

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -

IN THE MATTER OF an application by the **CAPE BRETON REGIONAL MUNICIPALITY** on behalf of its **WATER UTILITY** for approval to amend its Schedule of Rates and Charges for Water and Water Services and its Schedule of Rules and Regulations

BEFORE: Bruce H. Fisher, MPA, CPA, CMA, Member

APPEARING: **CAPE BRETON REGIONAL MUNICIPALITY**
Gerry Isenor, P.Eng.
G.A. Isenor Consulting Limited

Blaine Rooney, CPA, CA
Blaine S. Rooney Consulting Limited

Wayne MacDonald, P.Eng.
Director of Engineering and Public Works

Greg Campbell, P.Eng.
Water Systems Engineer

Jennifer Campbell, CPA
Chief Financial Officer

HEARING DATE: February 22, 2023

UNDERTAKINGS: March 1, 2023

DECISION DATE: **March 28, 2023**

DECISION: **The application is approved, as amended by the Utility.**

I SUMMARY

[1] The Cape Breton Regional Municipality (Municipality), on behalf of its Water Utility (Utility), applied to the Nova Scotia Utility and Review Board, under the *Public Utilities Act*, R.S.N.S. 1989, c. 380 (*Act*), to amend its Schedule of Rates and Charges for Water and Water Services (Rates and Charges) and its Schedule of Rules and Regulations (Rules and Regulations). The Utility's existing Rates and Charges have been in effect since April 1, 2019, and the Rules and Regulations have been in effect since July 1, 2017.

[2] The application was presented to the Board based upon a need to adjust the rates because of increased operating costs and to fund a capital program to replace or upgrade aging infrastructure in the system. The Utility supported its application with a rate study prepared by G. A. Isenor Consulting Limited, in association with Blaine S. Rooney Consulting Limited. The rate study was dated October 18, 2022, and filed with the Board on November 3, 2022.

[3] Information Requests (IRs) were issued by Board staff on December 1, 2022, and responses were filed on December 29, 2022. In preparing responses to IRs, the Utility's consultant corrected some errors in the worksheets and a revised rate study, dated December 27, 2022, was filed along with the IR responses. The Board reviewed this revised study during the public hearing, and it is the rate study referred to in this decision.

[4] Following public notice, a public hearing was held on February 22, 2023, at 9:00 a.m., Council Chambers, Cape Breton Regional Municipality, 320 Esplanade, Sydney, NS. Gerry Isenor, P.Eng., of G.A. Isenor Consulting Limited, and Blaine Rooney,

CPA, CA, of Blaine S. Rooney Consulting Limited, represented the Utility. The Utility was also represented by Wayne MacDonald, Director of Engineering and Public Works; Greg Campbell, Water Systems Engineer; and Jennifer Campbell, Chief Financial Officer. There were no formal intervenors in the proceeding and no letters of comment or requests to speak at the hearing.

[5] During the public hearing, additional information and clarifications were requested. The Utility filed the additional information and corrections as Undertakings on March 1, 2023.

[6] The application proposes rate increases for the fiscal years 2023/24, 2024/25 and 2025/26 (test years). For residential customers (5/8" meters), the current average quarterly water bill is \$123.81, and it is proposed to increase to \$127.85 (a 3.3% increase) in 2023/24; \$124.66 (a 2.5% decrease) in 2024/25; and \$128.27 (a 2.9% increase) in 2025/26. For all other metered services, the Utility is requesting amendments ranging from 1.8% to 4.3% in 2023/24; -4.0% to 0% in 2024/25; and 0% to 4.2% in 2025/26.

[7] For unmetered customers the current average quarterly water bill based upon average consumption is \$166.91, and it is proposed to increase to \$173.11 (a 3.7% increase) in 2023/24; \$165.29 (a 4.5% decrease) in 2024/25; and \$169.1 (a 2.3% increase) in 2025/26.

[8] The Utility currently has a two-block consumption rate structure, and the second block applies to commercial customers. The application proposes changes to the consumption limits in this rate study and elimination of the second block rate in the final

test year. This results in the largest increase in water rates ranging from 15.0% to 22.9% in 2023/24; -1.4% to +18.2% in 2024/25; and 3.6% to 24.9% in 2025/26.

