

ORDER NUMBER 2606

PROVINCE OF BRITISH COLUMBIA
OFFICE OF THE DEPUTY COMPTROLLER OF WATER RATES

IN THE MATTER OF
the *Water Utility Act* and the *Utilities Commission Act*
and
North Shore Water Utility Nelson Ltd.

**For Approval of
2022 Rate Increase Application**

Effective January 1, 2022

BEFORE:

Jesal Shah, Deputy Comptroller of Water Rights
PO BOX 9340 STN PROV GOVT
Victoria BC V8W 9M1

ORDER 2606

Dated this 18th day of March 2022

Whereas:


1. On December 13, 2022 North Shore Water Utility Nelson Ltd. (the “Utility”) made a rate application to the Deputy Comptroller of Water Rights (“Deputy Comptroller”) for approval of its forecast revenue requirements for 2022 test year and to increase water rates effective January 1, 2022. The Utility submitted supporting documentation including an actual and forecast cash flow statement and proposed Water Tariff No. 6 (collectively called “the Application”).
2. The Utility proposes to increase the residential flat rates (or equivalent units) from \$183 to \$231 per quarter effective January 1, 2022. From water rates collected, the Utility would increase contributions to the Replacement Reserve Trust Fund (RRTF) from 9% to 30%. No releases may be made from the RRTF without the written authorization of the Deputy Comptroller.
3. A written hearing process commenced with the Utility mailing Notices to all customers on December 18, 2021. The Notice provided customers with an opportunity to submit comments to the Deputy Comptroller by January 15, 2022. Three written submissions from customers were received and responses were provided by the Utility.
4. The Deputy Comptroller has reviewed the Application and customer submissions and has determined that Revenue Requirements, including RRTF provision, for 2022 test year as shown on the attached Schedule under “Approved 2022” of \$153,563 are adequate. The proposed water rates are sufficient and necessary for the Utility to meet its approved Revenue Requirements for 2022.

NOW THEREFORE, the Deputy Comptroller orders as follows:

1. Revenue Requirements of \$153,563 for 2022 test year are approved, which includes \$46,069 of forecast RRTF contributions based on 30% of rates collected.
2. Effective January 1, 2022, the proposed residential flat rate of \$231 per quarter is approved.
3. The Utility is to comply with all other determinations and directives in the Reasons for Decision attached as Appendix A.

Accordingly, North Shore Water Utility Nelson Ltd.'s Application, as determined in the Reasons for Decision attached as Appendix A to this Order, is approved effective January 1, 2022, and Water Tariff No. 6 is accepted for filing by the Deputy Comptroller.

Dated at the City of Victoria in the Province of British Columbia, this 18th day of March 2022.



Jesal Shah, P.Eng., MBA
Deputy Comptroller of Water Rights

Attachment

IN THE MATTER OF

An Application by

North Shore Water Utility Nelson Ltd.

**For Approval of Rate Increase Application
Effective January 1, 2022**

BEFORE:

Jesal Shah, Deputy Comptroller of Water Rights
PO BOX 9340 STN PROV GOVT
Victoria BC V8W 9M1

REASONS FOR DECISION FOR ORDER 2606

Dated this 18th day of March 2022

1.0 Background

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

North Shore Water Utility Nelson Ltd. is a privately held corporation that owns and operates a water system near Nelson, British Columbia, and is approximately sixty-five years old. The original Certificate of Public Convenience and Necessity (CPCN) was issued on March 20, 1956 for a 126 lot development. Between 1978 and 2019 several CPCN Amendments were issued bringing the total authorized for service to 139 lots.

Currently, the Utility provides water service to 136 residential and 6 commercial customers. The source of supply is surface water from two high flow springs – Collins Spring and Sutherland Creek – and the water is treated with chlorination. The Utility has several water licences for both water sources authorizing a total quantity of about 548,000 cubic metres per year.

2.0 Introduction

On December 13, 2022, the Utility applied for approval of its forecast revenue requirements for 2022 test year and to increase water rates effective January 1, 2022. The Utility submitted supporting documentation including actual and forecast cash flow statements and proposed Water Tariff No. 6. The last rate increase was approved effective May 15, 2014 and increased the residential flat rate from \$147 to \$183 per quarter. The Utility was required to contribute 9% of rates collected to the Replacement Reserve Trust Fund (“RRTF”).

