

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -



IN THE MATTER OF AN APPLICATION by the **TOWN OF NEW GLASGOW** 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: Murray E. Doehler, CPA, CA, P.Eng., Member

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

Blaine Rooney, CA
Blaine S. Rooney Consulting Limited

Bonnie Coulter, CA
Director of Corporate Services

Earl MacKenzie, P.Eng.
Director of Public Works and Engineering

INTERVENOR: **TOWN OF WESTVILLE**
Kelly D. Rice
Chief Administrative Officer

Brian White
Accountant

HEARING DATE: April 30, 2015

DECISION DATE: July 10, 2015

DECISION: The Schedule of Rates are approved, subject to a compliance filing. The Schedule of Rules and Regulations are approved.

I SUMMARY

[1] The Town of New Glasgow (“Town”) applied to the Nova Scotia Utility and Review Board (“Board”) on behalf of its Water Utility (“Utility” or “Applicant”) 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* (“Act”), R.S.N.S. 1989, c. 380. In addition to its retail customers, the Utility provides water at a wholesale rate to the Municipality of the County of Pictou Water utility (“County”) and the Town of Westville Water utility (“Westville”).

[2] The existing Schedule of Rates for Water and Water Services and Schedule of Rules and Regulations have been in effect since April 1, 2010, and August 1, 2008, respectively.

[3] A Rate Study to support the Application, dated January 29, 2015, was prepared by G.A. Isenor Consulting Limited in association with Blaine S. Rooney Consultants Limited (“Rate Study”) and was submitted to the Board on February 9, 2015. The Application proposes rates for 2015/16, 2016/17 and 2017/18 (“test years”). Revisions to the schedules of the Rate Study were filed as a part of the responses to the information requests (“IRs”) and again as an undertaking response. It is the revised rate study prepared in response to the IRs that is referenced in this decision, unless otherwise noted.

[4] The proposed increases, which are dependent on whether metered or not and on meter size, range from 3.1% to 33.8% in 2015/16, 13.9% to 19.3% in 2016/17 and 9.8% to 10.3% in 2017/18.

[5] The wholesale rate to Westville, based upon an annual consumption of 659,664 m³, is proposed to increase by 28.9%, 18.0% and 1.6%, in each of the test years. For the County, based upon an annual consumption of 197,399 m³, is proposed to increase by 20.6%, 17.9% and 1.6%, respectively.

[6] The Application also proposes amendments to the annual public fire protection charge to be paid by the Town to the Utility. The proposed adjustments are increases of 13.8%, 5.2% and 16.2%, for each of the three Test Years

[7] The public hearing was held at the Town Council Chambers on April 30, 2015, after due public notice. Gerry Isenor, P.Eng., of G.A. Isenor Consulting Limited and Blaine Rooney, CPA, CA, of Blaine S. Rooney Consulting Limited, represented the Utility. The Utility was also represented by Bonnie Coulter, CPA, CA, Director of Corporate Services, as well as Earl MacKenzie, P.Eng., Director of Public Works and Engineering. The Intervenor, Westville was represented by Kelly D. Rice, Chief Administrative Officer, and Brian White, Town Accountant.

[8] The Schedule of Rates are approved, subject to a compliance filing. The Rules and Regulations are approved, as amended and requested by the Utility.

II INTRODUCTION

[9] The water supplied from Forbes Lake is put through a water treatment plant that was commissioned in 2000 and recently had its operating permit extended to 2018. The County connects into the Utility's system at various metered locations around the Town boundary. The Utility supplies water to Westville through one metered connection at Bearbrook.

[10] In response to IR-3, the Utility stated that it currently complies with the provisions of Nova Scotia Environment (NSE)'s *A Drinking Water Strategy for Nova Scotia (Drinking Water Strategy)*.

[11] The Utility's current level of non-revenue water is estimated to be less than 10% of the total amount of water produced at the Treatment Plant, based on hydrant flushing and leaks. Even with this relatively low non-revenue water, the Utility has budgeted for additional watermain replacements to maintain, if not reduce, the amount of non-revenue water.

[12] The Applicant currently serves 3,682 customers, of which 3,395 are residential (5/8" meter size). It is projected that the Utility customers will increase by 5 residential customers per year, with other meter sizes to remain constant over the Test Years.

