

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -

IN THE MATTER OF AN APPLICATION by **THE MUNICIPALITY OF THE COUNTY OF ANTIGONISH**, on behalf of the two existing water utilities (Fringe Area and Lower South River and Area) to amalgamate the two utilities into one utility named the Antigonish County Water Utility and for an Order authorizing and approving a new Schedule of Rates for Water and Water Services and a Schedule of Rules and Regulations

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

APPLICANT: **MUNICIPALITY OF THE COUNTY OF ANTIGONISH**

Gerry Isenor
G.A. Isenor Consulting Limited

Blaine Rooney
Blaine S. Rooney Consulting Limited

Glenn Horne
Chief Administrative Officer

Allison Duggan
Director of Finance

Daryl Myers
Director of Public Works

HEARING DATE: October 21, 2020

DECISION DATE: **November 25, 2020**

DECISION: **Amalgamation of the Fringe Area Water Utility and the Lower South River and Area Water Utility into one utility named the Antigonish County Water Utility approved.**

Schedule of Rates and Charges and Schedule of Rules and Regulations approved as amended by the Utility.

I SUMMARY

[1] The Municipality of the County of Antigonish (Municipality, Applicant) applied to the Nova Scotia Utility and Review Board (Board) on behalf of the Fringe Area Water Utility (Fringe Area Utility) and the Lower South River and Area (Lower South River Utility), its two existing water utilities. The application proposed to amalgamate the two utilities into one utility named the Antigonish County Water Utility (Utility), and to harmonize the two utilities' existing rates, rules and regulations in a proposed new Schedule of Rates for Water and Water Services and Schedule of Rules and Regulations. The application is 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 for each of the two existing utilities have been in effect since April 1, 2009, and April 1, 2007, respectively.

[2] A rate study dated June 10, 2020, was prepared by G.A. Isenor Consulting Limited, in association with Blaine S. Rooney Consulting Limited, and was submitted to the Board on July 3, 2020 with the application (Rate Study). Information Requests (IRs) were issued by Board staff on August 13, 2020. In response to the IRs, the Applicant filed a revised Rate Study on September 9, 2020 (Revised Rate Study). The Revised Rate Study included: an amendment to the depreciation rate for meters; an amendment to the allocation of the value of land to general service and public fire protection; and a breakdown of the distribution main asset value to include both the assets of distribution mains and meters.

[3] The application proposed rates for the fiscal years 2020/21, 2021/22, and 2022/23 (Test Years, Test Period), which are standardized for the amalgamated Utility.

The two existing utilities have different current rates and different average bi-monthly consumption volumes. As a result, based upon the assumptions of the Rate Study, in the first Test Year, the proposed percentage rate changes differ significantly between the same meter size customers of each of the two current utilities.

[4] In the application, for the current Fringe Area Utility unmetered residential customers, based upon bi-monthly consumption of 9,167 gallons, a rate increase of 18.4% is proposed in 2020/21. Based upon average consumption for a 5/8" meter customer, a rate increase of 5.9% is proposed. For all other metered customers, based upon the average bi-monthly consumption of each meter size, the proposed rate increases are between 22.6% and 43.6%. In the Revised Rate Study, in 2020/21, a rate increase of 24.8% is proposed for unmetered customers and an increase of 11.5% is proposed for a 5/8" meter customer. For all other metered customers, based upon the average bi-monthly consumption of each meter size, the proposed rate increases in the Revised Rate Study are between 28.9% and 51.9%.

[5] In the application, for the current Lower South River Utility unmetered residential customers, based upon bi-monthly consumption of 9,167 gallons, a rate decrease of 27.6% is proposed in 2020/21. Based upon average consumption for a 5/8" meter customer, a rate decrease of 38.7% is proposed. For all other metered customers, based upon the average bi-monthly consumption of each meter size, the proposed rate decreases are between 17.2% and 31.0%. In the Revised Rate Study, in 2020/21, a rate decrease of 23.7% is proposed for unmetered customers and a decrease of 35.5% is proposed for a 5/8" meter customer. For all other metered customers, based upon the

average bi-monthly consumption of each meter size, the proposed rate decreases in the Revised Rate Study are between 12.5% and 27.5%.

