

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 THE COUNTY OF ANNAPOLIS**, on behalf of the **BRIDGETOWN 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: Richard J. Melanson, LL.B., Member
Jennifer L. Nicholson, CPA, CA, Member

APPEARING: **MUNICIPALITY OF THE COUNTY OF ANNAPOLIS**
Gerry Isenor, P.Eng.
G.A. Isenor Consulting Limited

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

Nancy Comeau
Assistant Manager of Finance

Stephen McInnis
Director of Operational Services

INTERVENOR: Andrew Gilmour
Resident

HEARING DATE: July 27, 2018

UNDERTAKINGS: August 2, 2018

DECISION DATE: **October 4, 2018**

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

I SUMMARY

[1] The Municipality of the County of Annapolis (Municipality, County) applied to the Nova Scotia Utility and Review Board (Board) on behalf of the Bridgetown Water Utility (Utility, Applicant) for amendments to its Schedule of Rates 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, 2017, and July 1, 2015, respectively.

[2] A rate study to support the Application dated February 6, 2018, was prepared by G.A. Isenor Consulting Limited, in association with Blaine S. Rooney Consulting Limited, and was submitted to the Board on March 7, 2018 (Rate Study). Information Requests (IRs) were issued by Board staff on April 5, 2018, and responses were filed by the Utility on April 21, 2018. The IR responses included a revised rate study, dated April 21, 2018 (Revised Rate Study) which: amended the projected depreciation fund balance; corrected the allocation of assets to the public fire protection charge; and, corrected the water consumption volumes.

[3] The Application proposed rate increases for the fiscal years 2018/19, 2019/20, and 2020/21 (Test Years, Test Period). The rates proposed in the Revised Rate Study differ slightly from those in the original filing, due to the corrections noted above, and are the rates that will be referenced in this Decision.

[4] For 5/8" meter residential customers, based upon average quarterly consumption, the proposed rate increases in each of the Test Years are 9.5%, 6.9%, and 6.1%, respectively. For all other metered customers, based upon the average quarterly

consumption of each meter size, the proposed rate increases are 10.0% to 10.3% in 2018/19, 7.6% to 7.7% in 2019/20, and 6.5% to 7.1% in 2020/21.

[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 remain at its current amount of \$197,502 in 2018/19, and decrease by 1.3% and 0.8% respectively in each of 2019/20 and 2020/21.

[6] The public hearing was originally scheduled on May 31, 2018 at the Annapolis Royal Fire Department. Due to a change in venue, the hearing was rescheduled, and an amended Notice of Public Hearing was issued. A further amendment was made to extend the timelines for the filing dates of the various materials associated with the Application.

[7] The public hearing was held at the Bridgetown Fire Department on July 27, 2018, 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 County staff: Nancy Comeau, Assistant Director of Finance; and Stephen McInnis, Director of Operational Services.

[8] Andrew Gilmour, a resident of Bridgetown, applied for intervenor status, which was approved by the Board. Mr. Gilmour issued IRs to the Utility, which were forwarded to the Board on July 13, 2018. The Board received a copy of the Utility's response on July 18, 2018.

[9] The Board received a letter of comment from Eileen Spicer, a home owner in Bridgetown. A further letter of comment was received after the hearing closed and will

not be considered as a part of the matter. Four members of the public spoke during the hearing: Kathy Howland, who owns a nine unit apartment building in Bridgetown; and, Sharon Johnson, Karen Jones, and Brinton Forbes, all residents of Bridgetown.

[10] The Schedule of Rates and the Schedule of Rules and Regulations are approved, as amended.

II INTRODUCTION

[11] In 2010/11, the Utility completed the construction of a new groundwater source of supply system, having previously been supplied through a surface water system. In a decision dated May 5, 2011, with respect to the Utility's 2011 rate application, the Board approved the \$3.3 million capital project, with two-thirds of the cost funded externally through the Canada-Nova Scotia Infrastructure Program, and the remainder through Utility debt. The Board's decision noted that the new groundwater system was designed to meet the *Guidelines for Canadian Drinking Water Quality (GCDWQ)*, and in accordance with *A Drinking Water Strategy for Nova Scotia*, a plan adopted by Nova Scotia Environment (NSE). At the time of the last rate application in 2014/15, the Utility had recently sold the lands of its former surface water supply to the Province.

[12] The Utility's groundwater system consists of three production wells. Due to one of these wells testing high in uranium, it is currently operating with two production wells, and one monitoring well. The maximum acceptable concentration for uranium in drinking water, according to the *GCDWQ* is 20 micrograms per litre. The Applicant explained that historically, due to high concentrations in one well, the water from the three wells was blended to bring the concentration below the 20 micrograms per litre limit.

Although there had been spikes in the uranium level in the past, it always came back down to below the acceptable limit. More recently, the level exceeded the limit often enough to require that an action plan be submitted to NSE. This resulted in a plan to construct a new production well.

