**DECISION** **2024 NSUARB 99**
**M11527**

# NOVA SCOTIA UTILITY AND REVIEW BOARD

**IN THE MATTER OF THE PUBLIC UTILITIES ACT**

**- and -**

**IN THE MATTER OF AN APPLICATION** by the **DIGBY WATER COMMISSION,** for Approval of Amendments to its Schedule of Rates and Charges for Water and Water Services and its Schedule of Rules and Regulations

**BEFORE:** Steven M. Murphy MBA, P.Eng., Member

**APPLICANT:** **DIGBY WATER COMMISSION**
Gerry Isenor, P.Eng.
G.A. Isenor Consulting

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

Matthew Raymond, CPA, CA
Director of Finance

Ed McCormick
Director of Public Works

**HEARING DATE:** May 8, 2024

**DECISION DATE:** **June 12, 2024**

**DECISION:** **The application is approved, as amended by the Utility.**

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## I SUMMARY

[1] This is a decision of the Nova Scotia Utility and Review Board (Board) about an application by the Digby Water Commission (Utility) for amendments to its Schedule of Rates and Charges and 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, 2015, and its Rules and Regulations have been in effect since June 1, 2010.

[2] The Utility applied to the Board based on a need to adjust rates due to budget deficits caused by an increase in operating costs. The rate increases will also assist in funding of the Utility's planned capital investments, which includes upgrades to the distribution system, refurbishment of the distribution reservoir and meter replacements. The application was supported with a rate study prepared by G.A. Isenor Consulting and Blaine S. Rooney Consulting Limited. The rate study was dated January 10, 2024, and filed with the Board on January 18, 2024.

[3] In preparing responses to Board Staff Information Requests (IRs), the Utility's consultants updated the Operating Revenues and Return on Rate Base in the rate study. Accordingly, the Utility filed a revised version of the rate study on March 25, 2024, with its responses to IRs.

[4] The Board held a public hearing on May 8, 2024, at the Town of Digby Council Chambers, after public notice was advertised in the Saltwire newspaper on February 7, 14 and 21, 2024; and posted on the Board's website. Gerry Isenor and Blaine Rooney represented the Utility, along with Town of Digby staff: Matthew Raymond, Director of Finance; and Ed McCormick, Director of Public Works. The Board did not receive any letters of comment.

[5] The Board reviewed the revised study during the public hearing. During the public hearing, the Board requested that the following be filed as Undertakings by May 17, 2024: a) a reconciliation of items included in Other Operating and Other Non-Operating Revenues in Worksheet B-1 of the revised rate study; b) a review of chlorine costs for water treatment; c) an update of the cost for new residential water meters; and d) identification of actual water consumption for 2023/24. A final revised water rate study was provided in the Utility's Undertakings, and it is this final study referred to in this decision, unless noted otherwise.

[6] The rate study provided in the Undertakings proposed rate increases for the fiscal years 2024/25, 2025/26 and 2026/27 (Test Years). For 5/8" meter residential customers, based on average bi-monthly consumption, the proposed increases in each of the Test Years are 11.1%, 9.9% and 7.8%, respectively. For other metered customers, based on average bi-monthly consumption per each meter size, the proposed increases are between -7.1% to 42.4% in 2024/25, 2.9% to 20.5% in 2025/26 and 5.3% to 11.0% in 2026/27. The Utility also proposed that the annual public fire protection charge be increased during the Test Years to $264,902 in 2024/25, $308,169 in 2025/26 and to $349,897 in 2026/27.

[7] The Utility also updated other charges to align with actual costs for services. Additionally, the Utility proposed revisions to its Rules and Regulations to align with similar rules and regulations used by other municipal water utilities in Nova Scotia.

[8] As set out in this Decision, the Board approves the Utility's requested Schedule of Rates for Water and Water Services and the Schedule of Rules and Regulations Governing the Supply of Water and Water Services, as amended by the Utility in the Undertakings.

## II INTRODUCTION

[9] The Utility's source of water supply is from a well field containing nine production wells, with seven currently in production. The Utility's number of customers fluctuates throughout the year due to the seasonal nature of the local economy and residences. The distribution system is made up of 40 kms of watermains and two reservoirs. Since its last rate application, the Utility upgraded its monitoring equipment; refurbished its distribution reservoirs; added a new transmission main, a new distribution main and a new chlorination building; and acquired land for its Source Water Protection Plan.