[13] The Application was presented to the Board based upon the need to adjust the rates as a result of increased operating costs and to fund the projected capital program.

III REVENUE REQUIREMENTS

(A) Operating Expenditures

[14] The Rate Study estimates the revenue deficiency for the 2014/15 fiscal year, after adjusting for a \$100,000 increase in metered sales to Westville, to be \$602,232, resulting in an accumulated operating deficit as of March 31, 2015 of \$1,066,825.

[15] The Rate Study projects that with no increase in rates, the accumulated operating deficit will be \$1,827,861, \$3,070,208 and \$4,724,098, for the test years.

[16] The operating expenses contained in the Rate Study are based upon the Utility's budget for the year 2014/15, with projected annual increases of 3% to account for inflation in the Test Years, with the exception of certain expense items and depreciation. The annual depreciation expense is based on the Utility's existing assets and proposed capital additions.

[17] One of the expenses that increased by more than the 3% from 2013/14 to 2014/15 was related to watershed management. Mr. Isenor explained the increase:

... primarily the \$1,700 was not an appropriate amount to be spent, it was an underfunded activity and the 10,000 reflects the ongoing costs of running the watershed with its watershed management issues. They inform me there's roads to maintain, culverts to be replaced and also forestry practices to be improved in the watershed area.

[Transcript, p. 12]

[18] The majority of increases above the 3% "standard" are for labour and benefits. Mr. Isenor explained this requirement as follows:

I, as well, note there was a number of questions on the whole question of labour and benefits. Primarily the Town is caught in the situation where the workforce is aging. ... leading to higher benefit costs and also much higher pension costs. They are defined contri- ... or defined benefit pension, which is taking a beating this last year given the economic climate across Canada.

[Transcript, p. 12]

Findings

[19] The Board has reviewed the information presented in relation to the Utility's projected operating expenses and finds the Applicant's explanation for the variances between the 2013/14 actual and the 2014/15 budgeted amounts to be reasonable. The Board also finds the projected operating expenses, including depreciation, to be reasonable.

(B) Capital Budget and Funding

[20] The Rate Study includes the Utility's proposed capital additions of \$1,091,500 in 2015/16, \$5,258,000 in 2016/17 and \$1,569,500 in 2017/18. The main capital requirements are for additions to the water treatment plant for redundancy (to meet regulatory standards) in the first two years and transmission and distribution lines in the last year.

[21] Mr. Isenor noted that even though the Utility currently has relatively low non-revenue water it is still replacing approximately 2% of its distribution mains as per industry guidelines.

[22] The Rate Study projects obtaining funding from outside sources in the amount of \$125,000 in 2015/16, and \$2,437,500 in 2016/17. The Utility stated that if outside sources of funding are not secured for the water treatment plant, then it may have to apply for rate relief before the end of the test period. Funding from depreciation is projected to be \$700,000 in both 2015/16 and 2016/17, and \$650,000 in 2016/17. The balance of financing is to come from long-term debt of \$216,500 in 2015/16, \$2,065,500 in 2016/17, and \$844,500 in 2017/18.

[23] The Rate Study indicates that the balance in the depreciation fund as at March 31, 2014 was \$475,918 and, based upon the proposed funding drawdown, the balance will be \$122,278 at the end of the test years.

Findings

[24] The Board accepts the Utility's explanation of its asset replacement program and its continuing management practice of maintaining a low percentage of non-

revenue water. The Board finds the Utility's proposed capital program and funding, as contained in the Rate Study, to be reasonable. The Utility is reminded that separate Board approval is required for projects in excess of \$250,000, as set out in s. 35 of the *Act*.

(C) Non-Operating Expenditures and Revenues

[25] The Rate Study included projections of non-operating revenues and expenditures for the Test years.

[26] There are three items in non-operating revenue: Sale of Power to NSPI [sic]; Contract Projects Revenue and; Other – Land Lease Income. The Sale of Power to NSPI was from a wind turbine on the Utility's watershed lands. In addition to the revenue generated, the original cost of the turbine and its associated principal and interest repayments on the debt, and depreciation are recorded in the operations of the Utility.

