DECISION **2022 NSUARB 147**
M10475

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 DISTRICT OF GUYSBOROUGH** on behalf of the **CANSO-HAZEL HILL 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: **MUNICIPALITY OF THE DISTRICT OF GUYSBOROUGH**
Gerry Isenor, P.Eng.
G.A. Isenor Consulting Limited

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

Mike Hanhams
Public Works Manager

Danita Imlay
Director of Finance

Glen Avery
Director of Public Works

HEARING DATE: July 6, 2022

UNDERTAKINGS: July 13, 2022

DECISION DATE: **September 22, 2022**

DECISION: **Schedule of Rates and Charges is approved as amended subject to a compliance filing.**
The Schedule of Rules and Regulations is approved.

I SUMMARY

[1] The Municipality of the District of Guysborough applied to the Nova Scotia Utility and Review Board on behalf of the Canso-Hazel Hill Water Utility to amend its Schedule of Rates and Charges for Water and Water Services and its Schedule of Rules and Regulations under the *Public Utilities Act*, R.S.N.S. 1989, c. 380. The existing schedules have been in effect since April 1, 2016, and April 1, 2014, respectively.

[2] A rate study to support the application dated November 15, 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 28, 2022. Information Requests (IRs) were issued by Board staff on April 8, 2022, and the utility filed responses on April 27, 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 were 16.4%, 3.7%, and 3.0%, respectively. For 5/8” meter residential customers, based upon average quarterly consumption, the proposed increases in each of the test years were 14.8%, 2.5%, and 1.9%, respectively. For all other metered customers, based upon the average quarterly consumption for each meter size, the proposed rate increases were between 9.9% to 28.4% in 2022/23, 2.3% to 5.6% in 2023/24, and 2.0% to 4.5% in 2024/25.

[4] The application also proposed amendments to the annual public fire protection charge paid to the utility by the municipality for water used for fire protection service. The total annual public fire protection charge is proposed to remain at $64,462 for both 2022/23 and 2023/24 and increase to $67,095 in 2024/25.

[5] The Board held a public hearing on GoToWebinar video conferencing on Wednesday, July 6, 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 Mike Hanhams, Public Works manager; Danita Imlay, Director of Finance; and Glen Avery, Director of Public Works.

[6] One member of the public asked to speak during the hearing, and the Board received one letter of comment.

[7] The Schedule of Rates are approved as amended subject to a compliance filing, and the Schedule of Rules and Regulations is approved as requested by the utility. The compliance filing is due Thursday, October 6, 2022.

II INTRODUCTION

[8] Wilkin's Lake is the source of supply for the Canso-Hazel Hill Water Utility. Water is treated at a new dissolved air floatation plant next to the lake. The plant was designed to produce water that meets or exceeds the Canadian Drinking Water Quality Guidelines and the Nova Scotia Water Treatment Plant standards.

[9] Water is pumped to the town via a 300mm transmission main which has a direct route from the reservoir. The reservoir was constructed in 1966 and has a design capacity of 1.89 ML. The reservoir provides balancing and stores water for fire-fighting use. The distribution system has approximately 15 km of piping consisting primarily of 150mm and 200mm diameter mains.

[10] The utility currently serves approximately 450 customers. Although the number of customers dropped by 49 since the last rate study, conducted in 2013, the current rate study projects no change to the number of customers over the test period.

[11] The utility indicated the average consumption for a 5/8” meter residential customer has decreased an average of 1.6% per year leading up to this rate study. Although average consumption for residential customers is among the lowest in the province, the rate study projects consumption to continue to decrease by 1.6% per year, over the test period.

[12] The utility stated that its amount of non-revenue water was approximately 70% at the time of the last rate study. Based on a 2017/18 water loss assessment study, conducted by Hydrotech Consulting, non-revenue water has been reduced to approximately 49% of water supplied to the system. The revenue requirement in the rate study includes capital and operating costs associated with the replacement of older distribution mains, which are prone to leaks; replacement of hydrants; and leak detection efforts, all to aid in the reduction of non-revenue water.

[13] The utility presented the application to the Board based on the need to amend the rates due to higher operating costs, reduced volume sold, fewer customers, and to fund the projected capital program.

