

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -

IN THE MATTER OF AN APPLICATION of the **MUNICIPALITY OF THE DISTRICT OF GUYSBOROUGH**, on behalf of the **CANSO WATER UTILITY** and **HAZEL HILL WATER UTILITY**, for approval to amalgamate the two utilities into one utility to be called the **CANSO-HAZEL HILL WATER UTILITY**, and for Approval of a Schedule of Rates for Water and Water Services and Schedule of Rules and Regulations

BEFORE: Kulvinder S. Dhillon, P.Eng., Member

APPEARING: **MUNICIPALITY OF THE DISTRICT OF GUYSBOROUGH**

J. Brian Melong, C.M.M.
Director of Finance

Glen D. Avery
Director of Public Works

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

William H. Gates, MBA, P.Eng.
W.H. Gates Utility Consultants Ltd.

HEARING DATE: **January 8, 2014**

FINAL SUBMISSIONS: **January 9, 2014**

DECISION DATE: **February 11, 2014**

DECISION: **The amalgamation of Canso Water Utility and Hazel Hill Water Utility is approved to be called the Canso-Hazel Hill Water Utility.**

**Schedule of Rates and Charges approved, as amended.
Schedule of Rules and Regulations approved, as amended.**

I SUMMARY

[1] The Municipality of the District of Guysborough (“Municipality”) applied to the Nova Scotia Utility and Review Board (“Board”) on behalf of the Canso Water Utility and the Hazel Hill Water Utility to amalgamate the two utilities to form the Canso-Hazel Hill Water Utility (“Utility”). The application further requests approval of Schedules of Rates for Water and Water Services and Schedule of Rules and Regulations for the Utility, 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 and Schedule of Rules and Regulations have been in effect since November 1, 2011 and June 1, 2008, respectively, for the Hazel Hill Water Utility and since April 1, 2012 and May 1, 2011, respectively for the Canso Water Utility.

[2] In a separate decision dated January 19, 2012 [2012 NSUARB 16], the Board granted the Town of Canso’s (“Town”) application for the dissolution of the Town. On July 1, 2012, the Town became a part of the Municipality. The Canso Water Utility serves customers within the former Town. The Hazel Hill Water Utility serves customers within the Municipality’s community of Hazel Hill. With the dissolution, the Municipality now owns and operates both these utilities. The main purpose of the current application is to amalgamate the two utilities and apply the same set of rates, rules and regulations to the customers of both utilities.

[3] A Rate Study to support the Application, dated August 5, 2013, was prepared by G.A. Isenor Consulting Limited in Association with W.H. Gates Utility Consultants Ltd., and was submitted to the Board on October 11, 2013. A Revised Rate Study, dated November 13, 2013, was filed as a part of the Responses to

Information Requests (“IRs”). The Revised Rate Study updated the operating expenses and other financial data for 2012/13, by combining the information for each utility from the audited financial statements for the year ended March 31, 2013. The Revised Rate Study further includes: corrections to the annual depreciation expense and the calculation of the projected depreciation fund balances; revisions to the projected non-operating and other revenue; a revised projected water treatment expense in 2015/16; and a revision to the calculation of rate base. These revisions generally result in a slight reduction in rates from those proposed in the original Application.

[4] The Revised Rate Study proposes increases in the average rates for the test years 2014/15, 2015/16 and 2016/17 (“Test Years”, “Test Period”).

[5] The Canso Water Utility is fully metered, while the Hazel Hill Water Utility has six unmetered customers, for which there are no current plans to meter due to concerns over freezing.

[6] The proposed rate increases for the unmetered residential customers (equivalent 5/8” meter size), based upon annual consumption of 30,000 gallons, are 8.7%, 2.6% and 2.2%, respectively over each of the Test Years. The proposed rate increases for the unmetered 1” equivalent customer, based upon annual consumption of 80,000 gallons, are 7.3%, 2.6% and 2.2%, respectively over each of the Test Years. Both of the estimated unmetered consumption volumes are consistent with those used in the previous rate application of the Hazel Hill Water Utility.