[27] Non-operating expenditures include debt charges (on new and existing debt), capital out of revenue, water capital fund land reserve, and earnings. The capital out of revenue is \$50,000, \$55,000, and \$75,000 respectively in the test years. Mr. Isenor explained the inclusion of capital out of revenue as follows:

...we are requesting capital letter revenue on a go-forward basis in order to pay for small replacements or annual replacements of valves and hydrants and items that are recurring costs not really legitimately are warranted to be taken out of the depreciation fund.

[Transcript, p. 11]

[28] The Utility is also requesting the continuation of the Water Capital Fund Land Reserve in the amount of \$35,000 per year. In response to Board IR-6 the Utility explained the reason for this expenditure and reserve account.

The contributions should continue for several years. There are several parcels of land that could be purchased to protect the watershed area. If they become available the Utility would purchase strategic parcels of land with funds in the Land Reserve.

[Exhibit N-3 pp.5]

[29] The final two test years include earnings of \$100,000 and \$300,000. In response to Board IR-7 the Utility explained why earnings in these amounts were included:

The amounts were determined considering the size of the projected accumulated deficit at the end of 2014/15 (approximately \$1,000,000) and the impact on rates for the average customer. No earnings were included in the first test year as rates needed to be increased to cover the existing shortfall in operations.

...

...other amounts were considered and discussed with the Utility. It was felt that the amounts included in the rate study provide balance between the impact on rates and the need to reduce the accumulated deficit.

[Exhibit N-3, pp. 6]

Findings

[30] The Board finds that the sale of power to NSPI, as well as the associated expenditures, is a non-regulated activity of the Utility and as such all such revenue and expenses associated with this activity should be removed from the revenue requirements. In response to an undertaking, the Utility reproduced the Rate Study with the removal of this unregulated activity.

[31] With respect to the annual non-operating expense of \$35,000 to the Capital Fund Land Reserve, the Board agrees with the principle of maintaining a fund to pay for the cost of critical land purchases in the watershed, as they become available. The Board encourages the Utility to continue to pursue acquisition of the lands in this area. As approved in the last rate decision, the Board accepts the continued transfer of \$35,000 annually to the fund. The Board suggests that a long term plan, based on the eventual cost to acquire all of the watershed lands, be prepared to inform the Utility as to the eventual required balance.

[32] As part of accepting the non-operating expenses, the Board has approved the requested "Earnings" of \$100,000 and \$300,000 in the final two test years. However, this approval is conditional on the understanding that the amounts are not actually paid out of the Utility, but are retained to reduce the accumulated deficit.

[33] The Board finds the Utility's other non-operating revenues and expenses, as presented in the Application, to be reasonable and accepts them as presented.

IV REVENUE REQUIREMENT ALLOCATION

(A) Public Fire Protection

[34] The methodology used in the determination of the public fire protection charge is consistent with that used in the previous rate application. The allocation of demand assets at 60%/40% is as recommended in the Board's *Water Utility Accounting and Reporting Handbook* ("Accounting Handbook").

[35] In the revised rate study submitted in response to Undertaking U-2 the total fire protection charge, currently \$802,877, is proposed to increase to \$913,717, \$960,988, and \$1,117,717 respectively in the test years.

[36] The total fire protection charge is then allocated between the Town and the County, based upon the required fire flow, adjusted for capacity constraints. This results in the division of the total fire protection charge between the Town (73.86%) and the County (26.2%).

[37] Based upon the calculations, the annual fire protection charge paid by the Town is proposed to increase by 9.3%, 5.2% and 16.2%, in the test years and by 28.9%, 5.2% and 16.2% for the County.

Findings

[38] The Board accepts the methodology used to determine the total public fire protection charge as being the same as used in the last rate study. The Board also approves the requested allocation of the total fire protection charge between the Town and the County.

(B) Utility Customers

(1) Wholesale

[39] The Rate Study allocates the total revenue requirements, less the total fire protection charge, to joint use in order to determine the wholesale base and commodity charges for the County and Westville.

[40] Source of supply and water treatment costs are allocated 100% to joint use, while other expense categories range from an allocation of 14.8% to 85% using different activity basis. The joint use costs are then allocated to the County and Westville using the percentage of water consumption for each entity.

