

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -

IN THE MATTER OF AN APPLICATION of 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: Kulvinder S. Dhillon, P.Eng.

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

William H. Gates
W. H. Gates Utility Consultants Ltd.

E. Tom Ossinger
Chief Administrative Officer

Mathew Raymond
Director of Finance

Bruce Morley
Director, Public Works

HEARING DATE: April 26, 2013

FINAL SUBMISSIONS: April 29, 2013

DECISION DATE: June 19, 2013

DECISION: Rates and Charges are approved, as amended.

I SUMMARY

[1] The Digby Water Commission (“Utility”, “Applicant”) applied to the Nova Scotia Utility and Review Board (“Board”) for approval of its Schedule of Rates and Charges for Water and Water Services and its Schedule of Rules and Regulations pursuant to the *Public Utilities Act*, R.S.N.S. 1989, c.380, as amended (“Act”). The current Schedule of Rates for Water and Water Services has been in effect since June 1, 2010. The current Schedule of Rules and Regulations has been in effect since June 1, 2010.

[2] A Rate Study (Exhibit D-2) to support the Application, dated January 21, 2013, was prepared by G.A. Isenor Consulting Limited in association with W.H. Gates Utility Consultants Ltd. and was submitted on February 25, 2013.

[3] The Rate Study proposes increases in the average rates for the test years 2013/14, 2014/15 and 2015/16 (“Test Years”). For the 5/8” meter residential customers, based upon an average bi-monthly consumption of 5,907 imperial gallons, the proposed increases are 5.7%, 4.1% and 4.1%, respectively. For all other metered customers, based upon the average bi-monthly consumption of each meter size, the proposed rate increases are between 3.4% and 9.1% in 2013/14, 4.1% and 6.1% in 2014/15 and 3.7% and 5.0% in 2015/16. For the unmetered customers, based upon an estimated bi-monthly consumption of 10,000 imperial gallons, the proposed increases are 6.8%, 5.2% and 4.3%, respectively, for each of the Test Years.

[4] The proposed bulk water rates per 1000 imperial gallons are \$12.25, \$12.83 and \$13.45 for each of the Test Years.

[5] The Application further proposes amendments to the annual public fire protection charge to be paid to the Utility by the Town of Digby ("Town") and the Municipality of the District of Digby ("Municipality"), based on the number of hydrants in each jurisdiction. The total public fire protection charges, to be allocated among the two jurisdictions, are proposed to be \$220,023 (an increase of 18.1%) in 2013/14, \$226,852 (an increase of 3.1%) in 2014/15 and \$239,057 (an increase of 5.4%) in 2015/16.

[6] The Applicant proposes to use \$25,000 from the depreciation fund during the Test Years to offset principal payments on the Utility's existing debt.

[7] The Utility proposes a Dividend to the Town in the amounts of \$12,000 in 2014/15 and \$25,000 in 2015/16.

[8] The public hearing was held at the Town's Council Chambers on April 26, 2013 after due public notice. Gerry A. Isenor, P.Eng., of G.A. Isenor Consulting Limited, and William H. Gates, MBA, P.Eng., of W.H. Gates Utility Consultants Ltd., represented the Utility. The Utility was also represented by Town staff: Tom Ossinger, Chief Administrative Officer, Matthew Raymond, Director of Finance and Bruce Morley, Director of Public Works.

[9] The Board did not receive any letters of comment and no member of the public spoke at the hearing.

[10] The rates are approved, as amended. There are no proposed changes to the Schedule of Rules and Regulations and Board approval is not required.

II INTRODUCTION

[11] The Utility's water supply is sourced from seven out of nine groundwater wells. The Utility's system consists of 40 km of distribution and transmission mains and

two storage tanks. Changes to the Utility's system since the last rate application in 2009 include upgrades to the SCADA monitoring system, well head protection to ensure safety and security of the water source, analyzers installed at the well heads to measure turbidity, a new transmission line from the well field to the reservoirs, a new chlorination building and a distribution line in the Mount Pleasant area. The Utility also purchased property within the well field as part of its Source Water Protection Plan.

[12] The Applicant currently serves 966 customers, located both inside and outside of the Town limits. The number of customers fluctuates throughout the year due to seasonal businesses and residents. The Rate Study assumes that there will be no change in the number of customers throughout the Test Years.