[7] The proposed rates for the metered customers are based upon the average consumption of the meter size for the Utility. In the first Test Year, for a 5/8” meter residential customers, the proposed average rate amendments are a 9.0%

increase for the Hazel Hill Water Utility customers and a decrease of 8.9% for the Canso Water Utility customers. In the remaining Test Years, the proposed rate increases for the Utility are 2.5% and 2.2%, respectively for all customers. For all other metered customers, the proposed average rates in 2014/15 represent increases of between 3.1% to 17.4% for the Hazel Hill Water Utility, and decreases ranging from 9.2% to 8.7% for the Canso Water Utility. In the last two Test Years, for all other metered customers the proposed rate increases are between 1.9% and 2.9% in 2015/16 and between 1.8% and 2.4% in 2016/17 for all customers.

[8] The Revised Rate Study further proposes amendments to the annual public fire protection charge to be paid to the Utility by the Municipality of -10.8%, 6.5% and 5.5%, respectively for each of the Test Years. Currently, only the Canso Water Utility has a public fire protection charge as the Hazel Hill Water Utility does not provide public fire protection to its service area. The public fire protection charge proposed will only be collected from those receiving the service within the service area of the Canso Water Utility. Those served by the Hazel Hill Utility are not proposed to be subject to the fire protection charge.

[9] The public hearing was held at the Fanning Education Centre in Hazel Hill on January 8, 2014, after due public notice. The public hearing was originally scheduled for December 16, 2013, but due to inclement weather was rescheduled. The notice of the change in hearing date was advertised as per the Board's amended Order dated December 17, 2013. Gerry 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 Municipal staff: J. Brian Melong, C.M.M.,

Director of Finance and Glen D. Avery, Director of Public Works. The Board did not receive any letters of comment and no members of the public spoke at the hearing.

[10] The amalgamation of Canso Water Utility and Hazel Hill Water Utility is approved to be called Canso-Hazel Hill Water Utility. The Schedule of Rates and Charges is approved, as amended in the Revised Rate Study. The Schedule of Rules and Regulations is approved, as amended.

II INTRODUCTION

[11] Currently the Canso Water Utility sells water at a wholesale rate to the Hazel Hill Water Utility. In 2012/13, the sale of water amounted to approximately \$31,000. The source of supply is Wilkins Lake. The raw water is treated at a Dissolved Air Floatation (“DAF”) water treatment plant which is located adjacent to the Lake. The treated water is pumped to a 1.89 million litre (“ML”) reservoir and is distributed to the customers through approximately 15 kilometres of primarily 150 mm and 200 mm diameter mains.

[12] The high amount of non-revenue water, of approximately 80%, was noted during the Canso Water Utility’s last rate application in 2011. While measures have been taken to reduce this amount, it is estimated that the Utility will still have non-revenue water in the range of 70%. The Application contains both operating and capital cost projections, including leak monitoring and main replacement/repair work, to deal with this issue.

[13] The Applicant currently serves 492 customers, which is the total number of customers served by the two utilities. A new fish plant has recently been established

in the Canso area, which is a seasonal operation. It is projected that there will be no growth in the number of customers over the Test Period.

[14] The Applicant's evidence during the public hearing related to the Revised Rate Study. Unless otherwise noted, it is the Revised Rate Study which is discussed in this Decision.

III REVENUE REQUIREMENTS

1. Operating Expenses

[15] The Application combines the actual financial information from each of the two utilities for 2012/13 to project the revenue requirements of the Utility. It is noted that the Utility would have had an accumulated operating deficit of \$58,272 as at March 31, 2013. However, it is projected that at the current rates, the Utility will have an excess of revenues over expenditures which will result in an accumulated operating surplus of \$264,749 at the end of the Test Period. Mr. Isenor explained at the hearing that the projected revenue requirements are lower than the revenues currently received by the two utilities.

