



## **Salt Box Coulee Water Supply Company Ltd.**

**Interim Water Rates**

**October 27, 2017**

**Alberta Utilities Commission**

Decision 21908-D01-2017

Salt Box Coulee Water Supply Company Ltd.

Interim Water Rates

Proceeding 21908

October 27, 2017

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## **1 Introduction**

1. On August 12, 2016, the Alberta Utilities Commission received an application for new water rates for 2016 from Salt Box Coulee Water Supply Company Ltd. (Salt Box), pursuant to Rule 011: *Rate Application Process for Water Utilities*. In its application, Salt Box proposed a \$7.18 per cubic metre (m<sup>3</sup>) charge and a fixed charge of \$120 per customer per month based on 2016 forecasts. Salt Box has not previously applied for or received Commission approval of rates charged to its customers.
2. On August 18, 2016, Salt Box notified the Commission that it was requesting the opportunity to negotiate with customers prior to the rate application being tested.
3. The Commission held an information session on September 29, 2016, to inform customers about the application process and describe their opportunity to participate in the process. In addition, the Commission provided information regarding the determination of rates, and the associated regulatory process to set rates for water utilities that are subject to the Commission's jurisdiction.
4. On October 6, 2016, the Commission published notice of the application on its website, and also mailed the notice to customers of Salt Box. Customers of Salt Box were to register and list their concerns, or their support for the application, by October 21, 2016. In addition, the Commission invited all interested parties to provide their views as to whether the Commission should grant an opportunity to negotiate, and if so, who should represent customers in the negotiation.
5. The Commission received submissions from the following individual customers: S. Blick, D. Bulger, B. Chung, S. Corti, S. Dalgarno, G. Dickey, C. Elliott, P. Elliott, C. Fehr, T. Gieck, C. Gough, S. Gough, J. Greik, R. Jebsen, R. Khan, R. Lupton, K. MacDonald, J. Magus, G. McCartney, S. Moore, T. Presber, H. Swartout, R. Tupper, T. Tycholis, B. Wong, W. Zemlak, and P. Zimmerman. In addition, the Commission received submissions from the four residential subdivisions in which the individual end use customers reside: Calling Horse, Windmill Way, Deer Springs, and Sandstone Ranch (Ranch). End use customers in Calling Horse and Windmill Way are organized as water co-operatives, Calling Horse Estates Co-operative Association Limited (CHECAL) and Windmill Way Water Co-op (Windmill Way). The co-operatives deliver water supplied by Salt Box to its members.
6. On October 26, 2016, Salt Box objected to the participation of Mr. Swartout in the application process. On November 29, 2016, following comments from Mr. Swartout and Salt Box, the Commission granted standing to Mr. Swartout to participate as a customer receiving water service from Salt Box.

7. On December 15, 2016, the Commission indicated that it had reviewed and considered the issues raised in each of the submissions, and various details and information contained within the application. Based on this review, the Commission considered that additional information was required from Salt Box prior to commencing any process to test this application. The Commission provided a detailed list of additional information to be provided.

8. In a January 17, 2017 letter, Salt Box expressed concern with the time it was taking to get an interim rate approved. Subsequently, in a February 3, 2017 letter, Salt Box requested an interim rate increase as “It is putting undo hardship on the Utility for the length of time this review process has taken thus far and continue to look like it will take into the future.”<sup>1</sup> In a February 16, 2017 ruling, the Commission determined that, in order for Salt Box to have an interim rate approved, an interim rate application must be formally submitted to the Commission.

9. On April 13, 2017 and May 26, 2017, the Commission received the additional information from Salt Box.

10. In a June 14, 2017 letter, the Commission sought comments regarding how the Commission should proceed with Salt Box’s application. In particular, the Commission sought views on setting interim rates in the current proceeding now that Salt Box had provided further information, the willingness of parties to negotiate, and the process that should be established for setting final water rates. The Commission received responses from Salt Box, Deer Springs, the Ranch, CHECAL, and Windmill Way. In addition, Mr. C. Fehr provided his views on the process for this application.

11. By letter dated July 4, 2017, the Commission found that negotiating rates at this point in time would not be efficient or productive. With respect to interim and final rates, the Commission dispensed with its February 16, 2017 direction, and held that it would proceed to consider the need for interim rates in the current proceeding. The Commission stated:

7. The Commission is aware of the submissions suggesting the need for supportable information and sufficient analysis, and considers that by proceeding with issuing a decision on interim rates, all parties will be informed as to the Commission’s views on rate-setting matters. The Commission is also aware that rates must be set keeping in mind that the water utility has to furnish safe, adequate and proper service, including maintaining the owner’s property and equipment in a condition that enables the water utility to do so. Given the concerns of customers and the service to be provided by Salt Box, proceeding with interim rates will allow for a determination as to whether a temporary adjustment of rates is required. It will also facilitate the process in identifying outstanding information that will be required before final rates are determined.<sup>2</sup>

12. The Commission also set a process schedule for parties’ comments on cost and expense items to be included or excluded from interim rates, and allowing for reply comments from Salt Box.

13. On June 28, 2017, CHECAL advised that it had approached a third-party developer to discuss the developer’s interest in providing water treatment services to the members of CHECAL and other homeowners currently served by Salt Box. CHECAL indicated that Alberta

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<sup>1</sup> Exhibit 21908-X0079, Saltbox email and response to additional information response.

<sup>2</sup> Exhibit 21908-X0327, AUC letter – Further process, paragraph 7.

Environment and Parks (Alberta Environment) was currently reviewing the water licence transfer application from the developer.

14. On July 20, 2017, a letter was received from Bearspaw Lakefront Estates LP (Bearspaw) indicating that CHECAL had approached them to source water and infrastructure needs for use in the subdivisions currently serviced by Salt Box. Bearspaw advised that it was continuing these discussions and hoped to reach an agreement before the end of June 2018.

15. In response to this letter, on August 3, 2017, Salt Box submitted that Bearspaw's submission was inappropriate and should not be considered by the Commission. Salt Box advised that Bearspaw had not, at this time, submitted an application to the Commission for approval to construct or operate a water utility, and that its submission should be considered as purely speculative.

16. On August 30, 2017, Salt Box submitted that it had been struggling to obtain financing from banks for the proposed upgrade costs. Salt Box described an alternate arrangement approved by a neighbouring utility, Emerald Bay Water and Sewer Co-op Ltd, which handled financing of required upgrades through two payments (i.e., "cash calls") rather than increasing the monthly bills to customers.

17. The Commission considers the record for this proceeding closed on August 30, 2017, when Salt Box filed its last submission on interim rates.

18. In reaching the determinations contained in this decision respecting interim rates, the Commission has considered the record of this proceeding, including the submissions by each party. 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 other relevant portions of the record with respect to that matter.

## 2 Background

19. Salt Box is an investor-owned water utility, purchased in 2008, which serves end use customers in four subdivisions: the Ranch, Deer Springs, Windmill Way, and Calling Horse. All of these subdivisions are located west of Calgary, Alberta. Salt Box serves 18 customers in the Ranch, 11 customers in Deer Springs, Windmill Way (which has 30 co-operative members), and CHECAL (which has 15 co-operative members), for a total 31 customers or 74 end use customers.

20. Salt Box stated that "The historical/current rates charged are \$4.425 per cubic meter, fixed rate is \$10 per month (some is [*sic*] charged \$25 per month)."<sup>3</sup> Salt Box maintained that the existing water rates are too low resulting in insufficient revenues to cover the expenses required to maintain normal operations and the supply of water. Salt Box submitted that the company has suffered losses and deficits for many years, threatening the company's sustainability.

21. Salt Box has individual contracts with its customers in the Ranch and Deer Springs (residential customers), and bills these residential customers individually. Salt Box's service to

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<sup>3</sup> Exhibit 21908-X0002, application, PDF page 5.

residential customers includes water distribution. Not all individual contracts were provided on the record of this proceeding.

22. Salt Box executed an agreement with both Windmill Way and CHECAL for a term expiring January 31, 2014. The price for water supplied under the agreement was set out in Schedule D, and expired January 31, 1999. The price to be paid after expiry was to be settled in successive two-year periods in writing. A revised executed Schedule D was also filed, with a term of January 1, 2001 to January 1, 2011. Salt Box has continued to provide water to Windmill Way and CHECAL after the expiry of these agreements. Windmill Way and CHECAL advised that each co-operative purchases water from Salt Box and distributes it to their members using their own distribution lines. CHECAL advised that Salt Box invoices CHECAL on a quarterly basis, and CHECAL then invoices its members yearly.<sup>4</sup>

23. In addition, Salt Box included its Alberta Environment licence for the construction, operation and reclamation of a waterworks system, which was granted under the *Environmental Protection and Enhancement Act*. According to the amending approval, expiring May 1, 2018, Salt Box must install and construct an ultraviolet light disinfection system (UV system).<sup>5</sup>

24. As part of its application, Salt Box included a quote from Associated Engineering Group Ltd. (Associated Engineering), which identified a preliminary estimate of \$211,000 for installation of the UV system, in addition to a number of upgrades to improve the operability of the water system.<sup>6</sup> According to Salt Box, these upgrades, totalling \$917,700, would allow the water system to meet Alberta Environment upgrade requirements and the associated operating standards and guidelines.

