

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -

IN THE MATTER OF AN APPLICATION of the **MUNICIPALITY OF VICTORIA COUNTY**, 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: Steven M. Murphy, MBA, P.Eng., Member

APPEARING: **MUNICIPALITY OF VICTORIA COUNTY**

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

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

Robert Dauphinee, P.Eng.
Director of Public Works

Leanne MacEachen, CPA, CA
Director of Finance

Sandy Hudson, BBA, LL.B.
Chief Administrative Officer

HEARING DATE: May 18, 2017

UNDERTAKINGS: May 25, 2017

DECISION DATE: **June 27, 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 Municipality of Victoria County (“Municipality” or “County”) 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, 2011, and May 1, 2009, respectively. As a part of the Utility’s last application in 2008, the Board approved the amalgamation of the four water utilities located in the Municipality, namely the Dingwall, Neil’s Harbour/New Haven, Ingonish, and Little Narrows Water Utilities.

[2] A rate study (“Rate Study”) to support the Application, dated January 17, 2017, was prepared by G.A. Isenor Consulting Limited in association with Blaine S. Rooney Consulting Limited and was submitted to the Board on March 2, 2017. Information Requests (“IRs”) were issued by Board staff on April 3, 2017, and responses were filed on April 12, 2017. The IR responses included a revised rate study (“Revised Rate Study”). The Revised Rate Study included depreciation associated with preparation of the Rate Study (which had been inadvertently omitted from the original Rate Study), as well as a correction to the Utility Plant in Service value for the 2017/18 Test Year. As a result of these amendments, the average bills for the Utility’s customers and the fire protection charges increased from those proposed in the original Application, which were included in the advertised Notice of Public Hearing. It is the Revised Rate Study that is referenced in this Decision unless otherwise noted.

[3] The Revised Rate Study 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 16.3%, 3.3%, and 4.4%, respectively. For all other metered customers, based upon the average quarterly consumption of each meter size, the proposed rate increases are between 22.5% to 177.3% in 2017/18, 4.5% to 13.6% in 2018/19, and 5.6% to 8.0% in 2019/20. However, during the public hearing on May 18, 2017, the Utility noted that the proposed increase of 177.3% for the 3/4” customers in 2017/18 was the result of a calculation error. This value was, therefore, revised to 37.2%.

[4] The Utility has a bulk water fill station with proposed bulk water rates per cubic metre of \$8.20, \$8.50 and \$8.92 for each of the Test Years.

[5] The Application also proposed amendments to the annual public fire protection charge to be paid to the Utility by the Municipality for the provision of water for fire protection service. The total annual public fire protection charge is proposed to increase by 7.7%, 2.6% and 4.8% in 2017/18, 2018/19, and 2019/20, respectively.

[6] A public hearing was held at Victoria County’s Court Room on May 18, 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: Robert Dauphinee, Director of Public Works; Leanne MacEachen, Director of Finance; and Sandy Hudson, Chief Administrative Officer.

[7] In response to Undertakings requested by the Board during the hearing, the Utility submitted a further amended rate study (“Final Rate Study”). The Final Rate

Study reduced the depreciation rate on the reservoir that is to be constructed in 2017. It also used the Ingonish Loan interest expense only (as opposed to the related full debt servicing cost) to calculate the excess capacity charge. These amendments further increased the average bills for most customers in each of the Test Years. These changes did, however, decrease the average bill for 6" meter customers from the charges proposed in the original application.

[8] The Board did not receive any letters of comment prior to the hearing, and there were no formal intervenors in the proceeding nor requests to speak.

[9] As discussed below, the Schedule of Rates and Charges and the Schedule of Rules and Regulations, as filed in the Final Rate Study, are approved.

II INTRODUCTION

[10] The Utility serves customers within four different water supply systems located throughout the Municipality. These include water supply systems in Ingonish, Dingwall, Neil's Harbour/New Haven, and Little Narrows. These four systems are geographically separated and are not interconnected.

