

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -

IN THE MATTER OF AN APPLICATION of the **TOWN OF SPRINGHILL**, 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, CA., P.Eng., Member

APPEARING: **TOWN OF SPRINGHILL**
Gerry Isenor, P.Eng.
G.A. Isenor Consulting Limited

Blaine Rooney, CA
Blaine S. Rooney Consulting Limited

Brian Herteis, P.Eng.
Director of Engineering and Public Works

John Boyle, CGA
Director of Finance

HEARING DATE: March 3, 2015

UNDERTAKINGS: March 9, 2015

DECISION DATE: **April 14, 2015**

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

I SUMMARY

[1] The Town of Springhill ("Town") applied to the Nova Scotia Utility and Review Board ("Board") on behalf of the Springhill 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* ("Act"), R.S.N.S. 1989, c. 380. The existing Schedule of Rates for Water and Water Services and Schedule of Rules and Regulations have been in effect since April 1, 2012 and March 1, 2011, respectively.

[2] A Rate Study to support the Application, dated November 3, 2014 was prepared by G.A. Isenor Consulting Limited in association with Blaine S. Rooney Consultants Limited. ("Rate Study") and was submitted to the Board on November 7, 2014.

[3] The Application proposes rate increases for the fiscal years 2015/16, 2016/17 and 2017/18 ("Test Years"). The proposed increases for unmetered, mainly residential customers, assuming quarterly consumption of 15,000 gallons, are 2.7% in 2015/16, 2.7% in 2016/17 and 2.9% in 2017/18. For metered services, (i.e., 5/8" to 8"), the proposed increases range from 0.9% to 3.1% in 2015/16, 1.7% to 3.1% in 2016/17 and 2.5% to 3.1% in 2017/18.

[4] The Application also proposes amendments to the annual public fire protection charge to be paid by the Town to the Utility. The proposed adjustments are 10.2%, 12.0% and 8.9%, respectively, for each of the three Test Years.

[5] By Order of the Board, effective March 31, 2015, at 11:59 p.m., the Town was dissolved into the Municipality of the County of Cumberland ("Municipality"). For

the purposes of the implementation of the Order herein, any reference to the Town shall be construed as meaning the Municipality, or the area of the former Town, as the context requires.

[6] The public hearing was held at the Town Council Chambers on March 3, 2015, after due public notice. Gerry Isenor, P.Eng., of G.A. Isenor Consulting Limited and Blaine Rooney, CA, of Blaine S. Rooney Consulting Limited, represented the Utility. The Utility was also represented by members of the Town's staff: Brian Herteis, P.Eng., Director of Engineering and Public Works, and John Boyle, CGA, Director of Finance.

[7] The rate increases are approved. The Rules and Regulations are approved, as amended and requested by the Utility.

II INTRODUCTION

[8] The Utility consists of the following components: source water watershed, water treatment plant, water storage tank, water distribution system and an upgraded pressure distribution zone. Through the combined operation of these components, raw surface source water is collected from the Leamington Brook Watershed, treated at the Water Treatment Plant and pumped approximately 6 km to a water storage tank. Water is then distributed to consumers through two separate distribution systems either from the storage tank or the treatment plant. The bulk of the Utility's system consists of a number of watermains which are in poor condition.

[9] The Utility's current level of non-revenue water is estimated to be between 27-30% of the total amount of water produced at the Treatment Plant. The Rate Study contains projected operating and capital costs associated with the Utility's goal to further

reduce the amount of non-revenue water by undertaking water line replacements and regular leak detection surveys.

[10] In response to an Information Request (“IR”) the Utility stated that in order to comply with the provisions of Nova Scotia Environment (NSE)’s *A Drinking Water Strategy for Nova Scotia (Drinking Water Strategy)*, a new Water Utility System Assessment Report was completed in 2013 and issued to Nova Scotia Department of Environment.

[11] The report identified deficiencies in meeting the drinking water requirements and identified eight recommendations that the Utility needs to act upon to meet regulatory compliance. Of the eight recommendations three have been completed and five are scheduled for completion in 2015/16. The continuing cost of capital for these recommendations is, including the replacement of watermains, part of the revenue requirements of the Utility.

