



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

**Ultraviolet Light System Upgrade Rate Rider**

**December 16, 2019**

**Alberta Utilities Commission**

Decision 24295-D01-2019

Salt Box Coulee Water Supply Company Ltd.

Ultraviolet Light System Upgrade Rate Rider

Proceeding 24295

December 16, 2019

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## **1 Introduction**

1. Salt Box Coulee Water Supply Company Ltd. (Salt Box) filed its 2019 final rate application on February 12, 2019. That application included a request for the Alberta Utilities Commission to approve a rate rider that would fund an ultraviolet light (UV) system upgrade. In Decision 21908-D01-2017,<sup>1</sup> the Commission stated the following regarding the UV system upgrade required pursuant to Amending Approval 67490-01-01<sup>2</sup> issued by Alberta Environment and Parks (Alberta Environment), for the construction, operation and reclamation of a waterworks system for Salt Box:

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.

2. According to Alberta Environment Amending Approval 67490-01-01, "installation and construction of the UV disinfection system and electronic instrumentation" was to be completed on or before December 1, 2011. Decision 21908-D01-2017 was issued approximately six years after the initial deadline for completion of the UV system upgrade. The Commission understands that Salt Box is currently operating its water system pursuant to Alberta Environment Approval 67490-02-00, which expires February 1, 2029, and requires as a term and condition attached to the approval that the UV system upgrade be completed by December 1, 2019.<sup>3</sup>

3. In Decision 21908-D01-2017, the Commission expressed its view that absent the UV system upgrade, Salt Box may not receive authorization from Alberta Environment to continue to provide water services. Salt Box's waterworks approval required it to install and construct a UV system. On that basis, it was not acceptable to the Commission that the UV system upgrade go unfunded, as it may leave customers without a safe and adequate supply of water.<sup>4</sup>

4. In its 2019 final rate application, Salt Box indicated it had signed a commitment letter to receive funding from a large group of customers for the UV system upgrade.<sup>5</sup> On September 3, 2019, Salt Box indicated that it had signed a loan agreement with 2173371 Alberta Ltd. (2173371 Alberta) on August 14, 2019, (2173371 Alberta loan agreement).<sup>6</sup>

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<sup>1</sup> Decision 21908-D01-2017: Salt Box Coulee Water Supply Company Ltd., Interim Water Rates, Proceeding 21908, October 27, 2017.

<sup>2</sup> Proceeding 21908, Exhibit 21908-X0305, Amending Approval.

<sup>3</sup> Exhibits 24295-X0143, 24295-X0144, and 24295-X0098 at paragraph 23.

<sup>4</sup> Decision 21908-D01-2017 at paragraphs 23 and 122.

<sup>5</sup> Exhibit 24295-X0007, Schedule 4 – Finance commitment.

<sup>6</sup> Exhibit 24295-X0099, Salt Box update.

5. By letter filed October 18, 2019, Salt Box advised the Commission that negotiations with 2173371 Alberta had ended and requested approval for a rate rider based on new funding negotiated with Alpine Gas Ltd. (Alpine) for the UV system upgrade (Alpine mortgage agreement).<sup>7</sup> Further, funds under the 2173371 Alberta loan agreement had not been advanced.<sup>8</sup>

6. Subsequently, a task force (the Water Task Force) representing the four communities served by Salt Box (Windmill Way Water Co-op, Calling Horse Estates Co-operative Association Limited, and the communities of Sandstone Ranch (the Ranch) and Deer Springs Close) advised the Commission that the loan agreement between Salt Box and 2173371 Alberta had not been formally terminated by both parties.<sup>9</sup>

7. On October 31, 2019, Salt Box provided an update on the status of the UV system upgrade, filed revised documentation detailing the financing arrangement with Alpine, including a mortgage agreement, and submitted additional information regarding the status of the 2173371 Alberta loan agreement.

8. The Commission issued a ruling on November 1, 2019, indicating it was prepared to set a rate rider to collect the costs and expenses associated with the UV system upgrade. The Commission found that, based on Salt Box's update, it appeared that preliminary work had commenced on the UV system upgrade, e.g., UV reactors had been ordered and planning and fabrication work had begun, and that there was a signed mortgage agreement between Alpine and Salt Box. In addition, the Commission noted that funds had not been advanced by 2173371 Alberta to Salt Box for the UV system upgrade.<sup>10</sup>

9. In its ruling, the Commission invited submissions or comments on the updated information provided by Salt Box by November 6, 2019, prior to proceeding with setting a rate rider. The Commission also directed Salt Box to provide an update with respect to the installation and commissioning of the UV system upgrade, and any extensions by Alberta Environment, by no later than November 22, 2019.

