DECISION **2023 NSUARB 111**
M10997

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -

IN THE MATTER OF THE APPLICATION of the **TOWN OF STELLARTON,** on behalf of its **Water Utility,** for approval of amendments to its Schedule of Rates and Charges for Water and Water Services and its Schedule of Rules and Regulations

BEFORE:	Steven M. Murphy, MBA, P.Eng., Panel Chair M. Kathleen McManus, K.C., Member
APPLICANT:	**TOWN OF STELLARTON** Gerry Isenor, P.Eng. G.A. Isenor Consulting Blaine Rooney, CPA, CA Blaine S. Rooney Consulting Limited Susan Higdon Chief Administrative Officer Brenda MacKay Town Accountant Blaine Murray Town Engineer
INTERVENORS:	**MUNICIPALITY OF THE COUNTY OF PICTOU** Brian Cullen, Chief Administrative Officer
HEARING DATE:	June 1, 2023
DECISION DATE:	**June 26, 2023**
DECISION:	**The application is approved, as amended by the Utility.**

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I SUMMARY

[1] This is a decision of the Nova Scotia Utility and Review Board (Board) about an application by the Town of Stellarton (Town) on behalf of its Water Utility (Utility) for amendments to its Schedule of Rates and Charges and Schedule of Rules and Regulations under the *Public Utilities Act* (*Act*), N.S.N.S. 1989, c. 380. The existing Schedule has been in effect since April 1, 2008, and its Rules and Regulations have been in effect since May 1, 2006.

[2] The Utility applied to the Board based upon a need to adjust rates due to increasing operating costs. The rate increases will also fund the Utility's proposed capital program, which will include installing water meters for all currently unmetered customers in the final two test years. The application was supported with a rate study prepared by G.A. Isenor Consulting and Blaine S. Rooney Consulting Limited. The rate study was dated January 4, 2023, and filed with the Board on February 14, 2023.

[3] After filing, the Utility's consultant realized there was an error in Worksheet D-1 of the water rate study. Corrections were made and a revised rate study was submitted to the Board on February 15, 2023. In preparing responses to Board staff Information Requests (IRs), the Utility's consultant realized the re-filed water rate study contained an error in the 2021/22 financial results. The Utility then provided a revised version of the rate study, dated April 12, 2023, with its IR responses. The Board reviewed the revised study, as provided in the IR responses, during the public hearing. A revised Water Rate Study was provided with the Utility's undertakings, and it is this revised study referred to in this decision, unless noted otherwise.

[4] The Board held a public hearing on June 1, 2023, at the Stellarton Fire Hall, after due public notice. Gerry Isenor and Blaine Rooney represented the Utility, along with Municipal staff: Susan Higdon, Chief Administrative Officer; Brenda MacKay, Town Accountant; and Blaine Murray, Town Engineer. There was one formal intervenor in the proceeding: The Municipality of the County of Pictou (Municipality), represented by Brian Cullen, CAO. The Municipality did not file evidence and did not participate in the hearing. No letters of comment or requests to speak at the hearing were received by the Board.

[5] During the public hearing, the Board requested that the following be filed as undertakings: a) an updated projected Operating Fund Balance Sheet for the Test Years, b) a review of the Fire Service allocation methodology from the prior rate study, and c) a completed response to IR-45 f). The Utility filed the additional information and corrections as undertakings on June 5, 2023.

[6] The rate study provided in the undertakings proposed rate increases for the fiscal years 2023/24, 2024/25 and 2025/26 (Test Years). For unmetered customers the quarterly water bill is proposed to increase in each of the Test Years by 13.2%, 13.3% and 11.7%, respectively. For 5/8" meter residential customers, based on average quarterly consumption, the proposed increases in each of the Test Years are 20.6%, 14.3% and 12.5% respectively. For other metered customers, based on average quarterly consumption per each meter size, the proposed increases are between 0.0% to 39.5% in 2023/24, 0.0% to 14.6% in 2024/25 and 0.0% to 12.8% in 2025/26. The wholesale rate to the Municipality is proposed to increase in each of the Test Years by 79.8%, 11.1% and 10.2%, respectively. The Utility also proposed that the annual public

fire protection charge be unchanged for the first two Test Years and then increase by 3.2% in 2025/26.