[9] The Utility also provides partially treated water to commercial customers. The Utility is requesting amendments ranging from -7.8% to -4.8% in 2023/24; -4.5% to -3.9% in 2024/25; and 2.7% to 3.7% in 2025/26.

[10] The annual fire protection charge paid by the Municipality to the Utility for water for fire protection services is currently \$7,076,391. It is proposed to be held at that rate for 2023/24, 2024/25, and increase to \$7,079,957 (a 0.05% increase) in 2025/26.

[11] The Utility updated other charges to align them with actual costs for services and revised its Rules and Regulations to align them with similar regulations as other water utilities in Nova Scotia.

[12] As set out in this Decision, the Board approves the Utility's requested Schedule of Rates and Charges and the Schedule of Rules and Regulations, as amended by the Utility.

II INTRODUCTION

[13] The Utility's service territory has seven distinct areas, each with its own water supply, treatment process and distribution system (totaling approximately 770 km of piping). The seven areas are: Sydney, Glace Bay, Pottle Lake, New Waterford, Louisbourg, Floral Heights, and Gardiner Mines. The Utility is the second largest water utility in Nova Scotia with approximately 90% of the Municipality's population being serviced. The water supply for each of these areas, respectively, is: Middle Lake Wellfield, MacAskills Brook Reservoir, Pottle Lake, Waterford and Kilkenny Lakes, Kelly Lake, and two drilled wells that are not under the direct influence of surface water.

[14] There have been several upgrades to the systems since the last water rate review. These include water distribution and transmission replacement projects, upgrades to the control and metering areas, and water treatment plant upgrades.

[15] The Utility currently serves approximately 28,654 customers, including 142 unmetered customers. The Utility has 13 high-volume commercial customers on the system using a two-block rate structure as well as some customers receiving partially treated water. The application predicts no change in the customer base or consumption over the test years.

[16] The last rate application noted the Utility was experiencing water quality issues. In response to IR-3, the Utility notes that there are no major water quality issues, but the water quality at Kelly Lake in Louisbourg is affected by strong weather events. Capital projects will help maintain the water quality. There is a plan to relocate the intake at Kelly Lake to improve and stabilize the raw water entering the treatment plant. This will enhance the water quality for Louisbourg.

[17] There are no known lead watermains in the Municipality, but there are 188 known lead lateral lines on the private side of the service lateral. All customers have been informed and are able to receive free lead and copper sampling.

[18] In the hearing, there was a discussion on the shifts that have occurred for the Utility since the last rate hearing in 2017. At that time the Utility was experiencing a significant decline in the number of customers and was in a deficit position. Debt charges were considerable, consuming over 20% of expenses. Currently, the Utility has seen a small amount of new customers in some meter sizes and stability in others. In 2021/22 there was a surplus of over \$600,000 and debt charges as a percentage of expenses

declined to 17.0%. In the words of one employee, the Utility had been in “survival mode” but has managed to expand full treatment at its plants, added requirements for technical staff and, while it has never “been right sized”, has now “past that corner a little bit”. In this rate hearing the Utility is facing significant costs pressures from operations such as power and pumping; water treatment; filling vacant staff positions; and, the addition of new staff, including for a prospective water and wastewater commission. While debt costs are projected to remain below 2021/22 levels, the Utility has an aggressive capital plan designed to deal with aging infrastructure. Without a rate increase or other changes, the Utility will face a deficit of \$1.6 million by the third test year in 2025/26.

[19] The Utility is currently reorganizing the service delivery model between the Water Utility and a future Wastewater Utility under a commission structure with a shared services model with the Municipality.

III REVENUE REQUIREMENTS

a) Non-revenue Water

[20] Non-revenue water is water treated by the Utility that does not generate revenue. It includes water used for internal operations, fire protection, hydrant flushing and leakage. The Utility explained that they use a best practice provided by the American Water Works Association to estimate non-revenue water for four of its major systems (Sydney, Pottle Lake, Glace Bay, New Waterford). It calculates the non-revenue water to be 5,889 ML which is considered significant. However, this is a decrease since the last rate application when it was estimated to be 6,676 ML.