The main reason for the proposed rate increase is to increase the amount of funds contributed to the RRTF in order to fund replacement of existing aging infrastructure. The Utility proposes to increase the residential flat rates (or equivalent units) from \$183 to \$231 per quarter and to increase RRTF contributions from 9% to 30% of rates collected.

A written hearing process commenced with the Utility mailing Notices to all customers on December 18, 2021. The Notice provided customers with an opportunity to submit comments to the Deputy Comptroller by January 15, 2022. Three submissions were received. The Utility provided responses to the customer submissions.

All evidence, including relevant submissions from the Utility and its customers, has been taken into consideration. Sufficient evidence was received to proceed with a review and decision on the Application. The issue to be decided by the Deputy Comptroller is whether to accept, set aside, or vary forecast revenue requirements and proposed water rate increases for the 2022 test year.

3.0 Revenue Requirements

Revenue Requirements (RR) include forecast operating expenses, income taxes, RRTF provision and operating margin. In order to ensure that the Utility continues to be a viable business entity while providing its customers with adequate water service, it is necessary to generate enough revenue through rates to cover forecast RR.

3.1 Operating expenses and operating margin

Forecast 2022 operating expenses are based on 2018 to 2020 actuals and are reasonable for this size and type of utility. Operating costs have remained steady for the past three years with no major increases forecast for 2022. Management fees, including operator wages, and Billing and Office costs are continuing to be billed at the approved 2015 rate of \$60,000 per year (\$48,000 Management Fee plus \$12,000 Billing & Office).

3.2 Replacement Reserve Trust Fund

The Deputy Comptroller requires regulated water systems to set up and maintain an RRTF to ensure funds will be available to pay for the replacement of water system components when required. The monies are set aside in a restricted bank account and no releases are allowed

without the written authorization of the Deputy Comptroller. In the event the water system is sold or transferred, the RRTF transfers with the system for the beneficial interest of the customers. Ideally, annual RRTF deposits should be equal to standard depreciation rates for water system components, generally around 2% of the total capital cost per year. This is calculated using the “Standard Depreciation Rates for Private Water Utilities in British Columbia” – Schedule A form found in the CPCN Guidelines.

Order 1720 dated November 1, 1995 required the Utility to establish and maintain a RRTF with annual deposits in accordance with its approved water tariff. As per Water Tariff No. 5, the Utility is required to deposit 9% of rates collected to the RRTF, equivalent to \$10,770 per year (2021 Actual). At the end of fiscal 2021, the required RRTF balance was \$25,600 (net of authorized expenditures) and the RRTF bank account is reconciled and in order. Recent improvements to the system included a \$138,000 project to replace and upgrade a section of the watermain with \$70,000 funded from the RRTF.

As part of the Application, the Utility submitted a completed Schedule A form which calculated the present-day replacement value of the current infrastructure to be \$2.2 million with annual depreciation of \$43,335. The Utility proposes to increase RRTF contributions from 9% to 30% of rates collected. This will increase total annual deposits to the RRTF from \$10,770 to \$46,000 which is prudent considering the current RRTF balance and the age of the existing infrastructure which will need replacing in the future.

Deputy Comptroller Determinations for Revenue Requirements:

Forecast operating expenses for 2022 test year are reasonable for this size and type of utility.

Effective January 1, 2022 the Utility is to deposit 30% of rates collected into its RRTF.

Accordingly, total Revenue Requirements of \$153,563 for 2022 test year are approved.

4. Water Rates and Tariff Amendments

4.1 Water Rates

The Utility’s proposal to increase the residential flat rates and equivalent units for commercial users from \$183 to \$231 per quarter is reasonable and necessary to recover approved Revenue Requirements as shown on Schedule A.

4.2 Terms and Conditions of Tariff

The Utility proposes to increase the Contribution in Aid of Construction (CIAC) charge found on Schedule B of the Water Tariff from \$3,000 to \$5,000 per equivalent unit. The CIAC charge is set to provide funds for the future expansion of the system supply works due to additional lot(s) being added to the authorized service area of the utility. The funds collected are held in a

Deferred Capacity Trust Fund (DCTF) and cannot be released without the Deputy Comptroller's approval.