[7] The Utility updated other charges to align with actual costs for services. Further, the Utility proposed revisions to its Rules and Regulations to align them with similar rules and regulations used by other municipal water utilities in Nova Scotia.

[8] As set out in this Decision, the Board approves the Utility's requested Schedule of Rates for Water and Water Services and the Schedule of Rules and Regulations Governing the Supply of Water and Water Services, as amended by the Utility in the undertakings.

II INTRODUCTION

[9] The Utility's source of supply is the East River. The water treatment plant provides coagulation/flocculation, clarification, filtration, rapid sand filtration, ultrafiltration, and disinfection. The Utility's two reservoirs have storage of 5,000m^3. The distribution system, divided into two pressure zones, serves the Town of Stellarton and sells water to the Municipality for the Riverton Community.

[10] The Utility currently serves 2,175 service connections, with no change projected over the Test Years. The rate study assumes stable water consumption by all customer classes over the Test Years.

[11] The Utility applied to adjust rates to meet increased operating costs and to fund the Utility's proposed capital program. The Utility has had an excess of expenditures over revenues since March 31, 2021, and currently has an accumulated operating surplus. Proposed capital projects over the Test Years include: Claremont and Kirk

Avenue infrastructure renewal in 2023/24; membranes and waterline replacements in 2024/25; waterline replacements in 2025/26; and water meter installation in the final two Test Years for currently unmetered customers.

III REVENUE REQUIREMENTS

[12] The Application is based on revenue requirements from fire protection and water customers of $2,004,028 in 2023/24; $2,175,001 in 2024/25; and $2,426,183 in 2025/26, which reflect increases in the Utility's various cost categories.

[13] Operating expenses are based on current estimates provided by Utility staff with increases in Test Years based on 3% per year inflation.

[14] Non-operating expenses consist of principal and interest payments on existing debt and proposed borrowing during the Test Years. Debt servicing costs are forecast to decline by $1,908 in 2023/24; $3,000 in 2024/25; and $3,950 in 2025/26.

[15] There is non-operating revenue over the Test Years from interest and transfers from the depreciation fund and surplus of $276,805 in 2023/24; $156,805 in 2024/25; and $6,805 in 2025/26.

[16] Other operating revenue over the Test Years is derived from the interest charges on overdue accounts, known as the Flat Rate Penalty, sprinkler/hydrant services and connection fees. The rate study forecasts other operating revenues as stable over the Test Years.

[17] An explanation about the amount of time which has passed since the last rate application in 2006 was the subject of an IR. The Utility's response stated:

> The utility has not had a rate application since the last schedule of rates was approved in 2006 because it has generated surpluses until the last few years. At March 31, 2022 the utility has an operating surplus of $1,261,299.
>
> [Exhibit S-5, IR-2, p. 2]

1. Operating Expenses

[18] The Utility's projected operating expenses for the Test Years are based on staff estimates with increases based on 3% annual inflation in each Test Year. Town Public Works' employee hours are tracked and charged to the Utility. The Town Engineer and Superintendent costs and administrative costs are allocated on a percent of Utility expense to the total expense for both the Town and the Utility.

[19] The Utility's financial information for the year ended March 31, 2022, indicated that its expenses exceeded its revenues by $239,041 with an accumulated surplus of $1,261,299.

[20] The Utility projected an accumulated surplus of $993,242 at the end of 2022/23. It requested approval to transfer funds from surplus in each Test Year. It seeks to transfer $270,000 and $150,000 in 2023/24 and 2024/25 respectively to non-operating revenue. The Utility specified that these transfers will be used to help smooth the proposed rate increases. In 2025/26 the Utility intends to transfer $180,000 from its surplus to capital works. In response to Undertaking U-1 the Utility noted that following the transfer in the final Test Year, the Utility forecasts an accumulated surplus of $343,301 if the proposed rates are approved by the Board.