[21] The Utility conducts annual water audits to set loss reduction targets and track performance. The Utility performs active leak detection by monitoring distribution

system meters through a digital control system and finding underground leaks using acoustic technology. Operating expenses include four staff that are dedicated to detailed leak detection activities. Future projects addressing pressure management should decrease the amount of water lost due to leakage.

[22] Water conservation is promoted through distribution of promotional materials in all levels of the school curriculum; a leak assist program that notifies customers of high usage; and, distribution of materials on protecting meters.

Findings

[23] The Utility understands the importance of tracking and minimizing non-revenue water and has implemented leak detection and educational programs. It also has a robust capital spending budget that should aid in maintaining water quality and reducing water loss.

b) Operating Expenditures

[24] The Utility's financial information for the year ended March 31, 2022, indicated that its revenues exceeded its expenses by \$645,076 with an accumulated surplus of \$2,631,979. However, due to cost increases, the Utility expects a revenue deficiency of \$1,601,242 and an accumulated deficit of \$36,399 at the end of 2025/26.

[25] The operating budget is drafted by senior management of the Utility, reviewed by the Director, and then submitted to Municipal Council for review and approval. The Utility records operating costs, including compensation for staff that work full-time for the Utility, directly to the Utility's accounts. Shared administrative staff and departments that support services for both the Municipality and the Utility are allocated based on the Utility's share of the total tax and water accounts managed by the

Municipality. Shared services include human resources, finance, legal, public works administration, engineering, technology, warehouse, procurement, and operations. The allocations are reviewed annually and adjusted as necessary. The rate study projects an overall 3% increase for inflation in each of the test years for the operating expense items.

[26] In response to IR-18, the Utility explained the operating expense increases were attributed to higher compensation costs for new staff or replacements plus the cost of collective agreements, as well as supply chain issues, contracts, the lead and copper sampling program, upgrading of control systems, climate change, and asset management. Overall, power and pumping costs have increased in 2023/24 (since 2021/22) by roughly \$215,000, transmission and distribution by nearly \$550,000 and taxes by almost \$215,000. These costs continue to increase in future test years.

[27] The administration and general costs are increasing in the test years primarily due to an increase in staffing. Many staff positions were unfilled due to retirements and various constraints, but the Utility is planning to return to a full staff complement. Other cost pressures include the development of a water and wastewater commission, and recent increases to the collective bargaining agreements.

[28] In response to IR-25, the Utility explained that the bad debts of \$100,000 per year plus interest comes from the allowance for uncollectible accounts and account write-offs that have a current outstanding balance of \$6,614,070. The allowance represents, on average, 20% of the total year-end receivables and all accounts greater than six years outstanding are written off. During the hearing, the Utility noted that collection on overdue accounts was suspended during COVID-19, and there were significant resource issues with the position responsible for water rate collection. The

role has now been filled for the last six months. The Utility is taking an aggressive stance towards collection. Payment plans and letters for disconnection have been recently distributed to collect the overdue accounts. The Board emphasizes how critical it is that the Utility improve the collection of amounts owed and reduce the outstanding balance. The Utility has made major strides in improving its financial stability, and an inability to collect its full revenues threatens that stability.

[29] The response to Board IR-28 explained that the source of supply expense decreased between 2021/22 and 2022/23 due to a one-time land purchase totaling \$143,000 for source water protection purposes. There are no land purchases anticipated in the test years.

[30] The Utility noted that some capital projects will improve efficiency, reduce maintenance costs, and maintain or improve service levels.

[31] In the last rate application, the Board noted that including amortization of deferred capital contributions in non-operating revenue results in under-recovery of the full depreciation expense. It was the Board's view that this is not in accordance with financial principles and was to be discontinued. The Utility did phase out the amortization of deferred capital contributions and none is included in the test years in the current rate application.

[32] The projected depreciation expense in each of the test years is based upon the planned infrastructure additions included in the Utility's capital budget. The expected depreciation is based on rates as set out in the *Water Utility Accounting and Reporting Handbook (Accounting Handbook)*, or, in several cases where they differ or no specific guidance is given, the rates are based upon the asset's expected useful life.

Contributions to depreciation are significant, rising from \$3.7 million in 2021/22 to \$4.2 million by the third test year, an increase of roughly \$500,000.