III PUBLIC SPEAKER AND LETTER OF COMMENT

[14] The Notice of Hearing invited members of the public to send letters of comment to the Board or appear at the hearing to speak. The Board received one letter of comment and one person registered to speak during the hearing.

[15] The letter of comment was submitted to the Board by Monte J. Snow, on behalf of Fisherman's Market. Fisherman's Market is concerned about the size of the proposed increase.

[16] In his letter, Mr. Snow noted that Fisherman's Market provides fishers and vessels with water and ice and any increase in water rates must be passed on to its customers or absorbed by the company. He also noted that fishers and vessels have seen significant increases in costs due to inflation over the past 24 months, and any more increases will further impact incomes for fishers, operators, and companies such as themselves.

[17] The formal request to speak at the hearing came from William Bond, president of the Eastern Guysborough County Ratepayers Association (EGCRA). Ginny Boudreau, a board member with EGCRA, spoke at the hearing on behalf of the president and the EGCRA's members.

[18] Like the letter of comment, the EGCRA's main concern was the size of the proposed increase and the allocation of those funds. The association also took issue with how the rate study and application were shared electronically with ratepayers.

[19] The EGCRA saw no reason for an increase in rates given the $352,790 accumulated surplus at the end of 2020/21. The association also noted that current customers, including the members of the EGCRA, have "helped build up the surplus that the water utility has enjoyed…".

[20] The EGCRA also noted that the budget for the test period in the rate study would have benefited from a detailed breakdown of actual costs for 2021/22, as opposed to the estimates used.

IV REVENUE REQUIREMENTS

a) Operating Expenditures

[21] Schedule B-1 of the rate study indicated that the utility's revenue exceeded expenses by $69,215 in 2020/21 and recorded an accumulated surplus of $352,790. The rate study estimates that expenses will exceed revenue by $11,689 in 2021/22, reducing the accumulated surplus to $341,101. Without a rate adjustment, however, the utility expects revenue deficiencies of $17,236, $29,188, and $41,448 in each of the test years. These deficits are expected to reduce the accumulated surplus to $253,229 by the end of the test period.

[22] In response to Board staff IR-12, the utility described its ongoing budgeting process:

> Director of Public Works with the assistance from the Public Work department's staff assemble a draft budget based on previous years' expenses (or historical costs), cost of living adjustments and anticipated new costs. This draft budget is then reviewed by the Department of Finance staff and any amendments/adjustments are made and returned back to Public Works for final review. If there are no further changes to the document, it is presented to Municipal Council for their consideration and acceptance if in agreement.
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> [Exhibit C-4, IR-12, p. 9]

[23] The utility also described how costs are allocated between the Municipality and the utility as follows:

> Expenses related to the Water Utility will be processed and paid through MODG general account and recorded in the due from Water Utility Account. The account is analyzed monthly and money from the Utility is transferred back to the MODG general fund. …. Staff costs assigned to the Utility have been allocated based on a review of the estimated time commitments to the Utility.
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> [Exhibit C-4, IR-13, p. 9]

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

Wages are based on annual increases in wages and allocation of staff time from the municipality.

[25] In response to Board staff IRs, the utility provided explanations for costs budgeted to increase more than 3% which is the amount used as a proxy for inflation.

[26] 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 consultants, staff, and equipment.

[27] In response to the follow-up to undertaking U-1, the utility noted that volumes in 2021/22 were approximately 16,318 cubic metres lower for their largest customer than 2020/21 and that Worksheet B-1 did not account for that reduction in its projections. Correcting this results in projected revenue, with no change in rates, that is approximately $39,000 lower than what is shown in B-1. As such, the revenue shortfall noted above in paragraph [21] for each of the test years would be more than indicated in the rate study.

Findings

[28] 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. The Board accepts the explanations for the increases provided by the utility.

[29] The Board accepts the depreciation expenses for the test period, which are based on current depreciation plus depreciation for capital additions over the test period.

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

[31] The Board commends the utility on its cost containment and leak detection efforts since the last rate application and urges the utility to continue with those efforts going forward.