[11] The Ingonish Water System serves the communities of Ingonish Harbour and Ingonish Beach, along with the Cape Breton Highlands National Park and Keltic Lodge Resort. The Ingonish water supply is a ground water source, with a pump house and two wells located near Power Brook in Ingonish Ferry. The treatment plant provides chlorination and houses the SCADA base for system management and monitoring. The distribution systems consist of new (circa 2005) distribution mains, a new water storage reservoir and re-chlorination building. The new system connects to the older distribution

systems of the National Park (circa late 1960s) at the re-chlorination building. The older system extends through the National Park with a spur out to the Keltic peninsula, serving the Lodge. There are two storage reservoirs on the system, a new above ground 100,000 Imperial Gallon ("IG") reservoir at Ingonish Beach and an older 270,000 IG in-ground reservoir within the National Park.

[12] The Dingwall Water System was initially established in 1971 as a surface water supply, drawing water from the Middle Aspy River and serving the community of Dingwall. This source presented water quality and treatment concerns and was abandoned in 2003 for a preferred ground water source. The current Dingwall Water Supply is a ground water source with a pump house and two wells located off South Ridge Road near Dingwall. The supply consists of a pump house/treatment plant that provides chlorination and a base for the newly upgraded SCADA panel for system management and monitoring. The distribution system consists of 1.3 kms of new 150 mm diameter PVC piping (2003) from the pump house to the existing system (1971, 1993). At this point, 6 kms of 50mm to 100mm diameter Plastic/ABS distribution lines serve the community. In 1989, an above ground storage reservoir was added to the existing system.

[13] The Neil's Harbour/New Haven Water System was installed in 1996 to serve the communities of Neil's Harbour and New Haven. The water supply is a surface water supply drawing water from Trout Brook in New Haven. The treatment plant consists of conventional chemical treatment using a gravity clarifier with lamella tubes for settling prior to filtration. Chemicals used for water treatment include soda ash, potassium permanganate, aluminum chloride, polymer aid and hypo chlorination. Treated water

resides in the chlorine contact chamber prior to entering the distribution system. Distribution is through 6.5 kms of 100 mm to 200mm diameter PVC piping. A 78,000 US Gallon (“USG”) above ground storage reservoir, located on Birch Lane in New Haven, provides equalization storage for the system.

[14] The Little Narrows Water System was constructed in 1995/96 to serve the community of Little Narrows. The system is served by two wells with submersible pumps located near Bucklaw. Water is pumped from the wells through a 100mm diameter PVC pipe that eventually crosses St. Patrick’s Channel to the pump house at Little Narrows. Treatment at the plant is by chlorination with onsite storage in a 55,000 IG in-ground chlorine contact chamber. The distribution system consists of 2.8 km of PVC piping serving the community of Little Narrows and the local Gypsum Company. In 2008/09, the system was expanded to include an additional 17 kms of distribution along with a re-chlorination/booster building and an above ground 50,000 IG water storage reservoir. In addition, the distribution system pumps were upgraded and new SCADA monitoring equipment was installed.

[15] The issue of the Utility’s amount of non-revenue water was subject to an IR in which the Utility noted that non-revenue water was approximately 51% of total production. During testimony at the hearing, the Utility noted that this figure was incorrect and that non-revenue water was approximately 35% of total production, of which 2 to 3% could be attributed to water flushing. The Utility further noted steps it had taken since the last rate application in 2008 to address non-revenue water. These measures have included leak detection studies, replacement of aging meters and meter installations for

all customers. In addition, a non-revenue water assessment was performed by Strait Engineering Ltd.

[16] The Utility has 508 metered customers, of which 497 are residential customers, each with a 5/8" meter size. The Application projects no customer growth over the Test Period for all meter sizes.

[17] The Application was presented to the Board based upon the current financial requirements of the Utility, including the increasing cost of operations, under-budgeting of expenditures over a number of prior years, paying down a large accumulated operating deficit, and financing of the budgeted capital program.

III REVENUE REQUIREMENTS

(A) Operating Expenditures

[18] The Revised Rate Study indicated that for the 2016/17 fiscal year, the Utility estimated it will have an excess of expenditures over revenues of \$188,989, with an accumulated operating deficit of \$2,150,688. Without a rate adjustment, the Utility projected the excess of expenditures over revenues will increase to \$243,540 in the final Test Year, with an accumulated deficit of \$2,750,109 at the end of 2019/20.