[6] In the application, the bi-monthly rates for the proposed amalgamated Utility, for unmetered residential customers are proposed to increase by 3.6% and 3.8% in each of 2021/22 and 2022/23, respectively. Based upon average bi-monthly consumption, the rates for a 5/8" meter customer are proposed to increase by 11.0% and 2.8%, in each of 2019/20 and 2020/21, respectively. For all other metered customers, based upon the average bi-monthly consumption of each meter size, the proposed rate amendments are -50.5% to 39.3% in 2021/22, and 3.6% to 4.2% in 2022/23.

[7] In the Revised Rate Study, the bi-monthly rates for the proposed amalgamated Utility, for unmetered residential customers are proposed to increase by 2.7% and 3.4% in each of 2021/22 and 2022/23, respectively. Based upon average bi-monthly consumption, the rates for a 5/8" meter customer are proposed to increase by 10.2% and 2.4%, in each of 2021/22 and 2022/23, respectively. For all other metered customers, based upon the average bi-monthly consumption of each meter size, the proposed rate amendments are -51.1% to 38.4% in 2021/22, and 3.2% to 3.7% in 2022/23.

[8] 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 combined annual public fire protection charge paid to the two current utilities is \$302,414 and is proposed to increase by 37.8%, 10.9% and 5.6%, respectively, for each of 2020/21, 2021/22 and 2022/23. In the Revised Rate

Study, the proposed increases are 31.0%, 13.1% and 6.3%, respectively in each of the Test Years.

[9] Due to the COVID-19 pandemic, the public hearing of the matter was held by GoToWebinar videoconferencing on October 21, 2020, 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 Municipal staff: Glenn Horne, Chief Administrative Officer; Allison Duggan, Director of Finance; and Daryl Myers, Director of Public Works.

[10] There were no formal intervenors in the proceeding and no requests to speak. The Board received one letter of comment, which focussed on the issue of the proposed amalgamation.

[11] In response to an Undertaking received October 23, 2020, the Applicant filed further revisions to the Revised Rate Study to include a pipe replacement asset in the amount of \$715,000, funded by the Nova Scotia Department of Transportation and Infrastructure (NSTIR) as a part of the Utility's plant in service in 2020/21, and to adjust the cost of the distribution reservoir and standpipe addition in 2021/22 from \$2.7 million to \$1.6 million. The depreciation associated with these asset amendments resulted in slight decreases to the rates proposed for customers in each of the Test Years from those proposed in the Revised Rate Study.

[12] The proposed amalgamation of the Municipality's Fringe Area Utility and Lower South River Utility to form the Antigonish County Water Utility is approved as requested by the Applicant.

[13] The Schedule of Rates are approved, as amended and requested by the Applicant in response to the Undertakings.

[14] The Schedule of Rules and Regulations are approved, as amended and requested by the Applicant.

II INTRODUCTION

[15] The Fringe Area Utility purchases its water from the Town of Antigonish (Town) at rates approved by the Board. The source water for the Town is the James River Watershed, which is treated at the Town's water treatment plant in Brierly Brook. The Fringe Area Utility serves approximately 1,100 customers located in the area that immediately surrounds the Town.

[16] The Lower South River Utility source of supply is through wells located in either Lower South River or St. Joseph. The Lower South River Utility serves approximately 310 customers located in the communities of Lower South River, St. Andrews, Dunmore Road and St. Joseph.

[17] The Applicant confirmed that the proposed amalgamated Utility will serve only the areas which are currently served by the existing two utilities. It further stated that there have been no water quality issues associated with the water of the existing two utilities, both of which distribute water which meets the current regulations.

[18] At the time of each of the existing water utilities' last rate applications in 2015, residential customers were unmetered, while all other customers were metered. The Fringe Area Utility (Matter M06609) used a tap count for unmetered customers, while the Lower South River Utility (Matter M06610) used unmetered rates, based upon an

estimated unmetered consumption volume. In each case, it was projected that the utilities would be fully metered by 2016/17, and the meters would be read to prepare another rate application within a year to replace the tap count and unmetered rates with metered rates. The Applicant noted that while the majority of residential customers were metered in 2016/17, a number of challenges prevented the utilities from becoming fully metered. It was further noted that efforts are continuing to be made to address these challenges, and the residential meters installed in each of the two utilities were read in 2018/19 in preparation of the application.

