



## **Horse Creek Water Services Inc.**

### **Continuation of Existing Water Rates**

**October 1, 2015**

**Alberta Utilities Commission**

Decision 20663-D01-2015

Horse Creek Water Services Inc.

Continuation of Existing Water Rates

Proceeding 20663

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## **1 Introduction**

1. Horse Creek Water Services Inc.<sup>1</sup> (Horse Creek) filed an application with the Alberta Utilities Commission on July 24, 2015, requesting approval to continue charging the existing approved water rates and for updated terms and conditions.

2. The Commission issued a notice of application on July 27, 2015 requesting parties who wished to intervene in the proceeding to submit a statement of intent to participate (SIP) to the Commission by August 17, 2015. In their SIPs, parties were asked to provide a description of their interest in the proceeding, an explanation of their position, including information in support of the position, and submissions as to whether further process is required.

3. The Commission received the following three SIPs objecting to approval of the continuation of existing water rates:

- Harold Sochan on August 7, 2015;
- Stan and Karen Vander Helm (Vander Helms) on August 14, 2015; and
- Randy and Shelley Russell (Russells) on August 17, 2015.

4. The Commission considers that the record of this proceeding closed on August 17, 2015.

5. In reaching the determinations set out within this decision, the Commission has considered all relevant materials comprising the record of this proceeding. Accordingly, reference in this decision to specific parts of the record are intended to assist the reader in understanding the Commission's reasoning relating to a particular matter and should not be taken as an indication that the Commission did not consider all relevant portions of the record with respect to a particular matter.

## **2 Background**

6. On February 18, 2011, the Commission released Decision [2011-061](#)<sup>2</sup> approving rates and applicable terms and conditions for Regional Water Services Ltd. (Regional Water) to operate a water utility serving the residential development known as MonTerra on Cochrane Lakes (Monterra). Monterra is in the Municipal District of Rocky View, near the Town of Cochrane.

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<sup>1</sup> According to a corporate records search conducted on September 25, 2015, 1812234 Alberta Ltd. changed its name to Horse Creek Water Services Inc. on September 1, 2015.

<sup>2</sup> Decision 2011-061: Regional Water Services Ltd., 2007-2010 General Tariff Application, Proceeding 358, Application 1519777-1, February 18, 2011.

As part of Decision 2011-061, the Commission provided Regional Water with 16 directions, which are reproduced in [Appendix 3](#) of this decision.

7. On April 29, 2011, Regional Water made a compliance filing with respect to Decision 2011-061.<sup>3</sup> Regional Water submitted revised terms and conditions on May 20, 2011, June 23, 2011, and October 25, 2013. On December 9, 2013, the Commission determined that its approval of the revised terms and conditions filed would be processed under Proceeding 1205, which is Regional Water's compliance filing pursuant to Decision 2011-061.<sup>4</sup>

8. On August 6, 2014, Horse Creek purchased the water utility operated until then by Regional Water under a receivership order, and adopted Regional Water's approved water rates and terms and conditions.<sup>5</sup>

9. On July 24, 2015, Horse Creek filed the current application, requesting approval for its continued use of the existing water rates, and for updated terms and conditions. Horse Creek indicated that it intended to file a rate approval application in 2016 with a view to obtaining approval for higher water rates.

### **3 Intervener objections**

10. Mr. Sochan, the Vander Helms, and the Russells filed SIPs in this proceeding. In their SIPs, both Mr. Sochan and the Vander Helms submitted that Horse Creek's existing water rates were much higher than those of other communities in Western Canada and opposed Horse Creek's request for approval of a continuation of the existing water rates.<sup>6,7</sup> In an email, the Russells expressed concern with the application and submitted that there was a need for more information with respect to the matters to be addressed.

### **4 Commission findings**

11. In this proceeding, the Commission is asked to approve pursuant to Section 89 of the *Public Utilities Act*, RSA 2000, c. P-45, the rates and revised terms and conditions for the water utility currently serving Monterra.

