

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -

IN THE MATTER OF AN APPLICATION of the **ST. PETER'S – SAMSONVILLE & AREA 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: Richard J. Melanson LL.B., Member

APPEARING: **ST. PETER'S – SAMSONVILLE & AREA WATER UTILITY**
Gerry Isenor, P.Eng.
G.A. Isenor Consulting Limited

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

Meghan Hayter
Administrator

Amanda Martell,
Director of Public Works

HEARING DATE: August 22, 2017

UNDERTAKINGS: August 23, 2017

DECISION DATE: **September 21, 2017**

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

I SUMMARY

[1] The St. Peter's – Samsonville & Area Water Utility (Utility, Applicant) applied to the Nova Scotia Utility and Review Board (Board) 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 June 15, 2008, respectively.

[2] A rate study to support the Application dated May 15, 2017, was prepared by G.A. Isenor Consulting Limited, in association with Blaine S. Rooney Consulting Limited, and was submitted to the Board on June 1, 2017. Information Requests (IRs) were issued by Board staff on July 13, 2017, and responses were filed by the Utility on July 20, 2017.

[3] The Application proposed rate increases for the fiscal years 2017/18, 2018/19, and 2019/20 (Test Years, Test Period). For 5/8" meter residential customers, based on average quarterly consumption, the proposed increases in each of the Test Years are 2.3%, 0.7%, and 0.6%, respectively. For all other metered customers, based upon the average quarterly consumption of each meter size, the proposed rate increases are 1.8% to 2.1% in 2017/18, 1.1% to 1.9% in 2018/19, and -0.6% to -0.3% in 2019/20.

[4] The Application also proposed amendments to the annual public fire protection charge to be paid to the Utility by the Village of St. Peter's (Village) and the Municipality of the County of Richmond (Municipality) for the provision of water for fire protection service. The total annual public fire protection charge, currently \$162,352, is proposed to increase by 0.5%, 3.5%, and 2.9 %, respectively, for each of the Test Years.

[5] A public hearing was held at the St. Peter's Volunteer Fire Department, 22 Toulouse St. in St. Peter's, Nova Scotia on August 22, 2017, after due public notice. Gerry A. Isenor, P.Eng., of G.A. Isenor Consulting Limited, and Blaine S. Rooney, CPA, CA, of Blaine S. Rooney Consulting Limited, represented the Utility. The Utility was also represented by Municipality staff: Amanda Martell, Director of Public Works, and Meghan Hayter, Administrator.

[6] There were no formal intervenors in the proceeding, no requests to speak, and no letters of comment received by the Board.

[7] The original rate study was amended in response to Board Staff IRs, and again in response to Undertaking U-1. The revised rate studies resulted in the proposed overall rate increases for retail customers being less than in the original filing, while the public fire protection charges were lower in the first two Test Years, but higher in the final Test Year. It also eliminated the decline in rates in the final Test Year, which had been proposed in the original rate study. It is the revised rate study (Rate Study), as presented in the Undertaking U-1, that is referenced in this Decision unless otherwise noted.

[8] The Schedule of Rates and Charges and the Schedule of Rules and Regulations are approved, as amended by the Utility in response to the Undertakings.

II INTRODUCTION

[9] The Utility's current source of water supply is from four production wells that are disinfected. Water enters a storage tank (located at the wellfield) and is gravity fed to the Village of St. Peter's and the Community of Samsonville.

[10] The Utility began operating a groundwater source located in Samsonville, in 2009. Upon start up in 2009 there were five production wells (PW). PW#1 and #2

failed early on and the Utility dug two additional PW (#6 and #7). PW #7 has been put into service. PW#6 has low quantity and has not been put into service. Consequently, PW#3, 4, 5 and 7 are the four wells currently in operation. There are also seven observation wells in and around the wellfield. The plan for the Utility is to extend water service to the community of French Cove by attaching the existing distribution system located there to the Samsonville end of the Utility's existing system.

[11] The Utility currently serves approximately 497 customers. An increase of 50 new customers is expected over the Test Period due to the connection of the French Cove system. The Utility is projecting that connection will happen during the second Test Year, and as such, used an estimate of 35 additions in 2018/19, and the remaining 15 in 2019/20, for a total of 547 customers by the end of the Test Period.