[12] The Applicant currently serves 1,551 customers, of which approximately 1,500 are unmetered. The unmetered customers include residential customers and a few small commercial customers. It is projected that the number of Utility customers will remain constant over the Test Years.

[13] 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

[14] The Rate Study indicates that the Utility had an excess of revenues over expenditures, including non-operating items, for the 2013/14 fiscal year of \$150,711 and an accumulated operating deficit as of March 31, 2014 of \$496,591. The Rate Study indicates that for that year 2014/15 the Utility is estimating an excess of revenues over expenditures of \$209,521 and an operating deficit balance as at March 31, 2015 of \$287,070.

[15] The Utility projects that, at current rates, there will be an excess of expenditures over revenues for each of the Test Years resulting in an accumulated deficit of \$723,142 at the end of the test period.

[16] Mr. Isenor explained during the hearing that the \$287,000 accumulated deficit for the year 2014/15 may grow by an additional \$30,000 due to the recent cold weather conditions, which has caused more watermain breaks than usual.

[17] Mr. Isenor summed up the financial position of the Utility, if no rate relief was sought as follows:

...we have done a projection of where we think the utility will be without a change in rates. We see the utility going into a deficit position next year of approximately \$67,000 and the following year of 146,000, and the final year of close to 222,000 if we don't do an adjustment in rates, and that's the reason why we have come forward...

[Transcript, p. 5]

[18] The operating expenses contained in the Rate Study are based upon the Utility's budget for the year 2014/15, with projected annual increases of 3% to account for inflation in the Test Years, with the exception of certain items within some of the

expense categories as well as depreciation. The annual depreciation expense is based on the Utility's existing assets and proposed capital additions.

[19] Mr. Isenor testified that certain expenses were under budgeted due to budget freezes, but actual expenses were above these budget-frozen numbers, as the work had to be completed. The Utility's budgeting process was explained as:

Certainly there were questions raised about the increase in cost of the water treatment. ... There was really significant costs associated with a number of small items, or a number of items that were in some ways under-budgeted due to the desire to keep budgets held at the current level but are proven to be not sustainable as far as actual work in the field goes. So we have elected to take that out in the upcoming years and I've seen a significant increase because of that.

The other item that has also seen an increase in costs that's above the normal 3 percent that we see is transmission and distribution, and again we have an area there of water sampling, maintenance and mains, replacement services, and line flushing, and also some vehicle upgrades which are required in order to make it sustainable. And, again, perhaps the budgets for '14, '15 were not as robust as they could have been.

... Primarily with holding these budgets down we've really just robbed Peter and paid Paul a bit.

[Transcripts, p. 5]

[20] The Utility also had various other expense categories estimated to have a larger than 3 percent increases over the most recent completed year. In response to some IRs, the Utility explained the reasons for these various increases, many of which fell into the budget freeze philosophy mentioned above.

[21] Under Source of Supply the majority of the cost increases could be attributed to Water Inspection and Maintenance, and Monitoring and Sampling. The Utility explained:

The increase is required to cover the cost of maintenance required on bridges that were installed in the watershed in 2010 and 2011, and the requirement for new/replacement culvert installations on the access roads and trails, and tree and branch trimming along the access roads to the old dams and other sampling locations in the upcoming budget years.

...

... an increase in sampling frequency and enhanced analysis (pesticides, hydrocarbons, etc) of the source water to monitor source water quality as a result of increased water shed area usage by trail groups, property owners, etc. and climatic changes.

[Exhibit S-3, IR-9 b) and c)]

Findings

[22] The Board has reviewed the information presented in relation to the Utility's projected operating expenses and accepts the Applicant's explanation for the variances between the 2013/14 actual and the 2014/15 budgeted amounts as being reasonable.

[23] For the Test Years, the Board accepts the Utility's explanation of its new budgeting process. Based upon the information provided, the Board accepts the operating expenses as contained in the Rate Study.

[24] The Board reminds the Utility to ensure that the preparation of its budgets is as accurate as possible in order to provide the Utility's governing body with the best financial information available when making decisions. Budgets should not be based upon hypothetical "budget freeze" requirements. They should be based on management's best estimate of actual costs adjusted for known efficiencies, operational changes, or price adjustments. To do so otherwise could, at best, label management as ineffective, or at worst cause illness from improperly treated water because there were no funds to purchase the required chemicals.

