

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

**BEFORE:** Richard J. Melanson, LL.B., 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

John Ferguson  
Chief Administrative Officer

Nancy Comeau  
Assistant Manager of Finance

Greg Price  
Municipal Services Manager

W. Bruce Gillis, Q.C.

**INTERVENOR:** **TOWN OF ANNAPOLIS ROYAL**

Jonathan Cuming  
Lindsay Cuvilier

**HEARING DATE:** June 17, 2019

**UNDERTAKINGS:** June 18, 2019

**FINAL SUBMISSIONS:** July 15, 2019

**DECISION DATE:** October 11, 2019

**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 or County) applied to the Nova Scotia Utility and Review Board (Board) on behalf of the Annapolis County Water Utility (Utility or Applicant) for amendments to its Schedule of Rates and Charges for Water and Water Services and its Schedule of Rules and Regulations pursuant to the *Public Utilities Act*, R.S.N.S. 1989, c. 380 as amended (*Act*). The existing Schedule of Rates for Water and Water Services and Schedule of Rules and Regulations have been in effect since April 1, 2018, and April 1, 2017, respectively.

[2] In addition to its retail customers, the Utility provides water at a wholesale rate to the Annapolis Royal Water Utility (Town Utility) in the Town of Annapolis Royal (Town).

[3] A rate study to support the Application, dated November 28, 2018, was prepared by G.A. Isenor Consulting Limited, in association with Blaine S. Rooney Consulting Limited, and was submitted to the Board on December 19, 2018. As it was proposed that rates would decrease, then increase, for retail customers, the Applicant filed a revised rate study, dated January 7, 2019, proposing rates remain at current levels prior to increasing for these customers. The advertised Notice of Public Hearing is based upon the rates proposed in the January 7, 2019 rate study.

[4] Information Requests (IR's) were issued by Board staff on February 14, 2019, to which responses were filed on April 2, 2019. A revised rate study (Rate Study) was filed as part of the responses which included: the reallocation of operating expenses in 2017/18 to align with the Rate Study line items; a correction to the allocation of transmission mains to public fire protection; and corrections to the joint-use depreciation allocation.

[5] The Rate Study attached to the IR responses contains the rates proposed by the Applicant. The Rate Study had slightly higher increases for the Utility's retail and wholesale customers than was included in the January 7, 2019 rate study. Fire protection charges were lower than those originally proposed. It is the Rate Study attached to the IRs which was reviewed during the public hearing and referenced in this Decision, unless otherwise noted.

[6] The Application proposes rate increases for the fiscal years 2019/20, 2020/21, and 2021/22 (Test Years, Test Period). For all retail customers, the rates are proposed to remain at current levels in 2019/20. For the 5/8" metered residential customers, based upon average quarterly consumption, the proposed increases in each of the final two Test Years are 7.4% and 8.3%, respectively. For all other metered customers, based upon the average quarterly consumption of each meter size, the proposed amendments are between -2.7% and 4.2% in 2020/21 and 4.2% to 7.3% in 2021/22. For flat rate charges (based on no consumption charge due to low water pressure), the proposed rate increases are 14.2% in 2020/21 and 10.8% in 2021/22.

[7] The Application also proposes rate increases to its wholesale customer, the Town Utility, based upon an annual consumption of 108,104 m<sup>3</sup>, of 15.7%, 4.4% and 6.2%, in each of the Test Years respectively.

[8] The Application further proposes amendments to the annual public fire protection charge, to be paid to the Utility by the County, for the provision of water for fire protection service. The Rate Study proposed increases to the public fire protection rate of 6.2%, 10.6% and 11.6%, respectively for each of the Test Years.

[9] The public hearing was held at the Annapolis Royal Fire Hall on June 17, 2019, after due public notice. Gerry Isenor of G.A. Isenor Consulting Limited and Blaine

Rooney of Blaine S. Rooney Consulting Limited, represented the Utility. The Utility was also represented by John Ferguson, the County's Chief Administrative Officer; Nancy Comeau, Assistant Manager of Finance; Greg Price, Municipal Services Manager; and W. Bruce Gillis, Q.C., Solicitor.

