DECISION **2018 NSUARB 220**
M08701

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 WOLFVILLE**, on behalf of its **WATER UTILITY**, for Approval of Amendments to its Schedule of Rates and Charges for Water and Water Services and Amendments to its Schedule of Rules and Regulations

BEFORE:	Steven M. Murphy, MBA, P.Eng., Member Stephen T. McGrath, LL.B., Member
APPEARING:	**TOWN OF WOLFVILLE**
	Gerry Isenor, P.Eng. G.A. Isenor Consulting Limited
	Blaine Rooney, CPA, CA Blaine S. Rooney Consulting Limited
	Michael MacLean Director of Financial Services
	Kevin Kerr Director of Public Works
INTERVENOR:	Marcel Falkenham, P.Eng. Executive Director of Facilities and the K.C. Irving Environmental Science Centre Acadia University
HEARING DATE:	September 6, 2018
UNDERTAKINGS:	September 11, 2018
DECISION DATE:	**December 6, 2018**
DECISION:	**Schedule of Rates, and Schedule of Rules and Regulations approved, as amended by the Utility.**

I SUMMARY

[1] The Town of Wolfville (Town) applied to the Nova Scotia Utility and Review Board (Board) on behalf of the Wolfville 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 (Application). The Utility's existing Schedule of Rates for Water and Water Services and Schedule of Rules and Regulations have been in effect since January 1, 2004, and January 1, 2002, respectively. The Application is made pursuant to the *Public Utilities Act*, R.S.N.S. 1989, c. 380 (*Act*).

[2] The Application was supported by a rate study dated February 20, 2018, which was prepared by G.A. Isenor Consulting Limited, in association with Blaine S. Rooney Consulting Limited, and was submitted to the Board on May 15, 2018 (Rate Study). Information Requests (IRs) were issued to the Utility by Board staff on July 5, 2018, and responses were filed by the Utility on July 18, 2018.

[3] The Application proposed rate increases for the fiscal years 2018/19, 2019/20, and 2020/21 (Test Years or Test Period). The Utility currently has a two-block declining consumption rate structure. Under this structure, customers who consume water over a threshold amount (the first block) pay a lower amount for the volume of water consumed over the threshold amount (the second block).

[4] The Application proposes to phase-out and eliminate this two-block structure at the end of the Test Years. The first block is currently defined as the first 250,000 gallons per quarter (1,000,000 gallons per year) and is proposed to be increased to 1,300,000 gallons per year in 2018/19 and 2,000,000 gallons per year in 2019/20. In 2020/21, the two-block structure will be completely eliminated, resulting in a uniform

consumption rate for all volumes. Based upon the Utility's records, approximately 14 customers have been billed at the second block rate for at least one of the quarterly billing periods in 2017/18, with some of these second block quarterly consumption volumes as low as 33,000 gallons.

[5] For 5/8" meter residential customers, based upon average quarterly consumption, the proposed amendments to rates in each of the Test Years are 4.2%, 2.7%, and -0.1%, respectively. For all other metered customers, based upon the average quarterly consumption of each meter size, the proposed rate amendments are indicated in the Application to range from 3.4% to 5.4% in 2018/19, -43.0% to 3.2% in 2019/20, and 0.3% to 1.3% in 2020/21. However, it should be noted that the average amendments calculated for the meter customers other than the 5/8" are influenced by the phasing out and elimination of the second block, which had to be calculated on an individual basis, and not on a mathematical average basis. For customers not having second block consumption, the average increases proposed are approximately 3% to 5% in each of 2018/19 and 2019/20, and 0% to 1% in 2020/21.

[6] The Application also proposed amendments to the annual public fire protection charge to be paid to the Utility by the Town for the provision of water for fire protection service. The total annual public fire protection charge, which was $401,832 in 2016/17, is proposed to decrease to $389,668 in 2018/19, increase to $408,077 in 2019/20, and decrease to $396,023 in 2020/21.

[7] The public hearing was held at the Wolfville Town Council Chambers on September 6, 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 Town staff: Michael MacLean, Director of Financial Services; and Kevin Kerr, Director of Public Works.

[8] Acadia University (Acadia), applied for intervenor status, which was approved by the Board. Acadia was represented in the proceeding and at the hearing by Marcel Falkenham, P.Eng., Executive Director of Facilities and the K.C. Irving Environmental Science Centre. Board staff issued IRs to Acadia on August 9, 2018, to which a response was received on August 16, 2018. IRs to Acadia were issued by the Applicant on August 10, 2018, with a response received on August 27, 2018.