12. The interveners are clearly opposed to Horse Creek's request to continue using the water rates originally approved in Decision 2011-061. The approval of the rates in that decision expires on February 18, 2016. The Commission considers that it has no persuasive factual basis upon which to conclude that the rates approved in Decision 2011-061 do not continue to be just and reasonable. The costs of a procedure to approve rates applicable now for less than a six-month period are likely to be borne by the utility and through it, by its customers, and could realistically exceed the prospect of any potential net cost saving by the customers of the utility. For these reasons, the Commission gives its approval to Horse Creek, the owner of the water utility serving Monterra, to continue to charge existing water rates until February 18, 2016.

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<sup>3</sup> Proceeding 1205, Exhibit 0004.00.RWSL-1205.

<sup>4</sup> Proceeding 1205, Exhibit 0008.01.AUC-1205.

<sup>5</sup> Exhibit 20663-X0002.

<sup>6</sup> Exhibit 20663-X0006, Letter dated August 7, 2015, from Harold Sochan.

<sup>7</sup> Exhibit 20663-X0010, Stan and Karen Vander Helm letter.

13. Horse Creek has stated its intention to file an application in 2016 for approval to increase the current rates. However, considering that such an application has not yet been filed, it is unlikely that the Commission would reach a final decision in relation to that application before February 18, 2016. Therefore, the Commission further approves a continuation of the existing rates charged by Horse Creek, as approved in Decision 2011-061 on an interim and refundable basis, for the period starting on February 18, 2016, until such time as new rates are approved. This approval is conditional upon Horse Creek filing a general rate application in 2016 on or before February 18, 2016.

14. Additionally, for the purposes of regulatory efficiency, consideration of Horse Creek's revised terms and conditions<sup>8</sup> for which approval is also sought in the current application will be tested as part of Horse Creek's general rate application filed in 2016.

15. Prior to filing its 2016 general rate application with the Commission, Horse Creek is directed to consult with its customers to explain its proposed rate increase and revised terms and conditions. Horse Creek must notify the Commission of the date, time, and location of the consultation at least five business days before the consultation, so that a Commission staff member may attend to observe. Horse Creek is further directed to file details of the consultation as part of its 2016 general rate application and to address the outstanding directions from Decision 2011-061 in its 2016 general rate application.

## 5 Order

16. It is hereby ordered that:

- (1) The water rates approved in Decision 2011-061 are approved for the continued operation of the water utility serving the residential development known as MonTerra on Cochrane Lakes by Horse Creek Water Services Inc.
- (2) The water rates approved in Decision 2011-061 for the continued operation of the water utility serving the residential development known as MonTerra on Cochrane Lakes by Horse Creek Water Services Inc., are approved on an interim and refundable basis effective February 18, 2016.
- (3) The terms and conditions of service approved in Decision 2011-061 for the continued operation of the water utility serving the residential development known as MonTerra on Cochrane Lakes by Horse Creek Water Services Inc., will continue to be in effect until otherwise directed by the Commission.

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<sup>8</sup> Exhibit 20663-X0001.

Dated on October 1, 2015.

**Alberta Utilities Commission**

*(original signed by)*

Willie Grieve, QC  
Chair

*(original signed by)*

Neil Jamieson  
Commission Member

*(original signed by)*

Anne Michaud  
Commission Member

**Appendix 1 – Proceeding participants**

<b>Name of organization (abbreviation) counsel or representative</b>
Horse Creek Water Services Inc. (Horse Creek)
Harold Sochan
Stan and Karen Vander Helm
Randy and Shelley Russell

<p>Alberta Utilities Commission</p> <p>Commission panel  W. Grieve, QC, Chair  N. Jamieson, Commission Member  A. Michaud, Commission Member</p> <p>Commission staff  J. Petch (Commission counsel)  C. Pham  C. Burt</p>
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**Appendix 2 – Summary of commission directions**

This section is provided for the convenience of readers. In the event of any difference between the directions in this section and those in the main body of the decision, the wording in the main body of the decision shall prevail.