[16] A number of changes were made to the various operating expense items as indicated in the 2012/13 financial statements. Upon review by the Utility staff, it was determined that a number of items included as source of supply expense actually relates to transmission and distribution expenses, and that the power and pumping expense relates solely to the water treatment plant operations. These changes, along with an adjustment to the allocation of staff time, were made in the Revised Rate Study for the 2012/13 fiscal year. Mr. Isenor explained that with these changes the Utility

hopes that there is a better representation of the true cost centers. It was further noted that these revised cost centres will be maintained by the Utility on a go-forward basis.

[17] The operating expenses for each of the Test Years are generally based upon an annual increase for inflation of 3%, with some exceptions. The projected depreciation expense is based upon the projects included in the Utility's capital budget for each of the Test Years.

[18] The water treatment expense includes a new expense of \$2,200 for signage in 2014/15, which is reduced to \$500 annually over the remainder of the Test Period.

[19] The transmission and distribution expense includes the maintenance of hydrants in 2014/15, which increases from \$6,000 in 2014/15 to \$10,000 in 2015/16 and \$10,300 in 2016/17. Mr. Isenor explained that this is for the refurbishment of hydrants in the former Town of Canso which require maintenance and replacement. An annual amount of \$2,500 is projected over each of the Test Years for leak detection. Mr. Avery noted that, as discussed during the last Canso Water Utility rate application, the amount of non-revenue water is high, and Utility staff have been working since then to reduce this amount through meter and curb stop replacement, and identifying control valves in the system. He added that a Request for Proposals ("RFP") related to leak detection will be issued this spring, with work commencing in the summer of 2014.

[20] Mr. Isenor explained that the administration and general expense contains the costs associated with a representative allocation of staff time to the Utility. He added that the clerical staff time is allocated 50/50 to the water and electric utilities. The

Applicant further noted that 5% of the total cost of the Director of Finance and Manager of Finance positions is allocated to the Utility.

[21] The Utility further explained its budgeting process and the allocation of costs between the Municipality and the Utility in its response to the IRs.

[22] The Applicant confirmed that the depreciation rates for the proposed asset additions are generally as set out in the *Water Utility Accounting and Reporting Handbook* (“*Accounting Handbook*”). In cases where the asset class is not specifically identified in the *Accounting Handbook*, the Applicant provided an explanation for the depreciation rates in its response to the IRs. During the hearing, the Board questioned the 5% depreciation rate (20 year life) associated with the water treatment plant asset addition in 2013/14. In response to Undertaking U-3, the Applicant stated that the addition relates to a walkway system to service the water treatment plant which is projected to have a 50 year life. It was further explained that the revised depreciation rate, from 5% to 2%, will result in an annual reduction of \$600 and will have a minimal impact on the proposed rates.

[23] The Board questioned the amounts due from the operating fund to the capital fund (i.e., depreciation fund) in both the 2012/13 financial statements filed for each of the utilities and in the projected balance sheets filed for the Utility. Mr. Melong explained that by the end of the 2014 fiscal year, any amounts owed to the depreciation fund will be transferred. In response to Undertaking U-2, the Applicant filed revised projected capital and operating fund balance sheets which indicate a fully funded depreciation fund beginning in 2013/14 and continuing through the Test Years.

Findings

[24] The Board notes that in the process of preparing the Application there has been a review of the Utility's operating cost centres to ensure that they contain the appropriate costs. The Board expects that the analysis used for the purpose of the Application will continue in the preparation of the Utility's financial statements. This will avoid the need to reclassify the various operating expense categories in future rate applications.

[25] The Board accepts the Utility's explanation of its budgeting process as well as the allocation of costs between the Municipality and the Utility. The Board reminds the Applicant that the allocation of costs, including the various Municipal staff costs, should be reviewed on a timely basis to ensure that the Utility related costs are as accurate as possible.

