

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 RICHMOND**, 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: Murray E. Doehler, CPA, CA, P.Eng., Member

APPEARING: **MUNICIPALITY OF THE COUNTY OF RICHMOND**

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

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

Jason Martell
Director of Finance

Chris Boudreau, P.Eng.
Director of Public Works

HEARING DATE: January 18, 2017

UNDERTAKINGS: January 30, 2017

DECISION DATE: **March 30, 2017**

DECISION: **Schedule of Rates and Charges approved, as amended by the Utility.**
Schedule of Rules and Regulations approved.

I SUMMARY

[1] The Municipality of the County of Richmond (“Municipality” or “County”) applied to the Nova Scotia Utility and Review Board (“Board”) on behalf of its 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, 2010, and July 1, 2009, respectively.

[2] A rate study to support the Application (“Rate Study”), dated September 16, 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 17, 2016. Information Requests (“IR”s) were issued by Board staff on November 18, 2016, and responses were filed on December 5, 2016.

[3] The Application proposed rate increases for the fiscal years 2016/17, 2017/18, and 2018/19 (“Test Years”). For 5/8” meter residential customers, based upon average quarterly consumption, the proposed increases in each of the Test Years are 21.3%, 19.4% and 14.6%, respectively. For all other metered customers, based upon the average quarterly consumption of each meter size, the proposed rate increases are between 26.0% to 37.0% in 2016/17, 23.3% to 28.8% in 2017/18, and 12.2% to 14.5% in 2018/19. The Utility filed a revised Rate Study, based upon updated information, and a two-year test period of 2017/18 and 2018/19 in the Undertakings, which resulted in the overall percentage increases being less than in the original filing.

[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 is proposed to remain at the 2015/16 amount of \$157,064 in 2016/17 and decrease by \$5,000 in each of 2017/18 and 2018/19 to \$152,064 and \$147,064, respectively. The Rate Study filed in the response to the Undertakings proposes the same reduction for the Test Years of 2017/18 and 2018/19.

[5] The public hearing was held at the Municipality's Council Chambers on January 18, 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 Jason Martell, Director of Finance and Chris Boudreau Director of Public Works. There were no formal intervenors in the proceeding, no requests to speak and no letters of comment received by the Board.

[6] The original Rate Study was amended in response to the IRs, due to the reallocation of labour expenses, to reflect the actual time spent in each of the cost centres, and to correct the return on rate base calculations. The amended Rate Study was presented at the hearing. It was subsequently revised in response to the Undertakings, to change the test period to two years, beginning in the 2017/18 fiscal year, keeping the base charge similar to the current charge in the first test year, as opposed to the reduction proposed in the original Rate Study. It is the revised Rate Study as presented in the Undertakings 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, as filed in response to the Undertakings.

II INTRODUCTION

[8] The Utility consists of two non-connected systems. The source of supply for the community of Arichat is the Babins Lake watershed, and it has a water treatment plant with a rated capacity of 1,440 m³ per day. The system has a 945 m³ bolted glass lined steel water storage tank.

[9] The Louisdale/Evanston/Whiteside system has a groundwater supply source consisting of two wells, with water mainly supplied by Well #1. Well #2 is only used during emergency situations due to elevated levels of iron and manganese. The system has a 1,210 m³ steel water storage tank. Currently the system does not have a water treatment plant, but it is proposed to construct a plant in 2017/18 due to the elevated levels of iron and manganese which do not meet the proposed maximum acceptable concentration levels as set out in the Guidelines for Canadian Drinking Water Quality. The costs associated with the proposed water treatment plant are included in the revenue requirements of the Application.

[10] The Utility's last rate application was in 2008. Waiting for confirmation of external funding for the water treatment plant project was largely responsible for the delay in filing the Application.

[11] It was noted at the time of the Utility's last rate application that it had a high percentage of non-revenue water (47%). The Applicant noted that it has reduced the percentage to 37% through the identification and repair of leaks in the distribution system.

It further noted that its efforts will continue through the installation of district meters, and by conducting both an illicit water connection survey and a new leak detection survey.

[12] The Utility's financial statements for the 2015/16 fiscal year were not completed at the time of the preparation of the Rate Study and public hearing, resulting in the latest actual figures upon which to base the Utility's revenue requirements being more than two years old. The Applicant explained that it had been in a forensic audit situation and thought it best that the regular audit not proceed until the forensic audit was completed. It added that it expected to meet with its regular auditors within the next few weeks.