10. The Commission received submissions from Kevin and Shelley Moore on behalf of the Water Task Force on November 5, 2019, Jeff and Tamara Magus and Esther Tupper on November 6, 2019. The Commission also received an additional submission from Salt Box on November 6, 2019.

11. On November 13, 2019, a customer filed with the Commission an executed copy of the loan amending agreement between Salt Box and 2173371 Alberta effective September 18, 2019, and a copy of a general security agreement between these two parties that was signed but undated.

12. The Commission received a letter from Schuettlaw on November 14, 2019. Schuettlaw indicated that it was acting for Windmill Way Water Co-op, Calling Horse Estates Co-operative Association Limited, and the communities of the Ranch and Deer Springs Close.

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<sup>7</sup> Exhibit 24295-X0107, Salt Box letter.

<sup>8</sup> Exhibit 24295-X0111, Salt Box update Oct. 31, 2019, letter.

<sup>9</sup> Exhibit 24295-X0110, Water Task Force response.

<sup>10</sup> Exhibit 24295-X0121, AUC letter - Ruling on UV system upgrade and rate rider, paragraph 4.

13. The Commission also received additional clarification from the Water Task Force on November 14, 2019, responding to Salt Box's letter dated November 6, 2019.

14. The November 5, 2019, submission from Kevin and Shelley Moore on behalf of the Water Task Force, included a comment on the 2173371 Alberta loan agreement, as follows:

The Task force is willing to provide full documentation regarding the 217 Loan Arrangement, refuting Salt Box's claims submitted to the Commission, however, the three business days provided by the Commission for a response is insufficient to pull the information together in detail. Key individuals are away until mid-November.<sup>11</sup>

15. As a result of the November 5, 2019 submission, the Commission allowed customers to make final submissions on the UV rate rider by November 22, 2019, and allowed final submissions from Salt Box on November 29, 2019.

16. The Commission received additional correspondence from Schuettlaw on November 21, 2019, and the final submission from Salt Box on November 29, 2019.

17. In reaching the determinations in 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 Details of the UV system upgrade, financing and customers

18. Salt Box submitted a review<sup>12</sup> of the quotes it received for the UV system upgrade. The Commission understands that the cost of the UV system upgrade is based on the following quote:

**Table 1. Alpine fixed price quote**

<b>Summary</b>	
General	\$7,500
Mechanical	\$151,000
Electrical	\$47,500
<b>Total estimate</b>	<b>\$206,000</b>
Engineering	\$25,000
Project management 15%	\$30,900
<b>Total project estimate</b>	<b>\$261,900</b>

<sup>11</sup> Exhibit 24295-X0122, Nov. 5, 2019, AUC submission by Community.

<sup>12</sup> Exhibit 24295-X0128 and Exhibit 24295-X0157, Updated quote review.

19. Salt Box also provided a funding term sheet<sup>13</sup> from Alpine that set out the details of the funding arrangements with Alpine, as set out below:

Loan Amount:	\$299,000.00 including all fees
Interest Rate:	12%
Term:	10 years
Interest Payments:	Payments will be monthly in arrears, on the first of the month. Payments will include principal and interest. Payments will be \$4,289.78 monthly.
Security:	Lender will be secured via a 1st registered mortgage on all titles to the Property.
Reps & Warranties:	The Corporation shall give standard representations and warranties.
Use of Proceeds:	All funds will be used to pay UV upgrade quote, Schedule A.
Governing Law:	The definitive agreements in connection with the funding shall be governed by the laws of the Province of Alberta.
Rider Confirmation:	Alpine requires confirmation of AUC rider approval to begin upgrades and advance funds as outlined in Schedule A.
Corp. Finance Fee:	\$15,600.00
Legal Fee:	\$15,000.00
Due diligence Fee:	\$8,400.00

20. To assist the Commission in setting the rate rider, Salt Box confirmed that it has 76 serviced lots: 18 lots in the Ranch, 11 lots in Deer Springs Close, 30 lots in Windmill Way Water Co-op and 17 lots in Calling Horse Estates Co-operative Association Limited (two lots unhooked but the connection is serviced).