[13] The Rate Study includes the costs associated with drilling a new well. It was noted during the hearing that it was originally thought the new well could be located near the existing two wells. It now appears the new well site had to be located some distance away, adding to the cost. The Applicant noted that investigations show the new well location has uranium levels below 5 micrograms per litre.

[14] In addition to the wells, the system includes a pump control chamber with hypo-chlorination equipment, and transmission mains that transport the water to a 1500 m³ underground concrete storage reservoir and to the Utility's distribution system. The Utility serves customers in Bridgetown, as well as several communities in the Municipality.

[15] The public hearing for the Utility's last rate application occurred shortly after the dissolution of the Town of Bridgetown into the Municipality, which was approved by the Board effective April 1, 2015. The Applicant noted that the dissolution budget is effective to March 31, 2020, which includes the shareable expenses for the Utility. The percentage allocation of the administration and public works common costs to the Utility have been maintained from the past levels in the current Application.

[16] At the time of the last rate application, it was noted that the Utility's non-revenue water was approximately 36%, and that both operating and capital expenditures were projected to aid in reducing this percentage. The Utility indicated that its current

level of non-revenue water is 38%. Because of necessary emergency repairs, only the projected well pump replacement was carried out. The Applicant further explained that due to the deterioration of its existing infrastructure, significant maintenance is required just to maintain the current level of water loss. The Rate Study includes a distribution main replacement project, budgeted in 2019/20, in conjunction with a Transportation and Infrastructure Renewal (TIR) paving project, which includes replacement of a number of service saddles which are believed to be leaking. In addition, the Utility continues to replace valves and hydrants throughout the system to repair areas where leakage may occur.

[17] The Utility currently services 601 metered customers, of which 568 are 5/8", residential meter size. The Rate Study includes an annual 1% decrease in water consumption volume of the 5/8" meter customers in the Test Years. There is no projected growth in the number of customers over the Test Years.

[18] The Application was presented to the Board based upon the need to adjust the rates to meet its present financial requirements, and to provide funds for projected increases in operating costs and necessary capital improvements.

III SUBMISSIONS/PUBLIC PARTICIPATION

1. Intervenor

[19] During the hearing, Mr. Gilmour made a presentation outlining his concerns, noting that he is representing the "Clients of the Bridgetown Water Utility who are opposed to the current rate increases." As a part of his presentation he submitted a petition with approximately 500 signatures, which he noted represents at least 60% of the population, requesting that the Board reject the Application for all the proposed rate increases in each of the Test Years.

[20] He discussed the social implications of the proposed rate increases, noting that many of the residents of Bridgetown are on fixed incomes and have difficulty making ends meet. He added that the rates proposed will result in Utility customers having to make difficult financial decisions.

[21] Mr. Gilmour questioned the viability and sustainability of Bridgetown, noting that, due to both taxes and water rates, in his opinion, the community cannot compete with other areas of the Municipality. He stated that the population of Bridgetown is declining, with the possibility of it becoming a ghost town.

[22] He commented on the poor quality of the water, which he described as tasting horrible and destroying pipes and household appliances that use water, resulting in additional repair costs to Utility customers. He added that he believes most people in the community drink bottled water.

[23] Mr. Gilmour expressed his concerns with what he described as a lack of real numbers in support of the Application. He referred to information previously supplied by the Utility which indicated that measures were being taken to reduce non-revenue water, in comparison to the IR responses which stated that there are no significant capital expenditures planned to deal with the issue. He noted that the financial statements for the first full year since the Bridgetown dissolution are not available, and that responses to his IRs by the Utility showed that there is lack of knowledge of some of the financial aspects of the Utility.

[24] He questioned the economic impact of the proposed water rates on Bridgetown. He referred to the proposed rates for a large water user, a non-profit organization owned and operated by the Annapolis County Municipal Housing

Corporation, which he stated may have to reduce services to pay for the water bill rate increases. Mr. Gilmour further commented on the issue of decreasing consumption volumes causing an increase in unit costs, resulting in the need for rate increases.

[25] His presentation concluded by noting that several issues, in addition to financial aspects, must be taken into consideration when reviewing the matter. He suggested that the Board postpone its decision with respect to the Application until the 2017/18 financial reports have been published and the estimates for the Test Years are resubmitted based upon these reports. He further suggested that no decision be made until a review of the *Municipal Government Act* is completed. He filed his presentation with the Board, which included: the signed petition; his notes; a notice from the former Town of Bridgetown to Utility ratepayers with respect to the review of costs to upgrade the water system to meet NSE standards, and decision to move to a groundwater system, based upon a cost analysis; and information setting out the proposed rate increases for the large, non-profit Utility customer.

