



Calalta Waterworks

Rule 011 Water Rates Application

August 7, 2012



The Alberta Utilities Commission
Decision 2012-212: Calalta Waterworks
Rule 011 Water Rates Application
Application No.1847
Proceeding ID No. 1608353

August 7, 2012

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Contents

1	Introduction	1
2	Background	2
2.1	Legislative background	2
2.2	Calalta application history.....	2
2.3	Raw and treated water	2
2.4	Rule 011 process	3
3	Rate base	3
3.1	Capital additions and contributions.....	4
3.1.1	Treated water capital additions	4
3.1.2	Raw water capital additions	4
3.1.3	Future capital expenditures	4
3.2	Working capital	5
3.3	Depreciation	5
3.3.1	Treated water system depreciation.....	5
3.3.2	Raw water system depreciation	6
4	Cost of capital	6
4.1	Capital structure	6
4.2	Cost of equity	6
4.3	Cost of debt	7
5	Expenses	7
5.1	Operations and maintenance	7
5.2	Administration and management expense	8
5.3	Utilities.....	9
5.4	Labour	9
6	Forecast revenue requirement and water rates	9
7	Rate calculation	10
7.1	Leak repair	10
7.2	Water rates	10
8	Commission findings	11
9	Order	11
	Appendix 1 – Proceeding participants	13
	Appendix 2 – Summary of Commission directions	14

List of tables

Table 1.	Changes in treated water rate base since last approved by the Commission in Decision 2004-107	3
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Table 2. Changes in raw water rate base since last approved by Commission in Decision 2004-107 4

Table 3. Major components of 2012 annual total revenue requirement 9

Table 4. Major components of 2012 annual revenue requirement for raw water..... 10

1 Introduction

1. On December 2, 2010, the Alberta Utilities Commission (AUC or the Commission) received a request from Calalta Waterworks Ltd. (Caalta) requesting a review of water rates (initial application). Calalta's water rates were last set by the Commission in 2004 in Decision 2004-107¹ by way of a negotiated settlement process (2004 proceeding). The initial application was assigned Application No. 1607417 and was processed under the Commission's Rule 011: *Rate Application Process for Water Utilities* (as approved on January 2, 2008).
2. On December 7, 2010, the Commission approved the revised [Rule 011: Rate Application Process for Water Utilities](#) (revised Rule 011), following a stakeholder consultation process. In order to have its application considered under the revised Rule 011 process, Calalta submitted a letter on April 4, 2012, requesting a withdrawal of Calalta's initial application No. 1607417. The Commission granted Calalta's request by letter dated April 25, 2012, and closed Application No. 1607417.
3. On April 19, 2012, Calalta filed a new application under the revised Rule 011 (the application). The application was assigned Application No. 1608353, and Proceeding ID No. 1847.
4. On April 27, 2012 the Commission issued a notice of application (notice) to Calalta's customers. Any customer who wished to intervene in this proceeding was required to submit a statement of intent to participate (SIP) which included an indication of whether or not the party supported or objected to the application and to provide supporting rationale. SIPs were due May 11, 2012.
5. The Commission received a letter in response to the notice from Dr. Curtis Westersund. In his letter, Dr. Westersund did not object to the application but asked questions regarding the proposed water rates. In an emailed response dated June 6, 2012, the Commission referred Dr. Westersund to Calalta's application for Calalta's answers to his questions.
6. On February 21, 2012, the Commission established the following written process schedule for this application:

Process step	Deadline
Information requests to Calalta	May 25, 2012 by 2:00 pm
Responses from Calalta	June 8, 2012 by 2:00 pm

¹ Decision 2004-107: Calalta Waterworks Ltd., Request for Approval of Negotiated Settlement, Application No. 1363491, December 14, 2004.

7. No information requests (IRs) were submitted by customers. The Commission submitted IRs to Calalta and responses were received on June 7, 2012. The Commission considers the record for this proceeding closed on June 7, 2012.

8. In reaching the determinations contained within this decision, the Commission has considered all relevant materials comprising the record of this proceeding. Accordingly, references 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 that matter.

