

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

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

Vince Arbing, CPA, CA
Treasurer/Director of Finance

Ben Pitman, P.Eng.
Town Engineer

HEARING DATE: April 27, 2017

UNDERTAKINGS: May 2, 2017

DECISION DATE: **June 9, 2017**

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

I SUMMARY

[1] The Town of Amherst (“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, 2015, and June 1, 2013, respectively.

[2] A rate study to support the Application dated November 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 December 23, 2016. Information Requests (“IRs”) were issued by Board staff on February 22, 2017, and responses were filed by the Utility on March 3, 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 upon average quarterly consumption, the proposed increases in each of the Test Years are 8.2%, 3.7%, and 2.1%, respectively. For all other metered customers, based upon the average quarterly consumption of each meter size, the proposed rate increases are 8.5% to 10.2% in 2017/18, 4.7% to 4.8% in 2018/19, and 3.4% to 4.2% in 2019/20.

[4] The Utility currently has 507 unmetered customers and, based upon an estimated quarterly consumption of 68 cubic metres, the proposed increases for these customers are 9.3%, 4.7%, and 3.6%, respectively, for each of the Test Years.

[5] The Utility has a bulk water fill station, with a current bulk water rate of \$2.15 per cubic metre and a minimum charge of \$50. The proposed bulk water rates per cubic metre are \$2.66, \$2.81, and \$2.94 for each of the Test Years with a minimum charge of \$75.

[6] The Application also proposes amendments to the annual public fire protection charge to be paid to the Utility by the Town and the Municipality of the County of Cumberland (“County”) for the provision of water for fire protection service. The total annual public fire protection charge, which is currently \$694,800, is proposed to increase by 10.3%, 4.7%, and 4.5%, respectively, for each of the Test Years.

[7] The public hearing was held at the Community Credit Union, Business Innovation Center, 5 Ratchford Street, in Amherst, Nova Scotia on April 27, 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 Town staff: Vince Arbing, Director of Finance and Ben Pitman, P.Eng., Town Engineer.

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

[9] The original rate study was amended in response to Undertaking U-1 based on corrected depreciation expenditures used in the revised Worksheet B-3, which are carried throughout the rest of the study. The revised rate study resulted in the overall rate increases for retail customers, bulk water, and public fire protection charges being less than in the original filing. It is the revised rate study (“Rate Study”), as presented in the Undertakings, that is referenced in this decision unless otherwise noted.

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

II INTRODUCTION

[11] The Utility's source of water supply is from four production wells in the North Tyndall Wellfield, located 15 km north of the Town. Constructed between 1991 and 1993, it was commissioned into service on October 21, 2003. Water is chlorinated and pumped from the North Tyndall Wellfield to Amherst, directly to the Willow Street reservoir. The reservoir then provides water to the network of water mains throughout the Town. Several areas outside of the Town are connected to the water supply system, which reaches as far as Maccan (the extension to Maccan was completed in 2015).

[12] A separate pressure system is designed to provide higher pressure in the Amherst Industrial Park and is activated through dedicated phone lines located at buildings throughout the Park. A 200 hp diesel and 100 hp electric pump provide the additional pressure. A separate smaller reservoir in the Park provides the water for the booster pump in the Industrial Park. When the system is activated, valves close and the pressure is contained within the Industrial Park.

[13] The Utility currently serves approximately 3,963 customers. An annual increase of five residential customers is projected in each of the Test Years. The Utility noted that it is being conservative in its estimate of five new customers. This growth is projected to occur in the Maccan area, which had a slower than expected uptake than was originally projected in the previous (2012) rate study.

[14] The Application was presented to the Board based upon the need to adjust the rates due to increased operating costs, to fund the projected capital program, and to provide a dividend to the Town.

III REVENUE REQUIREMENTS

(A) Operating Expenditures

[15] The Rate Study indicates that the Utility had forecasted an operating surplus for the 2016/17 fiscal year of \$31,631, with an accumulated operating surplus of \$185,142. It is projected that, at current rates, there will be an excess of expenditures over revenues in each of the Test Years, resulting in an accumulated operating deficit of \$422,680 at the end of the Test Period.

[16] The Rate Study states that the projected operating expenditures for 2017/18, 2018/19, and 2019/20 were provided by the Utility. The budgeted expenditures generally allow for between 1% and 3% annual increases based on the 2016/17 budgeted amounts, except for depreciation.

[17] The Rate Study proposes that the annual depreciation expenses be based on the current depreciation amount plus depreciation on any capital additions over the Test Period, with the exception of the depreciation expense related to the proposed new reservoir. The Utility proposed delaying depreciation of the new reservoir until its second year in operation to spread the related rate impacts more evenly over the Test Period. The Applicant proposes to achieve this by not depreciating the asset in the first Test Year. The reservoir would then be depreciated 50% in the second Test Year, and fully depreciated in the final Test Year. The Applicant also proposed that amortization of the

capital cost contribution from others for the reservoir be phased in on the same basis as the depreciation.

