hackman, Michael Meade

EPCOR: Vince Corkery, Director, Municipal Operations; Gary Martens, Sr. Manager Operations for BC Region; Kevin Schultz, Senior Advisor, EPCOR Regulatory; Terrie Moore, Stakeholder Consultation, EPCOR Public and Government Affairs

Regrets: Sylvia Zerjav, Carey McKinley, Catriona Harrington, Robin Robinson

Purpose: The purpose of this meeting was twofold:

1. to provide members with an overview and understanding of the regulators and regulatory process governing EPCOR French Creek operations, and
 2. to share an overview of and gather feedback from members on the draft 2015 – 2017 Rates Application prior to submission to the BC Comptroller of Water Rights.
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Community Advisory Panel Meetings

To accommodate the most number of CAP members, two meetings were held on December 10, 2014; one at 9:00 a.m. and one at 1:00 p.m. Two members attended the morning session and four members attended the afternoon session.

Members were informed that their comments and questions would be documented without attribution in the meeting minutes, which will be included in the 2015 – 2017 Rate Application to be filed with the BC Comptroller of Water Rights before the end of 2014.

Member comment: EPCOR will need to make an interim rate application which customers do not appreciate.

Q. You mentioned that Cost of Service and Rate Design are part of the framework. Is that being done for French Creek this year?

A. No, a Cost of Service study and Rate Design were completed at the time of the last rate application for the 2012 – 2014 test period.

Member comment: EPCOR French Creek used to use a declining rate. The public consultation group struck to provide input on rate design prior to the last test period, decided that they preferred an



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inclining rate but settled for a block rate, to lessen the impact on customer rates, with the intention that an inclining rate would be considered in future.

Q. Does EPCOR have to meet guidelines for taste as you do for health?

A. No, taste is an aesthetic objective for which there are no guidelines.

Q. To clarify, when will be you filing the rates application?

A. The current rates expire on December 31, 2014 so we must file before then. We expect that we will file by December 19.

Q. Are growth and consumption tied together when forecasting information?

A. Yes, growth is based on what we know of future development. Consumption is based on past data.

Q. Regarding the financial forecasting, do you employ EPCOR's corporate capital structure to the French Creek rates?

A. No, the comptroller decides the capital structure.

Q. Is the rate of return based on a prime plus a prescribed rate?

A. No, the Comptroller uses the BC Utilities Commission generic rate of return plus a risk premium, based on French Creek's status as a small utility.

Q. Can the capital structure be questioned in the rate application?

A. Yes, it is established by the Comptroller and can be questioned by an intervenor.

Q. Are salaries and wages drawn from comparables with other utilities in BC?

A. Yes.

Q. Do the operating costs include services provided by EPCOR's head office?

A. Yes.

Q. Are these costs provided on a per unit basis?

A. No, they are based on the size of the utility.



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Member comment: So head office is not top loading.

EPCOR response: We use the same allocation methodology used for other location in BC and Alberta.

Member comment: Management allocation has been a concern for French Creek customers. We wonder if the multiple operations that the Manager oversees are properly allocated.

EPCOR response: Anyone involved in working for multiple sites allocates their time to each specific site on time sheets. EPCOR also puts a lot of effort into defensibility of these costs for the Comptroller in BC and the AUC in Alberta.

Member comment: The rate rider is a relatively small portion of the bill.

Response: Yes, it was for the last test period. The rate rider will be higher for this test period because of the slow customer growth from the forecast number.

Q. What is UDF?

A. Uni-directional flushing (UDF) is a relatively new method of isolating and running high pressure through section of piping to flush the lines of any buildup, helping to maintain the life of the pipes. It is considered to be a best practice in the utility sector.

Member comment: Regarding the wells project, the last application noted that of the seven new wells scheduled for drilling, three were to be replacement wells and four were considered growth wells. The growth wells were not part of the rate base. They would be funded from the developer contributed trust fund.

EPCOR response: In the 2012-2014 application there were seven new wells planned: two were unsuccessful and converted to monitoring wells, two were planned to replace French Creek supply to comply with Vancouver Island Health Authority (VIHA) requirements and the remaining three wells were to accommodate new growth (developer funded) and provide required capacity for existing customer (rate base funded).

Q. The wells were projected at \$2.424 M in the last filing. Has that all been spent and are there still dollars to be spent on this project?

A. Yes, that money has been spent and it will take approximately \$700K to finish the wells and bring them into production, so the capital program for the wells is \$2.401 million higher than originally projected.

Q. So the well program increased from six to seven wells?



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A. No, in the 2012-2014 Revenue Requirement Application, EPCOR Water West (EWW) forecast completing seven wells.

Member comment: That is a significant cost for a small utility like French Creek.

Q. Will there be a decrease in costs eventually now that the wells are drilled?

A. No. The costs associated with the new wells will be amortized over the expected life of the wells of 40 years.

Q. Is there anticipation of new development money for new infrastructure?

A. The only new development money proposed for new infrastructure is for the costs to tie in the remaining three wells that are currently waiting for source water approval from VIHA.