[9] No letters of comment, or requests to speak were received by the Board with respect to the matter.

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

II INTRODUCTION

[11] The Utility's groundwater system consists of two production wells located within the Town boundary. One of the wells has been added since the Utility's last rate application in 2001. Groundwater is pumped from the wells to the Utility's water treatment facility, where it is chlorinated, and fluoride is added. Sodium hydroxide is also added to adjust the pH level. The treated water is stored in a 2.6 million gallon in-ground concrete storage reservoir from where it is gravity fed through the distribution system to supply the Utility's customers.

[12] Although the Utility's last rate application was in 2001, it has an estimated accumulated operating surplus at the end of the 2017/18 fiscal year of $985,408. At the time of the last rate application, the practice of transferring sums from the Utility to the

general revenues of the Town was discussed. At that time, it was noted that the practice would be suspended, which was confirmed by the Applicant. However, the Application proposes a dividend to the Town in each of the Test Years as a part of the Utility's projected revenue requirements. The Rate Study further proposes to fund a portion of the Test Years' capital budgets from its operating surplus.

[13] The Utility's Statement of Operations for the 2016/17 fiscal year shows offsetting line items in the amount of $131,867 as non-operating revenue (Transfer Water Capital) and non-operating expenditure (Capital out of Revenue). This relates to the Utility's past practice of accounting for the funding of capital projects through depreciation funds. The Utility confirmed that this practice has been corrected to remove the use of capital depreciation reserve funds from the statement of operations, which is reflected in the Rate Study's projections in the Test Years.

[14] The Utility's non-revenue water is approximately 35% to 40% of the total volume of treated water. The Applicant explained that this percentage includes some non-revenue water which can be accounted for, such as that used for the unidirectional flushing program, overflowing the reservoir, and irrigation. As water distribution main breaks contribute to non-revenue, unaccounted for water, the Utility includes both annual leak inspection activities in its operating budget ($3,000), as well as the replacement of aging and deteriorated water mains in its capital budget. The Rate Study contains expenses associated with both expected capital spending and higher distribution operating costs related to potential main breaks and repairs in the Test Years' revenue requirements.

[15] The Utility currently serves 1,531 metered customers, of which 1,324 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 projected annual growth of two 5/8" meter size customers in each of the Test Years.

[16] 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

1. Intervenor

[17] Acadia's Notice of Intervention stated that it is one of the Utility's largest consumers, accounting for approximately 22% of the Utility's annual water volume distributed to customers. It stated that its water conservation efforts have resulted in a reduction of 47% of annual water consumption in the last 15 years, from over 51 million gallons to 27 million gallons. Acadia submitted that the proposed elimination of the second block consumption rate would result in an increase in its water bills of approximately 25%, in addition to a basic increase of 5% over the Test Years. Mr. Falkenham explained that while Acadia is always looking at options to reduce water consumption, it currently has no specific water efficiency projects and it does not anticipate seeing a further significant water use reduction.

[18] In a letter to the Board dated August 1, 2018, Mr. Falkenham provided information in support of Acadia's intervention in the matter. He noted that Acadia has 50 water service accounts for buildings on its campus, with eight of these facilities currently consuming over 250,000 gallons per quarter, representing service in the second

block. Included with spreadsheets attached to the letter were summaries of water usage and billings at each of Acadia's individual water service accounts. Also attached was an analysis of the impact of the proposed rate increases, including the elimination of the second block on the eight water service accounts which currently have consumption in the second block. It showed an increase of approximately $19,000, or 56.73 % for these eight accounts at the end of the Test Years. The letter concluded:

> It is understood and appreciated that the operating and renewal costs for the water utility need to be covered but the concern of the university is that this cost increase is being disproportionately distributed.
>
> [Exhibit W-5, p. 2]

[19] Acadia explained that the basis for its belief that the proposed rates are being disproportionately distributed is its projected overall 27% rate increase, due primarily to the high increase (56%) proposed for the eight facilities impacted by the proposed elimination of the block rates. It compared this increase to other, lower consumption volume Utility customers, who it presumes would see an increase of 5.2% over the same period, with the acknowledgement that other larger volume accounts would also see significant increases due to the proposed elimination of the second block rate. Acadia further noted that while it believes water rates should be based upon a cost of service basis, it does not have the resources available to conduct a detailed analysis in support of a cost of service basis for maintaining the block rate structure.