[33] The Utility owns and operates three dams: MacAskills Brook, City Reservoir and Rotary Park. A dam safety review is a systematic process carried out by an independent qualified review engineer to make a statement on the safety of the dam. It is required to be done on a periodic basis as part of the Canadian Dam Association Guidelines. Documentation for these reviews was provided in response to IRs and Undertakings. The MacAskills Brook Dam report dated June 2022 rated the dam as fair. Utility operations personnel prepared an operations, maintenance and surveillance manual for the MacAskills Brook Dam dated February 2023 which outlines the dam safety management plan. There is a project for upgrading the spillways for MacAskills Brook Dam planned in the test years. The City Reservoir Control Structure report dated June 2016 rated the overall system to be in poor condition. The Rotary Park Control Structure report dated June 2016 found the structure was a public safety hazard and recommendations were provided. The Utility noted in the hearing that the City Reservoir and Rotary Park Dam are very small and are not currently being used for water supply. There are discussions underway with the Department of Environment to take the Rotary Park Dam out of service. The Board stresses the importance of safety with these structures and encourages the Utility to monitor this situation closely.

Findings

[34] The operating expenses over the test years are generally based upon an annual increase of approximately 3%, and the Utility explained the reasons for the items that differed. While the Board accepts the underlying assumptions on inflationary

pressures, it notes that the current environment is volatile and there is some risk that the Utility's 3% factor for inflation may be insufficient.

[35] The Board accepts the allocation of costs between the Municipality and the Utility. The Board encourages the Utility to continue to review these allocations on a periodic basis to ensure accuracy.

[36] The Board finds the uncollectable accounts and write-offs to be high but understands that the Utility has a plan in place to improve outstanding bill collections. The Board accepts the operating and depreciation expenses projected by the Utility for the test years.

[37] The Board encourages the Utility to plan on periodic dam inspections in its future work plans and, if there are no operational requirements for the dam, then decommissioning activities should be investigated.

c) Capital Budget and Funding

[38] The rate study included the Utility's capital budgets in 2022/23 and each of the three test years for \$5.6 million, \$8.0 million, \$7.5 million, and \$7.5 million, respectively. The Board has summarized the capital projects and proposed funding:

<u>Water Rate Study</u>	2022/23	2023/24	2024/25	2025/26
Structures and Improvements	4,400,000	2,550,000	3,850,000	2,500,000
Equipment		200,000		2,250,000
Mains (Transmission/Distribution)	1,900,000	5,050,000	3650000	2750000
Meters	200,000	200,000		
	6,500,000	8,000,000	7,500,000	7,500,000
Grants from outside sources				
Depreciation Fund	5,000,000	4,500,000	4,500,000	4,250,000
Long Term Debt	450,000	3,300,000	2,800,000	3,250,000
Capital out of Revenue	150,000	200,000	200,000	
	5,600,000	8,000,000	7,500,000	7,500,000

[39] In response to IR-35, the Utility supplied details of the projects included in the test years. Some of the major projects include replacement of the water tank and distribution lines in Glace Bay; cost sharing projects with Municipal engineering which involves performing water work parallel with road and sewer work; the George St. waterline replacement; and the construction of a new water tank in Louisbourg.

[40] The proposed funding for the Utility's capital budget in the test years is through depreciation, new long-term borrowing, and capital out of revenue. While it has not budgeted for it in the rate study, the Utility hopes to be approved for external cost sharing. Based on the projected expenses and funding, the Utility expects the balance of its depreciation fund to be \$1,393,743 at the end of the test period. The Utility described the projected depreciation fund balance as appropriate given the amount of longer-term capital spending required and the ongoing infrastructure replacement program. The Utility has a robust capital program and is using almost all its annual contribution to fund its capital plan.

[41] The debt will be amortized for 20 years, and a 6% interest rate is assumed for this rate study. The debt ratio is expected to further decline from the current 2021/22 ratio of 17.0% to 14.8% in the final test year. The Utility explained in the hearing that they are actively seeking future funding opportunities to reduce the debt required. The actual debt repayment will be finalised when construction is complete, and the Utility applies to the Nova Scotia Municipal Finance Corporation for funding.

