DECISION **2015 NSUARB 195**
M06760

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -

IN THE MATTER OF AN APPLICATION of the **CANSO ELECTRIC LIGHT UTILITY** on behalf of the **Municipality of the District of Guysborough** for Approval of Amendments to its Schedule of Rates for the provision of electric supply and services to its customers

BEFORE: Murray E. Doehler, CPA, CA, P.Eng., Member

APPEARING: **MUNICIPALITY OF THE DISTRICT OF GUYSBOROUGH**
Barry Carroll
Chief Administrative Officer

Gary Cleary
Deputy Chief Administrative Officer

Robert G. Grant, Q.C.
Solicitor

Albert E. Dominie, P. Eng.
Consultant

HEARING DATE: **June 10, 2015**

FINAL SUBMISSIONS: **June 17, 2015**

DECISION DATE: **July 27, 2015**

DECISION: **Schedule of Rates approved.**

Document: 238313

I SUMMARY

[1] The Canso Electric Light Utility ("Utility"), which is located in the Municipality of the District of Guysborough ("Municipality"), filed an application for approval of amendments to its Schedule of Rates dated March 13, 2015 ("Application"). Except for pass-through rates related to increases granted to Nova Scotia Power Incorporated ("NSPI") and Efficiency Nova Scotia Corporation, the last increase in rates, based on the Utility's own cost of service, was in 1997. The Utility requires increased rates to meet its revenue requirement.

[2] A Rate Study to support the Application, dated January/February 2015, was prepared by Albert E. Dominie. The industrial category was omitted from the schedule of rates in the Rate Study, as it was not required.

[3] The Utility has applied for:

- an average rate increase of 10% for the domestic class (by increasing the energy charge 11.6%, and leaving the base charge unchanged); and
- a 7.5% increase to its small industrial rate, applied across the energy and base charge.

[4] The Board issued Information Requests ("IRs") on May 1, 2015, to which the Utility responded on May 11, 2015.

[5] A public hearing was held at the Fanning Education Centre in Canso on June 10, 2015. The hearing was advertised in accordance with the provisions of the *Public Utilities Act*, R.S.N.S., c. 380, as amended ("*Act*"). Gary Cleary, Deputy Chief Administrative Officer for the Municipality, Albert E. Dominie, the Municipality's consultant, and Robert G. Grant, the Municipality's counsel, appeared on behalf of the

Utility. There were no intervenors to the Application. No letters of comment were received and no members of the public made presentations during the hearing.

[6] The Schedule of Rates and Charges is approved, as outlined in the Rate Study.

II INTRODUCTION

[7] The Utility distributes power which it purchases from NSPI to residential, commercial, and small industrial customers. The Utility supplies approximately 475 customers in the Canso area.

[8] Upon the dissolution of the Town of Canso in 2012, the administration of the Utility was taken over by the Municipality. Since dissolution, the focus of the Municipality has been to sell the Utility. The majority of maintenance, outage restoration and other emergency services is contracted out to NSPI.

[9] The Utility's fiscal 2015 financial statements were filed during the hearing. As at March 31, 2015, the Utility has a surplus of $86,814 and no debt. It has experienced small operating losses in recent years followed by negligible net income in fiscal 2015.

[10] The Utility's current, and proposed, rates are outside of the 95 – 105% revenue/cost range by customer class established by the Board in other electricity rate decisions.

III REVENUE REQUIREMENTS

1. Operating Expenses

[11] The Rate Study supporting the Application used as a test year a projection of 2015/2016 revenue requirements. The projection was based on the actual 2012/2013

and 2013/2014 and the forecasted 2014/2015 expenditures. The Utility projected (with no change in rates) a net loss for the test year with the accumulated operating surplus reducing to $31,000 as of March 31, 2016. With the proposed rate increases (assuming a July 1 approval date), the Utility is projecting an excess of revenues over expenditures and an accumulated operating surplus of $68,000 at the end of the test year.