2. Applicant Response

[20] In IR responses to the Board, the Applicant confirmed that Acadia has at least one water service account for each of the 5/8", ¾", 1", 1.5", 2" and 4" meter sizes. The Utility also estimated the total water bill for Acadia in each of the Test Years using 2017/18 consumption levels, and the assumption that the block two rate phase-out is

uniform for all customers. In comparison to a 2017/18 amount of $101,414, the Utility calculated the proposed increases to Acadia as 18.1%, 5.6% and 0.8%, respectively in each of the Test Years, which represents an overall increase of 25.7% from the 2017/18 level.

[21] In its rebuttal evidence filed August 29, 2018, the Applicant discussed what it believed to be inconsistencies in the information filed by Acadia on the impact of the proposed elimination of the second block on its water bills. Using the figure of $102,497 which Acadia indicated to be its total 2017/18 water bill, assuming no change in the consumption pattern, and not including the meters at Acadia which currently receive a small volume of consumption in the second block, the Applicant recalculated the proposed rate impact on Acadia. The tables filed estimated the proposed overall increases to Acadia of 7.7%, 8.6% and 0.8%, respectively in each of the Test Years, or 18% in total.

[22] During the hearing, the Board noted that the first block consumption amount in 2020/21 for one of Acadia's eight larger accounts appeared to be missing in the Utility's rate impact calculations filed as a part of its rebuttal evidence. In response to Undertaking U-5, the Utility refiled this calculation for 2020/21. With the correction, the percentage increase in the final Test Year was revised to 4.9%. Based upon the response to Undertaking U-5, the overall increase over the Test Years for Acadia with the proposed rates is 22.7%.

[23] Although Acadia's service accounts represent most of the Utility's current second block consumption, the Applicant noted that there are other customers who currently have this level of consumption for at least one quarter of the year. The Utility

stated that the basis of the proposed elimination of the second block is that it cannot be supported on a cost of service basis and it does not follow the principle of equal cost for equal service. Mr. Isenor added that the proposed elimination of the second block is consistent with most water utilities in the Province who have removed the block in the past based upon a cost of service argument.

[24] In response to the Board's question about alternative ways to transition the elimination of the block rate structure, Mr. Isenor confirmed that while alternatives were considered, the focus was on maintaining the 5/8" meter customers' increase in the three to four percent range. He further noted that although it is recognized the proposed block elimination will increase Acadia's costs, from a rate structure point of view, Acadia has been receiving low cost water for the past 17 years with no cost of service justification. He added that it is for the benefit of all customers to eliminate the block rates, and base rates on cost of service. He stated that as it was believed to be unfair to the largest customer, Acadia, to make the change in one year, it was proposed to phase-out the block over the Test Years, without dramatically impacting the other customers.

[25] With respect to the Board's observation that the rate impact on Acadia appears to be highest in the first two Test Years, Mr. Isenor noted that spreading out the impact over the Test Years was not specifically looked at, reiterating that the focus was on the 5/8" meter size impact, given that these customers represent approximately 1,300 of the 1,500 Utility customers. Mr. Rooney added that Acadia has many 5/8" meters. Mr. Isenor concluded, that in his opinion, the magnitude of the proposed increases to Acadia are within a reasonable range for a large institution, and that there have been significantly higher rate increases for other water utilities in the Province.

Findings

[26] The Board acknowledges and understands Acadia's concerns about the impact of increased rates, due in large part to the proposed elimination of the two block rates; a declining rate structure in which higher consumption volumes are charged less than lower levels. However, the Utility operates on a cost of service model, as set out in the *Act*, which prescribes the way the Board must assess the Application. This means that the Utility's rates and charges must be the same for substantially similar circumstances and conditions of service. The current declining block rate structure, under current circumstances and conditions, is not based upon cost of service principles. It has been eliminated in almost all the water utilities in the Province. Acadia has provided no evidence to support its retention, other than the rate implications.

[27] The Board notes that the Utility's water rates are among the lowest in the Province. With the proposed rate increases, the average quarterly water bill for a 5/8" customer, which represents most of the Utility's service connections, will continue to be among the lowest, at approximately $73. While it is unfortunate that the proposed rates significantly impact Acadia, the University has had the benefit of lower rates in the past. To reduce the impact, the Application proposed to phase-in the transition to a single consumption rate.

[28] Based upon the information presented, the Board accepts the proposed elimination of the second block rate.