[19] The Applicant noted that the proposed rate adjustments are required to address the Utility's projected annual operating deficits. The Applicant also noted that without rate adjustments, the Utility's accumulated operating deficit will continue to increase.

[20] The Rate Study provided reasons for the projections of various operating expenses over the Test Years. Further details were provided in the IR responses. The

Utility's rationale for these expense projections indicated that prior years' operating budgets did not include sufficient funds to cover all costs that should have been attributed to the Utility. To account for this, the Utility's budgets for the Test Years are based upon the 2016/17 budget year, with increases of 8% for a large portion of the operating cost categories. While these increases are larger than the typical 3% annual increase used for most other Nova Scotia water utilities, the Utility indicated that such increases are required in order to better represent its actual costs. These proposed operating cost increases have been carried through in the Revised Rate Study.

[21] There were also a number of items included as operating expenses in 2015/16 and 2016/17 in the Revised Rate Study that should have been reclassified as capital works. After considering these errors in cost classification, as well as known one-time maintenance type activities, the Utility's operating expenses, with the exception of depreciation, are projected to increase by 3% to 8% annually, depending on the cost category, over the Test Years.

[22] The Utility's projected depreciation expense in each Test Year is based upon the prior year's depreciation expense added to the depreciation associated with proposed capital additions in the Test Year. The depreciation rates used for the various asset classes are generally in accordance with the *Water Utility Accounting and Reporting Handbook* ("*Accounting Handbook*"). For asset classes that used depreciation rates different than those noted in the *Accounting Handbook*, the Utility provided an explanation for the use of alternative depreciation rates based upon the asset's expected useful life. During the hearing, the Board noted, however, that the depreciation rate used for the proposed new reservoir in 2017/18 did not match the rate noted in the *Accounting*

Handbook. The Board asked the Utility to address this discrepancy, which the Utility subsequently corrected in the Final Rate Study.

[23] In response to Board IR-30, the Applicant described the Utility's budgeting process as follows:

The CAO meets with the Director of Public Works and the Director of Finance and reviews the upcoming year to forecast what improvements we will be required to undertake to satisfy the Department of Environment regulations. We also review any maintenance items which will need to be addressed in the current year. The budget is then submitted to Council for approval.

[Exhibit V-3, p. 14]

[24] In addition, the Applicant noted that there have been changes to the budgeting process since the last rate application:

The Director of Finance now reviews to ensure that it is consistent with operating and capital plans.

[Exhibit V-3, p. 15]

[25] The Applicant, in response to Board IR-31, noted that there have been no changes in how costs are allocated between the Municipality and the Utility since the last rate study and explained the process as follows:

The operating staff are dedicated 100% of their time to the Utility as the Municipality does not have any wastewater collection or treatment systems. Office staff for billing and administration are allocated based on time spent on Utility requirements.

[Exhibit V-3, p. 15]

[26] During the hearing, there was considerable discussion regarding allocation of Municipality costs to the Utility. The Municipality indicated that there are a number of its costs attributable to the Utility that typically have not been allocated to the Utility nor included in rates or the Application. The Board requested an undertaking by the Utility to disclose these expenditures for the 2016/17 fiscal year. In response to Undertaking U-2, the Utility provided a breakdown of these expenses, which totaled an estimated \$117,895.

This cost, which was not allocated to the Utility, amounts to approximately 18% of the Utility's total 2016/17 estimated operating expenditures.

Findings

[27] The Utility projects that its operating deficit balance will steadily increase without an amendment to its rates, thereby further increasing the Utility's accumulated deficit.

[28] The Board reminds the Utility to regularly review and update its budgets to ensure they are adequate to fund the operations of the Utility.

[29] The Board has reviewed the Utility's various operating expenses and the related explanations for the budgeted amounts. The Board is encouraged by the Utility's desire to improve its financial reporting and budgeting procedures. In particular, the Board notes the Utility's efforts to align cost items and categories in the financial statements with those required for rate-making purposes, and to ensure expenses are categorized appropriately as capital or operating in nature.