2 Background

2.1 Legislative background

9. Pursuant to Section 90 of the *Public Utilities Act*, RSA 2000, c. P-45, the Commission has the authority to fix just and reasonable rates, determine a rate base and fix a fair return on the rate base for an owner of a public utility in Alberta.

2.2 Calalta application history

10. In 2004 Calalta appeared before the Commission with a request for approval of a negotiated settlement agreement with West View Water Supply Ltd. (Westview). In Decision 2004-107 the Commission approved the negotiated agreement between Calalta and Westview and at the same time approved Calalta's raw water rate of \$4.39 per 1,000 imperial gallons and treated water rate of \$12.88² per 1,000 imperial gallons for all other customers. No parties objected to the 2004 proceeding and the agreement reached between Calalta and Westview, nor did they raise concerns about the proposed rates for raw and treated water. Calalta has not had a rate review by the Commission since Decision 2004-107.

2.3 Raw and treated water

11. Calalta provides both raw water and treated water to customers in the Springbank area. Treated (filtered and disinfected) water is distributed to commercial ventures and schools; raw water is distributed under separate water supply agreements to a water co-op, other institutional users, and one residential water user.

12. Prior to the 2004 proceeding, Calalta's water operations were not segregated between raw water and treated water. However, in order to determine separate rates for raw and treated water users, the Commission decided during the 2004 proceeding that the costs should be allocated between raw and treated water operations because raw water users do not benefit from the treatment facilities. The resulting operating expense allocation was 70 per cent for treated water operations and 30 per cent for raw water operations based on historical operating costs.³

13. In the same 2004 proceeding, the capital cost allocation was determined to be 80 per cent raw water capital and 20 percent treated water capital.⁴ The capital allocation was based on

² This rate includes the rate for raw water plus the additional costs for treated water.

³ Exhibit 10.05, IR response to AUC-Calalta-2 and AUC-Calalta-12.

⁴ Ibid.

estimated costs to construct the complete water system. It was determined that raw water capital included the wells and pumping facilities at the Elbow River extraction site and the approximately six kilometres (km), 250 millimetre (mm) water transmission line to the treatment facilities located adjacent to Calaway Park (SE 35-24-3-W5M). Treated water capital included the water treatment plant, the treated water reservoir, and the treated water distribution system.

14. The separate rates for raw and treated water are calculated by taking the total annual revenue requirement (including capital and operating cost components) to provide each service divided by the respective annual volume of water used in each service.⁵ The treated water rate includes an allocation of the cost for raw water (shown below in Table 3).

2.4 Rule 011 process

15. As part of Calalta's initial application, a public information session was held at Calalta's offices at Calaway Park on June 9, 2011. The meeting was well attended by the utility's customers, and at the meeting Calalta's application as well as the Rule 011 process was discussed. On March 8, 2012, a second customer meeting was held to review Calalta's proposed revenue requirement and the new water rates. This meeting was attended by only one customer.

16. The remaining sections of this decision discuss specific issues related to Calalta's application for new water rates. In the sections below where the Commission's findings are not discussed the Commission's determinations are found below in Section 8, Commission findings.

3 Rate base

17. In the application Calalta provided the following rate base amounts:

Table 1. Changes in treated water rate base since last approved by the Commission in Decision 2004-107⁶

Date	Beginning book value	Additions	Contributions	Depreciation	Depreciation half-year rule	Ending book value	Years remaining
(\$ dollars)							
2004 to 2009	512,217			102,443		409,774	
2010	409,774			17,074		392,700	24
2011	392,700	747,269 ¹	702,269	10,942	563	426,195	40
2012 (forecast)	426,195	2,420,000 ²	2,420,000	10,655		415,540	40
Total		3,167,269	3,122,269	141,114	563		

Notes:

1. A treated water reservoir was added in 2011 for \$702,269, for which customers provided a capital contribution for the full amount. In addition, a raw water meter was installed at Elbow River for a capital cost of \$45,000, a contribution was not received for this amount.
2. In 2012, Calalta proposes to upgrade the water treatment plant at an estimated cost of \$2,420,000 to meet upgraded Alberta Environment standards. Customer contributions are expected to fully cover this capital cost.

⁵ Exhibit 10.05, IR response to AUC-Calalta-2.

⁶ Exhibit 13.06.