Q. Where do the wells stand in relation to actual production versus projected production?

A. In the north region of the system, the wells are producing slightly lower than projected. In the south region, the wells are producing much higher than projected so the production is higher overall. There is the potential for additional allowable production from some of the wells currently being developed, subject to regulatory approval.

Q. You mentioned that you didn't realize as much from development but the chart on slide 8 shows that developer contribution was greater than expected. Why is that?

A. To clarify, we were speaking to the lower than forecast actual customer growth rather than the capital spending. We had projected 50 new customers per year and the actual was 14 new customers on average per year.

Member comment: I am surprised to hear that given the amount of development around the Wembley area there are not as many new customers as expected.

Q. Does your analysis look at lots likely to be developed?

A. Yes. EWW considered only development at or near approval.

Q. Regarding increased management oversight noted on slide 9 of the presentation, overhead costs were included in the last rate filing. Were they not accurate?

A. Yes, the overhead components were accurate in the filing however, some of the higher levels of oversight (Senior Manager and Director level) were not recovered. We have a better understanding



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now of what that oversight entails and want to recover those costs going forward. We will not be seeking recovery for the past test periods.

Q. On salaries, is that increase predicated on general inflation plus a factor for salary inflation?

A. No. The salary escalator is based on the expert witness testimony of Dr. Ryan of 2.7%.

Member comment: That's good to hear because the French Creek Residents Association (FCRA) argued against additional salary costs above inflation for the last rate application.

Member comment: The leak detection study and the hydrant and stand pipes capital expenditures were mentioned in the last RRA.

EPCOR response: Yes, both were included in the last RRA. The leak detection study was deferred and the hydrant and stand pipes are ongoing projects which appear in every rate filing.

Member comment: Regarding the customer count forecast, EPCOR was too optimistic in those estimations. FCRA knew that estimate would be way over the actual count. This difference is recovered through the consumption deferral account so it is important that the count is accurate.

EPCOR response: We have moderated our estimations to be as accurate as they can be for this test period.

Q. Is rate rider a fixed amount or a function of consumption?

A. The rate rider is connected to our billing methods, so it is fixed for the first level of use, and then based on consumption after that.

Member comment: I find this large increase is shocking.

Q. Are the consumption numbers weighted for the customer rate?

A. No, we used 19.4 m³ as the per person consumption rate based on the five year average consumption.

Question posed to CAP members:

We are looking for input and direction from you regarding the taste and odour issues. Given that there will be additional costs for studies to determine the reach and the cause of the issues, please discuss the importance of additional testing.



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Responses:

- Taste has not been an issue in the past for me, but it is a big issue that needs to be looked at now, sooner than later.
- On behalf of the Oceanside Strata, there will be a percentage of people who will not like the water period. I suspect that it may be an opportunity for neighbours to complain about EPCOR rather than being a real problem.
- You must address the issue of taste to have happy customers.

Q. Would this project be a one-time cost?

A. It would be considered a one-time cost but could lead to capital or ongoing operational costs, depending on the outcome of the studies.

Q. From your experience, do you feel confident that you will get a definitive answer from such a study?

A. No, EPCOR cannot predict the results of a study before it is executed.

Member comment: There are water quality issues, most notably the taste. I do not drink the water because it smells like bromine, similar to a hot tub smell. The calcium (hardness) in the water is not an issue but the taste is. I do not want to pay for an expensive plant to remove calcium but I do want the water taste to be improved. This will become an issue in this filing. It hasn't changed in five years. It used to be more palatable (under Breakwater) but may not have been good for us to consume.

Member comment: People think that generally EPCOR does a good job of maintaining the water system. I've only heard of one issue of low pressure and that was dealt with very quickly.

Q. How does the taste and odour now relate historically to the system, when Breakwater owned it?

A. This is not a new problem.

Q. Regarding the Capital Expenditures program, it appears to equal approximately 30% of the prior Capital Expenditures program. Is that correct?

A. Yes that is what we have planned in terms of prioritizing projects, recognizing that significant increases that will impact the rates. It is of concern for us that a large part of the French Creek demographic is on a fixed income and that these increases will have an impact.



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Member comment: I thought we were over the large rate increases after the last rate application.

Member comment: When I was working, I never worried about the bills coming in. Now that I'm retired, I get resentful of any increases in bills.

Member comment: There are ongoing issues of water quality and low water pressure in Robertson Road area.

Member comment: Regarding the rate comparison chart, the comparison of French Creek with Parksville rates is apples to oranges as they are facing horrendous cost increases.

EPCOR response: We realize from these meetings that there may be additional work required to address the taste and odour issues in the water. Because it appears that there are differing opinions on taste and odour and different areas affected, it may be that we need to gather additional information or undertake a study on the causes before we can address any identified issues.