



Order No. 2440

PROVINCE OF BRITISH COLUMBIA  
OFFICE OF THE DEPUTY COMPTROLLER OF WATER RIGHTS  
IN THE MATTER OF the *Water Utility Act* and  
the *Utilities Commission Act*  
and  
IN THE MATTER OF  
An Application by  
**EPCOR Water (West) Inc.**  
**For Approval of an Increase in Aid to Future Construction Charges**  
**- Water Tariff Schedule B**  
**DECISION AND ORDER**

Dated this 17<sup>th</sup> day of December 2015

BEFORE:

Pieter J. Bekker, Deputy Comptroller of Water Rights  
PO Box 9340 STN PROV GOV'T, Victoria, BC V8W 9M1

File: 0321094

**WHEREAS:**

1. On August 31, 2015 EPCOR Water (West) Inc. ("EWW" or "the Utility") submitted an Application with detailed support to increase its Contribution in Aid of Future Construction Charge as shown on Schedule B of its Water Tariff No. 3, from \$8,500 to \$19,000 ("the Application") with a request that the proposed charges be approved on an interim, refundable basis effective September 1, 2015.
2. By Order 2429 dated September 9, 2015 the Deputy Comptroller approved, on an Interim, refundable basis, an increase to its Water Tariff Schedule B Aid to Future Construction Charge (CIAC) from \$8,500 to \$19,000 per single family residential equivalent lot effective September 1, 2015 and instructed the Utility to advertise the Application by placing a Notice in the local newspaper.
3. On September 24, 2015, the Utility advertised the Application, with an October 30, 2015 deadline for submitting comments to this office. Three submissions were received from potential developers. None were received from existing customers of the Utility. An opportunity for Information Requests and submissions was provided and EWW responded to those requests and made a final submission.
4. CIAC are collected from developers/new customers applying for an extension of service in accordance with Schedule B of the Utility's Tariff. CIAC charges are one-time charges to cover the cost incurred by the utility to provide water service to additional units which utilize or may utilize waterworks capacity in the future and are in addition to the water service connection charges and any main extension costs. CIAC funds are deposited into the Utility's Deferred Capacity Trust Fund (DCTF) and released to pay for future expansion of source capacity upon written authority of the Comptroller of Water Rights.
5. The proposed \$19,000 DCTF/CIAC charge is intended to achieve a reasonable balance between the need to recover project costs related to new development within an acceptable time frame and the need to maintain a CIAC charge at a level that will continue to encourage development in the community. EWW proposes to continue to monitor the DCTF on a regular basis and update its forecast deposits and withdrawals in the fund and apply for future updates to the CIAC charge as required.
6. The Application was prepared and supported with detailed accounting and forecasts of the DCTF balances with specific capital projects and forecast customer growth from developments. The substantial cost overruns on recent new well developments were reviewed in the most recent Revenue

Requirements Application and determined to have been prudently incurred. The cost basis for the proposed \$19,000 CIAC charge has been substantiated.

7. The Utility's request to fund the future loans to the DCTF via its Weighted Average Cost of Capital (WACC) for developer type well projects constructed in advance of developer CIAC contributions to the DCTF has been reviewed and found to be justified in these exceptional circumstances until the DCTF returns to a more modest level and can be recovered in a reasonable time frame.

**Deputy Comptroller Determination and Conclusion:**

**IT IS HEREBY DETERMINED AND ORDERED THAT:**

1. **The Interim Tariff Schedule B, CIAC charge, of \$19,000 is confirmed as final effective September 1, 2015.**
2. **As explained in the attached Reasons for Decision, EWW is to fund the negative balances in the DCTF with a funding rate equal to EWW's WACC from September 1, 2015 to December 31, 2020.**
3. **EWW is to continue to report to the Comptroller, as part of its annual compliance reporting, the balances, withdrawals, deposits and carrying costs in the DCTF.**
4. **In addition to the annual filings proposed by EWW, in 2020 EWW is instructed to make application to the Comptroller of Water Rights with a detailed assessment of the balance of the DCTF, the forecast pace of new customer additions from developments and any revisions that should be made to the CIAC charge and its financing.**
5. **EWW is to comply with all directives in the Reasons for Decision appended to this Order.**



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## REASONS FOR DECISION

EWV's Application to increase its CIAC from \$8,500 to \$19,000 is based on the Utility's assessment of the costs that will be included in the DCTF, the forecast contributions from new customers or developers to offset those costs, the appropriate financing costs of DCTF balances, and an intention to return the DCTF balance to zero in 2027 before new water supply capital costs are projected to be incurred.

The very substantial costs of new wells that substantially make up the large current DCTF balance were reviewed in detail in the last Revenue Requirements Application (RRA) of the Utility in 2015. The relevant section 3.1.1 from Order 2420's Reasons For Decision that dealt with the capital cost overruns states:

*"The Deputy Comptroller is very concerned with the inability of EWW to have forecast the costs of the well program with any accuracy. EWW will be expected to greatly improve its forecasting ability in future applications. That being said, the nature of a prudency review in the context of regulated utility practice must consider not only the size of the cost overruns but also the circumstances leading to those cost overruns. In this case it is recognized that the subject wells were necessary and were approved. The new capacity will allow EWW to comply with VIHA requirements. The extenuating circumstances were substantial. There is no indication that EWW intentionally drove up costs, or undertook work above what was required to meet the requirements of the various regulatory bodies having an interest in these projects.*

*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 substantially 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."*

**Therefore the cost basis supporting the higher CIAC has been justified. The OCDA request for a public meeting regarding the well costs is not warranted, given the review in the most recent RRA.**

The forecast CIAC contributions by developers/new customers applying for extensions of service in accordance with Schedule B of the Utility's Tariff is also consistent with the evidence provided in the RRA and current expectations. **The forecast timing of CIAC contributions is also accepted.**

Based on those forecasts of future water requirements, the intention to return the DCTF balance to zero is a reasonable balance between returning the DCTF balance to zero as soon as practicable and not making the CIAC so prohibitively high that it would unduly prohibit growth. **The intention to return the DCTF balance to zero in 2027 is accepted.**

A key issue in this Application is the proposal by EWW to finance its funding of the DCTF negative balances with a financing rate equal to its Weighted Average Cost of Capital (WACC). Until now the Comptroller of Water rights has only allowed a financing rate equal to the short term interest cost of a water utility. It was expected that DCTF balances would be modest, would sometimes be positive as well as negative, and would be recovered in a relatively short period of time.

EWW argues that the WACC financing rate is justified based on risk to the Utility from the large balances in the DCTF to be funded by EWW for a period of more than 10 years. Importantly, it is recognized that CIAC contributions are treated as zero cost capital in rate base, so EWW is required to fund the large DCTF negative balances but the Utility will not earn a return on the CIAC contributions made by developers/new customers applying for an extension of service in accordance with Schedule B of the Utility's Tariff.

**Although the Deputy Comptroller is very reluctant to change from the established DCTF financing at a short term interest rate, it is recognized that this is an exceptional circumstance. As a result the Deputy Comptroller determines that the negative balances in the DCTF should recognize a financing cost from EWW at WACC until the balance returns to a more modest level and is projected to return to zero in a reasonable period of time. This WACC financing cost will continue from September 1, 2015 until December 31, 2020 when it is the expectation of the Deputy Comptroller that a financing charge equivalent to EWW's average cost of intercompany loans in each year will apply. EWW is to make a detailed application in 2020 to update the balances in the DCTF, the forecast future CIAC contributions and an appropriate DCTF funding rate. The annual reporting on DCTF balances by EWW is to be made each year with its annual report filings to the Comptroller.**



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