[10] The Utility currently serves about 1,057 metered customers, with a projected increase of two additional 5/8" customers per year over the Test Years. The rate study assumes a small decline of 1% in annual 5/8" customers' water consumption and stable water consumption by all other customer classes over the Test Years.

[11] The Utility applied to adjust rates to meet increased operating costs and to fund the Utility's proposed capital program. The Utility has had an excess of expenditures over revenues since March 31, 2022. To smooth the proposed rate increases over the Test Years, the rate study includes transfers from the Utility's accumulated surplus to operating revenue of $105,000 and to capital of $250,000. Proposed capital projects over

the Test Years, include distribution main upgrades, improvements to the distribution reservoirs, new residential and commercial meters, new hydrants, and services upgrades.

[12] The Utility was questioned on its contingency/emergency planning in IR-11 to 14. The Utility explained that its emergency plans were updated in 2022. The emergency plans focus on water supply, power outages and watermain breaks; however, cybersecurity is not included. During the hearing the Board asked the Utility why cybersecurity was omitted given the recent cyber attacks on utilities worldwide. The Utility confirmed that it intends to begin planning for cybersecurity with the Town of Digby. Mr. Raymond explained that the Utility is considering contracting an IT manager to put a cybersecurity system in place.

## III REVENUE REQUIREMENTS

[13] The rate study indicates that the Utility had an operating deficit in 2022/23 of $311 and of $69,575 in 2023/24.

[14] The rate study is based on revenue requirements from fire protection and water customers of $882,952 in 2024/25; $992,199 in 2025/26; and $1,092,600 in 2026/27, which reflect increases in the Utility's various cost categories.

[15] The Utility's Test Years' operating expenses are based on budget estimates provided by Utility staff. Budget estimates in the second Test Year 2025/26 use 2024/25 figures increased by 4%. Budget estimates for the final Test Year 2026/27 use 2025/26 estimates increased by 3%. The increases in the second and third Test Year were chosen to reflect the Utility's anticipated inflation rates.

[16] The Statement of Operations in Worksheet D-2 of the rate study includes transfers from surplus of $185,000 and $170,000 in 2024/25 and 2025/26, respectively. The operating revenue for each of the Test Years is based on the average consumption of water by meter size. The Utility forecasts that at current rates, its operating deficit will grow to $339,016 by the end of the Test Years.

[17] The Utility forecasted non-operating expenses of $8,904 in debt principal and $19,652 in interest payments in 2024/25, $26,565 in debt principal and $56,926 in interest payments in 2025/26, and $28,160 in debt principal and $55,326 in interest payments in 2026/27 based on proposed borrowing during the Test Years.

[18] There is non-operating revenue over the Test Years from interest, a Town Grant, transfers from surplus and Other of $65,460 in 2024/25; $95,168 in 2025/26; and $24,000 in 2026/27.

[19] Other operating revenue over the Test Years is derived from On/Off Charges and interest charges on overdue accounts. The rate study forecasts these other operating revenues as stable over the Test Years.

[20] The Board requested an explanation about the amount of time that has passed since the Utility's last rate application in 2013. The Utility stated:

> … The Utility has been profitable until 2022/23 and has a significant operating surplus at March 31/23 and therefore no need to apply for rates.
>
> [Exhibit D-4, IR-3, p. 3]

### 1. Operating Expenses

[21] The Utility's projected operating expenses for the Test Years are based on staff estimates with increases based on expected inflation in each Test Year. Under Matter M05541, the Utility's last water rate application, the Board noted that the

reclassification of expenses from cost centres used in the Utility's audited statements to the format applied in the rate study were confusing and encouraged the Utility to address issues with its auditors. In response to IR-1 in the current proceeding, the Utility explained that it continues to work with its auditors to align its expense categories in the audited financial statements to categories in the Board's *Water Utility Accounting and Reporting Handbook (Handbook)*.

[22] The Utility projected an accumulated surplus of $636,672 at the end of 2023/24. In the current rate study, it requested approval to transfer funds from this surplus in the first and second Test Years. In the rate study filed with its application the Utility sought to transfer $48,000 and $307,000 in 2024/25 and 2025/26, respectively, to non-operating revenues and capital. However, in the final revised water rate study submitted with the Utility's Undertakings, the Utility altered the request to transfer $185,000 in 2024/25 and $170,000 in 2025/26, of which $105,000 will be allocated to non-operating revenues and $250,000 will be assigned to capital. The Utility specified that these transfers will be used to help smooth the proposed rate increases. The rate study forecasts an accumulated surplus of $238,933 at the end of 2026/27 if the proposed rates are approved by the Board.

