



Presentation to Columbia Ridge Community Association Board

October 7, 2021

CORIX[®]

Agenda

- Update on our due diligence process - timing
- Meeting with the BC Water Comptroller
- Reiterate the difference between rate base regulation and O+M mark up regulation
- Review some of the changes given the final stages of due diligence
- Request for letters of support
- Questions and Discussion can happen throughout conversation

Update

- The team is in the process of completing the required due diligence
 - Should be fully completed by end of October
- Corix Regulatory met with the BC Water Comptroller about the interest to apply for rate base regulation for the water utility
 - They were open to this – allowing Corix to submit one single transfer application with approval to change to Rate Base (Good news)
 - This, unfortunately will take more time than a straight transfer application. As this is the first time the BC WC will receive such application, it will be a lengthy process (we are told months).
 - Corix will have to submit a stellar application, and the BC WC will need time to review
 - The BC WC will be bringing in an external consultant to look at the rate base model
 - There will be a public hearing (which we explained to folks at the open house)
 - Letters of support from the HOA, as well as individuals will help support the application

Water Rate Structures in BC

Rate Base Model	Operating Margin Model
<ul style="list-style-type: none"> • Currently limited use for water utilities BC • Used for water utilities in other North America jurisdictions 	<ul style="list-style-type: none"> • Traditionally used for BC water utilities
<ul style="list-style-type: none"> • More complex than Operating Margin Model • Best suited for well capitalized utilities 	<ul style="list-style-type: none"> • Straightforward, easy to understand • Suitable for small utilities with limited capital resources
<ul style="list-style-type: none"> • Capital investment recovered through rates retroactively • Ensures that prudent investments in utility infrastructure are made, including the replacement of aging infrastructure 	<ul style="list-style-type: none"> • Rates exclude the recovery of capital investment • Can lead to degradation of utility infrastructure if reserves are insufficient.
<ul style="list-style-type: none"> • Customers only pay for the infrastructure that they utilize • No risk of customers paying for future upgrades and not receiving any benefit in return 	<ul style="list-style-type: none"> • Relies on reserve funds for infrastructure upgrades <ul style="list-style-type: none"> • Difficulty in estimating reserve fund contributions for future upgrades • Customers may face an assessment if reserves are insufficient
<ul style="list-style-type: none"> • No intergenerational subsidization for first buyers in new developments 	<ul style="list-style-type: none"> • Creates intergenerational subsidy issue • In a new development the first-time purchaser pays for utility infrastructure through the price of their home <ul style="list-style-type: none"> • Same first-time purchasers then contribute to reserve funds to pay for the future replacement of that utility infrastructure

Capital Required

Capital Expenditures	Definition	Estimated Cost*	Requirement
VT SCADA	<ul style="list-style-type: none"> Supervisory Control and Data Acquisition (SCADA) systems are used to communicate remote data from utilities, recording real-time information for operational integrity purposes 	\$56,000	<ul style="list-style-type: none"> Operational requirement to monitor the system. Remote monitoring reduces operational costs and allows Corix to respond to immediate issues when required.
Ultraviolet (UV) Disinfection	<ul style="list-style-type: none"> Ultraviolet disinfection is a process used to sterilize human pathogens such as viruses, bacteria and protozoa that are potentially in raw water. 	\$150,000	<ul style="list-style-type: none"> Regulatory requirement under the Drinking Water Protection Act and the Drinking Water Protection Regulation, Section 5, (2). Interior Health 4-3-2-1-0 Drinking Water Objective.
Electrical Upgrades	<ul style="list-style-type: none"> Upgrades to the electrical system for UV 	\$75,000	<ul style="list-style-type: none"> Higher electrical load to support the UV Disinfection system
Standby Generator	<ul style="list-style-type: none"> Back-up electrical system that will ensure full system operation in case of a power loss or outage 	\$60,000 (cost to be determined)	<ul style="list-style-type: none"> Providing customers with uninterrupted service
Source Protection Plan	<ul style="list-style-type: none"> An IHA requirement 	\$40,000	<ul style="list-style-type: none"> Will be needed to provide support for not adding filtration to address turbidity issues during certain times of the year

* Costs are illustrative only and are subject to change based on further analysis and project specific factors.

Proposing Rate Base – Water Utility

- Anticipating an \$11 per month increase in rates in 2022 and a further \$2.65 increase in 2023, with CPI increases thereafter (assuming no requirement for filtration or major capital replacements)
 - Mobilization costs have been increased since the Open House as a conservative measure given Corix’s strategic decision to start exiting the O+M contracts business (i.e. can’t rely on O&M contracts to provide reduced mobilization times over the longer term). These projections are for rate setting purposes only - time charged will reflect actual mobilization times.
 - Operating costs for the UV system (electricity, bulbs and ballasts) have been adjusted upward based on feedback from the system specialists
 - A budget has been added for annual load testing and maintenance on the two generators
- Corix can invest the significant Capital required for the Water Utility instead of customers paying a one-time assessment
 - The difference being Corix earns a Rate of Return on its equity rather than the 9.5% mark up through the O&M model
- No need for RRTF
 - Eliminating the need for customers to pay into an inefficient capital reserve fund not knowing when it will get used
 - No further intergenerational subsidies
- New development will have a positive impact on rates
- Rates will increase as required capital is spent in the future

The comparison

Status Quo under the O+M Mark Up Model

- A one time assessment of approx. \$2,200 (to cover 350K capital)
- Rates will increase approximately 65-70%
- Due to increased operating costs, and the requirement to build up the RRTF to address current shortfall
 - Customers will be paying for future capital with the possibility of not reaping the benefits of those funds (intergenerational subsidy).

Note: under this scenario there is a high likelihood that Corix Leadership would not approve the acquisition

BC Water comptroller approves Rate base:

- Corix invests the Capital
 - no one time assessment
- Rates to increase 20% in year one and 4% in year two.
 - Corix will apply to the Comptroller for a Deferral Account, in order to track any surpluses or shortfalls
 - Although we forecast costs to set rates, the Deferral Account will enable us to flow through the actual costs incurred. If there is surplus it will accrue to the benefit of the rate payers.

Wastewater Utility

- Modelled based on rate base regulation (as presented in slide 2)
- Due Diligence regarding the tile fields still ongoing
- No significant planned capital expenditures anticipated in the foreseeable future
 - No rate increases are anticipated over the next 2-3 years
 - Assumes no changes in environmental regulations
 - Assumes no unplanned capital expenditures beyond an annual budget of \$10K per year for ongoing capital repairs and replacements
- Beyond 5 years
 - Rate increases will be a function of inflation impacts and required capital upgrades

Questions and Discussion