

**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 AMHERST** 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 AMHERST**  
Gerry Isenor, P.Eng.  
G.A. Isenor Consulting Limited  
  
Blaine Rooney, CPA, CA  
Blaine S. Rooney Consulting Limited  
  
Jason MacDonald  
Chief Administrative Officer  
  
Sarah Wilson  
Acting Director of Finance  
  
Aaron Bourgeois  
Director of Operations

**HEARING DATE:** March 1, 2022

**UNDERTAKINGS:** March 2, 2022

**DECISION DATE:** **March 29, 2022**

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

## I SUMMARY

[1] The Town of Amherst 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, as amended. The existing schedules have been in effect since April 1, 2019, and July 1, 2017, respectively.

[2] A rate study to support the application dated October 4, 2021, was prepared by G.A. Isenor Consulting Limited, in association with Blaine S. Rooney Consulting Limited, and was submitted to the Board on November 12, 2021. Information Requests (IRs) were issued by Board staff on December 14, 2021, and responses were filed on January 5, 2022.

[3] The rate study proposed rate increases for the fiscal years 2022/23, 2023/24, and 2024/25 (test years). For unmetered customers, the proposed increases in each of the test years are 7.9%, 3.2%, and 3.5%, respectively. For 5/8" meter residential customers, based upon average quarterly consumption, the proposed increases in each of the test years are 13.4%, 3.3%, and 3.4%, respectively. For all other metered customers, based upon the average quarterly consumption of each meter size, the proposed rate increases are between 11.1% to 12.5% in 2022/23, 3.6% to 3.7% in 2023/24, and 3.7% to 3.8% in 2024/25.

[4] The application also proposed amendments to the annual public fire protection charge to be paid to the utility by the town for the provision of water for fire protection service. The total annual public fire protection charge, currently \$807,481, is

proposed to increase to \$829,844 in 2022/23, to \$843,004 in 2023/24, and to \$867,516 in 2024/25.

[5] The public hearing was held virtually on GoToWebinar video conferencing on Tuesday, March 1, 2022, 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 Jason MacDonald, Chief Administrative Officer; Sarah Wilson, Acting Director of Finance; and Aaron Bourgeois, Director of Operations. No members of the public requested to speak during the hearing, and no letters of comment were received by the Board.

[6] The Schedule of Rates and Charges and the Schedule of Rules and Regulations are approved as requested by the utility.

## **II INTRODUCTION**

[7] The utility's source of water supply is from four production wells located in the North Tyndall Wellfield, located 15 km north of the town. Constructed between 1991 and 1993, it was commissioned into service on October 21, 2003. More recently equipment was added to the production wells to reduce suspended particles at the source to decrease water quality complaints.

[8] Water is chlorinated and pumped from the North Tyndall Wellfield to Amherst, directly to the Willow Street reservoir. The reservoir then provides water to the network of watermains throughout the town. Several areas outside of the town are connected to the water supply system, which reaches as far as Maccan.

[9] A separate pressure system is designed to provide higher pressure in the Amherst Industrial Park and is activated through dedicated phone lines located at buildings throughout the park. A 200 hp diesel and 100 hp electric pump provide additional pressure. A separate smaller reservoir in the park provides the water for the booster pump located there. When the system is activated, valves close, and the pressure is contained within the industrial park.

[10] Two new water reservoirs were put into service in April 2018. The utility also has four pressure release valve chambers in the distribution system to regulate water pressure.

[11] The utility currently serves approximately 4,059 customers. An annual increase of five residential customers is projected in each of the test years, which is the same increase as the previous rate study.

[12] The rate study indicated that the average consumption for a 5/8" meter residential customer has decreased slightly each year leading up to this rate study and is projected to continue to decrease by 0.5% per year over the test period.

[13] The utility stated that its amount of non-revenue water was approximately 44% over the past four quarters, which is of concern, and much greater than the 10% noted in the previous rate study. The utility noted that the 10% from the previous application was not accurate. The revenue requirements in the application include; capital and operating costs associated with the replacement of older distribution mains, which are prone to leaks; and leak detection efforts, to aid in the reduction of non-revenue water.

[14] The utility noted that a large percentage of their unmetered customers are land lease communities, commonly known as mobile home parks. These communities have private distribution systems, which, if leaking or if usage is higher than estimated, could be a source of non-revenue water. The utility noted that Town Council did not pursue metering of these communities after push back from the mobile home park owners.

[15] The application was presented to the Board based upon the need to increase the rates due to higher operating costs, to fund the projected capital program, and to continue to provide a dividend to the town.

