DECISION **2017 NSUARB 94**
M07788

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 ANTIGONISH**, 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, CPA, CA, P.Eng., Member
Steven M. Murphy, MBA, P.Eng., Member

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

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

Shelly Rector, CPA, CMA
Director of Corporate Services

Ken Proctor, P.Eng.
Director of Public Works

HEARING DATE: April 19, 2017

UNDERTAKINGS: April 20, 2017

DECISION DATE: **June 15, 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 Town of Antigonish ("Town") applied to the Nova Scotia Utility and Review Board ("Board") on behalf of its 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 September 1, 2014, respectively.

[2] A rate study to support the Application ("Rate Study"), dated December 1, 2016, was prepared by G.A. Isenor Consulting Limited, in association with Blaine S. Rooney Consulting Limited, and was submitted to the Board on December 6, 2016. Information Requests ("IR"s) were issued by Board staff on February 9, 2017, and responses were filed on February 24, 2017. The responses to the IRs included a revised Rate Study ("Revised Rate Study"), which in addition to correcting minor errors with respect to the allocation of utility plant in service to fire protection, and the allocation of the administration and general expense to joint use, significantly reduced the Utility's consumption volumes, based upon the most recent data.

[3] The Application proposed rate increases for the fiscal years 2017/18, 2018/19, and 2019/20 ("Test Years"). In addition to serving customers in the Town, the Utility sells water to the Municipality of the County of Antigonish ("Municipality", "County") at wholesale rates. For 5/8" meter residential customers, based upon average quarterly consumption, the advertised increases in each of the Test Years were 11.8%, 4.6% and 4.5%, respectively. For all other metered customers, based upon the average

consumption of each meter size, the proposed rate increases are between 9.3% to 24.2% in 2017/18, 5.9% to 15.3% in 2018/19, and 5.2% to 16.2% in 2019/20.

[4] The wholesale rate (base and consumption charge) to the County, based upon the most recent meter readings of consumption volumes, is proposed to decrease by 2.3% in 2017/18 and increase by 7.5% and 6.9%, in each of 2018/19 and 2019/20, respectively.

[5] The Application also proposes amendments to the annual public fire protection charge of 15.9% in 2017/18, 8.9% in 2018/19 and 8.8% in 2019/20. The annual public fire protection charge is paid to the Utility by the Town and the County, and is allocated to each entity based upon maximum required fire flows, adjusted for fire flow availability to the County.

[6] Due to the lower consumption volumes in the Revised Rate Study, the base rates and consumption rates, and therefore the average bills for the Utility's customers, changed from those proposed in the original Application, which were included in the advertised Notice of Public Hearing. This had no impact on the proposed fire protection charges. In response to the Undertakings, the Utility further amended the Revised Rate Study ("Rate Study") by eliminating the "transfer from depreciation fund" amounts from non-operating revenue in each of 2017/18 and 2018/19. This increased rates, including the fire protection rates, in each of the first two Test Years, with no impact on the rates in 2019/20.

[7] The public hearing was held at the Town's Council Chambers on April 19, 2017, 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 Shelly Rector, Director of Corporate Services and Ken Proctor Director of Public Works. The Municipality filed a notice of intervention with the Board on February 3, 2017, but withdrew the request on the date of the hearing. The Board received one letter of comment dated April 10, 2017 from Killam Properties, expressing concern with the magnitude of the proposed rate increases. There were no requests to speak.

[8] The Revised Rate Study, based upon the most recent consumption data, was presented at the hearing, and is referenced in this decision, unless otherwise noted.

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

II INTRODUCTION

[10] The Utility's source of supply is the James River, with the James River Dam, an earth/concrete reinforced structure, providing gross storage of 31 million gallons. The raw water is gravity fed through the Utility's transmission system to the Brierly Brook Water Treatment Plant. The plant is a 1.8 million gallons per day dissolved air floatation ("DAF") facility, which was commissioned in 2006. The distribution system includes two storage tanks with capacities of 1.2 million gallons and 800,000 gallons. The County receives water from the Utility through eleven metered connection points. The Applicant noted that since its last rate application in 2014, it has been looping previously dead end mains and upgraded its online instrumentation equipment, including its SCADA system and its sludge management systems.