[10] The Town was the only formal intervenor in the proceedings. The Town was represented by Jonathan Cuming. He was assisted by Lindsay Cuvilier. While Mr. Cuming had pre-filed an extensive amount of documents, no witnesses appeared on behalf of the Town. The evidentiary value of the Town's filings was challenged. Given the Board's rejection of most of Mr. Cuming's submissions on methodology, nothing really turns on this issue.

[11] No letter of comments, or requests to speak were received by the Board with respect to this matter.

[12] Post-Hearing Submissions were filed with the Board on July 8, 2019 by both the Applicant and the Intervenor. The Applicant filed its Rebuttal Submission on July 15, 2019.

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

## **II INTRODUCTION**

[14] The Utility consists of three separate water systems, which were amalgamated in 2009: Margaretsville; Granville Ferry; and Cornwallis Park. The Margaretsville system serves the local community. This system has wells for the source of supply with sand filter pre-treatment and chlorination, with a concrete reservoir for

domestic and fire protection storage, as well as a standard distribution system with fire hydrants for fire protection.

[15] The Granville Ferry system serves the local community and acts as a transmission system, supplying treated water to the Town, which has its own storage reservoir and chlorine booster station. This system has three wells from a confined aquifer with chlorination and steel storage tanks for domestic and fire protection storage.

[16] The Cornwallis Park system serves the local community. This system has a surface water source with a 10km transmission main to the treatment plant located in Cornwallis Park. The treatment facility consists of a Dissolved Air Floatation Clarifier with a Filtered Backwash System and storage reservoir for domestic and fire protection storage.

[17] The Cornwallis Park System was transferred to the Municipality from the Federal Government in 1999. The contributed assets from the Cornwallis Park water system have never been included in the Utility's annual depreciation expenses. The Application proposes to phase in this depreciation by including an additional \$24,817 in each of the final two Test Years.

[18] The Municipality had a separate agreement with the Town for the sale of water from the Granville Ferry system prior to amalgamation. After the amalgamation was approved by the Board, the 1998 Agreement was the subject of lengthy, unsuccessful negotiations between the Utility and the Town. The Board approved the current wholesale rates to the Town as a part of the Utility's last rate application in 2016. The proposed wholesale rates are generally based upon the previously approved methodology, except for the Utility's request to include proposed earnings in the return

on rate base calculation as a joint-use item. The Town's intervention focused on the Application's calculation of the proposed wholesale rates.

[19] The Utility's 2017/18 financial statements, showing an accumulated operating deficit of \$1,092,208, represents the most current actual year end results used in the Rate Study. The Applicant noted differences in the allocation to line item operating expense categories in the financial statement preparation and rate study preparation. To provide a better comparison, the Rate Study reallocated the 2017/18 actual operating expenses shown in the financial statements in a format to align with the Board's *Water Utility Accounting and Reporting Handbook (Accounting Handbook)*. While the total operating expenses remained the same as in the financial statements, the individual line items differed due to the reallocations.

[20] The Utility's operating fund balance sheet in the 2017/18 financial statements shows a liability to the depreciation fund. It was noted at the last rate application that the Utility's depreciation fund is not cash funded, but is a debt owing between the operating and capital fund which has funded the deficit. The Applicant explained that the Utility's annual depreciation is now being funded into the depreciation fund reserve, and that the liability shown in the 2017/18 financial statements represents the annual depreciation which was transferred to the reserve after year end. It further noted that while the Utility's operating deficit has been funded by both bank indebtedness and a liability to municipal operations, there are provisions in the Rate Study to address the operating deficit and the associated liabilities.

[21] At the time of the last rate application, the Utility's non-revenue water was approximately 27%. The Applicant noted that it is currently 20%. The Rate Study contains expenses associated with both capital (watermain replacements) and operating (ongoing

meter replacements and service repairs) spending in the Test Years' revenue requirements to aid in the reduction of non-revenue water.

[22] The Utility has 595 retail customers, which is projected to remain constant over the Test Years. This includes 591 metered customers and four flat rate customers served by the Margarettsville system who are charged the Utility's base rate only, as established in a previous application, due to the provision of inadequate water pressure. The Utility further provides water to the Town Utility for resale to its customers, which includes both the Town and Lequille, in the County, on its own distribution system.

[23] The Application was presented to the Board based upon the need to adjust the rates as a result of increased operating costs and to fund the projected capital program.