[26] The Board still has concerns with the Utility's significant amount of non-revenue water. However, the Board is pleased that the Utility has taken steps to deal with the issue and plans to continue with its efforts during the Test Years, through the proposed leak detection study and remedial works. Given the timeline for the work discussed during the hearing, the Board directs the Utility to file a report on the results of the leak detection tests and how it plans to deal with the issue, by December 31, 2014.

[27] It appears from a review of each of the two water utilities' financial statements that the practice of funding the depreciation fund asset, as set out in the *Accounting Handbook*, has not been followed. The Applicant confirmed during the hearing that this issue will be corrected. The Board expects that the practice of carrying

a “due from operating fund” will be eliminated in the future, resulting in a fully funded depreciation fund.

[28] Based upon the information provided, the Board accepts the operating expenses and the depreciation expense from the Utility as contained in the Revised Rate Study. The Board expects that any synergies which can be gained through combining the two utilities will be pursued.

2. Capital Budget

[29] The Application includes the Utility’s capital budget for 2013/14 as well as each of the Test Years. In 2013/14, the capital additions total \$125,000 and are shown to be funded as \$70,000 from depreciation funds and \$55,000 from outside sources. The Applicant explained that the Province has approved, and the Municipality has committed the outside funding source identified, for the Utility. The funds were received in relation to the dissolution of the former Town of Canso.

[30] The proposed capital budgets total \$143,000, \$118,000 and \$118,000, respectively in each of the Test Years, all to be funded from the Utility’s depreciation fund. The Test Period includes annual capital additions of distribution mains (\$100,000), hydrants (\$16,000) and services (\$2,000). In addition, the 2014/15 Test Year includes asset additions described as distribution reservoirs and standpipes (\$20,000) and water treatment plant (\$5,000).

[31] The Applicant explained that the focus of the proposed capital budgets is to deal with the non-revenue water issue through identifying and repairing leaks in mains, and the refurbishment of hydrants.

[32] Mr. Isenor noted that the Utility's depreciation fund balance is 'good'. The Application projects that with the proposed funding from depreciation, the Utility's depreciation fund balance will be \$558,028 at the end of the Test Period.

Findings

[33] The proposed capital budget, in combination with the proposed leak detection study, discussed above, focusses on the Utility's efforts to reduce leaks and non-revenue water. This issue needs to be addressed, as currently the Utility is spending money to treat a significant portion of its water which never reaches its customers. The Board accepts the proposed projects, as contained in the Application for each of the Test Years.

[34] It appears that the Utility is maintaining a healthy depreciation fund balance throughout the Test Period which can be used in the event of unexpected capital expenditures. The Board accepts the proposed funding of the capital projects through depreciation. As noted above, the Utility is again reminded that, as projected in the Application, annual depreciation expense is to be placed in the depreciation fund for future capital needs.

[35] The Utility is further reminded that the inclusion of the proposed capital projects in the Revised Rate Study does not constitute Board approval of these projects. A separate Board approval is required for projects in excess of \$250,000 as set out in s. 35 of the *Act*.

3. Non-operating Expenditures and Revenues

[36] Both of the existing utilities currently have no long term debt charges and no new debt is projected over the Test Period for the Utility. The only non-operating expenditures in the Application are projected annual amounts of \$100 for bank charges. The projected non-operating revenue is \$750 in each of the Test Years, associated with interest earned on bank deposit accounts.

[37] The projected other operating revenue includes annual amounts over each of the Test Years of \$3,000 related to interest on overdue accounts, and \$600 associated with providing sprinkler service.

[38] The Revised Rate Study corrected the accumulated depreciation figure and amended the non-operating and other operating revenue to the projected figures noted above, used in the calculation of the rate of return on rate base. As the Utility carries no debt, the calculation results in a negative rate of return. The Applicant explained that as this is not possible, the rate of return is indicated as zero in each of the Test Years.