[13] In its last rate application [2010 NSUARB 96], the Utility noted that it was implementing a number of capital projects that were identified in the System Assessment Report dated December 2004 to comply with the Nova Scotia Environment's ("NSE") Drinking Water Strategy. The Utility confirmed that these projects have been completed and it is now compliant with the requirements of the NSE as evidenced by its approval certificate (Appendix D-3, IR-4).

[14] The NSE approval certificate required a re-assessment to be completed and filed on April 1, 2013 to verify the Utility's compliance with the NSE's Drinking Water Strategy. This re-assessment identified a number of deficiencies that the Utility needed to address to maintain its compliance. Because the Utility received the report after the Rate Application was filed, a list of projects to be undertaken totalling \$109,600 was provided at the hearing (Exhibit D-5), which the Utility proposed to undertake according to the specified schedule and funded from the depreciation fund.

[15] The Application was presented to the Board based upon the increased operating costs and the projected capital program for the Test Years.

III REVENUE REQUIREMENTS

1. Operating Expenditures and Revenues

[16] The Rate Study indicates that the Utility has an estimated deficit for the 2012/13 fiscal year of \$19,781 and an accumulated operating deficit of \$81,149. It is projected that at current rates the accumulated operating deficit will be \$299,786 at the end of the Test Years.

[17] The projected operating expenditures for 2012/13 were reviewed by the Utility at the hearing:

...sources supply, and as noted in one of the IRs, has been separated into power and pumping and source of supply to align with the handbook and that caused a ... what appears to be a significant decrease in the source of supply cost and a significant increase in the power and pumping costs.

... In the case of the debt charges, the interest on the debt charges, has been included in the financial statements in the transmission and distribution and that's approximately \$7700. And in the admin. and general account, the financial statements include bank charges and interest on temporary borrowing, one of which the bank charges are approximately \$1000 and the interest on temporary borrowing is \$3567. So that explains some of the little discrepancies there and I thought we best put those out because they do make the presentation look a little bit askew without that knowledge.

[Transcript, p. 10-11]

[18] The Board sought clarification for the deficit in the years leading to the fiscal year 2012/13 and expenditures such as Power and Pumping in the year 2013/14 over 2012/13. The Applicant provided details for these items in undertakings U-1 and U-2.

[19] The need for consistency was stressed by the Board at the hearing:

THE BOARD: I guess one comment I'll make is that maybe going forward you should ask the auditors to kind of re-arrange their reporting a little bit to conform with the ... especially the Water Utility accounting.

MR. RAYMOND: And it was pointed out to us in a previous rate study and I apologize. I tried to work with the auditors to get their format closer to the format that I'm reporting on which is in compliance with the handbook and they've moved in that direction, however, when we received the financial statements again this year we didn't have enough time before approval to get them to go re-state those pages of the financial statements again and I've asked them in writing. So we will simply have to have a specific meeting which the CAO and I have talked about, sit down the auditors and make it very clear that this is the format that we need for the Water Utility portion of the financial statements.

[Transcript, p. 19]

[20] For the Test Years the projected expenditures are generally based upon a 3% annual increase for inflation. The Applicant explained:

... what we did for budgeting purposes was we used a three percent inflation factor across the board with the exception that we did pump power a little bit extra because it was done at a time when we still weren't aware of the agreement and, as well, we're now aware with that sort of little bit of extra revenue we're now aware with the assessment report that we have to come up with another \$6300 to do water testing.

[Transcript, p. 25]

[21] The annual depreciation expenses are based upon the Utility's proposed capital projects over the Test Years. The depreciation rates are in accordance with those set out in the Board's *Water Utility Accounting and Reporting Handbook* ("*Accounting Handbook*") (Exhibit D-3, IR-18).

[22] The Utility described its on-going budgeting process:

To determine the budget expenditures for year one of the 3 year operating budget, the Budget vs. Actual expenditure amounts of the previous year is reviewed. The Actual expenditure amounts are recorded in a spreadsheet that contains the actual expenditures of the last 5 years and a five year average is determined. The five year average is compared to the actual and budget amounts of the previous year to determine any anomalies. The five year average is usually used for determining the budget figure, with the exception of salaries and benefits and those expenditures that may be prone to undetermined fluctuations during the year, i.e., Fuel and Power costs. Once the expenditures budget for year one is established. The expenditures for each of the two

subsequent years are increased by 3%. The 3 year budget is presented to the Digby Water Commission for review, discussion and approval. This process is conducted annually.