[30] The Board is also encouraged that the Utility is taking steps to move towards full cost recovery. The Utility is reminded to review the allocation of expenses from the Municipality on a periodic basis to ensure completeness and accuracy. Expenditures associated with the Utility should be fully allocated appropriately so that the Utility can be financially self-sustainable.

[31] The above notwithstanding, per the response to Undertaking U-2, the Board finds that a significant number of expenses incurred by the Municipality are attributable to the Utility, but have typically not been charged to the Utility. Therefore, the Board directs the Utility to track, quantify and categorize (per the operating expense categories

noted in the *Accounting Handbook*) these expenses for each Test Year. These expenses are then to be used to estimate the associated revenue requirements for the Utility's next rate application.

[32] The Board accepts the depreciation expense in each of the Test Years, as projected in the Final Rate Study.

(B) Capital Budget and Funding

[33] The Revised Rate Study includes capital additions for 2016/17 totaling \$67,400, and for each of the Test Years in the amounts \$776,855, \$23,000, and \$0, respectively.

[34] The proposed capital budget for 2017/18 consists of a new reservoir (\$750,000), security gates and fencing (\$12,000), tank inspection and Anode replacement (\$14,855). The 2018/19 capital budget consists of fencing (\$11,000) and a water tower inspection (\$12,000).

[35] When questioned about not having any capital projects for the final Test Year, the Utility noted that there are no planned projects for 2020. During the hearing, Mr. Isenor noted why this may be the case:

Right now, there are no planned capital spends in the third year, but I think some of that is just due to the fact that three capital budgets have historically, historically not been done in detail, so there may be items arise in that third year.

[Transcript, p. 6]

[36] The Revised Rate Study sets out the proposed funding of the capital budget:

	2016/17	2017/18	2018/19	2019/20
Outside Sources		\$ 500,000		
Depreciation	\$ 67,400	\$ 62,000	\$ 23,000	
Long-term Debt		\$ 214,855		
Total	<u>\$ 67,500</u>	<u>\$ 776,855</u>	<u>\$ 23,000</u>	<u>\$ 0</u>

[37] The Rate Study indicated that the majority of the capital funding in the first Test Year was to come from the Clean Water and Wastewater Fund (“CWWF”). However, in response to Board IRs, the Utility indicated that this source of funding would not be available. Instead, the outside sources of \$500,000 would come from Gas Tax funding (\$375,000) and from the Municipality (\$125,000).

[38] The proposed funding from depreciation funds is \$67,400, \$62,000, and \$23,000 for 2016/17, 2017/18, and 2018/19, respectively, which resulted in an estimated depreciation fund balance at the end of the Test Period on March 31, 2020 of \$248,317 in the Revised Rate Study. With the filing of the Final Rate Study, this balance decreased to \$233,159.

[39] In response to IR-20, the Applicant indicated that its depreciation fund had no cash contributions in recent years because the Utility has been in an operating deficit. As a result, the depreciation fund is underfunded and has a nil opening balance in 2016/17.

[40] In response to Undertaking U-1, the Applicant provided an updated projected capital fund balance sheet for the Test Period. This indicated that the requested earnings over the Test Period (discussed below) will be used to fund the shortfall in the depreciation fund. This would increase the balance in the depreciation fund (over what is shown in Worksheet B-3 of the Final Rate Study) by the amount of the earnings in each of the Test Years.

Findings

[41] The Utility's capital budget for the Test Period contains one major project in 2017/18, which was the subject of a separate capital expenditure request and was approved by the Board on April 24, 2017.

[42] The Board understands that the Utility has not funded its depreciation fund over the last number of years, as it had not generated enough revenue to do so. The Board recognizes the Utility's renewed effort to fund the depreciation fund going forward, and in proposing to use earnings to reduce the amount due to that fund.

[43] The Board finds the proposed capital budget and associated funding to be reasonable, and accepts it as presented, with the understanding that there may be additions in the final Test Year.

[44] The Utility is reminded that the Board requires annual filing of three-year operating and capital budgets and urges the Utility to include a third year of planning in its capital budgeting process.