25. In general, the interveners strongly objected to Salt Box's proposed rate increases and expressed a variety of concerns regarding Salt Box's application. Customers generally had concerns about the following:

- (i) the magnitude of the proposed rate increase, especially compared to City of Calgary water rates

For example, Mr. T. Gieck wrote, in part: "A comparison with the City of Calgary water rates as well as with other nearby Water Coop's would show that this proposed rate increase is not fair and reasonable."<sup>7</sup>

- (ii) Salt Box's annual administration fee of \$180,000 as being too high

For example, Mr. S. Corti wrote, in part: "\$180,000 in salaries (yes, administration fees are what owners pay themselves to take money out of a company and to milk their investors or clients)! You'd think we are paying for ENMAX CEO here... This Administration Fee is the major reason why Saltbox is claiming that the current rate structure is not sustainable to their profitability."<sup>8</sup>

- (iii) the harmful impact of the proposed rate increase on customers

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<sup>4</sup> Exhibit 21908-X0071.

<sup>5</sup> Exhibits 21908-X0304 and 21908-X0305.

<sup>6</sup> Exhibit 21908-X0010, Schedule F – Upgrade Proposal 1.

<sup>7</sup> Exhibit 21908-X0026, Statement of intent to participate.

<sup>8</sup> Exhibit 21908-X0054, Letter of concern from Mr. Corti, PDF pages 4-5.



For example, Ms. S. Blick wrote, in part: “An increase of this magnitude will make it imperative to drastically increase my budget with respect to water while reducing available dollars in other aspects of my life.”<sup>9</sup>

- (iv) lack of certainty of where funding is being spent, such as whether it is being spent on the water system, and the need for an audit of Salt Box’s financial statements or better scrutiny of Salt Box’s expenses

For example, Ms. R. Khan wrote, in part: “We would like the commission to have audited financials of salt box [*sic*] prepared and made public.... We would like to see complete transparency in financial statements and reporting and all the financial records made public.”<sup>10</sup> Mr. W. Zemlak wrote, in part “I am very concerned that upgrades will not be properly completed or continue to be mismanaged leaving us with cost overruns and noneconomic water supply for the future.”<sup>11</sup>

- (v) the repair and maintenance history of Salt Box’s assets

For example, on behalf of the Ranch, Mr. J. Magus wrote, in part: “It doesn’t appear that any required maintenance or upgrades have been made to the system in 10 years.”<sup>12</sup>

- (vi) health concerns

For example, Mr. C. Fehr wrote, in part: “There is NO UV SYSTEM installed for our water. As outlined below this is a very real concern given the potential downsides of having bacteria, viruses or parasites in our water.”<sup>13</sup> Mr. K. MacDonald wrote, in part: “My children have complained that the drinking water tastes funny relative to the water they were used to drinking at the other home. They generally will not drink the water and will defer to bottled water. This does raise the concern as to the quality of water in my mind.”<sup>14</sup>

### 3 Legislation and public utilities

26. This is Salt Box’s first application for approval of water rates with the Commission. The Commission must consider whether Salt Box is an owner of a public utility in order to set rates for Salt Box. The *Public Utilities Act* applies to public utilities that the Commission regulates, including water utilities; owners of public utilities are subject the *Public Utilities Act* and the authority of the Commission. The specific provisions of the *Public Utilities Act* that apply to definitions of an “owner of a public utility” and of “public utility” are found in Section 1:

#### Definitions

1 In this Act,

...

(h) “owner of a public utility” means

<sup>9</sup> Exhibit 21908-X0029, Statement of intent to participate.

<sup>10</sup> Exhibit 21908-X0032, Statement of intent to participate.

<sup>11</sup> Exhibit 21908-X0063, Statement of intent to participate.

<sup>12</sup> Exhibit 21908-X0056, Salt Box fee issues.

<sup>13</sup> Exhibit 21908-X0045, Statement of intent to participate.

<sup>14</sup> Exhibit 21908-X0049, Statement of intent to participate.

(i) a person owning, operating, managing or controlling a public utility and whose business and operations are subject to the legislative authority of Alberta, and the lessees, trustees, liquidators of the public utility or any receivers of the public utility appointed by any court,...

(i) “public utility” means

...

(iv) a system, works, plant, equipment or service for the production, transmission, delivery or furnishing of water, heat, light or power supplied by means other than electricity, either directly or indirectly to or for the public,...

27. Salt Box operates “a system, works, plant, equipment or service” for the delivery or furnishing of water directly or indirectly to customers. Salt Box processes water through a water treatment facility and provides water delivery to customers. Water service is directly provided using Salt Box’s distribution system to residential customers in the Ranch and Deer Springs. Water service is provided from Salt Box’s system to the CHECAL water line at a point within Salt Box’s pump house, and then delivered to Windmill Way’s and CHECAL’s members via their respective distribution systems. The Commission is satisfied that Salt Box meets the definitions of a “public utility” and an “owner of a public utility” as defined in the *Public Utilities Act*. An owner of a public utility, such as Salt Box, is a monopoly provider of an essential public service. It is subject to regulation to ensure that customers receive safe and reliable service at just and reasonable rates.

28. In terms of public utilities, the Commission has broad authority with respect to a public utility’s rates, tolls and charges, terms and conditions of service, and the nature and quality of service. In particular, sections 78 and 78.1 of the *Public Utilities Act* give the Commission jurisdiction and power to deal with public utilities and the owners of public utilities:

#### **Application of Part**

78(1) This Part applies

(a) to all public utilities owned or operated by or under the control of a company or corporation that is subject to the legislative authority of Alberta or that has, by virtue of an agreement with a municipality, submitted to the jurisdiction and control of the Commission;

(b) subject to subsection (2), to every person owning or operating a public utility to which the jurisdiction of the Legislature extends;

(c) to all public utilities owned or operated by or under the control of the Crown, or an agent of the Crown, in right of Alberta;

(d) to all utilities and other matters dealt with in Divisions 3 to 6 of this Part to the extent set out in those Divisions.

#### **Jurisdiction and powers**

78.1(1) The Commission has all the necessary jurisdiction and power

(a) to deal with public utilities and the owners of them as provided in this Act;

(b) to deal with public utilities and related matters as they concern suburban areas adjacent to a city, as provided in this Act.

29. The Commission authority to fix just and reasonable rates and terms and conditions of service (T&Cs) is found in Section 89 of the *Public Utilities Act*.

30. Given the above legislative framework, the Commission will exercise its jurisdiction to review the rates proposed by Salt Box, the T&Cs and any other issues concerning the public utility, as necessary.

#### 4 Interim rates

31. Section 88 of the *Public Utilities Act* specifically details the financial information that the owner of a public utility is required to maintain and provide to the Commission. The Commission recognizes that larger, more sophisticated utilities provide a level of detail in their filings with the Commission that may not be available or necessary for smaller utilities. However, a basic level of information must be provided by any utility. The information requested by the Commission is basic records that are necessary to maintain the legal and business operations of a company.

32. Given the seriousness of the concerns raised by interveners respecting the management, operation, and ongoing safe and reliable service provided by Salt Box, the Commission finds that the information provided in the current proceeding is not sufficient to allow parties and the Commission to adequately test the reasonableness of the revenue requirements proposed by Salt Box and to make a determination on the setting of final rates and T&Cs.

33. However, the Commission is also cognizant of the exigent circumstance of the continued water operations due to Alberta Environment's requirement for Salt Box to have a UV system installed by May 1, 2018. Further, the Commission considers it to be important that some interim rate be established as quickly as possible so that both current and future customers who receive water service from Salt Box will have some idea of the rates they will be required to pay.

