

French Creek Residents' Association

c/o 1266 Jukes Place
Parksville, B.C.
V9P 1W5

Nov. 30, 2009

Comptroller of Water Rights
P.O. Box 9340 Stn. Prov. Govt.
Victoria, B.C.
V8W 9M1

**Attn. Rick Couroux, Secretary to the Comptroller of Water Rights
Water Utility Regulation Section, Ministry of Environment, Victoria, BC**

Dear Sirs:

Subject: EPCOR WATER (WEST) Inc. Revenue Requirement Application 2009-11

This is a response to the Application of September 30, 2009 of EPCOR Water (West) Inc. (EWW) seeking approval from your offices for their determination of a revenue requirement and appropriate rate structure for the above period. This response contains reaction to the application as well as questions, answers for which will help our association members and ratepayers to understand the need for unreasonably high increases in the rates.

We provided what could be considered an informal submission on September 1, 2009. That letter explained who we are and why we are interested in the matter. Rather than repeating it we expect that all concerns and questions in that letter are considered formally as part of the reaction to the Application delivered as above. See Appendix A. If the concerns were not covered by and incorporated in the ultimate Application we wish that they be dealt with now.

We now wish to add the following concerns, issues and questions with respect to the Application.

1. It has become very clear over the past year that customers on the EWW system have been at a disadvantage with respect to access to infrastructure grants from senior levels of government. Please describe what steps the company has taken to obtain infrastructure grants to assist with system upgrades to meet what seems to be ever-changing health and safety standards. What steps are included in this plan to seek and obtain grants to achieve equity with other utilities in the regional district?
2. What steps are included in this plan to deal with anticipated cost increases, to achieve cost and revenue targets as implied in the benchmarking versus other utilities in the area? Can EWW provide reports or minutes of meetings that demonstrate the extent of effort dedicated to minimizing all cost increases in an effort to achieve a rate structure similar to or better than neighbouring utilities going forward?

3. In the interests of improving the safety and reliability of the raw water supply it is indicated that EWW will be winding down the use of surface water supplies from French Creek. How can EWW “monetize” its water licences for withdrawals from French Creek if it is not going to make use of them? Are there any circumstances or conditions under which EWW would relinquish its licences for the use of this surface water?
4. EWW gives as justification for the proposed high rate increases the rate freeze the customers enjoyed since approximately 2003. When EWW purchased the system from Breakwater Enterprises in 2004 Mr. David Rector of EWW advised FCRA directors that the rates enjoyed by the previous owner of the utility were excessively high, EWW could easily accomplish everything it needed to do, and he would promise a rate freeze for the first three years of their mandate. (As a matter of fact the Breakwater Consumers Association had appealed the Comptroller’s decision by providing proof that 2001 – 2003 rates were “too high”.) In addition, within that promise Mr. Rector indicated that numerous improvements would be built to address health and safety issues contained within the “Koers” report, the company’s own due diligence investigation, and historical quality issues. Mr. Rector also indicated that upon the end of the rate freeze period the tariff schedule would probably increase by factors just somewhat above the usual inflation indices. The ratepayers basically received what was promised during the buyout of Breakwater. The rate freeze until 2007 cannot in any way be used as justification of the high increases now proposed.
5. Retroactive and interim rate increases are repugnant. Several customers of the utility have their own budget-setting processes that make the application of a retroactive increase very awkward. Again, during the purchase of Breakwater Enterprises, Mr. Rector “sold” the FCRA and the ratepayers on the professionalism of the EPCOR organization. This was interpreted to mean that EWW would not follow the retroactive rate increase implementation of its predecessor. The promised rate freeze was to be in place until the end of 2007. Now in light of the need for higher revenues can EWW explain why a rate application was not submitted approximately fall 2007 to be reviewed in normal course and implementation only upon approval in early 2008? French Creek Residents’ Association asks the Comptroller to vary the application so that rate changes are made effective the date of notification, approximately Oct. 23, 2009, alternatively, not earlier than Oct. 1, 2009.
6. Reference is made to a comparison of 2009 rates of other water utilities near the EWW service area. At least two of these nearby jurisdictions have provided information that indicate rates will increase by less than 10 per cent in 2010. In addition, at least one of them has committed to a rate structure based on conservation principles. French Creek Residents’ Association has asked EWW representatives at its general meetings over the past few years whether EWW would put forth a “conservation-based” rate schedule. These types of rate schedules appeal to those with a conservation ethic and also provide some minimal benefits for small households. French Creek Residents’ Association asks the Comptroller to vary the application or deliver the decision so that conservation-based pricing can be provided to the ratepayers immediately upon approval, and if not, at some point during the term.
7. The Association is concerned about comments about the excessive costs incurred by staff to prepare and process various applications and other documentation. Some of this effort and cost could be eliminated by timely notification and reasonable adjustments to rates. We ask

the Comptroller to signal to EWW that rate change applications in future must be submitted well ahead of the date of planned implementation.

