

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -



IN THE MATTER OF AN APPLICATION of the MUNICIPALITY OF THE COUNTY OF CUMBERLAND, on behalf of the PARRSBORO 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: Murray E. Doehler, CPA, CA, P.Eng., Member

APPEARING: MUNICIPALITY OF THE COUNTY OF CUMBERLAND

Gerry Isenor, P.Eng.
G.A. Isenor Consulting Limited

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

Justin Waugh-Cress, P.Eng.
Director of Engineering and Operations

Andrew MacDonald
Director of Finance

HEARING DATE: February 1, 2017

UNDERTAKINGS: February 10, 2017

DECISION DATE: March 23, 2017

DECISION: Schedule of Rates and Charges approved, as amended.
Schedule of Rules and Regulations approved, as amended.

I SUMMARY

[1] The Town of Parrsboro, subsequently dissolved into the Municipality of the County of Cumberland (“Municipality”), applied to the Nova Scotia Utility and Review Board (“Board”) on behalf of the Parrsboro Water Utility (“Utility” or “Applicant”) for amendments to its Schedule of Rates and Charges for Water and Water Services and its Schedule of Rules and Regulations pursuant to the *Public Utilities Act*, R.S.N.S. 1989, c. 380 as amended (“Act”). The existing Schedule of Rates for Water and Water Services and Schedule of Rules and Regulations have been in effect since April 1, 1999.

[2] A rate study to support the Application, dated September 30, 2016 was prepared by G.A. Isenor Consulting Limited in association with Blaine S. Rooney Consulting Limited and was submitted to the Board on October 28, 2016. Information Requests (“IR”s) were issued by Board staff on December 14, 2016, and responses were filed on December 23, 2016. Included with the responses was a revised rate study (“Rate Study”) which corrected errors in the original filing. Also, attached to the IR responses were revised Schedules of Rates for Water and Water Services, incorporating the above noted changes.

[3] The Application proposed rates for all customers to increase by 10.8% in 2016/2017, 22.4% in 2017/2018, and 7.5% in 2018/2019. As the hearing took place near the end of the fiscal year 2016/2017, the revised Schedules of Rates for Water and Water Services provided for approval by the Board in response to Undertaking U-2 included only the years 2017/2018 and 2018/2019. The planned increase for 2016/2017 was absorbed into the increase for 2017/2018.

[4] The Application also proposes amendments to the annual public fire protection charge to be paid to the Utility by the Municipality for the provision of water for fire protection service. The total annual public fire protection charge, currently \$68,814, was proposed to increase to \$84,892 in 2016/17, \$99,157 in 2017/18, and \$112,540 in 2018/19 in the Application.

[5] The public hearing was held at the former Parrisboro Town Council Chambers on February 1, 2017, after due public notice. Gerry Isenor of G.A. Isenor Consulting Limited and Blaine Rooney of Blaine S. Rooney Consulting Limited, represented the Utility. The Utility was also represented by Justin Waugh-Cress, P.Eng., Director of Engineering and Operations, and Andrew MacDonald, Director of Finance. There were no formal intervenors in the proceeding. One member of the public, Randy Mosher, spoke during the hearing. No letters of comment were received by the Board.

[6] The Rate Study as revised and included in the IR responses was presented at the hearing. It is the revised Rate Study that is referenced in this decision, unless otherwise noted.

[7] The Schedule of Rates and Charges and the Schedule of Rules and Regulations are approved, as amended and requested by the Utility.

II INTRODUCTION

[8] The Parrisboro Water Utility takes its supply from three production wells. Withdrawal of water from the wells is cycled by municipal staff, depending on demand, and to allow them to recharge in between use. Water treatment consists of pH adjustment and chlorination.

[9] The water is pumped through the distribution system to an earthen reservoir with a floating cover, with a capacity of approximately 750,000 gallons. The distribution system contains cast iron, ductile iron, and PVC mains, ranging in size from 1" to 14" in diameter.

[10] The Utility has 744 customers, none of which are metered. The Utility currently uses a tap count rate structure, but has plans to install meters for all customers in the near term.

[11] The Application was presented to the Board based upon the need to adjust the rates as a result of increased operating costs and to fund the projected capital program.