[29] The remainder of this Decision will 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

[30] The Rate Study indicates that the Utility had forecasted an excess of revenues over expenditures for the 2017/18 fiscal year of $38,948, with an accumulated operating surplus of $985,408. It is projected that, at current rates, there will be an excess of expenditures over revenues in each of the Test Years, which along with the proposed use of the Utility's operating surplus to fund the capital budget, results in an accumulated operating surplus of $375,307 at the end of the Test Period.

[31] The Applicant explained the reasons for the length of time since the last rate application in 2001, at which time it had an accumulated operating deficit of $195,000. It noted that a restructuring of the Town's senior management staff has resulted in lower cost allocations to the Utility. It also added that the Utility's capital program has been able to be funded through annual depreciation funding and capital from revenue, and that debt repayment costs have been dropping annually, from $245,000 in 2010 to $100,400 in 2017/18. Mr. Rooney further noted that the Utility stopped the transfer of operating surplus to the Town, which built up the Utility's surplus.

[32] The Utility stated that, while these factors have contributed to its deferral of a rate application, in recent years, operational costs have increased due to the necessary repairs of distribution main breaks; and infrastructure replacement costs have resulted in increased use of capital reserve funds and the need for debenture funding.

[33] The magnitude of the accumulated surplus at the current rates, which have been in effect since 2004, was further explained by the Applicant to be due to its significant growth from 1,360 customers in 2001 to the current 1,531 customers. The

Utility's accumulated operating surplus, which is projected to be approximately 50% of the Utility's revenue requirement in the Test Years, was further explored during the hearing. The Board questioned how the proposed retention of the surplus is in accordance with the Policy of section 3090 of the *Water Utility Accounting and Reporting Handbook* (*Accounting Handbook)*, which states:

> All water utilities should schedule water rate adjustment applications to avoid creating an operating deficit or an excessive surplus.

[34] In response, Mr. Isenor noted that there has never been an application to roll back rates, as historically, any operating surplus will disappear in a few years.

[35] Mr. MacLean explained that it was thought to be reasonable for the Utility, in terms of managing funding sources, to have the surplus for capital needs given increasing debt costs. Mr. Rooney described that the Utility has generally used its entire depreciation reserve balance to fund capital items, leaving the operating surplus balance as a basic reserve to be used for funding unexpected items such as main breaks. Mr. Isenor added that the depreciation reserve and the operating surplus should be taken together, in terms of funding practice. The Utility chose to deplete its depreciation reserve and build up its operating reserve. It could have chosen to do the opposite and have a healthy depreciation fund balance. He concluded that in his opinion, the Utility is where it should be, with funding available for repairs and new infrastructure, albeit in the surplus account and not in the depreciation reserve.

[36] The Rate Study estimated operating expenditures during the Test Years based on projections from expenses provided by the Utility for 2017/18. There is no separate source of supply expense since the Utility changed its source from surface water to groundwater several years ago. Any source of supply expenses incurred are allocated

to other cost centres. The Applicant confirmed that based upon the Utility's draft 2017/18 financial statements, there are two items which are over budget. The Power and Pumping expense had actual costs which were approximately $20,000 above the estimated amount of $97,600, due mainly to higher than expected electricity costs. The salary/wages amount contained in the Utility's Administration and General expense, which relates to the allocation of common costs from the Town, was over the $118,000 budgeted amount, with actual costs of $133,400, which is closer to historical levels. The Utility confirmed that any of these items would not have an impact on the Utility's financial health and did not require further adjustments to its proposed rates.

[37] The Utility provided explanations for the estimated operating expense line items in 2017/18, which deviated significantly from 2016/17. It was noted that the approximately 10% increase in the water treatment expense is due to increased water testing and wages. The estimated 7% decrease in transmission and distribution expense is related to spending to repair the forecasted number of breaks, which has varied over the last few years.

[38] 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. The Board questioned the 3% rate used, noting that it is higher than the current inflation rate. Mr. Isenor noted that some of the expense items, such as the number of main break repairs, are not driven by inflation. He added that the adjustments to the 2017/18 amounts previously discussed are not deemed necessary, as the 3% rate covers the fact that some actual expenses will be more, and others less than the projections.

[39] The Board questioned whether the projected operating expenses have incorporated any efficiencies associated with the remote meter reading project contained in the projected capital budget in the Test Years. The Applicant noted that although there will most likely be efficiencies with the project, there have not been any material efficiencies to date and they probably would not be recognized until the project is competed.