[18] In response to Board Staff IRs, the Utility described its on-going budgeting process:

Staff prepares a budget and submits it to Town Council for review and approval. Once approval has been received the budget is monitored for conformance throughout the year.

[Exhibit A-3, IR-16]

[19] It was indicated that costs between the Utility and the Town are kept separate, and, for the purposes of expenses and budgets, the two act as separate entities.

Findings

[20] The increase in the number of customers over the Test Period is based on the Utility picking up customers from the Maccan area that were expected to connect during the previous test period. The Board finds the basis of the projected increases to be reasonable.

[21] The operating expenses over the Test Years are generally based upon an annual increase of 1% to 3%. The Board finds the projected operating expenses for the Test Years to be reasonable. 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.

[22] The Board further accepts the one year delay and Test Period phase-in of the depreciation expense and the associated amortization of the capital contribution by others for the new reservoir.

[23] The Board accepts the allocation of costs between the Town and the Utility. The Board reminds the Utility to review these allocations on a periodic basis to help ensure accuracy.

(B) Capital Budget and Funding

[24] The Rate Study includes the Utility's proposed Capital Budget for the Test Years. The proposed capital budget totals \$8,982,156 in 2017/18, \$171,650 in 2018/19, and \$210,140 in 2019/20.

[25] In response to Board IR-14, the Utility provided a description for each of the proposed major projects included in the Capital Budget for the Test Period. The Applicant explained that the capital expenditures are primarily related to replacing aging meters and hydrants, an extensive Distribution Main renewal program, and a new reservoir comprising the largest of these expenditures.

[26] The Applicant also provided a breakdown of the proposed funding for each of the proposed projects in response to IR-13. The breakdown of funding for the proposed capital additions is as follows:

| | 2017/18 | 2018/19 | 2019/20 |
|------------------------|--------------------|-------------------|-------------------|
| Depreciation Funds | \$1,500,000 | \$ 131,650 | \$ 170,140 |
| Capital out of Revenue | \$ 40,000 | \$ 40,000 | \$ 40,000 |
| Long-Term Debt | \$1,072,406 | | |
| Outside Sources | <u>\$6,369,750</u> | | |
| Total | <u>\$8,982,156</u> | <u>\$ 171,650</u> | <u>\$ 210,140</u> |

[27] The outside sources of funding, which have been confirmed, are from the Federal and Provincial Governments' Clean Water and Wastewater Fund.

[28] The Utility's depreciation fund balance at the beginning of the 2016/17 fiscal year, as described in the Rate Study, was \$1,281,876. With the projected increases from depreciation expenditures, including additions to capital assets, and funding drawdowns as described above, the depreciation fund balance is expected to be \$518,524 at the end of the final Test Year (2019/20).

Findings

[29] The Board has considered the information presented with respect to the proposed capital projects and associated funding. The Applicant has noted the need to replace old water meters and hydrants, which will be financed by capital out of revenue and new debt. The Board finds this to be reasonable.

[30] The Board accepts the proposed level of funding from the Utility's depreciation fund over the Test Years. The Board also accepts the Utility's proposed capital program and funding as set out in the Rate Study. 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 capital projects in excess of \$250,000, as set out in s. 35 of the *Act*.

(C) Non-Operating Revenues and Expenditures

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

[32] The non-operating revenues estimated in 2017/18, 2018/19, and 2019/20 consist of \$6,000 annually related to interest and other income, most of which is interest on overdue accounts.

[33] The Rate Study includes projected non-operating expenditures related to the principal and interest charges on existing and planned new debt, with new debt interest charges based on 6% interest over the Test Period. Other non-operating expenditures included capital out of revenue of \$40,000 per year, and an annual “dividend to owner” of \$125,000 in the first Test Year, increasing by \$5,000 in each of the final two Test Years.

[34] The proposed capital out of revenue of \$40,000 in each of the Test Years, is requested to fund the replacement of aging water system infrastructure for smaller items that tend to reoccur year over year (such as meters and hydrants).

[35] As noted above, the Utility is proposing a “dividend to owner”, which is carried over from the previous rate application. That application proposed earnings to reduce the Utility’s accumulated deficit. In the current Rate Study, the Utility has an accumulated surplus and is proposing that the proposed earnings be paid as a dividend to the Town.

[36] When questioned about the rationale for the dividend by the Board, Mr. Isenor stated:

... the Town has the right to earn a dividend under the **Act** and some towns in the Province claim a dividend and some don't. In the case of Amherst, the Town requested that a dividend be paid. We checked it against the return on rate base to see that it's still within the rate structure and we also usually discuss with them the impact it will have on rates.

In the case here, the rates are quite low so the impact on rates is very minimal and the percentage of the return on rate base is within the guideline ...