[Exhibit D-3, IR-12]

[23] The process undertaken to allocate costs between the Town and the Utility was explained in a response to IRs (Exhibit D-3, IR-13). The Applicant indicated that the process of cost allocations is the same as used in the last Rate Study.

Findings

[24] The operating expenses over the Test Years are generally based upon an annual increase of 3%. The Board finds the basis of these projections to be reasonable and are approved. The Board also supports the diligence of management in developing a three year forecast.

[25] The Board has reviewed the Applicant's explanation of the allocation of common costs between the Utility and the Town and finds the methodology to be reasonable and reminds the Utility that the methodology should be reviewed periodically to ensure that costs are accurately allocated between the two entities.

[26] The Board notes that the reclassification of expenses from cost centres used in the audited statements of the Utility to the format used in the Rate Study is a matter that always has to be dealt with during rate applications and can cause some confusion in this process. The Board encourages the Utility to continue its efforts to address this issue with its auditors.

[27] The Board further accepts the annual depreciation expenses, which are based on depreciation rates set out in the *Accounting Handbook*.

2. Capital Budget

[28] The Utility's proposed capital budget for the Test Years includes \$104,000 in 2013/14, \$238,000 in 2014/15 and \$128,000 in 2015/16. The Applicant explained that the proposed capital works are primarily related to replacing aging meters and hydrants and some work on the distribution system.

[29] The Applicant proposes that the capital spending be funded out of the Utility's depreciation fund. The Utility's depreciation fund balance at the beginning of the 2013/14 fiscal year is \$673,244. With the projected increases due to additions to the capital assets and drawdowns due to proposed funding, it is projected that the Utility's depreciation fund balance will be \$651,793 at the end of the Test Years.

Findings

[30] The Applicant has noted the need to replace old water meters and hydrants and perform some work on the distribution system, which the Board finds to be reasonable. The Board accepts the Utility's proposed capital program and funding as set out in the Application.

[31] The Board is satisfied with the level of funding from the Utility's depreciation fund and the balance of the fund at the end of the Test Years.

3. Non-operating Expenditures and Revenues

[32] Included in the revenue requirements of the Rate Study for the Test Years are projections of other operating revenues, non-operating revenues and non-operating expenditures.

[33] The other operating revenues include flat rate sales in the annual amount of \$2,989 from nine unmetered customers and \$325 from bulk water sales. Also

included are revenues from private fire protection, sprinkler systems, water turn off and turn on (seasonal customers), interest and late payment fees, collectively projected at \$23,890 annually (Exhibit D-3, IR-6).

[34] The non-operating revenues include interest income of \$750 annually, which is mainly interest on the Utility's cash balance and annual rental payments of \$2,800 related to a land lease for a wind turbine (Exhibit D-3, IR-8). As noted earlier, the Utility is requesting approval for the transfer of \$25,000 annually from its depreciation fund, in order to moderate the increases in the proposed rates.

[35] The projected non-operating expenditures include debt related principal and interest charges and dividends to the Town.

[36] The proposed dividend to owner in the amounts of \$12,000 in 2014/15, and \$25,000 in 2015/16 is to be used by the Town to reduce the outstanding deficit of the Utility. The Applicant explained:

... The purpose of those dividends to the owner as stated by the Utility to us would be used to pay down the existing deficit of the utility which, at the end of 11/12 was \$61,368 and is projected to be in the order of \$80,000 at the end of the current fiscal year.

[Transcript, p. 12]

[37] The Rate Study calculates the Utility's required return on rate base for each of the Test Years as 0.00%:

MR. ISENER: So with that we calculated the fire protection and I do note in C-2 on page 23, we end up with a rate of return that's zero, primarily because we are asking for the continuation of the transfer of depreciation from the depreciation account to pay down the principal on the loan. I did, Mr. Chair, not in recognition of you being here, because I didn't anticipate you having this hearing, but I did calculate what they would be if I took that \$25,000 transfer out.

... really we ended up with return on rate base of about .2 to .7 percent if we take it out. So it has very little impact mainly because this utility has very low debt ...