2. Letter of Comment/Public Speakers

[26] The Board received one letter of comment, dated July 20, 2018, from Bridgetown resident Eileen Spicer. She expressed her concerns with water quality, which she says has not improved with the change to a groundwater system. She further stated that until the water quality improves, she objects to any increases in rates.

[27] Four members of the public spoke during the hearing. Kathy Howland, the owner of an apartment complex in Bridgetown, commented on the change to the groundwater source, which she believes Bridgetown could not afford. She noted that no plebiscite was held on the matter, and that it is not possible to go back to the surface water source, given the sale of the lands. She expressed her concerns with the water

quality, in terms of calcium deposits, destroying faucets and copper pipes, and the costs she has incurred to deal with this issue, as well as the elevated levels of uranium. She further questioned the water rate structure, and rate increases, with her building having a 1" water meter. She concluded by stating that there needs to be more consultation with respect to both water rates and water quality.

[28] Sharon Johnson, a resident of Bridgetown, also questioned the decision to go to a groundwater source, which at the time was said to be less expensive than updating the lake system source of supply. She expressed her concerns with the proposed rate increases, given the poor water quality which she states ruins household appliances which use water.

[29] Karen Jones, a resident of Bridgetown, described that continuously increasing water rates and taxes is unsustainable and unjust. She presented an exhibit which she says she obtained from NSE which shows water samples taken in Bridgetown which exceed the *GCDWQ* maximum acceptable concentration limits for uranium. She noted that there is a direct correlation between uranium and calcium levels in water, and that the level of calcium in the water in Bridgetown cannot support plant life. She showed an example of soil which she has watered, with white calcium deposits.

[30] She referred to studies which have been conducted which indicate that the alkalinity and uranium levels in the aquifer source water for Bridgetown will increase over time. She questioned the practice of diluting the water from the well producing high uranium levels with the water from the lower uranium level producing wells.

[31] She commented on the Municipality's lack of administrative adjustments to lessen the burden on ratepayers in Bridgetown. She noted that half of the Utility

customers live outside of Bridgetown, and that she believes that all who benefit should share in cost responsibility. She stated that she would be willing to pay higher rates if she received better water.

[32] Ms. Jones commented that a provincial inquiry into the state of drinking water in the Province is necessary, with a single agency overseeing the provision of safe and adequate drinking water. She further stated that under section 83(1) of the *Act*, there should be an investigation into the Utility to order rates to be reduced, modified, or altered, as she believes that an increase in rates at this time is unreasonable due to the provision of inadequate service because of the poor water quality. She presented a petition of five persons making this request, as per section 83 of the *Act*.

[33] Bridgetown resident Brinton Forbes noted the concerns of citizens with the additional costs associated with drilling a new well. He wants the Utility to go back to the surface water source of supply, noting that there would be no need for pumps, or generators if the lake source was restored. Mr. Forbes questioned the proposed rate increases, noting that in his opinion it would be cheaper to obtain water from a grocery store, and have personal wells.

3. Applicant Response

[34] During the hearing the Applicant was given the opportunity to respond to some of the issues raised by the members of the public. Mr. McInnis acknowledged that there was an increase in calcium levels when the Utility switched from the surface water to groundwater source, and that there are issues associated with elevated calcium levels. However, he noted that in that aspect, the Utility meets the *GCDWQ*.

[35] Mr. McInnis explained that the uranium levels have fluctuated to points which exceed the *GDWQC* acceptable limit. As the guideline could not be met on a

consistent basis, an action plan had to be submitted to NSE to explain how the issue will be resolved.

[36] With respect to the availability of documentation related to the Utility, Mr. McInnis stated that all meetings, such as Council meetings and source water protection meetings, are open to the public.

[37] Mr. McInnis noted that he would not comment on any issues raised which deal with the *Act*, the *Municipal Government Act*, and the *Environment Act*. He added that any directions which the Board makes with respect to these issues will be brought to Council, the entity which decides on Utility matters.

Findings

[38] The Board recognizes that any increase in rates is not welcomed by ratepayers. Higher rates can have a negative impact on family budgets. As well, it can be detrimental to those businesses with significant water consumption, if there is a marked difference with competitors serviced by other utilities.

[39] The Board is mindful that this Application has drawn more opposition than many, whether it be in the form of the petitions, letters of comment, public speakers, or the intervention filed by Mr. Gilmour.

[40] While acknowledging the ratepayers' legitimate concerns relating to the impact of increased rates, the Utility operates on a cost of service model, as set out in the *Act*, which prescribes the manner in which the Board must assess the Application. This means that the Utility is entitled to recover its reasonably incurred costs, together with a reasonable rate of return.

[41] While Mr. Gilmour asked that the Board await the outcome of potential legislative changes, the Board cannot speculate on whether any legislative changes that might impact water rates will occur. It must determine the Application before it based on the current state of the law.