III REVENUE REQUIREMENTS

(A) Operating Expenditures

[12] For the year ended March 31, 2016, the Utility had an excess of expenditures over revenues of \$649 and an accumulated surplus of \$305,708. However, if current rates are left in place, the Utility is projecting the surplus balance to reduce to \$22,520 by the end of 2018/19.

[13] The Rate Study corrected an error in the amount of gas tax contribution towards capital additions. This correction resulted in shifting some of the funding to debt. As a result of this correction, there are slightly higher rates proposed for customers in 2017/18 and 2018/19 than had been in the original submission (an increase from 22.4% to 26.2% and 7.5% to 7.6%, respectively).

[14] Mr. Isenor noted that there was a change in the allocation of salary expense between the 2015/16 forecast used as a base for the projections, and that used in the

test years. The total of the operating expenses did not change, other than an overall 3% increase for inflation. As explained by Mr. Isenor:

... It was mentioned in our submission and it was also mentioned in the IRs that we distributed salaries which are currently kept as one lump number in the Financial Statements. So we worked with the staff of the Utility and allocated salaries actually two and a half percent to source of supply, two and a half percent to power and pumping, 20 percent to treatment, 51 percent to distribution and 24 percent to the admin. in general and that was based on the best estimates of time spent.

[Transcript, p. 10]

[15] The Applicant stated that previously separate operating budgets for the Utility were not prepared; budgets have only been prepared in the last two years. The costs that are allocated between the Municipality and the Utility consist of staff salaries. Municipal staff that work at the water treatment plant are allocated to the Utility at a rate of 20% for operational staff and 5% for administrative staff.

[16] 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.

Findings

[17] The Board finds the general 3% annual increase in operating expenses over the Test Years to be reasonable, and, where it is more, the budget has been adjusted appropriately. The Board accepts the allocation of costs between the Municipality and the Utility. The Board reminds the Utility to review these allocations on a periodic basis to ensure accuracy.

[18] The Board accepts the revenue requirement in the Rate Study which resulted in a minor increase from that used in the original Application.

(B) Capital Budget and Funding

[19] The Rate Study included the Utility's capital budgets in each of the three Test Years, totaling \$427,434, \$681,000, and \$365,000 respectively. The Utility has budgeted \$407,434, \$40,000 and \$260,000 for distribution mains in each of the Test Years, respectively. The first Test Year also has budgeted \$10,000 for hydrants and \$10,000 for services. The second Test Year also has budgeted \$481,000 for meters, \$120,000 related to wells, and \$40,000 to control and monitoring equipment. The third Test Year also includes \$105,000 related to wells.

[20] The proposed funding for the capital budget is as follows:

	2016/17	2017/18	2018/19
Depreciation Fund	\$ 203,717	\$ 250,000	\$ 100,000
Gas tax	\$ 203,717	-	-
Long Term Debt	-	\$ 406,000	\$ 240,000
Capital out of revenue	\$ 20,000	\$ 25,000	\$ 25,000
Total	\$ 427,434	\$ 681,000	\$ 365,000

[21] The Rate Study projects that, with the proposed funding as set out above, the depreciation fund balance will be \$38,000 at the end of the Test Years.

[22] The Utility based its projected capital program over the Test Years on a report completed as part of the dissolution of the Town of Parrsboro, referred to as the Opus report. The Utility has older and undersized water mains that are believed to be the cause of some particles in the water that have resulted in some complaints about the water quality. Replacement of these sections of pipe are part of the Utility's capital plan.

[23] In response to IR-5, the Utility noted it had also been having some issues with a new chlorination system that had been installed since the last rate study. During the hearing it was confirmed that these issues have now been resolved.

[24] The Utility is unable to measure its non-revenue water due to its tap count rate structure. However, during the hearing, Mr. Isenor noted that the amount of water being produced has decreased to one-third of what was being produced at the time of the previous rate hearing.

Findings

[25] The Utility is primarily focusing on replacing ageing infrastructure, and installing meters over the Test Years. Replacing the older and undersized water mains should alleviate some of the water quality issues the Utility has been experiencing.

[26] The Board supports the Utility's plan to install meters in the near term and expects the Utility to focus its efforts on this endeavor.

[27] Given the timing of the hearing, nearing the end of the fiscal 2016/17 year, the Board understands the timing of the capital program will likely be different than as set out in the Rate Study.