[40] The Utility described that the annual operating budget is drafted by the Director of Financial Services, based upon their knowledge and experience, historical costs and current regulations. The draft is reviewed with the Director of Public Works, and presented to Town Council, who review it with staff. The final budget is prepared by staff and approved by Town Council in a formal motion.

[41] The Applicant explained the allocation of costs between the Town and the Utility, noting that common costs are based upon one of four percentage ratios. The ratios are currently based on: an operating budget ratio of 12% to the Utility; total bills issued ratio of 65% to the Utility; departments managed by the Director of Public Works, and staff equipment that carry out the work, at a ratio of 36% to the Utility; and vehicle/equipment costs set at 25% to the Utility.

[42] The depreciation expense projected in each of the Test Years is based upon the depreciation associated with the proposed 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

[43] The Utility is in the unusual position of having a significant operating surplus balance, while not having a rate increase since 2004. The Board acknowledges the Applicant's explanation for its current situation, which appears to be due to a number of factors, such as customer growth, reduced allocation of common costs with the Town, decreased debt expenses, ceasing the transfer of surplus to the Town, and the decision to fund capital projects by annual depreciation, resulting in little balance in the depreciation reserve, while adding to the operating surplus.

[44] The Board accepts the Utility's current financial position. However, as acknowledged by the Applicant, the environment in which the Utility operates can change in fourteen years and regular rate reviews are necessary. The Board expects that the Utility will file timely rate applications in the future, and in particular, draws the Utility's attention to Policy 2 in Subject 7010 – Rate Determination Policies of the *Accounting Handbook:*

> If a water utility finds that there is no need to apply for water rate adjustments after five years following that last rate adjustment, then the water utility must inform the Board, in writing, why it does not need to adjust its rates at this time and when the next request for water rate adjustments will be submitted.

[45] The Utility's proposed use of the operating surplus in the Test Years will be discussed later in the Application.

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

[47] The Board accepts the allocation of costs between the Town and the Utility. The Utility is reminded that these allocations should be reviewed periodically to ensure accuracy.

(B) Capital Budget and Funding

[48] The Utility's 2017/18 capital budget, which consists of distribution mains ($432,500) and meters ($35,000) in the total amount of $467,500, is set out in the Application. The funding is shown as $270,000 from long term debt, $127,000 from depreciation funds, and $70,500 as capital out of revenue.

[49] The Rate Study includes the Utility's proposed capital budget for the Test Years of $350,000 in 2018/19, $516,300 in 2019/20, and $70,000 in 2020/21. Meters are included in each of 2018/19 ($35,000), 2019/20 ($35,000) and 2020/21 ($45,000). The Applicant explained that these expenditures represent part of the Utility's multi-year project to add remote meter reading communication devices to all customers. At the project completion, the Utility expects to gain efficiencies through the elimination of manual walking meter readings. Mr. Rooney confirmed that any savings from the project implementation will be reflected in the next rate application. Mr. Isenor added that the metering project will also result in more accurate meter readings.

[50] Most of the proposed capital expenditures in the Test Years relate to distribution mains in the amount of $315,000 in 2018/19 and $481,300 in 2019/20. Mr. Kerr explained that these expenditures relate to renewal of aging infrastructure, with the expectation that this will reduce some of the main breaks which have contributed to water loss. The other capital expenditure, in the amount of $25,000, relates to the replacement of a pick-up truck.

[51] With respect to the proposed funding of the capital budget, Mr. Isenor noted that the Utility's current depreciation fund balance is approximately $5,000, due to its continued use by the Utility to upgrade the system. It is proposed to use depreciation funding of $128,300 in 2018/19 and $129,600 in 2019/20, with no funding from depreciation proposed in 2020/21. The depreciation fund balance is projected to be $240,548 at the end of the Test Years. Mr. Isenor commented that there may be a need for additional capital works in the final Test Year, and the projected depreciation fund balance will provide a source of funding with little or no impact on rates.

[52] The remainder of the funding for the capital budget is: capital out of revenue in the amount of $70,000 in each of the three Test Years; capital from surplus of $151,700 in 2018/19 and $250,000 in 2019/20; and long-term debt of $66,700 in 2019/20.

[53] In response to the Board's concerns about the operating surplus balance, as discussed above, Mr. Rooney referred to the approximately $500,000 in surplus which is proposed to be used to fund the capital budget in the Test Years. Mr. Isenor stated that the Utility will spend down the surplus over time to leave a reasonable working capital amount. He added that it is difficult to analyse the issue of intergenerational equity when there are surpluses, as it is not known when the surpluses were made since the last rate application and generally the issue relates to longer periods of time.

