



ALTO UTILITIES LTD.

July 18, 2024

Mr. Chris McMillan
Secretary to the Comptroller
Water Management Branch
PO Box 9340 Stn Prov Govt
Victoria, BC
V8W 9M1

Dear Mr. Chris McMillan,

By email to: chris.mcmillan@gov.bc.ca

Re: Tariff Increase Application

Effective Date: October 1, 2024

Following you will find a document titled "Proposed Water Tariff No.9" and additional documents supporting Alto Utilities' tariff application. Alto Utilities seeks a revenue increase for October 1, 2024. The rate increase application has three components:

1. Inflationary Cost Adjustment since last rate increase (Tariff #8 - 2022)
2. Increase in RRTF contributions (see Long-term Asset Management Plan - April 2024)
3. Capital Fund Rider to fund future water treatment capital project (see Long-term Asset Management Plan - April 2024)

History

In December 2020, Alto' Utilities' local health authority provided 6 new operating permit guidelines. The last of these would require several steps and years to complete; *Provide Long-term Plans for Source, Treatment and Distribution System Improvements*. Since 2020, Alto has taken steps to comply with these conditions.

In 2022 Alto Utilities completed a Source Water Protection Plan (SWPP). The primary goal of the SWPP was to determine whether Alto Utilities' source was at risk of contamination from pathogens. The SWPP concluded by rating Alto's two wells as GARP (ground water at risk of pathogens) for viruses.

In 2024 Alto completed a Long-Term Asset Management Plan (LAMP). The purpose of this plan was twofold; develop a model that could help Alto forecast and plan for future infrastructure costs and develop a rate structure that will support long-term infrastructure sustainability.

The final piece in this history is treatment. The 2022 SWPP determined that Alto's wells were GARP for viruses. Alto's Health Officer agreed with the recommendations from this report; that future treatment to protect against virus pathogens would be necessary, but other factors including, water hardness, manganese, iron, and pH, complicate treatment options. While the LAMP examined Alto's Rate structure and made recommendations for long-term infrastructure sustainability, it also developed a mechanism in the rate structure to fund new capital costs for future treatment. In 2024, Alto will send out a RFP for a *Treatment Plan* that will determine how Alto will address IHA's permit requirement to *Provide Long-term Plans for Source, Treatment and Distribution System Improvements*. Already some options have been explored.

The rate increases Alto is applying for are not insignificant. Costs have increased and municipalities across the province are raising utility rates to ensure that infrastructure can be renewed, and necessary capital projects funded. Locally, the Council for the District of Lake Country voted to raise water rates by 10%/year for the next five years. Alto's rates need to increase, but as the recent LAMP report shows (see LAMP page 8) the increases will keep rates in line with similar sized utilities in Alto's region.

Alto is seeking a rate increase spread over three years with increases weighted towards the end of the three years.

Changes to Tariff Document

We are proposing changes to the Tariff document itself which are self-explanatory. Where a change has been made, it has been indicated in bold. We have updated the schedules with our proposed rate increases.

Tariff Changes:

- The following approach has been taken this year to forecast the following expenses: Auto, Rent, Management, Operating, and Bookkeeping: increase the 2022 approved forecast by the compounded cost of living increase for 2022, 2023, and $\frac{3}{4}$ of 2024 based on the inflation rate posted on the Bank of Canada's website (2022 – 6.8%; 2023 – 3.4%; 2024 – 3.0%). This approach updates 2022 approved expenses to 2024 equivalents.
- The following approach has been taken this year to forecast the following expenses: Insurance and Property Taxes. Both expenses have increased significantly more than the CPI since 2022. **Insurance** – Alto's insurance costs in 2023 were \$21,384, in 2024 those cost rose to \$22,608. Alto's insurance agent cautiously suggested a *5%/year increase over the next couple of years, as we are starting to see inflation level out*. Alto is applying for a 5%/year increase for insurance for years 2024, 2025, and 2026. **Property Tax** – For 2024 the District of Lake Country has approved a rate increase on property taxes of 9.52%. Alto is requesting a rate increase of 10% for 2024 and 3.0% (expected annual inflation rate) for subsequent years 2025 and 2026