[11] A number of issues which arose during the Utility's last rate application in 2014 were addressed in the current Application. The Utility currently has a two-block

consumption rate structure, with the cut-off between the blocks defined as the first 750,000 gallons per quarter. Given that the majority of water utilities in the Province no longer have block rate consumption structures, the Utility noted during its last application that it intended to evaluate and consider eliminating its block rate structure. The current Application proposes phasing out the block rate structure over the Test Years, with its total elimination in 2019/20.

[12] The Utility's annual financial statements are not prepared using the operating expense line items set out in the *Water Utility Accounting and Reporting Handbook* ("Accounting Handbook"). This results in the necessity to reallocate expense items in the preparation of a rate study. This was noted in the last rate application and continues to be an issue, with reallocations once again required in the current Rate Study. However, the Applicant explained that the new accounting staff plan on implementing these changes in the near future.

[13] There were further discussions during the last rate application with respect to reviewing the allocation of common costs, including Mayor, Council, CAO and Solicitor costs. The Applicant indicated that this issue has been reviewed and it is believed that the current allocations, as included in the Rate Study, better reflect the costs applicable to the Utility.

[14] It was noted in the review of the previous application (done in 2014) that the Utility used a 1.47% depreciation rate for its existing assets, which was described by the Applicant as insufficiently low. At that time, there was discussion of phasing-in an increase in the rate to closer align with depreciation rates for various asset classes as set out in the *Accounting Handbook*. However, the current Application includes the

depreciation rates, as prescribed in the *Accounting Handbook*, without a phased approach.

[15] In addition to the County, the Utility has 1,597 metered customers, with no growth projected in the Test Years. The average flow for the Utility's 5/8" meter residential customers has continued to decrease since the last rate application at an annual rate of approximately 4%. The Application is based upon this trend continuing at a rate of 3% per year over the Test Years. After filing the Application, new consumption data indicated that the larger meter size customers also have been experiencing a decrease in consumption volume. The Revised Rate Study adjusts the base volumes (2016/17) of these customers downward and projects a 1% annual decrease in consumption over the Test Years of customers with meter sizes larger than 5/8".

[16] Although the volume of water sales to the County has decreased since the 2014 application, it is projected to remain constant throughout each of the Test Years.

[17] The Application was presented to the Board based upon the need to adjust the rates to cover increased operating costs, to fund the projected capital program, and to provide earnings to apply against the Utility's accumulated operating deficit.

III REVENUE REQUIREMENTS

(A) Operating Expenditures

[18] For the year ended March 31, 2016, the Utility had an excess of expenses over revenues of $136,944 and an accumulated operating deficit of $201,171. The Revised Rate Study projects that without a rate adjustment, and with the proposed transfer from depreciation as non-operating revenue in 2017/18 and 2018/19, the Utility will have an accumulated operating deficit of $1,071,131 by the end of 2019/20. The

Applicant noted that it has been in an operating deficit position for the past two years. Mr. Isenor explained that the deficit is mainly due to two reasons: the addition of full depreciation in 2015/16; and the declining volume of water sold. He added that an increase in expense accompanied by a decrease in revenue is not a good combination for maintaining the Utility's financial health.

[19] The Utility's most recent financial statements, for the year ended March 31, 2016, contain the operating expense line items set out in the *Accounting Handbook*, as well as separate line items identified as "Supervision Charge" and "Wages". In preparing the Rate Study, these two items were allocated to: source of supply; power and pumping; purification; transmission and distribution; and administration/supervision/wages for 2015/16, with the reconciliations explained in response to the IRs. This formed the basis of the operating expense projections for the Test Years, with expenditure line items in accordance with the *Accounting Handbook*. The Applicant noted that the plan is to implement changes to the financial statement preparation in the coming months, so as to use the same operating expense classifications as set out in the *Accounting Handbook*.

[20] There were some significant variations in the estimated expenses in 2016/17 from the actual 2015/16 amounts. The source of supply expense increased 89% due to dam inspection costs, which were previously deferred, as well as increases in sampling costs. The power and pumping costs decreased by 6% due to efficiencies gained in the electricity consumption at the treatment plant, and technology upgrades requiring less use of electricity. Purification costs increased by 10%, while administration/supervision/wages costs decreased by 9%, as a result of a more appropriate allocation of wages to better reflect the costs attributable to the Utility. The

transmission and distribution expense increase was caused by a 23% inventory readjustment and the reassignment of costs to better reflect where work is being done. The Applicant further confirmed that the estimated expenses for 2016/17 in the Revised Rate Study are consistent with the most current data available for the year.