Based on the current replacement value of the water system of \$2.2 million and the total number of equivalent units, the CIAC charge should be higher than the proposed amount. A DCTF charge of \$8,000 per equivalent unit is reasonable and will strike a balance between recovering costs related to new development and encouraging development in the community. The Utility should continue to monitor the DCTF account and update the CIAC charge as required.

The other minor proposed changes to the Utility's existing filed Water Tariff No. 5 terms and conditions are acceptable as they are in keeping with the standard water tariff document pre-approved by the Deputy Comptroller.

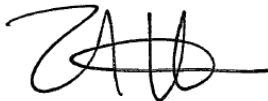
Deputy Comptroller Determinations for Water Rates and Tariff Amendments:

The water rates as proposed by the Utility are approved effective January 1, 2022.

The Schedule B, CIAC charge, of \$8,000 per equivalent unit is approved effective January 1, 2022.

Water Tariff No. 6 is accepted for filing effective January 1, 2022.

Dated at the City of Victoria, in the Province of British Columbia, this 18th day of March 2022.



Jesal Shah, P. Eng., MBA
Deputy Comptroller of Water Rights

Attachment: Schedules A

NORTH SHORE WATER UTILITY NELSON LTD. ACTUAL AND PROJECTED CASH FLOW STATEMENTS FOR THE YEARS ENDING FEBRUARY 28th					Schedule A	
	Actual 2018	Actual 2019	Actual 2020	APPROVED 2022		
Rate/mo. (includes RRTF)	61.00	61.00	61.00	77.00		
Annual Rate	732.00	732.00	732.00	924.00		
1 RRTF Contribution	9%	9%	9%	30%		
No. of equivalent units:						
Commercial connected units	6	6	6	8		
- Commercial equivalent domestic units	29.25	29.25	29.25	33.60		Note CPCN Application #7560 increased connections (Equivalent Units)
Domestic connected units	130	130	130	132		
Operating Revenue						
Rates-domestic flat	95,160	95,160	95,783	121,968		
2 -commercial	21,959	21,959	21,959	31,594		
- Late charges & other						
Interest	479	401				
Total Revenue	115,920	117,029	117,742	153,562		
Expenses						
Management Fees				0		See below
Operator/Contract Labour	48,000	48,000	48,000	48,000		Combined with Management fee & operator wages (No Change in Contract
Billing & Office	9,247	11,782	11,449	12,000		
3 Total Management Compensation						
Amortization/Depreciation	2,024	2,059	2,093	0		Combined with Management fee & operator wages
Office Space and storage				0		Combined with Management fee & operator wages
Vehicle operating				0		new agreement with senior Sutherlands for both
Reservoir occupancy and tank access charges				4,800		
Chlorine	4,800	4,800	4,800	3,000		
Repairs & maintenance	3,000	3,000	3,000	15,000		
Turbidity monitoring	13,336	14,225	17,758	0		Eliminated as NSWU has now bought the equipment.
Water quality sampling	7,000	3,600	3,600	4,000		Decrease as per email April 26, 2019 re-allocation
Utilities	6,000	6,000	6,000	1,000		
Bank charges	1,789	4,869	3,200	400		
Dues, assessments and taxes	448	202	943	300		
Insurance	605	455	455	3,000		
Office supplies & postage & telephone	2,756	2,756	2,759	1,000		
Professional fees	2,500	169	170	2,400		
Engineering Support	6,613	2,758	3,210	9,400		No Net change in bottom line.Reduced Turbidity and Water Quality.
New Reservoir Annual Financing						
New Treatment Plant Annual Financing						
Total Operating Expenses (excludes Amortiz.)	108,118	104,675	107,437	104,300		
Net Income (Loss) from Operations	7,802	12,354	10,305	49,262		
Less: Income tax (recovery)			792	0		
RRTF provision	10,195	10,923	10,510	46,069		
Net Cash Income/Operating Margin (Loss)	-2,393	1,431	-997	3,193		
Revenue Requirements	123,722	129,383	127,255	153,563		
Operating Margin				3%		
Notes:						
1 RRTF = Replacement Reserve Trust Fund						
2 Commercial rates based on the commercial equivalent domestic units except for the trailer park that increases from \$440 to \$548 yearly effective May 15/14.						
3 Total Management Compensation 2011 to 2013 includes Management fees, Operator Wages and Billing & bookkeeping (no breakdown in Financial Statements provided)						