

Order No. 2543

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

**Resorts of the Canadian Rockies Inc.  
(Fernie Alpine Resort Utility Company)**

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

BEFORE:

Ted White, Comptroller of Water Rights  
PO Box 9340 STN PROV GOVT  
Victoria BC V8W 9M1

**DECISION AND ORDER NO. 2543**

Dated this 21<sup>st</sup> day of February 2019

**WHEREAS:**

1. On June 11, 2018 Resorts of the Canadian Rockies operating as Fernie Alpine Resort Utility Company (“FARUC” or “the Utility”) filed its 2018-2022 Revenue Requirements and Rates Application and proposed changes to its Water Tariff terms and conditions with submission of a proposed Water Tariff No. 3 to be effective September 1, 2018 (collectively called “the Application”).
2. On August 13, 2018 the Utility advertised its application by mailing Notices to all its customers. Customers were given until September 15, 2018 to submit comments to the Comptroller of Water Rights (“Comptroller”). On September 28, 2018 the Utility sent out an additional notice called the *Fernie Alpine Resort Utility Company (“FARUC”) Rate Review FAQ* or FAQ. The FAQ provided responses to the questions and concerns raised by customers and extended the deadline for written submissions to October 9, 2018. A total of eleven customers submitted comments.
3. The relevant evidence submitted by the Utility and the customers in the written hearing process has been reviewed and considered.

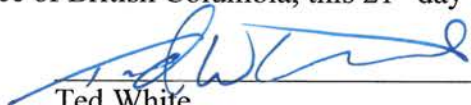
**NOW THEREFORE** pursuant to the *Utilities Commission Act* and for the reasons set out in the decision attached as Appendix A, the Comptroller orders as follows:

1. **Total Revenue Requirements of \$175,425 for 2018, \$239,029 for 2019, \$255,299 for 2020, \$271,695 for 2021 and \$288,217 for 2022 are approved.**
2. **The following water rates are sufficient and necessary for the Utility to meet its approved Revenue Requirements:**

	<b>Approved</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Residential/Commercial, per bed unit	<i>eff. Sept 1st</i>				
Operating	\$ 28.80	\$ 32.00	\$ 32.00	\$ 32.00	\$ 32.00
RRTF Contribution	3.20	12.00	15.00	18.00	21.00
<b>Total Annual Rate, per bed unit</b>	<b>\$ 32.00</b>	<b>\$ 44.00</b>	<b>\$ 47.00</b>	<b>\$ 50.00</b>	<b>\$ 53.00</b>
Availability of Service (Rent) Charge, per bed unit					
Operating	\$ 17.28	\$ 22.40	\$ 22.40	\$ 22.40	\$ 22.40
RRTF	1.92	8.40	10.50	12.60	14.70
<b>Total Annual Rate, per bed unit</b>	<b>\$ 19.20</b>	<b>\$ 30.80</b>	<b>\$ 32.90</b>	<b>\$ 35.00</b>	<b>\$ 37.10</b>

3. **The Utility will comply with all other directives in the Reasons for Decision.**

Dated at the City of Victoria, in the Province of British Columbia, this 21<sup>st</sup> day of February 2019.

  
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 Ted White  
 Comptroller of Water Rights

Attachment: Appendix A Reasons for Decision and Order

IN THE MATTER OF

An Application by

**Resorts of the Canadian Rockies Inc.  
(Fernie Alpine Resort Utility Company)**

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

BEFORE:

Ted White, Comptroller of Water Rights  
PO Box 9340 STN PROV GOVT  
Victoria, BC V8W 9M1

**REASONS FOR DECISION AND ORDER**

February 21, 2019

**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*. Under the *Water Sustainability Act*, the Deputy Comptroller of Water Rights (“Deputy Comptroller”) is authorized to exercise all the powers and perform all of the duties of the Comptroller.

Resorts of the Canadian Rockies operating as Fernie Alpine Resort Utility Company (“FARUC” or “the Utility”) owns and operates the water utility at Fernie Alpine Resort, British Columbia. The original Certificate of Public Convenience & Necessity (CPCN) was issued on December 10, 1982 to serve 50 single family lots and 37 condominium units. Since then, extensions with CPCN Amendments have occurred, bringing the total authorized to 334 lots. Currently, the Utility has 694 customers comprised of single family residential, multi-family residential, and commercial, including hotels and restaurants.

The source of supply is from one groundwater well and three surface water springs. The springs are used to supplement the groundwater supply when necessary. A second well was drilled in 2003 to supply water for snowmaking purposes and is currently not in use. The Utility is in the process of upgrading the second well for connection to the distribution system. Both wells are classified as Groundwater at Risk of Containing Pathogens (GARP) and are required to comply with the Drinking Water Treatment Objectives issued by the Ministry of Health.