[19] While the majority of the meters are now installed and have been read to provide approximately one year of historical consumption data in each of the two current utilities, the residential customers continue to be billed based upon tap rates (Fringe Area Utility), or unmetered rates (Lower South River Utility). The application indicated that the total of unmetered customers in the two existing utilities in 2020/21 is 44. It is projected that the proposed amalgamated Utility will be fully metered at the end of the Test Period. The application proposes to charge metered rates to the metered residential customers, effective the date of Board approval.

[20] It is projected in the application that the Utility will have an annual increase of 12 residential customers in each of the Test Years, based upon historical growth in the area. All of the new customers are projected to be metered.

[21] The application was presented to the Board based upon the need to adjust the rates to provide funds for projected increases in operating costs and necessary capital improvements. It further provides for standardized rates, rules and regulations, with the

proposed amalgamation of the two existing utilities to form the Antigonish County Water Utility.

III AMALGAMATION OF THE FRINGE AREA AND LOWER SOUTH RIVER AND AREA UTILITIES

[22] The Applicant explained the rationale for the proposed amalgamation of two existing utilities, which are operated by the Municipality. It noted that as the two utilities are currently separate entities, they each have their own set of rates, which can create confusion for both Municipal staff and the utilities' customers. Ms. Duggan provided the example of residents who own multiple properties in different areas of the Municipality questioning why they are paying different water rates for the properties. The Applicant added that this confusion can be eliminated through a combined Utility, resulting in uniform rates, providing the same level of service at the same cost for all Municipal water utility customers.

[23] As noted, the application proposed significant increases in rates in the first Test Year for the Fringe Area Utility, while decreases are proposed for the Lower South River Utility. The Applicant explained that it is not uncommon that amalgamations of separate utilities result in one-time adjustments in rates that result in some customers paying more, while others pay less. When the utilities are combined, the capital and operating budgets and rate adjustments are based upon one utility and one rate structure. It further noted that if the two utilities remain as separate entities, the current rate structures could further diverge, due to differing operational and capital requirements.

[24] Given the significant differences in the rates proposed between the customers of the two existing utilities, the Board questioned the Applicant with respect to the option of phasing in the proposed rates. Mr. Isenor noted that given the characteristics of the two existing utilities, there is some uncertainty that the projected percentage increases are reflective of the situation that will exist when meter-based billing occurs.

[25] Mr. Isenor explained that the 35.5% decrease proposed in the Revised Rate Study for Lower South River Utility's 5/8" meter size residential customers in 2020/21 is probably more accurate than the 11.5% increase for Fringe Area Utility customers, as the current Lower South River unmetered rate is a flat rate based upon bi-monthly consumption of 10,000 gallons. The proposed rate for Lower South River 5/8" meter size residential customers is based upon bi-monthly consumption of 6,707 gallons.

[26] The current Fringe Area residential rate is a tap rate, using the same tap estimate as was used in the last application. Mr. Isenor described the tap counts as "a bit of a hodgepodge", as undoubtedly customers have different tap counts and different rates, which makes the proposed percentage increases shown questionable. In addition, based upon the consumption records, the average bi-monthly consumption of the Fringe Area Utility's 5/8" meter size residential customers is higher than that of the Lower South River Utility, at 7,860 gallons, which further contributes to the higher proposed percentage rate increase. Mr. Isenor noted that if the Fringe Area Utility residential customers used the same amount of water per household as the Lower South River customers, their rate increase would be approximately 2.5%, as opposed to the 11.5% proposed. He added that it is expected that there will be a decrease in consumption with bills based upon metered rates.

[27] With respect to the proposed rate increases, the Municipality noted that it has received little feedback on the application, other than positive comments with respect to the proposed consumption-based rates.

[28] The Board received one letter of comment from Sean Day on the matter which focused on the issue of amalgamation. He questioned the benefit of the proposed amalgamation, which he described as lowering water rates to Lower South River customers at the expense of the Fringe Area customers. He questioned whether, if one chooses to live in a more costly area, this choice should be subsidized. If so, he asked what entity should provide this subsidization. He further questioned the fairness of the proposed amalgamation, which he described as serving to subsidize sprawl. Mr. Day concluded by noting his agreement that water rates should not be based upon flat rates, but rather on the amount of water consumed, as proposed in the application.

Findings

[29] The Board understands that the amalgamation of utilities often results in varying degrees of rate impacts among those utilities. In this case, the variations proposed in the first Test Year are significant, with decreases for one utility and large increases for the other. Often the utility is directed to phase in the rate amendments over a period to smooth out the rate impacts.