[12] Increases in the projections for the test year were kept consistent with historical cost level patterns with the exception of administration. There was a $20,000 increase in administration costs included in the test year in an effort to fully recover the internal cost of the Municipal staff performing administrative functions on behalf of the Utility. The charge for the recovery of administration costs had significantly dropped from the 2011/2012 levels because the Municipality, in the past three years, has not been accurately determining an appropriate charge to the Utility.

[13] During the hearing, there was discussion about the support given by the Municipality to the Utility. This included activities in the finance department, the time by staff to coordinate operations, and an allocation of insurance which is incorporated into the Municipality's overall insurance program.

[14] The 2014/2015 forecast was in line with the actual 2014/2015 results, except for distribution expense. The increase in distribution expense was caused by the net one-time costs related to an ice storm in 2013/2014 and the related insurance settlement received. The insurance claim listed costs totalling $130,342 which were directly caused by the ice storm, of which insurance reimbursed $110,354. The Utility is confident that these one-time costs have been properly adjusted and the projected expense will be adequate for normal operations.

[15] A property tax expense of $14,534 was incurred by the Utility in 2013/2014. The forecasted 2014/2015, and the test period net income, both contain a tax expense of $15,000. This tax expense was removed from the final 2014/2015 financial statements as the Municipality had determined it had incorrectly charged the Utility for property tax.

[16] As at March 31, 2015, there is an amount of $63,137 recorded on the balance sheet labelled as "Deferred expenses relating to the sale of the electric Utility". These were legal and professional consulting fees incurred by the Utility in the preparation for its eventual sale.

Findings

[17] The Board accepts the process used to project the test year revenue requirements, including the increase in administration costs. However, the Board notes that the allocation of administration costs is not based on an internal analysis or activity tracking. In future rate applications the Board would expect the allocation to be based upon sound cost accounting principles.

[18] The tax expense, which has been included in the total test year revenue requirement, is incorrectly charged and will not be paid by the Utility. Regardless, the Board accepts the total revenue requirement in the Rate Study as this item is not material and can be used as a contingency to offset any additional losses that maybe incurred by not having the new rates in effect by July 1.

[19] The Board finds the deferral of the costs related to the eventual sale of the Utility to be appropriate. It is expected that the Utility will suggest an appropriate disposition of these costs upon a future submission to the Board for either its sale or continued operations.

2. Capital Costs

[20] The Utility has not initiated any capital projects since 2010, and currently has no future capital investment planned. The plant and equipment are nearly fully depreciated. It was noted in a report prepared by CBCL Limited (at the time of dissolution of the Town) that the plant is in need of significant investment in capital equipment in the coming years in order to maintain service and avoid serious and potentially sudden peaks in required investment. In the Rate Study Mr. Dominie noted:

> Plant and equipment, with the exception of the recently converted street lighting system, is over 95% depreciated and will require considerable investment in infrastructure in the near future. The costs associated with operating this Utility with its aging infrastructure are a major concern for the Municipality, particularly where an ice storm last year caused damages to the Utility which took $150,000 to repair.
>
> [Rate Study, p. 2]

[21] During the hearing, Mr. Cleary explained that no capital projects have been identified due to the focus of the Municipality on the sale of the Utility:

> Unfortunately as I said, the efforts were put into selling the utility and it appeared very close a few times … so there hasn't been any long-range planning.
>
> [Transcript, pp. 33-34]

[22] It was confirmed during the hearing that no capital expenditures were provided for in the Rate Study:

> The Chair: … Mr. Dominie, in your go-forward, you have no capital out of revenue.
>
> Mr. Dominie: That's correct sir.
>
> [Transcript, p. 29]

[23] As at March 31, 2015, there is a depreciation fund reserve of $370,355.