[12] The Application was presented to the Board based upon the need to adjust the rates due to increased operating costs and the phasing out of the amortization of the capital cost contribution of \$117,835 as a non-operating revenue. The current treatment did not allow the full depreciation expense to be included in rates.

III REVENUE REQUIREMENTS

(A) Operating Expenditures

[13] The Rate Study indicated that the Utility had forecasted an operating surplus for the 2016/17 fiscal year of \$94,577, with an accumulated operating surplus of \$300,940. These figures include the non-operating revenue of \$117,835 associated with the amortization of capital contributions. If this line item is excluded, the Utility would have projected an operating deficit for 2016/17.

[14] It is projected that, at current rates, including the phasing out of the non-operating revenue of \$117,835, there will be an excess of expenditures over revenues in each of the Test Years, resulting in a decrease in the Utility's accumulated operating surplus to \$240,573 at the end of the Test Period.

[15] The Rate Study stated that the projected operating expenditures for 2017/18, 2018/19, and 2019/20 were provided by the Utility. With the exception of depreciation, the budgeted expenditures generally allow for a 3% annual increase based on the 2016/17 budgeted amounts, plus increased costs based on adding 35 customers in 2018/19 and 15 in 2019/20.

[16] The Rate Study proposed that the annual depreciation expenses be based on the current depreciation expense plus depreciation on any capital additions over the Test Period. The Applicant also proposed that the amortization of the full amount of the capital cost contribution from outside funding, in the approximate amount of \$288,075, be recognized on the same schedule as the depreciation. Receipt of this amount is expected in 2017/18, and will offset much of the capital cost associated with the French Cove expansion. Like the existing capital cost contributions, the Utility is proposing to exclude it as a non-operating revenue line item, to ensure rates cover the full cost of depreciating all assets.

[17] The Applicant noted that non-revenue water is about 40% of total production. While still far from ideal, it is a significant improvement. In the past, non-revenue water has been as high as 74%. The Utility noted that it has been diligent in leak detection and repair since the previous rate study. In addition to leak detection, the water meters in the Village have been replaced as part of regular maintenance.

[18] In response to IR-7, the Utility described its on-going budgeting process:

The Utility works with its auditor, using the previous years information, to budget for the current year. The budget is then submitted to the Village Commission for approval. ...

[Exhibit S-4, IR-7]

[19] Regarding shared costs, it was indicated by the Applicant, that the Utility is billed by the Village for the Utility's portion of shared expenses, which includes administration, office expenses, and employee wages. Testimony at the hearing established that administration and office expenses are shared on a 50/50 basis. Employee wages related to field staff are based on daily logs showing hours worked for the Utility.

Findings

[20] The increase in the number of customers over the Test Period is based on the Utility picking up customers, resulting from the acquisition of the French Cove private system, at some point in the second Test Year. The Board notes the connection of the Utility's water source system to the French Cove system was intended to alleviate any water safety concerns. The Board expects the combined system to meet the appropriate water safety standards. The Board finds the basis for the projected increases in customers to be reasonable given the uncertainty as to when in the second Test Year the systems will be connected.

[21] The operating expenditures over the Test Years are generally based upon an annual increase of 3%, plus the increased costs associated with adding the 50 customers from French Cove, spread out over the final two Test Years, by the same ratio they are included in revenues and usage. The Board finds the projected operating expenses for the Test Years to be reasonable.

[22] The annual depreciation expense, based primarily on depreciation rates as set out in the *Water Utility Accounting and Reporting Handbook (Accounting Handbook)*, and the Utility's estimated life of specific assets, is acceptable to the Board.

[23] The Board accepts the explanation of how shared costs are allocated to the Utility. These allocations should be reviewed on a regular basis.

(B) Capital Budget and Funding

[24] The Rate Study included the Utility's proposed Capital Budget for the Test Years. The proposed capital budget proposes only one project in 2017/18 for a total of \$363,075. As previously indicated, this relates to the extension to connect the French Cove private system to the Utility. Seventy-five percent of eligible costs will be sourced from the Clean Water and Wastewater Fund. The remainder of the funding will come from the Utility's depreciation fund, and a smaller contribution from the Municipality and French Cove ratepayers.