21. On November 29, 2019, Salt Box submitted that the UV upgrade was required by Alberta Environment, and it had been struggling to complete this upgrade since 2010. Salt Box indicated that it was able to secure financing for this upgrade through Alpine, and that the Commission should proceed to approve the UV upgrade rider based on the Alpine funding arrangements.

### **3 Submissions of the parties**

22. The Commission has grouped the submissions into the following categories as set out below: contractor selection and quotes, mortgage agreement with Alpine, interest rate, rate rider amount, business practices, final rates and Alberta Environment.

#### **3.1 Contractor selection and quotes**

23. The Water Task Force expressed concern regarding the perceived failure of Salt Box to obtain a sufficient number of competitive quotes for the UV system upgrade. It submitted that Alpine's scope of work lacked sufficient detail to ensure successful completion and operation of

<sup>13</sup> Exhibit 24295-X0106, Term sheet.

the UV system upgrade. This lack of detail may result in cost over runs, or the requirement for additional capital. Any corresponding costs should be attributed to Salt Box, and not to Salt Box's customers.

24. The Water Task Force stated that the Commission-approved amount of \$300,000<sup>14</sup> for the UV system upgrade was based on outdated and stale information and may not represent current market pricing for the equipment and installation. In any event, the UV system upgrade needs to be capped at \$300,000. Further, any cost over-runs or system deficiencies must not be added to current or future rates.

25. The Water Task Force noted that Salt Box claimed it spent \$23,655 on engineering in 2016 in relation to the UV system upgrade.<sup>15</sup> If engineering was paid for in 2016, it was unclear how this amount was accounted for in the new rate rider. Further, if engineering was paid for earlier than 2012, additional engineering that is included in Alpine's quote should not be required, given that "an exact engineering design and spec were designed for the Saltbox system, approved by Alberta Environment..." in the past.<sup>16</sup>

26. The Water Task Force was concerned that Alpine did not have a core competency in UV systems or related installations and questioned its qualifications and credentials, given that its website describes it as a "Canadian owned and operated independent distributor of welding, safety supplies and all industrial cylinder gases."<sup>17</sup>

27. Mr. and Mrs. Magus expressed concern with regard to the contractor selection process and bids. Noting that two quotes were from Alpine Gas, and the third quote was from 2015, they questioned why proposals from experienced contractors who do this type of work were not solicited. Given the questionable nature of the bids provided, they argued that it would be a travesty if the Commission approved a UV rate rider on a random amount of \$300,000.

28. Salt Box indicated that all quotes for the required work were current, including the quote from Associated Engineering, which was last updated on October 18, 2019. Salt Box considered that the quotes reflected current market conditions.

29. Salt Box indicated that the president of Alpine was a founder and in charge of construction in the Ferus group of companies. Aspen Air and Ferus are large companies that own and build huge gas plants. Salt Box submitted that Alpine has a tremendous amount of experience, as did the team of people working on this project. Salt Box further stated, in email correspondence with Peter Elliott (who acted as a representative of 2173371 Alberta in relation to the loan<sup>18</sup>):

I've got a list of technical people they will work with on this project. All with various experience with UV reactors, controls, electrical, commissioning as pertains to water treatment facilities.

We have no concerns whatsoever about their ability to do this work.<sup>19</sup>

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<sup>14</sup> Decision 21908-D01-2017, paragraph 126.

<sup>15</sup> Exhibit 24295-X0122, Nov. 5, 2019, AUC submission by Community.

<sup>16</sup> Exhibit 24295-X0148, Water Task Force letter.

<sup>17</sup> Exhibit 24295-X0148, Water Task Force letter.

<sup>18</sup> Exhibit 24295-X0007, Schedule 4 Finance Commitment.

<sup>19</sup> Exhibit 24295-X0127, 217 acceptance of upgrade.

30. Salt Box noted that previous amounts spent on UV design and engineering prior to 2012 have not been recovered from customers, but these costs should be recovered.

31. Salt Box submitted that the UV reactors were based on an engineered design and specifications approved by Alberta Environment on January 10, 2019. In constructing the UV reactors, Alberta Environment requires that the manufacturer follows these specifications exactly. Further, the manufacturer provides a warranty for the UV reactor.<sup>20</sup> This, in part, ensures that the work will be done to standard.

