

Should French Creek property owners take charge of their water utility by purchasing the system from Epcor (EWW) through the Regional District of Nanaimo?

Background Information

Resulting from negotiations unknown to the RDN at the time, Epcor purchased the French Creek system from Breakwater Enterprises in 2006. Epcor (EWW) is a 'for profit' company, privately owned by the City of Edmonton. The controlling entity is Epcor Water Services Inc. (EWSI), having a number of subsidiary companies in Alberta and the midwestern U.S., providing water and wastewater services, either owned by EWSI or on a service contract.

While Epcor is an efficient operator, they are not unique and we expect the same from all operators. Water utilities in BC are overseen by regional health authorities who monitor water quality. For French Creek it is disturbing to be subject to excessive rate increases planned by Epcor every 3 years when a Rate Application is made to the Comptroller, Water Management Branch, Victoria. The Comptroller is mandated to control water usage rates for private water utility companies in BC. Unfortunately, they appear to be more concerned that the utility will remain viable rather than holding down costs for the customer and Epcor is a large player with considerable experience in the Rate Application process.

Additionally, every dollar contributed by users and developers for new growth becomes an asset of Epcor (EWW) and we pay a profit factor to Epcor on those funds as well as overhead expenses. We also pay an excessive rate of interest for short term borrowing to cover capital costs being recovered through water rates. The interest rate we pay is more than double what we would pay the RDN for similar debt - presently 5.67% Epcor vs 2.67% RDN.

Because the RDN is not receptive to discussing a purchase cost with Epcor for vague reasons, we have to estimate what it would cost for the purchase of Epcor's assets. Fortunately we have the example of the City of White Rock (WR) who forced a purchase and took over management of their utility from Epcor on October 30, 2015. Epcor is aware that the RDN can force a purchase, as is the case with any local government, ultimately via the expropriation process.

The current French Creek Rate Application was approved by the Comptroller in June, 2015. The figures are therefore 'cast in stone' meaning they are guaranteed at a minimum and Epcor is entitled to charge and collect all funds as approved for 2015 through 2017. In fact, if Epcor has a reasonable explanation why some costs or expenses are more than stated in the Rate Application the Comptroller will allow those funds to be recovered from French Creek users in the next rate period and this has commonly occurred. We also pay excessive capital costs that improve the asset value for Epcor but do not improve service or water quality for its customers.

Last summer WR stated they thought the cost of purchase would be about \$23 million including funds necessary for completion of a treatment plant currently underway, amounting to \$4.8 million in 2016. This means the utility asset purchase was expected to cost WR about \$18.2 million. Since then by agreement an independent evaluation was performed from September to November 2015 and Epcor was paid out in late November. Unfortunately, Epcor asked for the price to remain confidential for 3 years and for some reason WR agreed to this even though the Mayor said he does not agree. WR publicly stated in October 2015 they would obtain a \$14 million loan from the BC Municipal Finance Authority and supplement same with cash on hand. This serves to support the FCRA estimate of \$18.2 million for purchase of Epcor WR.

Epcor French Creek is 1/5th the size of WR and we therefore expect that a price will fall somewhere between \$3.5 million and, perhaps, \$5 million for sake of a purchase price comparison cost for French Creek taxpayers. In addition it is expected there will be a cost for asset evaluation and legal of approximately \$100,000 as estimated by RDN staff which by itself is not significant.

If we purchase this utility FCRA knows taxpayers will save, at a minimum, the cost of Profit and Debt Interest we presently pay to Epcor. We know what these costs are in relation to our Epcor minimum monthly billing charge. We remind you that when we purchase the assets of French Creek, we will not pay for debt owed by Epcor French Creek (EWW) to EWSI.

We compared the cost of a purchase to what we can positively save by eliminating Epcor to see if we can at least equal that cost, but also knowing we would own our utility and would be eligible for government grants funds in the future. Please see the attached Survey, Financial Comparison and contact information. We urge you to respond **YES** on this survey.

Sincerely,

The Board of Directors,
French Creek Residents' Association
March 10, 2015