[21] In response to IR-36, the Utility identified proposed depreciation rates for its capital additions that are different than those in the *Water Utility Accounting and Reporting Handbook (Handbook)*. The proposed depreciation rates are based on the estimated useful life of the related capital works.

Findings

[22] The Utility's operating budget projects a 3% increase for inflation in each of the Test Years for the operating expense items. The Utility's response to IR-18 indicated that a 3% annual inflation increase has been used and accepted by the Board in water rate studies for several years. The Board finds that the Utility's projected operating expenses are reasonable.

[23] The Board approves the transfer from accumulated surplus of $270,000 in 2023/24 and $150,000 in 2024/25 to non-operating revenue and the transfer of $180,000 to capital works in 2025/26 for the purpose of rate design.

[24] The Board also finds the Utility's proposed depreciation rates to be appropriate and approves the Utility's request to allocate 100% of Depreciation expense to the Base Charge for all Test Years.

2. Capital Budget and Funding

[25] The rate study included the Utility's proposed capital additions in each of the Test Years, $1,308,605, $450,000 and $1,600,000, respectively. The table below summarizes the capital projects and proposed funding:

	2022/23	2023/24	2024/25	2025/26
Structures and Improvements	20,000			
Equipment	35,000		50,000	
Mains	443,325	1,308,605	400,000	400,000
Meters				1,200,000
	498,325	**1,308,605**	**450,000**	**1,600,000**
Funding from outside sources		959,600		
Depreciation Fund	498,325	349,005	450,000	1,420,000
Long Term Debt				
Transfer from Surplus				180,000
	498,325	**1,308,605**	**450,000**	**1,600,000**

[26] In response to IR-32, the Utility detailed its major budgeted capital expenses and funding. The Utility has one project in the Test Years that had been approved by the Board for 2023/24 - the Claremont and Kirk Avenue waterline renewals project in matter M10999. In 2024/25 and 2025/26 the Utility intends to continue the replacement of its waterlines and associated infrastructure with an estimated budget of $800,000. The Utility also plans to install new meters for all currently unmetered customers in the last two Test Years.

[27] The Utility proposed to fund its capital budget in the Test Years through depreciation, external funding from other levels of government and a transfer from accumulated surplus in 2025/26. The new water meters will be funded from the depreciation fund in the amount of $1,020,000 and transfer from surplus of $180,000 in 2025/26. After the meters have been installed and consumption patterns are established, the Utility intends to submit an application to the Board for new water rates based on universal metering.

[28] Based on projected expenses and funding, the Utility expects the balance of its depreciation fund to be $690,239 at the end of the Test period. The Utility plans to use more than half of its current depreciation fund towards its proposed Test Period capital plan.

Findings

[29] The Board has reviewed the proposed capital projects and sources of associated funding included in the rate study. The Board finds the proposed capital budget to be reasonable and necessary for the replacement of aging infrastructure and the addition of new water meters. The Board accepts the proposed funding source for the Utility's capital budget.

[30] The Board reminds the Utility that the inclusion of proposed capital projects in the rate study is not Board approval of these projects. The Utility needs separate Board approval for projects exceeding $250,000, as set of in s. 35 of the *Public Utilities Act*.

3. Non-Operating/Other Revenue and Expenditures

[31] The Utility identified other annual operating revenue in each of the Test Years in the rate study for sprinkler/hydrant services, water connections/disconnections, and the flat rate penalty at $1,920, $1,275, and $8,000, respectively. In response to IR-22(b), the Utility clarified that the Flat Rate Penalty was increased from $7,500 in 2022/23 to $8,000 as a rounding exercise. Interest income of $6,805 is also included in each of the Test Years.

[32] Non-operating expenses include current debt payments in each of the Test Years associated with funding of prior capital projects. The Utility projects its debt charge, including principal and interest, to be $438,680, $435,680 and $431,730 in 2023/24, 2024/25 and 2025/26, respectively.