8. Intercompany charges seem to be excessive and growing. High charges in the early years of operation of the new division are understandable. It would be our view that these charges should be levelling out or declining as the local staff have sorted out the start- up problems and increased their familiarity with all things having to do with the operation. There is also the perception that contrary to what was promised in the way of delivery of expert services from Head Office, there remains a dependence on third party consultants that was believed to be the custom of the previous operator. See Application Point 104. What efforts are being made to ensure this utility is receiving value for money with respect to provision of internal, high-level services from other departments?
9. Has the capital expenditure program (well development for example) been co-ordinated with the future supply of (hopefully) cost-competitive supplies from the Arrowsmith Water Service? Will system development or growth cease when the marginal cost of water exceeds the price at which AWS is anticipated to enter the market?
10. The Association has received mixed messages as to whether development in the community has been slow due to the downturn in the economy or due to water supply constraints. Can additional documentation be provided? Can rates be amended during the term if certain or any orders by the Comptroller or other authority are not fulfilled during such term? Costs of water must be borne by those to whom it is supplied.
11. Points 82 and 83, Page 27 of the application. Are the consumption figures per day and per year respectively?
12. The Association believes that treating depreciation as a cost of service is incorrect. See Point 123. Depreciation is usually a “book” manipulation and is normally an “add back” to determine cash flow. Further, depreciation is looked at as a deductible cost in the determination of income taxes. In this usage we believe it is referred to as Capital Cost Allowance. Please explain more fully why depreciation is used in determining revenue requirements and its pertinence now that EWW is no longer a taxable entity?
13. Our Association has learned that local governments with responsibility for utility operation are anticipating in their budgets for zero or near zero escalators for direct and indirect labour over the next three years. EWW’s proposal we believe contains provision for 4 % wage escalators during the Test Period. This seems inappropriate in difficult economic times. Can EWW change their proposal to mirror the restraint that apparently will be adopted by other utilities?
14. Historically, with respect to the EWW utility, developers have borne all risks with respect to providing water and infrastructure. What mechanisms will be put in place to ensure existing ratepayers do not bear any of the risks to put in place water supply and infrastructure for new development given that EWW has taken upon itself the responsibility for finding new supplies?

15. EWW's Manager, Gregg Hogge, hosted a very much-appreciated tour of most of the production wells in October. A FCRA director summarized observations and information provided during the tour. The report was "married" to the information from the BC Groundwater Consultants 2008 report. The FCRA report is attached as Appendix B. It has numerous questions with respect to each well that form a part of this submission. The Association would also like to know what analysis has been done to leave Imperial, Lornedunn and Drew 2 off line and develop up to six new wells? Is maximum use being made of contributed plant before new rate-base plant is developed?
16. It would appear that EWW or predecessor constructed mains to the Alberni Highway. Maps in the application do not show a service area south of Church reservoir. Are there customers on this line and was this infrastructure constructed via contributions or added to rate base?

Our earlier submission sought financial support to prepare an in-depth submission. Partly as a gesture to not add any further burden to the utility, the directors of the Association and others have made their best effort to identify the issues to support this detailed submission.

It is our understanding that the Comptroller has retained a special adviser to review this application. We hope that the special adviser will appreciate the seriousness of the situation and be a strong advocate for the consumers and at the same time provide experienced advice to the decision-maker with respect to approval of the application.

Therefore, we would like to see and "test" the adviser's report to the Comptroller before the application proceeds to decision.

Our submission is not intended to be critical but rather to be helpful and to press for the maximum benefit of the ratepayers. If our comments or questions need to be framed differently we trust your staff will provide guidance.

Sincerely,

(signed copy by postal service)

**Michael Jessen, P.Eng.
Secretary, French Creek Residents' Association**

**cc: Carmen Piercey, Senior Manager,
Applications & Regulatory Affairs
EPCOR Utilities Inc.**

Appendix A

Letter of Sept. 1, 2009 to Comptroller of Water Rights.