[32] The Board has some concerns with the presentation of projected revenue shown in B-1. It appears when the rate study was developed, the utility and its consultants were aware of the reduced volumes from the fish plant, as shown in Worksheet C-6. This volume was used to allocate revenue requirements but was not used to develop the projected revenue and expenses if rates were not adjusted.

[33] The Board urges the utility to use the same assumptions in the rate study for calculating the projected revenue if no change in rates were to occur, as shown in worksheet B-1. Doing so would more closely align the projected revenue shortfall with the proposed increase in customers' bills.

[34] If the updated projections provided in response to the follow-up to undertaking U-1 were used, it would have shown a revenue shortfall for the first test year of approximately $56,000, assuming no corresponding decrease in variable operating expenses. This equals approximately 16% of the estimated revenue from customers, which is within the 9.9% to 20.8% increase in customers' bills shown in Worksheet D-1 for the first test year.

[35] The utility requested that rates become effective April 1, 2022. The Board notes that this timeline will not be met and that any shortfall in revenue, due to the new

rates becoming effective later than requested, will likely come from the utility's accumulated surplus.

b) Capital Budget and Funding

[36] The rate study included the utility's capital budgets for the three test years, totalling $206,000, $118,000, and $118,000 respectively. The utility has budgeted $100,000 per year for the replacement of aging distribution mains. These main replacements should help address some of the non-revenue water in the system.

[37] In response to Board staff IR-20, the utility provided a summary of the planned projects over the test period. The utility is proposing to fund the capital program from the depreciation fund. The rate study projects that, with this depreciation fund's balance will be $1,066,912 at the end of the test period. Mr. Isenor noted that this is a healthy fund balance, given the age and size of the utility.

Findings

[38] The utility is 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.

[39] The Board accepts the proposed funding from the utility's depreciation fund over the test years. The Board also accepts the utility's proposed capital program set out in the rate study.

[40] Although no planned capital work over the test period is estimated to be over the $250,000 threshold requiring Board approval, 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*, should the scope or estimates change.

c) Non-Operating/Other Revenues and Expenditures

[41] The annual amount for non-operating revenues in each of the test years relates to interest and other income amounting to $4,900. This is consistent with 2020/21 and the estimate for 2021/22.

[42] The non-operating expenses include primarily bank and interest charges. The utility has no outstanding debt, and no new debt is proposed over the test period, therefore no principal or interest payments are included as non-operating expenses.

[43] The rates of return calculated in the rate study are negative for each of the test years so are shown as 0%, as non-operating revenues exceed non-operating expenses in each of the test years.

Findings

[44] The Board finds the utility's non-operating revenues and expenditures to be reasonable and accepts those items.

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

[46] Although the Board accepts the non-operating revenue included in the rate study, the Board directs the utility to include a portion of the accumulated surplus as a source of non-operating revenue, which will reduce rate shock in the first test year. It was noted in response to the follow-up on undertaking U-1, that revenue requirements are

approximately $40,000 more than estimated in worksheet B-1 for 2021/22. To ease the rate shock of this additional $40,000 of revenue requirement, the Board directs the utility to apply $30,000 of the accumulated surplus to the first test year and $10,000 to the second test year as a non-operating revenue line item. Allocating the surplus to the two years avoids shifting the rate shock to the second test year.

[47] Applying the accumulated surplus to reduce the rates in the first two test years also somewhat addresses intergenerational inequities, as the accumulated surplus was created by current and past customers.

V REVENUE REQUIREMENT ALLOCATION

a) Public Fire Protection

[48] The methodology used in the rate study to determine the public fire protection charge paid by the municipality to the utility follows the *Accounting Handbook* as well as the previous rate application for the utility.

[49] Following the *Accounting Handbook* allocations would result in a drop in the calculated fire protection rates in the first test year, followed by an increase in each of the following two test years. It is only in the final test year that rates become greater than the current fire protection charge.

[50] Instead of lowering fire protection rates in the first test year, the utility is proposing to hold the fire protection rates at the current charge ($64,462) for the first two test years, with an increase in the charge to $67,095 in the final test year. Not decreasing the fire protection charge in the first test year and holding it for the second, reduces the rates required from the utility's customers for the same two years.