The Deputy Comptroller requires contributions to the Replacement Reserve Trust Fund (RRTF) to be based on the current replacement cost of the capital works and prescribed depreciation rates as set out in the CPCN Guidelines. The Utility was instructed to apply for a water rate increase/tariff amendment application as the current Tariff was outdated with inadequate provision for RRTF contributions.

## 2.0 Introduction

On June 11, 2018 the Utility made an application for approval of its 2018-2022 Revenue Requirements and to raise water rates to be effective September 1, 2018. The Utility submitted supporting documentation including a statement of actual and forecast cash flows for fiscals 2018 through to 2022 and proposed water tariff amendments.

The main reason for the rate application is to ensure revenues are sufficient to comply with the Deputy Comptroller’s requirement to set aside full replacement provision in the RRTF and to cover increased operating expenses. The Utility is also proposing to increase minor rates and other charges in the Water Tariff. The current rates have been in effect since January 1, 2004.

The proposed water rates are:

	Current	Proposed				
	2018	2018	2019	2020	2021	2022
Residential/Commercial, per bed unit		<i>eff. Sept 1st</i>				
Operating	\$ 28.80	\$ 32.00	\$ 32.00	\$ 32.00	\$ 32.00	\$ 32.00
RRTF Contribution	3.20	12.00	15.00	18.00	21.00	23.00
<b>Total Annual Rate, per bed unit</b>	<b>\$ 32.00</b>	<b>\$ 44.00</b>	<b>\$ 47.00</b>	<b>\$ 50.00</b>	<b>\$ 53.00</b>	<b>\$ 55.00</b>
Availability of Service (Rent) Charge, per bed unit						
Operating	\$ 17.28	\$ 19.20	\$ 19.20	\$ 19.20	\$ 19.20	\$ 19.20
RRTF	1.92	7.20	9.00	10.80	12.60	13.80
<b>Total Annual Rate, per bed unit</b>	<b>\$ 19.20</b>	<b>\$ 26.40</b>	<b>\$ 28.20</b>	<b>\$ 30.00</b>	<b>\$ 31.80</b>	<b>\$ 33.00</b>

The Utility advertised its application by mailing Notices to its customers on August 13, 2018. The Notice provided customers with an opportunity to submit comments by September 15, 2018. On September 28, 2018 the Utility sent out an additional notice called the *Fernie Alpine Resort Utility Company (“FARUC”) Rate Review FAQ* or FAQ. The FAQ provided responses to the questions and concerns raised by customers and extended the deadline for written submissions to October 9, 2018. A total of eleven customers submitted comments.

The issue to be decided by me is whether to accept, set aside, or vary the forecast Revenue Requirements and proposed water rates. Sufficient evidence was received from the Utility and customer submissions to proceed with a review and decision on the Application.

## 3.0 Water system upgrades and special levy

In May 2018, the Utility was granted approval to proceed with the construction of a new water treatment plant, new reservoir and upgrades to the second well. Both wells are classified as GARP and are required to comply with the Drinking Water Treatment Objectives issued by the Ministry of Health. The GARP designation requires the raw water to have two types of, namely ultra-violet (UV) light and chlorination. A new central location for the treatment facility is needed as the current site cannot accommodate the new treatment equipment.



In conjunction with construction of the new water treatment plant, the Utility plans to retest and permanently activate the second well. The main well has sufficient capacity to serve existing customers but will not be adequate should future expansion of the service area occur. Current customers will benefit from having the second well activated as it will serve as a back-up supply.

The deficiency in storage and firefighting water volume was identified in 1999. At the time, the developer was ordered by the Deputy Comptroller to set aside \$40,000 in a Construction Trust Fund (CTF) for future construction of a new reservoir. This amount has now increased to \$50,000 with interest earnings. Between 1999 and 2018, no additional applications for expansion of the Utility's service area were made and installation of the new reservoir was not completed. In 2018, as part of the CPCN Amendment approval process for the Timberland Development and Timberline Crescent, the Utility was required to correct the storage deficiency and construct the new reservoir.

The total cost of these capital works is estimated to be \$1.8 million with completion to occur in 2019. As part of the CPCN Amendment approval process, the Deputy Comptroller accepted the Utility's proposal to fund the cost of these works between existing customers and the developer. The developer was required to contribute \$500,000 towards the cost of the capital works and was ordered to deposit \$1 million (equivalent to 200% of their share of the cost) into the CTF. The monies are set aside in a restricted bank account and will only be released once the works are complete, subject to the Comptroller's approval.