[25] The Board also approves the annual depreciation expense based upon the Utility's projected capital budget as contained in the Rate Study.

(B) Capital Budget and Funding

[26] The Rate Study includes the Utility's proposed capital additions of \$1,669,000 in 2015/16, \$1,785,000 in 2016/17 and \$1,197,000 in 2017/18. The capital projects included in the rate study were as outlined in the Opus International Consultants (Canada) Limited's (OPUS) Infrastructure Report developed for the Springhill Transition Committee as part of the Town's dissolution application process. This report was accepted as evidence by the Board and transition committee during that process.

[27] The proposed funding for the capital budgets over the test period is expected to include a large amount of outside funding in the amount of \$755,000 in 2015/16, \$800,000 in 2016/17, and \$572,000 in 2017/18. The Utility explained how these estimates were derived:

These amounts are estimated at this time based on an anticipated Infrastructure Program from senior levels of government.

[Exhibit S-3, IR-13]

[28] The Board notes that the above noted Town dissolution process also included an agreement with the Provincial Government (letter of intent) which included a portion of this expected outside funding.

[29] The Rate Study also included funding from the depreciation fund for each year of the test period in the amounts of \$650,000 in both 2015/16 and 2016/17, and \$275,000 in 2017/18.

[30] The Rate Study indicates that the balance in the depreciation fund as at March 31, 2014 was \$1,111,376 and, based upon the proposed funding, the balance will be \$376,302 at the end of the test years.

[31] In addition to the outside sources of funding and depreciation funds, the Utility is also proposing new long term debt in each of the test years, \$264,000 in 2015/16, \$335,000 in 2016/17, and \$350,000 in 2017/18.

Findings

[32] The Utility's largest capital expenditure in each of the test years is in relation to distribution watermain replacements which was included in the OPUS report as noted above. The Utility's watermains are assessed to be in poor condition and in need of widespread replacement.

[33] The Board accepts the proposed funding of the Utility's share of the capital projects through long-term debt and depreciation. The Utility's total funding contains external funding which has yet to be confirmed, but is expected to be available.

[34] The Board finds the proposed capital budgets for each of the three Test Years of the Rate Study to be reasonable given the OPUS report, the letter of intent, and age and condition of the current system. 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 Expenditures and Revenues

[35] The Rate Study includes projections of non-operating revenues and expenditures for the Test Years. The Rate Study included an estimate of the Utility's accumulated operating deficit for March 31, 2015 as \$287,070.

[36] In the financial statements the Operating Fund lists a receivable of \$346,109 "Due from Capital Fund". Mr. Boyle explained how he thought it had occurred:

... Before I came they did three or four projects, and I knew what the loans were but I could never find anything -- like, there wasn't an accountant at the time to tell me what the cost was. So from what I can determine, that we didn't borrow enough money to cover those, so from what I can understand we didn't fund it properly in the capital side and then just took the money out of the operating, ...

[Transcript, p. 22]

[37] Non-operating revenue included in the Rate Study consists of \$6,000 per year for each of the test years for "Machine Hire", while Non-operating expenditures are made up of mainly principal and interest on new and existing debt with \$70,000 in each of the test years for Earnings.

[38] In response to an undertaking, the Utility projected the effects on future rates of continuous borrowing for infrastructure, and "earning" in sufficient amounts to retire the operating deficit and the "due from capital fund" amount. The projection assumed operating expenses are fixed, and a mix of debt and depreciation will be used to fund approximately \$1,000,000 per year of capital investments. The results would see annual revenue requirements vary between -2.11% to 4.03% for the twenty years from 2018/19 to 2029/30. All but two of these years are projected to need an increase, similar in magnitude to that sought in this Application, in the rates.

Findings

[39] The Board finds that the amount of \$346,109 showing as "Due from Capital Fund", was likely capital out of revenue and should not be shown as an asset. The total should be added to the deficit. This means that the projected March 31, 2015, deficit will be \$633,179.

[40] The Board finds the Utility's non-operating revenues and expenses, as presented in the Application, are reasonable and accepts them as presented.