[42] Capital out of revenue is capital spending included in the current operating budget and is used to cover minor recurring capital items.

[43] In response to IR-7, the Utility supplied a list of projects since 2019 that were greater than \$250,000, for which formal Board approval was not sought. The Utility explained that this was an oversight due to key senior management staff changes. The Utility intends to strengthen its policies to ensure that Board approval is sought after technical review but prior to formal award of contracts. At the hearing, the Board verbally directed the Utility to submit the outstanding capital projects for approval. As a result, there is currently an open matter before the Board addressing this request (M11033 CBRM 2020/21 – 2021/22 Capital Projects).

Findings

[44] The Board has considered the proposed capital projects included in the rate study and associated funding. The Board finds the proposed capital budget to be reasonable and necessary for the replacement of aging infrastructure. The Board does encourage the Utility to ensure it has sufficient staff capacity to fully deliver its capital plan.

[45] The Utility projects a need for new borrowing for capital projects in the test years. With the proposed use of depreciation funding, the Utility's projected depreciation fund balance at the end of the test period appears reasonable. The Board accepts the proposed funding of the Utility's capital budget.

[46] The Board encourages the Utility to continue to seek sources of external funding to reduce the amount of debt needed.

[47] The Board reminds the Utility that if capital projects are either not completed or debentured during the test years, that there is the option of setting up a capital reserve account for future capital works for the surplus funds. For example, the equivalent of the

depreciation expense for a project, or debt repayment costs that may not yet be needed, can be added to this reserve account as opposed to adding it to the operating surplus for a given year.

[48] The Utility may wish to apply to the Board for permission to set up such a capital reserve. Based on subject 3080 of the *Accounting Handbook*, an application to the Board for a reserve must contain at least the following:

- The purpose of the reserve;
- The term, including estimated termination date;
- The treatment of interest and income earned in the reserve;
- The amount, frequency and source of payments into the reserve;
- The qualified disbursements from the reserve; and
- The type and frequency of financial reporting of transactions related to the reserve.

[49] The Board reminds the Utility that the inclusion of proposed capital projects in the rate study is not Board approval of these specific projects. The Commission needs separate Board approval for projects exceeding \$250,000, as set out in s. 35 of the *Act*, regardless of the source of funding. The purpose of regulating the capital projects is to ensure the Utility is spending money on just and reasonable projects that improve services to the ratepayers. If this is not done, the Utility runs the risk of not having the projects included in the rate base.

[50] In this regard, the Board notes that this is not the first time that the Utility has been remiss in submitting capital projects for approval. In 2019 (see M09081 – Cape Breton Regional Municipality Water Utility – 2017/18 Capital Projects) the Utility had failed

to request approval for 17 projects worth roughly \$10.4 million. The Utility described this as an “oversight” due to personnel issues, a situation very similar to the current deficiency. Board approval is not optional but is required under the *Public Utilities Act*. Seeing that the Utility has twice failed to meet this legal obligation, the Board considers it important that the Utility establish proper procedures and policies so that such “oversights” are prevented during times of staff transition. The Utility is the second largest water utility in the province and aspires to move towards a water and wastewater commission model. The Board expects a much higher level of attention to this issue, commensurate with the Utility’s size and sophistication.

d) Non-Operating Revenue and Expenditures

[51] The Utility’s projected revenue requirements for the test years include estimated non-operating revenues and expenditures.

[52] The applicant explained that the amount identified as “Other” relates to revenue derived from the Utility’s special service charges as well as other connection fees. Other annual operating revenue in each of the test years were identified in the rate study as customer interest (\$350,000), sprinkler service and private hydrants (\$61,000) and sundry and overdue accounts (\$5,000). The customer interest is high because the overdue account balance is significant. With respect to private hydrant charges, there are 78 accounts with the largest account at Membertou (62 hydrants). There are 212 sprinkler accounts.

[53] The non-operating expenses include principal and interest payments for pre-existing debt in each of the test years, and new debt payments associated with funding the capital budgets in the test years. In response to IR-23 the Utility explained

the current debt is based on capital projects completed over the last 15 years which included the large Pottle Lake water treatment plant upgrade. There are five outstanding debentures that will be retired over the next nine fiscal years. There are annual short term interest charges of \$150,000 annually over the test years attributed to the interest and bank charges for various Municipality and Utility accounts. A more favorable interest rate was secured in 2021 which has decreased these charges by \$50,000 annually. The Utility projects its non-operating expenses, including principal and interest debt charges and capital out of revenue, to be \$4,803,069, \$4,143,766, and \$4,291,196, respectively, for each of the test years.