### **III REVENUE REQUIREMENTS**

#### **a) Operating Expenditures**

[13] Schedule B-1 of the rate study indicated that the utility's revenues exceed expenses by \$4,801 and recorded an accumulated surplus of \$183,708. Without a rate adjustment, however, the utility expects a revenue deficiency of \$332,891 in the final test year and a reversal of an accumulated surplus to an accumulated deficit totaling \$647,436. Included in these projections is a dividend to the town for \$135,000 in each of the test years.

[16] In response to Board Staff IRs, the utility described its ongoing budgeting process:

Staff prepares a budget and submits it to Town Council for review and approval. Once approval has been received the budget is monitored for conformance throughout the year.

[Exhibit A-4, IR-9, p. 8]

[17] It was indicated that costs between the utility and the town are kept separate. For expenses and budgets, the two act as separate entities.

[18] The projected operating expenses for the test years are generally based upon the utility's budget for 2021/22 plus an annual increase sufficient to cover inflation except for depreciation, which is calculated by taking the current depreciation plus the estimated depreciation expense of the capital additions over the test years.

[19] In response to Board staff IRs, the utility provided explanations for costs that are budgeted to increase above the typical 3% used as a proxy for inflation.

[20] The utility noted that there are no projected increases in operating costs associated with an increase in leak detection efforts, as the utility will utilize existing staff and equipment.

### **Findings**

[21] The operating expenses over the test years are generally based upon an annual increase of approximately 3%, which the Board finds reasonable. The utility provided explanations for items that differed from the 3% annual increase, which the Board accepts.

[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.

[23] The Board encourages the increased leak detection efforts noted by the utility, given the amount of non-revenue water on the system.

**b) Capital Budget and Funding**

[24] The rate study included the utility's capital budgets for 2021/22 and each of the three test years, totaling \$770,360, \$420,000, 490,000, and \$490,000, respectively. The utility has budgeted \$207,000, in 2021/22, \$215,000 in the first test year, and \$135,000 in the final test year for replacement of aging distribution mains. These main replacements should help address some of the non-revenue water in the system.

[25] In response to Board staff IR-15, the utility provided a summary of the planned projects over the test years.

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

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Depreciation Fund	\$ 380,000	\$ 450,000	\$ 450,000
Capital out of revenue	\$ 40,000	\$ 40,000	\$ 40,000
<b>Total</b>	<b>\$ 420,000</b>	<b>\$ 490,000</b>	<b>\$ 490,000</b>

[27] The rate study projected that, with the proposed funding as set out above, the depreciation fund balance will be \$556,103 at the end of the test years.

[28] During the hearing, the utility noted that the opening balance of the depreciation fund was not correct and that it was about \$900,000 larger. As undertaking U-1, the utility filed an updated rate study with the corrected balance in the depreciation funds. With this correction, the depreciation fund is now expected to have a balance of \$1,563,343 at the end of the test period.

[29] During the hearing, leak detection was discussed as was the opportunity to use the "extra" depreciation funds to fund any main replacement for mains that are identified as an issue from that process. Mr. Isenor noted that these funds could allow

the utility to replace more mains than budgeted using depreciation funds as the funding source.

[30] In addition to replacing mains, installing meters for the unmetered customers was discussed at the hearing, as a potential use for the higher than originally reported balance in the depreciation fund.

### **Findings**

[31] The utility is primarily focusing on repairing and replacing current infrastructure over the test years. The intended capital program will complete, among other things, the replacement of known problem distribution mains. The Board recognizes the necessity of completing this work to address non-revenue water and improve service.

[32] The Board accepts the proposed level of funding from the utility's depreciation fund over the test years. The Board also accepts the utility's proposed capital program and funding as set out in the rate study. 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 more than \$250,000 as set out in s. 35 of the *Act*.

[33] Given the availability of the additional depreciation funds noted, the Board encourages the utility to consider replacing more problem mains when identified and the capacity is there to do so. The Board also encourages the utility to strongly consider metering the unmetered customers as a means of reducing and better calculating the non-revenue water in the system.



**c) Non-Operating/Other Revenues and Expenditures**

[34] The annual amount for non-operating revenues in each of the test years is for interest and other income in the amount of \$5,000.

[35] The non-operating expenses include debt repayments, the corresponding interest expense, capital out of revenue, and a dividend to the owner. No new debt is proposed over the test years. The dividend to the town is requested to remain the same for all three test years, which was the same as it was in the final test year from the previous rate study. The dividend to owner has been approved in both previous two rate applications by the utility, with the caveat that the return on rate base is within the guidelines.

[36] The rates of return calculated in the rate study, which includes the dividend to owner, are 1.61%, 1.49%, and 1.48%, respectively, in each of the test years.

**Findings**

[37] The Board finds the utility's non-operating revenues and expenditures to be reasonable and accepts them as presented, including the dividend to owner.

