

DECISION

2017 NSUARB 25

M07649

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 DISTRICT OF WEST HANTS**, on behalf of the **THREE MILE PLAINS/WENTWORTH 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
Richard J. Melanson, LL.B., Member

APPEARING: **MUNICIPALITY OF THE DISTRICT OF WEST HANTS**

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

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

Martin Laycock, MBA, CPA, CMA
Director of Finance

Rick Sherrard, P.Eng.
Municipal Engineer

Brad Carrigan, P.Eng.
Director of Public Works

HEARING DATE: December 6, 2016

UNDERTAKINGS: December 13, 2016

DECISION DATE: February 24, 2017

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

I SUMMARY

[1] The Municipality of the District of West Hants ("Municipality") applied to the Nova Scotia Utility and Review Board ("Board") on behalf of the Three Mile Plains/Wentworth 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, 2016 and July 1, 2014, respectively.

[2] A rate study to support the Application ("Rate Study"), dated June 20, 2016 was prepared by G.A. Isenor Consulting Limited in association with Blaine S. Rooney Consulting Limited and was submitted to the Board on September 2, 2016. Information Requests ("IR's) were issued by Board staff on October 19, 2016, and responses were filed on November 2, 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 3.0%, 6.2% and 4.9%, respectively. For the 2" meter size customer, a gypsum company which is maintaining its assets but using minimal water, the proposed increases are 5.3%, 10.4% and 10.0%, respectively in each of the Test Years. For all other metered customers, based upon the average quarterly consumption of each meter size, the proposed rate increases are between 2.0% to 2.9% in 2016/17, 6.4% to 7.3% in 2017/18, and 4.7% to 5.9% in 2018/19. As a result of the Utility filing a revised rate study, based upon updated information, in the Undertakings, the overall percentage increases are less.

[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 was proposed to remain at the 2015/16 amount of \$178,362 in each of 2016/17 and 2017/18, and increase to \$200,025 in 2018/19 in the Application. In the course of responding to the Undertakings, the Utility revised the fire protection charge to reflect the updated information presented.

[5] The public hearing was held at the Municipality's Council Chambers on December 6, 2016, 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 Martin Laycock, Director of Finance/Treasurer, Brad Carrigan, Director of Public Works and Rick Sherrard, Municipal Engineer. 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, to correct errors in the consumption volumes and the depreciation fund balance, and to adjust the proposed earnings in each of the Test Years. The amended Rate Study was presented at the hearing. It was subsequently revised in response to the Undertakings, to include updated financial information, the most recent volumes of water purchases, and to revise the test period to two years, beginning in the 2017/18 fiscal year. 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, and as filed in response to the Undertakings.

II INTRODUCTION

[8] The Utility purchases water from the Town of Windsor (“Town”) Water Utility through a number of metered connection points, at the wholesale rates approved by the Board. The Application was based upon purchasing 100,919,590 imperial gallons per year, which was updated in the Rate Study submitted in response to the Undertakings, to 98,179,242 imperial gallons annually.

[9] The distribution system for the Utility consists of mains ranging in size from 6” to 12”, with one pressure boosting station on the Panuke Road. The Utility’s last rate application in 2014 included the capital costs associated with an upgrade to the booster station to improve flows for fire protection. The Applicant noted that this upgrade was deferred pending the completion and review of the Town of Windsor’s feasibility study for a second standpipe. The costs associated with the upgrade are included in the current application.

[10] The Utility has had a number of service lateral breaks, which are likely caused by increased heavy, quarry related, traffic. A lateral replacement program was started in 2011/12. In a letter to the Utility dated July 13, 2016, the Board approved the Utility’s request to adjust prior years’ financial information to capitalize service lateral replacement expenses in excess of \$10,000. The total amount of the adjustment, at \$191,000, is to be funded from the Utility’s depreciation fund, and the capitalized assets

are to be depreciated. The Application reflects these approved changes, which are expected to continue in the future.

[11] The service lateral breakage has impacted the Utility's non-revenue (unaccounted for) water, which is approximately 53%. The Utility has increased its leak detection efforts, the costs of which are included in the Application, noting that it has seen some progress recently.