[21] Mr. Isenor explained that some of the projected increases in operating costs over the Test Years can be attributed to the age of the system, with more demand for replacement parts and repair. He added that the Utility's system has approximately 25% unaccounted for water, and the proposed rate structure includes costs associated with leak detection to try and reduce this figure.

[22] Most of the projected annual operating expense increases in the Test Years are in the 2% to 4% range, with the Applicant providing explanations for any significant deviations outside of this range. The source of supply expense includes one time and cyclical costs related to groundwater under the direct influence ("GUDI") of surface water testing, watershed management and dam inspections. The transmission and distribution expense includes a one-time cost related to a public awareness program with respect to backflow prevention devices.

[23] The Board questioned why some variable expenses included in purification are projected to increase over the Test Years, given the projected decrease in consumption. Mr. Proctor explained that because of the limited number of suppliers for chlorine and chemicals, the price of these items increases every year. Mr. Isenor added that although the Utility may see some decreased production related costs, most of the expenses are related to system requirements with no production related variability.

[24] The Applicant explained its operating budgeting process begins with a first draft based upon the previous year's figures adjusted for known changes. This draft is prepared by the Town's Director of Corporate Services. The draft is distributed to the Town Engineer for review and input of any further items expected to change. After discussion among the various departments, the operating budget is finalized. Town Council approves the operating budget one year in advance.

[25] The allocation of costs between the Town and the Utility was recently updated by assessing the amount of time that various Town staff spend on Utility matters. As a result, the allocation of 20% for Council, the Mayor, CAO and Clerk, which was discussed at the last rate hearing, was adjusted to 10%. Other allocations were adjusted accordingly, based upon the level of effort spent on Utility matters.

[26] The depreciation expense projected in the Test Years is based upon the current depreciation amount plus depreciation on any capital additions. The depreciation rates used for the various asset classes are in accordance with the *Accounting Handbook*. In cases where the proposed capital items are not specifically identified in the *Accounting Handbook,* the Utility provided an explanation for the rate used, based upon the asset's expected useful life.

[27] The Utility's 2015/16 financial statements include a depreciation expense of $314,523, using rates for the various asset classes in accordance with the *Accounting Handbook.* This is a change from the previous 1.47% rate applied to all assets, which produced an annual depreciation expense of approximately $163,000. Given this significant increase in depreciation expense over a one year period, the Board questioned why the change was not phased-in over the Test Years. Mr. Isenor explained that since

the low rate appears to date back to the 1990's, it was decided to fully implement the proper depreciation expense in 2015/16 to help generate enough funds for future infrastructure renewal. He further noted that the proposed transfer from the depreciation fund as non-operating revenue in each of 2017/18 and 2018/19, was solely to smooth out rate increases, which would have the same effect on rates as phasing-in the depreciation expense.

[28] During the hearing, the Board expressed its concerns with the inclusion of the transfer from the depreciation fund, when no new debt is proposed, and when earnings to reduce the deficit over a period of time are also included in the revenue requirements. As an alternative to using a transfer from the depreciation fund, the Board questioned whether the depreciation expense could be phased-in, which would also require an accounting policy change approval request to the Board in order to restate the 2015/16 financial statements. Mr. Isenor noted that without the additional depreciation generated from the full depreciation expense, the Utility would have to borrow to fund its projected capital program. Another option is to eliminate the proposed transfer from depreciation in the first two Test Years and increase the rates accordingly. According to Mr. Isenor the Utility is currently at the low end of rates charged within the Province and an increase in rates resulting from elimination of the proposed transfer would not be significant.

[29] The Board requested that the Utility refile the rate study, as an Undertaking selecting either of the two options discussed. The Final Rate Study filed in the Undertaking amended the Revised Rate Study by eliminating the proposed non-operating revenue of transfer from the depreciation fund in the first two Test Years.

Findings

[30] Although the Utility has addressed items which were of concern in the previous application, there continued to be issues with the format of the Utility's financial statements. This created issues with the preparation of this Application. The net income is the same in both the financial statements and the Application. To prepare the Rate Study, however, reallocations of operating cost items among the various operating expenses was necessary, making it difficult to compare budgeted and projected expenses with actual results. The Board expects the Utility to continue to work towards preparing the financial statements in a format similar to that set out in the *Accounting Handbook.* The Utility's auditors should also be aware of, and asked to support, the necessity of preparing the statements in this format.