Findings

[24] The Board understands that the Municipality is focusing its attention on the sale of the Utility at this time. However, if the Municipality is unable to sell the Utility in the near term, the Utility will need to develop a capital budget to address the issues identified in the CBCL Limited report. The Board notes there is a significant depreciation fund that could be used to address any unplanned or needed capital renewals or additions in the current year.

[25] The Board finds the absence of a capital budget for the test year, with the cushion of the depreciation reserve, to be appropriate for this Application only.

3. Non-operating Expenditures and Revenues

[26] The Utility has no long term debt charges and no new debt is projected. There is a small profit of $1,000 projected in the test year.

Findings

[27] On an annualized basis, the Application shows a return on rate base of 5.4%. The Board finds the return on rate base over the test year to be reasonable.

IV ALLOCATION OF THE REVENUE REQUIREMENTS

[28] The methodology used to allocate the revenue requirement to determine the base and consumption charges is consistent with the Utility's previous rate applications. The allocation between customer classes has also been applied consistently. The revenue/cost ratios by customer class that would result from the proposed rate increases are as follows:

Customer Class	Revenue/Cost ratio
Residential	89%
Small General	145%
General	117%
Small Industrial	80%
Street Light	100%

[29] Mr. Dominie explained the objectives of the Application:

> There were ... conflicting objectives to of course have the application conform with the requirements under the Act, move rates directionally closer to the 95:105 cost-recovery requirement. And at the same time move towards a more favourable position vis-a-vis NSP rates. ...
>
> [Transcript, p. 17]

[30] When asked why the rates could not be moved more to be the same as NSPI rates, Mr. Dominie responded:

> Our understanding is, Mr. Chair, that underneath the Public Utilities Act, rates have to be based on the utility cost. And that would not be ... from a legal perspective would not be permitted underneath our interpretation of the Act at this point in time.
>
> [Transcript, p. 16]

[31] Mr. Grant noted that the Municipality assumed that a 10% increase to the residential class and a 7.5% increase to the small industrial category was as far as could reasonably be done in a single step. This was confirmed by Mr. Cleary and Mr. Dominie.

[32] Mr. Dominie commented that moving the rates further towards the 95 – 105% range would be an objective in future years (2017 and 2018) if the Utility is not sold. In response to an IR the Utility said:

> If the Utility is not sold to NSP and continues as a separate Municipal Utility we would anticipate a defined plan to move rates into the approved range. No such plan has presently been developed as pursuit of the sale is our first priority. Sale of the Utility to NSP would eliminate the issue as the customers would be absorbed into NSP's rate structure.
>
> [Exhibit C-4, p. 6]

Findings

[33] The Board finds the allocations of the revenue requirements in the test period to be reasonable, while noting this is being done in the context of the Municipality actively seeking to sell the Utility. If it is not sold in the near term the Board expects the Utility to submit another rate application in the following fiscal year with a main objective of establishing customer class rates that are within a revenue/cost ratio of 95 – 105%.

[34] It is possible that the rates in this Application could be adjusted closer to the 95/105 revenue/cost ratio and NSPI's rates. However, the Board finds the present position of the Utility to minimize "rate shock" to be reasonable and approves the new schedule of rates.

V CONCLUSION

[35] The Application adjusts the rates to cover its revenue requirements. In doing so the rates are moved closer to the 95 – 105% revenue to cost ratio by customer class.

[36] The Municipality has actively been attempting to sell the Utility. As a consequence it has not prepared a long-term capital budget. If the Utility is not sold, then the Board expects the Utility to make a new application in the near future to deal with the capital budget and to bring the revenue/cost ratios for all classes closer to 100%.

[37] The Utility requested an effective date of July 1, 2015, for the new rates. The Board notes that electricity is billed bi-monthly with usage to the end of an even numbered month. The Utility, in a compliance filing, is to file a revised effective date for the new rates.

[38] Upon receipt of an acceptable compliance filing an Order will be issued.

DATED at Halifax, Nova Scotia, this 27th day of July, 2015.

Murray E. Doehler