[30] This matter has some unique characteristics in that the two utilities have residential meters in place to gain some basis of consumption data, but the current rates are based upon estimations using tap rates, and, an unmetered rate using an assumed consumption. This, along with the impact of introducing meter-based rates on consumption volumes, adds uncertainty to the projections, and further uncertainty related

to the revenue which the proposed amalgamated Utility would receive with phasing in of rates. The Board further notes that it received no comments from customers with respect to the proposed rate increases.

[31] The Municipality has indicated that both existing utilities have no water quality issues. It further stated that the proposed amalgamation will provide the same level of service at the same cost for all Municipal water utility customers.

[32] The Board appreciates the comments provided by Mr. Day, who expressed concerns with urban sprawl and subsidization. While these are valid concerns, it is difficult to accurately measure the impact of these issues in this situation. The two existing utilities exist under the same Municipality, but have different water sources, and differing operational costs, which are unrelated to the concept of urban sprawl. The uncertainty associated with the current rates and consumption volumes makes it difficult to analyze the actual rate implications, as well as any degree of subsidization.

[33] Based upon the information presented, the Board is satisfied the proposed amalgamation will avoid unwarranted customer confusion over rates. The Board approves the amalgamation, as proposed by the Applicant, to form the Antigonish County Water Utility. Given the amount of uncertainty with the impact of metering in consumption volumes, the Board expects that the Utility will closely monitor its financial health, with a view to preparing a timely rate application, if necessary.

IV REVENUE REQUIREMENTS

(A) Operating Expenditures

[34] The operating expenses of the proposed amalgamated Utility contained in the Rate Study are the combined expenses of the two existing utilities. The Rate Study contains actual (2018/19), estimated (2019/20) and projected (Test Years) expenses for the Antigonish County Water Utility. In 2018/19, the combined Utility had an excess of revenues over expenditures of \$111,392, and an accumulated operating surplus of \$644,894. With the correction to the annual depreciation expense for meters, beginning in 2019/20, as contained in the Revised Rate Study, it is projected that at current rates, expenditures will increasingly exceed revenues, resulting in an accumulated operating surplus for the amalgamated Utility of \$232,074 in 2022/23.

[35] Mr. Isenor noted that although the 2019/20 financial statements for the existing utilities have not been finalized, the draft results indicate that the estimates contained in the Revised Rate Study are accurate and do not need to be adjusted. The Applicant explained that there are no projected efficiencies of amalgamation in the Test Years, as the two existing systems are not interconnected and are not changing, and the same financial structure will be maintained for management purposes. It added that the purpose of the combination of the utilities is so that the Municipality's customers will have the same rates.

[36] The Applicant provided explanations for variations in several operating expense line items between 2018/19 and 2019/20. Between these two years, the Source of Supply expense, Power and Pumping expense, and Water Treatment expense increased by 5%, 18% and 48%, respectively. The explanations for each of these

increases were related to costs associated with the development of a new well and doing repairs of an existing well. During the hearing, the Applicant confirmed that most of these costs, including maintenance on the wells and increased sampling associated with the new well, are ongoing costs to the amalgamated Utility.

[37] Mr. Isenor explained that the operating expenses in the Test Years are generally budgeted to increase by 3% annually. The Applicant explained that the source of supply line item, 'Water Purchased from Antigonish Water Utility', which is budgeted to increase by 5%, 7% and 5%, respectively, in each of the Test Years, relates to the purchase of treated water by the Fringe Area Utility from the Town water utility at wholesale rates approved by the Board.

[38] In response to the IRs, the Applicant described its on-going budgeting process, noting that there will be no significant changes to the process with the proposed amalgamation. The base rate revenue projection is based upon the number of customers, considering the addition of new customers, while the consumption revenue is estimated based upon the prior year's actual consumption, using an average consumption for anticipated new customers. Expenditures are based upon prior year actuals, with the addition of inflation. Salaries are based upon performance evaluation and follow a compensation grid chart. Internal budgeting, which details each of the utilities located within the Municipality, will not change with amalgamation. Draft budgets are reviewed by senior management and presented to Council for approval.