Table 2. Changes in raw water⁷ rate base since last approved by Commission in Decision 2004-107⁸

Date	Beginning book value	Additions	Contributions	Depreciation	Depreciation half-year rule	Ending book value	Years remaining
(\$ dollars)							
2004 to 2009	387,662			77,532		310,130	
2010	310,130			12,922		297,208	24
2011	297,208	45,000 ¹		14,879	978	326,351	23
2012 (forecast)	326,351	100,000 ²	100,000	14,834		311,517	22
Total		145,000	100,000	120,167	365,167		

Notes:

1. In 2011, a raw water meter was installed at Elbow River for a capital cost of \$45,000. There were no customer contributions.
2. In 2012, Calalta proposes to install new pumps at Elbow River at an estimated cost of \$100,000. Customer contributions are expected to fully cover this capital cost.

3.1 Capital additions and contributions

18. Since Decision 2004-107, being the last rate approval for this water utility, Calalta has made two capital additions to its system which affects the rate base of the treated and raw water systems.

3.1.1 Treated water capital additions

19. In 2011, Calalta replaced the treated water reservoir. The original reservoir, a bladder-type reservoir installed in 1980, needed to be replaced due to its age and also to meet upgraded Alberta Environment standards for treated water facilities. The cost of the new reservoir was \$702,269 and the expected life of the asset is 40 years. Calalta expects to receive capital contributions in the amount of \$702,269 from its customers and therefore there were no net additions to rate base. No customers objected to the 2011 capital additions in this proceeding.

3.1.2 Raw water capital additions

20. A master raw water meter to measure extraction at Calalta's Elbow River pumping facility was added to the raw water system in 2011 in order to comply with Alberta Environment standards. The cost of the meter was \$45,000.⁹ There were no customer contributions and therefore this capital addition is included in the proposed 2012 rate base for both treated water and raw water customers (as shown in tables 1 and 2).

3.1.3 Future capital expenditures

21. Calalta's application included a schedule of future capital expenditures it expects to undertake to be able to serve new customer requirements for both raw and treated water.¹⁰ Calalta was unable to provide an estimate of water consumption for two new customers which it identified in its filing. Calalta has proposed the addition of an upgraded water treatment plant in

⁷ As discussed earlier in this decision, prior to the 2004 proceeding Calalta's water operations were not segregated between raw water and treated water. In the 2004 proceeding the capital cost allocation was determined to be 80 per cent raw water capital and 20 percent treated water capital. Therefore in order to determine the raw water rate base, Calalta simply used 80 per cent of the beginning rate base (from year 1989 - the start of its operations) of the total water system.

⁸ Exhibit 13.05.

⁹ Exhibit 13.05.

¹⁰ Exhibit 10.01.

2012 at an estimated cost of \$2,420,000 to meet upgraded Alberta Environment standards for drinking water.¹¹ Customer contributions are expected to fully cover this capital cost and no customers have objected to the additions as proposed in this proceeding.

3.2 Working capital

22. Calalta's customers are billed every three months for water supply services. In its rate base calculation Calalta claimed \$43,365 and \$12,325 for treated and raw water working capital, respectively, to fund utility operations.

3.3 Depreciation

23. In 1989, Calalta estimated a useful asset life of 45 years for both its treated and raw water rate base, and employed a straight line method to depreciate these assets. Calalta also employs the half-year depreciation rule, where the rate applicable in the first year an asset is to be used is half the normal rate. In response to Commission IRs, Calalta stated that for 2012, depreciation amounts that had been originally included in its rate base for capital additions that were fully funded by customers had been removed. Being fully funded, these assets are not included in rate base and it is not necessary for the half year rule to be used.¹²

24. The Commission agrees with the removal of depreciation amounts for assets that were contributed by customers. The removal of these amounts conforms to regulatory accounting and generally accepted accounting principles.

3.3.1 Treated water system depreciation

25. The additions in 2011 and 2012 are projected to have an asset life of 40 years and on the treated water depreciation schedule the life of all assets related to providing treated water were adjusted to 40 years.¹³

26. The Commission notes that this change extends the life of the assets and lengthens the period the utility can collect depreciation for the asset. For customers, it results in a lower depreciation expense and therefore a lower water rate. The overall amount of depreciation is not increased significantly because of the capital contribution of the customers which offsets the value of the capital addition.