### 3.2 Mortgage agreement with Alpine

32. The Water Task Force stated that the 2173371 Alberta loan agreement with Salt Box was not formally terminated as required under Section 12 of the agreement. Further, the terms and conditions of the 2173371 Alberta loan agreement and the mortgage agreement<sup>21</sup> with Alpine are not significantly different. In both cases, the assets of the business are used as collateral and are subject to foreclosure on default.

33. The Water Task Force considered that prior to establishing a UV rate rider to collect costs and expenses associated with the UV system upgrade, termination of the loan agreement between Salt Box and 2173371 Alberta needs to be finalized.

34. The Water Task Force expressed disappointment regarding the following statement in the Commission's November 1, 2019 ruling:

... The Commission makes no finding on the termination of any agreements between 2173371 Alberta and Saltbox because complete information on the status of the loan is not available at this time and is not required to set the initial rider.<sup>22</sup>

35. The Water Task Force considered that the loan agreement and the general security agreement submitted on November 13, 2019, confirm the existence of a legally binding contract between 2173371 Alberta and Salt Box. It argued that the Commission should consider whether Salt Box's actions and conduct in securing a second loan with Alpine without properly discharging the first with 2173371 Alberta is "morally right and fair" as part of its obligation to "fix just and reasonable standards, classifications, regulations, practices, measurements or service" under Section 89(c) of the *Public Utilities Act*. By ignoring Salt Box's actions, the Water Task Force considered "... the Commission is condoning Salt Box's actions and dismissing the significant effort and legal position of 60% of Salt Box's customers."<sup>23</sup>

36. In its application, Salt Box indicated it had tried its best to obtain financing from banks and credit unions for the costs of the UV system upgrade. Due to operating at a loss, it had not been able to obtain financing from a bank. As a result, Salt Box explored other financing options. Salt Box indicated that it was required to obtain financing for the UV system upgrade, while not compromising the integrity of the utility.

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<sup>20</sup> Exhibit 24295-X0142, Response to Moore and Magus letters.

<sup>21</sup> Exhibit 24295-X0117, Alpine mortgage agreement.

<sup>22</sup> Exhibit 24295-X0121, AUC letter - Ruling on UV system upgrade and rate rider, paragraph 6.

<sup>23</sup> Exhibit 24295-X0122, Nov. 5, 2019, AUC submission by Community; Exhibit 24295-X0148, Water Task Force letter.

37. Salt Box noted that the loan with 2173371 Alberta was for a five-year term, resulting in a lump sum payment of over \$180,000 at the end of the five-year period. In contrast, the Alpine mortgage agreement was for a 10-year term and resulted in full repayment of the amount borrowed. Given the financing challenges Salt Box has experienced, it preferred a 10-year loan term over a five-year loan term with a balloon payment.

### 3.3 Interest rate

38. The Water Task Force submitted that the proposed interest rate associated with the Alpine mortgage agreement was excessive and noted that, in Decision 21908-D01-2017, the Commission had established a baseline debt rate of 6.0 per cent as part of the interim rates. It argued that the interest rate on the money borrowed should not exceed 8.3 per cent, the rate for the 2173371 Alberta loan.

39. Mr. and Mrs. Magus considered the interest rate of 12 per cent was excessive, and that Salt Box had no regard for the interest rate given that these costs would be borne by customers.

40. Salt Box stated that it does not control market rates on lending. Salt Box said it can proceed with the Alpine funding and that in a year or two, with history of the UV rate rider and with new rates, it could attempt to secure financing with better terms to replace the Alpine mortgage agreement. Salt Box indicated that it wants to finalize rates and make the utility viable, and requested the Commission to proceed with approval of the UV rate rider as soon as possible.

### 3.4 Rate rider amount

41. The Water Task Force did not agree with the implementation of a UV rate rider to cover the UV system upgrade costs on the basis that all relevant financial information was not provided in support of just and reasonable rates. To this end, the Water Task Force pointed to the \$50/month infrastructure repair expense billed to customers from July 1, 2015, to October 30, 2017. The Water Task Force noted that in Decision 23401-D01-2018,<sup>24</sup> the Commission determined it did not have jurisdiction to rule on recovery of past bills between July 1, 2015, and October 31, 2017. However, that should not preclude the Commission from considering the fees that have already been paid for the UV system by customers regardless of when they were paid. Further, with proper accounting, these charges should appear on Salt Box's books.