[25] This project was the subject of a capital expenditure approval request, approved by the Board on June 7, 2017. This project is expected to generate more revenues than the related expenditures creating a net benefit to current ratepayers.

[26] The Applicant also noted that no other large capital expenditures are expected in the near future.

Findings

[27] The Board has considered the information presented with respect to the proposed capital project and associated funding.

[28] The Board accepts the proposed level of funding from the Utility's depreciation fund. The Board also accepts the Utility's proposed capital program and funding.

(C) Non-Operating Revenues and Expenditures

[29] The Test Years' revenue requirements identified in the Rate Study include projections of non-operating revenue and non-operating expenditures.

[30] The non-operating revenues estimated in 2017/18 and 2018/19 consist of the amortization of contributed capital in the amounts of \$20,000 and \$5,000, respectively. As noted above, this revenue line item is being phased out over the Test Period, down from \$117,835 in 2016/17 to zero in the final Test Year, so that rates will cover the cost of depreciating the contributed capital.

[31] The Rate Study included projected non-operating expenditures related to the principal and interest charges on existing debt. No new debt is proposed over the Test Period, and the current debt consists of four issues. Three of the debentures issued will be fully retired in 2017, 2020, 2021, with the final issue maturing in 2024, with a balloon payment, which will most likely be refinanced for an additional 10 years.

[32] The Rate Study calculates the Utility's return on rate base for each of the Test Years as 4.87%, 5.51%, and 5.98%, respectively.

Findings

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

[34] The Board accepts the phasing out of the amortization of contributed capital by the end of the second Test Year.

[35] The Board finds the Rate Study's calculated return on rate base to be reasonable and accepts it as presented.

[36] Although the Board approves the return on rate base as presented in the Rate Study, it is noted that the returns are at the high end of the acceptable range. The Board further notes that the return is related to debt servicing of existing debt, and appears to increase in the first Test Year and over the Test Period, due to phasing out of the amortization of contributed capital.

(D) Allocations of Revenue Requirement

1. Public Fire Protection

[37] The methodology used in the Rate Study for the determination of the public fire protection charge is in accordance with the *Accounting Handbook*.

[38] The allocation of Utility Plant In Service to public fire protection in the Rate Study is 40.5% in 2017/18 and 40.1% in each of 2018/19, and 2019/20, with total expenditures allocated to fire protection at 33.9%, 33.4%, and 33.2% in each Test Year, respectively.

[39] The fire protection charge is to be split between the Village and the Municipality in proportion to the number of total hydrants serving each, which is the same methodology used in the previous rate study.

Findings

[40] The methodology used to determine the total public fire protection charge conforms to the methodology set out in the *Accounting Handbook*. In addition, the methodology used to allocate the total public fire protection charge between the Village and the Municipality is consistent with that previously approved by the Board.

[41] The Board approves the Utility's proposed fire protection charges, as presented in the Rate Study.

2. Utility Customers

[42] 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 generally consistent with the methodology used in the previous rate study and with the *Accounting Handbook* with two exceptions; Depreciation, and Transmission and Distribution.

[43] The Rate Study proposed that the depreciation expense be allocated 100% to Base, as opposed to 40% Base, 30% Delivery and 30% production, as per the *Accounting Handbook*. In response to Board Staff IR-18(a) the Utility noted:

The 100% allocation is widely used in Rate Studies throughout the Province and is consistent with the allocation used in the previous rate study.

[Exhibit S-4, p. 13]

[44] The Rate Study also proposed that Transmission and Distribution be allocated 45% to Base and 55% to Delivery in 2017/18, transitioning to a 50/50 allocation in the final Test Year, as opposed 100% to Delivery, as per the *Accounting Handbook*. In relation to this expense line item the Utility noted:

The allocations used in the previous rate study was 50% to base and 50% to delivery for rate design purposes. The rates proposed in the current rate study have been selected for rate design purposes to prevent a reduction in either the commodity or base rates year over year.