### **III REVENUE REQUIREMENTS**

#### **(A) Operating Expenditures**

[24] Although the Utility's last rate application was in 2016, it has an accumulated operating deficit at the end of the 2017/18 fiscal year of \$1,092,208, which is projected to increase to \$1,350,002 at the end of 2021/22 with current rates in place. The Applicant suggested that a contributing factor to the significant deficit is due to the length of time associated with negotiations with the Town with respect to the agreement for the sale of water. It noted that the negotiations, which were unsuccessful, resulted in the delay with respect to the 2016 rate application, while the existing rates, which were inadequate to cover the cost of providing service, continued to add to the deficit.

[25] During the hearing, Mr. Cuming questioned the role of negotiations with the Town as contributing to the current operating deficit. He reviewed the history of events

in the matter of the agreement and the determination of wholesale rates since the 2009 amalgamation. He suggested that the period of negotiation lapsed in 2013, when the Utility filed a rate application with the Board which it later withdrew in 2015, after a 2014 application to the Supreme Court of Nova Scotia by the County on the validity of the agreement. The rate application was not re-filed with the Board until 2016.

[26] The Applicant stated that the budget is prepared by Staff, based on the previous year's expenditures and projected changes for the upcoming year. The budget is then submitted to Municipal Council for approval. With respect to the allocation of costs between the Municipality and the Utility, the Applicant explained that labour costs and expenses are allocated based upon the actual time spent, while supervisory expenses are allocated based upon a percentage of annual salaries.

[27] The Utility's actual operating expenses in the 2017/18 fiscal year total \$655,283, which is estimated to increase by 15% in 2018/19 to \$754,410. The Applicant, noting that it is operating in a deficit, stated that Utility staff reviewed its budgeting process, with a comparison of 2017/18 actual results to 2018/19 budgetary needs. The review resulted in budgets which are believed to be adequate to cover actual operating costs and avoid future deficits, resulting in significant increases in the Utility's projected operating expenses. The Applicant further confirmed that the estimated expenses for 2018/19 as presented in the Rate Study are on target with the actuals for the year.

[28] Mr. Cuming questioned the Utility's budgeting process, which he stated should take into consideration the financial statements of each of the three individual utilities prior to amalgamation. He presented the 2009 operating expenses for the three separate utilities as totalling \$374,510 (of which \$69,464 is associated with Granville Ferry). When adjusted for inflation, in today's dollars, this becomes \$446,016, or about

\$308,000 less than the Rate Study's projection for 2019. Based upon his analysis, he concluded that the projected operating expenses in the Rate Study appear to be inflated. He further noted that if the pre-amalgamation expenses had been considered, both the accuracy of the current projections, and the joint-use allocation percentages proposed for the Granville Ferry system used in the calculation of wholesale rates, may have been questioned and further reviewed as a part of the Utility's budgeting process.

[29] The projected operating expenses for the Test Years are generally based upon the Utility's estimates for 2018/19 plus an annual increase of 3% for inflation. Exceptions to this are expenses related to Transmission and Distribution, Administration and General, and Depreciation.

[30] The Transmission and Distribution expense is budgeted to decrease from 2018/19 to 2019/20 by approximately 15% and increase annually by 3% in the remaining two Test Years. The Applicant explained that the 2018/19 budget included increased spending on maintenance of mains and hydrants, which is projected to return to normal levels in 2020/21 and 2021/22.

[31] The Administration and General expense is budgeted to increase in each of the Test Years by 10%, 9% and 9%, respectively due to the proposed inclusion of the line item 'Administration' in the amounts of \$5,000 in 2019/20, \$10,000 in 2020/21 and \$15,000 in 2021/22. The Applicant explained that the Municipality had not charged the Utility in the past for Supervision and Administration staff, due to the Utility's poor financial position, and these amounts relate to the provision of these services. It added that the proposed amounts do not cover the actual costs, and further adjustments will be considered at the time of the Utility's next rate application.

[32] The projected depreciation expense is based upon current assets and proposed capital additions over the Test Period, and the Applicant's request to include the depreciation associated with the contributed assets from the takeover of the Cornwallis Park water system. The depreciation rates used are as set out in the *Accounting Handbook*, with any deviations explained by the Applicant in terms of the assets' expected useful life.