[31] Although the Utility's last rate increase was in 2016, it projects a significant operating deficit at the end of 2019/20 without a rate adjustment. The deficit can be attributed to a number of factors, including increased operating expenses, but the main causes are the move to full depreciation, and the decreasing water consumption. As the majority of the operating expenses are fixed, a decrease in consumption yields a disproportionately larger decrease in revenue.

[32] A portion of the projected increases in the Utility's operating expenses over the Test Years are also caused by costs for the aging infrastructure, and one time and cyclical events such as testing and inspections. The Board accepts the explanations provided by the Utility for the significant variations in the operating expenses.

[33] The Utility's long time practice of using a low depreciation rate for all of its assets resulted in a deficiency in the depreciation fund. The move to full depreciation will

improve this situation. This rate impact was originally "smoothed" in the Rate Study through the transfer of depreciation funds as non-operating revenue, in a way that has not been previously approved by the Board. The primary purpose of the depreciation fund is to reduce the cash outflow required for future capital projects rather than operations. The Final Rate Study eliminated this proposed transfer with a slight increase in rates from those originally proposed. The proposed rates will, however, still be at the low end of rates in the Province for utilities with a surface water source.

[34] The Board encourages the Utility to continue its efforts to reduce its amount of non-revenue water through leak detection and repair. The Board further encourages the Utility to continue with its backflow prevention efforts.

[35] The Board accepts the allocation of costs between the Town and the Utility, which have been recently updated. The Board reminds the Utility to continue to review these allocations on a periodic basis to help ensure accuracy.

[36] The Board accepts the Final Rate Study filed in response to the Undertakings.

(B) Capital Budget and Funding

[37] The Revised Rate Study includes the Utility's capital budget in each of the Test Years, totaling $407,000, $417,500 and $383,000, respectively. The budgets in each Test Year consist of several items, with the most expensive ($150,000) related to side slope protection to the James River Dam (source of supply structures) in 2017/18. The response to the IRs provided further detail with respect to the proposed distribution main projects of $95,000 and $147,500, in 2017/18 and 2018/19, respectively. Mr. Proctor explained that the annual $20,000 capital item associated with purification

equipment is for the staggered replacement of instrumentation equipment at the water treatment plant. He added that the annual amounts budgeted for meters ($70,000, $40,000 and $30,000 for each of the Test Years respectively) relates to the Utility's current five-year cycle of checking and replacing its larger size meters.

[38] Mr. Isenor stated that the Utility wanted to fund the capital budget without borrowing. As a result, the Application proposes to fund the capital budget entirely by depreciation in each of the Test Years. The Revised Rate Study projects that, with this proposed funding, the depreciation fund balance will be $111,471 at the end of 2019/20. Mr. Isenor explained that this figure is consistent with the balance that the Utility has been maintaining, noting that given the age of the infrastructure, it is believed to be appropriate.

[39] The Final Rate Study, which eliminates the transfer from depreciation, projects that the depreciation fund balance will be $187,675 at the end of 2019/20.

[40] During the hearing, the Board questioned the Utility with respect to any issues with lead service lines. Mr. Proctor noted that he is not aware of any lead lines on the Utility's side of the property and very few have been found from the property line to the building foundations.

Findings

[41] The Board finds the proposed Test Years' capital budget, and funding through the depreciation fund, to be reasonable. Although there are currently no projects in excess of $250,000 budgeted, the Board reminds the Utility that separate Board approval is required for projects in excess of $250,000 as set out in s.35 of the *Act*.

[42] The Board notes that the issue of lead service lines is gaining more attention across North America, and the Utility should be prepared to deal with it as may be required.

(C) Non-Operating/Other Revenues and Expenditures

[43] The other operating revenue estimated at $22,450 annually relates to sprinkler service/private hydrant charges and sundry items, including miscellaneous charges to customers for missed appointments.

[44] The Revised Rate Study identifies non-operating revenue totalling $55,140, $40,283 and $10,428 respectively in each of the Test Years. This consists of an annual amount of $3,000 as miscellaneous income, interest on overdue accounts of $7,140, $7,283 and $7,428, in each of the Test Years, respectively, and transfers from the depreciation fund of $45,000 in 2017/18 and $30,000 in 2018/19. With the Final Rate Study, the transfer from depreciation is eliminated and the non-operating revenue is $10,140 in 2017/18, $10,283 in 2018/19 and $10,428 in 2019/20.