[13] Although it is unusual to have this time gap between actual results and proposed figures to be used in the determination of rates, the Applicant stated that it is comfortable with the projections for rate setting purposes as there have been consistent trends with the Utility, with no major issues foreseen. It was further noted that the Utility has an operating surplus balance in the order of \$200,000 in case there is an unexpected event.

[14] The Utility has 1,161 metered customers, with no growth projected in the Test Years.

[15] The Application was presented to the Board based upon the need to adjust the rates due to increased operating costs and to fund the projected capital program.

III REVENUE REQUIREMENTS

(A) Operating Expenditures

[16] As noted above, the Utility's most recent available financial statements are for the year ended March 31, 2015, in which the Utility had an excess of expenditures

over revenues of \$47,410 and an accumulated operating surplus of \$259,312. The Rate Study filed with the Undertaking responses, which includes the revisions to the allocation of labour expenses, indicates that if current rates are left in place, the Utility is projecting an accumulated deficit of \$27,704 by the end of 2018/19.

[17] The original Rate Study stated that the projected operating expenditures for 2017/18 and 2018/19 were provided by the Utility, or are based upon a 3% annual increase. The original Rate Study includes the costs associated with operating the proposed new water treatment plant which have been phased-in over the projection period. It was further noted that the Test Years include increases to labour costs in order to more accurately reflect the amount spent on Utility operations which, in the past, have been paid by the Municipality.

[18] The amended Rate Study indicated wide variations in some of the individual operating expense items (i.e. power and pumping, water treatment, transmission and distribution, and administration and general) between 2014/15, the most recent year for actual results, and the 2015/16 budget. While the budgeted bottom line may be reasonable, some expenses were budgeted to significantly increase, while others significantly decrease in 2015/16. The Applicant noted that the existing cost allocations were reviewed to ensure that the expenses were appropriately categorized, resulting in the revisions indicated.

[19] The Utility noted that the issue of the financial statement's format not agreeing with the allocations used by the Utility for budgeting, or with the allocations used in day-to-day operations, will be discussed with the auditors. Mr. Rooney explained that often Utilities present the auditors with a trial balance and the auditors often use their own

cost groupings which become acceptable if the net income is good, with issues arising only when it is time to prepare a rate application. The Board stressed the importance of having statements that are in a format that is understandable for rate setting, and that the auditors must be made aware of this.

[20] The IRs questioned several of the projected increases in the operating expenses. The Applicant provided explanations for the increases, which are based upon staff estimates. It was further noted that after a review by staff, the labour costs should be reduced from the amounts shown in the original Rate Study to reflect the actual time spent in each of the cost centres. To reflect this, the Utility filed an amended Rate Study in response to the IRs, which reduced the allocation of labour costs to each of the power and pumping, water treatment and transmission and distribution expenses, and reduced the allocation of salaries from the Municipality in the administration and general expense.

[21] The Applicant stated that the Director of Public Works and the Deputy Clerk Treasurer prepare the annual budget by reviewing the previous year's budget versus actual figures, as well as any potential changes to revenues and expenditures based upon current information. The budget is submitted to Municipal Council for approval. It was further indicated that costs are allocated between the Municipality and the Utility based upon an estimate by Municipal staff.

[22] The projected depreciation expense in each of the Test Years is based upon the planned construction of the water treatment plant in 2017/18, the only item in the Utility's capital budget during the Test Years. The Application proposes to phase-in the depreciation expense associated with the proposed plant over time, with 33% of the depreciation included in the current Rate Study and the remaining 67% proposed to be

phased-in during 2019/20 and 2020/21 as a part of the next rate study, anticipated in 2018/19. The Applicant explained the basis for the proposed depreciation phase-in as a rate design adjustment to lower the rate impact of the increased expense due to the treatment plant.

[23] The depreciation rate of 2% for the treatment plant is within the 1.3% to 2% guideline set out in the Water Utility Accounting and Reporting Handbook (“*Accounting Handbook*”). Mr. Isenor confirmed that the revenue requirements include the depreciation of the full gross estimated cost of the plant, including the external (donated) funding.

