

DECISION

**2013 NSUARB 248
M05845**

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

– and –

IN THE MATTER OF AN APPLICATION by the **TOWN OF LUNENBURG** on behalf of its **ELECTRIC UTILITY** for Approval of Amendments to its Schedule of Rates for the provision of electric supply and services to its customers and its Schedule of Regulations

BEFORE: Peter W. Gurnham, Q.C.

APPLICANT: **TOWN OF LUNENBURG ELECTRIC UTILITY**
Albert E. Dominie
Consultant

Elana Wentzell
Finance and Accounting Director

Raymond Francis
Electric Utility Superintendent

HEARING DATE(S): **November 20, 2013**

DECISION DATE: **December 5, 2013**

DECISION: **Approved as amended by this Decision.**

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1.0 INTRODUCTION

[1] This Decision is further to a public hearing held in Lunenburg, Nova Scotia on November 20, 2013, in the matter of an application for approval of amendments to its Schedule of Rates and Regulations filed by the Town of Lunenburg Electric Utility (“Utility”) dated August 14, 2013 (“Application”).

[2] The hearing was advertised in accordance with the provisions of the *Public Utilities Act*, R.S.N.S., c. 380, as amended (“Act”). Except for pass-through rates related to increases granted to Nova Scotia Power Incorporated (“NSPI”) and Efficiency Nova Scotia Corporation (“ENSC”) the last increase in rates, based on the Utility’s own cost of service, was in 2005.

2.0 BACKGROUND

[3] The Utility commenced operations in 1889 as the Lunenburg Gas Company Limited and was purchased by the Town of Lunenburg (“Town”) in 1937. It buys power and energy from NSPI and distributes it to about 2150 customers in the town and surrounding areas.

[4] The Utility applied for an overall increase in rate revenues of 5% effective January 1, 2014, with the increase distributed such that the Domestic Class would see an increase of 9.81%; the Lighting Class 5%; Small General and General customers 3% and the Large General rates would remain the same (i.e., 0%).

[5] Changes to the Utility’s Regulations governing fees for electrical inspections have been updated and fees are proposed to increase by approximately 22% to bring them in line with the rates currently approved for NSPI.

[6] Elana Wentzell, Finance and Accounting Director for the Town, Raymond Francis, Superintendent of the Utility and Albert E. Dominie, the Utility’s Consultant,

appeared on behalf of the Utility. Nobody intervened in the Application. The only member of the public who asked to speak in accordance with the Notice of Hearing was David Friendly, a resident of the Town.

3.0 EVIDENCE

3.1 Applicant

[7] Mr. Dominie reviewed the cost of service study indicating it had been prepared and presented in a manner consistent with prior studies submitted to the Board.

[8] Mr. Dominie noted that the Utility had recently completed major capital expenditures including improvements to its substation. Those improvements cost over \$2 million and the financing cost for this expenditure must now be included in rates.

[9] He advised the Utility had recorded a net loss in six of the past nine years. Financial results for the year ended March 31, 2013 indicate a small profit due, in part, to one-time only revenue from some contract work for Bell Aliant. The Utility's retained earnings are \$178,482. With projected losses in 2013/14 estimated at \$148,850 under present rates, the retained earnings would drop substantially.

[10] Mr. Dominie noted it was originally intended that the Utility seek an increase effective August 1, 2013; however, because the Application was not filed until after August 1, 2013, the date had been revised to January 1, 2014.

[11] He advised the increase would enable the Utility to meet basic operating costs and should provide a positive contribution for fiscal 2015 and 2016.

[12] Mr. Dominie spoke to other changes in the Application:

In keeping with prior approval criteria, the fees governing Electrical Inspection should also be increased to maintain consistency with those used by NSP. This is a common service and should, to the degree possible, see uniform costs throughout the two service areas. An approximate 22% increase in various fees would bring the charges to the

January 1, 2013 levels currently approved for NSP. The Lunenburg charges are presently based on NSP's 2007 approved levels.

[Exhibit L-4]

3.2 Summary of Comments from David Friendly

[13] David Friendly, a resident of the Town, was the only member of the public who spoke at the hearing. He had three concerns: firstly the size of the increases over the past four years as a result of the pass-through rates from NSPI and ENSC; secondly a concern as to whether the Utility participated in NSPI rate applications; and finally, some suggestions of things that the Town could do to save costs. He cited an example, the cost of leaving trucks idling when not in motion.

[14] In response to his second issue Mr. Dominie explained the role of the Municipal Utilities Co-operative in NSPI rate hearings.

4.0 ISSUES

4.1 Rate of Return

[15] On an annualized basis the Application shows a return on rate base of 9.09% before any increases and expense items or changes in working capital are considered. The Board noted this rate of return is higher than that allowed for NSPI, a public company, and is a significant increase from the 5% awarded in the last rate application.

[16] Under questioning by the Board, Mr. Dominie agreed that it was fair to characterize the Utility's request as seeking a cash revenue requirement. In other words, the Utility was not seeking to have a weighted average cost of capital and debt equity ratio imposed by the Board but simply looking to recover cash costs and provide a reasonable return. The Utility explained that it would be its intent to eliminate the debt

over time and that the Utility did not intend to refinance to maintain the debt to equity ratio they currently have.

