

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -

IN THE MATTER OF AN APPLICATION by the **VILLAGE OF CANNING** 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: M. Kathleen McManus, K.C., Ph.D., Member

APPLICANT: **VILLAGE OF CANNING WATER UTILITY**

Gerry Isenor, P.Eng.
G.A. Isenor Consulting

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

Ruth Pearson
Clerk/Treasurer, Village of Canning

Aaron Dondale
Manager of Operations, Engineering & Public Works,
Municipality of the County of Kings

HEARING DATE: January 23, 2024

DECISION DATE: **March 4, 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 Village of Canning on behalf of its Water Utility (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, 2013, and its Rules and Regulations have been in effect since January 26, 2012.

[2] The Utility applied to the Board based upon a need to adjust rates due to budget deficits caused by an increase in operating costs associated with electricity, water testing and insurance. The rate increases will also fund the Utility's proposed capital program, which will include curb stop services, upgrades to the distribution system and preventative maintenance. 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 September 12, 2023, and filed with the Board on October 12, 2023.

[3] In preparing responses to Board staff Information Requests (IRs), the Utility's consultants learned that a capital project planned for the current fiscal year was delayed to 2024/25. The deferral of this capital project effected the water rate study's test years. Accordingly, the Utility filed a revised version of the rate study on November 29, 2023. The Board reviewed this revised study, as provided in the IR responses, during the public hearing. 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.

[4] The Board held a public hearing on January 23, 2024, at the Canning MultiComplex/Fire Department, after public notice advertised in the Annapolis Valley

Register newspaper and posted on the Board's website. Gerry Isenor and Blaine Rooney represented the Utility, along with Village of Canning staff: Ruth Pearson, Clerk/Treasurer; and Aaron Dondale, Manager of Operations from the Municipality of the County of Kings. The Board received one letter of comment on December 6, 2023.

[5] During the public hearing, the Board requested that the following be filed as undertakings by January 30, 2024: a) amendments to worksheet B-3, Calculation of Depreciation of Tangible Plant at Total Cost; and b) amendments to worksheet B-1, Comparative Statement of Operations.

[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 quarterly consumption, the proposed increases in each of the Test Years are 7.2%, 6.3% and 5.6%, respectively. For other metered customers, based on average quarterly consumption per each meter size, the proposed increases are between 0.0% to 10.3% in 2024/25, 0.0% to 9.1% in 2025/26 and 0.0% to 8.6% in 2026/27. The Utility also proposed that the annual public fire protection charge be increased during the Test Years by 1% in 2024/25, 24% in 2025/26 and 10.6% in 2026/27.

[7] The Utility updated other charges to align with actual costs for services. Further, 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 wells located throughout the area. The water is disinfected and pumped to a storage reservoir in the Village. The distribution system is made up of 50mm to 250mm diameter piping. The oldest piping in the system is about 60 years old while the newest pipes are about eight years old.

[10] The Utility currently serves 489 service connections, with a projected increase of two additional connections per year over the Test Years. The rate study assumes stable water consumption by all customer classes over the Test Years. During the hearing, the Utility was questioned about the proposed housing development on J Jordan Road being excluded from the Test Years. The Utility explained that while the developers are hoping to begin this year and complete the project within five years, the Village has not received an application for a building permit and the development may not be completed until after 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. The rate study includes transfers from the operating surplus to the non-operating expenses to smooth the rate increase over the Test Years. Proposed capital projects, over the Test Years, are the Chapel Road water line in 2024 and the Summer Street and J Jordan Road waterlines in 2025.

[12] The Utility was questioned on its contingency/emergency planning in IR-11. The Utility explained that its emergency plans were updated in 2022. The emergency plans focus on power outages; however, cybersecurity is not included. During the hearing the Board asked the Utility why cybersecurity was omitted given the recent cyber attacks

on utilities. The Utility confirmed that it intends to begin planning for cybersecurity with Kings County and this will incorporate all local government in the County. Mr. Dondale explained that the Supervision, Control, Automation and Data Acquisition (SCADA) system uses radio for monitoring and control which are considered to be less risky.

III REVENUE REQUIREMENTS

[13] The application is based on revenue requirements from fire protection and water customers of \$327,077 in 2024/25; \$365,899 in 2025/26; and \$393,873 in 2026/27, which reflect increases in the Utility's various cost categories.

[14] The rate study indicates that the Utility had a deficit in 2022/23 of \$9,435 and of \$37,655 in 2023/24.

[15] Operating expenses are based on budget estimates, provided by Utility staff, or are increased by 3% to reflect inflation in the Test Years.