Thank you for your communications in early August with respect to our concerns related to the June 1, 2009 Interim Rate Application by EPCOR Water (West) Inc (EWW) for an Interim Refundable Water Rate Increase.

We would like to reiterate our concerns with respect to this matter.

1. **French Creek Residents' Association exists to help residents in an area called French Creek that sits between the City of Parksville and Town of Qualicum Beach, from the coast inland to the first BC Hydro power line. It attempts to represent all the citizens of the area through those wishing to formally participate as paid members and directors. The association has existed as a registered B.C. society since 1973.**

2. We have received the **DECISION & ORDER #2208**, issued by the Deputy Comptroller of Water Rights dated July 28, 2009, awarding EWW refundable interim Tariff Rate increase in the range of 14% effective July 1, 2009. We understand that there may be further compound increases in years 2010 and 2011. These increases could total some 50% when implemented over an 18-month period – informally advised to us on July 20 and August 20, 2009. Such increases will have significant impact on the operating costs of all water consumers in French Creek.

Our members and community residents had no reasonable prior warning or consultation by EWW on the significant interim water rate increase now implemented. We were shocked and dismayed by the announcement in your Order.

3. Our Association has carefully studied the ORDER & DECISION #2208, and we have the following concerns:
 - EPCOR Water (West) Inc. did not provide customers with advance information on the large interim increase in water rates prior to the filing on June 1, 2009. **This is contrary to statements made by the utility to association directors during the period leading up to the formal purchase of the utility in 2004 - 2006.**

We ask that you register us as an Intervener and that we receive copies of any filings in respect of this application, including the Final Application.

We have indicated in the past that we encourage the Comptroller to assist the Oceanside Strata, situated within the Town of Qualicum Beach, migrate to the municipal water system. We wish to be advised of any filings for disposition of assets, particularly these Oceanside Strata assets.

- We note that your proposed deadline for submission by EWW of their RATE APPLICATION is September 30, 2009. We understand you have instructed EWW to

provide notice to customers of the application in October 2009. We encourage the Comptroller to hold local public hearings on what appears to be extraordinarily large rate increases.

- It should be noted that when the June 1, 2009 letter from EWW was sent to the Comptroller, the completed application was to be filed on or before July 15, 2009.

We believe that the period allowed for us to react to the Application should be fair, given that the Application has probably been under preparation for some considerable time. The filing has been delayed, but the approval of interim rates was not. Details are still unavailable; information on the history has still to be supplied. We are attempting to prepare to respond, but can only do so with the timely availability of needed information.

If the Comptroller decides to proceed by way of written hearings, our Association requests reasonable extensions of time to respond, once all information is provided to us.

- In order to fully understand and respond to the anticipated application we request the following information from EWW:
 - **Audited Financial Statements for EPCOR Water (West) Inc for 2006, 2007, 2008;**
 - **Comparison of actual and projected results of Utility Income, rate base and other rate components with explanation of major deviations;**
 - **Detail of actual Capital Expenditures compared to estimates for 2006-2008;**
 - **The June 1, 2009 APPLICATION filed with the Comptroller of Water Rights;**
 - **A summary of the operating status/history of all system fixed assets (acquired and disposed since utility purchase) and details of Capital Expenditure Program for the forecast period;**
 - **Proposed Rate Classes to be used.**
 - **A complete status report on the Resource Report imposed by the Comptroller as a condition of the issue of the CPCN in 2006.**
 - **A complete status report on all system deficiencies identified in the “Koers” report of 2004, in response to the Medical Health Officer.**
 - **Measure of support for community requests for a conservation-based rate structure.**
- Our Association is at a distinct financial disadvantage, in carrying out our review and responding to the Application. The Applicant’s costs are normally included in Water Tariff Rates.

We hereby give notice of our intention to seek reimbursement of our costs under Section 116 & Section 118 of the Utilities Commission Act.

Please provide information on how to apply for such funding.

The responsibility of the Comptroller is to balance the interests of investors and consumers. It is hard to achieve this balance if the consumers are not afforded a fair and equal opportunity to be heard.

- Our association has limited resources to retain legal and professional counsel. In assessing our requests, please bear in mind the Applicant has professional help (which is charged to the ratepayers); the Comptroller has professional help in making a formal decision (which is also charged to the ratepayers).

We request that you assist us to frame our intervention and responses appropriately to meet legal requirements.