[45] The non-operating expenses are $242,450, $269,976 and $287,577 in each of the three Test Years. This consists of existing debt charges for the water treatment plant, and earnings of $30,000 in 2018/19 and $50,000 in 2019/20, which is proposed to eliminate the accumulated operating deficit in a timely manner over approximately seven years (assuming no change in the $50,000 earnings level in future rate hearings).

[46] The calculated returns on rate base in each of the Test Years are 2.38%, 2.68% and 2.88% in the Final Rate Study, which is slightly higher than it was in the Revised Rate Study.

Findings

[47] The Board finds the Utility's other operating revenue to be reasonable, and accepts it as presented. The Board accepts the non-operating expenses, including the proposed earnings, as presented.

[48] The Board finds the proposal to not have a transfer from depreciation fund acceptable.

[49] The Utility has proposed no new long-term debt and has sufficient depreciation funds to cover the costs of the proposed capital expenditures over the Test Years. The Board finds the calculated returns on rate base, to be reasonable.

[50] The Board finds the total revenue requirement, including earnings to gradually eliminate the deficit, to be reasonable.

(D) Allocations of Revenue Requirement

1. Public Fire Protection

[51] The methodology used in the Revised Rate Study to determine the public fire protection charge is consistent with the *Accounting Handbook,* and with the methodology used in the previous Application. The Applicant calculated (as opposed to the 60% suggested in the *Accounting Handbook*) a figure of 65% as the allocation for demand assets to public fire protection. This calculation reflects the general capability of the system to provide fire flows as a percentage of the estimated maximum demand (including maximum fire flow) on the system. Using the same methodology, the previous application had used a figure of 64%. The Revised Rate Study also corrected an error in the omission of "other" costs in the cost allocation calculation.

[52] After the total fire protection charge is calculated, it is allocated to the Town and the County using a methodology that has been previously approved by the Board. The application of the methodology results in the total fire protection charge being allocated 58% to the Town and 42% to the County, which is unchanged from what has been used in the past.

Findings

[53] The Application uses the methodology as set out in the *Accounting Handbook* to determine the public fire protection charge. The *Accounting Handbook* provides guidelines for the allocations of utility plant in service to fire protection. In this case, the Applicant has provided calculations to support its allocation of demand assets to public fire protection which is consistent with the previous Application methodology, and which the Board accepts. The Board further accepts the methodology used to allocate the public fire protection charge between the Town and the County, which is consistent with that previously approved by the Board.

[54] The Board approves the Utility's proposed fire protection charges, as presented in the Final Rate Study in response to the Undertaking.

[55]

2. Wholesale Rate to the County

a) Allocation of Expenses to Joint Use

[56] The remaining revenue requirement, after the allocation to the fire protection charges, is allocated to joint use as a first step in determining the rates to the County and the Town customers of the Utility. The allocation of source of supply, power and pumping and purification, each at 100% to joint use, is consistent with the previous

application. The transmission and distribution expense allocation, at 50.66% to joint use, is the same as the previous application. The Applicant explained that the percentage is based upon the length of pipe that is jointly used by the Town and County, including the transmission main from the treatment plant to the distribution system in the Town. The transmission main around the core of the distribution network is also considered joint use, as it connects to the County feeder lines. In addition, one pipe crossing through the distribution network, which represents the most direct water flow from one side of the Town to the other, is included as joint use.

[57] The administration and general joint use expense is calculated as 47.50%, 47.58% and 47.65% in each of the three Test Years, respectively. The same methodology as in the previous application is used, which is based upon total administration and general expenses, less meter reading and collection costs, and less one half of the Town salaries and other costs. The Revised Rate Study corrected a typo, which had no impact on the calculated percentages.

[58] The methodology used to calculate the joint use depreciation expense, at 79.32%, 79.61% and 80.47% in each of the Test Years, respectively, is consistent with the previous application. It is based upon the total depreciation expense less 49.34% of the transmission and distribution depreciation and 100% of the meters, hydrants and services depreciation, which are not joint use.

[59] The taxes joint use allocation of 31.27% is based upon the percentage of taxes on joint use watershed and other lands, consistent with the previous application. The return on rate base joint use allocation is 100%, based upon the outstanding loan for

the water treatment plant and the return on rate base, which is consistent with the previous application.