[16] The Statement of Operations includes transfers from surplus of \$30,000 and \$15,000 in 2024/25 and 2025/26. 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 the deficit will grow to \$123,644 by the end of the Test Years.

[17] The Utility did not forecast any non-operating expenses, which typically consist of principal and interest payments on existing debt and proposed borrowing during the Test Years.

[18] There is non-operating revenue over the Test Years from interest and transfers from surplus of \$23,200 in 2024/25; \$21,200 in 2025/26; and \$1,200 in 2026/27.

[19] Other operating revenue over the Test Years is derived from On/Off Charges, interest charges on overdue accounts, sprinkler/hydrant services and

connection fees. The rate study forecasts 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 last rate application in 2010. The Utility response stated:

There has been no need for a rate application as we were meeting our financial requirements until the last two years.

[Exhibit C-5, IR-4, p. 3]

[21] During the hearing, the Utility was asked why it waited for over a decade to apply for an increase to its rates. The Utility explained that a line-item, called Dividend to Owner (Village), was added to non-operating expenditures for \$25,000 in 2013/14 as part of the last water rate study. This expense was added to pay down the deficit in that Test Year. As this expense was built into rates, after the debt was paid off, the Utility was able to generate a surplus. This surplus contributed to balancing the budget, allowing the Utility to defer a rate study. In this application, the rate study does not have a budget for this line-item.

1. Operating Expenses

[22] The Utility's projected operating expenses for the Test Years are based on staff estimates with increases based on 3% annual inflation in each Test Year. Under matter M03845, the Utility's last water rate application, the Board encouraged a review of the allocation of costs between the Village and the Utility to ensure that each pays its equitable share of costs. In response to IR-2, the Utility explained that the duties of the Clerk/Treasurer and the costs for basic office expenses are shared on the basis of one-fifth allocated to the Village and four-fifths to the Utility.

[23] The Utility's financial information for the year ending March 31, 2022, indicated that its expenses exceeded its revenues by \$9,435 with an accumulated surplus of \$237,968.

[24] The Utility projected an accumulated surplus of \$232,976 at the end of 2023/24. It requested approval to transfer funds from surplus in each Test Year. In the water rate study filed with its application the Utility sought to transfer \$25,000 and \$22,000 in 2024/25 and 2025/26, respectively, to non-operating revenues. However, after changes to capital projects, a final revised water rate study was submitted with the Utility's undertakings, altering the request to transfer \$30,000 in 2024/25 and \$15,000 in 2025/26 to non-operating revenues. The Utility specified that these transfers will be used to help smooth the proposed rate increases. The Test Years forecast an accumulated surplus of \$155,313 in 2026/27 if the proposed rates are approved by the Board.

[25] In response to IR-36, the Utility identified proposed depreciation rates for its capital additions that are different than those in the *Water Utility Accounting and Reporting Handbook (Handbook)*. The proposed depreciation rates are based on the estimated useful life of the related capital works. The responses noted that the 2% allocation for Hydrants was an error and should have been 1.33%. This was corrected in a revised water rate study included with the Utility's IR responses.

Findings

[26] The Utility's operating budget projects a 3% increase for inflation in each of the Test Years for the operating expense items. The Utility's response to IR-18 indicated that a 3% annual inflation increase has been used and accepted by the Board in its decisions about water rate studies for several years and aligns with the current

Government of Canada annual inflation rate of 3.8%. The Board finds that the Utility's projected operating expenses are reasonable.

[27] The Board approves the transfer from accumulated surplus of \$30,000 in 2024/25 and \$15,000 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 63%, 17% and 20%, followed by 50%, 25% and 25% in the second Test Year and then in the final Test Year, 40%, 30% and 30%.

2. Capital Budget and Funding

[29] The rate study included the Utility's proposed capital additions in each of the Test Years of \$1,164,905, \$2,382,255 and \$45,000, respectively. The table below summarizes the capital projects and proposed funding:

	2023/24	2024/25	2025/26	2026/27
Equipment	32,000	25,000	25,000	
Mains		1,094,905	2,312,255	
Meters	2,500	5,000	5,000	5,000
Hydrants		20,000	20,000	20,000
Services	3,000	20,000	20,000	20,000
Other	15,000			
	52,500	1,164,905	2,382,255	45,000
<hr/>				
Funding from outside sources	32,500	1,119,905	2,337,255	
Depreciation Fund	20,000	45,000	45,000	45,000
	52,500	1,164,905	2,382,255	45,000

[30] In response to IR-47, the Utility enclosed its Capital Investment Plan Project Summary: Five-Year Plan for the Fiscal Years 2023/24 to 2027/28. The Utility plans three waterline replacement projects for 2024/25 and 2025/26. These projects are anticipated to improve the distribution system's performance. A 10-year capital plan will be developed with Kings County, which is expected to build on the Five-Year Plan.