[39] With respect to the allocation of costs between the Municipality and the amalgamated Utility, the Applicant noted that materials are substantially a direct cost, while labour and vehicles are allocated on a percentage basis of usage. The

administration and general costs are allocated based upon an analysis of the water utilities' portion of the various cost components. Salary and wages are allocated based upon staff's time to administer the water utilities. The CAO's, Director of Finance's and Finance Clerk's salaries are each allocated 10% to the water utilities. In 2019/20, this amounted to \$127,406, which was further allocated based upon the time spent in each utility (84.6% relates to the Fringe Area and 15.4% relates to Lower South River). The Applicant explained that the current methodology will not significantly change with amalgamation.

[40] The depreciation expense projected in each of the Test Years is based upon the depreciation associated with the capital additions, at rates set out in the *Water Utility Accounting and Reporting Handbook (Accounting Handbook)*. The depreciation rate for meters which were installed in the existing utilities was corrected in the Revised Rate Study from 1.3% to 5%, as set out in the *Accounting Handbook*, beginning in 2019/20. This results in an increase in the annual depreciation expense on a go-forward basis, including each of the Test Years, of approximately \$28,000 from the amount included in the Rate Study.

[41] During the hearing, Mr. Isenor advised that a donated asset in the amount of \$715,000 relating to pipe replacement work done by NSTIR was not included in the Revised Rate Study. He further noted that the distribution reservoirs and standpipe capital addition in 2021/22, estimated at a cost of \$2.7 million in the Rate Study, should be revised to \$1.6 million, based upon the tender results. The addition of pipe asset in 2020/21, and the revision to the distribution reservoirs and standpipe capital addition in

2021/22, as well as the associated depreciation of these asset values, as set out in the *Accounting Handbook*, are reflected in an amended rate study filed as an Undertaking.

Findings

[42] The Utility provided an explanation for the estimated increases in operating expenses between 2018/19 and 2019/20, which the Board accepts. The operating expenses over the Test Years are generally based upon an annual increase of approximately 3%, which the Board finds to be reasonable.

[43] The Board accepts the allocation of costs between the Municipality and the amalgamated Utility, which is not expected to differ significantly from the current practice. The Board reminds the Applicant to review these allocations on a periodic basis to help ensure accuracy.

[44] The Utility corrected the annual depreciation expense associated with the meters previously installed in the existing utilities in the Revised Rate Study. In response to an Undertaking, the Applicant made further corrections to add the pipe asset and its associated annual depreciation in 2020/21 and reduce the cost of the distribution reservoirs and standpipe capital addition project, and its associated depreciation in 2021/22. These changes in the Undertaking response result in an increase in the annual depreciation expense in 2020/21 of \$9,510 and decreases in each of the remaining two Test Years of \$5,120, over the amounts in the Revised Rate Study.

[45] The depreciation rates used in the corrections contained in the Undertaking response follow the *Accounting Handbook* guidelines. The Board accepts the annual depreciation expense in each of the Test Years as budgeted in the amended rate study filed in response to the Undertaking.

(B) Capital Budget and Funding

[46] The Rate Study shows the amalgamated Utility's 2019/20 capital projects, totalling \$1,638,000, as well as the proposed capital budget for the Test Years of \$18,000 in 2020/21, \$2,718,000 in 2021/22, and \$1,718,000 in 2022/23. The 2019/20 projects include a well upgrade (\$70,000), water review and rate study (\$14,000) and distribution mains (\$1,544,000). The distribution main project relates to a number of water distribution main extensions which were approved by the Board in a letter dated July 23, 2019, and a water meter replacement project in a mini home park with a cost less than \$250,000. The funding of the 2019/20 capital projects was from depreciation funds (\$445,058), with the remainder (\$1,192,942) from Gas Tax Grants and the Investing in Canada Infrastructure Program.

[47] The capital budget in each of the Test Years includes meters in the amount of \$18,000, funded by the Utility's depreciation fund. The Applicant explained that the proposed meter expenditures are to install residential meters in the remaining unmetered households, and to replace meters in commercial properties which were installed prior to the commencement of the residential metering program, and are reaching the end of their useful lives. Mr. Isenor further noted that the meters installed in each of the Fringe Area Utility and the Lower South River Utility have been installed by the same contractor and are compatible.

[48] The Undertaking response included the NSTIR donated asset addition of the transmission main in the amount of \$715,000 in 2020/21. It further reduced the 2021/22 capital budget by \$1.1 million to \$1,618,000, due to the reduction of the cost of the distribution reservoirs and standpipes asset from \$2.7 million to \$1.6 million. This

project was approved in the amount of \$1.4 million in a letter from the Board dated June 24, 2020. During the hearing, the Board requested that the Utility provide confirmation of the cost of the project, as an Undertaking. The Utility confirmed the cost of the project as \$1.6 million in a letter to the Board dated October 22, 2020, adding that the project is to be funded through the Federal Gas Tax funding.