27. The Commission is satisfied that the change to Calalta's depreciation methods will not harm customers but is concerned that the only asset that has not been upgraded or replaced, namely the water line, may not last for another 40 years. Further, the Commission is concerned that Calalta's depreciation methods lead to a discrepancy between the raw water cost included in the treated water rate compared to the rate charged to raw water customers. This is explained further in Section 6 of this decision. The Commission recognizes that the expense of a depreciation study may not be warranted but directs Calalta to provide justification for the expected useful life of all its water system assets in its next rate application.

¹¹ Exhibit 13.01, AUC-Calalta IR Round 1, AUC-Calalta-1.

¹² Exhibit 10.05, IR response to AUC-Calalta-7.

¹³ Exhibit 13.06.

3.3.2 Raw water system depreciation

28. As of 2012 the depreciated value of raw water assets was \$326,351.¹⁴ In 2012, water pumps at the Elbow River will be replaced. The cost of \$100,000 will be fully offset by customer contributions. In 2011 a new meter was installed at the Elbow River. The \$45,000 cost for this asset was added to rate base and depreciated using the half year rule.

4 Cost of capital

29. Calalta's cost of capital was determined Decision 2004-107¹⁵ and Calalta has continued to use the same cost of capital since that time.

4.1 Capital structure

30. In its application Calalta applied the same capital structure that had been established in its last regulatory proceeding,¹⁶ 45 per cent equity and 55 per cent debt. In IR responses¹⁷ Calalta confirmed that this capital structure was agreed to by all parties and approved by the Alberta Energy and Utilities Board¹⁸ (EUB or board) in the 2004 proceeding.

31. The Commission approves Calalta's capital structure of 45 per cent equity and 55 per cent debt. Calalta has not applied to change its capital structure and as this capital structure was agreed to by all parties in the last proceeding and as there have been no complaints the Commission finds the applied for equity ratio to be reasonable.

4.2 Cost of equity

32. In the application, Calalta applied for a 9.6 per cent return on equity. Calalta stated in IR responses that the 9.6 per cent was based on the 2004 proceeding. In a subsequent IR the Commission referred to the 2011 Generic Cost of Capital decision¹⁹ where a return on equity of 8.75 per cent was approved and the following determination regarding applicability to water utilities was made:

4. ... Specific ROEs and capital structures for the various investor-owned water utilities under the Commission's jurisdiction were not determined in this proceeding, because the Commission considers these utilities only in response to a complaint. However, the determinations made in this proceeding may be considered in any cost of capital determinations for these utilities under the Commission's jurisdiction, should issues respecting these matters arise.²⁰

¹⁴ Exhibit 13.05.

¹⁵ Decision 2004-107: Calalta Waterworks Ltd., Request for approval of negotiated settlement, Application No. 1363491, December 14, 2004.

¹⁶ Decision 2004-107: Calalta Waterworks Ltd., Request for Approval of Negotiated Settlement, Application No. 1363491, December 14, 2004.

¹⁷ Exhibit 10.05, IR response to AUC-Calalta-9.

¹⁸ Predecessor to the Alberta Utilities Commission.

¹⁹ Decision 2011-474: 2011 Generic Cost of Capital, Application No. 1606549, Proceeding ID No. 833, December 8, 2011.

²⁰ Decision 2011-474, paragraph 4.

In response, Calalta revised its applied for return to 8.75 per cent and submitted that based on current interest rates this reflects the most recent return on equity approved in the 2011 Generic Cost of Capital decision. The Commission approves 8.75 per cent for Calalta's return on equity.