Findings

[60] The Revised Rate Study provided the supporting calculations for the various joint use percentage allocations, using a methodology which is consistent with the previous application. The Board finds the joint use expenses to be appropriately allocated. It is noted that that the allocation percentages to joint use were not revised in the Final Rate Study. However, due to an increase in the return on rate base resulting from the elimination of the transfer from depreciation fund, the related dollar amount allocated to joint use increased from that in the Revised Rate Study in each of 2017/18 and 2018/19.

b) Allocation of Joint Use Expenses

[61] The joint use expenses are further allocated to the wholesale revenue requirements based upon the percentage of the Municipality's consumption volume to total Utility consumption volume over each of the Test Years. The Applicant explained that this methodology is consistent with the previous application, with the exception of allocating only a portion of the leakage to the County based upon the percentage of transmission and distribution used by the County. The Utility noted that this change is consistent with the methodology used in recent water rate applications which involve a wholesale rate.

[62] The annual County water consumption volume used in the calculation is 87,814,462 gallons, based upon the most recent meter readings, which is a decrease from the approximately 93,900,000 gallons figure used in the previous application. The

Applicant explained that as there is no basis upon which to project a further decline in consumption, and the County's consumption volume is projected to remain constant throughout the Test Years. It further noted that, as the County is in the process of installing meters, these metered volumes will be used in the calculations for future rate applications.

[63] With the reduction in consumption volumes to the Town customers included in the Revised Rate Study, the percentage of the Municipality's consumption volume increased from the slightly less than 27% in the original Rate Study to 27.37% in 2017/18, 27.62% in 2018/19 and 27.86% in 2019/20.

[64] After each of the expense items have been calculated based upon the County's consumption percentage, they are allocated to be recovered by the County's base and consumption charge. The Application allocates 100% of the source of supply, power and pumping, purification, and transmission and distribution expenses to the County's commodity charge. The administration and general, depreciation and tax expense are allocated 100% to the County's base charge. Return on rate base is allocated as 40% to the County's base charge and 60% to the County's commodity charge. This is consistent with the calculations approved by the Board in the previous application, with the exception of the transmission and distribution expense, which was previously allocated 100% to the base charge. There was no change to the allocation in the Final Rate Study.

Findings

[65] The methodology used to allocate the joint use expenses, based upon consumption volume, is consistent with that recently used in the determination of

wholesale rates, which the Board accepts. The Board further accepts the presented consumption volume of the County, noting that due to decreased consumption volume of the Town, the percentage allocation to the County, and therefore, the revenue requirement allocation to the County, increased slightly from that in the original Rate Study.

[66] The further allocations of the County's revenue requirement to base and commodity charges are generally consistent with those used in the previous application and with those used in other utilities in Nova Scotia. The Board notes that the change in the allocation used for the transmission and distribution charge is now consistent with that used for the retail customers.

[67] Based upon the evidence presented, the Board approves the allocation to the revenue requirement to the County, as filed in the Final Rate Study.

3. Retail Revenue Requirement

[68] After the allocation to fire protection and the County, the remaining revenue requirement is to be recovered from the Town's customers. The allocations used are consistent with the *Accounting Handbook*, except for the allocation of the administration and general expense, at 30% and 70% to customer and base (as opposed to 10% and 90% respectively in the *Accounting Handbook)*. In addition, the allocation of return on rate base, is proposed to be 40% to base and 60% to production, as opposed to 40% base and 60% delivery in the *Accounting Handbook*. The allocations are consistent with the previous application approved by the Board.

[69] In preparation of the IR responses, the Applicant received updated consumption volume information for the Town, which showed a significant decrease from the volume identified in the original application. The original Application projected an

annual 3% decrease in consumption volume for the 5/8" meter size, residential customers, with the other meter sizes having a constant consumption volume throughout the Test Years. The updated data indicated that the other meter sizes were also experiencing a decline in consumption, with one major customer St. Francis Xavier University ("St. FX University") recently taking several steps to reduce consumption. The Revised Rate Study used the most recent consumption data available and, in addition to the annual 3% decrease of the residential customers, included an annual 1% decrease in consumption for all other customers.