[54] The Utility calculates its return on rate base using its non-operating expenditures less non-operating and other revenue. Using the assumptions and projections in the rate study, and the corrections in response to the IRs, the rate of return on rate base is calculated as 3.82%, 3.14%, and 3.18%, respectively, in each of the test years. The Utility explained that the calculated rate of return on rate base over the test period is reasonable as the Utility is investing in replacing aging infrastructure.

Findings

[55] The Board finds the Utility's non-operating revenues and expenditures over the test period to be reasonable and accepts them as presented in the rate study. The Board notes that the annual debt expenses have declined steadily since 2017/18, despite the robust capital expenditures planned during the test years.

[56] The Board finds the Utility's proposed return on rate base over the test years to be reasonable and accepts it.

IV REVENUE REQUIREMENT ALLOCATION

a) Public Fire Protection

[57] The Utility has 3,013 active fire hydrants that serve the Municipality. The small community systems of Floral Heights and Gardiner Mines do not have fire hydrants. The methodology used in the rate study to calculate the public fire protection charge follows the *Accounting Handbook*. This methodology is the same as what was used in the previous rate application. The public fire protection charge is based on the percentage of utility plant in service that is dedicated to fire protection and allocated between fire protection and general service.

[58] The percentage allocation of utility plant in service to public fire protection is calculated in the rate study to be within a range of 36.6% to 37.5% over the test years. The fire protection charges calculated in the rate study produced a reduction in the fire protection charge. For rate design purposes, however, the Utility is requesting the fire protection rate for the first two test years to be held the same as the existing fire protection rate at \$7,076,391 instead of lowering the rate. Therefore, the proposed fire protection charges in the application are \$7,076,391, \$7,076,391, and \$7,079,957, respectively, in each of the test years.

Findings

[59] The allocation of utility plant in service to fire protection are consistent with those set out in the *Accounting Handbook*. The Board accepts the public fire protection charges as presented in the application and approves holding the charge at the current rate for the first two test years for rate design purposes.

b) Customer Revenue Requirement

[60] After distributing part of the Utility's revenue requirement to charges for fire protection, the Utility assigns its remaining revenue requirement for recovery from the Utility's customers.

[61] The method used in the rate study to distribute the rest of the revenue requirement to the various components of customer rates is generally the same as in the *Accounting Handbook*, except for depreciation. The *Accounting Handbook* allocates depreciation expenses 40% to base charges, 30% to delivery and 30% to production. In the rate study, the Utility allocated 100% to base in 2023/24; 90% to base, 5% to delivery and 5% to production in 2024/25; and 80% to base, 10% to delivery and 10% to production in 2025/26. The request is made for rate design purposes and keeps the revenue from the base charge at about 40%. This balances the need for revenue security for the Utility and gives the customer control of consumption charges. In addition, it stabilizes rates while phasing out the two-block rate structure.

[62] The Utility currently has approximately 28,654 customers, which is projected to remain consistent throughout the test years. The Utility based this estimate on recent actuals and felt it was prudent to assume zero growth. The Utility has projected the average residential customer consumption to remain at current levels (158 cubic meters) throughout the test years. Most of the metered customers are using analog meters.

[63] There are 142 unmetered customers with a projected decrease in consumption levels from 68 to 64 cubic meters through the test years. The unmetered consumption was not adjusted during the last rate application so has been corrected in

this rate study. There are no current plans to convert the unmetered customers to meters as in these situations there is often no suitable location to install meters, and the cost to the homeowner to remedy this would be high.

[64] The Utility also has several commercial customers which purchase partially treated water that receives disinfection only and is used for industrial purposes. The methodology for calculation has been approved by the Board at previous hearings and remains unchanged.

