

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 PICTOU** 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: Jennifer L. Nicholson, CPA, CA, Member

APPEARING: **TOWN OF PICTOU**
Gerry Isenor, P.Eng.
G.A. Isenor Consulting Limited

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

Kyle Slaunwhite
Chief Administrative Officer

Jonathan Daye
Director of Finance

Ian MacIsaac
Town Engineer

HEARING DATE: July 6, 2021

UNDERTAKINGS: July 7, 2021

DECISION DATE: **August 13, 2021**

DECISION: **Schedule of Rates and Charges approved, as amended.
Schedule of Rules and Regulations approved, as amended.**

I SUMMARY

[1] The Town of Pictou applied to the Nova Scotia Utility and Review Board on behalf of its Water Utility 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 (*Act*). The existing Schedule of Rates for Water and Water Services and Schedule of Rules and Regulations have been in effect since April 1, 2020, and January 1, 2019, respectively.

[2] A rate study to support the application dated January 18, 2021, was prepared by G.A. Isenor Consulting Limited, in association with Blaine S. Rooney Consulting Limited, and was submitted to the Board on February 24, 2021. Information Requests (IRs) were issued by Board staff on April 1, 2021, and responses were filed on April 26, 2021.

[3] A revised rate study was submitted to the Board in response to Undertaking U-1. It is the revised rate study that will be referenced in this decision unless otherwise noted.

[4] The rate study proposed rate increases for the fiscal years 2021/22, 2022/23, and 2023/24 (test years, test period). For unmetered customers, the proposed increases in each of the test years are 8.9%, 4.7%, and 4.0%, respectively. For 5/8" metered residential customers, based upon average quarterly consumption, the proposed increases in each of the test years are 7.8%, 4.6%, and 3.7%, respectively. For all other metered customers, based upon the average quarterly consumption of each meter size, the proposed rate increases are between 5.2% to 8.9% in 2021/22, 4.6% to 6.2% in 2022/23, and 3.9% to 4.8% in 2023/24.

[5] The rate study 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, currently \$262,369, was proposed to increase to \$270,597 in 2021/22 (prorated new rate and old rate at six months of each), to \$304,629 in 2022/23, and to \$328,367 in 2023/24.

[6] The public hearing was held virtually on Tuesday, July 6, 2021, after due public notice. Gerry Isenor of G.A. Isenor Consulting Limited and Blaine Rooney of Blaine S. Rooney Consulting Limited, represented the town. The CAO, Kyle Slaunwhite, the Town Engineer, Ian MacIsaac, and Director of Finance, Jonathan Daye, also appeared on behalf of the town. There were no formal intervenors in the proceeding. No members of the public requested to speak during the hearing, and no letters of comment were received by the Board.

[7] As set out in this Decision, the Schedule of Rates and Charges and the Schedule of Rules and Regulations, as amended in response to Undertaking U-1, are approved as requested by the utility.

II INTRODUCTION

[8] Water for the town is supplied by groundwater wells located in two clusters (four in the Town Wellfield and nine in the Caribou Wellfield). All wells feed into a water treatment plant located at 390 Wellington Street. The treatment plant consists of two trains of four tanks. The first train uses sand filtration, the second uses greensand.

[9] After treatment, water is then disinfected using sodium hypochlorite, where it then meets its contact time requirements as it moves to the water tower located on Oak Street. The standpipe (water tower) stores and provides pressure to the distribution

system. Upon leaving the standpipe, the chlorine is boosted to ensure adequate residuals in the extremities of the distribution system. The distribution system feeds all water utility customers within the Town of Pictou.

[10] The utility currently serves approximately 1400 customers. The application predicts the customer base will remain constant over each of the test years, consistent with the recent history of the utility.

[11] In response to IR-3 a), the utility advised that the amount of non-revenue water in its system is approximately 32% of total production (approximately 136,000 m³). This amount is higher than previously estimated as that estimate was made before meters were widely used to measure residential usage.

[12] The utility described the measures it has taken to reduce non-revenue water. In its response to IR-3 b) the utility stated:

Problematic and leaky water mains have been replaced with new plastic ones. The Utility has improved its leak detection through creation of water pressure zones and flow monitoring. The Utility has engaged a leak detection specialist. The Utility has provided public information packages in water bills on how to read water meters and identify leak indicators.

[Exhibit P-4, p. 3]

[13] The application was presented to the Board based upon the need to adjust the rates as a result of increased operating costs, phasing out the Amortization of Contributed Capital, and funding for the projected capital program.

[14] A revised rate study was filed in response to Undertaking U-1, which accounted for the following:

- several small changes to expense line items;
- the allocation of several expense line items to base and commodity;
- the number of unmetered customers remaining;

- effective dates for Schedules A and D; and
- corrections to the wording of two items in the Schedule of Rules and Regulations.

III REVENUE REQUIREMENTS

a) Operating Expenditures

[15] For the year ended March 31, 2021, the utility was estimating an excess of expenditures over revenues of \$9,829, with an accumulated surplus of \$267,558. If current rates are left in place, the utility was projecting an accumulated deficit balance of \$132,710 by the end of 2023/24.