(a) Water Consumption

(i) Allocation Percentage

[41] The percentage of water consumption (consumption ratio) between the Utility's retail customers, Westville and the County is the factor used in allocating joint expenses. In determining the consumption ratio, the Utility uses as its denominator the total of its measured revenue water to all its own customers plus that for Westville and the County.

[42] Westville pursued this method:

Mr. White: So I guess the concern is that for the two wholesale consumers, Pictou and Westville, the volumes that are being used include all of the non-revenue water that goes into their system, whether it's lost to leaks or shooting down a fire or anything else.

Mr. Isenor: Right.

Mr. White: We're missing all of that volume in the ... in the New Glasgow ... and so that leaves those percentages to be significantly skewed in ... in favour of the New Glasgow consumer.

...

Mr. Isenor: We have given some thought to this ... our conclusion, the two of us, is that we think that it has some merit for the production costs but not for any of the other costs. ...

[Transcript, pp. 53-54]

[43] In its rebuttal Westville stated:

... The appropriate cost causation base is, therefore, the total volume of water produced for system use. It is totally inappropriate to use a mixture of only revenue water for the New Glasgow consumption and both revenue and non-revenue water delivered to the wholesale users. Again, the 700,000 cubic meters of water that is produced and used for non-revenue purposes and/or lost by the New Glasgow segment of the system has incurred the sourcing and treatment costs and therefore the allocation of production costs should recognize this cost causation relationship by including the full volume of produced water as the denominator in allocating production costs.

[Rebuttal Submission, p. 5]

[44] In response to an undertaking, the Utility stated the total production from the water treatment plant was 2,985,259 m³ in 2013 and 2,874,522 m³ in 2014. The total denominator used in the rate study allocation goes from 2,174,860 m³ in 2015/16 to 2,161,529 m³ in 2017/18.

Findings

[45] Non-revenue water depends on the operation and rigour of leak detection in a utility. A leak in a major transmission line, especially the 7,500 m line from the water treatment plant, is more likely than not to be quickly noticed and fixed. The distribution networks tend to be where most of the leaks occur. The Board finds, therefore, that the

non-revenue water is not caused by leaks in the transmission lines that provide water to the wholesale customers.

[46] The Board finds that the wholesale customers should not be paying for the non-revenue water lost in the Utility. The Utility is to recalculate the consumption ratio using an average of the 2013 and 2014 water treatment plant production in the denominator. This revised consumption ratio is to then be used in determining the costs allocated to Westville and the County.

(ii) Westville Non-Revenue Water

[47] In its evidence Westville had calculated the difference between the volume of water purchased from the Utility compared to its billings. For the fiscal year 2013/14 Westville had purchased 702,289 m³, but had only billed, to its customers, 282,448 m³, indicating a 60% non-revenue water ratio. The partial results for 2014/15 indicate a similarly high percentage, even after accounting for a known major leak that was located and repaired in July, 2014.

[48] The Westville system includes a reservoir with a single transmission line which has two way water flows. Described as:

... Ordinarily the levels in this reservoir are maintained within a range of 500,000 US gallons of full capacity. Ordinary water flows from New Glasgow are supplied directly to the Westville customers, with residual available flows topping up the reservoir levels in three days of a four day cycle. On the fourth day of the normal cycle water flows from New Glasgow are discontinued and all water to Westville customers is provided from the Westville reservoir. During this period, the flows from the reservoir also supply water to the County Utility via the 2" meter at Bear Brook. The flow to the County through the 2" meter is netted against the 6" meter flow into Westville to determine the volume billed by the New Glasgow Utility to Westville.

[Westville Final Submission, p. 1]

[49] Westville's conclusion was that their analysis strongly supports the conclusion that some of the large amount of non-revenue water is due, at least in part, to

issues with the net metering water flows (to Westville and the County) through the Bearbrook location. Westville pointed to the possibility that the County's 2" meter may be faulty and reading a lower volume than what is actually delivered. Westville believes that this flow may not be properly measured and it could represent about a third of the total volume that Westville is "purchasing".

[50] On the assumption that some of the non-revenue water can be attributed to the meter placements, the total amount still appears to Westville to be abnormally high.