[45] The Utility is further reminded that the inclusion of proposed capital projects in the Rate Study does not constitute Board approval of these projects. Separate Board approval is required for projects in excess of \$250,000 as set out in s. 35 of the *Act*.

(C) Non-Operating/Other Revenues and Expenditures

[46] The Revised Rate Study included revenue requirements for the Test Years, which included projections of other operating revenues and non-operating expenditures. There are no non-operating revenues projected in any of the Test Years.

[47] The other operating revenue projected in the Revised Rate Study (and carried through to the Final Rate Study) amounts to \$10,000 for each of the Test Years.

This revenue relates to seasonal customers' hookups/disconnects, new applications for water, and interest on overdue accounts.

[48] The projected non-operating expenditures of \$293,888 for the 2017/18 Test Year consist of debt charges associated with the Utility's existing debt and new debt required to fund 2017/18 capital additions. For the 2018/19 and 2019/20 Test Years, the projected non-operating expenditures total \$301,489 and \$318,845, respectively. These amounts include earnings and the expected debt charges.

[49] The largest portion of the existing debt charges is projected to be paid during the first Test Year, with smaller payments in the final two Test Years. In response to IR-8, the Utility indicated that the existing debt will be completely paid off at the end of the final Test Year.

[50] The projected earnings of \$250,000 and \$275,000 in the final two Test Years, respectively, will essentially replace the existing debt charges. The earnings are intended to be used to eliminate the Utility's operating deficit in a timely manner. During the hearing, Mr. Isenor explained the Utility's reason for requesting earnings of this magnitude:

... I wanted to draw the Board's attention to is we are requesting earnings, significant earnings. This was, there's an IR, IR-15. Primarily what we're trying to do is get a handle on the two-million-dollar debt that's been accumulated by the Utility, and with the loan payments being paid off, it gives us an opportunity to substitute earnings for those loan payments without having dramatic impacts on the rates. Recognising that the rates are still high, but it does give us that opportunity, and if we can manage to do it properly, I think the debt can be actually eliminated in seven to eight years.

[Transcript, p. 4]

[51] The Utility proposes to use the earnings to fund the depreciation fund, which was previously underfunded. This will, in turn, reduce the Utility's accumulated operating deficit.

[52] The Utility's calculated return on rate base (inclusive of proposed earnings), using the assumptions and projections in the Revised Rate Study, are 8.69% in 2016/17, and 7.61%, 7.97%, and 8.66% in each of the Test Years, respectively. The Final Rate Study further amended the calculated return on rate base for 2018/19 and 2019/20 to 7.96% and 8.65%, respectively.

[53] The Applicant noted that although the return on rate base is higher than what is normally allowed, the current return is based on existing debt servicing. Once the existing loan is paid off, the Utility intends to reallocate funds to earnings to pay down the accumulated deficit over seven to eight years, as opposed to having rates reduced and taking 12 to 15 years to pay down the deficit.

[54] During the hearing, the Applicant noted that the Utility commissioned a rate study in 2012 in which rate increases were projected. The Applicant further noted that at that time Municipal Council did not approve forwarding the application to the Board to increase rates, as Council was not in favour of the proposed increases.

[55] The Rate Study includes the calculation of Bulk Water rates which are based on total operating and non-operating expenses divided by total water consumption. The proposed Bulk Water rates as presented in the Final Rate Study are \$8.15/cubic metre, \$8.45/cubic metre and \$8.88/cubic metre for each of the Test Years, respectively.

Findings

[56] The Board finds the Utility's other operating revenue to be reasonable and accepts it as presented for the Test Years.

[57] The Board accepts the non-operating expenditures related to new and existing debt in each of the Test Years, as presented in the Final Rate Study.

[58] The Board also accepts the methodology used to calculate Bulk Water rates.