The remaining project cost of \$1.3 million will be funded with \$200,000 of reserve fund monies (\$150,000 from the RRTF and \$50,000 from the CTF) and with a loan from the Bank of Montreal. Annual principle and interest payments during the ten-year term are estimated to be about \$164,000. Based on the financing terms provided, the Utility estimates that a special levy/rate increase of about \$30 per year, per bed unit will be required in order to repay the loan. The Utility will review its water tariff

The Utility's proposal to borrow the balance of the project cost from the Bank of Montreal estimated to be \$1.1 million is acceptable and should be pre-approved subject to final review of the financing terms upon completion of the project. Once all construction is complete and the actual costs are known, the Utility should review its water tariff and submit a rate application in 2019. Any proposed rate increases/special levy cannot be made retroactive prior to the date of the application.

**Comptroller Determinations for Long-term Borrowing and Special Levy:**

**The Utility's proposal to finance the balance of the capital works, estimated to be \$1.1 million, through a loan with the Bank of Montreal is approved.**

**The repayment structure including interest rate, term of the loan and impact on customer rates will be determined following a review of the Utility's rate application to be submitted upon completion of the works.**

## **4.0 Revenue Requirements**

Revenue Requirements (RR) include forecast operating expenses, 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. At the current rate, the Utility is unable to cover current and future RR including adequate replacement reserve fund provision.

### **4.1 Operating Expenses**

Total proposed Expenses before reserve/trust fund provisions and operating margin for fiscal years ending December 31, 2018 through to 2022 were explained by the Utility and are fair and reasonable. Some 2018 Actual operating expenses, such as wages & benefits, may be less than projected as they are forecast to increase when construction of the new reservoir and water treatment systems are complete, however the \$166,000 budget is acceptable for rate setting purposes.

### **4.2 RRTF**

The Deputy Comptroller requires regulated water systems to set up and maintain RRTFs to ensure utilities will have funds available to replace 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 must be transferred with the system for the beneficial interest of the customers. According to current CPCN Guidelines, the Deputy Comptroller requires annual RRTF contributions to be equal to the annual depreciation of water system components. The annual depreciation is calculated using the prescribed depreciation rates for water system components (generally around 2% of the total capital cost per year).

As part of the Application, the Utility carried out a depreciation study which valued the water system assets after completion of the new reservoir and water treatment project to be about \$5.4 million and an annual depreciation value of \$105,000. Order 1994 dated July 7, 2004 required the Utility to deposit 10% of rates collected, equivalent to about \$14,500 per year, into the RRTF. The current balance in the RRTF, net of authorized releases, is \$165,000. Of the \$165,000, the Deputy Comptroller has pre-approved \$150,000 to be used to offset the cost to existing customers of the new water treatment plant.

The Utility proposes to gradually increase contributions to the RRTF contributions to minimize the impact on customer rates. The proposed 2018 RRTF contribution will be less than projected because the increase would only be applicable for the last four months of the year. As most of the rate increase is needed to cover increased RRTF contributions and the billing for September to December 2018 has already been completed, the Comptroller finds it acceptable to keep the RRTF contribution at 10% of rates collected for September to December 2018. A delay of a few months will have a nominal impact in the long term on the RRTF balance and will make for a smoother transition to the new contribution rate starting on January 1, 2019. Total annual deposits to the RRTF in 2019 will be about \$61,000 with increases every year so that by 2022,

\$108,000 will be deposited annually to the RRTF. This amount is equivalent to the depreciation value of the water system and is in keeping with the Deputy Comptroller's requirements. Therefore, annual RRTF contributions of \$12 per connected bed unit effective January 1, 2019, increasing to \$15 per connected bed unit for 2020, then to \$18 per connected bed unit for 2021 and to \$21 per connected bed unit are approved.

### **4.3 Operating Margin**

A nominal operating margin (net cash flow income) to cover unexpected operating expenses is allowable. For 2018, the Utility may break-even or incur a small net loss, but then starting in 2019, operating margin will average about \$8,200 per year. This is equivalent to 5% of total expenses over the next four years which is reasonable for a utility of this type and size. Net earnings are to remain with the Utility to meet cash flow needs and cover unexpected costs. The parent company is expected to subsidize the water utility operations as and when required.