Findings

[39] The Board accepts the non-operating revenues and expenditures, and other operating revenue as presented in the Revised Rate Study. The Board finds the calculations for the return on rate base over the Test Period to be reasonable.

IV ALLOCATION OF REVENUE REQUIREMENTS

1. Public Fire Protection

[40] The methodology used to determine the public fire protection charge is consistent with the *Accounting Handbook* as well as the previous rate applications of the Canso Water Utility.

[41] The Board notes that the utility plant in service allocations, used to calculate the public fire protection, omitted a cost for the Utility's reservoir. The Applicant explained that the values indicated are from the Utility's audited financial statements and there is no amount indicated for the reservoir asset. It added that as some of these assets are almost 50 years old, possible explanations for the omission could be that the asset class has been fully depreciated, or was donated at no cost to the Canso Water Utility.

[42] The calculated percentage allocations of utility plant in service to fire protection of 16.8%, 17.7% and 18.5 %, respectively over each of the Test Years, are relatively low. Mr. Isenor explained that this is due to the water treatment plant asset, which makes up over \$5 million of the approximately \$6.5 million in total asset costs, and is allocated at only 10% to fire protection. He added that this has the effect of lowering the public fire protection charge.

[43] The Applicant explained that as there is no public fire protection service provided to the Hazel Hill area, the charge is proposed to be paid to the Utility by the Municipality and recovered from the customers in the area served by the former Town of Canso Water Utility.

Findings

[44] The Applicant has used the methodology as set out in the *Accounting Handbook* which has resulted in a decrease in the public fire protection charge. Generally, the Board is concerned when customer rates increase and fire protection charges decrease. However, in this case, the fire protection charge is only to be applied to the area served by the Canso Water Utility, in which customer rates are also proposed to decrease in order to harmonize rates with the Hazel Hill Water Utility customers. Based upon this, the Board accepts the fire protection charge as proposed in the Revised Rate Study.

2. Utility Customers

[45] The remaining revenue requirements are recovered from the rates to the Utility's customers. The methodology used to allocate the expense items to determine the base and consumption charges is consistent with the guidelines in the *Accounting Handbook*, and with the previous Canso Water Utility rate applications. However, the methodology differs from that used in the last Hazel Hill Water Utility rate application. In that application 100% of the transmission and distribution expense was allocated to the base charge, whereas in the current Application, it is allocated 100% to the commodity charge. Mr. Isenor noted that with the allocations proposed, approximately 50% of the revenue requirements will come from the base charge, which is a reasonable split between base and consumption charges.

[46] The amount of water consumed by the two existing utilities is approximately 18.7 million gallons, which is a decrease from the combined total of the consumption volume at the time of their last rate applications. This amount is projected

to remain constant throughout the Test Years, as Mr. Isenor noted that he had no evidence to support further lowering the volume. Of this amount, the new fish plant is projected to consume approximately 1.1 million gallons annually. It is further assumed that the 6 unmetered customers will have the same annual consumption as in the last rate application, of 30,000 gallons per residence and 20,000 gallons per apartment unit in a 4 unit apartment building.

[47] During the hearing, the Board noted that the 1" customer class (Hazel Hill) is proposed to have a larger increase in 2014/15 than the other metered sizes. Mr. Isenor noted that this could be due to the meter size being too large for the customers, as the consumption volume measured is low.

[48] In response to Undertaking U-1, the Applicant filed revised rate schedules for each of the Test Years which provided the proposed consumption rates in both imperial and metric units.

Findings

[49] The Board accepts the allocations of the revenue requirements in each of the Test Years to the base and commodity charges as presented in the Revised Rate Study, which are consistent with the *Accounting Handbook*.

[50] The Board further accepts the projected consumption volumes during the Test Years and the unmetered customers' estimated consumption. As it appears that there may be an issue with meter sizing for the 1" meter customer, the Board encourages the Utility to review and determine the proper meter size for this customer.