[28] The Board finds the proposed capital budget and funding for each of the three Test Years to be reasonable. However, the Utility is reminded that the inclusion of the proposed capital projects in the Rate Study does not constitute Board approval of these projects. Separate Board approval is required for projects in excess of \$250,000 as set out in s. 35 of the *Act*.

(C) Non-Operating/Other Revenues and Expenditures

[29] The total annual amount for other operating revenues in each of the Test Years is \$1,175. The only non-operating revenue is \$6,000 for interest in each year.

[30] The non-operating expenses include future debt payments in the second and third Test Years, and the corresponding interest expense. The debt payments are being incurred to service the long-term debt portion of the capital program for the Test Years.

[31] Also included is capital out of revenue of \$20,000 for the first Test Year and \$25,000 per year for the second and third Test Years. The Chair questioned Mr. Isenor about the need for capital out of revenue, to which he responded that the capital out of revenue is intended to cover the annual routine work.

[32] The corrected rates of return provided in response to IR-14, which are calculated using the total non-operating expense revenue requirement, are 0.49%, 1.67% and 2.15%, respectively, in each of the Test Years.

Findings

[33] The Board finds the Utility's other and non-operating revenues and expenditures to be reasonable and accepts them as presented.

[34] The Board finds the interest rate of 6% used in the Rate Study on new debt over the Test Years is consistent with other rate applications recently approved by the Board.

[35] The Board finds the calculated rates of return are reasonable.

(D) Allocations of Revenue Requirement

1. Public Fire Protection

[36] The methodology used in the Rate Study for the determination of the public fire protection charge is in accordance with the *Accounting Handbook*. This methodology represents a difference from what was used in the previous rate application, as there was no *Accounting Handbook* at that time.

[37] The percentage allocation of utility plant in service to public fire protection is calculated in the Rate Study to be within a range of 38.6% to 44.9% over the Test Years. The fire protection charges calculated in the Rate Study are projected to increase to \$104,202 in 2017/18, and \$118,340 in 2018/19.

Findings

[38] The Board accepts the Utility's determination of the fire protection charges, as presented in the Rate Study, and approves them.

2. Utility Customers

[39] The remaining revenue requirement, after the allocation to the fire protection charges, is to be recovered from the customers of the Utility.

[40] The Utility currently has 744 customers, which is projected to remain the same throughout the Test Years. There are currently 65 different rates under the Utility's tap count rate structure.

[41] The allocations of costs are not consistent with the methodology as set out in the *Accounting Handbook*. The Utility was unable to come up with a reasonable allocation of costs using the *Accounting Handbook* methodology, given the lack of data

on water consumption. Mr. Isenor explained why the Utility is requesting 65 different rates under the Utility's current tap count rate structure:

Although we did distribute on page 33, the cost between base and commodity, we found ourselves a bit hamstrung as trying to figure out how much water was actually being sold and how to come up with lump sum rates for such a highly varied group of customers. They currently are charged on per tap basis. The last tap count that was up to date for the majority of the town was done in 1998. Since that time new buildings and new structures, as they come in, have been counted but all the old ones have been left the same as they were.

In the end, Mr. Chair, I'll direct you to page 39 because in the end what we are requesting is a continuation of the tap count system for the next two years until the meters can get installed and we can get data on water consumption and set appropriate rates on a base and commodity basis. I know it's not the Board's intention to carry on these sort of practices of tap counts but as per the situation we found ourselves in in the County of Antigonish, we find ourselves similar here except it's even more varied in the sense that we haven't had a recent tap count.

[Transcript, p. 13]

[42] Upon questioning about the fairness of such a structure Mr. Isenor responded:

Right now the only thing we can do is say that the tap count was considered fair in 1999 and as for all of its pitfalls, it's the best thing that I can come up with to carry on and if ... it may have some inherent problems in it but I guess really what we're asking is that we carry on with those inherent issues for another two years, get some metered data and then correct the situation and put it back in where it should be.

[Transcript, p. 37 – 38]

[43] The Utility stated that it intends to review its cost allocations and billing structure once it has completed the installation of meters.

Findings

[44] The Board accepts the tap count rate structure for the Test Years as proposed. However, as noted later in this decision, the Board expects the Utility to actively begin to take the steps necessary to rectify this situation. The proposed rates are approved as calculated in the Rate Study.