[33] 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, the Utility's rate of return on rate base is estimated as 1.37% in 2023/24, 2.42% in 2024/25 and 3.40% in 2025/26.

Findings

[34] The Board finds the Utility's other operating revenues and non-operating expenditures over the Test Period to be reasonable and accepts them as presented in the rate study.

[35] The Board finds the Utility's proposed return on rate base over the Test Years to be reasonable.

IV REVENUE REQUIREMENT ALLOCATION

1. Public Fire Protection

[36] In Undertaking U-2, the Utility revised its rate study to use average day demand in its fire service allocation methodology, rather than maximum day demand as was used in the original rate study. This revised methodology matches the allocation approach used in the Utility's previous 2005 water rate application to the Board. As a result of this revision, the proposed allocation of utility plant in service costs for

“Distribution Reservoirs and Standpipes”, “Transmission Mains” and “Distribution Mains” is now 20.4% to General Service and 79.6% to Fire Service.

[37] The average allocation of all utility plant in service costs between general service and fire protection is 54.6%, 55.0% and 52.6%, respectively, in each of the Test Years. For rate design purposes, the Utility requested that the annual fire protection charge be set at the current rate, $695,764, for both 2023/24 and 2024/25. Test Year 3 uses a fire protection charge of $776,190 as calculated using the method set out in the *Handbook*.

[38] During the hearing. Mr. Isenor and Mr. Rooney explained that the wording in Worksheet C-1 - Allocation of Fire Protection Charges may lead to confusion in the years following the Test Years. They noted that the formula for calculating Return on Rate Base, for rate-making purposes, is non-operating expenses less non-operating revenue and other non-operating revenue. However, after the Test Years, the *Handbook* definition for Return on Rate Base results in values that would not be derived under a rate study, as the *Handbook* includes operating income/loss, which can vary from year to year, as part of its calculation for return on rate base. This has led to some utilities to keep the Fire Protection Charge it calculates in the final Test Year constant in future years until a subsequent rate application. Some utilities that have tried to calculate the amount using the *Handbook* methodology, instead of the method used in a water rate study, have then had significant adjustments in rate base. Mr. Isenor and Mr. Rooney propose that the definition of return on rate base be revised to: non-operating expenses less non-operating revenue and other operating revenue in Worksheet C-1 Allocation of Fire Protection Charges.

[39] During the hearing, the Board questioned the Utility about when the last fire flow study was completed. The Utility confirmed that a fire flow study for its system has not been completed since 2005. The Utility explained that finding an expert to perform the study has been difficult.

Findings

[40] The Board accepts the revised fire service cost allocation methodology as presented in Undertaking U-2. The Board also finds that the proposed public fire protection charges as presented in Undertaking U-3 are appropriate. The Board is concerned though that a fire flow study has not been completed by the Utility since 2005. During the hearing, the Utility confirmed that a number of changes to its system have occurred since 2005, including the addition of new and varied types of customers. These changes in customers could have an impact on the maximum fire demand that is used in the Utility's fire service cost allocation methodology. As such, the Utility is directed to complete a *Fire Underwriters Survey of Canada* fire flow study to confirm its maximum fire demand. This study is to be completed before the Utility's next water rate application to the Board, and the results from the study are to be incorporated into the rate application.

[41] To address the confusion of Return on Rate Base in the Allocation of Fire Protection, the Board agrees with the Utility that, for rate-making purposes, the proposed definition of Return on Rate Base for Allocating Fire Protection Charges shall be non-operating expenses less non-operating revenue and other operating revenue.

2. Customer Revenue Requirement

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

[43] The Municipality is a wholesale customer. The joint use methodology used to calculate charges for the Municipality is based on the use of the assets. It also includes allocation of unaccounted for water between the Utility and the Municipality to determine total consumption for both. In response to IR-45(d) the Utility indicated that assets and expenses used to supply water to all Utility customers, including the Municipality, are assigned 100% for Joint Use. The percentage of water used by the Municipality is then used to allocate their portion of the expenses. The rate study assumes that the amount of water sold to the Municipality will remain constant during the Test Years.