[51] The Board has no issue with the Utility's request to present the consumption rates in both metric and imperial units, and accepts the information presented in response to Undertaking U-1.

V SCHEDULE OF RATES AND CHARGES

[52] The Revised Rate Study proposes changes to the existing Hazel Hill Water Utility rates for sprinkler service, charges for re-establishing water service, connection and disconnection fees, and charge for missed appointments, in order to match the Canso Water Utility rates. The proposed system connection fee description for the Utility provides clarification as to when the fee applies.

[53] A 'New Account Creation Fee' is proposed for the Utility, which currently does not exist in either utility. The Applicant explained that this charge is intended to apply to the establishment of a new account and excludes the system connection fee.

[54] It is proposed to retain the Canso Water Utility's rate for 'Water Sold to Boats and Ships', although the Applicant noted that no revenue from this source has been received in the past three years and none is projected for the Test Years.

Findings

[55] The Board accepts the existing miscellaneous rates, as contained in the proposed Schedule of Rates and Charges of the Revised Rate Study.

VI SCHEDULE OF RULES AND REGULATIONS

[56] The Applicant explained that the following changes are requested to each of the utilities' Schedule of Rules and Regulations:

The following changes apply to Canso:

Liability for Payment of Water Bills - change to make the owner of a rental or leased property the customer.

Deposits - Interest rate changed to 2% per annum, not compounded

Billings - New to give staff direction and to recover base charge for seasonal customers.

The following changes apply to Hazel Hill:

Liability for Payment of Water Bills - change to make the owner of a rental or leased property the customer.

Deposits - Interest rate changed to 2% per annum, not compounded

Billings - New to give staff direction and to recover base charge for seasonal customers.

Meter Testing – changes fee for meter testing to \$100 from \$50

Extensions - New

[Exhibit C-3, IR-48]

[57] The Applicant explained that the amendment to the ‘Liability for Payment of Water Bill’ is to prevent rental customers from leaving without paying outstanding water accounts. With respect to the change to the Regulation ‘Billing’, Mr. Isenor explained that the purpose of the proposed charges is to provide clarification to pro rate water bills as well as to provide the ability to charge seasonal customers the base charge year round. The Applicant noted that there are currently five seasonal customers in the Hazel Hill Water Utility and 10 in the Canso Water Utility.

[58] In responses to the IRs, a typo was noted in Regulation 35 ‘Sprinkler Service Mains and Hydrant System’ which refers to Canso Water Utility.

[59] The Applicant further noted that neither of the current two utilities have an active program to determine and mitigate the risks with respect to Regulation 20 ‘Cross Connection Control and Backflow Prevention’.

Findings

[60] The Utility's proposed Schedule of Rules and Regulations is generally consistent with other water utilities in the Province. The Board accepts the proposed changes, as well as the correction to Regulation 35.

[61] The Board notes that an active retrofit program for cross connection control is a good utility practice and encourages the Utility to develop such a program.

VII CONCLUSION

[62] The purpose of the Application is to amalgamate and standardize the rates, rules and regulations of the Hazel Hill Water Utility and the Canso Water Utility, both of which are owned and operated by the Municipality after the dissolution of the former Town of Canso. The Board's main concern is the significant amount of non-revenue water. As noted above, the Utility is directed to file with the Board, a report on the results of the leak detection tests and how it plans to deal with the issue, by December 31, 2104.

[63] Based upon the information provided, the Board approves the amalgamation of the Canso Water Utility and the Hazel Hill Water Utility to form the Canso-Hazel Hill Water Utility. The Board further approves the rate increases as proposed in the Revised Rate Study effective April 1, 2014, April 1, 2015, and April 1, 2016. The amended Schedule of Rules and Regulations is approved effective April 1, 2014.

[64] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 11th day of February, 2014.

Kulvinder S. Dhillon