[23] Depreciation expense for each Test Year was calculated based on the Utility's capital plans. In Worksheet C-3 of the rate study, where expenses are allocated to customer charge, base charge, delivery and production, depreciation expense is allocated 90% to Base, 5% to Delivery and 5% to Production in 2024/25. The rate study then allocated depreciation expense to 50% to Base, 25% to Delivery and 25% to Production in 2025/26. In 2026/27 the allocation for depreciation expense is 40% to Base,

30% to Delivery and 30% to Production, which matches the *Handbook*. These allocations were done for rate design purposes, as a means of trying to keep base charges approximately 40% of total charges.

[24] In response to IR-47, the Utility identified the proposed depreciation rates for its capital additions that are different than those in the *Handbook*. The proposed depreciation rates for Source of Supply Structures, Distribution Reservoirs and Standpipes are based on the estimated useful life of the related capital works. The IR responses also noted that the 0% allocation for Transportation and Equipment was an error and should have been 2%. This was corrected in a revised rate study.

[25] During the hearing, the Utility was asked to review its chlorine costs for water treatment used in the Test Years. In Undertaking U-2 the Utility confirmed the values used in the rate study reflect the costs of chlorine purchased in 2023 and 2024, when the costs grew by only 1%.

**Findings**

[26] The Utility's operating expense projections use budget estimates in the first Test Year, followed by a 4% increase for inflation in the second Test Year and a 3% increase for inflation in the final Test Year. The Utility's response to IR-16 indicated it predicts a 4% inflation rate to hold until 2025/26 after which it anticipates that inflation will drop to 3%. The Utility was questioned on its inflation assumptions. It explained that it was seeking to prevent the risk of an operating deficit. However, an inflationary adjustment was not applied to all items. In response to IR-27 the Utility stated, "for certain accounts, where the amount is known by separate calculation, such as depreciation, the calculation value was used." The Utility experienced expenditure increases between 6% and 14% from 2022/23 and 2023/24, reflective of the 7.5% annual inflation experienced

in the province in 2022. The Board finds the Utility's operating expenditure projections over the Test Years to be reasonable.

[27] The Board approves the transfer from accumulated surplus of $35,000 in 2024/25 and $70,000 in 2025/26 to non-operating revenues for the purpose of rate design.

[28] The Board also finds the Utility's proposed depreciation rates to be appropriate and approves the Utility's request to allocate the depreciation expense as Base Charge, Delivery and Production in the first Test Year as 90%, 5% and 5%, in 2024/25, followed by 50%, 25% and 25% in the second Test Year.

## 2. Capital Budget and Funding

[29] The rate study included the Utility's proposed capital additions in each of the Test Years of $2,011,129, $1,850,000 and $514,000, respectively. The table below summarizes the capital projects and proposed funding:

| | **2023/24** | **2024/25** | **2025/26** | **2026/27** |
|---|---|---|---|---|
| Land and Land Rights | 10,000 | | | |
| Structures and Improvements | 20,000 | 800,000 | | |
| Equipment | 26,500 | | | |
| Mains | 202,542 | 1,211,129 | 900,000 | 400,000 |
| Meters | 10,000 | | 850,000 | |
| Hydrants | 12,000 | | | 14,000 |
| Services | 38,000 | | 100,000 | 100,000 |
| Other | 0 | | | |
| | **319,042** | **2,011,129** | **1,850,000** | **514,000** |
| | | | | |
| Funding from outside sources | 70,437 | 505,231 | 659,970 | 293,320 |
| Depreciation Fund | 248,605 | 1,028,360 | 460,000 | 220,680 |
| Long Term Debt | | 327,538 | 630,030 | |
| Transfer from Surplus | | 150,000 | 100,000 | |
| | **319,042** | **2,011,129** | **1,850,000** | **514,000** |

[30] In response to IR-46 and IR-51, the Utility detailed its capital investment plan for the Test Years. The Utility plans to refurbish its storage reservoirs and upgrade watermains in 2024/25. In 2025/26 the Utility intends to install new water distribution mains, new water service lines, and new water meters. In 2026/27, the Utility plans to install new distribution mains, new water service lines, and replace hydrants. Most of these projects are anticipated to improve fire flows, whereas others are expected to reduce non-revenue water.