[33] The Applicant explained that while the Cornwallis Park water system contributed assets are included in the Utility's plant in service figures, the assets have never been included in the annual depreciation contribution. The Rate Study noted that the total value of the contributed assets is \$3,682,791, with the associated annual depreciation, using the guidelines from the *Accounting Handbook*, of \$49,634. The Application proposes to add 50% of the annual depreciation associated with the contributed assets, or \$24,817, to the projected annual depreciation expense in each of 2020/21 and 2021/22.

### **Findings**

[34] The Utility currently has a significant operating deficit. Several possible contributing factors to the deficit were presented by the parties. There is no doubt the dispute over the 1998 Agreement resulted in delays in setting new rates until the Utility's last application in 2016. As there was a real and substantive issue between the Town and the Utility, the Board sees no basis for, or point in, assigning blame for this delay at this stage. The Board's focus is to review the adequacy and reasonableness of the projections of revenue requirements to cover the Utility's costs. However, the Board reminds the Applicant of the importance of timely rate applications to improve the Utility's financial health.

[35] The Board has reviewed the information presented in relation to the Utility's budgeting process and projected operating expenses. The Applicant indicated that the Utility's budgets have not been covering its actual operating costs, and the 2018/19 budget was prepared to correct this. Upon reviewing the Utility's financial position, the Board finds the Utility's explanation for the budgeted increase between the 2017/18 actual and the 2018/19 budgeted amounts to be reasonable. The Board encourages the Utility to continue to review its budgeting process periodically and make any necessary amendments.

[36] The proposed operating expenses over the Test Years are based upon an annual increase of 3%, which is consistent with other recent rate applications decisions by the Board. Rate Study projections are generally based upon most recent information available. While the Board understands the Town's concerns with respect to the projections of expenses used in the determination of the wholesale rate, the amalgamated Utility has been operating for approximately ten years. Analysing pre-amalgamation figures of each former water system and applying inflation factors over that long a period is not consistent with the usual methodology used in Rate Study preparation. It is not a reliable way of proceeding.

[37] The Board accepts the explanation for the projected Transmission and Distribution expenses. The Board further accepts the proposed increases to the Administration and General expenses to begin the process of fully allocating the Municipality's Utility related expenses to the Utility's revenue requirements.

[38] The Board notes the importance of fully funding the Utility's depreciation reserve in order to provide funding for future capital replacements. The Board accepts the proposed phase-in of the depreciation of the Cornwallis Park system assets.

[39] The Board finds the projected operating expenses, including depreciation, to be reasonable, and approves them.

**(B) Capital Budget and Funding**

[40] The Rate Study included the Utility's capital budgets in each of the three Test Years, totaling \$156,300, \$318,800, and \$323,400 respectively. Included in these amounts are the budgets associated with distribution main replacement of \$55,000, \$275,000 and \$300,000, respectively. Mr. Isenor stated that the capital budget identified distribution mains for replacement which are significant contributors to water loss. The capital budgets also include the costs associated with source water protection implementation in the amounts of \$76,300, \$38,800 and \$18,400, in each of the three Test Years, respectively.

[41] The Utility proposes funding for the capital program from a combination of gas tax contributions (\$50,000, \$125,000 and \$137,500, respectively) and depreciation funding (\$106,300, \$193,800 and \$185,900, respectively). No new debt is projected.

[42] The Rate Study indicated that the balance in the depreciation fund, as at March 31, 2018, was \$225,278. Mr. Isenor reconciled this amount with the Utility's 2018/19 financial statements. He noted that it consists of the Capital Fund Cash Balance and the Operating Funds Due to Depreciation Fund which represents the 2017/18 depreciation which was transferred to the depreciation fund after the end of the fiscal year.

[43] Based upon the proposed funding drawdown, and the addition of the annual depreciation expense, including that associated with the Cornwallis Park system, as proposed, the balance in the depreciation fund is estimated to be \$317,308 at the end of the Test Period.

[44] In response to Undertaking U-2, the Applicant explained that the depreciation fund balance in each of the Test Years indicated in the projected Capital Fund Balance Sheet filed with the Board differs from those in the Rate Study due a timing difference in transferring the current year's depreciation.