[24] The Utility provided projected operating and capital fund balance sheets in response to the IRs, which contained a receivable from the operating fund to the capital fund which increases annually by \$5,000 to a balance of \$200,000 in 2018/19. Mr. Martell noted that entries go back and forth between the two funds with little effort in the past to clear it off, although this issue can be investigated. The Board further questioned the deferred revenue in the capital fund balance sheet, noting that some work may be needed in sorting out the funds, especially in terms of the actual depreciation fund balance, which is used for capital funding. While the focus is currently on establishing rates, an explanation of the due to/from account, the deferred revenue account and the depreciation fund balance should be provided to the Board as a Directive. However, the Board does not require this response to make a decision on the Application.

Findings

[25] The Utility is projecting that its operating surplus balance will decrease and reach a deficit by the end of 2018/19 without an amendment to its rates.

[26] There have been issues with the format and preparation of the Utility's financial statements, which creates concerns with the preparation of this Application. While the net income is the same, to prepare the Rate Study, reallocations of operating cost items among the various operating expenses was necessary, making it difficult to compare budgeted and projected expenses with past actual results. As discussed during the hearing, the Board expects that the Utility will work towards preparing the financial statements in a format similar to that set out in the *Accounting Handbook*. As well, the Utility's auditors should be aware of, and support, the necessity of preparing the statements in this format.

[27] Delays in preparing the 2015/16 financial statements, due to the forensic audit, create concerns surrounding the accuracy of the projections in the Rate Study. This is even more critical, given that the proposed new water treatment expense will result in additional expenses. It has been noted that the Utility's expenses have shown consistent trends, and the revenue requirements include an allowance for increased operating costs associated with the proposed water treatment plant, as well as a reallocation of labour costs.

[28] Given that the Utility currently has a healthy operating surplus, which may be used in case of unexpected expenses above the projections, the Board finds the operating expenses as contained in the revised Rate Study to be reasonable. The Board further accepts the depreciation expense associated with the new water treatment plant. It is further noted that the Utility anticipates filing a rate application in 2018/19, which will include the phase-in of the remainder of the depreciation expense associated with the proposed water treatment expense.

[29] 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.

[30] Several issues were discussed with respect to the Utility's operating and capital fund balance sheets. While they do not directly affect the current Application, they should be clarified, especially the determination of the actual depreciation fund balance, which impacts future capital funding decisions. Rather than delay the effective date of the rate adjustments, the Board directs a response to these issues to be filed by April 30, 2017.

[31] The Board accepts the revised Rate Study as filed in response to the Undertakings, which is based upon the revised labour costs and a two-year test period of 2017/18 and 2018/19, as described below.

(B) Capital Budget and Funding

[32] The only capital project included in all the rate studies is the proposed water treatment plant, in 2017/18, in the amount of \$2,878,190. The Applicant explained:

The Louisdale/Evanston/Whiteside water system is comprised of two groundwater wells located south of Shannon Lake. Treatment of groundwater consists of hypo-chlorination at each wellhead chamber. The water supply has elevated concentrations of iron and manganese, an aesthetic issue, which causes periodic water discolouration and laundry staining.

In May 2016 the Federal - Provincial - Territorial Committee on Drinking Water (CDW), [through] Health Canada, began a consultation on proposed changes to the Guidelines for Canadian Drinking Water Quality (GCDWQ). The document proposes a maximum acceptable concentration (MAC) for total manganese in drinking water of 0.1 mg/L and an aesthetic objective (AO) of 0.02 mg/L. The Louisdale/Evanston/Whiteside water system is not presently capable of meeting the proposed MAC on total manganese of 0.1 mg/L.

[Exhibit R-4, IR-18a]

[33] The funding of the plant is proposed as \$2,158,643 in external funding and \$719,547 from the Utility's depreciation fund. The external funding has been through the Federal/Provincial Government's Clean Water and Wastewater Fund ("CWWF").

[34] The revised Rate Study projects that, with the proposed funding as set out above, the depreciation fund balance will be \$227,458 at the end of 2018/19.

Findings

[35] The Utility's capital budget included in the revised Rate Study contains the water treatment plant project to deal with the issue of elevated levels of iron and manganese in the Louisdale/Evanston/Whiteside water system. The Utility is able to fund the project without debt through the CWWF and its depreciation fund. The Utility has maintained a healthy depreciation fund balance and has sufficient depreciation funds to cover the budgeted costs.

