

Order No. 1994

PROVINCE OF BRITISH COLUMBIA
OFFICE OF THE DEPUTY COMPTROLLER OF WATER RIGHTS

IN THE MATTER OF the *Water Utility Act* and
the *Utilities Commission Act*

and

IN THE MATTER OF

An Application to Increase Water Rates by

RESORTS OF THE CANADIAN ROCKIES INC.

DECISION WITH REASONS AND ORDER

Dated July 7, 2004

BEFORE:

Pieter J. Bekker, Deputy Comptroller of Water Rights
PO Box 9340 STN PROV GOV'T, Victoria, BC V8W 9M1

Written Hearing:

November 18, 2003 to June 18, 2004

A. Background

1. Resorts of the Canadian Rockies Inc. (the Utility) applied to increase rates by letter faxed on November 18, 2003 with additional information provided on January 26, 2004 and February 3, 2004.
2. The Utility advertised its proposed rates by sending notices to all customers on January 23, 2004 and customers were given until February 19, 2004 to submit objections.
3. Thirty-four letters of objection were received.
4. The Utility responded by letters to each intervenor in May 2004. Three subsequent letters from intervenors were received in early June 2004.

B. Introduction

1. The Utility applied to increase its domestic and commercial flat water rates to \$18 per equivalent bed unit semi-annually, 10% of which would be deposited into the Replacement Reserve Trust Fund (RRTF) to commence January 1, 2004.
2. After taking into consideration customer objections, the Utility revised its projected income and expenses and has requested that its proposed rates be reduced to \$16 per equivalent bed unit semi-annually as shown on the attached revised schedules. It also requests that single detached accommodations be set at 10 bed units (rather than 6) unless/until an inspection by the Utility, at the request of the unit owner, confirms otherwise, subject to a minimum of 4 bed units.
3. The issue to be decided by me is whether to accept, set aside or vary the proposed tariff changes.

C. Findings

1. Total annual revenue requirements of about \$159,000 rather than about \$163,000 as initially proposed for the test year 2004 are deemed to be sufficient and necessary for the Utility to continue to provide safe and adequate service.
2. Flat user rates of \$16 semi-annually per equivalent bed unit as shown on the attached tariff schedules A, D and E are deemed to be sufficient and necessary for the Utility to meet its revenue requirements. The Utility's revised proposed definition of a bed unit to include "bedroom" as shown below is appropriate:
"Bed unit" means a unit of measurement to reflect the accommodation required for one person to stay overnight, or the commercial or other equivalent thereto,

as set out in Schedule "A", and bedroom means a separate room that is used for overnight accommodation."

3. The Utility initially proposed that single family detached accommodations be set at equivalent to 6 bed units (3 bedrooms). However, they should be set at the actual bed units (with a minimum of 4 bed units per building). Until verification through voluntary inspections indicate the actual number of units for each, it is appropriate for the Utility to bill them at 10 bed units (5 bedrooms) but subject to correction later. Also, there is no need to have separate charges for rental suites or bed & breakfast suites as they can be included in the total number of bed units within a building.
4. The Utility's proposed allocation of revenue requirements based on equivalent bed units for all customers and the equivalent bed units proposed for the various classes of customers are deemed to be fair and equitable.
5. Although in the past the Utility has not charged all commercial customers as they were not included in the filed tariff, the Utility has been subsidizing the operation and maintenance of the system until now.
6. Although flat rates are normally billed in advance, the Utility has been billing semi-annually in arrears and has requested that this method continue, which is acceptable.

D. Reasons for Decision

1. A review of the proposed 2004 revenue requirements indicates that about \$159,000 per year is deemed to be sufficient and necessary to be recovered from rates for the Utility to cover all its operating and maintenance costs, including income taxes and cash flow needs (working capital reserve), fair compensation for the services provided, and some provision for future replacement of water system components.
 - The Utility included snowmaking costs in its initial 2004 proposed revenue requirements but customers objected saying that those costs should not have been included since an independent snowmaking well and distribution system was brought on line last year. The Utility agreed and asked that the 2004 revenue requirements be reduced by \$4,021 accordingly, or from about \$163,000 to \$159,000.
 - Other main customer objections or questioning of the proposed revenue requirements included wages/management fees, travel & meals, consulting fees, working capital reserve, and Replacement Reserve Trust Fund (RRTF). The amounts proposed by the Utility for wages and management fees are reasonable for this size and type of utility and includes operator wages, billing & bookkeeping and management fees). Travel and meals expenses of \$2,000 per year are also reasonable for this size and type of utility. The Utility stated that the increase in consulting fees is "*due to analysis of potential water system upgrades due to new provincial regulations*". This is in order for the Utility to

ensure safe water service and to be in compliance with the Drinking Water Protection Act and Ministry of Health requirements. The Working Capital Reserve is appropriate to cover cash flow needs including income taxes. The RRTF provision of 10% of rates collected is needed to ensure that the system is maintained in a state of efficiency by having funds on hand to replace system components when required. In the event the Utility is sold or transferred the RRTF must remain with the system for the benefit of the customers. No releases may be made from the fund without my written authorization. The other projected 2004 expenses are deemed to be in order.

- While some actual 2004 expenses may be more or less than projected, the \$159,000 budget is considered necessary in total for rate setting purposes. For instance, actual Repairs & Maintenance may be lower than budgeted but professional fees will likely be more since the Utility has stated that it has created a separate utility company and will have audited financial statements prepared. Also, the Utility stated that 2003 actual expenses were higher than estimated by 14% for the last quarter so some 2004 expenses may be higher than projected. The Utility has stated that all projected expenses for 2004 are only for water utility costs and do not include any sewer or ski hill related costs. It also said that time sheets by function are maintained by employees with segmented financial reports prepared monthly.
2. Another main objection to the proposed rates as advertised was that single family detached accommodations would be assessed at 6 bed units (3 bedrooms) but many are 5 or 6 bedrooms and others have additional rooms in basements. Some customers suggested that since the condos and townhouses are proposed to be set at actual bed units, the houses should be set at 10 bed units unless the lot owners prove they have less via voluntary inspections. The Utility responded in agreement and has requested that the proposed tariff be amended accordingly. To be fair and equitable, single family detached premises (chalets, etc) should be charged rates based on the actual number of bed units but each separate building should pay a minimum of 4 bed units (2 bedrooms) to allow for the possibility of more than 2 people staying overnight at times. For instance, a one bedroom cabin could have an open loft and/or a finished basement that could sleep more than just 2 people. For budget purposes the Utility estimated that they would all be 10 bed units but is currently being pro-active in trying to find out the actual number of units for each such accommodation.
 3. It is possible that revenues will be less than projected due to the Utility estimating each single family detached accommodation at \$320 per year based on 10 bed units each (5 bedrooms) and possible adjustments to the number of seats estimated in some restaurants may result in lower revenue than projected, thus eliminating the budgeted net income of \$3,700.
 4. The allocation of costs based on equivalent bed-units is deemed to be a fair method for ski resorts that do not have meters and is a common approach in the ski industry. Without metering it is not practical to introduce a different approach to cost allocations as there are many variations in water usage, even in similar size and type of dwellings. The Utility's method of allocating equivalent bed units to the various classes of customers is deemed to be fair and reasonable.

E. Conclusion

Having considered all of the evidence affecting the Utility's proposed rates, IT IS HEREBY DECIDED AND ORDERED THAT:

Water Tariff No. 2 be accepted for filing effective January 1, 2004 raising user rates to \$16 semi-annually per equivalent bed unit with 10% of rates collected to be set aside in an RRTF.



Pieter J. Bekker
Deputy Comptroller of Water Rights
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