[17] The Utility agreed that a 5% return satisfies the requirement as long as the principal debt repayment is funded. This would mean adding \$100,000 to the revenue requirement in addition to their operating expenses plus a 5% return on rate base. This proposal is more acceptable to the Board.

4.2 Varying Increase between Rate Classes

[18] Mr. Dominie confirmed that the reasoning behind not allocating any of the rate increase to the Large General class and 9.81% to the Domestic Class was in order to achieve a revenue to cost ratio within 95:105, in accordance with prior Board decisions. He noted that before these adjustments, the revenue to cost ratio of the Domestic Class is 88.78%, significantly below an acceptable range.

[19] The revenue to cost ratios for the Application are as follows:

Lunenburg Electric Utility ALLOCATION FOR ADDITIONAL REVENUE REQUIREMENT For the Test Year 2013/2014							
	(1) Total \$	(2) Domestic \$	(3) Small Gen \$	(4) General \$	(5) Large Gen \$	(6) Lighting \$	
5	Cost Recovery	100.00	94.88	103.13	104.43	102.67	96.31

4.3 Allocation of Salaries and Benefits for Personnel between the Electric Utility and the Town

[20] On questioning Ms. Wentzell, the Board raised concerns with respect to what appeared to the Board to be varying allocations, year over year, in both salary and benefits between the Town and the Utility. Following some discussion the Town agreed to investigate it further and reply in an undertaking which was received by the Board on November 25, 2013 (Undertaking U-1).

[21] In the Undertaking response the Utility stated as follows:

The information in the originally filed IR-6 (e) and IR-6 (f) did not have the Town allocated salaries and benefits in the Electric Utility broken out from the Electric Utility staff salaries and benefits. This caused some percentage variations as the Electric Utility full time equivalent staff has varied year over year. As well, an error was discovered in the reported benefits for the Electric Utility staff in 2010/11 which overstated these benefits in that year by \$18,000.

[Undertaking U-1, p. 1]

[22] In Undertaking U-1 the correct allocation of salaries and benefits showed a more consistent allocation year over year.

[23] The Board is satisfied with the results of Undertaking U-1. The Utility agreed it would review, prior to the next rate application, the appropriate allocation between the Town and the Utility.

4.4 Revenue from Sales

[24] In the budget for the test year, the Utility included only \$5,000 of revenue from sales of services such as fees for wiring permits and charges to customers for service changes although the actual sales for the last five years have varied between \$18,318 in 2009/2010 to a high of \$28,543 in 2011/2012. The Utility indicated it was budgeting conservatively.

[25] In reply to questions from the Board, Ms. Wentzell agreed it might be more reasonable to assume an average of the past five years of \$22,841. Ms. Wentzell did note that one year was abnormally high.

4.5 Transformer Maintenance Costs

[26] The Utility was questioned related to PCB testing for transformers and increased salaries related to the transformer testing cycle which takes place every three years. It clarified the cycle testing is separate from the PCB testing and that the

increased labour was not an increase in salary cost, rather reallocation from other cost categories. The Board accepts this explanation.

4.6 Succession Planning Costs

[27] The Utility proposed a one-time cost of \$30,000 for succession planning. Under questioning the Utility conceded this was, in part, temporary; however, the Utility's expectation of increased wages for the new superintendent was included in this amount. As part of this budget item, it also intended to replace another position vacant since July of 2011 which would increase its deficit under current rates. The Board accepts the explanations with respect to succession planning costs.

5.0 FINDINGS

[28] The Board makes the following findings and adjustments to the Utility's revenue requirement.

- a) The Utility's return on rate base will be held at the previous 5%; however, the Utility will be permitted an allowance for a principal repayment of \$100,000 related to the debt. This represents a reduction in the request (based on a \$3,711,975 rate base) of \$51,820. The Utility indicated that the loan was for a 20 year term with approximately 13 years remaining. This cost can be treated the same as other rate base costs for purposes of allocating cost of service.
- b) The Utility is requested, prior to the next application, to review its cost allocations between the Town and the Utility and supply more data supporting the allocations.
- c) The Board reduces the revenue requirement for sales of services. The budget used for the test year was \$5,000. The Board increases this

amount by \$16,000 to roughly approximate a normalized five year average of this revenue, to reflect the Board's assumption that revenue from sales in the test year will be \$21,000 (including increased electrical inspection fees).

- d) Overall, the adjustments related to the return on debt repayments and the sales of service result in a reduction in the increase requested of \$67,820. This brings the average rate increase down from 5% to approximately 3.7%.
- e) Having regard to the need to maintain revenue to cost ratios within 95:105, the Board accepts the distribution of the increase among rate classes as proposed by the Utility.
- f) The Board approves the request for increases in electrical inspection fees.
- g) Otherwise, except as amended herein, the Application is approved as filed.

[29] The Utility is directed to file rates for final approval in a compliance filing by December 13, 2013, reflecting these adjustments. The Board will then issue a Compliance Order for rates effective January 1, 2014.

[30] An Order will issue following the Compliance Filing.

DATED at Halifax, Nova Scotia, this 5th day of December, 2013.



Peter W. Gurnham