42. Mr. and Mrs. Magus argued that there should be no decision on the rate rider or final water rates until Salt Box provides audited financial reports. In support of this position, they pointed to the \$50/month upgrade fee, and noted that this fee does not appear on Salt Box's unaudited financial statements. An adjustment should be made to the rate rider to account for these funds that have been invoiced by Salt Box. Without accurate financial information, the Commission cannot make an assessment of fair and just rates.

43. Salt Box stated that the \$50 fee was an infrastructure fee that was used for pipeline breaks and operating expenses in 2014, 2015 and 2016. The costs for the pipeline breaks was over \$45,000, and the infrastructure fees collected over 28 months was \$9,635.20. Salt Box further noted that the Commission previously ruled on this issue, and as a result, Salt Box discontinued this charge.

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<sup>24</sup> Decision 23401-D01-2018: Salt Box Coulee Water Supply Company Ltd., Customer Complaints – Infrastructure Repair Expense, October 22, 2018.

### 3.5 Business practices

44. The Water Task Force argued that Salt Box had not followed just and reasonable business standards and practices in negotiating the loan with 2173371 Alberta. It submitted that Salt Box's claim of "unreasonable and subversive" activities on the part of 2173371 Alberta in negotiating the loan agreement is an attempt to justify the unilateral decision by Salt Box to terminate the loan agreement in breach of contract. 2173371 Alberta has no desire to take over utility operations from Salt Box. Rather, and as stated all along "... we are responsible to the individuals, our neighbours and friends, that have provided the funds. We must ensure sufficient security is maintained on their behalf."<sup>25</sup>

45. Salt Box advised that the loan and operations documents were being actively negotiated with 2173371 Alberta. Many of the loan documents were not signed and accepted, such as the general security agreement, loan amending agreement, promissory note and direction to pay. An impasse occurred in negotiations, which ultimately frustrated and ended contract negotiations with 2173371 Alberta.

### 3.6 Final rates

46. By letter dated November 8, 2019, from Schuettlaw, customers submitted that financial information provided by Salt Box was incomplete, inaccurate, inconsistent with other disclosure, and did not comply with Rule 011: *Rate Application Process for Water Utilities*. Further, the financial information was not prepared using standard accounting practices, and audited financial statements had not been submitted. Salt Box had sufficient time to respond to the directions of the Commission and has not complied. Further, audited financial statements are crucial in understanding the financial position of Salt Box in order to make decisions based on fact. To date, these statements have not been provided contrary to the Commission's requirements. Without supporting documentation, the Commission does not have sufficient verified accurate financial information to set final rates that are fair and reasonable for the period starting November 2017.

47. The customers requested "the Commission revoke the interim rates set by Decision 21908-D01-2017, and return the rates to those in effect prior to the increase on November 1, 2017."<sup>26</sup> The difference between interim rates and the rates that were in effect prior to November 2017, should be refunded.

48. By letter dated November 21, 2019, Schuettlaw, on behalf of customers, indicated that a previous Water Task Force recommendation on the settlement of rates<sup>27</sup> was formally withdrawn.

### 3.7 Alberta Environment

49. Ms. Tupper submitted a two-page document of frequently asked questions produced by Alberta Environment, regarding Salt Box Approval 67490-01-00. Alberta Environment recommended that current users of the Salt Box Coulee waterworks system should prepare to

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<sup>25</sup> Exhibit 24295-X0148, Water Task Force letter.

<sup>26</sup> Exhibit 24295-X0147, Letter from Schuettlaw.

<sup>27</sup> Exhibit 24295-X0096, Task Force Response to AUC.

obtain an alternate source of potable water in the event that Salt Box allows the approval to expire without renewing it.<sup>28</sup> The relevant terms of that approval were extended to May 1, 2019.

50. Salt Box submitted a letter from Alberta Environment that included Draft Approval 67490-02-00 with an expiry date of February 1, 2029, and a deadline for upgrading its UV system of September 1, 2019.<sup>29</sup>

51. In relation to the UV system upgrade required by Alberta Environment, by letter dated November 13, 2019, Salt Box advised that:

Alberta Environment has indicated that no extension to the December 1, 2019 date for UV install is not necessary from them and is not required. Only that Saltbox inform Alberta Environment that the December 1, 2019 install date will not be met and to further notify them when the UV is installed and operational.<sup>30</sup>

#### 4 UV rate rider

52. In Decision 21908-D01-2017, the Commission stated the following with respect to the UV system upgrade:

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.