[36] The Board finds the proposed capital budget, consisting of the new water treatment plant in 2017/18, 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

[37] The other operating revenue estimated in 2016/17, 2017/18 and 2018/19 consists of \$13,000 annually related to interest charges, water connections/disconnections and other revenue for items such as charges for damaged water meters. The Applicant explained that the estimated annual amount is consistent with prior years. There is no projected non-operating revenue.

[38] The revised Rate Study included as a non-operating expense in 2015/16, an amount of \$2,119 as capital out of revenue, which the Applicant explained was for the purchase of four water booster pumps for customers in the low pressure zone. The Board noted that although in this case the amount is not large, unless it is a Utility policy, or a decision of Council to annually use an amount as capital from revenue, it generally should not be used as a funding source, as the Utility has other resources. In addition, the concept of intergenerational equity was canvassed at the hearing.

[39] There are no non-operating expenditures, including capital from revenue, projected during each of 2016/17, 2017/18 and 2018/19.

[40] As the Utility has no debt, or other non-operating expenditures, the rates of return are calculated as negative in each of 2016/17, 2017/18 and 2018/19.

Findings

[41] The Board finds the Utility's other operating revenue to be reasonable, and accepts it as presented.

[42] The Board notes that although no capital from revenue is projected in the years after 2015/16, the Utility should take into consideration its operating position when preparing capital budgets, to ensure that capital from revenue is not used as a funding source at a time when there is an excess of expenses over revenues, and when other sources of funding, such as from the depreciation fund, are available.

[43] The Utility has no long-term debt and has sufficient depreciation funds to cover the costs of its portion of the water treatment plant capital expenditures. The Board accepts as reasonable the calculated rates of return.

(D) Allocations of Revenue Requirement

1. Public Fire Protection

[44] The methodology used in the rate studies for the determination of the public fire protection charge is in accordance with the *Accounting Handbook*, except for the allocation of electrical pumping equipment. The *Accounting Handbook* suggests a 40%/60% allocation of electrical pumping equipment to general service/fire protection, whereas the rate studies use an allocation of 90%/10%, respectively. The Applicant explained that as the pumping equipment does not supply fire protection, only 10% was allocated to the fire protection.

[45] The allocation of utility plant in service to public fire protection is calculated in the original Rate Study to be 39.3% in 2016/17 and 31.1% in each of 2017/18 and 2018/19. However, at these percentages, the public fire protection charge would decrease from the 2015/16 amount of \$157,064. This is due to the addition of the new water treatment plant, which is a significant investment to the system and is allocated as 90% to general service and 10% to fire protection, resulting in a lower percentage of assets used for fire protection. It is therefore proposed to set the fire protection charge in the Test Years for rate design purposes, with the first year set at the 2015/16 rate, and gradually declining by \$5,000 per year to avoid a significant impact on customer water rates.

[46] Given the timing of the hearing, the revised Rate Study is based upon a two-year test period of 2017/18 and 2018/19. The fire protection charges are set at the amounts in the original Application of \$152,064 in 2017/18 and \$147,064 in 2018/19. It is proposed that the gradual decrease in the fire protection charge will allow the charge

to reach its calculated rate within six years, with the understanding that the next rate application will be filed in 2018/19.

Findings

[47] Given the timing of the Application, hearing and review, the Board finds the two-year test period, beginning in 2017/18, as set out in the Undertaking responses, to be reasonable. This includes maintaining the same fire protection charges for rate design purposes, as had been proposed in the original Application, for each of the two Test Years, as it will not impact the customer rates for water services. It is anticipated that this gradual decline will eventually allow the rates to reach the magnitude as calculated using the standard methodology.

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

2. Utility Customers

[49] The remaining revenue requirement, after the allocation to the fire protection charges, is to be recovered from the customers of the Utility. The allocations used for the base charge, customer charge, delivery and production are consistent with the methodology used in the last rate application, and are consistent with the *Accounting Handbook*, except for the allocation of the transmission and distribution expense. The transmission and distribution expense is allocated as 50% to base and 50% to delivery, as opposed to 100% to delivery as set out in the *Accounting Handbook*. The Applicant noted that the allocation was made for rate design purposes, to maintain the base charge in the 35 to 40 percent range, to reduce the revenue risk for the small Utility.