1. Prior to filing its 2016 general rate application with the Commission, Horse Creek is directed to consult with its customers to explain its proposed rate increase and revised terms and conditions. Horse Creek must notify the Commission of the date, time, and location of the consultation at least five business days before the consultation, so that a Commission staff member may attend to observe. Horse Creek is further directed to file details of the consultation as part of its 2016 general rate application and to address the outstanding directions from Decision 2011-061 in its 2016 general rate application.  
..... Paragraph 15



### Appendix 3 – Directions from Decision 2011-061

[\(return to text\)](#)

<b>Directions from Decision 2011-061</b>
<p>Direction 1 – The Commission has determined that RWSL’s initial approach of applying an offsetting contribution to sewer and outfall amounts added to rate base is not equivalent to an approach of simply excluding the sewer and outfall related assets from rate base. With the amortization of the offsetting contribution, any subsequent capital maintenance expenditures on sewer and outfall related assets could cause these costs to be recovered through potable water rates over time. The Commission finds that the rate treatment set out in RWSL’s February 26, 2010 revised application is correct and directs RWSL to ensure that no subsequent capital maintenance expenditures on sewer related assets are added to RWSL’s potable water rate base.</p>
<p>Direction 2 – The Commission finds that the Association’s request in Association-RWSL-16 to provide a design basis memorandum or pre-design report for the potable water system and as built drawings was relevant to the determination of the reasonableness of RWSL’s initial regulated rate base. As such, the Commission finds that RWSL’s decision to decline to provide this information in its response to Association-RWSL-16 impaired the ability of the Commission and interested parties to scrutinize RWSL’s initial rate base expenditures. Taking all these factors into account, the Commission rejects the Association’s suggestion that it should draw an adverse inference about the accuracy of the plant-in-service amounts reported by RWSL at this time. Nevertheless, the Commission finds that the magnitude of the discrepancy between the rate base amounts and asset amounts reported in RWSL’s financial statements is troubling. As such, the Commission will direct the AUC’s audit group to conduct an audit of RWSL property accounts at a future date</p>
<p>Direction 3 – Considering the foregoing, the Commission directs RWSL to estimate the incremental costs incurred prior to the commencement of regulated service arising from (a) the larger diameter pipe used for transmission mains, and (b) the construction of a larger raw water reservoir. RWSL is directed to provide and fully support these estimates at the time of its next general rate application, as ordered by the Commission in Section 6. In both cases, the incremental cost assessments should reflect the incremental costs incurred relative to the cost of facilities needed to serve an 875 residential unit development without any provision for potential future expansion outside of the Monterra development.</p>
<p>Direction 4 – In this regard, the Commission notes that, in its response to AUC-RWS-12, RWSL indicated that the water diversion rate of 1,227,314 m<sup>3</sup> set out in RWSL’s water licence could service 2100 housing units under certain assumptions as to consumption, peak demand and storage. Taking the ratio of the maximum forecast size of the development (875) to the 2100 unit maximum capacity of the water licence, the Commission has determined that only \$833,333 should be added to RWSL’s rate base in respect of the cost of the water licence at this time. The Commission directs RWSL to treat the balance of the cost of the water licence (\$1,166,667) as capacity held for future use.</p>
<p>Direction 5 – In consideration of the potential for some or all of the remaining capacity of RWSL’s water licence to be required as a result of a possible increase to the density of the Monterra development and/or expansion of RWSL’s potable water system beyond the current boundaries of Monterra, the Commission directs RWSL to ensure that no portion of the capacity of the water licence be offered for sale without seeking the express approval of the Commission.</p>

**Directions from Decision 2011-061**

Direction 6 – The Commission has reviewed RWSL’s calculation of AFUDC in Schedule 3.0 and is satisfied that RWSL’s calculation method only attributes AFUDC in respect of 2007. The Commission considers that RWSL has correctly made an allowance for AFUDC reflective of the fact that it only receives a rate base return on plant-in-service valued on a mid-year basis in that year. However, in accordance with the Commission’s findings in Section 5.4 of this decision, RWSL is directed to recalculate its AFUDC allowance at the time of its refiling to reflect the return of 2.69 per cent and to reflect Commission findings in Section 4.3 above that certain RWSL property was constructed for future use.

Direction 7 – The Commission accepts that the lag day calculations used for each working capital line item shown in Schedule 2.5 of the application are reasonable. RWSL is directed to recalculate working capital amounts at the time of its refiling to reflect all other findings made in this decision that impact working capital calculations.