[49] In addition to meters, the 2022/23 capital budget includes distribution mains in the amount of \$1.7 million. The Applicant described the project to include looping within the Utility and an expansion to the St. Joseph's water system. The distribution mains project is proposed to be funded through outside sources (\$1,450,000) and depreciation funds (\$250,000). The Applicant stated that the outside funding sources have not yet been secured, and the project will only proceed once the funding has been secured.

[50] The depreciation fund balance at the beginning of the 2019/20 fiscal year for the amalgamated Utility is \$1,076,646. The Applicant explained that this was calculated through adding the depreciation fund balance for each of the Fringe Area Utility (\$903,464) and the Lower South River Utility (\$173,182).

[51] The Revised Rate study projects the depreciation fund balance to be \$1,176,642 at the end of the Test Period. The Undertaking response, with the addition of the NSTIR donated assets in 2020/21 and the reduction of the distribution reservoirs and standpipe asset cost in 2021/22, projects the depreciation fund balance at the end of the Test Period to be \$1,176,085.

Findings

[52] The Board has considered the information presented with respect to the proposed capital projects and associated funding. The Board accepts the Undertaking

response inclusion of the donated NSTIR project in 2020/21, which impacts depreciation. The Board finds the proposed projects, consisting of the Utility's metering program, which includes replacing older commercial meters, distribution mains, and the distribution reservoirs and standpipe project, to be reasonable. The increase in the cost of the reservoir project, based upon tender results, from \$1.4 million approved by the Board to \$1.6 million, is below the threshold requiring Board approval for authorization to overspend, as set out on page 4251.1 of the *Accounting Handbook*. Based upon this, no further action is required by the Utility.

[53] The Board accepts the proposed capital funding from outside sources and depreciation, with no new long-term debt projected. It further appears that the amalgamated Utility will have a healthy depreciation fund balance to be used to fund future capital replacements and additions.

[54] The Board notes that the inclusion of proposed capital projects in the Rate Study does not constitute the Board's formal 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 Revenues and Expenditures

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

[56] The other operating revenue consists of Sprinkler / Private Hydrants revenue in the annual amounts of \$15,656, \$15,785, and \$15,800, respectively in each of the Test Years. The only non-operating revenue is identified as Interest in the annual amounts of \$5,684, \$5,899, and \$6,000, respectively in each of the Test Years.

[57] The Rate Study includes projected non-operating expenditures related to the principal and interest charges on existing debt, totaling \$135,751, \$133,004, and \$131,387, respectively in each of 2020/21, 2021/22 and 2022/23. The Applicant described the existing debt as either Municipal Finance Corporation (MFC) debt, or Internal debt through borrowing funds from the Municipality. The MFC debt relates to the construction of a public works shop (Fringe Area Utility) and treatment plant upgrades (Lower South River Utility). The Internal debt is associated with watermain construction (Fringe Area Utility) and the construction of the Gaspereaux Lake water treatment plant (Lower South River Utility).

[58] The return on rate base calculated in the Revised Rate Study is 2.30%, 2.29% and 2.20%, respectively in each of the Test Years. The amendments to utility plant in service and depreciation, associated with the NSTIR transmission main, and the reduction in the cost of the distribution reservoirs and standpipes, as set out in the Undertaking response, resulted in no material change to the return on rate base calculated in each of the Test Years.

[59] Mr. Isenor described the calculated return on rate base for the amalgamated Utility, in the 2.2% to 2.3% range, as not out of the ordinary, leaving the Utility in a good position.

Findings

[60] Given the information presented in this proceeding, the Board accepts the projected non-operating and other revenues, and non-operating expenditures, as presented in the rate study filed in response to the Undertakings. The Board further accepts the calculated return on rate base, as presented in the Undertaking response.

(D) Allocations of Revenue Requirement

1. Public Fire Protection

[61] The allocations used in the Rate Study in the calculation of the public fire protection charge are generally in accordance with the *Accounting Handbook*. In response to the IRs, the Applicant noted an error in the allocation of the utility plant in service item, Land, and amended the allocation to 90% to general service and 10% to fire protection in the Revised Rate Study, as suggested in the *Accounting Handbook*. The response to the IRs further indicated that the auditors undertook a review of the utility plant in service of the existing two utilities. As a result, the distribution main amount of \$6,301,110 in 2019/20 in the Rate Study, was broken down into \$5,531,066 (distribution mains) and \$770,044 (meters) in the Revised Rate Study.