(E) Schedule of Rates and Charges

[48] In addition to the rates for water supply to its customers, the Application included a significant number of proposed changes to its Schedule of Rates and Charges. The Schedule of Rates and Charges had not been updated since 1999. The proposed changes are required to align the Schedule with the majority of other water utilities in the Province. These changes are outlined in the Utility's response to IR-19.

[49] Mr. Isenor stated that the effective date in the first Schedule of Rates and Charges should read April 1, 2017, as opposed to January 1, 2017 given the timing of the hearing.

Findings

[50] The Board has reviewed the proposed amendments included in the Schedule of Rates and Charges, and finds them to be reasonable.

[51] The Schedule of Rates and Charges for the Test Years are approved as calculated in the Rate Study.

(F) Schedule of Rules and Regulations

[52] There were also a significant number of changes to the Schedule of Rules and Regulations. The Utility outlined the changes and reasons for them in the response to IR-20.

Findings

[53] The proposed Schedule of Rules and Regulations is consistent with most other water utilities in the Province which have had recent rate applications.

[54] The Board approves the Schedule of Rules and Regulations as requested.

IV SUBMISSIONS

[55] There were no formal intervenors to the Application. There was one request to speak, by Mr. Randy Mosher, former Fire Chief for the Town of Parrsboro. Mr. Mosher first wanted to confirm that the rate increase was not providing a cross-subsidy of the proposed sewage treatment plant. Mr. Isenor clarified that it was not.

[56] Mr. Mosher went on to address the tap count system, and lack of metering:

... Second part of clarity, it's not perfectly clear to me that it is a requirement to install the water meters before this rate increase is granted. I'm hearing all sorts of good things, that it's the right thing to do and it has been brought forward as the right thing to do, but I would like to leave with the absolute clarity that the rates will not be approved unless the water meters are guaranteed to be installed. ...

[Transcript, p. 48]

[57] Mr. Mosher also noted that he and his wife had installed low flow showerheads and toilet, and that the previous occupants of his house were a family of 4, in comparison to the current situation consisting of only two people. He questioned the fairness of his situation.

[58] Mr. Mosher had several issues related to the fire department, and particularly the way funds related to the fire department were allocated from the water utility and how those funds were used. Mr. Isenor noted that the way the fire protection charge is calculated is laid out in the Rate Study, as well as the *Accounting Handbook*. The Chair noted that many of Mr. Mosher's issues with the fire department were outside of the purview of the Board.

[59] Mr. Mosher also questioned the accuracy of the Opus report, the report prepared by a consultant to outline capital investments required by the Town and Utility. The report had been prepared as part of the application for the dissolution of the Town of Parrsboro. Mr. Mosher noted that he had been engaged in a professional capacity to

review engineering reports in relation to a similar town dissolution. Mr. Mosher stated that, in his opinion, the report prepared by Opus in that instance was lacking in terms of depth of investigation and understanding of costs. Mr. Mosher questioned whether the capital investments outlined in the Opus report prepared for the Town of Parrsboro were sufficient. Mr. Isenor confirmed that the Opus report recommendations had been used as the Utility's capital plan.

Findings

[60] The Board understands the difficulty the Utility faced in updating the rate structure of the Utility in the absence of metered water information. The Board accepts that this tap count rate structure is necessary to continue in the near term, while a long-term solution is implemented. The Board expects the Utility to proceed with its plan to install meters for all customers, and use the metered water information to design a more equitable rate structure.

[61] The Board also expects that the Utility will continually assess its infrastructure and ensure it is addressing any critical capital issues that may go above and beyond its current capital investment plan, as initially recommended in the Opus report.

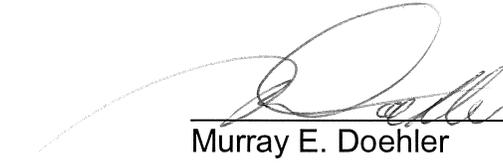
V CONCLUSION

[62] In response to Undertaking U-2, the Utility refiled the Schedule of Rates and Charges for Water and Water Services and amended the effective date to April 1, 2017. Accordingly, the Board approves the Schedule of Rates and Charges for Water and Water Services, effective April 1, 2017, and April 1, 2018, as amended in the Undertaking.

[63] The Board approves the Schedule of Rules and Regulations as proposed, effective April 1, 2017.

[64] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 23rd day of March, 2017.



Murray E. Doehler