In an attempt to define what may be happening, Westville has, since the hearing:

... completed extensive analysis and testing in an attempt to isolate the underlying cause(s) of the discrepancy. Many of the necessary tests can only be performed during those periods when water flows from New Glasgow are discontinued and the supply is provided from the Westville reservoir, and we are, therefore, restricted to a limited number of opportunities. ...

[Westville Rebuttal, p. 9]

[51] The rebuttal then listed eight actions that had been completed in an attempt to better understand what is happening to the water flows.

[52] The Utility stated that the meter for Westville was installed in 2007 and was certified accurate at that time and if, over time, had become less accurate the meter would under, not over, register the volume flowing into Westville. The same could be said for Westville's customer meters. The Utility, in its rebuttal submission, offered Westville the option to have the wholesale meters tested.

[53] As concluded by Westville:

Our analysis of purchased water volumes clearly shows a 40 to 50% jump in volume occurred at some point in early 2011 and has persisted since that time. Prior to 2011 the Westville volumes were consistently in the range of 100,000 to 110,000 cubic meters per quarter and have been consistently in the range of 140,000 to 150,000 cubic meters since that time. An increased consumption of this magnitude at a single date would have to be accompanied by an observable event such as a (massive) new customer going on-line. Unfortunately, Westville has not experienced the addition of such a significant new industry in 2011 or at any time since.

[ibid, p. 10]

Findings

[54] The Board finds, based on the evidence and arguments presented that there has been a significant increase in measured water flow to Westville with no supported reason. The Board notes, but does not place any weight on the new evidence presented by Westville in its final or rebuttal submissions. Such evidence should have been presented before the hearing so as to allow all parties to test its validity.

[55] Westville has come to some conclusions as to why that has happened, but no independent engineering studies have been conducted to confirm them, or provide solutions. The Board orders the Utility to conduct an engineering study on the water flows (to Westville and, if applicable, returns from the reservoir, including meter accuracy) at the Bearbrook location. This is to include the 6" meter to Westville and the 2" meter to the County. The terms of reference for the study are to be submitted to the Board for approval before proceeding. The Board reserves jurisdiction to amend or alter the terms of reference after consultation with the parties.

(b) Difference Between Retail & Wholesale Charges

[56] Westville also pointed to a large disparity between the retail and wholesale base rate for customers with the same size meter. Mr. White stated:

... it would seem that at least as far as the base rate goes that the base rate should simply be based on the meter size that Westville or the County is being serviced through and not the allocation of the system costs across the base charge.

So, in fact, I guess we would suggest that the ... even the base meter charge for a retail customer should be reduced for the wholesale customers because parts of the system are acknowledged in the rate study to not be joint use to the two wholesale consumers. But the biggest part of the issue is simply the disparity between the retail base rate and the wholesale base rates.

[Transcript, pp. 61-62]

[57] Westville noted that three of the four cost categories that make up rates were lower for retail customers that use the same size meter size, and that the methodology used by the Utility results in a “significant off-loading” of costs from the Utility to its wholesale customers.

[58] The Utility responded:

Westville suggests that they should pay the base charge calculated for the 6 inch retail customer while paying for the commodity charge based on the wholesale rate calculated in the rate study.

It is the New Glasgow Water Utility's position that you cannot “mix and match” the rates to suit individual customer preferences. The New Glasgow Water Utility acknowledges that Westville should receive the calculated wholesale base and commodity rates as derived using the Board's approved methodology. If this rate structure is not used then it is the position of the New Glasgow Water Utility that sales to the Westville Water Utility should be based on retail rates like all other retail customers served by the Utility. A rate structure to the Westville Water Utility based on a base charge as a retail customer and a consumption charge based on a wholesale customer is a not considered fair by the New Glasgow Water Utility to all of its other retails customers as it would result in rates that were not based on cost causation and would result in rates that are not fair and equitable to the New Glasgow Water Utility's retail customers.

[Utility Submission, p. 3]

Finding

[59] The Board finds, that a wholesale customer of a utility cannot pick and choose which base and consumption charges should be used. If the allocation of expenses are reasonable, then the resultant wholesale and consumption charge, together, are reasonable. If Westville believes the retail rates are more favourable, then it may want to consider an amalgamation of the two utilities.