53. The Commission's immediate concern is to ensure that customers will continue to receive a safe and adequate supply of water. It is apparent that Salt Box and its customers do not agree on the rates to be charged for water service. However, there is a significant and eminent risk that absent the completion of the UV system upgrade, the continuous supply of water to customers by Salt Box is likely to be impacted in the near future.

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<sup>28</sup> Exhibit 24295-X0125, AEP letter.

<sup>29</sup> Exhibit 24295-X0156, AENV approval of Salt Box.

<sup>30</sup> Exhibit 24295-X0144, Update from Salt Box confirming no extension required for UV install date.

54. While customers have disputed the rates they pay, the funding for the UV system upgrade through the rate rider and Salt Box's accounting practices, the Commission notes the following statements from customers:

We believe that the AUC is working to ensure that the rate increase necessary to fund the UV installation as required by Alberta Environment, is fair and reasonable. Customers expect to pay a fair price to get the enhanced safety provided by the UV system.

...

The Task Force is fully supportive of installation of the UV system required by Alberta Environment.<sup>31</sup>

... it is in our best interest to continue to receive water from Salt Box as long as it is reliable, high-quality at a fair market price.<sup>32</sup>

All of the residents in my community want clean, reliable water at a reasonable cost.<sup>33</sup>

55. Further, Salt Box stated "the utility needs this upgrade and is mandated to do so" by Alberta Environment.<sup>34</sup>

56. The Commission understands that the loan agreement with 2173371 Alberta is in dispute and both Salt Box and 2173371 Alberta have retained legal counsel<sup>35</sup> in that regard.

57. The evidence also shows that Salt Box has completed financing arrangements with Alpine and has requested approval of a UV rate rider to recover these costs. Alpine has commenced work for the UV system upgrade but will not proceed past 25 per cent of the work until the rider is approved.<sup>36</sup>

58. The Commission reminds parties that its role in this process is related to rate setting and the purpose of this decision is to set a rate rider that will enable work to continue on the UV system upgrade. In making its determinations, the Commission is not approving a specific funding agreement, but rather is setting a rate rider to recover the specific costs and expenses of installing and commissioning the UV system upgrade. The Commission has approved the recovery of costs and expenses for the UV system through a rate rider, which is necessary for the provision of utility service, consistent with the Commission's mandate to set just and reasonable rates pursuant to Section 89 of the *Public Utilities Act*.

59. In setting a rate rider, the Commission gave consideration to the best available evidence and the submissions of parties on the amount of the rate rider. The remaining matters that relate to just and reasonable rates and the accounting or business practices of Salt Box will be addressed in the decision related to Salt Box's final rates.

60. Customers submitted that the Commission should not approve a UV rate rider that would recover an interest rate amount over 8.3 per cent. While lower interest rates may benefit

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<sup>31</sup> Exhibit 24295-X0110, Water Task Force response.

<sup>32</sup> Exhibit 24295-X0122, Nov. 5, 2019, AUC submission by Community.

<sup>33</sup> Exhibit 24295-X0124, AUC response letter, November 6, 2019.

<sup>34</sup> Exhibit 24295-X0142, Response to Moore and Magus letters.

<sup>35</sup> Exhibit 24295-X0113, Saltbox lawyer's letter.

<sup>36</sup> Exhibit 24295-X0155, Alpine update.

consumers, the Commission noted that “the cost rate for debt is utility specific.”<sup>37</sup> Approving a UV rate rider amount that recovers less than the actual costs would likely result in Salt Box having insufficient revenue to fund the UV system upgrade, the importance of which was already stated.

61. Further, the Commission notes the following submission from Salt Box:

The Banks and Lenders have told Saltbox repeatedly that the utility needs to be in good financial position first and then they would look at lending for upgrades. The lenders advise that the utility needs to have approved rates in place before they will evaluate Saltbox's ability to secure bank loans for the UV system following standard banking practises.

62. Given the current financial position of Salt Box, and the urgency of completing the UV system upgrade, the Commission is prepared to accept the terms of Alpine’s financing as proposed by Salt Box. At this time, there do not appear to be other immediate funding sources available through 2173371 Alberta or through banks or other lenders. The Commission notes that there has been a need to upgrade the UV system for several years and it has taken several years for Salt Box to obtain financing to complete the work.