[Exhibit S-4, p. 13]

[45] In IR-18(c) the Board noted that the allocation of costs is weighted towards the Base charge over commodity charges at an almost 2:1 ratio. In response to the same IR, the Utility explained the reasoning for proposing such a large amount of its revenue requirement from the Base charge as follows:

The relationship between base and consumption revenue is a rate design proposal to manage the revenue risk for a very small utility which currently has less than 500 customers. This has been done with similar sized utilities in the Province.

[Exhibit S-4, p. 13]

[46] The growth of 35 residential customers in the second Test Year and 15 additional in the final Test Year is projected to come from the connection of the French Cove distribution system, as noted earlier in this Decision. Although the Utility is projecting growth of 35 customers in the second Test year and 15 in the final Test Year, all customers of that system will become customers of the Utility at the same time. The customers are expected to be connected during the second Test Year, but they will not be customers for the full year; as such only a portion of the projected annual revenue and expenditures will be realized in the year in which they are connected. Including them in this manner allows the costs to be prorated for a portion of the year in the year they are connected, with full revenues and expenditures included in the final Test Year.

[47] In addition, consumption per dwelling is expected to decrease by 1% annually, though total volumes are shown to increase due to the addition of the 50 customers to the system. Mr. Isenor noted that this pattern of declining residential consumption matches a recent trend that has been observed amongst other water utilities in Nova Scotia.

[48] The Rate Study projected that the annual consumption volume for all other meter sizes will remain constant throughout the Test Period.

Findings

[49] The Board notes that the proposed average quarterly water bills, as presented in the Rate Study, are lower than those proposed in the original Application

due to the correction made to the worksheets and how and when costs and revenues from the additional customers are added to the system.

[50] The Board finds that mitigating potential revenue risks, and providing for a more predictable revenue stream, by assigning higher allocations to the Base charge, and less to the consumption charges, than provided in the *Accounting Handbook*, is an acceptable approach for this Utility, given the small customer base, and the extent of fixed costs.

[51] Based upon the information provided, the Board approves the methodology used by the Applicant in the calculation of customer rates for each of the Test Years. The Board also approves the customer rates as presented in the Rate Study.

(E) Schedule of Rates and Charges

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

[53] The Application also proposed an addition to the regulation concerning the “charge for non-negotiable cheques”, to include any additional fees charged by the bank.

[54] In addition to the above amendments, there were a number of charges that are currently included in the Schedule of Rules and Regulations. These items are proposed to be moved to the Schedule of Rates and Charges, as they are better classified as a charge as opposed to a rule or regulation.

Findings

[55] The Board approves the proposed amendments to the Schedule of Rates and Charges with effective dates of October 1, 2017, April 1, 2018, and April 1, 2019.

(F) Schedule of Rules and Regulations

[56] The Rate Study proposed amendments to the Utility's Schedule of Rules and Regulations, including amendments to one item and the addition of three new provisions.

[57] The amendment to an existing deposit provision set out in Section 3 is to reflect current conditions related to interest.

[58] The proposed additions include Section 5, Billing, Section 36, Deposits in Advance, and Section 37, Water Conservation Directives.

[59] Section 5, Billing, will allow the Utility to charge the full year's base charge for seasonal customers. In response to Board IR-22(b), the Utility noted that there are approximately 26 seasonal customers on its system.

[60] Section 36, Deposits in Advance, will allow the Utility to collect a deposit from customers for work that will be performed by the Utility that was requested by the customer.

[61] Section 37, Water Conservation Directives, was discussed in some detail during the hearing. The proposed addition of this item will allow the Utility to make directives regarding the usage of water, should a water shortage occur.

Findings

[62] The Board finds that the proposed amendments to the Schedule of Rules and Regulations are reasonable and approves them as filed, effective October 1, 2017.

IV CONCLUSION

[63] The Board has considered the information presented, and approves the Schedule of Rates for Water and Water Services as proposed by the Applicant, in the Rate Study filed in response to Undertaking U-1, with effective dates of October 1, 2017, April 1, 2018, and April 1, 2019, for each of the Test Years.

[64] The Board further approves the Schedule of Rules and Regulations as proposed, with an effective date of October 1, 2017.

[65] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 21st day of September, 2017.

A handwritten signature in black ink, consisting of a large, sweeping loop followed by a horizontal line that tapers to the right.

Richard J. Melanson