[51] The percentage allocation of utility plant in service to public fire protection is calculated in the rate study to be within a range of 18.9% to 19.7% over the test years. This results in the total cost being allocated to fire protection in the amount of 13.7%, 13.4%, and 13.6%, for the test years of 2022/23, 2023/24, and 2024/25, respectively.

Findings

[52] 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, which includes holding the current fire protection charge for the first two test years.

[53] By holding the fire protection rates for the first two test years, customers will benefit from lower revenue requirements allocated to rates than if the calculated fire protection rates were applied.

b) Utility Customers

[54] After the allocation of revenue requirement to the fire protection charges, the remaining revenue requirement is to be recovered from the utility's customers.

[55] The utility currently has approximately 449 customers, 43 customers less than the previous rate study. The number of customers is projected to remain constant over the test period.

[56] Although average residential customer volume is among the lowest in the province, the utility projects a reduction in consumption of 1.6% per residential customer each year over the test period. In response to IR-10 b), Mr. Isenor noted:

> There is no solid information to indicate the average consumption has bottomed-out in the Utility. Given the number of variables, including family size, aging population, more water efficient devices, and the number of seasonal customers, it is felt that history is still the best guide to estimate water consumption in the future.
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> [Exhibit C-4, IR-10 p. 8]

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

[58] The unmetered quarterly rate is based upon an estimated average annual unmetered consumption.

[59] The allocation of costs used in the rate study is consistent with the methodology in the *Accounting Handbook*, except for transmission and distribution, which is allocated 40% to the base charge in the first test year, 30% in the second test year, and 25% in the final test year. This is being proposed for rate design purposes. The proposed allocation results in relatively constant base charges while approximately 44% of the total revenue from customers comes from base charges.

Findings

[60] 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 provides some revenue protection for the utility.

[61] The Board notes that other utilities that have had recent rate applications approved typically service residential customers with higher average consumption. Those utilities generally propose decreases of 0.5% to 1% per year and their customers have more room to lower consumption than Canso-Hazel Hill customers do.

[62] The utility suggested that there was no solid evidence that average consumption decreases have bottomed out, yet they also provided no solid evidence to suggest that a continuing decrease in consumption greater than most utilities, which have higher average consumption, was likely to continue at the same rate. The Board directs the utility to file an updated rate study and schedules A, B, and C, based on a 1% per year decrease in average 5/8” customer consumption.

[63] The Board accepts the utility’s projections for no change in the number of customers over the test period.

VI SCHEDULE OF RATES AND CHARGES

[64] Besides the amendments to the rates for water supply to the utility’s customers and the fire protection charges, the application included several other amendments to the Schedule of Rates and Charges. These amendments were to increase charges for re-establishing water service, system connection fee, system disconnection fee, and special service charge. Each of these charges is proposed to increase from $50 to $60 to reflect the increase in the cost of providing the services. The after-hours rate for each of these services remained unchanged.

Findings

[65] The Board’s approval for Schedules A, B, and C, is contingent on the compliance filing. The schedules should include effective dates of October 1, 2022, April 1, 2023, and April 1, 2024, respectively.

VII SCHEDULE OF RULES AND REGULATIONS

[66] The utility noted that it is only proposing to change one existing rule in the Schedule of Rules and Regulations, as well as to add two new rules.

[67] In response to IR-32, the utility explained the change and each of the additions proposed to the Rules and Regulations. These amendments were also discussed briefly during the formal hearing.

Findings

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

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

VIII CONCLUSION

[70] The Board's approval of the Schedule of Rates for Water and Water Services, effective October 1, 2022, April 1, 2023, and April 1, 2024, is subject to a compliance filing. The compliance filing is to include:

- An updated rate study that incorporates the:
  - Allocation of $30,000 of accumulated surplus to non-operating revenue for the first test year;
  - Allocation of $10,000 of accumulated surplus to non-operating revenue for the second test year; and

  - Updated volume projections for a decrease of 1% for average 5/8" customers, in each of the test years.

- Updated schedules A, B, and C, based on the amendments to the rate study.

[71] The Board approves the Schedule of Rules and Regulations as proposed, effective October 1, 2022. The compliance filing is due Thursday, October 6, 2022.

[72] An Order will be issued accordingly.

DATED at Halifax, Nova Scotia, this 22nd day of September 2022.

Jennifer L. Nicholson