[16] The operating budget is drafted by utility staff, based on their knowledge and historical costs, current regulations, and experience. This budget is reviewed by the CAO. The draft water utility budget is presented to Town Council who review it with staff. The final budget is then prepared by staff and approved by Town Council in a formal motion.

[17] The projected operating expenses for the test years are generally based upon the utility's estimated results for 2020/21 plus an annual increase sufficient to cover inflation of 3% (except for depreciation and other known expenses). The Board asked in the hearing how the 3% inflation amount was determined. The utility explained that 3% is meant to cover actual inflation plus a small amount for unforeseen expenses since a contingency amount is not budgeted.

[18] The projections of various operating expenses over the test years set out in the rate study were supplemented with further details provided in the utility's IR responses.

[19] The utility noted that there have been no changes to the budgeting process nor to how expenses are allocated between the town and the utility since the last rate study.

[20] Generally, the utility's projected depreciation expense in each test year is determined by adding the depreciation associated with proposed capital additions in the test year to the prior year's depreciation expense. In response to IR-14 the utility noted:

The depreciation rates used in the rate study are consistent with the Water Utility Accounting and Reporting Handbook for all items included in the handbook. The depreciation rate for the well head upgrades and small items in the water treatment plant have been set based on the projected life of the items (20 years).

[Exhibit P-4, p. 10]

Findings

[21] The utility projects that its annual operating deficit balance will steadily increase without an amendment to its rates, leading to an accumulated deficit by the end of the test period. The Board has reviewed the utility's various operating expenses and considered the explanations for the budgeted amounts provided in its IR responses and at the hearing. The Board accepts the operating expenses as projected over the test period, as revised in response to Undertaking U-1.

[22] The Board accepts the allocation of costs between the town and the utility. The Board reminds the utility to review these allocations periodically to ensure accuracy.

b) Capital Budget and Funding

[23] The rate study included the utility's capital budgets for the base year totaling \$435,000, and for each of the three test years, totaling \$560,000, \$450,000, and \$450,000, respectively. Of these amounts, the utility has budgeted \$400,000 in each of the test years for replacement of aging distribution mains, \$10,000 for hydrants, \$5,000

for meters, and \$10,000 for the water treatment plant. The first test year also includes \$100,000 for a new well and \$10,000 for transportation equipment.

[24] The proposed funding for the capital budget is as follows:

	2021/22	2022/23	2023/24
Long-term Debt	\$ 295,000	\$ 140,000	\$150,000
Depreciation Fund	\$ 265,000	\$ 310,000	\$300,000
Total	\$ 560,000	\$ 450,000	\$ 450,000

[25] The rate study projects that, with the proposed funding as set out above, the depreciation fund balance will be \$48,196 at the end of the test period. This is a small increase over the projected balance for the year ended March 31, 2021, of \$18,580, from the previous rate study.

[26] Mr. Isenor noted during the hearing that the utility has been aggressively replacing aging/problem watermain over the last number of years, with the previous and current rate studies allocating a large amount of funding to do so.

Findings

[27] The utility is primarily focusing on repairing and replacing current infrastructure over the test years. The intended capital program will continue the necessary replacement of aging and problem distribution mains. The Board recognizes the necessity of completing this work to reduce non-revenue water.

[28] The Board finds the proposed capital budget and funding for each of the three test years to be reasonable and accepts it as presented. 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

[29] The rate study projects the utility's revenue requirements for the test period, including estimates of non-operating revenues and non-operating expenditures.

[30] The annual amount for non-operating revenues in each of the test years is \$50,000, \$25,000, and \$10,000, respectively. The non-operating revenue includes the phasing out of contributed capital (deferred contributions) from \$40,000 to \$15,000 to \$0, in each of the test years, as well as interest of \$10,000 each year.

[31] The non-operating expenses include debt payments associated with new and existing debt, which covers principal repayments and the corresponding interest expense. A rate of 6% was used to calculate interest amounts for any new debt, with existing debt being based on actual rates charged. The 6% amount is only for the test period for rate-making purposes, the actual rate will be used when compiling financial statements and for the next rate study, for any outstanding balance.

[32] The rates of return calculated in the rate study provided in response to Undertaking U-1, which are calculated using the total non-operating expense revenue requirement, are 4.05%, 4.35%, and 4.51%, respectively, in each of the test years.

Findings

[33] The Board finds the utility's other and non-operating revenues and expenditures to be reasonable and accepts them as presented, including the phasing out of the Amortization of Contributed Capital, and the interest rates used for new debt.

[34] The Board recognizes that actual interest rates are expected to be less than the 6% approved amount, but that this rate allows for project costs that might slightly exceed those projected in the rate study.

[35] The Board finds the rate study's calculated return on rate base to be reasonable and accepts it as presented.

d) Allocations of Revenue Requirement

1. Public Fire Protection

[36] The methodology used in the rate study to determine the public fire protection charge is in accordance with the *Accounting Handbook*, except for transmission mains. Transmission mains are allocated 90% to general service and 10% to fire protection in the rate study, as opposed to 40% to general service and 60% to fire protection in the *Accounting Handbook*. In the supplemental notes to worksheet B-5, the utility noted that the transmission mains are used to deliver water from the wells to the treatment plant and do not provide fire protection flows. These allocations are the same as used in the previous rate study.