[42] While the decision to move to a groundwater system was questioned by Mr. Gilmour, and some of the public speakers, the fact remains that the change was based on reasonable analysis at the time the capital project was undertaken. The information before the Board, when the matter was considered, indicated the cost to build and operate a water treatment plant, which would have allowed the prior water source to meet legislatively imposed safe water standards, would have been higher. The costs associated with the change to a groundwater system were therefore approved by this Board. Prudently incurred costs resulting from this change can be recovered by the Utility.

[43] With respect to the adequacy of the financial information supplied for this Application, the Board has made an assessment, which is discussed in more detail later. Suffice it to say at this stage, the Board is satisfied there is sufficient information to come to a determination.

[44] The quality of water supplied by the Utility is a major source of concern to ratepayers. The Board agrees that this is a very significant issue. Section 52 of the *Act* requires that the Utility provide a service which is reasonably safe and adequate.

[45] The Utility is taking steps to address safety issues; particularly, in recent years, as it relates to uranium. This will be discussed later in this Decision.

[46] While acknowledging the presence of calcium in the water, and its potential negative impact on appliances, Mr. McInnis indicated safety guidelines in this regard were

being met. No concrete proposal in relation to whether, or how, water quality could be improved, in contrast to water safety, was available at the hearing.

[47] Ratepayers who participated requested that no rate increases be approved until a resolution is found to the water quality issues. The Board is not satisfied this is an appropriate remedy at this stage.

[48] The Utility's financial picture is far from rosy. Even with the proposed increases, the Utility will still be incurring a deficit in the three Test Years. Further delays in addressing the revenue requirement will only exacerbate the problem, and will do nothing to address the quality of the water.

[49] Despite the foregoing, the petition filed by Ms. Jones, pursuant to s. 83 of the *PUA*, can provide an avenue to investigate the matter. As indicated at the hearing, this involves a distinct process, which could not be incorporated in the rate application, given the timing and manner in which it was presented.

[50] The Board would caution that s. 83 of the *PUA* provides the Board with the ability to reduce, modify, and alter rates. It also provides jurisdiction to the Board to order the Utility to take reasonable steps to address quality issues. While the petitioners seek rate relief, addressing water quality issues often comes with associated costs. If these costs are reasonable to address quality issues raised by ratepayers, and the Board orders they be incurred, the Utility is entitled to recover the same. Therefore, while the outcome of s. 83 process is unknown at this time, it must be kept in mind that a potential result could be a rate increase, as opposed to a decrease in rates.

[51] In any event, the Board will be in contact with the petitioners to confirm their ongoing desire to proceed, following which, procedures can be outlined.

[52] The Board will now turn to further assess the merits of the Application, the level of rate increases requested, the allocation methodology, and the supporting information filed by the Utility.

IV REVENUE REQUIREMENTS

(A) Operating Expenditures

[53] The Rate Study indicates that the Utility had forecasted an excess of expenditures over revenues for the 2017/18 fiscal year of \$5,527, with an accumulated operating deficit of \$225,402. The Applicant indicated that, based upon the most recent information available, it appears that this deficit is approximately \$230,000; however, the magnitude of the variance does not require adjustments to the Rate Study. 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 \$359,065 at the end of the Test Period.

[54] The Applicant explained that the magnitude of its current operating deficit of \$230,000 is related to operational issues occurring prior to the previous rate application and the 2015 dissolution of the Town of Bridgetown. It noted that the deficit was \$628,118 in 2014. It applied the gain on the disposal of the watershed property against the deficit, approved as a part of the Utility's last rate application, to reduce the deficit to \$197,439 at March 31, 2015. It stated that the deficit has increased since that time due to insufficient revenues and higher than projected expenditures.

[55] The Rate Study includes the estimated operating expenditures as provided by the Utility for 2017/18. The projected operating expenditures for each of the three Test

Years are taken from the Utility's budgets, which are generally based upon a 3% annual increase for inflation.

[56] The Utility provided explanations for the estimated increases in several operating expense line items in 2017/18 from 2016/17. It was noted that the approximately 24% increase in the source of supply expense is due to the additional monitoring and testing of wells to find an appropriate source of supply, due to the presence of uranium. The 11% estimated increase in power and pumping expense was stated to be due to electricity rate increases, and water leaks, which resulted in the necessity to recharge the reservoir.

[57] The water treatment expense was estimated to decrease in 2017/18, due to less use of the well which was the source of high levels of uranium, which resulted in a reduction of the frequency of testing. A breakdown of the water treatment expenses in 2016/17 was filed in response to the IRs which indicated that the maintenance of equipment expense, which was \$56,483 in 2016/17, is estimated to decrease to \$11,804 in 2017/18. In response to the Undertakings, the Applicant provided a further breakdown of the water treatment maintenance of equipment expense and explained that as a part of the dissolution process, the County wrote off a portion of the spare parts that were included in this cost centre and will not appear in the future.