63. The Commission has also considered the submissions of customers on the cost of the UV upgrade and the concerns about recovering those costs through rates. Accordingly, the Commission has compared the difference in the monthly amounts per customer based on the financing options from 2173371 Alberta and the Alpine mortgage agreement. Based on 74 customers and a loan amount of \$299,000, the monthly customer payment under the Alpine mortgage agreement would be approximately \$58/month, and the 2173371 Alberta amount would be approximately \$50/month.

64. Although the Alpine agreement results in a higher monthly rate, the Commission considers that the 10-year term provides certainty in the funding arrangements and costs for the replacement of the UV system and is not an unreasonable amount to manufacture the UV reactor, install and commission the UV system. Further, the term of the mortgage agreement matches the amortization of the mortgage, avoiding the expense of having to refinance the loan if a shorter term, such as five years, were used. Based on the incremental difference in monthly amounts between the Alpine mortgage agreement and the 2173371 Alberta loan agreement and the need to implement a UV rate rider as soon as possible, the Commission considers that the Alpine mortgage agreement provides reasonable terms for setting the rate rider for the costs and expenses related to the UV system upgrade.

65. It should be emphasized that nothing in this decision is intended to comment on the enforceability of any of the contractual arrangements executed by Salt Box or any remedies that parties may have under contractual arrangements in dispute.

#### **4.1 UV rider calculation**

66. Details of the Alpine mortgage agreement are noted below:

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<sup>37</sup> Decision 21908-D01-2017, paragraph 94.

**Table 2. Terms of the Alpine mortgage agreement and funding amount**

Amount	\$299,000
Term	10 year
Interest rate	12%
Monthly payment	\$4,289

67. The Commission understands the amount of the mortgage agreement includes all costs associated with the UV reactor, construction and commissioning of the UV system upgrade, and includes all expenses associated with financing. The Commission considers that the loan amount of \$299,000 caps the total cost of the UV system upgrade. Based on this amount, a 10-year term and an interest rate of 12 per cent, the Commission has calculated and confirms that the monthly payment by Salt Box to Alpine would be \$4,289.78. The Commission finds this amount to be reasonable and will base the monthly rider on this amount.

68. The Commission considers that all customers will benefit from the UV system upgrade, and as a result, all customers should share equally in the cost of funding the upgrade. In its application, Salt Box indicated that it provides service to 76 lots, two of which are unhooked but serviced. In Decision 21908-D01-2017, the Commission based the interim rates on 74 customers. The Commission will continue to take a conservative approach and base the monthly amount on 74 customers that, to date, are serviced by Salt Box. The resulting monthly amount for the UV rate rider would be \$57.97 per customer, as shown below:

**Table 3. Calculation of monthly rider amount**

Monthly loan amount	\$4,289.78
Number of customers	74
Monthly amount per customer	\$57.97

69. The Commission will round the monthly rate rider amount to \$58.00/month per customer, for simplicity. Further, the Commission does not consider the \$0.03/month amount to be material. The two water co-ops, Calling Horse Estates Co-operative Association Limited and Windmill Way Water Co-op operate their own distribution systems. The co-operatives deliver water supplied by Salt Box to its members, and pass on costs and expenses to those individual members. Based on a payment of \$58.00/month per customer, the Commission has calculated the monthly amount that will apply to the two water co-ops and individual customers:

**Table 4. Monthly UV rate rider by customer**

Community	Customers	Monthly amount	
		Co-op	Customer
Calling Horse Estates Co-operative Association Ltd.	15	\$870.00	
Windmill Way Water Co-op	30	\$1,740.00	
Residents of Sandstone Ranch	18		\$58.00
Residents of Deer Springs Close	11		\$58.00

70. The Commission approves the UV rate rider amounts as shown in Table 4, effective January 1, 2020.

71. The Commission considers the term of the UV rate rider should match the term of the mortgage agreement. Given the mortgage term of 10 years, the Commission considers the UV

rate rider should also be in effect for a 10-year period. Thus, the rider will end after the last bill, which is anticipated to be issued in December 2029. Over the 10-year period, the rider will collect the total costs and expenses associated with the UV system upgrade including the loan fees, capped at \$299,000 plus the interest payable on that amount. The Commission expects that after December 2029, the UV rate rider will be discontinued.