(c) Joint Use Allocations

(i) Power and Pumping

[60] In Undertaking U-2, the Utility adjusted the power and pumping joint use allocation from 45% to 72.3%. In addition the joint use allocation, between Westville and

the County, changed from 30.3% and 8.99%, to 89% and 11%. The Utility explained the change as follows:

Pumping cost center includes three pumping stations: one at Arch Street which pumps water to New Glasgow Customers as well as to Pictou County and Westville; one at Munroe Avenue which pumps water solely for Westville and Pictou County; and, one at Mountain Road which pumps water to New Glasgow customers only. No reliable method could be identified at this time to the percentage of water pumped from the Arch Street Station to Westville and Pictou County but it is believed, by staff, to be minimal. The allocation of Power and Pumping on Worksheet C-3a provided in the re-filed rate study is based on the metered flow from all three stations which results in 72.3% of the total being allocated to joint use for Pictou County and Westville. The split between Pictou County and Westville is based on the most recent meter readings at the Munroe Street Pumping Station. The resulting allocations, 11.0% to Pictou County and 89.0% to Westville, were used in the calculation of the wholesale rates on Worksheet C-3a.

[Undertaking U-2, p. 3]

[61] These significant changes were not discussed in the hearing. As commented upon by Westville:

...We have been unable to access further information to complete additional analysis of this issue, but believe adjustments to the joint-use percentage applied to the power and pumping costs should be reduced to reflect actual benefits to the various system users.

[Westville Final Submission, p. 5]

... The Westville Utility also questions the validity of the basis used for allocation of power and pumping costs in the most recent Revised Rate Study. While the lack of data prevents a detailed analysis, it appears that the allocation ignores the need for this pumping to provide service to customers upstream of the Munro Avenue reservoir, and as a consequence attributes an unsupported higher portion of these costs to the two wholesale customers downstream from the Munro Avenue reservoir.

[Westville Rebuttal, p. 9]

[62] The Utility, in its rebuttal, subsequently re-adjusted the joint use from 72.3% to 42.5%. In explanation it stated:

2) The pumping station flows were subjected to a more detailed review since the filing of the Argument Submission and it was apparent on this review that the flow assigned to the Arch Street Station was flawed. ...

[Utility Rebuttal, p. 2]

Findings

[63] The Board finds the introduction of new evidence in final or rebuttal submissions to be unacceptable. The evidence should have been submitted before the hearing so as to allow all parties to test its validity. The Board finds that the joint use allocation for power and pumping should be kept at 45% (as used in the revised rate study) for the purposes of the compliance filing. This amount should then be allocated to Westville and the County based on water consumption ratio as calculated in accordance with para. [46].

(ii) Transmission and Distribution

[64] The determination of these joint costs are based on the length of pipe that is common to providing water to all three entities, and then specifically to either Westville or the County. In the determination of common pipe length, a general allowance of 5% of the Utility's own distribution systems was added. As observed by Westville:

... if the denominator does include the pipe located outside New Glasgow, the calculation of the 5% allowance for use of the NG Distribution Network is incorrectly computed. ...

[Westville Final Submission, p. 4]

[65] The Utility confirmed that the calculation of the total pipe was correct in its rebuttal and calculated the general allowance on the total pipe length less the transmission line from the water treatment plant. Westville argued that it should be calculated on the total pipe length less the pipe lengths identified as specific for the Westville or County services.

Finding

[66] The Board finds that the 5% allowance should be calculated on the net, after deducting common and specific use pipe lengths as demonstrated in the Westville filing. The compliance filing should reflect this change.

(iii) Depreciation

[67] The same calculated joint use for transmission and distribution is also used in allocating some of the depreciation expense. The Board finds that the calculation of the depreciation expense should be adjusted accordingly.

(d) Removal of Unregulated Actuals

[68] In its response to U-2, the Utility removed the revenues and expenses associated with unregulated activity for the rate study. The compliance filing is to continue this action in the determination of new rates.

(2) Retail Rates

[69] The remaining revenue requirement, after the allocation to fire protection and wholesale charges to the County and Westville, is to be recovered from the Town's retail customers. The methodology used to allocate the remainder of the expense items to the base, customer, delivery and production categories of the Town is consistent with that used in the previous rate study and is in line with the recommendations in the *Accounting Handbook*.