4.3 Cost of debt

33. In the application, Calalta applied for a 9.0 per cent cost of debt, the same cost of debt that had been approved in the 2004 proceeding. In IR responses to the Commission, Calalta submitted that it had not experienced any major changes that would warrant a change in the cost of debt. Further, Calalta submitted that the 9.0 per cent was based on the 1990 purchase agreement between Calalta Amusements Ltd. and Calalta which requires Calalta to pay 9.0 per cent interest on outstanding balances.²¹

34. With respect to the cost of debt, the board in Decision 2005-028²² stated and the Commission re-confirmed in Decision 2011-061²³ that:

In the Board's view, it would be in accord with normal practice for the appropriate debt cost to be set in reference to the actual interest rate paid, unless the actual interest rate is considered unreliable, inappropriate or irrelevant. In the absence of a reliable and relevant actual interest rate then an estimate of the appropriate market interest rate should be used.²⁴

35. The Commission finds that the 9.0 per cent cost of debt is directly tied to the actual interest paid under the purchase agreement between Calalta Amusements Ltd. and Calalta. Further the Commission believes that due to Calalta's small rate base, small customer base, and probability of cost recovery, alternate sources of financing would not likely be available to Calalta. As such, the Commission considers that the 9.0 per cent interest rate is the best available indication of the actual interest rate available to the utility and accepts 9.0 per cent as Calalta's cost of debt. The Commission will nonetheless reassess Calalta's debt costs at the time of its next rate review. The Commission also directs Calalta to investigate alternate third party sources of financing at the time of its next application.

5 Expenses

5.1 Operations and maintenance

36. Calalta owns and operates four water wells, a pumping facility at the Elbow River, a six km long 250 mm water transmission line (from the Elbow River to the treatment facility adjacent to Calaway Park), a reservoir, and a distribution system.²⁵ Operations and maintenance expenses were detailed in Exhibit 10.02. The top three operating expenses, as applied for, were the administration and management expense, utilities, and labour.

²¹ Exhibit 10.05, IR response to AUC-Calalta-9(c).

²² Decision 2005-028: Westridge Utilities Inc., General Rate Application, Application No. 1352216, April 19, 2005.

²³ Decision 2011-061: Regional Water Services Ltd., 2007-2010 General Rate Application, Application No. 1519777, Proceeding ID No. 358, February 18, 2011.

²⁴ Decision 2005-028, page 17.

²⁵ Exhibit 14.01, page 3, Section 2.3.

5.2 Administration and management expense

37. Calalta has proposed an increase of its administration and management expense from \$12,000 per year to \$60,000 per year. This fee is charged by Calalta to cover time spent by management and staff on water utility matters. In a response to the Commission, Calalta provided specific details on the services included in the administration and management expense. Calalta stated:

The services provided are: 1. Meet with various interested parties inquiring to connect to the Calalta water supply system. 2. Conduct monthly meetings to plan and manage the future direction of Calalta Waterworks. 3. Dealing with various government agencies. 4. Dealing with the Rocky View County.²⁶

Further, when Calalta was asked by the Commission to provide reasons to explain the increase from \$12,000 to \$60,000 for 2012, Calalta submitted:

In recent year (sic) the amount of time the management team devotes to matter (sic) related to the water supply system has increased substantially and the increase reflects this.²⁷

38. Calalta has future business development opportunities that will help to broaden its customer base and potentially reduce customer rates. Calalta has stated that it expects to begin supplying water to a large institutional user and that it has been in negotiations with a developer and the County (formerly the Municipal District) of Rockyview regarding a proposal for a large subdivision that would be connected to the Calalta system if it is approved.²⁸

39. The Commission considers that activities such as actively pursuing new opportunities to expand the customer base of the utility as well as improving utility services to meet stricter government standards for water treatment benefits all of Calalta's customers. Therefore, the Commission is prepared to accept an increase in management expense.

40. In Decision 2009-108²⁹ and Decision 2011-147³⁰ the Commission approved management fees for Langdon Waterworks Ltd. and the Morinville Regional Waterline respectively. In both cases, it was the opinion of the Commission that water utilities should be in a viable financial position in order to serve customers effectively.

41. In consideration of the above, the Commission approves a management fee of \$60,000 per year beginning in 2012 as reasonable for Calalta. The Commission notes, that no customers have objected to the increase in management fees. However, the Commission is concerned about the significant increase in management fees and will re-assess this fee at the time of Calalta's next rate application. At the time of its next application, the Commission directs Calalta to provide a more detailed justification for the amount of its management fees including records of the time allocated in relation to water services as well as details of the benefits of new connections or improved services to customers.

²⁶ Exhibit 13.02.

²⁷ Exhibit 13.02.