In conclusion, we are concerned that the Customers have not been adequately informed or consulted by EPCOR Water (West). We hope that this can change so that customer's opinions can be properly conveyed to the Comptroller or Deputy Comptroller of Water Rights in relation to the important decisions of price, quality and availability of potable water in French Creek.

Thank you for the opportunity to bring our concerns to your attention.

Sincerely,

(signed copy by postal service)

**Michael Jessen, P.Eng.
Secretary, French Creek Residents' Association**

cc. David Rector, EPCOR, Director of Operations, Water and Waste Water
Canada

Appendix B

FCRA DIRECTORS EPCOR WELL SITE TOUR 15 OCT 2009 with Greg HOGGE

Directors In attendance:

JoAnn Chase
Tom Thornton
Jack MacKenzie
Lyle Hollingworth
Larry Biccum - recorder

B.C. Groundwater Consultants 2008 recommendations in italics summarized by Michael Jessen along with comments by Michael Jessen in brackets.

Well R 8-2

Lee Rd/19A intersection near billboard

Basically supplies Harbour area with excess going to general distribution.
Well is chlorinated. Svc Bldg just services the one well.

Ongoing testing for salt water intrusion. None detected to date.

No issues with Sewer Treatment plant across 19A from well.

Well on-line 2004

Comptroller authorized 3.2 litres/second. Peak pumping rate 3 litres/second.

50 % of water column used. Risk of salt water intrusion. More drawdown is available as consultant suggests limiting drawdown to less than 70 %.

(More aggressive pumping to achieve the authorized production, resulting in greater drawdown, could result in saltwater intrusion. Well was believed to be a developer contribution for the 40-unit subdivision on Viking Way. – MJ)

Imperial Well

Behind Windsor Plywood on Imperial Rd just past River Cres.

Problematic. Boggy area. Close to creek.

Poor water quality. Influenced by surface water.

(Water quality reports and pumping tests required. If well is high in iron and manganese how can it be manifolded to the new filter plant on Drew? If well was drilled as developer contribution for a subdivision of residential dwellings, what number and where are the dwellings located? – MJ)

Oceanside Well

Located in residents front yard at Oceanside/Leeward Way intersection.

Sealed casing. Manhole cover visible on surface.

Electrical equipment located out by highway.

Highest volume well. 140' deep, at least 20 yrs old

Needs to be treated. Pumps to Drew Rd reservoir filter plant.

Recent issue: some dirt coming out of this well. Suspect either casing erosion or screen deterioration. Will need some work. If casing is at fault will run \approx \$100K. If screen is problem it is likely not worth fixing.

During 2000-2007 operated peak summer months only.

Comptroller authorized 10.2 litres/second. Peak pumping rate 6.6 litres/second

Well lacks either SCADA or manual water level monitoring at time of report.

(Well is reportedly very high in iron and manganese hence the reason it operated only in the summer when its production could be blended with surface water from French Creek. Believed to be pumping more continuously and at higher rate since summer 2008 through new filter plant. A contributed or rate base well? – MJ)

Ravensbourne Well

Located across E&N tracks from Yambury/Miraloma intersection.

Green cabinet

Pumps to Drew Rd reservoir

Opportunity to improve this well

Needs more research.

Operates throughout the year. Manifoldded to Drew Filter plant.

Comptroller authorized 6.8 litres/second. Base rate less than 2 litres/second

Peak summer pumping rate 4 litres/second

Strong evidence that drawdown interferes with Drew No. 1 and RDN wells.

(A contributed or rate base well? – MJ)

Drew Rd Well 1

Further up trail from Ravensbourne well.

High iron content

Good producer.

Seems to operate throughout the year.

Comptroller authorized 3.4 litres/second.

Peak rate reached in 2000-2002 3.0 litres/second

2003-2007 below 2 litres/second

Risk of “dewatering”. Could result in reduced well yield.

Higher pumping rate causes drawdown.

(Manifoldded to Drew Rd. filter plant. A contributed or rate base well? – MJ)

Lornedunn Well

Located on Church Rd by E&N track

High Manganese and iron levels

Low quality and quantity

Not currently used.

Would go directly into distribution system.

No building associated.

May be used in future but would need treatment.

(Water quality reports and pumping tests required. If well is high in iron and manganese can its product be blended with Church area water and still remain within Canadian Drinking Water Guidelines? If well was drilled to support a subdivision of residential dwellings, what number and where are the dwellings located? – MJ)

Springhill Wells

#1

3L/ second

By Windsor Door Shop off Church Rd
~ 35' deep

#2A

> 1 L/second
Further down same rd from well 1.