### **Findings**

[45] The Utility is primarily focusing on replacing ageing infrastructure over the Test Period. This work is expected to reduce leakage, which will help to reduce the amount of non-revenue water.

[46] The Board finds the proposed capital budget and funding for each of the three Test Years to be reasonable. However, the Utility is reminded that the inclusion of the proposed capital projects in the Rate Study does not constitute Board approval of these projects. Separate Board approval is required for projects in excess of \$250,000 as set out in s. 35 of the *Act*.

### **(C) Non-Operating/Other Revenues and Expenditures**

[47] Included in the revenue requirements for the Test Period are projections of non-operating expenditures and revenue. The non-operating revenue item is interest income, related to interest charges on overdue accounts of approximately \$2,000 annually. The other non-operating revenue consists of Sprinkler Services and Service Connections in the annual amounts from \$1,450 and \$1,500 respectively in each of the Test Years.

[48] The non-operating expenses include the current debt servicing payments, interest expense and principal repayments, in each of the Test Years, to fund a major upgrade to the Cornwallis Park Water Treatment Plant in 2005/06. Principal repayments

remain the same (\$13,500) during the Test Period, while the associated interest expense decreases annually as \$4,558, \$3,750 to \$3,068 in each of the Test Years, respectively.

[49] Also included as a non-operating expenditure in each of the Test Years are earnings of \$120,000, \$130,000, and \$150,000, respectively. The Applicant explained that the earnings are to be applied against the Utility's operating deficit, which at the current rate is expected to eliminate the deficit within eight years, while maintaining reasonable levels of rate increases.

[50] The rates of return, which are calculated using the total non-operating expense revenue requirement, are 2.47%, 2.64% and 3.01%, respectively, in each of the Test Years, which Mr. Isenor described as a healthy range.

### **Findings**

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

[52] The Board finds the calculated rate of return on rate base over the Test Years, including 'earnings' to be reasonable and in accordance with the *Accounting Handbook*.

[53] The Utility is in a deficit position and any "earnings" need to be retained to improve its financial health.

### **(D) Allocations of Revenue Requirement**

#### **1. Public Fire Protection**

[54] The methodology used in the Rate Study to determine the public fire protection charges is generally consistent with the *Accounting Handbook*, which allocates production assets at 90%/10% to general service/fire protection and demand assets at

40%/60% to general service/fire protection. The only exception is the allocation of transmission mains, a demand asset, which is calculated using a methodology consistent with the Utility's previous rate application.

[55] The Rate Study sets the allocation of transmission mains at 81.7% to general service and 18.3% to fire protection, instead of the suggested 40% to general service and 60% to fire protection, as set out in the *Accounting Handbook*. The Applicant explained that as most of the transmission main in the Cornwallis Park system is above the water treatment plant, it provides limited firefighting capability and is allocated at 90% to general service and 10% to fire protection. The balance of the transmission main is allocated 40% to general service and 60% to fire protection. The calculation results in the allocation used in the Rate Study.

### **Findings**

[56] The Board finds the calculation for the allocation of transmission mains to be reasonable and consistent with the previous Application. The Board approves the Utility's determination of the fire protection charges of \$154,030, \$170,363, and \$190,141 respectively in each of the three Test Years.

## **2. Utility Customers**

### **a. Wholesale**

[57] The Utility's total revenue requirement, less the fire protection charges, is to be recovered from the wholesale and retail customers. The Rate Study first determines the wholesale rates, using generally the same methodology which was established at the previous hearing. The Application determines the percentage of expense categories which are Utility joint-use, and Granville Ferry System joint-use.

[58] The Rate Study allocates the expense categories of Source of Supply, Power and Pumping, Water Treatment to joint-use, based upon the Granville Ferry Water System only. The Source of Supply expense is allocated at 33.3 %, based upon the three water systems. The power and pumping expense is allocated at 61.22%, based upon the Granville Ferry power bill in relation to the Margaretsville power bill. The Water Treatment expense is allocated at 18.68%, based upon Utility staff review of various treatment expense items.