[44] The Utility provided a response to IR-45(f)ii in Undertaking U-3 about the depreciation allocations to Joint Use. Depreciation was reviewed and updated to include the Water Treatment Plant and Pumping Equipment. The items were added to the Depreciation Allocation in Appendix 2 and updated in worksheet C-3a of the rate study, as provided in the undertakings.

[45] The remaining costs are allocated to the customers in Stellarton per the methodology used in the rate study to distribute the remainder of the revenue requirement to the customer classes. The Utility requested that the allocation of the depreciation be 100% to the Base Charge for all Test Years, while all other allocations follow the *Handbook*. This request is for rate design purposes to keep revenue from the base charge between 35% and 40%, allowing the Utility to maintain better cashflow stability.

[46] The Utility has 2,081 unmetered customers and 94 metered customers. The Utility has projected no change in the number of customers during the Test Years. The Board's 2006 Decision indicated that the Utility would assign 54,068 imperial gallons per year to apartments and single-family residential customers for setting unmetered rates. However, the current application notes that use of this amount could not be used in the current rate study, as it resulted in more consumption than water produced at the Water Treatment Plant. The Utility requested the unmetered consumption rate be set at 45,000 imperial gallons per year for single family and apartment customers. This rate of consumption results in total non-revenue water of 10.7%.

[47] In response to IR-47 about the decrease in water consumption since the previous rate application, the Utility suggested that about 80% of current consumption is unmetered. The decrease in consumption is, therefore, related to the likely high estimate for unmetered consumption from the 2005 rate study. The reduction in consumption is also a result of fewer leaks in the system.

Findings

[48] The Board finds the method used by the Utility to distribute expenses to customers is appropriate.

[49] The Board accepts the Utility's explanation deviating from the 2006 Board directive for the water volume assigned to unmetered residential customers. The Board also accepts the proposed allocation of depreciation expense to 100% base charge.

V SCHEDULE OF RATES AND CHARGES

[50] The Utility proposed other changes to its Rates and Charges. The Utility's response to IR-49 summarises the proposed revisions and additions.

[51] The Utility proposes to increase the rates for sprinkler service, charges for re-establishing water service, account creation fee, connection fee, disconnection fee, special service charge and charge for non-negotiable cheques. The increase in these charges is to better reflect the actual cost to provide the services.

Findings

[52] The Board finds the proposed changes to the Utility's Rates and Charges based on the cost to supply the services to be reasonable and accepts them as proposed. The Board accepts and approves Schedules A, B and C as refiled with the Board.

VI SCHEDULE OF RULES AND REGULATIONS

[53] In response to IR-51, the Utility listed its proposed changes to its Rules and Regulations.

[54] The Utility explained that the changes will update the Rules and Regulations to reflect the cost of service and align them with other water utilities in the province.

[55] The Board finds the proposed changes to the Rules and Regulations are reasonable and consistent with other water utilities in Nova Scotia. The Board approves the proposed changes to the Rules and Regulations as filed with an effective date of July 1, 2023.

VII CONCLUSION

[56] The Board approves the Rates and Charges, including the Fire Protection Charge, effective July 1, 2023, April 1, 2024, and April 1, 2025, as shown in Schedules A, B and C, received by the Board in the undertakings.

[57] The Board approves the Rules and Regulations, effective July 1, 2023, as shown in Schedule D of Undertaking U-3.

[58] The Board directs the Utility to file a new water rate study and application to the Board within two years of the end of the final Test Year to address updated consumption figures resulting from the installation of water meters for currently unmetered customers.

[59] The Utility is also directed to complete a new *Fire Underwriters Survey of Canada* flow study to determine required fire flows for incorporation into its next rate application to the Board.

[60] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 26th day of June, 2023.

Steven M. Murphy

M. Kathleen McManus