[12] The Utility has 989 metered customers, with growth of five residential, 5/8" meter size customers in each of 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 Utility's most recent financial statements were filed in response to the IRs. For the year ended March 31, 2016, the Utility had an excess of expenditures over revenues of \$38,892 and an accumulated operating deficit of \$178,765. The Rate Study filed with the Undertaking responses, which is based upon the latest financial information indicates that if current rates are left in place, the Utility is projecting an accumulated deficit of \$340,841 by the end of 2018/19.

[15] The Utility has had to incur greater expenses than had been projected in its last rate application in 2014. There were higher than projected transmission and distribution expenses, including the replacement of service laterals, and an increase in purchased water from the Town, from increased wholesale rates and usage. It further

explained that the proposed rates are based upon the Utility “breaking-even” and that the deficit balance is projected to continue, but be eliminated over approximately seven years, based upon the budgeted earnings included in the revenue requirements. Mr. Laycock confirmed that the Utility’s deficit is being funded by the Municipality’s general operating fund.

[16] The projected operating expenses are generally based upon the most recent budget plus an annual increase of 3%.

[17] The source of supply expense is based upon the Utility’s recent purchased volume from the Town’s Water Utility, at the most recent Board approved rates. The volume of purchased water is projected to be constant over the test period.

[18] The transmission and distribution expense and the administration and general expense each increased significantly in 2015/16. In 2016/17, the transmission and distribution expense is budgeted to increase by 118%, while the administration and general expense is budgeted to decrease by 59%. The Applicant explained in response to Undertaking U-2 that the transmission and distribution expense increased in 2015/16 due to the auditor’s prior years’ adjustment for service laterals, which decreased the 2014/15 figure by \$191,000. The administration and general expense in 2015/16 included allocations for supervision and maintenance of general property, totaling approximately \$69,000, which should have been included in the transmission and distribution expense. The revised allocations were made in 2016/17, with each of the expense items projected to increase by approximately 3% to 5% in subsequent years.

[19] The Applicant stated that the Director of Public Works meets with Utility staff to determine resource requirements in order to draft a budget which is forwarded to the

Director of Finance and the CAO for review, prior to submitting to Council for approval. It was further indicated that the methodology used to allocate costs between the Municipality and the Utility has been reviewed since the last rate application. Currently a fee of 10% of the budgeted operating costs for the Utility is allocated and paid to the Municipality for administrative services.

[20] 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"). The Applicant confirmed that the revenue requirements includes the depreciation of donated assets.

Findings

[21] The Utility is projecting that its operating deficit will continue to increase without an amendment to its rates.

[22] The Board accepts the source of supply expense, which is based upon the most recent information available.

[23] In a separate submission, the Board approved the prior years' adjustment to the Utility's financial statements related to the capitalization of service lateral replacements. This has impacted the Utility's operating position, as well as the allocation of costs to the transmission and distribution expense. It further appears that some costs were allocated to the wrong expense line item. These issues, which have caused fluctuations in expense items, have been addressed in the Application, which the Board accepts.

[24] 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 depreciation expenses are based upon the guidelines set out in the *Accounting Handbook*.

[25] 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.

[26] The Board accepts the revised Rate Study as filed in response to the Undertakings, which is based upon the Utility's financial statements for the year ended March 31, 2016.

(B) Capital Budget and Funding

[27] The original Rate Study included the Utility's capital budget in 2015/16, totalling \$745,623, as well as in each of the three Test Years, totaling \$95,000, \$216,100, and \$393,200 respectively.

[28] The 2015/16 projects, which were shown to be funded as \$12,000 from external sources and the remainder from depreciation funds, included \$447,334 identified as transmission mains, which had not received formal Board approval. In response to the IRs, the Utility filed a letter to the Board dated November 7, 2016, which requested Board approval of the donated assets in the amount of \$445,387, which relates to two distribution main projects which were completed in 2015/16 and donated to the Utility by the Municipality at no cost. The revised Rate Study filed in response to the IRs corrected the funding and revised the project to be identified as distribution mains. The Rate Study filed in response to the Undertakings updated the depreciation fund balances based upon

the most recent depreciation expense from the 2015/16 financial statements, and the commitment of depreciation funds for carry-over work from the previous year.

[29] Meters are included in each of 2016/17, 2017/18 and 2018/19 in the amounts of \$6,000, \$6,100 and \$6,200, respectively, as are Services in the amounts of \$77,000, \$77,000 and \$67,000, respectively. Capital expenditures for distribution mains of \$12,000 in each of 2016/17 and 2018/19 and for transportation equipment of \$8,000 in each of 2017/18 and 2018/19, are included in the Rate Study.