[70] The Application proposed to phase-out the consumption block rate structure over the Test Years by increasing the volume defined in the first block in each of 2017/18 and 2018/19 and only having one rate for all consumption in 2019/20. The Applicant noted that the block rate structure could not be supported on a cost of service basis to ensure fair rates to all customers.

[71] The Board received one letter of comment from Killam Properties with respect to the magnitude of the proposed rate increases. The letter noted that an annual rate increase of 2% to 3% per year would be fairer and more manageable than the proposed rate increases noted in the Rate Study. During the public hearing, Mr. Isenor responded that while annual increases for many of the Utility's expenses are 2% to 3%, with the annual decrease in consumption of up to 4 % or 5%, and with many fixed Utility costs, the rates to recover all of the costs must increase by more than the 2% to 3% to prevent an annual operating deficit.

Findings

[72] The Board approves the allocations as presented in the Final Rate Study.

[73] The Board notes that the majority of block water rates in the Province have been eliminated in the last few years. As such, the Board approves the proposed phasing-out of the Utility's block rate structure.

[74] The Utility's Final Rate Study is based upon the most recent consumption data. As it is typically more difficult to generalize water use trends with larger meter sizes, which represent a wide variety of customers, recent water rate applications have projected decreased water consumption for residential customers only. However, in this case, the Applicant had specifically identified the changes being made by St. FX University to reduce water consumption to support the additional reduction in consumption. Given the evidence presented, the Board finds the projected consumption volumes to be reasonable.

[75] It is noted that the lower volumes over which to recover the revenue requirement, in the Revised Rate Study, and the larger revenue requirement in the Final Rate Study, results in higher rates than those originally proposed. It is the declining water consumption trend which has contributed to the larger rate increases, a concern that had been identified in the letter of comment from Killam Properties.

(E) Schedule of Rates and Charges

[76] In addition to the rates for water supply to its customers, the Application proposed amendments to Item 10 'Charge for Non-Negotiable Cheques' to add the phrase "…plus all associated fees charged by the bank." Mr. Isenor explained that the change is to allow the Utility to add in any new bank charges.

Findings

[77] The Board has reviewed the proposed amendment and finds it to be reasonable. It is noted that no other changes to the miscellaneous rates and charges are proposed.

[78] The original Application proposed the first rate increase effective April 1, 2017, which was subsequently revised to July 1, 2017. The Schedules of Rates and Charges for the Test Years of 2017/18 (effective July 1, 2017), 2018/19 and 2019/20 are approved as calculated in the Final Rate Study.

(F) Schedule of Rules and Regulations

[79] The response to the IRs listed the proposed changes to the Schedule of Rules and Regulations. These include: a change to "Liability for Payment of Water Bills" to make the property owner of a rented or leased property the customer of the water account; the addition of a clause to specify that seasonal customers will be charged the base charge for the entire year; an amendment to "Adjustment of Bills - Customer Overbilled" to specify a time limitation of five years for the reimbursement period; the addition of a clause to "Pressure Reducing Valves" to clarify the responsibility of the Utility in areas of low pressure; and clarification to "Unmetered Rate to the Municipality of the County of Antigonish" to specify that the wholesale rate is to be applied.

[80] During the hearing, the Board noted an issue with changes in the font within the Schedule and typos in each of Regulation 37 'Pressure Reducing Valves" and Regulation 39 "Unmetered Rate to the Municipality of the County of Antigonish".

[81] The Applicant also confirmed that it has an active cross connection control and backflow prevention program in place.

[82] The Applicant filed an amended Schedule of Rules and Regulations, in the Final Rate Study, which corrected the font and errors noted.

Findings

[83] The Board finds that the proposed changes to the Schedule of Rules and Regulations are reasonable and approves them as filed in the Undertaking response.

IV CONCLUSION

[84] In response to the Undertakings, the Utility filed the Final Rate Study which eliminated the transfer from depreciation to non-operating revenue in each of 2017/18 and 2018/19. Accordingly, the Board approves the Schedule of Rates and Charges for Water and Water Services, effective July 1, 2017, April 1, 2018, and April 1, 2019, as amended by the Utility. Given the timing of the first rate increase, the annual fire protection charge in 2017/18 is to be prorated.

[85] The Board approves the Schedule of Rules and Regulations as proposed and revised in the Undertaking response, effective July 1, 2017.

[86] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 15th day of June, 2017.

Murray E. Doehler

Steven M. Murphy