²⁸ Exhibit 10.05, IR response to AUC-Calalta-11.

²⁹ Decision 2009-108: Langdon Waterworks Limited, Water Rates for Langdon Waterworks Limited, Rule 011-Rate Application Process for Water Utilities, Application Nos. 1508905 and 1508928, July 23, 2009.

³⁰ Decision 2011-147: Sturgeon County and the Town of Legal, Water Rates for the Morinville Regional Waterline, Application No. 1594984, Proceeding ID No. 132, April 26, 2011.

5.3 Utilities

42. Utilities include electric, gas, and telephone costs and are based on historical actual costs at the treatment plant and the river pumping station. The applied for amount is \$22,206 for treated water and \$5,552 for raw water, for a total of \$27,758.³¹ As these costs are non-discretionary and not directly controllable by the utility the full amount applied for is approved.

5.4 Labour

43. Calalta has plans to upgrade its water system to meet the new Alberta Environment treatment standards for drinking water prior to the end of 2012. Calalta is currently preparing to upgrade the treatment system in 2012 and once the upgrades are complete, Calalta will require two full-time qualified staff to run the water system.³² The addition of these two staff will result in an increase in labour expense from \$26,000 to \$120,000.³³

44. Calalta's rates as applied for in the application include an amount of \$26,000 for labour expenses. The Commission directs Calalta to apply for an increase to its labour expense at such a time when the upgrades to its water system are complete and the additional expenses for labour costs have been confirmed. Therefore, the Commission approves an amount of \$26,000 for labour expense.

6 Forecast revenue requirement and water rates

45. Calalta's forecast revenue requirement for 2012 is \$228,253 for treated water service. Raw water forecast revenue requirement is \$94,918.³⁴ The tables below outline the major components of Calalta's annual revenue requirement.

Table 3. Major components of 2012 annual total revenue requirement

	(\$ dollars)
Operating costs	175,871
Return	16,781
Return on working capital	3,849
Interest	21,097
Depreciation	10,655
Total revenue requirement	228,253
Annual treated water volume (1,000 gal)	10,000
Annual raw water volume (1,000 gal)	20,000
20% allocated rate to treated water (\$/1,000 gal)	14.37
80% allocated rate to raw water (\$/1,000 gal)	4.23
Total treated water proposed rate (\$/1,000 gal)	18.60

46. Total volume is forecast at 20,000 (1,000 gal), 10,000 of which is treated. The utility's forecast revenue for 2012 will be \$186,000 (10,000 * \$18.60) for treated water and

³¹ Exhibit 13.03, details of proposed expenses.

³² Exhibit 10.05, IR response to AUC-Calalta-2.

³³ Exhibit 13.03, details of proposed expenses.

³⁴ Exhibit 13.05 and 13.06.

\$47,000 (10,000 * \$4.75 (see Table 4)) for raw water for a total revenue requirement of \$233,000. This is slightly more than the \$228,253 as shown above in Table 3. The reason for the difference is in the timing of utility depreciation amounts and is discussed below in paragraph 47.

Table 4. Major components of 2012 annual revenue requirement for raw water

	(\$ dollars)
Operating costs	49,986
Return	12,850
Return on working capital	1,094
Interest	16,154
Depreciation	14,834
Raw water revenue requirement	94,918
Annual volume (1,000 gal)	20,000
Raw water proposed rate (\$/1,000 gal)	4.75

47. In the detailed calculations provided to the Commission there was a difference between the raw water revenue requirement and rate included in the treated water calculations compared to the separate raw water calculations. The major reason for this difference is due to different depreciation assumptions. Due to the replacement of the treated water reservoir in 2011 and the expected upgrade of the treatment plant in 2012, the life of the treated water assets, including the allocation of raw water assets has been increased from 23 years remaining to 40 years remaining, thus reducing the depreciation (see Table 1 and Section 3.3.1 of this decision). On the raw water calculations where there have been minimal raw water capital additions, there is no significant change in the life of the assets, therefore the life of the water line and the pumping station remain the same at 22 years (see Table 2 and Section 3.3.2 of this decision).³⁵ There were no concerns or objections by customers with respect to the total revenue requirement amounts.