34. In its July 4, 2017 letter, the Commission indicated that it would consider the need to set interim rates:

6. The Commission understands the views and positions expressed by parties with respect to moving this application forward, but also recognizes the need for a timely resolution of the rate application. As indicated by the Commission:

Notwithstanding that an interim rate application has not been submitted, the Commission considers that the additional information may support the setting of interim rates under the Commission's rate-making authority under the *Public Utilities Act* and its powers under the *Alberta Utilities Commission Act*. [footnote removed]

7. The Commission is aware of the submissions suggesting the need for supportable information and sufficient analysis, and considers that by proceeding with issuing a decision on interim rates, all parties will be informed as to the Commission's views on rate-setting matters. The Commission is also aware that rates must be set keeping in mind that the water utility has to furnish safe, adequate and proper service, including maintaining the owner's property and equipment in a condition that enables the water

utility to do so. Given the concerns of customers and the service to be provided by Salt Box, proceeding with interim rates will allow for a determination as to whether a temporary adjustment of rates is required. It will also facilitate the process in identifying outstanding information that will be required before final rates are determined.

8. For these reasons, the Commission will proceed to consider the need for interim rates...<sup>15</sup>

35. When evaluating the merits of an interim rate application, the Commission must weigh the potential benefits of rate stability and minimization of rate shock that might result on approval of final rates against the expenses and costs that support an interim rate increase; whether the utility's expenses and costs are contentious or non-contentious items; the impact the revenue deficiency has on the financial welfare of the utility; and the potential impact on safe and reliable utility operations.

36. The Commission has considered several factors in prior rate applications, which can be divided into two broad categories: those that relate to the quantum of, and need for, the rate increase; and those that relate to more general public interest considerations.<sup>16</sup> However, these applications for interim rates are considered in situations where the Commission has previously approved final rates for the utility. This is not the case for Salt Box. Notwithstanding, the Commission is of the view that certain factors may be relevant to the Commission's consideration of this application. These include:<sup>17</sup>

- The identified revenue deficiency should be probable and material.
- All or some portion of any contentious items may be excluded from the amount collected.
- The financial integrity of the applicant or the avoidance of financial hardship to the applicant.
- Safe utility operations.
- Interim rates should promote rate stability and ease rate shock.
- Interim adjustments should help to maintain intergenerational equity.
- Interim rate increases may be required to provide appropriate price signals to customers.
- It may be appropriate to apply the interim rider on an across-the-board basis.

## 5 Cost-of-service regulation

37. Under the *Public Utilities Act*, the Commission fixes just and reasonable rates of the owner of a public utility. The Commission has historically applied cost-of-service regulation in fixing rates for investor-owned water utilities. Under this methodology, a regulated utility is allowed to charge rates sufficient to cover its operations and maintenance costs and provide a fair

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<sup>15</sup> Exhibit 21908-X0327, AUC letter - Further process, paragraphs 6-8.

<sup>16</sup> Decision 2005-099: ATCO Gas, 2005-2007 General Rate Application, Interim Rate Application, Application 1404168-1, August 29, 2005, pages 7-8.

<sup>17</sup> Decision 2005-099.

rate of return on, and return of, its capital. The first step in this methodology is establishing the forecast revenue requirement to serve utility customers, which includes consideration of operating and maintenance costs, depreciation, taxes, and an allowed rate of return on rate base. The second step allocates the revenue requirement to customer classes and establishes rates that are necessary to recover the forecast revenue requirement.

38. Some of the interveners submitted that the Commission should consider the water rates of municipalities in its assessment of just and reasonable rates. The Commission observes that the water rates that Salt Box charged for some customers is a multiplier of The City of Calgary's water rates. The Commission is concerned with this approach because The City of Calgary's costs and expenses for running its municipal public water utility are not necessarily reflective of Salt Box's costs and expenses for running its water utility.

39. In Alberta, one of the common differences between a municipal public water utility and an investor-owned public water utility is the size of the customer base. For example, one would expect that the customer base for the City of Calgary's municipal public water utility to far exceed the customer base for Salt Box. Under cost-of-service regulation, the number of customers available to pay the utility's operating costs and expenses reduces the amount any one customer will be required to pay for utility service. As the number of customers increases relative to the cost of providing service, each individual customer will pay a smaller portion of the operating expenses and costs. While this is just one difference that may exist between a municipal public water utility and an investor-owned public water utility, it serves as an example of why comparing rates between the two entities, or basing rates of an investor-owned water utility on a multiplier of a municipal public water utility, is not necessarily reflective of the rates required to provide utility service.

40. The Commission will address the specific components of Salt Box's revenue requirement and the corresponding rates in the sections that follow.

## 6 Revenue requirement

### 6.1 Revenue

41. Salt Box stated that due to the existing water rates being too low, they do not collect the necessary revenues to cover the expenses incurred to maintain the normal operation for water supply. As a result, the company has suffered losses and revenue deficits for many years, which has threatened the sustainability of Salt Box's operations.

42. In its application, Salt Box provided the following information on customer numbers, consumption and revenue:<sup>18</sup>

SERVICE AREAS		
Area	Total No. of Lots	Population (3.3 P/Unit)
1. Sandstone Ranch	18	59
2. Deer Springs	11	36
3. Windmill Way	30	99
4. Calling Horse	15	50
<b>TOTAL</b>	<b>74</b>	<b>244</b>

<sup>18</sup> Exhibit 21908-X0002, application, PDF pages 2 and 5.

...

Salt Box has 74 customers, the following table is the past 3 years, the average consumption per customer per month is 21.59m<sup>3</sup>; the average per customer per year is 19,175.51m<sup>3</sup>.

Year	Communities [Deer Springs & the Ranch]	Calling Horse	Windmill	Total	Average
2013	7,240.83	4,728.80	7,613.60	19,583.23	22.05
2014	7,533.44	4,160.90	7,372.00	19,066.34	21.47
2015	6068.55	5,081.20	7,727.20	18,876.95	21.26
<b>Three Year Average Consumption per Customer Per Month</b>					<b>21.59</b>

...

The historical/current rates charged are \$4.425 per cubic meter, fixed rate is \$10 per month (some is charged \$25 per month)....

43. The Commission reviewed the rates set out in the individual contracts provided by Salt Box, which are summarized below:

Exhibit number of individual contract	Contract rates
X0093, X0099, X0101, X0104, X0105	“The current charge for water is 2.5 times City of Calgary Water Rate per cubic meter.”
X0094, X0095, X0098, X0100, X0102, X0103, X0106	“There will be a monthly \$10.00 fixed charge plus the water delivery charge currently in place to the registered owner of the property.”
X0096, X0097	“The current charge for water is 2.5 times City of Calgary Water Rate per cubic meter. There will be a monthly \$10.00 water availability charge to the registered owner of the property.”
X0107	“There will be a monthly \$25.00 fixed charge plus the water delivery charge currently in place to the registered owner of the property.”

44. The Commission also reviewed the rate information self-reported by customers participating in this proceeding, as summarized below:

**Table 1. Customer reported rates**

Customer	Fixed charge (\$/month)	Commodity charge (\$/m <sup>3</sup> )
CHECAL <sup>19</sup>	100.00*	2.2012
Windmill Way <sup>20</sup>	6.00	2.2000
Windmill Way <sup>21</sup>	6.03	2.2000
Windmill Way <sup>22</sup>	6.03	2.2012
Windmill Way <sup>2324</sup>	10.00	4.4250
Windmill Way <sup>25</sup>	43.75	1.2100
Deer Springs <sup>26**</sup>	10.00	4.4750

\*the fixed charge is shared equally by all 15 co-operative members in CHECAL

\*\*joint submission by nine Deer Spring residential customers

45. To determine whether or not there is a revenue deficiency, the Commission will consider the potential revenue available to Salt Box, based on the 2013 to 2015 time frame. Forecast revenue is calculated as the product of forecast sales volumes by current customer rates.

46. Residential customers reside in Deer Springs and the Ranch. Based on a review of the individual contracts and self-reported information, it appears there is variability in the rates charged. Further, there appears to be a difference in the commodity charge submitted by Salt Box (\$4.425/m<sup>3</sup>) and the commodity charge of (\$4.475/m<sup>3</sup>) self-reported by different residential customers.

47. For the purposes of this decision, the Commission will use the starting point that residential customers are charged a commodity charge of \$4.475/m<sup>3</sup>, which was reported by the nine residential customers residing in Deer Springs. This is only slightly higher than the charge of \$4.425/m<sup>3</sup> reported by Salt Box. In addition, the Commission will assume that residential customers are charged a \$10/month fixed fee.