[58] The transmission and distribution expense is estimated to increase by approximately 150% in 2017/18, while the administration and general expense is estimated to decrease by approximately 27%. The Applicant explained that the allocations used in 2016/17 are consistent with those used in the previous rate study and in prior years, in which 33% of the public works general costs were allocated to the Utility

and included in the administration and general budget. Beginning in 2017/18, the Utility noted that it is allocating costs in a manner consistent with the *Water Utility Accounting and Reporting Handbook (Accounting Handbook)*, which has required the reallocation of \$69,957 to transmission and distribution from administration and general. During the hearing, the Applicant confirmed that this reallocation will also be applied to the Utility's financial statements on a go-forward basis.

[59] The water treatment - salaries and expenses line item is projected to decrease from \$42,993 in 2017/18 to \$30,533 in 2018/19 and to \$27,449 in 2019/20. The Applicant noted that this variance from the general 3% annual increase used in the Test Years projections is due to the amount of staff time and testing associated with the third production well, which had high levels of uranium. It further explained that as this well is no longer in use and uranium levels have stabilized, less staff time and testing is projected.

[60] The water treatment - maintenance of structures and improvement expense is projected to increase from \$11,804 in 2017/18 to \$31,953 in 2018/19, which the Utility explained is due to the need for additional maintenance, with the budgets reflective of the projected need.

[61] The Utility described that the annual operating budget is drafted based upon the previous year's revenues and expenditures. It is then reviewed by senior staff, and any adjustments are made prior to presenting the budget to Municipal Council. Councillors provide input, with the final draft approved by Municipal Council.

[62] The Applicant explained the allocation of costs between the Municipality and the Utility, noting that during the five-year dissolution period (to March 31, 2020), the

same allocations have been used as in prior years. Approximately one-third of Public Works and Administration costs, and approximately one-half of equipment use costs, are charged to the Utility. In response to the Board's question as to the accuracy of these allocations, Mr. McInnis explained that the last reconciliation was done at the end of the year for the former Town of Bridgetown, and that these figures were just moved forward.

[63] The depreciation expense projected in each of the Test Years is based upon the depreciation associated with the capital additions. The depreciation rates used are as set out in the *Accounting Handbook*, with any deviations explained by the Applicant in terms of the asset's expected useful life.

Findings

[64] Although it has decreased since the last rate application, the Utility continues to have a significant operating deficit. It is acknowledged that the deficit is due to operational issues prior to the Town's dissolution; however, recent issues associated with dealing with uranium levels in one of the production wells have contributed to increased expenses which were not anticipated at the time of the last rate application. In addition, due to the described current state of the Utility's infrastructure, operating budgets have been increased to provide necessary maintenance. Given the impact that water loss can have on a Utility of this size, the Board encourages the Utility to focus on maintenance to reduce leaks throughout the system.

[65] The Applicant has revised the allocation of public works costs between the transmission and distribution expense and the administration expense, in accordance with the *Accounting Handbook*, which the Board accepts.

[66] Based upon the information provided, the Board finds the projected operating expenses for the Test Years, including the depreciation expense, to be reasonable.

[67] The Board accepts the allocation of costs between the Municipality and the Utility, which is based upon the former Town of Bridgetown allocations. However, after the effective date of the dissolution budget, the end of the 2019/20 fiscal year, the Board expects that the allocations will be reviewed and adjusted accordingly. This review should be completed prior to the Utility's next rate application.

(B) Capital Budget and Funding

[68] The Utility's 2017/18 capital budget, in the total amount of \$774,381, which includes the costs of the well investigations and improvements, in the amount of \$600,000, is set out in the Application. In addition to several miscellaneous items, the 2017/18 budget also includes capital expenses related to distribution mains (\$36,500), source water protection plan (\$20,000) and the water rate study (\$10,000). The funding is shown as \$482,500 from the Clean Water and Wastewater Fund (CWWF), and \$291,881 from the capital reserve. The Applicant explained that the capital reserve fund includes the money which was received from the sale of capital property in 2014/15.

[69] Mr. Isenor noted that the cost of the new well may be slightly more than originally estimated due to the need to locate it further from the existing two wells than was originally anticipated, to obtain acceptable quality. He confirmed that any additional costs incurred will not result in the need for the Utility to borrow funds, as gas tax funds from the Municipality will cover any cost overruns.

[70] The Rate Study includes the Utility's proposed Capital Budget for the Test Years of \$102,500 in 2018/19, \$327,500 in 2019/20, and \$82,500 in 2020/21. The 2018/19 capital budget consists of several items, all \$25,000 or less, including other well investigation and improvement costs (\$25,000), services (\$25,000) and the source water protection plan (\$20,000).