[70] The calculation of the base charges to the Town's customers is based upon 3,682 customers in 2015/16, with increases of 5 residential customers (5/8" meter) per year.

[71] The consumption charge, based upon the Town's total annual consumption of 293,641,000 gallons in 2014/15, is proposed to decrease to 289,251,000 gallons in the final test year.

[72] The utility is proposing to continue with its single-block system.

Findings

[73] The Board finds that the methodology used by the Utility in the calculation of base rates and consumption charges in the test years is appropriate. The Board notes the retail rates will be affected by changes outlined in this decision in the setting of wholesale rates.

(3) Other Rates and Charges

[74] In addition to the rates for water supply to its customers and the fire protection charge to the Town, the Application proposes a number of changes to its Schedule of Rates and Charges. In Response to Board IR-24 the Utility outlined these changes and why they were being made.

[75] The majority of the changes related to increasing rates for existing services to levels seen in other recent applications by water utilities. In addition to the increases to existing rates a "New Account Creation Fee" of \$50 was proposed. Mr. Isenor in his testimony explained the reason for the creation of this fee:

We are, as well, requesting that the new account create fee be a stand-alone fee as opposed to a combined with connection fee as it was in the past schedule and that the system connection fee be stand-alone as well. Primarily because they involve different groups, one is a field group and one is an office group creating the accounts which is actually an office activity and the system connection is actually in the field works.

[Transcript, p. 21]

Findings

[76] The Board finds the proposed amendments to the other rates and charges included in the Schedule of Rates and Charges to be reasonable and approves them.

(4) Submissions

[77] The Board received one letter of objection to the proposed rate increases from Bob Wong, President, Quality Cleaners Ltd. (1951), of New Glasgow. Mr. Wong notes in his letter to the Board, dated March 30, 2015, that he operates a business in the Town, and that the proposed increased rates are unreasonable as they would represent a difficulty for his business, which is already having a decline in revenue. Mr. Wong included water bills for the business over a number of years here as well as a 1917 bill for his great grandfather's laundry in Winnipeg.

[78] The Utility indicated in response to IR-22 that they have received some feedback from customers that the increases being proposed were too high.

Findings

[79] All water utilities in the Province must comply with the requirements of NSE's Drinking Water Strategy. To meet these requirements the Utility is planning a major upgrade to its water treatment plant in 2016/17. A large portion of the proposed

capital work relates to upgrading the Utility's distribution mains, to ensure all customers have safe water reliably delivered. These are necessary costs and the revenue must come from the customers so as to properly finance the operations.

[80] The Board understands the concerns of the Utility's customers with respect to the proposed rate increases; however they are required to ensure the ongoing, sustainable, safe operation of the Utility.

V SCHEDULE OF RULES AND REGULATIONS

[81] In addition to the Schedule of Rates and Charges, the Application proposes two changes to its Schedule of Rules and Regulations. In Response to Board IR-25 the Utility outlined these changes and why they were being made.

[82] Mr. Isenor reiterated the reasons for the changes:

In the rules and regulations, Mr. Chairman, we only had two requests. ... we are requesting that the interest paid on deposits be set at two percent and we're also requesting that billings number 6, which is a condition we've been making to all the utilities in the Province, be added at this location. And yes, the other changes that we're requesting in here is really just movement of those items as I noted earlier over to Schedules A, B and C, where we had suspension of service, we also had special service request and resumption of service, those had all been in the rules and regulations in the ... in a previous ... in an existing set of rules and as I noted, we're asking that they be moved to the schedules and that's ... conforms, actually, with most utilities in the province that this get all moved in the schedules because they're financially related.

[Transcript, p. 22]

Findings

[83] The Board finds the requested amendment to the Schedule of Rules and Regulations to be consistent with most other water utilities in the Province, which have had recent rate applications and approves them with an effective date of August 1, 2015.

[84] The Utility is required to file a compliance filing to reflect the findings in this Decision by July 31, 2015. Upon acceptance by the Board, an Order will issue on the Schedule of Rates and Charges with effective dates of August 1, 2015, April 1, 2016, and April 1, 2017.

DATED at Halifax, Nova Scotia, this 10th day of July, 2015.



Murray E. Doehler