[59] With respect to return on rate base, the Board notes the following reference in the *Accounting Handbook*:

Rate Applications:

In the determination of a reasonable rate of return to be used in rate applications, the following two methodologies are acceptable to the Board:

- (1) A simplified approach, which sets the rate of return (ROR) less than or equal to the Utility's cost of debt, R_D , or, in the case of no Utility debt, the Utility may use the Municipal Finance Corporation's cost of borrowing as a guide;

or

- (2) A more complex approach which sets the rate of return based upon the following formulae:

$$\text{ROR} = \text{WACC (Weighted Average Cost of Capital)/Rate Base}$$

$$\text{WACC} = (E_{\text{Muni}}/V * RE_{\text{Muni}}) + (D/V * R_D) + (E_{\text{Util}}/V * RE_{\text{Util}})$$

...

[Accounting Handbook, p. 3130.4]

[60] As noted in response to IR-28, the Utility's Financial Statements for the Year ended March 31, 2016 indicate that the Utility's long term debt is currently structured under two loans, one with an interest rate at prime plus 0.5% and the other at 4.584% to 4.88%. A review of the Municipal Finance Corporation's ("MFC's") most recent debt issues for 2015 indicates interest rates ranging from 1.0115 to 3.449%.

[61] As such, the Board finds the Utility's proposed return on rate base over the Test Years to be well above the Utility's current cost of debt and well beyond the MFC's cost of borrowing. The Board also notes that the Utility's proposed level of earnings has a significant impact on the magnitude of the return on rate base in the final two Test Years. The Board also recognizes that return on rate base for the first Test Year is high as a result of the existing debt repayment schedule and the Utility's desire to retire that debt by the end of the Test Period.

[62] The Board notes that Municipal Council of the day did not vote in favour of bringing the 2012 rate study and related application for an increase in rates to the Board for approval. By not addressing rates in 2012, the Utility's accumulated operating deficit has now increased to an unsustainable balance.

[63] The Board also notes that if the 2012 application and rate study had been submitted to and approved by the Board, rates would have increased at that time. With such rate increases, charges to ratepayers could have been structured to begin reducing the Utility's accumulated operating deficit at that time. This would have led to the accumulated deficit at the start of the Test Years in the current Application being lower than presented. In such a case, with all other items remaining equal, lower earnings would be required in the Test Years to pay off the accumulated deficit in the same time frame as present in the Application (i.e. seven to eight years). Current ratepayers are now being asked to pay higher rates to address an accumulated operating deficit that could have perhaps been lower had higher rates been implemented in 2012. The Board notes that this presents some intergenerational equity concerns.

[64] While the Board finds the proposed returns on rate base over the Test Years to be high, the Utility's current accumulated operating deficit has reached an untenable level. In this unique and unfavorable situation, the Board considers the state of the Utility's financial health to be a more important concern than high returns on rate base. As such, in this special circumstance, the Board grants the earnings in the amounts presented in the Final Rate Study. As the earnings are used to reduce the accumulated operating deficit, it will generate cash flow for the depreciation fund. The Board orders

that this cash flow be directed to the depreciation fund before repaying any debt to the Municipality.

[65] In this special circumstance, augmented by the Municipality not allocating all costs to the Utility, the Board further finds the calculated returns on rate base, as presented in the Final Rate Study, to be acceptable.

[66] The Board also directs the Utility to pay off the proposed \$214,855 2017/18 loan by the end of the Test Period, using depreciation funds to do so. The Board notes that if the depreciation fund had been properly funded in prior years then the Utility would not have been required to secure the proposed loan. As such, the Board deems it appropriate to use the depreciation fund to pay off the loan. This will also help to address intergenerational equity issues, as future ratepayers will not be required to cover the full debt servicing costs that otherwise would not have been incurred had the depreciation fund been properly funded in the past.

(D) Allocations of Revenue Requirement

1. Public Fire Protection

[67] The methodology used in the Final Rate Study for the determination of the public fire protection charge is in accordance with the *Accounting Handbook*, with the exception of Demand assets. These are allocated 50% to general and 50% to fire protection as opposed to 40% to general and 60% to fire protection in the *Accounting Handbook*.

[68] In response to Board IR-5, regarding fire protection, the Utility noted:

There's been no physical change to the system to improve fire flows. However, the proposed new tower in Neil's Harbour will provide increased storage that will provide Fire Underwriters Survey (FUS) fire flows for a portion of the distribution system with 8" mains.