[30] Capital costs for electrical pumping equipment are included in each of 2017/18 and 2018/19 in the amounts of \$125,000 and \$300,000, respectively. The Applicant stated that this relates to the Panuke Road Booster Station which was previously deferred. The Utility noted that the review of the Windsor standpipe feasibility study is ongoing, and if the project does not go ahead as budgeted in the Rate Study, the additional earnings, with the rates in place as proposed, will still not be sufficient to eliminate the deficit.

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

	2016/17	2017/18	2018/19
Outside Funding Depreciation Fund	\$ 25,000 \$ 70,000	\$ 69,500 \$ 146,600	\$ 169,000 \$ 224,200
Total	\$ 95,000	\$ 216,100	\$ 393,200

[32] The Utility noted in response to the IRs that no external funds have been approved to date.

[33] The Rate Study projects that, with the proposed funding as set out above, the depreciation fund balance will be \$439,639 at the end of the Test Years.

Findings

[34] The Utility's capital budgets included in the Rate Study focuses primarily on the replacement of service laterals, which has been an ongoing issue, and the pumping station upgrade. The Utility has maintained a healthy depreciation fund balance and it is noted that in the absence of the receipt of external funding, the Utility has sufficient depreciation funds to cover the budgeted costs.

[35] The Board approves the Utility's request to take over the donated assets as set out in the letter to the Board dated November 7, 2016. It is the Board's understanding that the Rate Study's revenue requirements include the annual depreciation of these distribution mains, with the associated annual depreciation expense to be placed in the Utility's depreciation fund.

[36] The Board finds the proposed capital budget and funding for each of the 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

[37] The other operating revenue estimated in 2016/17, 2017/18 and 2018/19 consists of \$5,000 annually related to service charges for non-payment of bills, and revenue from sprinkler service/private hydrants in the amounts of \$500, \$1,000 and \$1,000, respectively.

[38] The Rate Study included as non-operating expense in 2015/16, an amount of \$6,638 as capital out of revenue, although the Utility had an operating deficit that year.

The response to the IRs noted that the item was to fund a number of capital items, such as meters, hydrants and a hand-held reader, which were budgeted to be paid from operations. The Applicant explained that although capital from revenue was budgeted, the intent was to adjust the funding at year end, as there was an operating deficit.

[39] The Utility is proposing earnings in the amounts of \$18,000 in 2017/18 and \$60,000 in 2018/19, which is revised from the original Rate Study's amounts of \$20,000 in each of 2016/17 and 2017/18 and \$35,000 in 2018/19. The Applicant explained that the purpose of the requested earnings is to reduce the Utility's operating deficit.

[40] The rates of return, which are calculated using the total non-operating expense revenue requirement, are 0.00%, 0.44% and 1.96%, respectively, in each of 2016/17, 2017/18 and 2018/19.

Findings

[41] The Board finds the Utility's other and non-operating revenues to be reasonable and accepts them 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 an operating deficit exists.

[43] The Utility has included earnings in the revenue requirements to reduce, and eventually eliminate, its operating deficit. The Utility has no long-term debt and has sufficient depreciation funds to cover the costs of its projected capital expenditures. The calculated rates of return are within a range that the Board accepts as reasonable. The Board finds the projected non-operating expense revenue requirement to be reasonable.

(D) Allocations of Revenue Requirement

1. Public Fire Protection

[44] The methodology used in the Rate Study for the determination of the public fire protection charge is in accordance with the *Accounting Handbook*. The percentage allocation of utility plant in service to public fire protection is calculated in the original Rate Study to be within a range of 43.5% to 44.0% over each of 2016/17, 2017/18 and 2018/19. However, at these percentages, the public fire protection charge would decrease in 2016/17 from the 2015/16 amount of \$178,362, prior to increasing in the next two years. For rate design purposes, the original Application proposed to hold the annual fire protection charge at \$178,362 in each of 2016/17 and 2017/18, and increasing to approximately \$200,000, based upon the calculations, in 2018/19. The Applicant explained the reason for the calculated decrease in fire protection charge:

...The largest items that affected the proposed decrease in fire protection is related to the fact that in the last rate study there was a projected increase in electrical pumping equipment of \$425,000 which has been deferred until 2017/18 and 2018/19 and is included in the current rate study. This was allocated 60% to fire protection. There was also the projected capitalization of services in the amount of \$286,000 in 2015/16 and \$77,000 in 2016/17 which is allocated 100% to general services. This is partially offset by a projected increase in transmission mains in 2015/16 that is allocated 60% to fire protection.