[31] During the hearing, the Board asked the Utility to provide an updated cost estimate for the new water meters in 2025/26, which had originally been budgeted as $600,000 for new commercial and residential meters. The Utility re-estimated the meter replacement costs using prices from a recent upgrade by another water utility in Nova Scotia, adjusted for inflation and added contingency to arrive at $850,000 in the updated rate study.

[32] The Utility proposed to fund its capital budget in the Test Years through depreciation, long-term debt, transfers from surplus, and external funding from other levels of government. In response to IR-53(c), the Utility explained that if the external funding cannot be secured then some projects will have to be delayed.

[33] Based on projected expenses and funding, the Utility expects the balance of its depreciation fund to be $109,500 at the end of the Test Period.

**Findings**

[34] The Board has reviewed the proposed capital projects and sources of associated funding included in the rate study. The Board finds the proposed capital budget to be reasonable and necessary for the replacement of aging infrastructure. The Board accepts the proposed funding sources for the Utility’s capital budget.

[35] The Board reminds the Utility that the inclusion of proposed capital projects in the rate study is not Board approval of these projects. The Utility needs separate Board approval for projects exceeding $250,000, as set of in s. 35 of the *Public Utilities Act*.

### 3. Non-Operating/Other Revenues and Non-Operating Expenditures

[36] The Utility identified Interest and a Town Grant as other annual non-operating revenues in each of the Test Years in the rate study. In response to IR-26(f), the Utility explained the “Other” line under non-operating revenue was made up of land rental revenue for a wind turbine and stumpage fees paid for forest harvesting. These revenues are now allocated to the Town of Digby in the Test Years. To compensate the Utility for the lost income, the Town has elected to provide the Utility with a grant of $3,500 in each Test Year. Further, other operating revenue not associated with metered rates and public fire protection revenue, include water On/Off fees, Sprinkler fees, Private Fire Protection Fees, Interest on Overdue Accounts, and Other.

[37] During the Hearing, the Board requested that the Utility reconcile what is included in “Other” in both operating and non-operating revenues. In Undertaking U-1 the Utility explained that for the “other” operating revenue, the line item totaled $0 in 2022/23. This item was assigned $500 in the Test Years for budget purposes to address unforeseen small operating revenue that may occur. For “other” non-operating revenue, in 2022/23 it included $1,700 from the sale of small water fittings and parts, plus $1,500 from wood harvesting fees, plus a $5,000 fee for the installation of water services. In 2023/24, the amount was $387, which was from the sale of small water fittings and parts. The Utility does not expect to generate much revenue from wood harvesting in the Test Years, and now those revenues will fall under the Town Grant. The Utility also noted that

installation of water service fees in 2022/23 should have been attributed to the capital fund and will be in future years. Therefore, a budget of $500 per year for “other” non-operating revenue was used in the rate study supplied with the Undertakings.

[38] Non-operating expenses include new debt in the first and second Test Years and associated principal and interest payments in all the Test Years. This debt is planned to assist with the funding of the Utility’s capital projects. The Utility estimates payments of principal and interest at $28,556 in 2024/25; $83,485 in 2025/26 and $83,485 in 2026/27.

[39] The Utility calculated its return on rate base using its non-operating expenditures less non-operating and other revenue. Using the assumptions and projections in the rate study, the Utility’s rate of return on rate base is estimated as 0.0% in 2024/25 and 2025/26 and 0.51% in 2026/27.

**Findings**

[40] The Board finds the Utility’s non-operating and other operating revenues and non-operating expenses over the Test Period to be reasonable and approves them as presented in the rate study provided in the Undertakings.

## IV REVENUE REQUIREMENT ALLOCATION

### 1. Public Fire Protection

[41] The methodology used to estimate the public fire protection charge is consistent with most other Nova Scotia water utilities and the *Handbook*. The average allocation of all Utility plant in service costs to fire protection is 46.3%, 43.9% and 44.1% respectively, in each of the Test Years. The fire protection charge is currently $239,057,

and is proposed to be $277,824, $308,169 and $349,897 in 2024/25, 2025/26 and 2026/27, respectively. The Utility requested to use a pro-rated Public Fire Protection charge of $264,902 in 2024/25 which uses four months at the current rate of $239,057 and eight months at the proposed rate of $277,824.