Direction 8 – The Commission notes that, whereas RWSL calculates the amortization of AFUDC for 2007, 2008, and 2009 in Schedule 7.1, RWSL does not show an amount for the amortization of AFUDC for 2010 in Schedule 7.1. RWSL is directed to correct this error or otherwise explain the reason for this discrepancy in its refiling application.

Direction 9 – Accordingly, RWSL is directed, in its compliance filing, to incorporate a deemed developer contribution in aid of construction in the amount of \$15.0 million and a per lot contribution, on a go-forward basis, of \$25,000 per lot.

Direction 10 – RWSL is directed to either allocate these additional contribution amounts to specific property accounts as done in Schedule 2.2, or amortize the entire incremental deemed contribution amounts at RWSL’s 2.69 per cent per year composite depreciation rate, comparable to RWSL’s proposal for amortizing AFUDC. RWSL is directed to describe the approach for amortizing the deemed contribution amounts at the time of its refiling.

Direction 11 – While Decision 2008-060 expressly found that the per lot contribution (tie-in fee) of \$12,500 should be approved on an interim refundable basis and that tie-in fees applied after April 1, 2008 may be subject to adjustment after that date, the Commission considers that its finding to increase the tie-in fee should only apply prospectively from the date of this decision. In consideration of this finding, RWSL is directed to revise schedule B of its T&Cs to increase the tie-in fee from \$12,500 to \$25,000 in its refiling.

Direction 12 – RWSL is also directed to update the Commission on the status of lot sales and the functioning of the RDDA mechanism within three years from the date of this decision and to file a full rate application within five years of the date of this decision. In both instances, the Commission will assess whether the RDDA mechanism is functioning as anticipated. The Commission considers that it is ultimately RWSL and its affiliated lenders who are at risk for collecting the RDDA balance in the future. Therefore, if at anytime the Commission determines that the RDDA is growing at a level that is not manageable, the Commission may direct RWSL to further increase the levels of deemed contributions.

Direction 13 – While the Rule 023 methodology may be appropriate for certain short term deferral accounts where there are unknown carrying cost variables, in the current application the carrying cost is known for the RDDA. The Commission accepts RWSL’s argument that the use of Rule 023 does not approximate the reasonable carrying costs on a deferral balance in RWSL’s case because it does not have access to bank financing at the Bank of Canada bank rate plus 1½ per cent implied in Rule 023. The Commission finds RWSL’s proposal to earn a carrying charge on the RDDA balance to be just and reasonable and directs that the carrying charge be calculated at the weighted average cost of capital, rather than on the Rule 023 methodology.

**Directions from Decision 2011-061**

Direction 14 – RWSL has proposed to keep the two-block rate design it had originally proposed for the test years 2007 through 2009, and introduced a new three-block design for 2010. The Association proposed a three-block design. The Commission agrees with RWSL that the three block design has the potential to promote water conservation. The Commission considers this to be a secondary consideration, but important nonetheless. RWSL based the three tiers of its three-block design on the assumed monthly average consumption of 20 m<sup>3</sup>. The Commission previously found that 30 m<sup>3</sup> is a more reasonable estimate of the average use per household per month for the Monterra development. As such, the Commission considers that the three tiers of the rate structure proposed by the Association are better suited to the usage characteristics of customers within the Monterra development. The Commission directs RWSL to use the following block structure

- usage under 30 m<sup>3</sup>
- usage between 30 m<sup>3</sup> to 60 m<sup>3</sup>
- usage over 60 m<sup>3</sup>

Direction 15 – RWSL is directed to revise Schedule C of its T&Cs to reflect the approved rate structure set out in Table 14 and to include a tariff schedule that reflects the rates outlined in Table 16 over a five-year period. RWSL is directed to reflect these changes in its refiling.

Direction 16 – Accordingly, the general terms and conditions of service, as revised and filed on February 26, 2010, are approved by the Commission, subject to the changes to Schedule B and Schedule C of the T&Cs. RWSL is directed to reflect these changes in its refiling.