[Exhibit T-4, IR-27b]

[45] Given the timing of the hearing, the Rate Study filed in response to the Undertakings is based upon a two-year test period of 2017/18 and 2018/19. The fire protection charge in the currently approved rates for 2016/17 is \$188,504, which the revised Rate Study proposes to remain constant in 2017/18 prior to increasing to \$215,039, based upon the revised Rate Study's calculated rates. This revision also has a moderating impact on the customer rates proposed, as noted below.

Findings

[46] Given the timing of the Application, hearing and review, the Board finds the two-year test period, beginning in 2017/18, based upon the most recent financial information, as set out in the Undertaking responses to be reasonable. This also results in maintaining the current fire protection charge for rate design purposes for only one year, as opposed to two years, with the final year based upon the calculations in the Rate Study.

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

2. Utility Customers

[48] 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 allocate more costs to the base charge to reduce the revenue risk for the small Utility.

[49] Annual growth of five 5/8" meter size, residential services is estimated. However, the total consumption of the residential customers is shown to decrease, as the Rate Study projects a 1.5% annual decline in residential consumption, which the Applicant noted is comparable to the experience of other water utilities in the Province.

[50] 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.

Findings

[51] The Board notes that the proposed average quarterly water bills as presented in the revised Rate Study are slightly lower than those proposed in the IR responses (which corrected errors in the original Application) for all of the meter sizes, due in part to the increased fire protection charge.

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

(E) Schedule of Rates and Charges

[53] In addition to the rates for water supply to its customers, the Application proposed an amendment to item 7 'Charge for Re-Establishing Water Service' in its Schedule of Rates and Charges. Although the magnitude of the charge is proposed to remain at \$50, the following clause associated with the timing of the payment is proposed to be added:

The \$50.00 charge to cover the cost associated with the notice of suspension shall become payable when the suspension order is created.

[Exhibit T-10, Undertaking U-3]

[54] The Applicant explained the rationale for the proposed addition is to offset the collection costs related to suspension of service, for example, collection calls, letters and staff scheduling, being incurred prior to the issue of the order of suspension. Currently, in many cases, the account is brought up to date in the period between issuing

the suspension order and service suspension, resulting in customers who pay their bills on time bearing the costs. Mr. Laycock further confirmed that the \$50 is an appropriate amount for cost recovery.

[55] An error in the due date for the collection of the public fire protection charges was corrected in the Schedule of Rates and Charges filed with the Undertaking responses.

Findings

[56] The Board has reviewed the proposed amendment to item 7 included in the Schedule of Rates and Charges, and finds it to be reasonable. It is noted that no other changes to the miscellaneous rates and charges are proposed.

[57] The Schedule 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

[58] Two changes were proposed to the Schedule of Rules and Regulations. For Regulation 2 'Liability for Payment of Water Bill' the Utility proposes to add wording to make the owner of a rented or leased property responsible for opening an account for the premises. Currently this is at the discretion of the Utility.

[59] The other change is the specification of the fee that should be paid when the suspension order is created in Regulation 10 'Suspension of Service for Non-Payment Bills', to reflect the proposed change to item 7 'Charge for Re-Establishing Water Service', as discussed above.

Findings

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

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

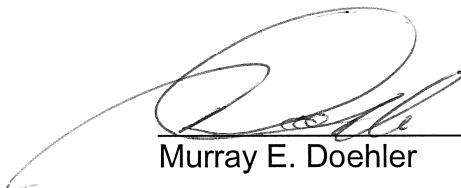
IV CONCLUSION

[62] In response to the Undertakings, the Utility filed a revised Rate Study, based upon the most recent financial information, 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.

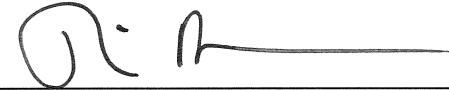
[63] The Board approves the Schedule of Rules and Regulations as proposed, effective April 1, 2017.

[64] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 24th day of February, 2017.



Murray E. Doehler



Richard J. Melanson