[71] The 2019/20 budget includes distribution mains (\$250,000), source water protection plan implementation (\$25,000), services (\$25,000) and miscellaneous items of \$10,000 and less. The Applicant explained that the distribution main expenditure is projected to coincide with planned street paving by TIR. During the hearing, the Applicant confirmed that it fully anticipates the distribution main project will proceed, but depending upon TIR construction schedules, the timing may be off by one year.

[72] The 2020/21 budget includes services (\$25,000) and several items, with estimated costs of \$15,000 and under.

[73] Mr. Isenor summarized that other than some additional costs associated with the new well, and the distribution main project in 2019/20, the capital expenditures in the Test Years are basically related to repairing existing infrastructure and attempting to reduce leaks in the system.

[74] The funding of the Capital Budget is proposed to be through the Utility's depreciation fund in the amounts of \$70,000 (2018/19), \$140,000 (2019/20), and \$75,000 (2020/21), as well as gas tax in the amounts of \$7,500 in each of 2018/19 and 2020/21. The remainder of the funding is budgeted as \$25,000 from the capital reserve in 2018/19 and \$187,500 from grants in 2019/20. The response to the IRs indicated that both the funding from grants in 2019/20 and gas tax funding proposed in 2020/21 have not been

confirmed. Mr. Rooney and Mr. Isenor confirmed during the hearing that there are sufficient depreciation funds to cover both amounts.

[75] The Rate Study included an additional withdrawal from the depreciation fund in error, which was corrected in the Revised Rate Study filed in response to the IRs. Based upon the projections in the Revised Rate Study, the depreciation fund balance is expected to be \$513,935 at the end of the final Test Year (2020/21).

Findings

[76] The Board approved the capital expenditure associated with the new well in a letter to the Utility dated November 18, 2016. The letter approved the estimated amount of \$609,272 for the project, with funding from the CWWF (\$456,954) and the capital reserve fund (\$152,318). The information presented indicates that any cost overruns, due to relocating the well from the original proposal to obtain better quality water, will be from gas tax funds, and have no financial impacts on the Utility.

[77] The capital budget in the Test Years consists of one major distribution main project, with most of the funding proposed from grants, and several smaller items dealing with the source water protection plan, and leak reduction. No new borrowing is projected and the Utility has sufficient depreciation funds if all or a portion of the grant funding is not available.

[78] Based upon the information provided, the Board finds the proposed capital budget and funding for each of the Test Years to be reasonable. However, given the description of the state of the Utility's infrastructure, and the leakage issue, the Board encourages the Utility to continue to seek outside funding sources and not delay or postpone any necessary upgrades.

[79] 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 projects of more than \$250,000 as set out in s. 35 of the *Act*.

(C) Non-Operating Revenues and Expenditures

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

[81] The other operating revenue consists of sprinkler charges, in the annual amount of \$650 in each of the Test Years, and other revenue, which includes disconnection fees, in the annual amount of \$1,200 in each of the Test Years.

[82] The non-operating revenues budgeted in 2018/19, 2019/20, and 2020/21 consists of interest income amounts of \$2,538, \$2,564 and \$2,692, respectively.

[83] The Rate Study includes projected non-operating expenditures related to the principal and interest charges on existing debt, 85% of which is associated with funding the capital costs associated with the Utility's conversion to groundwater in 2010, with the remainder related to equipment and watermain extensions prior to 2009. In response to the Undertakings, the Applicant provided the expected retirement dates of the existing debt, a portion of which will be paid off in May 2021, with further balloon payments in 2022 and 2026. As noted above, no new debt is projected within the Test Years.

[84] The non-operating expenditures further include proposed earnings in 2019/20 and 2020/21 of \$20,000 and \$35,000, respectively. The Applicant explained that it is proposing to apply these amounts against the Utility's operating deficit, with the aim

of eliminating the deficit within eight years, while maintaining a reasonable level of rate increases.

[85] The rates of return, which are calculated using the total non-operating expense revenue requirement, are 5.26%, 5.82% and 6.29%, respectively, in each of 2018/19, 2019/20 and 2020/21. The Applicant commented on the magnitude of the calculated rates of return, noting that a significant amount of the Utility's infrastructure has been funded externally, and is deducted from the calculation of rate base, which impacts the percentage. Mr. Isenor further acknowledged that although it is recognized that the calculated rate is slightly above the Board's guideline of 6%, this is also being driven by the proposed earnings to pay down the deficit, and the Applicant is attempting to keep the calculated return in the 6% range.

Findings

[86] The Board finds the Utility's other operating and non-operating revenues to be reasonable and accepts them as presented.

[87] The Board further accepts the non-operating expense related to the existing debt. The Board has considered the information presented with respect to the proposed earnings and accepts the amounts as proposed, to be used towards reducing the Utility's accumulated operating deficit.