[41] As part of accepting the non-generating expenses, the Board has approved the requested "Earnings" of \$70,000 in each of the test years. However, this approval is conditional on the understanding that the amounts are not actually paid out of the Utility, but are retained to reduce the accumulated deficit. It is anticipated, using the revised deficit as discussed in para. [39], this amount of earnings will be required for at least nine years to restore the Utility to sound financial health.

(D) Allocations of Revenue Requirement

1. Public Fire Protection

[42] The methodology used in the determination of the public fire protection charge is consistent with the majority of other water utilities in the Province of Nova Scotia and the Board's *Water Utility Accounting and Reporting Handbook* ("Accounting Handbook").

[43] The methodology applied for allocations of utility plant in service to fire protection in 2015/16, 2016/17, and 2017/18 of 33.3%, 35.6%, and 37.2%, respectively. The fire protection charge, currently \$355,982, is proposed to increase to \$392,116, \$439,335, and \$478,611 in 2015/16, 2016/17, and 2017/18, respectively.

Findings

[44] The Board accepts the Utility's determination of the fire protection charge.

2. Utility Customers

[45] The remaining revenue requirement, after the allocation to the fire protection charge, is to be recovered from the customers of the Utility. The revenue requirement is allocated to base charge, customer charge, delivery and production, using the methodology as set out in the *Accounting Handbook*.

[46] The calculation of consumption charges is based upon the total current annual consumption of 142,657,827 gallons, which is projected to remain the same during the test period.

[47] The Utility currently has a single-block system. The second-block was removed after the last rate hearing as no customer reached the second-block consumption amount. The utility is proposing to remain with the single-block system.

[48] In anticipation of some requirement from water haulers, the Applicant had calculated a bulk water rate for use in the Test Period. No large volume is expected to be drawn from this source. The rate, calculated on a per 1,000 gallon basis, applies a similar methodology as used elsewhere in the Province.

Findings

[49] The Board has considered the Rate Study's methodology used in the allocation of the various expense items to the base, customer, delivery and production categories.

[50] The Board accepts the methodology used by the Utility in the calculation of base and consumption rates for each of the Test Years.

[51] The Board also approves the maintenance of the bulk water rate for the Test Period, as proposed.

(E) Schedule of Rates and Charges

[52] In addition to the rates for water supply to its customers and the fire protection charge to the Town, the Application proposes one other change to its Schedule of Rates and Charges. The Utility outlined this change as follows:

The only proposed change relates to the charge for non-negotiable cheques which is proposed to increase to \$35 from \$20 plus any additional charges levied by the bank to reflect the cost incurred by the Utility.

[Exhibit S-3, IR-19]

Findings

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

[54] The Board approves the Schedule of Rates and Charges for Water and Water Services, effective July 1, 2015, April 1, 2016, and April 1, 2017.

(F) F. Schedule of Rules and Regulations

[55] Mr. Isenor noted that the Schedule of Rules and Regulations also only has one change. Mr. Isenor outlined this change:

In the Rules and Regulations on page 52, Mr. Chairman, we're asking that an Item number 5, "Billing" be added. And the first part of Item 5 is familiar to the Board in the sense that it does offer some clarification as to how bills are calculated for a partial period, as opposed to a full-term quarter. And we are also asking that the utility be allowed to charge the base charge for the entire year for seasonal customers. And, again, we're asking that as the number of seasonal customers go up and our revenue falls back from those sources.

[Transcript, pp. 21-22]

Findings

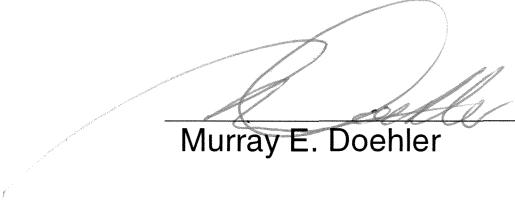
[56] The requested amendment to the Schedule of Rules and Regulations is consistent with most other water utilities in the Province, which have had recent rate applications.

[57] The Board approves the Schedule of Rules and Regulations, effective July 1, 2015.

[58] The Utility is to refile all the schedules attached to the Application to reflect the appropriate jurisdiction (i.e. the Municipality) in the proper context.

[59] An Order, with the amended schedules, will issue accordingly.

DATED at Halifax, Nova Scotia, this 14th day of April, 2015.



Murray E. Doehler