[59] The other expense items allocated to joint-use are based upon the entire Utility. The Transmission and Distribution expense is allocated 9.11 % to joint-use, which is the percentage of Utility pipe measured from the source of supply to the Town water meter. The Administration and General joint-use is calculated for each of the Test Years at 45.65%, 45.91% and 46.12%, based upon an allocation of the Administration and General expenses associated with the Town to the total Administration and General expenses. The depreciation joint-use percentages of 53.7%, 48.36% and 44.42%, in each of the Test Years, respectively, are based upon the total Utility depreciation less the depreciation associated with assets which are not used in the supply of water to the Town. joint-use taxes, at 38.61%, are based upon the Granville Ferry taxes in relation to those of Margaretsville and Cornwallis Park.

[60] The Rate Study proposed to include earnings in the return on rate base joint-use calculations, which differs from the previous application. The Applicant explained that earnings are used to pay down the Utility's deficit, and all customers, including wholesale customers, benefitted from the lower rates that contributed to the current deficit. Mr. Isenor added that the inclusion of earnings in return on rate base is consistent with the *Accounting Handbook* and that it was omitted in oversight in the last

application. The return on rate base joint-use percentages are calculated as 90.18% in 2019/20, 91.41% in 2020/21 and 92.88% in 2021/22.

[61] The expenses are further allocated based upon the Town's consumption volume in relation to the Utility's total consumption (26.23%), and the Town's consumption volume in relation to the Granville Ferry system total consumption (58.8%). In determining the consumption volumes, the allocation of the non-revenue water is based on the length of the joint-use mains. There is no reduction for hydrant flushing as the Utility does not charge the Town for fire protection services.

[62] The Town's concerns centered on the methodology used for allocating expenses to determine the wholesale rate to the Town. Mr. Cuming referenced the Utility's 2009 amalgamation application and noted that at the time the County stated that there would be little impact on the rate charged to the Town for the provision of water from the Granville Ferry system. He further noted that the Town did not intervene in the 2009 amalgamation proceeding, as it understood that the three water systems would be treated as three separate cost centres, which would allow the continuation of charges to be based upon the 1998 Agreement, through tracking the operating costs of the Granville Ferry water system, the Town's water supplier.

[63] During the hearing, Mr. Cuming questioned the validity of various expense line items used in the calculation of the wholesale rate. He noted that joint-use allocation of the Granville Ferry system to power and pumping of 61.22%, is based upon the power and pumping expenses of only Granville Ferry and Margaretsville, and if the power and pumping expenses of all three water systems were considered, this percentage would decrease significantly. Mr. Isenor explained that the power and pumping expense indicated for Cornwallis Park relates to the operation of the water treatment plant, and

should be included as a water treatment expense for the purposes of rate calculations, as the raw water is gravity fed. Mr. Cuming questioned if these differences in operating expense line items indicates errors in financial statements. Mr. Isenor stated that the expense is carried in the wrong line item in the financial statements. Mr. Rooney added that items are often combined in financial statement preparation for simplicity.

[64] The Town opposed the inclusion of earnings in the return on rate base joint-use calculations. Mr. Cuming noted that at the time of amalgamation of the three systems, the Granville Ferry water system was the only one not operating in a deficit. The Town's Post-Hearing Submission stated that the inclusion of earnings will further result in a wholesale rate where the Town subsidizes the Margaretsville and Cornwallis Park systems.

[65] The Town further had concerns with the joint-use percentages used in the calculations of the wholesale rate. Mr. Cuming examined the use of 2009 actual figures in the calculation, instead of the projections in the Rate Study. The source of supply joint-use percentage of 33.33% in the Rate Study was reviewed. Mr. Cuming stated that if 2009 figures were used, the percentage would be reduced to 18.7%. He further noted that in 2009, the Granville Ferry treatment costs represented 10.34% of the overall treatment costs, while the Rate Study proposed a figure of 18.68%.

[66] Based upon this analysis, the Town questioned the accuracy of the joint-use methodology of determining the wholesale rate, in the absence of treating the Granville Ferry system as a separate cost center. In its Post-Hearing Submission, the Town requested that the Board order that the three water systems be treated as separate cost centres with separate financial records. It further requested that the Board not approve a wholesale rate which results in the Town subsidizing the Cornwallis Park and

Margaretsville systems, and that the joint-use percentages for both source of supply and water treatment be adjusted to 18.7% and 10.34%, respectively, based upon 2009 figures.