[65] The Utility is requesting a change to its current block structure. The Utility currently has 13 high volume customers who purchase water at the discounted second block rate. The two-block consumption rate structure is currently based on 20,000 cubic meters per year per customer for the first block. The Utility is proposing to change the first block to 35,000 cubic meters per year per customer in 2023/24; 120,000 cubic meters per year per customer in 2024/25; and, to eliminate the second block rate in 2025/26.

[66] All customers see a decrease in rates in 2024/25, except for the second block customers for the 4" and 6" meter size. This is the result of removing the second block consumption rate, which is lower than the overall rate. The use of the second block rate can no longer be supported using a cost-of-service analysis and there is no justification for having a discounted rate. It was suggested at the hearing that for many second block customers, water is only a small portion of their operating costs, and hence the impact on them would be minimal. All customers were advised on the proposed changes. The Utility and the Board have not received any responses from these customers.

Findings

[67] The Board accepts the methodology used by the Utility to distribute expenses to base, customer, delivery, and production charges and the explanation for deviating from the suggested allocations in the *Accounting Handbook* to mitigate risk by providing revenue stability.

[68] The Board further accepts the amendment to the consumption volume used to determine the first block, phasing out of the second block rates and the calculation of the rates for partially treated water sales. The proposed rates are approved as calculated in the revised rate study.

V SCHEDULE OF RATES AND CHARGES

[69] The Utility proposed no amendments to its Rates and Charges, other than the rates charged to its customers and the fire protection charge, discussed above. The Board accepts and approves Schedules A, B, and C, as filed in response to the IRs.

VI SCHEDULE OF RULES AND REGULATIONS

[70] In response to IR-58, the Utility listed the proposed amendments to its Rules and Regulations. The Utility is making numerous technical amendments to roughly 13 sections of the regulations, as well as adding new regulations on fire hydrant flow testing, water conservation directives, master water meters and curb stop/control valve service boxes.

[71] In most cases, the regulations are being updated to make them comparable to other water utility regulations in Nova Scotia. Many are simply prospective, such as language introduced for abandonment of service connections, even though there have been no abandonments; or the new water conservation directives that are precautionary,

in case of drought. In several cases the updated regulations help deal with administrative issues such as ensuring access to a customer's property for meter readings; clarifying that customers who alter their building are responsible for relocating meters; or emphasizing that fire hydrant flow testing is the responsibility of the Utility. Several fees are being increased including the addition of a \$25 minimum on the liability for meter damage; a \$80 fee for damage to an Encoder Transmitter Receiver or its wire; and, an increase in the meter testing fee from \$30 to \$100. There is a \$50 fee for refusing an Advanced Metering Infrastructure meter, even though the Utility has only two such meters, both 8".

[72] A regulation on master water meters is being added for instances where large developments or land lease communities can be served more efficiently with such meters. Another regulation makes the customer liable for the costs of buried or inaccessible curb stops.

Findings

[73] The Board finds that the proposed amendments to the Rules and Regulations are reasonable and consistent with other water utilities in the province. The Board approves the Rules and Regulations, as filed in response to the IRs, with an effective date of April 1, 2023.

VII CONTINGENCY PLANNING

[74] In response to IR-76, the Utility provided general information about its efforts related to contingency planning and emergency preparedness for the Utility. The Utility has not prepared a risk assessment to consider emergencies and an inspection by Nova Scotia Environment highlighted some areas for improvement. There is a plan to

implement these recommendations in early 2023 and operations staff will be required to review the plan annually.

[75] The Board reminds the Utility of the importance of maintaining and updating its contingency and emergency preparedness strategies and the associated communication plans.

[76] The Utility has had no issues with adequate water supply or having to use the water conservation directives. The Board notes that the Utility has taken steps to protect the water source by establishing a Source Water Protection Committee and initiating research agreements between the Utility and Cape Breton University and Acadia University. The goal is to improve source water quality and reduce treatment costs through ecosystem-based management practices.

VIII CONCLUSION

[77] The Board approves the Rates and Charges, including the public fire protection charge, effective April 1, 2023, April 1, 2024, and April 1, 2025, as shown in Schedules A, B, and C, as received by the Board in response to the IRs.

[78] The Board approves the Rules and Regulations, effective April 1, 2023, as shown in Schedule D.

[79] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 28th day of March, 2023.



Bruce H. Fisher