48. For CHECAL, the Commission will use the fixed charge of \$100/month, which is shared equally by all CHECAL co-operative members, and the variable charge of \$2.2012/m<sup>3</sup>, as shown on the most recent Salt Box invoice to CHECAL on the record of this proceeding, dated September 30, 2016.<sup>27</sup>

49. For co-operative members served by Windmill Way, there appears to be a variety of both fixed and variable charges. It is not clear to the Commission why a variety of rates were reported from co-operative members in Windmill Way, given that the co-operative receives a single bill, which is then allocated to its members. Notwithstanding, the Commission will use a fixed charge of \$6.03/month per co-operative member, which was the most common rate self-reported by co-operative members of Windmill Way, and a variable charge of \$2.2012/m<sup>3</sup>, which matches the variable charge assumed for CHECAL.

<sup>19</sup> Exhibit 21908-X0072, Saltbox water invoice to Calling Horse Estates July 5- Sept 30, 2016.

<sup>20</sup> Exhibit 21908-X0053, Letter of concern.

<sup>21</sup> Exhibit 21908-X0058, Statement of intent to participate.

<sup>22</sup> Exhibit 21908-X0046, Letter stating concerns.

<sup>23</sup> Exhibit 21908-X0029, Statement of intent to participate.

<sup>24</sup> Exhibit 21908-X0032, Statement of intent to participate.

<sup>25</sup> Exhibit 21908-X0049, Statement of intent to participate.

<sup>26</sup> Exhibit 21908-X0050, AUC submission.

<sup>27</sup> Exhibit 21908-X0072, Saltbox water invoice to Calling Horse Estates July 5 - Sept 30, 2016.

50. In the Commission's view, the three most recent years of annual consumption data is a reasonable period to use for estimating consumption. By using three years of data, rather than a shorter period of time, less volatility in consumption will be reflected in rates. Based on the information provided by Salt Box, the average annual consumption for 2013, 2014 and 2015 in the Ranch and Deer Springs collectively is 6,947.61/m<sup>3</sup>. The corresponding average annual consumption for CHECAL is 4,656.97/m<sup>3</sup>, and for Windmill Way is 7,570.93/m<sup>3</sup>.

51. Accordingly, the Commission has calculated Salt Box's potential revenue based on the average annual consumption for 2013, 2014 and 2015 as shown below:

**Table 2. Commission calculation of potential revenue**

	Fixed component			Variable component			Total
	\$/month	Customer x month	Annual total (\$)	Rate (\$/m <sup>3</sup> )	Volume (m <sup>3</sup> )	Total (\$)	(\$)
	(A)	(B)	(C) = (A x B)	(D)	(E)	(F) = (D x E)	(C + F)
CHECAL	100.00	(1 x 12)	1,200.00	2.2012	4,656.97	10,250.92	11,450.92
Windmill Way	6.03	(30 x 12)	2,170.80	2.2012	7,570.93	16,665.13	18,835.93
Deer Springs & the Ranch	10.00	(29 x 12)	3,480.00	4.475	6,947.61	31,090.55	34,570.55
<b>TOTALS</b>			<b>6850.80</b>			<b>58,006.60</b>	<b>64,857.40</b>

52. The Commission finds this determination of potential revenue of \$64,857.40, to be reasonable based on the total revenue reported by Salt Box in its annual statements of \$63,836 for 2013,<sup>28</sup> \$67,221 for 2014,<sup>29</sup> and \$66,155 for 2015.<sup>30</sup>

## 6.2 Expenses

53. A utility is allowed to recover its approved forecast expenses. Utility expenses are comprised of four main categories: operations, maintenance and administration; depreciation; return; and taxes. The Commission will consider the evidence on these categories below.

### 6.2.1 Operations, maintenance and administration

54. Salt Box provided the following information with respect to operations, maintenance and administration expenses:

<sup>28</sup> Exhibit 21908-X0004, Salt Box 2013 financial statement.

<sup>29</sup> Exhibit 21908-X0005, Salt Box 2014 financial statement.

<sup>30</sup> Exhibit 21908-X0006, Salt Box 2015 financial statement.



**Table 3. Summary of actual and forecast expenses for 2013-2016**

	2013 actual	2014 actual	2015 actual	2016 forecast
	(\$)			
Plant/Water Operations	23,119	10,817	30,336	30,336
Insurance	2,687	5,249	10,081	11,000
Chemicals	1,983	426	1,067	1,070
Water Testing	4,553		1,053	1,060
Repairs and Maintenance	9,471	5,446	44,481	30,000
Utilities	12,075	9,704	8,808	9,000
Administration	180,000	180,000	180,000	180,000
<b>TOTAL O&amp;M</b>	<b>233,888</b>	<b>211,642</b>	<b>275,826</b>	<b>262,466</b>

### 6.2.1.1 Plant and water operations

55. Salt Box proposed plant and water operation expenses of \$30,336 for 2016. In support of this amount, Salt Box provided a partial signed contract with Aquatech Canadian Water Services Inc. (Aquatech) that appears to be effective June 4, 2015. According to the terms of the contract, for a base fee of \$4,495 per month, Aquatech would perform or provide the following services:<sup>31</sup>

- A Certified Water Treatment Operator for the systems on 7 days per week.
- Order chemical, repair parts and spare equipment for the plant operation.
- Sample and analyze as required by the Approvals.
- Send the samples to an independent laboratory at the frequency required by the Approvals.
- Complete the required Electronic Reporting to AESRD [Alberta Environment and Sustainable Resource Development] as required in its entirety.
- Provide the monthly, annual and contravention reporting requirements as per the Approvals.
- Meet all the Operational requirements of the Approvals.
- Report all problems to Alberta Environment and Salt Box Coulee representative.
- Propose to Salt Box Coulee representative all required modifications or improvements.
- Operations plan will be updated annually.

<sup>31</sup> Exhibit 21908-X0015, Aquatech Operation and Maintenance Contract.

56. Salt Box provided Aquatech invoices for portions of 2015 and 2016. However, Aquatech doubled the cost of providing service, and as a result, Salt Box could not afford to continue using the services of Aquatech. Aquatech worked with Salt Box to find a replacement operator.<sup>32</sup>

57. On March 18, 2016, Salt Box entered into a contract with Mr. Steven Glumicic to operate the water treatment plant “as required by our licensing.” Compensation under this contract was for \$2,000 per month, increasing to \$4,000 per month once Salt Box’s rate review was successful and completed.<sup>33</sup> According to the contract, Mr. Glumicic would work at the treatment plant as needed, estimated at five times per week or weekends.

58. On March 18, 2016, Salt Box also entered into a contract with Mr. John Knight to operate the water treatment plant. According to the contract, Mr. Knight was to work “likely 2 to 5 times per week or weekend” with compensation set at \$100 per day.<sup>34</sup>

59. Mr. Corti, a resident, submitted the following concerns regarding these expenses:

Plant Operation

First of all, the increase of the line item “Plant Operation” from \$10,817 in 2014 to \$30,336 in 2015 (180% YoY [year over year]). The residents in the area did not notice any increased activity at the Saltbox Pumphouse that would warrant the increase to triplicity of the costs to operate the plant. ...

...

Water Testing

This is somewhat peculiar, as for a Water Utility to have \$0 cost for Water Testing and only \$1,053 in 2015 is somewhat alarming. More so, it is a sign of poor management, poor book-keeping (not knowing where to appropriate costs), poor operating practices, or just the ownership not being fit to run a Water Utility. CHECAL spends between \$12,000 and \$15,000 per year to get the water tested in our distribution loop, this is probably similar to what Saltbox would have to spend to test the water at their distribution facility, and very likely the cost items reported in the Plant Operation line; again, the \$30,336 reported for 2015 seems highly inflated, as the Plant Operation with the water testing should be in the \$15,000 range per year (not \$30,336).<sup>35</sup>

60. While Salt Box’s contracts with Mr. Knight and Mr. Glumicic are not as detailed as the Aquatech contract, it appears that Salt Box intended these contractors to maintain the required operating standards, as the contracts with both contained the requirement that “The expectation for this position is to operate our water treatment plant as required by our licensing.”

61. The contract with Mr. Glumicic currently set at \$2,000 per month would equate to annual plant operating expenses of \$24,000. If the Commission considered that Mr. Knight operated the plant on weekends, based on his daily rate, the total expenses for Salt Box would be an additional \$800 per month. This would increase the annual amount to \$33,600. In comparison, if Salt Box continued using the services of Aquatech, operating costs would result in an annual cost of \$53,940.

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<sup>32</sup> Exhibit 21908-X0318, Summary of customer questions, paragraph 14.

<sup>33</sup> Exhibit 21908-X0317, Contract with Steven Glumicic.

<sup>34</sup> Exhibit 21908-X0312, Contract with John Knight.

<sup>35</sup> Exhibit 21908-X0054, Letter of concern from Mr. Corti, PDF pages 2-4.