[62] Mr. Isenor explained that the Lower South River Utility had previously allocated its mains to fire protection based upon a calculation to determine how much of its mains were potentially incapable of producing fire protection. He said that the impact of the calculation was reviewed in preparing the application for amalgamation. He noted that the impact is not significant and it was determined that it would be in the best interest of all to bring the allocation to that recommended in the *Accounting Handbook* of 40% to general service and 60% to fire protection.

[63] The combined public fire protection charge in 2018/19 of the two existing water utilities is \$302,414. The annual public fire protection charges calculated in the Revised Rate Study are \$396,293, \$448,337, and \$476,622, respectively in each of the Test Years. Mr. Isenor explained the large increase in the proposed fire protection charge in 2020/21 as being due to increases in operating costs as well as being influenced by the significant distribution main replacement of \$1,554,000 in 2019/20.

[64] The changes made in the amended rate study filed in response to the Undertakings results in the calculation of annual fire protection charges of \$407,089, 443,542 and \$472,190, respectively in 2020/21, 2021/22 and 2022/23.

Findings

[65] Amendments made to the original Rate Study, as set out above, impact the calculation of the proposed public fire protection charge. The Board notes that the amended rate study filed in response to the Undertakings results in a increase in the proposed public fire protection charge in the first Test Year from that proposed in the Revised Rate Study, due to addition of the NSTIR main asset, which is allocated 60% to public fire protection. In the other Test Years, the Undertaking response proposes reductions from the public fire protection charge proposed in the Revised Rate Study, due to the off-setting reduction in the cost of the distribution reservoirs and standpipe asset.

[66] The Undertaking response is based upon the most up to date information and proposes public fire protection rates calculated using the *Accounting Handbook* methodology. The Board approves the rates, as proposed in the revised rate study filed in response to the Undertakings.

2. Utility Customers

[67] The remaining revenue requirement, after the allocation to fire protection charges, is to be recovered from the customers of the Utility. The response to the IRs explained the differences in allocations in the current application from the previous rate studies of the Lower South River Utility and the Fringe Area Utility. The source of supply expense was allocated at 100% to production in the Lower South River Utility, and 33% to base and 67% to production in the Fringe Area Utility, to reflect the purchase of treated

water from the Town utility. The application proposes an allocation of the source of supply expense as 35% to base and 65% to production, based upon a calculation that considers that the Fringe Area Water Utility will continue to pay a monthly base charge to the Town utility regardless of the amount of water that it uses.

[68] The allocation of depreciation expense was 100% to base in the previous rate applications for both existing utilities, and is proposed as 30% to base, 30% to delivery and 30% to production in the current application. Return on rate base was 100% to base in the previous Fringe Area Utility rate study and 40% to base, 30% to delivery and 30% to production in the previous Lower South River rate study, compared to 100% to base in the current application.

[69] The Applicant noted that allocations differ from the guidelines set out in the *Accounting Handbook* with respect to: the source of supply expense, discussed above and allocated as 35% to base and 65% to production, compared to the *Accounting Handbook's* allocation of 100% to production; and return on rate base, allocated 100% to base, compared to the *Accounting Handbook's* allocation of 40% to base, 30% to delivery and 30% to production.

[70] Mr. Isenor explained that the changes from the previous rate studies and the *Accounting Handbook* are proposed with the objective of having approximately 40% to 45% of the Utility's revenue coming from the base charge for revenue stability. He added that it was considered to have the percentage higher due to the uncertainty of the amount of water that will be sold, associated with the reaction of more than a thousand customers being billed based upon metered consumption for the first time.

[71] The application projects an annual increase of 12 residential customers in each of the Test Years. It further proposes that the number of unmetered residential customers will decrease from 44 in 2020/21, to 22 in 2021/22, with all customers metered in 2022/23. Mr. Isenor noted that although it is the intent that the Utility be fully metered by the end of the Test Period, there may be a few residences where this may not be possible, for reasons such as susceptibility to frost, or the lack of space to install a meter that would function properly.

