

Order No. 2513

PROVINCE OF BRITISH COLUMBIA
OFFICE OF THE COMPTROLLER OF WATER RIGHTS

IN THE MATTER OF

the Water Utility Act and the Utilities Commission Act

and

**Lidstech Holdings Ltd.
(Shawnigan Village Waterworks)**

**For Approval of Revenue Requirements and
Amended Water Rates**

BEFORE:

Bruce O'Neill, Deputy Comptroller of Water Rights
PO Box 9340 STN PROV GOVT, Victoria, BC V8W 9M1

DECISION AND ORDER NO. 2513

Dated this 17th day of April, 2018

WHEREAS:

1. On July 17, 2017 Lidstech Holdings Ltd. operating as Shawnigan Lake Waterworks (“the Utility”) made an application for approval of its Revenue Requirements for its fiscal years ending July 31, 2018, 2019 and 2020 and to raise current water rates effective September 1, 2017 and September 1, 2018. The Utility also proposed other changes to its Water Tariff Terms and Conditions with submission of Water Tariff No. 11 to be effective September 1, 2017 and Water Tariff No. 12 to be effective September 1, 2018. The Utility submitted supporting documentation including a statement of actual and forecast cash flows for its fiscal years ending 2018-2020 and proposed water tariff amendments (collectively called “the Application”).
2. A written hearing process took place with the Utility mailing Notices to all customers on July 17, 2017. The Notice provided customers with an opportunity to submit comments to the Deputy Comptroller by August 28, 2017. Thirteen written submissions were received.
3. The Deputy Comptroller has reviewed and considered the application, the customer submissions and the further information provided by the Utility in response to an Information Request (collectively called “the Application”) and has determined that:
 - a. Revenue Requirements, including Replacement Reserve Trust Fund provision, for the Fiscal Years 2018-2020 as shown on the attached Schedule under “Approved Forecast” of \$361,821 (2018), \$543,462 (2019) and \$548,536 (2019) are approved.
 - b. From customer rates collected, 30% is to be set aside in a Replacement Reserve Trust Fund (RRTF) effective September 1, 2017 to August 31, 2018. Starting September 1, 2018, the Utility is required to set aside \$174,000 per year from rates collected in the RRTF.
 - c. On or before September 1, 2018, the Utility is to submit to the Deputy Comptroller the sealed as-built drawings for the WSI Project and engineer certified summary of all costs with copies of all invoicing (including description of work for each invoice) for approval of the final project cost.
 - d. Effective September 1, 2017 and then September 1, 2018 the following water rates are approved:

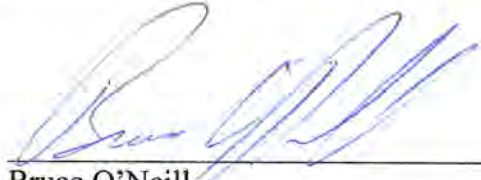
	Approved	
	2017/18	2018/19
Monthly Base Rate, per single family equivalent unit, for first 12,000 gallons used bi-monthly	\$ 51.00	\$ 79.00
Excess consumption (per 1,000 gallons over 12,000 bi-monthly base)	5.00	5.00
Availability of Service (Rent) Charge, per annum	306.00	474.00

- e. Lidstech Holdings Ltd. is to comply with all other determinations and directives in the Reasons for Decision and Order 2513.

NOW THEREFORE, the Deputy Comptroller orders, with Reasons for Decision appended, that:

Lidstech Holdings Ltd. Application, as adjusted above and as determined in the Reasons for Decision attached as Appendix A to this Order, is approved effective September 1, 2017 and September 1, 2018 and Water Tariff Nos.11 and 12 are accepted for filing by the Deputy Comptroller.

Dated at the City of Victoria, in the Province of British Columbia, this 17th day of April, 2018.