[88] The calculated rates of return are within what the Board accepts as reasonable for the first two Test Years and is slightly above the 6% figure in the final Test Year. The Board notes that the Utility's unamortized amount of capital contribution represents approximately \$2.2 million of the Utility's total \$6.3 million of plant in service.

This impacts the rate of return by increasing the amount calculated. It is further noted that no new debt is projected in the Test Years.

[89] Given the significant amount of capital contributions, and the included earnings to aid in reducing the Utility's operating deficit, the Board accepts the return on rate base as calculated in the Rate Study for each of the Test Years.

(D) Allocations of Revenue Requirement

1. Public Fire Protection

[90] The Application proposed to set the public fire protection charge at the current approved rate of \$197,502 in 2018/19, decreased to \$195,000 in 2019/20 and proposes that the charge in 2020/21 be based upon the as calculated amount of \$193,502, as set out in the Rate Study. The Rate Study explained that this request is for rate design purposes as the rates calculated in accordance with the *Accounting Handbook* would be \$171,342 in 2018/19 and \$185,363 in 2019/20. The response to the IRs stated that the proposed modifications avoid a decrease in the fire protection charge in the first two Test Years, followed by an increase in the final Test Year. It further noted that the proposed rates in 2018/19 and 2019/20 smooth the increase proposed to the customer rates.

[91] The proposed decrease in fire protection charges, while customer rates are proposed to increase, was the subject of an IR from Mr. Gilmour to the Utility. The Utility explained the methodology as set out in the *Accounting Handbook* to calculate fire protection charges. It further explained that as the additions to utility plant in service during the Test Years are mainly allocated to general service, at 90% and 10% to fire protection, the result is a decrease to the fire protection charge

[92] The Rate Study calculates the percentage allocation of utility plant in service to fire protection, using the methodology as set out in the *Accounting Handbook*, as 36.2%, 36.9% and 36.7%, respectively, in each of the Test Years. The Revised Rate Study corrected an error in the allocation of the purification structure to the fire protection charges in 2018/19, which has no impact on the rates proposed, as the rate is requested to remain at the current level in 2018/19. In setting the proposed rates in 2018/19 and 2019/20, the Utility allocated the utility plant in service expenditures to fire protection, which are incorporated at the set rates of 42.5% and 39.1%, respectively. The response to the IRs explained that the percentages are low in comparison to the calculated percentage used to arrive at the current charge due to projected capital spending on distribution mains in the last rate application which did not occur. This raised the percentage in the last application since mains are allocated 60% to fire protection. As these mains were not completed, the allocation remained at approximately 36%.

[93] During the hearing, the Board questioned why the projected capital works from the last application did not occur. Mr. Isenor noted that the projections were taken from an engineering report prepared for the Town of Bridgetown dissolution process, and at the time there was no discussion as to the priority of projects. Mr. McInnis further explained that the deferral of any major capital upgrades has an impact on the Utility as it continues to deal with old infrastructure and leaks.

Findings

[94] It appears from the information provided that the current fire protection charge, based upon capital additions which did not occur, was set too high. The Application proposes to correct this through phasing-in a decrease in the rate, using the

calculated rate in the final Test Year. The Board notes that, without the proposed phase-in the remaining revenue to be recovered from the customers would be greater, resulting in an increase in customer rates.

[95] The Board accepts the phase-in of the fire protection rates as proposed. However, given the issues with the Utility's aging infrastructure and leaks, the Board reminds the Utility of the importance of carrying out planned upgrades, and prioritizing capital projects.

[96] The Board finds the Utility's proposed fire protection charges for each of the Test Years, as presented in the Application, to be reasonable.

2. Utility Customers

[97] The remaining revenue requirement, after the allocation to fire protection charges, is to be recovered from the customers of the Utility. The Applicant noted that the allocations used for the base charge, customer charge, delivery, and production are the same as those used in the 2014/15 application and are consistent with the guidelines set out in the *Accounting Handbook*, except for the allocation of the transmission and distribution expense. The allocation used is 20% to base charge and 80% to delivery, compared to the 100% to delivery previously used and suggested in the *Accounting Handbook*. The Application stated that the allocations have been used for rate design purposes. Mr. Isenor further explained that the change in allocation is to maintain the base charge at approximately 44% of the total water bill to customers to provide financial stability to the Utility at a time of decreasing levels of consumption volume. He noted that this procedure has been used with other utilities, in some cases allocating 50% of the transmission and distribution expense to the base charge.

[98] The Application projects no change to the number of customers over the Test Years; however, total consumption is expected to decrease due to a projected 1% annual decline in average residential (i.e., 5/8" meter size) consumption. It is projected that the annual consumption volume for the other meter sizes will remain constant throughout the Test Period.