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

[39] The utility is cautioned that although the Board approves the dividend to owner in the amounts presented in the rate study, the utility may only pay out the maximum of these approved amounts if the utility is in an accumulated operating surplus position before the dividend is paid. Any portion of the dividend to owner that will put the utility into an accumulated deficit position, in any given year, is disallowed.

#### **IV REVENUE REQUIREMENT ALLOCATION**

##### **a) Public Fire Protection**

[40] The methodology used in the rate study to determine the public fire protection charge paid by the town to the utility follows the *Accounting Handbook*.

[41] The percentage allocation of utility plant in service to public fire protection is calculated in the rate study to be within a range of 48.9% to 47.8% over the test years. This results in the total cost being allocated to fire protection in the amount of 34.9%, 34.5%, and 34.3%, for the test years of 2022/23, 2023/24, and 2024/25, respectively.

[42] Using the above percentage allocations to fire protection, the fire protection charge requested as part of the application, as set out in the rate study, is \$829,844, \$843,004, and \$867,516, in each of the test years, respectively.

##### **Findings**

[43] The Board accepts the utility's methodology for allocating costs to fire protection, and approves the utility's proposed fire protection charges, as presented in the rate study.

##### **b) Utility Customers**

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

[45] The utility currently has approximately 4,059 customers, which is projected to increase by five residential customers per year over the test period. The utility based this estimate on recent history. The utility has projected a slight reduction in consumption

over the test years of 0.5% per residential customer per year, which is consistent with trends seen in other utilities across the province.

[46] The rate study projects that the annual consumption volume for the other meter sizes will remain constant throughout the test period.

[47] The unmetered quarterly rate is based upon an average annual unmetered consumption of 256 cubic metres per customer, the same consumption used in the final test year of the previous rate application approved by the Board.

[48] The allocations of costs used in the rate study are consistent with the methodology as set out in the *Accounting Handbook*, except for Return on Rate Base, in which the rate study has allocated 30% to delivery and 30% to production, while the *Accounting Handbook* has allocated 60% to delivery. This variation from the *Accounting Handbook* does not affect the final consumption charge in any of the test years. The allocations used in the rate study are the same as the previous rate application approved by the Board.

### **Findings**

[49] The Board accepts the methodology used by the utility to distribute expenses to base, customer, delivery, and production charges, which is generally consistent with the *Accounting Handbook*, and any variation does not impact base or commodity charges.

[50] Based upon the information presented, the Board finds the projection of a constant slight decrease to consumption volume per year for 5/8" meter customers to be reasonable, as well as the projected increase in the number of utility customers.

## **V SCHEDULE OF RATES AND CHARGES**

[51] Besides the amendments to the rates for water supply to its customers and the fire protection charges, the application did not include any new or revised charges to its Schedule of Rates and Charges.

### **Findings**

[52] The Board accepts and approves Schedules A, B, and C, as filed in the rate study, with effective dates of April 1, 2022, April 1, 2023, and April 1, 2024, respectively.

## **VI SCHEDULE OF RULES AND REGULATIONS**

[53] In response to IR-21, the utility noted that it is only proposing one change to Rules the Regulations. In that response the utility noted:

The only change in the Rules and Regulations is the addition of Regulation no. 38 "Water Conservation Directives". The proposed addition will give the Utility the ability to suspend service to any customer who does not comply with a water conservation directive.

[Exhibit A-4, IR-21, p. 11]

### **Findings**

[54] The proposed Schedule of Rules and Regulations is consistent with most other water utilities in the province which have had recent rate applications, including the addition of water conservation initiatives.

[55] The Board approves the Schedule of Rules and Regulations as presented in the study with an effective date of April 1, 2022.

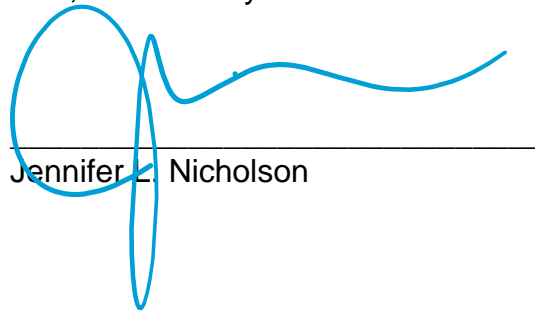
## VII CONCLUSION

[56] The Board approves the Schedule of Rates and Charges for Water and Water Services, effective April 1, 2022, April 1, 2023, and April 1, 2024.

[57] The Board approves the Schedule of Rules and Regulations as proposed, and amended in the undertaking response, effective April 1, 2022.

[58] An Order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 29<sup>th</sup> day of March 2022.



Jennifer L. Nicholson