62. Given the amounts reflected in the contracts and the higher amounts paid to Aquatech in 2015 and 2016, the Commission finds that Salt Box's proposed annual amount of \$30,366 for plant and water operations is reasonable in the circumstances, and approves this amount to be included in revenue requirement.

### 6.2.1.2 Insurance

63. Salt Box forecast insurance expenses of \$11,000 for 2016 to be included in revenue requirement. The following table shows the actual amounts and the forecast amount proposed in Salt Box's application:

**Table 4. Proposed insurance expenses**

	2013 actual	2014 actual	2015 actual	2016 forecast
Insurance	\$2,687	\$5,249	\$10,081	\$11,000

64. Mr. Corti raised the following concerns with respect to insurance expenses:

The increase for insurance from 2014 (\$5,249) to 2015 (\$10,081) is 92% YoY, which is way out of range to insurance increases in the industry, which have seen increase of 10% to 30% on such things as auto, home, life, general contractor, liability, etc.<sup>36</sup>

65. Mr. and Mrs. Moore submitted:

b. Insurance costs increased 1.6 times in 2015 versus the average of the past 3 years. We are concerned that insurance coverage may not be optimized for the facility.<sup>37</sup>  
[bolding removed]

66. Salt Box provided invoice 10875 from Aquatech, dated February 28, 2015,<sup>38</sup> which showed charges of \$5,520 for environmental liability insurance, effective March 1, 2015 to March 1, 2016.

67. Insurance protects the interests of both the utility and its customers. The Commission is of the view that utilities should have both the proper insurance and a reasonable amount of insurance coverage in place to manage the risks of operating a utility. The Commission agrees with the Moores that Salt Box's insurance may not be optimized if it only holds environmental liability insurance.

68. In considering Salt Box's forecast insurance expense, it is not clear to the Commission what is driving the increased insurance expenses from 2013 to 2015 as reported in Salt Box's financial statements.

69. In the absence of any explanation or evidence in support of the significant increase in insurance expenses between 2013 and 2016, the types of insurance held, and the associated insurance premiums, the Commission does not consider Salt Box's insurance forecast to be reasonable. However, for purposes of this decision the Commission will allow for insurance expenses that reflect the mid-point between the 2015 insurance expense of \$5,520 and Salt Box's

<sup>36</sup> Exhibit 21908-X0054, Letter of concern from Mr. Corti, PDF page 3.

<sup>37</sup> Exhibit 21908-X0053, Letter of concern from Mr. and Mrs. Moore.

<sup>38</sup> Exhibit 21908-X0155, 710877 Saltbox - Contract Agreement Invoice# 10875 (1).

2016 forecast of \$11,000. Based on the mid-point the Commission approves an annual insurance expense of \$8,260 to be included in revenue requirement.

### 6.2.1.3 Chemicals and water testing

70. Salt Box proposed chemical expenses and water testing expenses of \$1,070 and \$1,060, respectively, for 2016.

71. The Commission has reviewed the actual chemical expenses and water testing expenses for 2013, 2014 and 2015, as shown in Salt Box's financial statements.<sup>39 40 41</sup> While chemical expenses for 2014 were reported as \$426, there were no reported water testing expenses for 2014. In addition, the water testing expenses for 2013 were reported as \$4,553, which appears high compared to the 2015 actual of \$1,053. No explanation was provided for the year to year variances.

72. Notwithstanding these differences, the Commission acknowledges that there would be a reasonable amount of chemical expenses for water treatment and water testing expenses in order to provide safe and adequate water service. Expenses for these items should be reasonably included in the revenue requirement. Given that the amount of the chemical expenses and water testing expenses are relatively low, the Commission accepts Salt Box's proposed amounts for interim rate purposes.

73. In future rate applications, the Commission directs Salt Box to provide actual expense amounts for chemicals, other water treatment expenses, water testing expenses and the forecasts of anticipated expenses for these items.

### 6.2.1.4 Repair and maintenance

74. Salt Box forecasted repair and maintenance expenses of \$30,000 for 2016, with historical values of \$9,471 in 2013, \$5,446 in 2014, and \$44,481 in 2015.

75. The significant repair expenses incurred in 2015 appear to be in relation to a line break that occurred in January 2015, resulting in total repair expenses of approximately \$30,000, consisting of \$23,500<sup>42</sup> for repair of the line and \$6,100 in landscaping expenses.<sup>43</sup> Details surrounding the line break, such as whether the line was a transmission line impacting all customers or whether it was a distribution line and only impacted residential customers was not provided.

76. In considering these amounts, the Commission finds that Salt Box has not adequately explained the significant variability in the historical values. This makes it difficult for the Commission to determine a reasonable forecast for repair and maintenance. However, the Commission accepts that repairing and maintaining utility infrastructure is a key function in providing safe and adequate water service.

77. Notwithstanding, the 2016 forecast of \$30,000 appears relatively high. For the purpose of setting interim rates, and in the absence of sufficient information, the Commission will assume

<sup>39</sup> Exhibit 21908-X0004, Salt Box 2013 financial statement.

<sup>40</sup> Exhibit 21908-X0005, Salt Box 2014 financial statement.

<sup>41</sup> Exhibit 21908-X0006, Salt Box 2015 financial statement.

<sup>42</sup> Exhibit 21908-X0156, 710877 Saltbox Coulee Jan EW 10812.

<sup>43</sup> Exhibit 21908-X0162, Saltbox Water Coulee Ltd. repair.

the 2015 line break was a one-off event. On this basis, the Commission has subtracted \$30,000 of repair expenses from the 2015 repair and maintenance expense forecast, resulting in an amount of \$14,481. The Commission considers that setting the 2016 repair and maintenance forecast at \$15,000 recognizes the need for regular maintenance. The Commission finds this amount to be reasonable given the circumstances, and will allow \$15,000 for repair and maintenance expenses to be included in Salt Box's interim rates.

78. The Commission directs Salt Box to develop a maintenance plan to ensure that routine maintenance and repairs are undertaken on a regular basis to avoid the potential for unexpected repairs and service outages. This plan should provide an explanation of the proposed repair work, and provide the anticipated expenses to complete the work. The Commission directs Salt Box to file this plan as part of its next rate application.

### 6.2.1.5 Utilities

79. Salt Box forecasted electricity and natural gas expenses of \$9,000 for 2016. It appears that utility expenses have remained relatively constant over the 2013 to 2015 period, with actual amounts of approximately \$12,000, \$9,700 and \$8,800, respectively. On this basis the Commission will allow \$9,000 for utility expenses in interim rates.

80. In future rate applications, Salt Box is directed to support its forecast electricity and natural gas expenses by providing at least six months of actual expenses for each of electricity and natural gas services charged to Salt Box.

### 6.2.1.6 Administration

81. Salt Box forecasted administration expenses of \$180,000 for 2016. In its application Salt Box indicated that its "operating and management staff include [a] manager, one accounting staff for bookkeeping and billing, one co-ordinator, and one onsite operator and contractor for plant operation."<sup>44</sup> Salt Box explained that these expenses are the result of an agreement<sup>45</sup> with Regional GP Enterprises Inc., which was then subcontracted to other companies. The table below provides further details on these arrangements:

**Table 5. Summary of monthly administration expenses**

Services	Amount	Agreement with	Amount	Subcontracted to	Services	Amount	Subcontracted to
Management	\$7,000	Regional GP Enterprises Inc.	\$7,000	1438725 Alberta Ltd. <sup>46</sup>			
Administration	\$8,000	Regional GP Enterprises Inc.	\$8,000	Willow Springs Realty Ltd. <sup>47</sup>	Billings and Administration	\$4,000	Sharon Colvin <sup>48</sup>
<b>Monthly total</b>	<b>\$15,000</b>						
<b>Annual total</b>	<b>\$180,000</b>						

<sup>44</sup> Exhibit 21908-X0002, application, PDF page 5.

<sup>45</sup> Exhibit 21908-X0313, Management and administration fee.

<sup>46</sup> Exhibit 21908-X0315, RWEGP Management Agreement with 143.

<sup>47</sup> Exhibit 21908-X0314, RWEGP Administration Agreement with Willow.

<sup>48</sup> Exhibit 21908-X0310, Billings and administration.

82. Salt Box provided the following breakdown of the monthly administration expenses:

Breakdown of Regional GP Enterprises Inc. Management and Administration fee.

Jeff Colvin Management fee	\$7,000.00
Billings & Administration fee	\$4,000.00
Accounting & bookkeeping fee	\$ 500.00
Office Space and Overhead	<u>\$3,500.00</u>
	\$15,000.00 <sup>49</sup>

83. Mr. Colvin is the director of 1438725 Alberta Ltd.,<sup>50</sup> is listed as the president of Willow Springs Realty Ltd.<sup>51</sup> and has signing authority for Regional GP Enterprises Inc.<sup>52</sup>

84. In general, interveners raised two main issues regarding the administration expenses. First, there was concern that the quantum of the proposed amount was too high and lacked proper support, and second, there was concern with the affiliate nature of the arrangements to provide these services.