7 Rate calculation

7.1 Leak repair

48. Calalta Amusements Ltd. is the owner of both Calalta Waterworks Ltd. and Calaway Park. Calaway Park is Calalta's largest customer. In February 2008, a large water leak was discovered and repaired on the property of Calaway Park. After the leak was repaired, there was a significant decrease in water consumption by Calaway Park and therefore in overall water consumption.³⁶

7.2 Water rates

49. The treated water rate requested by Calalta is \$18.60/1,000 imperial gallons. The raw water rate requested by Calalta is \$4.75/1,000 imperial gallons. As discussed earlier in Section 2.3 of this decision the separate rates for treated water and raw water are calculated by taking the total annual revenue requirement (including capital and operating cost components) to

³⁵ Exhibit 10.05, IR response to AUC-Calalta-6.

³⁶ Ibid., IR response to AUC-Calalta-4(b).

provide each service divided by the respective annual volume of water used in each service.³⁷ The treated water rate includes an allocation of the cost for raw water (as shown above in Table 3).

8 Commission findings

50. Calalta's application was considered by the Commission under the Commission's revised Rule 011 process. The revised Rule 011 process gives customers the opportunity to participate in the rate setting process and an opportunity to voice any concerns that they might have. No customers objected to Calalta's application and only one customer, Dr. Westersund, participated in the process. The Commission has exercised its judgment and expertise and subject to any specific discussion or directions contained in individual sections above in this decision approves all other remaining sections of Calalta's application for new water rates.

9 Order

51. It is hereby ordered that:

- (1) The treated water rate of \$18.60/1,000 imperial gallons and the raw water rate of \$4.75/1,000 imperial gallons for all customers of Calalta are approved as filed effective August 1, 2012.

Dated on August 7, 2012.

The Alberta Utilities Commission

(original signed by)

Neil Jamieson
Commission Member

³⁷ Exhibit 10.05, IR response to AUC-Calalta-2.

Appendix 1 – Proceeding participants

Name of organization (abbreviation) counsel or representative
Calalta Waterworks Ltd. (Calalta) M. Sorathia
C. Westersund

The Alberta Utilities Commission
Commission Panel N. Jamieson, Commission Member
Commission Staff J. Petch (Commission counsel) S. Karim

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. The Commission is satisfied that the change to Calalta's depreciation methods will not harm customers but is concerned that the only asset that has not been upgraded or replaced, namely the water line, may not last for another 40 years. Further, the Commission is concerned that Calalta's depreciation methods lead to a discrepancy between the raw water cost included in the treated water rate compared to the rate charged to raw water customers. This is explained further in Section 6 of this decision. The Commission recognizes that the expense of a depreciation study may not be warranted but directs Calalta to provide justification for the expected useful life of all its water system assets in its next rate application. Paragraph 27
2. The Commission finds that the 9.0 per cent cost of debt is directly tied to the actual interest paid under the purchase agreement between Calalta Amusements Ltd. and Calalta. Further the Commission believes that due to Calalta's small rate base, small customer base, and probability of cost recovery, alternate sources of financing would not likely be available to Calalta. As such, the Commission considers that the 9.0 per cent interest rate is the best available indication of the actual interest rate available to the utility and accepts 9.0 per cent as Calalta's cost of debt. The Commission will nonetheless reassess Calalta's debt costs at the time of its next rate review. The Commission also directs Calalta to investigate alternate third party sources of financing at the time of its next application. Paragraph 35
3. In consideration of the above, the Commission approves a management fee of \$60,000 per year beginning in 2012 as reasonable for Calalta. The Commission notes, that no customers have objected to the increase in management fees. However, the Commission is concerned about the significant increase in management fees and will re-assess this fee at the time of Calalta's next rate application. At the time of its next application, the Commission directs Calalta to provide a more detailed justification for the amount of its management fees including records of the time allocated in relation to water services as well as details of the benefits of new connections or improved services to customers. Paragraph 41
4. Calalta's rates as applied for in the application include an amount of \$26,000 for labour expenses. The Commission directs Calalta to apply for an increase to its labour expense at such a time when the upgrades to its water system are complete and the additional expenses for labour costs have been confirmed. Therefore, the Commission approves an amount of \$26,000 for labour expense. Paragraph 44