### **Findings**

[67] The methodology for allocating costs to the Town Utility is generally like that used by other utilities. However, while most wholesale rate calculations involve one source of supply, the Utility is composed of the amalgamation of three separate systems, of which only one provided water to the wholesale customer. The methodology used, which provides allocation mechanisms to separate Granville Ferry costs in the calculation of wholesale rates, is similar to that approved as a part of the Utility's last rate application.

[68] The 1998 Agreement was the focus of other reviews and will not be discussed in any detail as part of this decision. While the Board understands the Town's concerns, the Utility was formed as an amalgamation of three separate systems. To keep separate records of three systems would not result in efficiencies and most likely result in increased costs and use of resources, some of which would be directly attributable to the Granville Ferry system. As such, in the present circumstances, the Board does not approve the Town's request for separation of the three systems' financial records. The Board further does not approve the request to base joint-use allocations on pre-amalgamation data, which does not represent the most current information. The most current data should be the basis of projections and rate calculations. The Board is satisfied with the filed data and explanations provided by the Utility's witness panel as to allocation.

[69] In any amalgamation, there will be varying impacts on the former utilities in order to standardize rates. Ten years after an amalgamation, it is difficult to weigh all the

costs and savings and conclude that one system has been subsidizing the others. As noted, the wholesale rate calculated is generally based upon the methodology approved at the last rate application. The last rate application involved submitting a compliance filing to deal with using only Granville Ferry costs for some of the joint-use calculation, and the Applicant noted that earnings were omitted in error. The inclusion of earnings in return on rate base joint-use is a reasonable approach to cost allocation, consistent with other applications approved by the Board. In an accumulated deficit situation, it recognizes that past rates paid by all customers have been insufficient to cover the Utility's expenses. The Board accepts the inclusion as proposed.

[70] As noted in the summary of this Decision, the Rate Study reviewed in the application included a revision from a previous filing to reallocate the operating expenses indicated in 2017/18 to the rate study line items. This was done in order to align with the expense categories used to prepare rate applications, as set out in the *Accounting Handbook*. While ideally, the financial statement items should coincide with the Rate Study expense line items, after a more thorough review as a part of the rate application process there may be some reallocations of the total operating expenses among the individual line items.

[71] Based upon the information provided, the Board accepts the methodology used by the Utility in the calculation of wholesale rates to the Town. The Board expects the Utility to work with its auditors in preparing financial statements with expense categories which best capture the related costs to avoid confusion in rate application reviews.

[72] It is not clear to the Board why the Utility did not follow through with the plan, as expressed by Mr. Isenor in 2017, to establish a reporting and coding procedure to

assist in tracking how much time employees are devoting to each system. While not fatal to this Application, the Board directs that the Utility assess the requirements of such a plan. The Utility is to report back to the Board, by April 15, 2020, as to whether and how such a plan could be implemented.

**b. Retail**

[73] The remaining revenue requirements in the Rate Study are to be recovered from the Utility's retail customers.

[74] The allocations used for the base charge, customer charge, delivery, and production are consistent with the methodology as set out in the *Accounting Handbook*. The allocations are also consistent with those used in the previous application except for transmission and distribution. The previous rate study allocated transmission and distribution as 50% to base and 50% to delivery, while the current Rate Study uses the allocation of 100% to delivery, consistent with the *Accounting Handbook*.

[75] Mr. Isenor explained that in preparing the Rate Study, a conscious decision was made to try to maintain the revenue from the base charge in the 40% to 45 % range, while staying close to the *Accounting Handbook* guidelines. He noted that if there is a high percentage of the revenue coming from the consumption charge, the Utility loses financial control if a major customer leaves the system.

[76] The rates calculated using this methodology result in a decrease to some residential customers in the first Test Year, followed by increases. The Applicant requested that the retail rates remain at the current level in the first Test Year, followed by the rates as calculated and proposed in the Rate Study for the final two Test Years. In response to the IRs, the Applicant noted that the use of existing rates in 2019/20 will

result in a \$19,100 surplus, which could be used towards paying down the Utility's operating deficit.