...

Fire flows generally do not meet the FUS. Many of the towers were not designed to provide FUS coverage and much of the distribution piping was not designed to meet FUS flows, however, limited FUS requirements are met on sections of two of our supplies. It is noted that while the systems do not meet the FUS requirements they do provide a valuable and reliable supply of water to the fire department when needed.

[Exhibit V-3, p. 6]

[69] In its 2009 Decision concerning the Utility's last rate application, the Board approved the 50/50 split of demand assets to general and fire protection. However, the Board did note that this allocation appears to be arbitrary and that the results of a fire flow analysis should be used to allocate costs. In response to IR-5, the Utility confirmed that it has not conducted a fire flow analysis.

[70] The allocation of utility plant in service to public fire protection in the Final Rate Study is 39.3%, 39.2%, and 39.2% in each of the Test Years, respectively. Furthermore, the fire protection charge is proposed to be increased from the current figure of \$239,927 to \$256,341 in 2017/18, \$263,178 in 2018/19, and \$275,829 in 2019/20.

Findings

[71] Although a fire flow analysis was not conducted, no changes have been made to the Utility to improve firefighting capabilities. Therefore, the Board accepts the allocation of demand assets of 50% to general and 50% to fire protection. The Board reiterates its suggestion that a fire flow analysis be conducted, and the related results be used to determine an appropriate allocation.

[72] The Board also accepts the Utility's methodology used to determine the fire protection charges for the Test Years.

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

2. Utility Customers

[74] After the allocation to fire protection, the remaining revenue requirements are to be recovered from the customers of the Utility. The allocations used in the Final Rate Study for the base, customer, delivery and production charges are consistent with the methodology used in the last rate application, with the exception of Transmission and Distribution. This expense line item is consistent with the last rate application only for the final Test Year, where the allocation is 50% to Base and 50% to Delivery.

[75] The methodology is also consistent with the *Accounting Handbook*, with the exception of Transmission and Distribution, which the *Accounting Handbook* suggests be allocated 100% to delivery.

[76] The Final Rate Study allocates Transmission and Distribution 65% to Base and 35% to Delivery in 2017/18, 57% to Base and 43% to Delivery in 2018/19, and 50% to Base and 50% to Delivery in 2019/20. These allocations were proposed for rate making purposes. Using these allocations keeps the base charge from decreasing over the Test Period. This allows the Utility's revenue stream to be stabilized, given its relatively small size.

[77] The Utility has approximately the same number of customers as it did in the previous rate study, and does not project growth or loss in customers in any of the Test Years.

[78] The Applicant also noted that it is not projecting lower annual consumption, over the Test Period as is usually the case with most other Utilities. During the hearing, Mr. Isenor explained the Utility's consumption situation:

... The other item there is that, in a lot of rate studies in the past, Mr. Chair, we have been reducing the amount of water sold to the 5/8-inch customers. The 5/8-inch customers here are currently averaging 101 cubic metres per year, which is at the lowest end of the scale

for anywhere in the province. We haven't chosen to lower it any. It's approximately where it was before, and we feel that we might have reached the, the low end of what people can go to, as far as where it's at. So, we're not seeing any downward pressure on it. So, we have not included any change in that, in that rate structure at that point.

[Transcript, pp. 8-9]

[79] The Utility's Excess Capacity Charge is a second block consumption rate which is higher than the first block rate. The charge is related to the investment in additional infrastructure that was made by the Municipality and the Utility to serve the high short-term demand of the National Park and the Keltic Lodge Facility. To address the demand, the Board approved a second block rate which was named the "Excess Capacity Charge" in the Board Decision and Order dated 28 April 2009. The Utility noted that the Revised Rate Study calculated the excess capacity charge using the same methodology as used in the last rate application.

[80] During the hearing, the Board noted that it appeared the Excess Capacity Charge was not calculated in a manner consistent with the last rate application. Rather than only using the Ingonish Loan interest to calculate the charge, it appeared that the Utility had used the loan's full debt servicing costs. The Utility corrected this error in the Final Rate Study.