Bruce O'Neill
Deputy Comptroller of Water Rights

File: 0321048

IN THE MATTER OF
LIDSTECH HOLDINGS LTD.
(SHAWNIGAN VILLAGE WATERWORKS)
REVENUE REQUIREMENTS and RATE INCREASE APPLICATION
REASONS FOR DECISION FOR ORDER 2513

APRIL 17, 2018

BEFORE:

Bruce O'Neill, Deputy Comptroller of Water Rights

1.0 Background

The Comptroller of Water Rights (“Comptroller”) is an independent quasi-judicial regulator and responsible for the regulation of private water utilities under the *Water Utility Act* and the *Utilities Commission Act*. The *Water Sustainability Act* authorizes the Deputy Comptroller of Water Rights (“Deputy Comptroller”) is authorized to exercise all the powers and perform all of the duties of the Comptroller.

Lidstech Holdings Ltd. (“the Utility”) is a regulated private water utility that owns and operates a water system at Shawnigan Lake, BC. The Utility commenced local operations in 1946, when the original Certificate of Public Convenience and Necessity (CPCN) was issued for 96 lots. Many system extensions with CPCN Amendments have occurred over the years, bringing the total authorized lots to 499. Currently, the Utility has 440 residential connections and 19 commercial customers with an additional 31 lots subject to stand-by (rent) charges. The remaining 9 vacant lots are not subject to an availability charge.

The source of supply is surface water from Shawnigan Lake and the current method of treatment is chlorination. On October 21, 2013, the Island Health Authority (“IHA”) issued a water contravention order to the Utility due to the existing method of treatment not meeting IHA’s 43210 drinking water treatment objectives. In order to comply with the order, the Utility was required to install UV and filtration.

In May 2016, Lidstech Holdings Ltd. applied for approval to proceed with the detailed design and construction of the Water System Improvement Project (“WSI Project”). After a written hearing process, CPCN No. 1527 was issued on September 28, 2016 approving the WSI Project at an estimated cost of \$1.7 million. The Deputy Comptroller also approved the financing of the Project with a loan as per Section 50 of the *Utilities Commission Act*.

2.0 Introduction

On July 17, 2017 the Utility submitted a request for approval of its Revenue Requirements for the fiscal years ending July 31, 2018 through to 2020 and to increase its water rates effective September 1, 2017 and September 1, 2018. In support of its application, the Utility submitted supporting documentation including a statement of actual and projected cash flows. The Utility is proposing a two-stage rate increase: Stage 1 is required to meet the increase in operating expenses since the last rate increase in 2008 and to set aside adequate funds in the Replacement Reserve Trust Fund (“RRTF”), and Stage 2 is intended to take effect upon completion of the WSI project, to be completed by September 1, 2018.

The proposed water rates are:

	CURRENT	PROPOSED	
	<i>eff May 1/08</i>	2017/18 <i>eff Sept 1/17</i>	2018/19 <i>eff. Sept 1/18</i>
Monthly Base Rate, per single family equivalent unit, for first 12,000 gallons used bi-monthly	\$ 42.00	\$ 56.00	\$ 83.00
Excess consumption (per 1,000 gallons over 12,000 bi-monthly base)	3.00	5.00	5.00
Availability of Service (Rent) Charge, per annum	250.00	300.00	350.00

The Utility advertised its proposed rate increases by sending a Notice to its customers on July 17, 2017. The Notice provided customers with an opportunity to submit comments to the Deputy Comptroller by August 28, 2017. A total of thirteen written submissions were received.

The issue to be decided by me is whether to accept, set aside, or vary the proposed Tariff changes and forecast Revenue Requirements for the fiscal years ending July 31, 2018, 2019 and 2020.

3.0 Revenue Requirements

Revenue Requirements (“RR”) include forecast operating expenses, RRTF provision, loan repayment, and operating margin. In order to ensure that the Utility continues to provide its customers with adequate water service, it is necessary to generate enough revenue through rates to cover forecast RR. At the current rate, the Utility is unable to cover future RR, including financing of the WSI Project and adequate replacement reserve fund provision. The Utility provided detailed support for its forecast RR and provided further explanations in its responses to customers’ questions and comments and information requests from the Deputy Comptroller.