[37] The allocation of utility plant in service to public fire protection in the rate study is 27.2%, 28.0%, and 28.9% in each of the test years, respectively, with the remaining expenses allocated at 10% in each of the test years. Furthermore, the fire protection charge is proposed to be increased from the current figure of \$262,369 to \$278,825 in 2021/22, \$304,629 in 2022/23, and \$328,367 in 2023/24. The first test year's payment from the town will be prorated 50/50 using the current rate and the first test year's calculated rate.

Findings

[38] The Board accepts the allocation of transmission mains of 90% to general service and 10% to fire protection, based on the utility's explanation, which was also allowed in the previous rate application.

[39] The Board also accepts the utility's methodology used to determine the fire protection charges for the test years, with the actual amount for 2021/22 to be prorated for the portion of the year the old and new rates are effective (six months at each rate).

2. Utility Customers

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

[41] The utility currently has approximately 1400 customers, which is projected to remain the same throughout the test years and is more than the 1332 and 1363 customers from the previous two rate studies.

[42] The utility has projected a slight reduction in consumption over the test years, which is consistent with trends seen in other utilities across the province. Most residential customers have recently received meters, giving them the opportunity to reduce consumption to lower their bills.

[43] The methodology used in the rate study to allocate the remainder of the revenue requirement to determine the base, customer, delivery, and production charges is consistent with the methodology used in the last rate application and with the *Accounting Handbook*, except for required revenues for return on rate base and depreciation, which are proposed to be allocated 80% to the base charge, 10% to delivery and 10% to production, as opposed to 40/30/30.

[44] The original rate study allocated transmission and distribution 100% to the base charge as opposed to 100% to the delivery charge in the first test year. This allocation changed to 90% base and 10% delivery in the final test year. These allocations were made for rate-making purposes.

[45] Both of the above were proposed so the base charge would not decrease in the first test year followed by an increase in the second, and for revenue stability for the utility if consumption drops more than expected in the rate study.

[46] During the hearing, Mr. Isenor noted that it would be more appropriate to allocate transmission and distribution according to the *Accounting Handbook* and change the allocations for depreciation and return on rate instead. Response to Undertaking U-1 included this change, which netted similar base and consumption charges.

Findings

[47] 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.

[48] The Board notes that allocating more costs to the base charge than dictated in the *Accounting Handbook* has the effect of transferring some costs from higher volume users to lower volume users, but accepts that it is important for the utility, given its size, to have additional revenue stability and security.

[49] The Board directs the utility to continue to monitor the allocations to base and commodity charges for the next rate study, as it may be appropriate to shift more costs to the commodity side as volumes stabilize.

e) Schedule of Rates and Charges

[50] In addition to the rates for water supply to its customers, the application included other proposed changes to its Schedule of Rates and Charges. These changes are generally proposed to bring the Schedule of Rates and Charges in line with most of the utilities in the province and were listed in the utility's response to IR-25.

Findings

[51] The Board has reviewed the proposed amendments included in the Schedule of Rates and Charges and finds them to be reasonable.

[52] The Schedule of Rates and Charges for the test years are approved as reflected in the rate study.

f) Schedule of Rules and Regulations

[53] In the original rate study, the only addition to the Schedule of Rules and Regulations was Regulation 35, Theft of Service. Mr. Isenor explained that the utility recently became aware of potential theft of service whereby some community members were using a specialized wrench, meant only for utility employees, to turn on water service at the curb stop for service locations where water had been shut off. This regulation provides recourse against anyone caught stealing water in this or any other manner.

[54] During the hearing, Mr. Isenor noted that the utility suggested wording changes on two other regulations. One proposed change had a word inserted in error, and the other, an unnecessary sentence.

Findings

[55] The proposed Schedule of Rules and Regulations is consistent with most other water utilities in the province which have had recent rate applications.

[56] The Board approves the Schedule of Rules and Regulations as presented in response to Undertaking U-1 with an effective date of October 1, 2021.

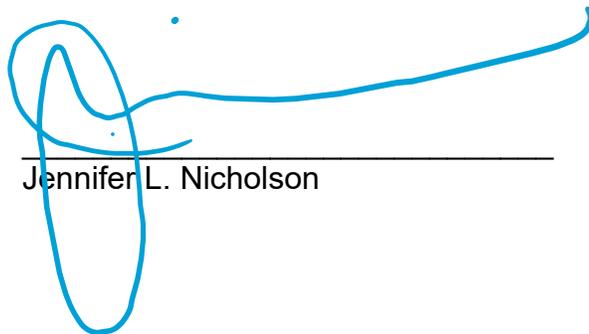
IV CONCLUSION

[57] The Board approves the Schedule of Rates and Charges for Water and Water Services as amended, effective October 1, 2021, April 1, 2022, and April 1, 2023.

[58] The Board approves the Schedule of Rules and Regulations as proposed, and amended, effective October 1, 2021.

[59] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 13th day of August 2021.



Jennifer L. Nicholson