- For all other expenses (including Auto, Rent, Management, Operating, and Bookkeeping) Alto has applied an annual cost of living increase on expense based on Bank of Canada's latest inflation data year-to-date CPI of 3.0% as the rate increase for years 2024-2026.
- Where possible Alto has reduced costs. Bank charges, office and miscellaneous, power, and telephone are four expenses that have dropped since 2022.

Increase to Infrastructure Allocation (RRTF – Replacement Reserve Trust Fund)

Alto is also seeking to increase contributions to its *Reserve Replacement Trust Fund* over the next three years from \$117,230 to \$230,000 according to guidance from the recently completed 2024 Long-term Asset Management Plan (LAMP). Alto will apply this increase in a stepped process; 2024 - \$140,000, 2025 - \$180,000, 2026 - \$230,000. This effectively increases contributions to the RRTF from 30% of revenue to 50% of revenue. However, instead assigning RRTF contributions as percentage of revenue, the LAMP looked at the future renewal costs and determined that contributions to Alto's RRTF fund needed to increase to \$230,000/year to maintain Alto's infrastructure.

Future Capital Project (RCTF – Reserve Capital Trust Fund)

Alto is also seeking to add funding for a treatment plant (including all reports, plans, and construction) and 2-5 additional fire hydrants. The *Capital Fund Rider* line item in the *2024-26 Projected Cash Flow Statements* shows this funding in a stepped manner; 2024 - \$20,000; 2025 - \$50,000; 2026 - \$90,000. In 2024 Alto Utilities will begin to develop a treatment plan in two stages. The first stage will focus on determining the best approach to treatment and begin to develop plans to achieve treatment objectives, the second stage will involve sourcing and implementation. The LAMP report provided preliminary estimates for these capital projects to begin securing funding for them.

One of the recommendations from the Water Rate Study is that Alto to develop a communication plan that engages Alto's customers, provides specific cost projections for these capital projects, and solicits feedback through surveys or public forums. As options for treatment develop, Alto Utilities will engage its customers to help develop a suitable treatment plan.

Quarterly Invoicing

Currently, Alto Utilities invoices biannually. To help customers with this rate increase Alto is requesting to move to quarterly invoicing: January 1st, April 1st, July 1st, October 1st.

Contribution in Aid of Future Construction

Currently, *Contribution in Aid of Future Construction* is set at \$8500.00. Alto Utilities is requesting that this amount be increased to \$10,000.00 to increase funding for future development.

Recognition of Significant Cost Increases

As stated in the 2022 rate increase application;

Once the Source Water Assessment has been completed and a capital plan has been developed, it is our intention to provide a detailed rate application next year that will include a detailed operating cost forecast, a long-term capital plan, and a maintenance plan.

Alto Utilities recognizes that this rate application represents a significant increase in water charges to its customers but it is important to note that the bulk of the next three rate increases will go to future infrastructure and capital funding. Utilities around the province are uniformly encountering increased maintenance, infrastructure, and capital costs that stretch budgets including Alto Utilities' neighboring municipality, the District of Lake Country (approximately 10%/year over the next 5 years; refer also to the *Alto Water Rate Study*, pg. 8). In addition, private water utilities face the unique challenge of planning for these future infrastructure and capital costs without being able to access government funding. Alto Utilities endeavors to walk the difficult line of planning for the future while being considerate of customer's present financial challenges as has been outlined in this rate increase proposal.

We look forward to moving this process forward. Please contact me if you should have any questions on this application.

Regards,

A handwritten signature in black ink, appearing to read "K. Hanson", written in a cursive style.

Keith Hanson
Alto Utilities Ltd.