[77] The Utility does not anticipate any change in the number of retail service connections over the Test Period, which Mr. Isenor explained is based upon historical data. This was questioned by Mr. Cuming during the hearing, in relation to a large educational institution proposed to be built in the County. Mr. Isenor confirmed that the school was not included, and explained that generally construction has to begin, or a building permit issued, before a proposed development is included in a rate study's customer numbers. Mr. Rooney added that if a proposed development is included and the increase in customers does not happen, the Utility will have a revenue shortfall. From the Board's perspective this approach is reasonable. Proposed developments should reach a sufficient level of certainty to be included in rate design.

[78] The annual consumption volume is proposed to remain at the current level of 183,978 m<sup>3</sup> over the Test Period. The Application stated that as the average 5/8" metered, residential customer water consumption has not changed since the previous rate application, a decline in consumption, which has been a trend in many utilities, was not included in the Rate Study.

[79] The Rate Study further includes a flat rate which is based upon the retail metered rates proposed, but with no consumption charge. The Applicant explained that this rate was previously established and approved by the Board to reflect the low level of service provided by the Utility to four customers due to the inability to economically provide adequate water pressure. The Applicant confirmed that due to the associated high cost, there are no plans to change this situation.

### **Findings**

[80] 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 for the Utility's retail customers. Given the confusion caused when rates fluctuate, the Board accepts the proposal to maintain the rates at the current level for the first Test Year. The Board further accepts the flat rate as proposed.

[81] The Board further accepts the consumption volume used to determine the consumption charges.

### **(E) Schedule of Rates and Charges**

[82] In response to Undertaking U-1, the Utility filed a revised Schedule A of rates and charges for the first Test Year (2019/20) to correspond to the rates proposed in the Rate Study.

[83] In addition to the rates for water supply to its customers, the Application proposed one amendment to its Schedule of Rates and Charges, with the addition of Item 12, Charge for Collection Visit. The Applicant stated that the inclusion of this item is proposed to provide the option to charge for such visits. Mr. Isenor confirmed that the inclusion of this item is consistent with several other water utilities.

### **Findings**

[84] The Board has reviewed the proposed amendment included in the Schedule of Rates and Charges and finds it to be reasonable.

[85] The Applicant corrected an error in the Schedule of Rates and Charges for the First Test Year, which the Board accepts. The Board notes that as this Schedule's approved effective date is part way through the 2019/20 fiscal year, the annual public fire

protection charge for the year will be prorated using the current rate and the rate approved in this Application.

**(F) Schedule of Rules and Regulations**

[86] The Application proposes three amendments to the Schedule of Rules and Regulations.

[87] Regulation 7(c) (Adjustment of Bills – Customer Over-Billed) is proposed to be amended to limit the time period to five years that the Utility must reimburse a customer who has been over-billed. The Applicant noted that the time period is based on other previously approved water utility regulations in the Province.

[88] The Application proposes to add Regulation 39 (Extensions) and Regulation 40 (Curb Stop/Control Valve Service Box). The response to the IRs noted that these Regulations have been added to clarify the responsibilities and procedures associated with requests for extensions to the water system, and issues related to the curb stop/control valve such as buried valves.

**Findings**

[89] The Board finds the proposed Schedule of Rules and Regulations is consistent with most other water utilities in the Province which have had recent rate applications, and approves it as requested.

**IV CONTINGENCY PLANNING**

[90] In response to the IRs, the Municipality provided general information on its efforts related to contingency planning and emergency preparedness. It noted that it has three Source Water Protection Plans, with the Margaretsville and Cornwallis Park plans

completed in 2016, and the Granville Ferry plan completed in late 2018. The Applicant explained that the Source Water Protection Plans identify potential risks at each of the three water sources with Actions Plans in place to aid in eliminating or mitigating these risks.

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

## **V CONCLUSION**

[92] 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 October 15, 2019, April 1, 2020, and April 1, 2021. The public fire protection charge for 2019/20 is to be prorated, based on an effective date of October 15, 2019.

[93] The Board further approves the Schedule of Rules and Regulations as proposed by the Utility, with an effective date of October 15, 2019.

[94] The Board directs the Utility to report back to the Board, by April 15, 2020, as to whether and how a reporting and coding procedure to assist in tracking how much time employees are devoting to each water system could be implemented.

[95] An Order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 11<sup>th</sup> day of October 2019.



Richard J. Melanson