85. The Commission finds that 1438725 Alberta Ltd. and Willow Springs Realty Ltd. are related and associated corporations of Salt Box.<sup>53</sup> The arrangements with these affiliated companies and Regional GP Enterprises Inc. results in total administration expenses that are approximately three times the gross revenue of Salt Box. The Commission is of the view that the total administration expenses are unreasonable, and cannot be approved as filed.

86. The Commission further finds that the amount of the administration expenses has not been sufficiently explained to support its reasonableness in relation to the size and operating requirements of Salt Box. Salt Box did not provide documentation in terms of the work to be provided by the affiliates identified above, and how provision of these services through an affiliate compare to fair market value. The Commission is also concerned that there may be duplication in the services received by Salt Box from its contractors providing plant and water operations and its affiliates.

87. While the Commission is not prepared to approve the administrative expense of \$180,000, the Commission acknowledges that Salt Box is responsible for the management, billing and operation of its facilities associated with providing water service. Since Salt Box has a small customer base, the Commission is of the view that the expenses to manage the day-to-day operation of the utility should also be relatively small. On this basis, and to maintain the viability of Salt Box, the Commission is prepared to approve an administration fee of \$1,000 per month, or \$12,000 annually, on an interim basis, and until such time as the final administration expenses are supported by further evidence and tested by the Commission.

88. Given that Salt Box has a relatively small customer base and bills its customers on a quarterly basis, the Commission finds the amount of \$12,000 will afford sufficient coverage of administration expenses, and approves inclusion of this amount in revenue requirement.

<sup>49</sup> Exhibit 21908-X0311, Breakdown of Management and administration fee.

<sup>50</sup> Exhibit 21908-X0087, Further breakdown of ownership structure.

<sup>51</sup> Exhibit 21908-X0310, Billings and administration.

<sup>52</sup> See, for example, exhibits 21908-X0313 to 21908-X0315.

<sup>53</sup> Exhibit 21908-X0013, 2015 Salt Box tax return.

The Commission directs Salt Box in its next rate application to fully support and explain any administration expenses that it may request.

## 6.2.2 Return and depreciation

89. A utility is allowed to include an amount for depreciation of its assets in its revenue requirement and to earn a return on its assets. The value of the fixed assets or rate base represents the capital investment of Salt Box, used to provide utility service. Once the rate base of the utility is determined, the amounts for depreciation and return can be calculated.

90. Salt Box provided financial information with respect to its rate base, for the years 2008 to 2016.<sup>54</sup> The Commission has summarized the 2016 information below:

**Table 6. Fixed assets for the year ending December 2016**

Fixed assets Description	Cost of fixed assets				Dep'n rate	Accumulated depreciation			NBV
	Beginning	Additions	Disposals	End of year		Beginning	Additions	End	
	(\$)				(%)	(\$)			
Water Treatment Plant	464,628.04			464,628.04	2.28	160,428.75	10,593.52	171,022.27	293,605.77
General Equipment and Tools	7,671.39			7,671.39	10.00	4,986.41	767.14	5,753.55	1,917.84
Meters	48,181.32			48,181.32	2.71	8,487.12	1,305.71	9,792.83	38,388.49
<b>Grand total</b>	<b>520,480.75</b>	<b>0.00</b>	<b>0.00</b>	<b>520,480.75</b>		<b>173,902.28</b>	<b>12,666.37</b>	<b>186,568.65</b>	<b>333,912.10</b>

91. The Commission is prepared to accept Salt Box's description of its fixed assets, depreciation rates, accumulated depreciation amounts and resulting net book value (NBV) of the assets for the purposes of this interim decision. The Commission will consider the proposed depreciation amount and return based on these values.

92. Salt Box's forecast depreciation amount for 2016 is \$12,666.37, based on a 44-year life for the water treatment plant, a 10-year life for general equipment and tools, and a 37-year life for meters. It appears to the Commission that Salt Box has used depreciation rates that reasonably match the expected life cycle of the assets. Given that the depreciation amount is a mechanical calculation based on the value of the asset and the depreciation rate, the Commission finds the forecast depreciation amount to be calculated correctly. Therefore, the Commission approves the depreciation amount of \$12,666.37, as filed.

93. In calculating a return on rate base, the Commission will use a deemed capital structure to allocate the NBV between debt and equity. The Commission has approved the use of a deemed capital structure of 75 per cent debt and 25 per cent equity in previous water rate decisions.<sup>55</sup> The Commission finds that a capital structure of 75 per cent debt and 25 per cent equity reasonably balances the interests of Salt Box and its customers in setting the return.

<sup>54</sup> Exhibit 21908-X0008, Schedule E – Fixed assets 2008-2016.

<sup>55</sup> Decision 3258-D01-2015: Langdon Waterworks Limited, 2014-2015 General Rate Application, Proceeding 3258, Application 1610617-1, March 20, 2015.

94. For 2016, the Commission allowed utilities a return of 8.3 per cent on equity.<sup>56</sup> The cost rate for debt is utility specific. Salt Box provided a debt cost rate of 6.00 per cent. The Commission is prepared to accept Salt Box's cost rate for debt on face value. Using a capital structure of 75 per cent debt and 25 per cent equity, and Salt Box's debt cost rate for debt, results in an annual return of \$21,954.72, as shown below:

	Deemed capital structure	Prorated rate base	Rate	Return
Debt	75%	\$250,434.08	6.00%	\$15,026.04
Equity	25%	\$83,478.02	8.30%	\$6,928.68
		<b>\$333,912.10</b>		<b>\$21,954.72</b>

95. The Commission approves the return of \$21,954.72 to be included in interim rates.

### 6.2.3 Taxes

96. The Commission has reviewed Salt Box's historical tax returns for 2014 and 2015. Based on the information submitted to the Canada Revenue Agency, Salt Box did not pay any taxes in 2014 and 2015. Accordingly, the Commission will not include an amount for taxes in Salt Box's revenue requirement.

### 6.3 Revenue requirement summary

97. Based on the analysis above, a summary of Salt Box's revenue requirement is as follows:

**Table 7. Approved revenue requirement**

Revenue requirement	Proposed amount	Approved amount
Operations, maintenance and administration		(\$)
Plant/Water Operations	30,336.00	30,336.00
Insurance	11,000.00	8,260.00
Chemicals	1,070.00	1,070.00
Water Testing	1,060.00	1,060.00
Repairs and Maintenance	30,000.00	15,000.00
Utilities	9,000.00	9,000.00
Administration	180,000.00	12,000.00
Depreciation	12,666.37	12,666.37
Return	66,220.00	21,954.72
Taxes	(811.00)	nil
<b>Total revenue requirement</b>	<b>340,541.37</b>	<b>111,347.09</b>
<b>Reconciliation of revenue requirement</b>		
Forecast revenue		64,857.40
<b>Deficiency</b>		<b>46,489.69</b>

98. In the Commission's view, the projected deficiency of \$46,489.69 is probable and material. In order to maintain the viability of Salt Box and its ability to provide safe and reliable service, the Commission finds that an interim rate increase is required to address the projected revenue deficiency.

99. Salt Box suggested new rates of \$7.18/m<sup>3</sup> and a fixed rate of \$120 per customer per month to address the revenue deficiency.

<sup>56</sup> Decision 20622-D01-2016: 2016 Generic Cost of Capital, Proceeding 20622, October 7, 2016.



100. Given that the Commission has calculated a revenue requirement of \$111,347.09, which is lower than the revenue requirement of \$340,541.37 proposed by Salt Box, the Commission will not accept Salt Box's proposed rate increase as applied. Instead, the Commission will calculate rates based on the approved revenue requirement of \$111,347.09.

## 7 Allocation and rate design

101. The second step in determining just and reasonable rates is allocating costs and establishing rates that are necessary to recover an approved forecast revenue requirement. The Commission will consider how the revenue requirement should be allocated between customers based on types of customers, number of customers and consumption by individual customers of Salt Box.

### 7.1 Allocation of revenue requirement

102. The Commission finds that there is a reasonable distinction between residential customers and the co-operative customers.

103. According to the individual contracts filed on the record of this proceeding, Salt Box and each residential customer in the Ranch and Deer Springs entered into an agreement for the supply of residential water service, which is provided directly using Salt Box's distribution system.