3.1 Operating Expenses

Total forecast Operating Expenses before RRTF provision and loan repayment for fiscal years ending July 31, 2018, 2019 and 2020 were fully explained in the Utility’s Application and are reasonable with adjustments explained below.

3.1.1 Office Rent

The Utility is proposing to increase Office Rent from \$6,390 (2008 Approved) to \$7,367 per year starting in fiscal 2018. The Utility states that it uses 226 square feet of home office space for the billing, bookkeeping and management of the water system. At a rate of \$30 per square foot, an allowance of \$6,780 per year (226 sq.ft. x \$30) for office rent is deemed sufficient.

3.1.2 Operator Wages & Wage Benefits

The Utility is proposing to increase Operator Wages from \$45,000 (2008 Approved) to \$61,312 per year starting in 2018. The principal of the Utility is certified as a Level I operator and performs the day-to-day operations and maintenance of the water system. This includes daily pump house and reservoir inspections, regular water sampling, reading meters bi-monthly and annual servicing of water mains, reservoirs and fire hydrants. The proposed budget of \$61,312 per year is high for this size and type of utility. A budget of \$57,600 per year starting in 2018 is deemed sufficient. An annual escalation factor of 1.4% rather than 2.4% should be applied to operator wages, wage benefits, and vehicle allowance for rate setting purposes considering recent economic growth forecasts.

3.1.3 Management Fees (including Billing & Bookkeeping)

Total Management Fees, including Billing & Bookkeeping, are forecast to increase from \$51,099 as approved in 2008 to \$68,647 starting in 2018 with additional increases of 2.4% for fiscals 2019 and 2020. This budget was calculated by increasing the 2008 approved amount by inflation and by the increase in the number of customers since 2008. Although the responsibilities and duties may have increased due to additional customers being connected to the system, a proposed increase of 34% to Management Fees and Billing & Bookkeeping is high compared to other utilities of this size and complexity. Total management fees of \$61,200 for 2018 (\$45,000 for Management Fee and \$16,200 for Billing & Bookkeeping) should be adequate to compensate the principals of the Utility for time spent on overseeing the day-to-day operations of the water system. An escalation factor of 1.4% rather than 2.4% should be applied for 2019 and 2020.

3.1.4 Trust Fund Project Management Fee

The Utility is proposing \$9,537 per year as a project management fee for non-engineering items related to projects funded by trust funds. In the past, all project management work was contracted out to the Utility's consulting engineers. In addition to the engineering and project management, the consulting engineer would complete administrative tasks on behalf of the Utility such as submitting preapproval and release requests to the Comptroller, providing banking information and/or additional details concerning the project.

In January 2017, the Comptroller advised the Utility that the non-engineering items performed by the consulting engineer were not eligible for release from the trust funds as these types of tasks are administrative and should be completed by the Utility's manager and paid from the management fee.

The Utility's request for the additional \$9,537 per year as a trust fund project management fee is denied. The Utility's approved management fee of \$45,000 starting in 2018 is deemed sufficient to carry out the day-to-day management duties and oversee trust fund projects. If the Utility decides to hire the consulting engineer to carry out the functions that would typically be the utility manager's responsibility then they should be paid from the approved management fee budget.

3.2 Loan Repayment – Vancouver City Savings Credit Union (“Vancity”)

In order to comply with IHA's order, the Utility was required to install a new water treatment plant and install a new lake intake. At the same time, the Utility decided to undertake additional work to improve the robustness of the water system distribution network and increase areas of low pressure by looping several locations. On September 28, 2016, the Deputy Comptroller approved the Utility to proceed with the detailed design and construction of the Water System Improvement Project at an estimated cost of \$1.7 million. The project is currently underway and will be completed in three phases: 1) construction of the water treatment works, 2) construction of new pumping equipment, and 3) construction of several pipelines within the distribution grid and new lake intake. The completion date for all three phases is estimated to be on or before September 1, 2018.

