

# Independent Review of the British Columbia Utilities Commission

## Corix Written Comments

### Round 3

August 13, 2014

On August 7<sup>th</sup> Corix participated in a conference call with the Task Force to discuss the additional issue outlined in the Minister Bennett's letter of July 15, 2014:

*The potential efficiencies that could be gained from the BCUC regulation of private sector water utilities.*

This issue was initially raised by Corix in the meeting with the Task Force in May and in our initial written submission on June 13<sup>th</sup>. Corix's written comments in this round will be restricted to this additional issue.

Under the Utilities Commission Act and the Water Utilities Act, private water utilities in British Columbia are regulated by the Comptroller Water Rights (the "Comptroller"). Under the current policy of the Comptroller<sup>1</sup>, only in "exceptional circumstances" are private water utilities permitted to invest capital in the water distribution infrastructure and to earn a return on their equity investment. The vast majority of privately owned water utility systems in the province operate systems without rate base and earn a return on "operating risk margin" calculated as a percentage (up to 10%) of the approved operating and maintenance and administration expenses.

For new communities being developed in the province, the developer is required to pay all of the costs associated with installing new water utility infrastructure. Where the water utility is not being turned over to a municipality or regional district, the developer may elect to operate the water utility or to seek a qualified third party operator. Whether the developer elects to operate the water utility or to seek a qualified operator, the private water utility has no rate base. With no equity investment component, water rates, as regulated by the Comptroller, are set at a level to recover operating expenses plus an amount set aside in a replacement reserve fund.

The policy of not allowing private sector investment in water utilities has several consequences. Revenues collected by the utility from customers are typically insufficient to recover the full costs, including the infrastructure costs, of providing the water service. While the payment into the replacement reserve fund is to provide a pool of funds to cover the cost for refurbishing and replacing the system, it is not based on the actual capital investment in the water system.

Under this model the financial compensation for private water utilities is also inadequate. For operating a water utility often serving hundreds of customers with millions of dollars invested in the water distribution system, under the operating risk margin approach, over and above recouping prudent

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<sup>1</sup> See "Financial Guidelines for Certificate of Public Convenience and Necessity (CPCN) Applications May 2010", Water Utility Regulation Section, Ministry of Environment, Water Stewardship Division, Management and Standards Branch.

operating expenses incurred in running the system, the return to shareholders amounts to a very small sum when compared to the financial incentives provided by the standard return on equity investment cost of service approach used in the Province's regulated energy utility sector.

With utility revenues insufficient to cover the full cost of providing the water service and a lack of investment by the private sector, many small utilities fall into disrepair and community development projects, that with private utility investment might otherwise be viable, are not pursued.

A return on equity investment utility model for water utilities in BC would encourage qualified utility firms to enter the market and work with communities and developers at the initial planning stages. Over time, water rates would begin to reflect the full cost of providing the utility service. The impact on consumer water rates would be gradual since to be viable, utility rates in new communities need to reflect rates in similar surrounding communities. The current developer subsidies for the water distribution infrastructure would gradually decrease with a move over time toward a user pay cost of service model.

During the August 7<sup>th</sup> conference call with the Task Force, Corix was asked to comment on whether our proposed change to private water utility regulation would best be handled by moving the regulation of water utilities to the BCUC. Since it is at the policy level that changes need to occur, and that aligning the policies for water utility oversight with those of the BCUC would achieve this, Corix believes oversight by the BCUC is a preferred approach.