...

... the Town is the owner and they've taken the risk on the system and, therefore, they have the right, as I understand it, ... to earn a dividend to the owner because of that. ...

[Transcript, pp. 30-31]

[37] In response to Board IR-14, the Utility indicated that the proposed increase in the dividend over the final two Test Years is meant to recognize the increase in asset

base and the risk to the Town of owning and operating the Utility. However, during the hearing, the Board pointed out that the rate study shows a declining rate base over the Test Years. The Board stated that risk of utility ownership would not really change over the Test Years. Therefore, the Board questioned why the proposed dividend needs to be increased over the final two test years. In response, Mr. Rooney stated:

The rate base goes up in the first year and then goes down \$200,000 a year through depreciation and amortization. I mean it's a marginal decrease, minimal. I mean the utility does have more assets. They're three years older at the end of the time. And what we argue as well is more risk in maintaining those assets and the liability around them than there would be in year one because they're three years older. ...

[Transcript, pp. 33]

[38] The Board notes that the "dividend to owner" in the previous rate application was \$100,000 in the first two test years, then increased to \$125,000 in the final test year.

[39] Including the proposed dividend amounts, the Rate Study calculates the Utility's return on rate base for each of the test years as 2.62%, 2.65%, and 2.70%, respectively.

Findings

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

[41] The Board finds the Rate Study's calculated return on rate base, including the "dividend to owner", to be within an acceptable range and accepts it as presented.

[42] The Utility is cautioned that although the Board approves the dividend to owner in the amounts presented in the Rate Study, the Utility may only pay out the maximum of these approved amounts if the Utility is in an accumulated operating surplus position before the dividend is paid. Any portion of the dividend to owner that will put the Utility into an accumulated deficit position, in any given year, is disallowed.

(D) Allocations of Revenue Requirement

1. Public Fire Protection

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

[44] The allocation of utility plant in service to public fire protection is calculated in the Rate Study as 50.0% in 2017/18 and 50.1% in each of 2018/19 and 2019/20, with total expenses being allocated to fire protection at 36.5%, 36.7%, and 37.1% in each test year respectively.

[45] Mr. Isenor noted that the allocation percentages and overall fire protection charges are significantly higher than the previous rate study. He noted that this is mainly due to the addition of the proposed new reservoir in 2017/18, which is allocated 60% to fire protection. Mr. Isenor further noted that the proposed infrastructure additions over the Test Years, in large part, are for fire protection.

[46] The fire protection charge is to be split between the Town and the County in proportion to the number of total hydrants serving each, which is the same methodology used in the previous rate study and was approved by the Board at that time.

Findings

[47] 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 County and the Town is consistent with that previously approved by the Board.

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

2. Utility Customers

[49] The remaining revenue requirement, after the allocation to 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 final test year of the previous rate study and with the *Accounting Handbook*.

[50] The growth of five residential customers in each of the Test Years, is projected to come from the Maccan area. Although the Utility is projecting growth of five customers per year, total consumption is expected to decrease due to a projected 2.0% annual decline in average residential (i.e., unmetered and 5/8" meter size) consumption. 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.

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

Findings

[52] 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 with regards to depreciation expense.

[53] 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

[54] 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.

[55] 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.

Findings

[56] The Board approves the proposed amendments to the Schedule of Rates and Charges.

[57] These are approved with effective dates of July 1, 2017, April 1, 2018, and April 1, 2019.

(F) Schedule of Rules and Regulations

[58] The Rate Study proposed amendments to two of the existing rules, Rule 3, Deposits; and Rule 5, Billing. For “Deposits”, it is proposed to charge an interest rate payable of 2%. The proposed amendment to “Billing” is to clarify the billing procedure for partial periods.

Findings

[59] The Board finds that the proposed amendments to the Schedule of Rules and Regulations are reasonable and approves them as filed.

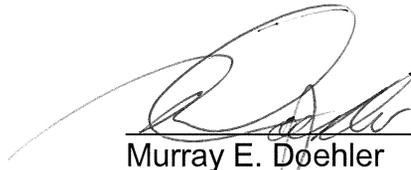
IV CONCLUSION

[60] 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, with effective dates of July 1, 2017, April 1, 2018, and April 1, 2019, for each of the Test Years.

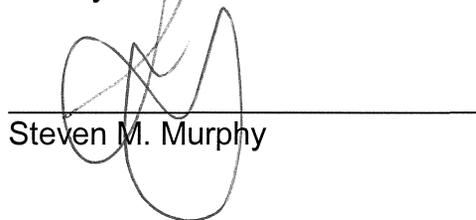
[61] The Board further approves the Schedule of Rules and Regulations as proposed, with an effective date of July 1, 2017.

[62] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 9th day of June, 2017.



Murray E. Doehler



Steven M. Murphy