[50] No growth in the number of customers is projected; however, the total consumption of the residential customers is shown to decrease. The rate studies project a 1.5% annual decline in residential consumption which, the Applicant noted, is comparable to the experience of other water utilities in the Province.

[51] Mr. Isenor explained that the consumption volume of the other meter sizes is shown to remain constant as the occupants of those premises vary and it is therefore very difficult to predict water usage volumes.

[52] The amended Rate Study filed in response to the IRs calculates the base charge at a rate lower than its current rate for each of 2016/17 and 2017/18. The revised Rate Study sets the base rate in its first Test Year (2017/18) at approximately the same level as the current rate, adjusting the consumption charges accordingly.

[53] Mr. Isenor noted that the proposed charge for the 5/8" meter size (a residential customer) in each of the rate studies filed in response to the IRs and the Undertakings, is \$94.45 per quarter in 2018/19. This is at the lower end of current water rates in the Province.

Findings

[54] The Board notes that the proposed average quarterly water bills as presented in the response to the IRs and the Undertaking are lower than those proposed in the original Application, due to the reduction of the allocation of labour expenses to the Utility. In 2017/18, the base rates in the original Rate Study are higher, due to setting the charge at the current level, and the consumption rates lower, than in the IR response study. The rates proposed in 2018/19 are the same in each of the rate studies filed in response to the IRs and the Undertakings.

[55] The Board accepts the base charges as filed in the response to the Undertakings, which avoids having the base charges decrease in one year, and increase in the next, which may cause confusion.

[56] The Board further accepts the methodology used by the Utility in the calculation of consumption rates for each of 2017/18 and 2018/19 as proposed in the revised Rate Study.

(E) Schedule of Rates and Charges

[57] In addition to the rates for water supply to its customers, the Application proposed amendments to several existing miscellaneous rates and charges to both better reflect the cost to provide the service, and to be more in line with rates charged by other water utilities in the Province.

[58] It is also proposed to have a “New Account Creation Fee”, which Mr. Isenor noted is not expected to be used, but has been proposed in case of any new water accounts.

[59] An error in the percentage used in the formula to calculate the public fire protection charge in years after 2018/19 was corrected in the Schedule of Rates and Charges filed with the Undertaking responses.

Findings

[60] The Board has reviewed the proposed amendments, including the addition of the “New Account Creation Fee”, and finds them to be reasonable. It is noted that no other changes to the miscellaneous rates and charges are proposed.

[61] The Schedules of Rates and Charges for the amended two-year test period of 2017/18 and 2018/19 are approved as calculated in the revised Rate Study.

(F) Schedule of Rules and Regulations

[62] The Applicant filed an amendment to the Schedule of Rules and Regulations, after it realized that the Regulation 23 'Service Pipes' filed with the Application, was not consistent with current practice. The amended Schedule replaced that filed in the Application prior to the issuing of IRs.

[63] The response to the IRs listed the proposed changes to the Schedule of Rules and Regulations, which consist mainly of moving any charges to the rate schedule, as well as revising the interest rate on deposits to reflect current rates. It is also proposed to add a regulation, "Billing", to provide clarity with respect to the prorating of bills, and to specify that seasonal customers will be charged the base charge for the entire year, which is consistent with recent applications for other water utilities in the Province.

[64] The Applicant filed the document *Water Collection and Connection Policy*, dated February 2, 1987 ("Policy") in response to the IRs. The document includes several charges and policies dealing with connections, disconnections, installation of services, and late payments, many of which are contained in the proposed Schedule of Rules and Regulations. In response to the Board's Undertaking request as to whether there are any conflicts among the charges in the two documents, the Utility noted that the Policy is no longer in use, and it does not request any further amendments to the Schedule of Rules and Regulations other than those proposed in the Application.

Findings

[65] The Board finds that the proposed changes to the Schedule of Rules and Regulations are reasonable.

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

IV CONCLUSION

[67] In response to the Undertakings, the Utility filed a revised Rate Study with a two-year test period of 2017/18 and 2018/19. 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 by the Utility.

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

[69] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 30th day of March, 2017.



Murray E. Doehler