The Utility was able to secure financing of up to \$1.7 million from Vancity to pay for the WSI Project with a personal guarantee provided by the Utility owners. The loan will be amortized over thirty years for a term of five years with an interest of 4.25%. The interest rate cannot be guaranteed beyond the five year term but that is standard procedures for financial institutions. It is expected that the renewal rate will be similarly favorable based on current bank interest rates at the time. The principle and interest payments during the five year term are forecast to be \$102,000 per year or \$8,500 per month starting September 1, 2018. From the proceeds of the loan, the Utility is required to deposit a total of \$158,632 into the RRTF and the Deferred Capacity Trust Fund (“DCTF”) to recover temporary withdrawals authorized by the Deputy Comptroller to pay for project planning, initial water sampling/testing and project design (\$95,235 to the RRTF and \$63,397 to the DCTF).

Based on the financing terms provided by the Utility from Vancity, the forecast principle and interest payments during the five year term of \$102,000 per year are approved subject to the completion of the WSI Project and approval of the final project cost. On or before September 1, 2018, the Utility is to submit to the Deputy Comptroller the sealed as-built drawings for the WSI Project and an engineer certified summary of all costs with copies of all invoicing (including description of work for each invoice) for approval of the final project cost.

3.3 Replacement Reserve Trust Fund (RRTF)

The RRTF provides funds collected from customers to pay for future replacement of water system components when required. The monies are set aside in a restricted bank account by the Utility and no releases are allowed without the written authorization of the Comptroller of Water Rights. If the water system is sold or transferred the RRTF must stay with the system for the

beneficial use of the customers. Ideally, annual RRTF deposits should be equal to standard depreciation rates for water system components.

Order No. 875 issued on December 22, 1983 required the Utility to establish and maintain a RRTF. The current Tariff requires 25% of rates collected to be deposited into the RRTF or about \$70,000 per year. The Utility has made a number of improvements to the system over the years and the current RRTF bank balance is \$150,000 (net of approved expenditures). The Utility proposes to increase the RRTF contribution rate from 25% to 30% of rates collected starting September 1, 2017. This would increase annual RRTF deposits from \$70,000 to \$167,444 in 2019.

As part of the WSI Project, the Utility was required to complete a depreciation study which valued the water system assets after completion of the project to be \$9 million and calculated an annual depreciation value of \$174,000. At a contribution rate of 30%, the Utility would not achieve full replacement provision for several years, assuming the forecast customer growth is realized. Starting September 1, 2018 the Utility is required to contribute \$174,000 per year to the RRTF. This will ensure that the yearly amount set aside in the RRTF is equal to the annual depreciation of system and that funds will be available to replace major water system components when required. For September 1, 2017 to August 31, 2018 the Utility's proposal to contribute 30% of rates collected is acceptable.

3.4 Operating Margin (Adjusted Net Income for Operations)

As shown on Schedule A, after making the adjustments stated above, operating margin would be \$7,906 or 3% of Total Expenses for fiscal 2018. In subsequent years, Operating Margin will average \$9,800 per year or 4% of total operating expenses. A 4% operating margin is within an acceptable range. This will allow the Utility to build-up its operating cash reserve to cover unanticipated or extraordinary costs.

Deputy Comptroller Determinations for Revenue Requirements:

Total Operating Expenses of \$247,226 (2018), \$257,783 (2019) and \$262,538 (2020) for rate setting purposes are approved as indicated on the attached Schedule A.

On or before September 1, 2018, the Utility is to submit to the Deputy Comptroller the sealed as-built drawings for the WSI Project and engineer certified summary of all costs with copies of all invoicing (including description of work for each invoice) for approval of the final project cost.

The forecast principle and interest payments during the five year loan term of \$102,000 per year are approved subject to the completion of the WSI Project and approval of the final project cost.

The Utility is to deposit into its RRTF, 30% of rates collected effective September 1, 2017 to August 31, 2018. Effective September 1, 2018 the Utility is to deposit \$174,000 per year to the RRTF.

Accordingly, total RR of \$361,821 (2018), \$543,462 (2019) and \$548,536 (2020) as shown on the attached spreadsheet are reasonable and acceptable for rate setting purposes.