[54] The terms of the proposed long-term debt funding of the 2019/20 capital budget are 6% over 20 years. Mr. Isenor defended the use of the 6% rate, noting that is what was adopted and accepted by the Board for use in rate applications by smaller water utilities who do not have the resources of larger utilities, like Halifax Water, to refine its

cost estimates. He added that decreasing the rate to about 4% would have very little impact on rates.

[55] In response to Undertaking U-3, the Applicant provided information on the Spring 2018 Municipal Finance Corporation (MFC) debenture issue, which indicated an interest rate of 3.43% for a 20-year term. The Utility noted that this rate increased 0.5% in the last year and it is anticipated to rise again this year.

[56] Mr. MacLean explained that the Utility has tried to use a term of debt which is no more than 50% of the expected life of the asset. The Utility's long-term debt relates to underground infrastructure with asset lives far greater than 20 years. He noted that the 20-year term is reasonable, as a shorter time frame creates cash flow issues and longer term debt creates a risk with larger balloon payments and higher rates.

Findings

[57] The proposed capital budget in the Test Years consists of distribution main renewals, remote meter reading communication devices, and a new vehicle. In the past, it appears that the Utility has used all its depreciation funding available to fund projects, while building a surplus. The Board has considered the Utility's explanation that the operating surplus and depreciation source of funding should be considered together, as discussed above. It appears that the Utility's proposed funding of the capital projects in the Test Years has taken a more balanced approach through using some of the surplus and allowing the depreciation fund to build, while incurring some debt. The Board encourages the Utility to continue to consider using these funding sources, and to try to maintain a healthy depreciation fund balance.

[58] The Board has considered the Utility's explanation for the terms of the debt funding source and finds them to be reasonable and consistent with the terms used by most water utilities in the Province.

[59] Based upon the information provided, the Board finds the proposed capital budget and funding for each of the Test Years to be reasonable. As noted above, it appears that the metering project will result in future operating efficiencies. The new metering technology will also provide more accurate readings, which along with the infrastructure renewal projects, will aid in more accurate measurement, and reduction of the Utility's non-revenue water. This will be of benefit to the Utility to reduce water wastage.

[60] 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

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

[62] The other operating revenue consists of sprinkler service, in the annual amounts of $7,900, $8,300 and $8,300, respectively in each of the Test Years, and other revenue, in the annual amount of $2,000 in each of the Test Years. The Applicant explained that the sprinkler service amounts are reflective of the increases proposed and are consistent with other water utilities in the Province.

[63] The non-operating revenues budgeted in 2018/19, 2019/20, and 2020/21 consist of: interest income in the annual amount of $1,500; investment income of $5,000 annually; and other (job cost billing) of $6,000 in each of the Test Years. The Applicant explained that in previous years these amounts had been grouped together under "other revenue" as one lump sum amount.

[64] The Rate Study includes several projected non-operating expenditure items. The debt charges associated with the Utility's existing debt are included in each of the Test Years. The Applicant explained that one of the debt issues matures in 2019, resulting in a reduction of over $43,000 in principal and interest charges associated with the existing debt in 2020/21. The debt charges associated with funding the Utility's 2019/20 capital budget are included in the final two Test Years.

[65] The non-operating expenditures further include: interest on short term debt in the annual amount of $500; capital out of revenue in the annual amount of $70,000 to fund the Utility's capital budget in each of the three Test Years; and a dividend to the Town, in the proposed amounts of $35,000 in 2018/19, $45,000 in 2019/20 and $50,000 in 2020/21. The Applicant explained that the Town, as Owner of the Utility, is requesting that the dividend be paid. It noted that the amounts proposed do not have a negative impact on the financial position of the Utility. Mr. Isenor added that the *Act* allows the Town to earn a dividend if the Utility is in good financial health and the ratios of the return on rate base are within the guidelines.

[66] The rates of return, which are calculated using the total non-operating expense revenue requirements, are 3.14% in each of 2018/19 and 2019/20, and 2.66% in 2020/21. Mr. Isenor explained that while there was discussion that the return on rate

base should be below the MFC rate for a water utility to pay a dividend, it is his understanding that a water utility cannot pay a dividend if the return on rate base exceeds 6%. The Board notes that in this case the issue is moot, given the Utility's low calculated return on rate base with the proposed dividend.

Findings

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

[68] The Board further accepts the non-operating expense related to the existing debt and the proposed debt and capital from revenue to fund the Test Year's capital budget, as well as the interest on short term debt.