### **Comptroller Determinations for Revenue Requirements:**

**Effective September 1 to December 31, 2018, the Utility is to continue depositing 10% of rates collected to the RRTF. Starting January 1, 2019, the Utility is to deposit \$12.00 per connected bed unit per year to the RRTF with further increases approved for January 1, 2020 through to January 1, 2022 as shown on the attached Schedule A.**

**Total Revenue Requirements of \$175,425 (2018), \$239,029 (2019), \$255,299 (2020), \$271,695 (2021) and \$288,217 (2022) are reasonable for rate setting purposes and are approved.**

### **5.0 Revenues and Tariff Amendments**

#### **5.1 Availability of Service (Rent) Charges**

Availability of service (rent) charges should be set at 70% of the user rate rather than 60% as per current CPCN Guidelines. The rent charge is applicable to all vacant authorized lots that have a registered rent charge agreement on title and those lots that are not currently connected and receiving water service. It is intended to help cover the Utility's fixed costs of operating and maintaining the water system.

#### **5.2 Residential/Commercial User Rates & Effective Date**

The Utility allocates costs based on equivalent bed units which is deemed to be a fair method for resorts that do not have meters and is a common approach in the ski industry. For residential properties, each sleeping area is equivalent to two bed units. As was determined in Order No. 1994 approving the last rate increase, each single family detached unit is deemed to be ten bed units unless, upon inspection, the Utility confirms otherwise, subject to a minimum of six bed units. The Utility proposes to continue with this billing practice however for larger homes, proposes to review the ten-bed unit count on a case-by-case basis which is a fair and equitable approach as some larger homes have additional rooms in basements and/or open loft. For

commercial units that serve day-users that do not occupy overnight accommodation, a service factor of 1.3 is applied to convert seats into bed units to take into account the water demand these type of facilities use, such as restaurants, public washroom facilities.

With the increase to the RRTF contributions to take effect January 1, 2019, the current rates are sufficient to cover the revenue requirements for the last four months of fiscal 2018. Effective January 1, 2019, January 1, 2020, January 1, 2021 and January 1, 2022 the following water rates are found to be adequate to cover 2019-2022 approved Revenue Requirements:

	<b>Approved</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Residential/Commercial, per bed unit	<i>eff. Sept 1st</i>				
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### 5.3 Terms and Conditions of Tariff

The proposed changes to the minor rates and charges in the proposed water tariff are in accordance with the standard fees pre-approved by the Deputy Comptroller for other water utilities and are approved.

The proposed charge of one additional bed unit for the water used by hot tubs is unwarranted and should be removed from the water tariff. The charge would be applicable to each customer unless, upon inspection, the Utility confirms their unit does not include a hot tub. The Utility did not provide reasons for this proposed change nor did it estimate how many customers would be affected, which could potentially generate additional revenue. Generally, hot tub water usage averages out to be a small percentage of overall household water use, about 1%, and the proposed charge of one bed unit per customer is excessive in comparison. The other proposed wording changes to the water tariff are approved.

#### **Comptroller Determinations for Revenues and Tariff Amendments:**

**Effective January 1, 2019, the availability of service (rent) charges are to be set at 70% rather than 60% of the user rate.**

**The water rates as shown above are approved effective January 1, 2019 and it is in order to accept Water Tariff No. 4 for filing.**

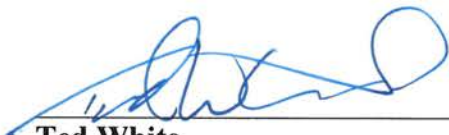


## 6.0 Conclusion

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. The Utility's proposal to finance the balance of the capital works, estimated to be \$1.1 million, through a loan with the Bank of Montreal is approved.
2. The repayment structure including interest rate, term of the loan and impact on customer rates will be determined following a review of the Utility's rate application to be submitted upon completion of the works.
3. Effective September 1 to December 31, 2018, the Utility is to continue depositing 10% of rates collected to the RRTF. Starting January 1, 2019, the Utility is to deposit \$12.00 per connected bed unit per year to the RRTF with further increases approved for January 1, 2020 through to January 1, 2022 as shown on the attached Schedule A.
4. Total Revenue Requirements of \$175,425 (2018), \$239,029 (2019), \$255,299 (2020), \$271,695 (2021) and \$288,217 (2022) are reasonable for rate setting purposes and are approved.
5. Effective January 1, 2019, the availability of service (rent) charges are to be set at 70% rather than 60% of the user rate.
6. The water rates as shown above in Section 5 are approved effective January 1, 2019 and it is in order to accept Water Tariff No. 4 for filing.

Dated at the City of Victoria, in the Province of British Columbia, this 21<sup>st</sup> day of February 2019.



**Ted White**  
**Comptroller of Water Rights**

Attachment: Schedule A