[31] The Utility proposed to fund its capital budget in the Test Years through depreciation, and external funding from other levels of government. In response to IR-38(b), the Utility explained that if the funding cannot be secured then the projects will have to be re-evaluated.

[32] Based on projected expenses and funding, the Utility expects the balance of its depreciation fund to be \$2,105,069 at the end of the Test Period. The Utility plans to use less than 10% of its current depreciation fund towards its proposed Test Period capital plan.

Findings

[33] 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.

[34] Similar to the water rate application by Cumberland County, in matter M10704, the Utility has budgeted a significant portion of the capital budget to be sourced from outside funding; however, it is uncertain whether all that funding can be secured. The Utility noted during the hearing that these projects are dependent on receiving outside funding. The Board understands that while the projects are not numerous, they are necessary for reliable functioning of the Utility's system. If these projects are unable to proceed because the outside funding could not be secured, the Board suggests that the Utility put aside the equivalent of the depreciation expense for those projects in a reserve account for future capital works, as opposed to adding it to an operating surplus for a given year.

[35] The Board suggests the Utility apply for permission to set up such a capital reserve. Based on subject 3080 of the *Handbook*, an application to the Board must contain at least the following:

- The purpose of the reserve;
- The term, including estimated termination date;
- The treatment of interest and income earned in the reserve;
- The amount, frequency and source of payments into the reserve;
- The qualified disbursements from the reserve; and
- The type and frequency of financial reporting of transactions related to the reserve.

[36] 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 Expenditures

[37] The Utility identified other annual operating revenues in each of the Test Years in the rate study as interest and other income payments of \$800.

[38] The Utility did not forecast any non-operating expenses in the Test Years.

[39] The Utility calculated its return on rate base using its non-operating expenditures less non-operating and other revenue. The Board notes that without any appreciable debt or non-operating expenditures, the required return on rate base is not pertinent.

Findings

[40] The Board finds the Utility's 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.

[41] The Board finds the Utility's proposed return on rate base over the Test Years to be low but reasonable given that the Utility has no non-operating expenditures during the Test Years.

IV REVENUE REQUIREMENT ALLOCATION

1. Public Fire Protection

[42] The methodology used to estimate the public fire protection charge is consistent with most other water utilities and the *Handbook*. The average allocation of all utility plant in service costs between general service and fire protection is 51.2%, 53.4%

and 53.3% respectively, in each of the Test Years. The fire protection charge is currently \$93,523, and is proposed to be \$94,485, \$117,183 and \$129,560 in 2024/25, 2025/26 and 2026/27, respectively.

Findings

[43] The Board approves the methodology and calculated public fire protection charges as proposed in the application and estimated in the undertakings.

2. Customer Revenue Requirement

[44] 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 each of the Test Years in order to prevent reducing the Base Charge in the first Test Year, which would be followed by an increase in the second Test Year and back to its current rate in the third.

[45] The Utility has 489 metered customers and, no unmetered customers. The Utility projects that 5/8" customers will grow by two connections in each Test Year. Currently there are 453 5/8" residential services which comprise 83% of the Utility's service connections. Residential customer connections are forecast to reach 459 by 2026/27.

[46] The calculation of consumption charges is based on the total current water consumption per year of 18,702,320 gallons which is projected to grow by 1% to 18,890,653 gallons at the end of the Test Years. Since the previous rate application in

2011, the Utility has used a single block rate structure, similar to other water utilities in Nova Scotia.

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.

V SCHEDULE OF RATES AND CHARGES

[48] The Utility proposed other changes to its Rates and Charges. The Utility's response to IR-55 summarises the proposed revisions and additions.

[49] 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. The Connection fee has been renamed to Account Creation fee, but the charge itself has not changed.

Findings

[50] 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

[51] In response to IR-56, the Utility listed its proposed changes to its Rules and Regulations.

[52] The Utility explained that the changes will update the Rules and Regulations to permit the Utility to charge the Base Charge for the entire year to seasonal customers. 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.

[53] 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 April 1, 2024.

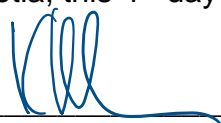
VII CONCLUSION

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

[55] The Board approves the Rules and Regulations, effective April 1, 2024, as shown in Schedule D of the undertakings.

[56] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 4th day of March, 2024.



M. Kathleen McManus