72. Given the 10-year term associated with the UV rate rider, the Commission directs Salt Box to provide an annual reconciliation commencing in December 2020, showing the amounts collected, interest and principal amounts paid on the loan and the remaining outstanding balance of the mortgage agreement. During the period of the UV rate rider, from January 1, 2020, to December 31, 2029, the Commission directs Salt Box to advise the Commission immediately in writing of any changes to the terms of the financing related to the UV system upgrade, or any other changes that may impact the UV rate rider amount. Based on its review of the annual reconciliation or any other information, the Commission may adjust the UV rate rider accordingly.

#### **4.2 Previous expenses or costs**

73. The Commission notes the submissions from customers regarding the \$50/month infrastructure repair expenses that were included on customers' bills. In Decision 23401-D01-2018, the Commission found that it did not have the jurisdiction to direct the removal of the infrastructure repair expense between the period of July 1, 2015, to October 31, 2017. The Commission will not take into account any monies paid by customers over this time period in reducing the amount to be collected from customers. The Commission identified the following mechanism for customers to deal with the \$50/month amount:

In summary, the Commission does not have the jurisdiction to address the complaint related to past infrastructure repair expenses and any corresponding arrears. Nothing in this decision precludes any dispute resolution process, or any other action pursued by customers or the utility, regarding the infrastructure repair expense and the arrears charged related to the expense amounts, available to parties under the laws and limitation periods in the Province of Alberta.<sup>38</sup>

74. In setting a rate rider, the customers also questioned the quantum of the loan amount under the mortgage agreement, as it related to previous engineering costs. It is not clear to the Commission how the previous engineering costs factor into the total project costs for the UV system upgrade. However, to proceed with the UV system upgrade, the entire cost of the project as negotiated between Alpine and Salt Box should be considered as "all-in" costs. On this basis, the Commission will not adjust the amount of the rate rider for engineering costs.

### **5 Final rates**

75. The Commission also notes the submissions from Schuettlaw, requesting that the Commission revoke the interim rates approved in Decision 21908-D01-2017, and return the rates to those in effect prior to the increase on November 1, 2017. The submissions stated that the difference between the interim rates and the prior rates should be returned to customers, and further, the Commission should revert back to setting fair and reasonable rates.

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<sup>38</sup> Decision 23401-D01-2018, paragraph 40.

76. As stated previously in this decision, the Commission will provide an opportunity for customers and Salt Box to provide submissions in Proceeding 24295 on Salt Box's final rates, prior to closing the record of the proceeding. The UV system upgrades recovered in the rate rider approved in this decision will not be re-examined when setting final rates in Proceeding 24295.

## **6 Order**

77. It is hereby ordered that:

- (1) The monthly UV rate rider is effective January 1, 2020, to December 31, 2029, for each of Salt Box Coulee Water Supply Company Ltd. customers.
- (2) The UV rate rider amount is set at \$58.00/month for individual customers in Sandstone Ranch and Deer Springs Close.
- (3) The UV rate rider amounts are set at \$870.00/month for the Calling Horse Estates Co-operative Association Limited and at \$1,740.00/month for the Windmill Way Water Co-op.

Dated on December 16, 2019.

### **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)
Windmill Way Water Co-op S. Blick
B. Wong Schuett Law
A. DeMarco
A. Beaubien
B. Chung
S. Corti
C. Cowie
G. Dickey
J. Dvorak
T. and R. Foster
J. and K. Fraser
T. and B. Gieck
J. Greik
R. Jebsen

<b>Name of organization (abbreviation) Company name of counsel or representative</b>
R. Lupton
K. and S. Moore
T. Presber
A. Rogers
J. Serfas
R. Tupper
C. Williamson
D. Wiltse
P. Zimmerman

Alberta Utilities Commission
Commission panel N. Jamieson, Commission Member
Commission staff A. Sabo (Commission counsel) E. Galan (Commission counsel) C. Burt C. Arnot E. Chu

**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. Given the 10-year term associated with the UV rate rider, the Commission directs Salt Box to provide an annual reconciliation commencing in December 2020, showing the amounts collected, interest and principal amounts paid on the loan and the remaining outstanding balance of the mortgage agreement. During the period of the UV rate rider, from January 1, 2020, to December 31, 2029, the Commission directs Salt Box to advise the Commission immediately in writing of any changes to the terms of the financing related to the UV system upgrade, or any other changes that may impact the UV rate rider amount. Based on its review of the annual reconciliation or any other information, the Commission may adjust the UV rate rider accordingly. .... paragraph 72