[69] The Board has considered the information presented with respect to the proposed dividend. The calculated rates of return are within what the Board accepts as reasonable for each of the Test Years. The Board, therefore, accepts the dividend as proposed, and 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

[70] The Applicant explained that in the previous 2001 rate application, assets were separated into the categories of demand, production and other, in the determination of the fire protection charge. Demand assets were allocated 50% to general service and 50% to fire protection, which differs from the 40% to general service and 60% to fire protection allocations contained in the *Accounting Handbook*. It confirmed that the

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

[71] The Rate Study calculates the percentage allocation of utility plant in service to fire protection as 51.0%, 51.2% and 50.9%, respectively in each of the Test Years. The fire protection charge in 2018/19 is proposed to decrease by approximately 3% in 2018/19 from the current level. The Applicant explained that this decrease is due to the inclusion of the depreciation funding in the non-operating expenditures in the current amount, which has since been removed, as noted above. Also, there has most likely been a change in the asset mix used in the determination of the public fire protection charge in the 17 years since the current formula was approved.

[72] The public fire protection charge is proposed to increase by 4.7% in 2019/20 and decrease by 2.9% in 2020/21. Mr. Isenor explained that the decrease in the final Test Year is due to paying off one of the existing loans in that year, adding that this also results in a moderation of customer rates.

Findings

[73] The methodology used to determine the public fire protection charge conforms to that set out in the *Accounting Handbook*. 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

[74] The remaining revenue requirement, after the allocation to fire protection charges, is to be recovered from the customers of the Utility.

[75] The Applicant noted that the allocations used for the base charge, customer charge, delivery, and production are consistent with the guidelines set out in the *Accounting Handbook*, except for the allocation of capital out of revenue. The allocation used is the same as that used for return on rate base of 40% to base charge, 30% to delivery, and 30% to production, compared to the allocations of 40% to base and 60% to delivery suggested in the *Accounting Handbook*. Mr. Isenor explained that with the proposed elimination of the second block, this revised allocation will have no impact on rates in the third Test Year.

[76] The Application projects annual growth of two 5/8" meters (residential) in each of the Test Years. In response to the IRs, the Applicant noted that it has had an increase of 30 customers over the last five years, ranging from a high one year of 11 new customers to a low of three. Given this historical context, the Board questioned if the projected annual growth of two customers is low. Mr. Isenor explained that there is no indication that the past level of growth will continue, in terms of new streets and the number of recent building permit applications, and that the two customers per year represents the Utility's best estimate.

[77] The Rate Study includes a 1% annual reduction in water consumption of the 5/8" meter customers in each of the Test Years. Mr. Isenor explained that the magnitude of the proposed decline is based upon the Utility's historical consumption, noting there has been a trend for lower water consumption in North America, driven by conservation. He added that the Utility's current average residential consumption volume is still relatively high in comparison to others in the Province and in his opinion, there is room for further decline. In response to Undertaking U-4, the Applicant provided the

calculations showing an average percentage decline in consumption of 0.8% per year over the last five years, in support of the 1% annual consumption volume decline projected in the Application.

[78] The Application proposes the elimination of the second block consumption rate, through phasing it out over the Test Years to have a single consumption rate in 2020/21. At the time of responding to the IRs, the Applicant noted that in the past, up to 14 customers have been billed at the second block rate for at least one of the quarterly billing periods. The most recent June 2018 quarterly billing contained nine second block consumption customer accounts. Acadia accounted for six of these accounts, with 73% of the second block consumption.

[79] Mr. Isenor explained that there is no cost of service justification for maintaining the second block, with it essentially resulting in smaller customers paying a premium for water so that it can be sold at a lower rate to larger customers. He added that the elimination of the second block will make the Utility consistent with most of the water utilities in the Province. He further noted that the Utility's rates are among the lowest in the Province.

Findings

[80] The Applicant included the proposed capital from revenue as a part of return on rate base allocation to base, customer, delivery and production charges, which the Board accepts. This has no rate implications with the proposed elimination of the block rate structure.

[81] Based upon the information provided, the Board accepts the projected annual growth of two 5/8" metered customers. The Board further accepts the projected

1% annual decrease in residential consumption volumes, which is consistent with the downward water consumption trend in most water utilities.