**Findings**

[42] The Board approves the methodology and calculated public fire protection charges as proposed in the rate study filed with the Undertakings.

### 2. Customer Revenue Requirement

[43] After distributing part of the revenue requirement to charges for fire protection, the Utility assigns its remaining revenue requirement for recovery from the Utility’s customers. The revenue requirement is allocated to Base Charge, Delivery and Production using the methodology as set out in the *Handbook*. The Utility proposes to vary the allocations of depreciation to Base Charge, Delivery and Production, in the first two Test Years. These changes lead to a drop in the Base charge in the first Test Year followed by small changes in the last two Test Years, while the commodity charge increases in all Test Years with the largest increase in the first Test Year.

[44] The Utility has 1,057 metered customers and, two unmetered customers. The Utility projects that the number of 5/8” customers will grow by two connections in each Test Year. Currently there are 935 5/8” residential services which comprise 88.5% of the Utility’s service connections. Residential 5/8” customer connections are forecast to reach 941 by 2026/27.

[45] The calculation of consumption charges is based on the total current water consumption per year of 64,261,000 gallons which is projected to decline each year, by

1% for 5/8” customers, to a total of 63,515,348 gallons at the end of the Test Years. Since the previous rate application in 2013, the Utility has used a single block rate structure, like other water utilities in Nova Scotia.

[46] The Board questioned the Utility on its actual current consumption as reported in the rate study in IR-62. The Utility confirmed that the actual current consumption used in the rate study is from 2022/23. During the Hearing, the Utility was asked to provide the 2023/24 consumption by way of an Undertaking. In Undertaking U-4, the actual water consumption billed for 2023/24 was 66,074,000 which is a 2.8% increase from 2022/23.

**Findings**

[47] The Board finds the method used by the Utility in the allocation of expense items to the Base Charge, Delivery and Production charges is appropriate and consistent with the *Handbook*. The Board accepts the Utility’s explanation for varying the allocation between the charges over the Test Years.

[48] The Board also finds the allocation of revenue requirements over the Test Years to the various customer classes to be reasonable.

## V SCHEDULE OF RATES AND CHARGES

[49] The Utility proposed other changes to its Rates and Charges. The Utility’s response to IR-67 summarises the proposed revisions and additions.

[50] The proposed increase from $40 to $200 per year for 6” or less sprinkler service seeks to cover the cost of the service. The rates for water supplied from fire

hydrants will increase from $10 to $70 per occurrence. These proposed rates are consistent with other utilities in Nova Scotia.

[51] The Utility proposes to increase the fees for re-establishing water service, disconnecting and the Special Service charge. These charges will increase by $10 when service is provided during regular hours and will increase by $50 when the service is provided outside of regular hours. An Account Creation fee will cover the cost of establishing a new account.

### Findings

[52] The Board finds the proposed changes to the Utility's Rates and Charges to be reasonable and accepts them as proposed. The Board accepts and approves Schedules A, B and C as refiled with the Board in the Undertakings.

## VI SCHEDULE OF RULES AND REGULATIONS

[53] In response to IR-69, the Utility listed its proposed changes to its Rules and Regulations.

[54] The Utility proposed 14 new fees under the Schedule of Rules and Regulations. The new Conservation rule permits the Utility to shut-off a customer's water if a customer does not abide with conservation directives. Clarification of responsibility between the customer and the Utility has been added about curb stops services. Other charges align with practices used by other water utilities in the province.

[55] The Board finds the proposed changes to the Rules and Regulations are reasonable and consistent with other water utilities in Nova Scotia. The Board approves

the proposed changes to the Rules and Regulations as filed with an effective date of August 1, 2024.

## VII CONCLUSION

[56] The Board approves the Rates and Charges, including the Fire Protection Charge, effective August 1, 2024, April 1, 2025, and April 1, 2026, as shown in Schedules A, B and C, received by the Board in the Undertakings.

[57] The Board approves the Rules and Regulations, effective August 1, 2024, as shown in Schedule D of the Undertakings.

[58] An Order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 12th day of June, 2024.

Steven M. Murphy