104. In contrast, the agreement between Salt Box and the co-operatives, CHECAL and Windmill Way, refers to water supply being delivered to CHECAL's water line for subsequent re-delivery by CHECAL and Windmill Way to their individual members. Water service is delivered to the CHECAL water line at a point within Salt Box's pump house, which CHECAL then delivers to its members. Windmill Way's system delivers water from the CHECAL water line to its members for specific use in connection with the Subdivision lands, which are described as:

#### SUBDIVISION LANDS

Firstly PLAN 8911099  
BLOCK 4  
LOTS 1 to 22 INCLUSIVE

PLAN 8911099  
BLOCK 5  
LOTS 1 TO 8 INCLUSIVE

Secondly THE REMAINING UNSUBDIVIDED PORTION OF THE SOUTH EAST QUARTER OF SECTION 2, TOWNSHIP 25, RANGE 3, WEST OF THE 5TH MEDIAN, WHICH LIES TO THE WEST OF AND IS ADJACENT TO THE AFORESAID 8911099.

105. Accordingly, any repair or maintenance costs for the distribution system used to serve residential customers *only* should not be allocated to co-operative customers. Similarly, any return and depreciation amounts that are based on Salt Box's assets to serve *only* residential customers, should not be allocated to co-operative customers.

106. However, Salt Box did not provide information with respect to its assets used to serve only residential customers, making an informed allocation of repair and maintenance expenses, and return and depreciation costs difficult in the circumstances.

107. In allocating the revenue requirement between classes of customers, the Commission typically has detailed information on the rate base of a utility and how it is used to serve the various classes of customers. As described above, sufficient information to support these allocations was not available.

108. In light of the above circumstances, the Commission has allocated revenue requirement in a manner which recognizes that a large proportion of the system (e.g., water treatment plant, water supply lines, and reservoir) serves all individual users, whether they are residential customers or the co-operative customers. To this end, the Commission considers that the expenses for plant and water operations, insurance, chemicals, water testing, utilities and administration are common costs used to provide service to all individual users. In addition, based on a review of a description of the assets and the maps filed on the record of this proceeding, the Commission considered a portion of repair and maintenance expenses, depreciation and return as common costs used to provide service to all users. The Commission then allocated the total common costs between co-operative customers and residential customers based on historical consumption volumes, as set out in Table 2 of this decision.

109. The remaining repair and maintenance expenses, depreciation and return amounts that were not included as part of the common costs were allocated directly to residential customers. On this basis, the Commission has determined the residential customer's share and co-operative customer's share of revenue requirement.

## **7.2 Rate design**

110. The Commission used the amounts allocated to co-operative customers and residential customers to determine rates.

111. In designing rates, a utility uses customer numbers and consumption to determine the fixed and variable charges. In doing so, the amount of revenue collected equals the approved revenue requirement. Utilities sometimes design rates so that the amount of revenue collected from the fixed charge mirrors the fixed expenses of the utility. However, this practice might not be practicable or reasonable for small utilities. The utility may also make further adjustments to the proposed rates to keep increases consistent across customer classes, or achieve other rate balancing objectives.

112. Based on the consumption and rates shown in Table 2 of this decision, Salt Box collects approximately 11 per cent of its revenue from fixed charges and 89 per cent of its revenue from variable charges. The Commission finds that collecting 89 per cent of its revenue from variable charges potentially creates a substantial risk of under-collecting its revenue requirement on Salt Box. Fluctuations in consumption result in revenue instability, which compromises Salt Box's ability to cover regular expenses or to arrange capital financing when required. On this basis, the Commission will increase the collection of the revenue requirement through the fixed charge to 30 per cent. Doing so reduces the risk of under-collection, and will provide Salt Box with greater revenue stability.

113. Based on these findings, the Commission has determined the fixed and variable components of rates, for both co-operative customers and residential customers, as follows:

**Table 8. Approved monthly rates compared to current rates**

		Current rates	Approved interim rates
CHECAL <sup>57</sup>			(\$)
	Fixed charge	100.00/month	450.00/month
	Variable charge	2.012/m3	3.53/m3
Windmill Way <sup>58</sup>			
	Fixed charge	175.00/month	900.00/month
	Variable charge	2.012/m3	3.53/m3
Residential customers (Deer Springs, the Ranch) <sup>59</sup>			
	Fixed charge	10.00/month	50.00/month
	Variable charge	4.475/m3	4.98/m3

114. Based on average monthly consumption values, the approved rates will result in average monthly increases of approximately \$50.00 for residential customers. The Commission also finds that the approved rates serve to maintain the current rate distinctions between co-operative customers and residential customers, which would be based on the historical development of the subdivisions and costs of the utility.

115. The Commission directs Salt Box to apply the approved interim rates effective November 1, 2017.

## 8 Water treatment plant upgrades

116. In its application, Salt Box submitted information on immediate upgrade needs that totalled \$917,700. The upgrades fell into two categories: upgrades mandated by Alberta Environment, and upgrades to improve operations.

117. Salt Box provided its Alberta Environment licence for the construction, operation and reclamation of a waterworks system, which is granted under the *Environmental Protection and Enhancement Act*. According to the amending approval, expiring May 1, 2018, Salt Box must install and construct a UV system.<sup>60 61</sup>

118. Based on a site visit, Associated Engineering identified a number of items to improve the operability of the water system. Salt Box submitted that these improvements would allow the facility to meet Alberta Environment upgrade requirements and the latest standards and guidelines.

119. Salt Box provided the following scope of services and preliminary costs identified by Associated Engineering:

<sup>57</sup> Exhibit 21908-X0092, CHECAL and Windmill Way contracts, PDF page 16.

<sup>58</sup> Exhibit 21908-X0092, CHECAL and Windmill Way contracts, PDF page 18.

<sup>59</sup> Based on rates for customers in Deer Springs.

<sup>60</sup> Exhibit 21908-X0304, License 00067490-01-00.

<sup>61</sup> Exhibit 21908-X0305, License 00067490-01-01.

**Table 9. Preliminary cost estimate for water plant upgrades<sup>62</sup>**

Tasks – immediate upgrade needs	(\$)
Engineering & Assessment	96,500
Construction	
UV Supply and Installation	211,000
Raw water pump upgrade	125,000
Electrical control, HVAC, Backup Generator	195,000
Repair Recovery	45,000
Project Management 15%	119,700
Contingency 20%	125,500
<b>Total</b>	<b>917,700</b>

120. Salt Box indicated that it has been negotiating with banks and has found the financing of these upgrade costs to be challenging. Salt Box advised that, according to the banks, if a loan was available, the amortization period of the loan would be similar to commercial loans, which range from three to 10 years, with a similar amortization period. Salt Box observed that a neighbouring utility, Emerald Bay Water and Sewer Co-op Ltd., dealt with upgrade and general improvement costs through a cash call.

121. Customers raised a number of concerns with respect to the plant upgrades, focusing on the amount forecast for contingency, the lack of quotes and the cost of the upgrades. Customers also expressed concern with the delay in Salt Box installing the UV system given prior rates paid by customers and the potential impact this has had on their health.

122. In considering the proposed upgrades, the Commission is of the view that if the UV system is not upgraded prior to May 1, 2018, Alberta Environment may deny Salt Box's request to renew its licence. Without a renewed licence, Salt Box would not be authorized to provide water services to its customers, who would then need to make alternate arrangements for water supply. While it is unfortunate that the UV system has not been upgraded to date, it is not acceptable to the Commission that the capital upgrade for the UV system go unfunded, because it will almost undoubtedly leave customers without a safe and adequate supply of water.

123. Accordingly, the Commission is of the view that upgrading the waterworks system with a UV system is required for Salt Box to meet Alberta Environment's water quality standards and to meet its legislative obligations as a public utility to provide safe and adequate water service. Given the immediate need of the UV system upgrade, the Commission will consider the UV system upgrade as part of this interim rate approval. Further, the Commission is prepared to approve a rate rider to allow Salt Box to move forward with installation of the UV system in order to continue supplying safe and adequate water service.

124. Associated Engineering, an independent third party, estimated the cost of the UV system at \$211,000 in 2015. Salt Box stated that this amount "would be updated based largely on market conditions and contractor availability (plus [or] minus 30%)."<sup>63</sup> The Commission fully understands that this amount is only a preliminary estimate of the capital cost associated with the UV system and does not include engineering and project management fees or an amount for contingencies.

<sup>62</sup> Exhibit 21908-X0010, Schedule F – Upgrade proposal.

<sup>63</sup> Exhibit 21908-X0010, Schedule F – Upgrade proposal, PDF page 3.