[72] The Applicant noted that based upon the available metering data, the average annual consumption for 5/8" meter size customers in the Lower South River Utility is approximately 40,000 gallons, which is consistent with many other water utilities in the Province. Based upon this, the application does not propose a reduction in the consumption of these customers in the Test Years of the Rate Study. The average annual consumption for 5/8" meter size customers in the Fringe Area Utility is approximately 47,000 gallons, which is on the high side of usage of other water utilities in the Province. The Applicant noted in response to the IRs that it is anticipated that once the Fringe Area Utility customers are billed based upon water usage, there will be a reduction in consumption, as is common with utilities when meters are installed. Based upon this, the application proposes a 2% annual reduction in the consumption of these customers in the Test Years of the Rate Study. Combining these proposed consumption volumes for the amalgamated Utility in the Rate Study results in reductions in the average consumption of the 5/8" meter customer of 1.5% in 2020/21 and 1.6% in each of 2021/22 and 2022/23.

[73] The Rate Study uses an estimated annual consumption for unmetered customers of 55,000 gallons (9,167 gallons bi-monthly), based upon the assumption that unmetered customers have higher usage than metered customers.

[74] While both the Revised Rate Study and the Undertaking's rate study resulted in changes to the rates proposed in the application, they did not change any of the allocations used in the determination of the base and consumption charges, or any of the projections with respect to the number of customers and consumption volumes.

[75] Mr. Isenor noted during the public hearing that the amended rate study and Schedules filed in response to the Undertaking will include the consumption charge in both imperial and metric units.

Findings

[76] The Board approves the methodology used by the Applicant in the calculation of customer rates for each of the Test Years, based upon the allocations used in the determination of the base and consumption charges, and the projected reduction in consumption volumes. This same methodology was used in the rate study included in the Undertakings.

[77] The Board approves the customer rates, including the unmetered rate, as presented in the rate study filed in response to the Undertakings.

(E) Schedule of Rates

[78] In addition to the rates for water supply to its customers, the application proposed miscellaneous rates and charges. The only change proposed to the miscellaneous charges of the two existing utilities is the deletion of the clause relating to bulk water charges, as the sale of bulk water will no longer be available. With respect to

the proposed deletion, the Board reminded the Utility that if it decides to reinstate bulk water service in the future, it will have to apply to the Board for approval of a bulk water rate.

[79] As a portion of the first Test Year of 2020/21 will have passed, the public fire protection charge in the Schedule of Rates for 2020/21 will be prorated.

Findings

[80] The Board approves the amendments to the Utility's Schedule of Rates, as filed in response to the Undertakings. The approved public fire protection charge is prorated using the current rate and the new rate, based upon the effective date approved by the Board.

(F) Schedule of Rules and Regulations

[81] The application proposed a Schedule of Rules and Regulations for the amalgamated Utility. The Applicant noted that the Rules and Regulations of the existing two utilities were made the same at the time of their previous rate applications. It further noted that the only change proposed to the existing regulations is the addition of Clause 41, Curb Stop/Control Valve Service Box. The rule is proposed to be added to clarify the customer's responsibility if the curb stop/control valve is not left exposed for Utility staff.

[82] With respect to Clause 27, Cross Connection Control and Backflow Prevention, the Applicant noted that although the existing utilities do not have a program in place, such a program is planned for within the next few months.

Findings

[83] The Board finds that the proposed 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.

(G) Contingency Planning

[84] In response to Board IRs, the Applicant provided general information on its efforts related to contingency planning and emergency preparedness for the Utility. It noted that while formal exercises with respect to risk assessment have not been carried out, risks are continually being identified and plans being developed to mitigate the risks. It further explained that although the existing utilities do not have their own formal plans, the Municipality's Emergency Management and Business Continuity Plans include consideration of the water utilities.

[85] 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

[86] The Board has considered the information presented and approves the amalgamation of the Fringe Area Utility and the Lower South River Utility to form the Antigonish County Water Utility.


[87] The Board approves the Schedule of Rates for Water and Water Services as proposed by the Applicant in the rate study filed in response to the Undertakings, with effective dates of December 1, 2020, April 1, 2021, and April 1, 2022. The public fire

protection charge is approved, effective December 1, 2020, at \$337,306, based upon eight months at the current rate and four months at the new rate.

[88] The Board further approves the Schedule of Rules and Regulations as proposed, with an effective date of December 1, 2020.

[89] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 25th day of November, 2020.



Richard J. Melanson