Findings

[81] The Board accepts the methodology used in the allocation of the various expense items to the base, customer, delivery and production charges.

[82] The Board also accepts the allocation of expenses, including Distribution and Transmission expense, to base customer, delivery and production charges over the Test Years, as presented in the Final Rate Study.

[83] The Board notes that the majority of recent water utility rate applications have proposed a decrease in water consumption, which has been a general trend. However, given that the Utility's current consumption volumes appear to be on the low end of all utilities in Nova Scotia, the Board accepts the volumes projected in the Rate Study.

[84] The Board finds the Utility's proposed excess capacity charge to be reasonable, and accepts it as presented in the Final Rate Study.

(E) Schedule of Rates and Charges

[85] In addition to the rates for water supply to its customers, the Application proposes amendments to several existing miscellaneous rates and charges. These amendments are intended to better reflect the cost to provide the related service and to be more in line with rates charged by other water utilities in Nova Scotia.

[86] In response to Board IR-37, the Utility listed the proposed amendments and reasons for the change. During the hearing, Mr. Isenor made the following comments with regards to the proposed amendments:

... That leaves us with changes to the schedules, which was the subject of IR-37, which was detailed on that, basically changing the sprinkler rates, changing the after-hour rates to reflect the geography of the area, and adding in our standard clause about the bank fees on non-negotiable cheques.

[Transcript, p. 10]

[87] In addition to the amendments regarding costs of services, the Utility also proposed to move a number of charges from the Schedule of Rules and Regulations to the Schedule of Rates and Charges, as they are better reflected as a charge as opposed to a rule or regulation.

Findings

[88] The Board has reviewed the proposed amendments and finds them to be reasonable.

[89] The Schedules of Rates and Charges for the Test Years are approved as described in the Final Rate Study.

(F) Schedule of Rules and Regulations

[90] The response to Board IR-38 listed the proposed changes to the Schedule of Rules and Regulations. These changes consisted of a number of items being moved to the Schedule of Rates and Charges, changes to a number of existing items, and the addition of four new items, which are typically seen in other utilities within Nova Scotia.

[91] With regards to the amendments to the Schedule of Rules and Regulations,

Mr. Isenor stated:

And in the area of the Rules and Regulations, again, there was a number of them that got swapped around a bit. That was IR-38. Primarily, the more important ones were we're now making property owners who rent or lease property responsible for the water bill, and not the leasee, because people are skipping out. We've added in the new billing clause, which we're putting in all of them, plus we've added in the utility charges for the base rate for the seasonal customers. There are about 60 seasonal customers in this case, so that's a significant amount of revenue.

And with that, the other thing we've added and requesting which is slightly different is location of meters. We are requesting a clause that – and this is on page 68 – where the customer is served by a service pipe greater than 100 lineal metres in length from the curb stop, the valve to the utility may require a frost-proof meter box. There's a number of customers that are getting further and further from the roadway and demanding to have long service pipes...

As well, we are requesting a Clause 34 on the Water Conservation Directive. We are requesting a Clause 35 on extensions. ...

[Transcript, pp. 10-11]

Findings

[92] The Board finds that the proposed amendments to the Schedule of Rules and Regulations are reasonable and approves the Schedule of Rules and Regulations as filed in the Final Rate Study.

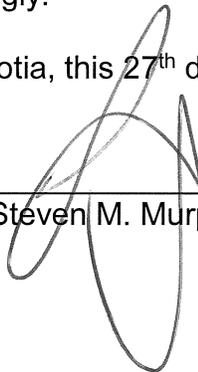
IV CONCLUSION

[93] The Board approves the Schedule of Rates and Charges for Water and Water Services, as filed in the Final Rate Study. The effective dates for the approved Schedule of Rates and Charges for Water and Water Services shall be July 1, 2017, April 1, 2018 and April 1, 2019. The public fire protection charge in 2017/18 is to be prorated, based upon the effective date.

[94] The Board approves the Schedule of Rules and Regulations as filed in the Final Rate Study, effective July 1, 2017.

[95] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 27th day of June, 2017.



Steven M. Murphy