[Transcript, p. 35]

Findings

[38] The Board has reviewed the projected non-operating revenues and expenses contained in the Rate Study and find them to be reasonable. The Board accepts these projections.

[39] The Board understands the Utility's rationale for the transfer of depreciation funds as non-operating revenues is to moderate proposed rate increases. The Board approves the transfer of \$25,000 from the Utility's depreciation fund in each of the Test Years only. However, the Board notes that this approval should not be assumed beyond the Test Years. If and when another request is made by the Utility, it will be considered by the Board based on its own merits.

[40] The "dividend to owner" is really net income above the cost expenditure requirements. A Utility cannot pay a dividend when it has a deficit without special permission. The Board approves the dividend to owner as an earning of net income in the amounts of \$12,000 in 2014/15, and \$25,000 in 2015/16, which it understands will reduce the outstanding deficit of the Utility.

[41] The Board finds the Rate Study's calculated return on rate base, based upon the utility's projected non-operating revenues and expenditures, including the proposed amounts for dividend to owner, to be reasonable and accepts these amounts.

IV ALLOCATION OF REVENUE REQUIREMENTS

1. Public Fire Protection

[42] The methodology used to determine the public fire protection charge is generally consistent with the *Accounting Handbook* as well as the methodology used by the majority of other water utilities in the Province. The allocations used are also

consistent with those which were used in the last rate application. The Applicant explained:

... The biggest item here, and certainly this was noted in an IR to us, is the change in the percentage of allocation between the fire protection and the general service. And, again, as we're finding in a number of utilities, the Utility planned service has been reviewed and restated using write-offs and also, I guess, more or less cleaning up the sort of old records and putting them in order. And the consequences of that here as we didn't change any of the allocations. ... what's changed is the dollar amounts in the Utility plan of service as identified for various items. The result is that we're seeing an increase in the proportion of the Utility plan of service that's dedicated to fire protection. So last time ... the last hearing was approximately 40 percent, this time it's approximately 45 percent.

[Transcript, p. 34]

[43] As a result of this review, the total public fire protection charges proposed in the Rate Study are \$220,023 in 2013/14, \$226,852 in 2014/15 and \$239,057 in 2015/16.

[44] The public fire protection charge is allocated between the Town and the Municipality based on the number of hydrants in each jurisdiction.

Findings

[45] The Board notes that the methodology used to determine the total public fire protection charge conforms to the methodology set out in the *Accounting Handbook* and is consistent with that previously approved by the Board.

[46] The Board approves the methodology and amount of the annual public fire protection charge for the Test Years. The fire protection charge for 2013/14 is to be prorated based on the current and new amount.

2. Retail Customers

[47] The remaining revenue requirements, after the allocation to fire protection charges, are to be recovered from the Utility's customers. The methodology used to

allocate the remainder of the expenses to determine the base and consumption charges is consistent with the *Accounting Handbook* and are the same as those used in the previous rate application.

[48] The calculation of base charges to the Utility's customers is based on the 966 customers including nine unmetered customers. The Applicant explained that seven of these customers were long standing accounts that were unsuitable for meter installation. The Utility plans to meter the remaining two customers on a best efforts basis.

Findings

[49] Based upon the information provided, the Board approves the methodology used by the Applicant in the calculation of rates for each of the Test Years. The Board notes Mr. Isenor's position that "... the water rates here are quite good compared ... to a lot of places where we go ..." [Transcript, p. 52].

V SCHEDULE OF RATES AND CHARGES

[50] The Applicant noted that there are no changes proposed to the rates and charges, except a reference to the Municipality on Item #2 (Appendix D-3, IR-28), for other services provided by the Utility (i.e., miscellaneous charges, retail and wholesale base and consumption charges, and public fire protection charges).

Findings

[51] The Board has considered the information presented, and approves the Schedule of Rates for Water and Water Services as submitted by the Applicant in the Rate Study and amended in its response to IRs.

[52] Given the timing of the hearing and this decision, the approved rates are effective July 1, 2013, April 1, 2014 and April 1, 2015, respectively.

VI RULES AND REGULATIONS

[53] The Applicant indicated that there were no changes proposed to the existing Rules and Regulations and no approval is required at this time.

[54] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 19th day of June, 2013.



Kulvinder S. Dhillon