[82] The impact of the proposed elimination of the block rate structure on the Utility's largest customer, Acadia, was discussed above. The main reason for its proposed elimination is that it is not based upon a cost of service methodology, and essentially results in small customers subsidizing larger customers. Given the disproportionate rate increases associated with the block rate elimination, the Board understands Acadia's concerns. However, the Utility's rates are among the lowest in the Province, and the Utility is one of the few left in the Province with block consumption rates.

[83] The Board accepts the methodology used by the Utility in the calculation of base and consumption rates for each of the Test Years.

(E) Schedule of Rates

[84] In addition to the rates for water supply to its customers, the Application proposed several amendments to existing miscellaneous charges, as well as new charges for services, to both bring them in line with others in the Province, and to reflect the cost to provide the service. Mr. Isenor added that the current miscellaneous rates, developed in 2001, are out of date.

[85] During the hearing, Mr. Isenor identified a typo in Rate 9 'Disconnection Fee', for 2019/20. The Board noted a typo in the description of the consumption rate in the Schedules as "per cubic meter", which should read "per 1,000 gallons", which the Applicant confirmed. In addition, the Schedule of Rates filed with the Application has an effective date of July 1, 2018, which is not possible, given the date of the public hearing.

[86] The Utility filed revised Schedule of Rates and Schedule of Rules and Regulations in response to the Undertakings which amended the typo in Rate 9, corrected the consumption rate description, and amended the effective date.

Findings

[87] The Board approves the proposed amendments to the Schedule of Rates, as set out in the response to the Undertakings. These are approved with effective dates of January 1, 2019, April 1, 2019, and April 1, 2020.

(F) Schedule of Rules and Regulations

[88] The Rate Study proposed several amendments and additions to the Schedule of Rules and Regulations, which were listed in response to the IRs. Mr. Isenor explained that the changes proposed are consistent with the Rules and Regulations of other water utilities in the Province.

[89] Regulation 9 'Meter Reading' is a proposed new regulation which gives the Utility the ability to estimate meter readings for quarterly billing purposes in up to two of the annual four quarters. Mr. Kerr explained that although there are no immediate, specific plans, given the costs involved in meter reading to the relatively small Utility, it would like the flexibility to implement the scheduled estimated readings. He added that he is aware of another Utility that does this, but he is not aware of any complaints arising from the practice.

[90] The Applicant confirmed that the amendments proposed to Regulation 20 'Service Pipes' represent an update to the language and do not impact the cost responsibility of customers.

[91] A revised response to the IRs with respect to Regulation 26 'Cross Connection Control and Backflow Prevention', was provided in response to the Undertakings. The Applicant confirmed that although it does not have a formal cross connection control and backflow prevention program, it does require backflow prevention on new water services, and installs cross connection control on temporary water use. The Utility added that it has considered the development of a cross connection control and backflow prevention program, but it has not yet been implemented.

Findings

[92] The Board has considered the significant number of changes proposed to the Utility's Schedule of Rules and Regulations. The Board understands that the proposed addition of Regulation 9 'Meter Reading' will provide flexibility to the Utility with respect to the frequency of meter reads. It appears from the information presented that the Utility has no plans to immediately implement changes to its meter reading. The Board is aware of complaints from customers of another Utility who began estimating every second billing without notification. As such, the Board directs the Utility to notify its customers in advance of any planned changes to actual meter reading frequency, and to provide a copy of the notification to the Board.

[93] The Utility is further reminded of the importance of having a cross connection control/backflow prevention program and the Board encourages the Utility to develop and implement such a program.

[94] 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, with the amended effective date filed in response to the Undertakings of January 1, 2019.

(G) Contingency Planning

[95] In response to the IRs, the Utility provided general information on its efforts related to contingency planning and emergency preparedness. It noted that although it has not prepared a detailed risk assessment, it has looked at risks such as the presence of bacteria, hazardous material spills and vandalism. It added that, to mitigate risk, it is planning to incorporate well field protection criteria in its Municipal Planning Strategy and Land Use Bylaw. The Applicant indicated that it annually reviews both its contingency plan and source water protection management plan.

[96] 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

[97] The Board has considered the information presented and approves the Schedule of Rates for Water and Water Services as revised by the Applicant in the response to the Undertakings with the effective dates of January 1, 2019, April 1, 2019, and April 1, 2020. The public fire protection charge for 2018/19 is to be prorated based upon three quarters at the current rate and one quarter at the new rate.

[98] The Board further approves the Schedule of Rules and Regulations as proposed by the Utility, with an effective date of January 1, 2019.

[99] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 6th day of December, 2018.

Steven M. Murphy

Stephen T. McGrath