[99] In response to the IRs, the Applicant noted an error in the consumption volumes used in the Rate Study. The Revised Rate Study amended the consumption volumes for each of the meter sizes, with the 5/8" and 1" meter sizes increasing, and all the other meter sizes decreasing in volume, from the amounts indicated in the original Rate Study. Due to the correction to the consumption volumes, the Revised Rate Study was based upon a higher total consumption volume in each of the Test Years, resulting in the calculation of lower consumption charges from those originally proposed.

[100] The Board noted during the hearing that there were discrepancies with respect to the estimated consumption volumes set out in the response to the IRs, and those used in the Revised Rate Study. In response to the Undertakings, the Applicant refiled the response to the IRs, which indicated that the consumption volumes used in the Revised Rate Study are correct.

Findings

[101] The Board notes that it is not unusual to use different allocations to base, customer, delivery and production charges from those suggested in the *Accounting Handbook*, to provide revenue stability for smaller water utilities. The Board accepts the rationale provided for the allocation of the transmission and distribution expense. The Board further accepts the projected 1% annual decrease in residential consumption

volumes, which is consistent with the downward water consumption trend in the majority of water utilities.

[102] The Board notes that although the calculated consumption rates decreased from those proposed in the Rate Study, the average quarterly water bills as presented in the Revised Rate Study are slightly higher for the 5/8" and 1" customers, due to the corrected increased consumption volume for these meter sizes.

[103] The Board accepts the methodology used by the Utility in the calculation of base and consumption rates for each of the Test Years, as proposed in the Revised Rate Study filed in response to the IRs.

(E) Schedule of Rates

[104] In addition to the rates for water supply to its customers, Mr. Isenor confirmed that the Application proposed the addition of Item 10, "Collection of Overdue Bills", which is consistent with other water utilities in the Province.

[105] The Schedule of Rates for 2020/21 proposed that fire protection charge to be paid by the Municipality be based upon a proportion of the number of hydrants in the municipal unit, which was noted in the IRs to be an error and should be removed. The Schedule of Rates filed with the Revised Rate Study removed this clause.

Findings

[106] The Board approves the proposed amendments to the Schedule of Rates, as set out in the Revised Rate Study, filed in response to the IRs.

[107] These are approved with effective dates of January 1, 2019, April 1, 2019, and April 1, 2020.

(F) Schedule of Rules and Regulations

[108] The Rate Study proposed amendments to the Schedule of Rules and Regulations to include the addition of two new items, Rule 39, "Water Conservation Directives", and Rule 40, "Curb Stop/Control Valve Service Box". The purpose of the proposed additions is to provide for enforcement to limit water usage during times of water shortages, and to allow the Utility to charge for costs associated with exposing curb stop/control valve service boxes that have been covered by the customer, respectively.

[109] With respect to Rule 20 "Cross Connection Control and Backflow Prevention", the Applicant confirmed that new connections require a cross connection control/backflow prevention device.

Findings

[110] The Board reminds the Utility of the importance of maintaining a cross connection control/backflow prevention system.

[111] The Board finds that the proposed amendments to the Schedule of Rules and Regulations are reasonable and are generally consistent with those of other Utilities. The Board approves the Schedule of Rules and Regulations, as proposed in the Application, effective January 1, 2019.

(G) Contingency Planning

[112] In response to the IRs, the Utility provided general information on its efforts related to contingency planning and emergency preparedness. It noted that the preparation of its Source Water Protection Plan is currently underway, with approximately \$40,000 in associated operating costs budgeted in 2017/18 and 2018/19. The Applicant

indicated that the Source Water Protection Plan will include both contingency planning and risk assessment and is intended to be reviewed annually by the Standing Committee.

[113] The Board reminds the Utility of the importance of maintaining and updating its contingency and emergency preparedness strategies and the associated communication plans.

V CONCLUSION

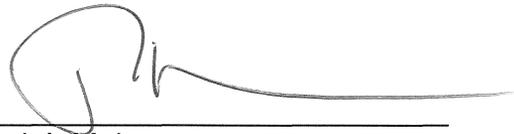
[114] The Board has considered the information presented, including the information and submissions of the Intervenors and public participants, and approves the Schedule of Rates for Water and Water Services as revised by the Applicant in the response to the IRs, with the effective dates of January 1, 2019, April 1, 2019, and April 1, 2020.

[115] The Board further approves the Schedule of Rules and Regulations as amended by the Utility in response to the IRs, with an effective date of January 1, 2019.

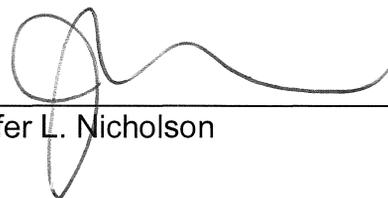
[116] The Board will contact the persons who filed a petition under s. 83 of the *PUA*, at the hearing, to discuss a further process to address their complaint.

[117] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 4th day of October, 2018.



Richard J. Melanson



Jennifer L. Nicholson