4.0 Approval to Change Tariff Rates, Terms and Conditions

4.1 Availability of Service Charges

Availability of Service (Rent) Charges should be charged on all vacant lots that have a Rent Charge Agreement registered on title. The current Availability of Service (Rent) Charge fee is \$250 per year which is equivalent to 50% of the base rate per single family equivalent. The Utility is proposing to increase the Availability of Service (Rent) Charge to \$300 per year effective September 1, 2017 and then to \$350 per year effective September 1, 2018, which is equivalent to 45% and 35% of the base rate respectively.

The Utility did not provide an explanation for the change and at minimum the Rent Charges should be set at 50% of the base rate per single family equivalent as in the current Water Tariff No. 10.

4.2 Tariff Rates

The proposed rates are in excess of what is required to cover approved Revenue Requirements. Effective September 1, 2017 and September 1, 2018, the following revised rates as shown on the attached Schedule A are found to be adequate:

	Approved	
	2017/18	2018/19
Monthly Base Rate, per single family equivalent unit, for first 12,000 gallons used bi-monthly	\$ 51.00	\$ 79.00
Excess consumption (per 1,000 gallons over 12,000 bi-monthly base)	5.00	5.00
Availability of Service (Rent) Charge, per annum	306.00	474.00

4.3 Terms and Conditions of Tariff

The other proposed changes to the terms and conditions and rate schedules are warranted since they were properly advertised, a review of the proposed changes was conducted, and found to be reasonable. Therefore, it is appropriate to approve the proposed changes to the terms and conditions of service in the Utility's Tariff No. 11 effective September 1, 2017 and Tariff No. 12 effective September 1, 2018.

Deputy Comptroller Determinations for Rates, Terms and Conditions:

The proposed rates and the changes to the Terms and Conditions, as adjusted above, in the Utility's Tariff are warranted and therefore it is in order to accept for filing Water Tariff No. 11 effective September 1, 2017.

Water Tariff No. 12 is accepted for filing effective September 1, 2018 provided that the Utility has submitted the documentation related to the WSI Project on or before September 1, 2018 as determined in Section 3. If the Utility is unable to meet this target date then the Comptroller may elect to defer the effective date of the rate increase accordingly.

5.0 Conclusion

Having considered all of the evidence affecting the Utility's proposed rates and changes to the terms and conditions of its Tariff, IT IS HEREBY DECIDED AND ORDERED THAT:

- 1. Total Operating Expenses of \$247,226 (2018), \$257,783 (2019) and \$262,538 (2020) for rate setting purposes are approved as indicated on the attached Schedule A.**
- 2. On or before September 1, 2018, the Utility is to submit to the Deputy Comptroller the sealed as-built drawings for the WSI Project and engineer certified summary of all costs with copies of all invoicing (including description of work for each invoice) for approval of the final project cost.**
- 3. The forecast principle and interest payments during the five year loan term of \$102,000 per year are approved subject to the completion of the WSI Project and approval of the final project cost.**
- 4. The Utility is to deposit into its RRTF, 30% of rates collected effective September 1, 2017 to August 31, 2018. Effective September 1, 2018 the Utility is to deposit \$174,000 per year to the RRTF.**
- 5. Total Revenue Requirements of \$361,821 (2018), \$543,462 (2019) and \$548,536 (2020) as shown on the attached spreadsheet are reasonable and acceptable for rate setting purposes.**
- 6. The proposed rates and the changes to the Terms and Conditions, as adjusted above, in the Utility's Tariff are warranted and therefore it is in order to accept for filing Water Tariff No. 11 effective September 1, 2017.**
- 7. Water Tariff No. 12 is accepted for filing effective September 1, 2018 provided that the Utility has submitted the documentation related to the WSI Project on or before September 1, 2018 as determined in Section 3. If the Utility is unable to meet this**

target date then the Comptroller may elect to defer the effective date of the rate increase accordingly.

Dated at the City of Victoria, in the Province of British Columbia, this 17th day of April, 2018.



Bruce O'Neill
Deputy Comptroller of Water Rights

Attachment: Schedule A