Possibility of new well somewhere in between to replace one of these.

*Operate continuously in the period 2000 to 2007.
No manual or SCADA well levels at time of report.
Comptroller authorized 6.1 litres/second. Peak pumping rate 3 litres/second
Not using the 70 % drawdown limit recommended by B.C. Groundwater Cons.
Both wells may have damaged screens – hence the production below allowable.
(Contributed or rate base wells? – MJ)*

Hills of Columbia Wells

Further along road from Springhill 1 and 2A but in a separate aquifer from Springhill wells. Not visited.

*Five wells in this cluster.
Comptroller authorized 14.1 litres/second. Peak pumping rate 12 litres/second
Not falling below the 70 % drawdown. Implies capable of increase in pumping rate. (Contributed or rate base wells? – MJ)*

Church Road Wells

Further up Church Rd and on opposite side of Church from Springhill wells.
Did not visit this site.
Separate, but smaller aquifer
About half their production comes from these wells.

*Four wells in cluster.
Wells operate continuously.
Comptroller authorized 13.6 litres/second. Peak pumping rate 10 litres/second
Until 2006 recovery to 70 % drawdown in spring.
Since 2006 only #3 recovers to 70 %.
This well group is MAX'D out.
Cannot be expected to contribute to achieving maximum day demands.
Recommends reduced pumping 2008 to 2010.
(Contributed or rate base wells? – MJ)*

General Info

Wells south (east?) of French Creek give good water
Wells north (West?) of French Creek higher in sulphur and manganese.

SCADA System

Supervisory Control And Data Acquisition
Upgraded computerized control and monitoring of system.
Improved storage/availability of data.
Communication: some by wireless, some hard wired (ADSL), some dial-up

Power Outage Issues

Outages may affect available water or ability to pump.
 Rate application will include 2 standby generators to better handle power outages.

Chlorine Levels

Set to meet minimum (.3 units??) concentration at max usage range from well. In some cases this is up to 1.5 (units?) at source.

Well Rehab

Some wells require rehab work. Plan is to start in about 3 yrs and do periodic rehab on a rotational basis.

New Wells

Plan is to short list about 6 potential sites and rank order them.
 New well to be chosen from top 3 on cost basis.
 New wells will likely have larger casings.
 Approximate average cost for new wells \$200K

Drew Road Reservoir

Sized for 10 yr capacity. This could be extended somewhat by onsite expansion.

ADDENDUM

Drew Rd Well 2

BC Groundwater Consulting show this well on map as Not Operating.

(Reasons must be given for this well not operating and why no indication of any plans for it. Was it contributed as a requirement for subdivision and if so what number of dwellings were to be served? Water quality testing and Comptroller's authorization? – MJ)

Summary of Well Pumping Capability based on Peak or Continuous

	<u>BC Groundwater Consultants</u>	<u>EPCOR Report Rec.d 09/11/9</u>
Oceanside	6.6 l/sec.	8.0 l/sec.
Ravensbourne	2.0	4.0
Drew No.1	2.0	2.0
R-8-2	3.0	2.0
Church 1-4	10.0	7.0
Springhill 1-2	3.0	3.0
Hills of Col. 1-5	12.0	13.5
Total Groundwater	38.6 l/sec.	39.5 l/sec.
<u>Delivery Cap. based on BC Groundwater:</u>	<u>Based on 09/11/9 Report</u>	
	3335 cubic metres per day	3412 cubic metres per day

Water Required per DAY

Using Sandpiper customer statistics:

Average consumption exclusive of summer demand 0.55 cubic m/dwelling/day

Peak summer demand is commonly accepted to be 3 times greater.

Therefore peak summer demand is 1.65 cubic metre/dwelling/day

2000 existing connections require (x 1.65) 3300 cubic metre/day

BC Groundwater suggests there is sufficient groundwater supply for 103 more connections.

Those connections would require (x 1.65) 169 cubic metre/day

Total peak demand from existing + proposed 3469 cubic metres/day

*Therefore there is virtually **NO meaningful Factor of Safety** if system is to rely strictly on groundwater. French Creek surface water could be pressed into service with chlorination until 2012 when two-barrier protection must be in place.*

Prepared for meeting with EPCOR personnel Nov. 9, 2009

Revised Nov. 10, 2009 incorporating data presented at meeting

Version 4 Nov. 28, 2009

M. Jessen, P.Eng.

Secretary, French Creek Residents' Association