125. Associated Engineering indicated that engineering and sole source contractor selection fees would be \$24,400.<sup>64</sup> Associated Engineering indicated these fees could be reviewed once a contractor was selected and the scope defined. This amount does not include any fees for project management or contingency. Salt Box suggested project management fees of 15 per cent and contingency fees of 20 per cent, totalling an additional 35 per cent, which would add an additional \$73,850 ( $\$211,000 \times 35$  per cent) to the cost of the UV system.

126. The Commission will reduce the anticipated contingency fees for this project to 15 per cent, thus the total percentage for project management fees and contingency fees will be 30 per cent, resulting in project management fees and contingency fees of \$63,300 ( $\$211,000 \times 30$  per cent). This will result in a total amount to install the UV system of \$298,700. Accordingly, the Commission considers the approximate cost of the UV system is \$300,000.

127. The Commission directs Salt Box to obtain financing commensurate with the costs of installing the UV system. Once Salt Box has obtained financing, the Commission directs Salt Box to submit the details of the financing arrangements to the Commission. The Commission will then determine the amount and term of the rate rider to be included on customers' bills to support payment of the UV system.

## 9 Approved rates

128. While the Commission is setting interim rates in this decision, revenues generated under this rate need to be reconciled with the final approved revenue requirement set by the Commission. Accordingly, the Commission directs Salt Box to provide a final rate application to the Commission by no later than July 31, 2018.

129. Further, Salt Box is directed to file as part of its final rate application the following:

- Audited financial statements for 2015, 2016 and 2017
- 2018 and 2019 forecast costs and expenses for water supply
- An upgrade plan that details any additional capital work that needs to be completed, in sufficient detail to provide an informed decision as to the impact of capital upgrades on rates
- Support for any affiliate services, including evidence that the services received are at fair market value

130. The interim rates approved in this decision are effective November 1, 2017, until otherwise directed by the Commission.

131. Upon approval of final rates, the Commission may require a true-up between interim and final rates. If an adjustment to rates is warranted based on further evidence provided in the Commission's proceeding to determine final rates for Salt Box, such a true-up may result in future riders that either refund or collect amounts from customers.

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<sup>64</sup> Exhibit 21908-X0010, Schedule F – Upgrade Proposal, PDF page 5.

## 10 Terms and conditions of service

132. Salt Box did not file for approval of terms and conditions in its application. Salt Box cannot charge customers for services that are not approved in this application, consistent with its obligations under the *Public Utilities Act* not to charge a rate, toll or charge without Commission approval.

133. The Commission directs Salt Box to file proposed terms and conditions for approval in its application for final rates.

## 11 Supply of water to co-operatives by a new provider

134. CHECAL indicated that its representatives have approached a third party developer, and are in discussions regarding the developer's interest and ability to provide treated water to CHECAL and other homeowners that are currently serviced by Salt Box. Salt Box indicated that this submission was speculative and should not be considered by the Commission. Salt Box noted that a second water utility would roughly double the costs to provide the same water supply to the same small number of customers. In addition, the situation might not be sustainable, jeopardizing essential water supply service to customers.<sup>65</sup>

135. In the Commission's view, such an agreement between a co-operative (or both co-operatives) and a new water supplier would result in Salt Box's customer base declining, potentially to as few as 29 residential customers. The Commission is concerned with Salt Box's sustainability if such arrangements come to fruition, and the cost impact on remaining customers.

136. The Commission does not consider that there is sufficient evidence at this time as to whether new contracts with CHECAL and Windmill Way can or will be secured by Salt Box. The Commission considers that Salt Box should have a goal of securing long-term supply to these co-operatives.

137. The Commission's findings with respect to rates should provide some guidance and an indication of continuing rates, until more evidence can be provided in a final rates application. Notwithstanding, the Commission directs Salt Box to keep it apprised of any developments with respect to new contracts and the status of any customers receiving water services from an alternate supplier. An update on the status of the contracts should be provided to the Commission on or before July 31, 2018.

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<sup>65</sup> Exhibit 21906-X0336, Salt Box reply submission, July 4, 2017.

## 12 Order

138. It is hereby ordered that:

- (1) Effective November 1, 2017, Salt Box Coulee Water Supply Company Ltd. interim rates for water utility service are approved as follows:

		Approved interim rates
CHECAL		(\$)
	Fixed charge	450.00/month
	Variable charge	3.53/m <sup>3</sup>
Windmill Way		
	Fixed charge	900.00/month
	Variable charge	3.53/m <sup>3</sup>
Residential customers (Deer Springs, the Ranch)		
	Fixed charge	50.00/month
	Variable charge	4.98/m <sup>3</sup>

- (2) Salt Box shall file an updated application for approval of final rates, in accordance with the findings and directions in this decision, no later than July 31, 2018.

Dated on October 27, 2017.

### Alberta Utilities Commission

*(original signed by)*

Neil Jamieson  
Commission Member





**Appendix 1 – Proceeding participants**

<b>Name of organization (abbreviation) Company name of counsel or representative</b>
Salt Box Coulee Water Supply Company Ltd. (Salt Box)
Calling Horse Estates Co-operative Limited (CHECAL) R. Jebson
Deer Springs Close (Deer Springs) A. Beaubien
Sandstone Ranch (Ranch) J. Magus
Windmill Way Water Co-op.
S. Blick
D. Bulger
B. Chung
S. Corti
S. Dalgarno
G. Dickey
C. Elliott
P. Elliott
C. Fehr
T. Gieck
C. Gough
S. Gough
J. Greik
R. Jebson

<b>Name of organization (abbreviation) Company name of counsel or representative</b>
R. Khan
R. Lupton
K. MacDonald
J. Magus
G. McCartney
S. Moore
T. Presber
H. Swartout
R. Tupper
T. Tycholis
B. Wong
W. Zemplak
P. Zimmerman

Alberta Utilities Commission
Commission panel
N. Jamieson, Commission Member
Commission staff
A. Sabo (Commission counsel)
J. Graham (Commission counsel)
C. Burt
D. Mitchell
B. Clarke
C. Arnot
C. Malayney

## 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. In future rate applications, the Commission directs Salt Box to provide actual expense amounts for chemicals, other water treatment expenses, water testing expenses and the forecasts of anticipated expenses for these items. .... Paragraph 73
2. The Commission directs Salt Box to develop a maintenance plan to ensure that routine maintenance and repairs are undertaken on a regular basis to avoid the potential for unexpected repairs and service outages. This plan should provide an explanation of the proposed repair work, and provide the anticipated expenses to complete the work. The Commission directs Salt Box to file this plan as part of its next rate application. .... Paragraph 78
3. In future rate applications, Salt Box is directed to support its forecast electricity and natural gas expenses by providing at least six months of actual expenses for each of electricity and natural gas services charged to Salt Box. .... Paragraph 80
4. Given that Salt Box has a relatively small customer base and bills its customers on a quarterly basis, the Commission finds the amount of \$12,000 will afford sufficient coverage of administration expenses, and approves inclusion of this amount in revenue requirement. The Commission directs Salt Box in its next rate application to fully support and explain any administration expenses that it may request. .... Paragraph 88
5. The Commission directs Salt Box to apply the approved interim rates effective November 1, 2017. .... Paragraph 115
6. The Commission directs Salt Box to obtain financing commensurate with the costs of installing the UV system. Once Salt Box has obtained financing, the Commission directs Salt Box to submit the details of the financing arrangements to the Commission. The Commission will then determine the amount and term of the rate rider to be included on customers' bills to support payment of the UV system. .... Paragraph 127
7. While the Commission is setting interim rates in this decision, revenues generated under this rate need to be reconciled with the final approved revenue requirement set by the Commission. Accordingly, the Commission directs Salt Box to provide a final rate application to the Commission by no later than July 31, 2018. .... Paragraph 128
8. Further, Salt Box is directed to file as part of its final rate application the following:
  - Audited financial statements for 2015, 2016 and 2017
  - 2018 and 2019 forecast costs and expenses for water supply
  - An upgrade plan that details any additional capital work that needs to be completed, in sufficient detail to provide an informed decision as to the impact of capital upgrades on rates
  - Support for any affiliate services, including evidence that the services received are at fair market value

..... Paragraph 129

9. The Commission directs Salt Box to file proposed terms and conditions for approval in its application for final rates. .... Paragraph 133
10. The Commission’s findings with respect to rates should provide some guidance and an indication of continuing rates, until more evidence can be provided in a final rates application. Notwithstanding, the Commission directs Salt Box to keep it apprised of any developments with respect to new contracts and the status of any customers receiving water services from an alternate supplier. An update on the status of the contracts should be provided to the Commission on or before July 31, 2018. .... Paragraph 137