

**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 WINDSOR** 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:** Kulvinder S. Dhillon, P.Eng., Member

**APPEARING:** **TOWN OF WINDSOR**  
Gerry A. Isenor, P.Eng.  
G.A. Isenor Consulting Limited  
  
Blaine S. Rooney, CA  
Blaine S. Rooney Consulting Limited  
  
Doug Armstrong  
Director of Finance  
  
Todd Richard  
Director of Public Works

**INTERVENOR:** **MUNICIPALITY OF THE DISTRICT OF WEST HANTS**  
Cathie Osborne, CGA,  
Chief Administration Officer  
  
Richard Sherrard  
Director of Public Works  
  
Martin Laycock  
Director of Finance

**HEARING DATES:** May 20 and 28, 2015

**FINAL SUBMISSIONS:** September 2, 2015

**DECISION DATE:** September 24, 2015

**DECISION:** **The Schedule of Rates and Charges and the Schedule of Rules and Regulations are approved as amended subject to a compliance filing.**

## I SUMMARY

[1] The Town of Windsor (“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*, R.S.N.S. 1989, c. 380 as amended (“Act”). In addition to its retail customers, the Utility provides water at a wholesale rates to the Three Mile Plains Water Utility (“TMP Utility”) in the Municipality of the District of West Hants (“Municipality”).

[2] The existing Schedule of Rates for Water and Water Services and Schedule of Rules and Regulations have been in effect since April 1, 2014, and July 1, 2009, respectively.

[3] A Rate Study to support the Application, dated February 23, 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 27, 2015.

[4] 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 response to the Board information requests (“IRs”) and again as undertaking responses. It is the revised rate study prepared in response to the Board IRs that is referenced in this decision, unless otherwise noted.

[5] The proposed changes in the average rates for 5/8” meter residential customers, based upon an average quarterly consumption of 10,246 gallons are -2.2%, +2.4%, and +1.9% for each of the test years respectively. For all other metered customers, based upon the average quarterly consumption of each meter size, the

proposed rate changes range from -1.8% to +1.1% in 2015/16, +3.2% to +3.3% in 2016/17, and +2.7% to +3.1% in 2017/18.

[6] The Application proposes rate increases to its wholesale customer, the TMP Utility, of 14.4%, 1.5% and 1.9%, in each of the test years respectively.

[7] The Application also proposes amendments to its annual public fire protection charge which is paid by the Town and the Municipality. The proposed increases are 1.1%, 4.8% and 0.5%, for each of the test years respectively.

[8] The public hearing was held at the Town Council Chambers on May 20 and 28, 2015, after due public notice. At the opening of the hearing on May 20, 2015, the Town indicated it did not receive the Pre-Filed Evidence submitted by the Municipality. The Board adjourned the hearing until May 28, 2015, with the agreement of the parties.

[9] The Utility provided responses to Undertakings on June 16, 2015. The Municipality provided its Reply Submission on June 23, 2015, and the Utility provided its Rebuttal Submission on June 29, 2015. Based on the information filed by the Town and the Municipality, the Board issued additional IRs on July 23, 2015 to clarify the information included in these submissions. Responses were received from the Municipality on July 29, 2015 and the Town on August 6 and 7, 2015.

[10] The Board reviewed the responses to the latest IRs and issued a letter dated August 20, 2015 to parties to confirm its understanding of the responses provided by the parties. The Board received responses from the Municipality and the Town on August 31, 2015, and September 2, 2015, respectively.

[11] Gerry Isenor of G.A. Isenor Consulting Limited and Blaine Rooney, of Blaine S. Rooney Consulting Limited, represented the Utility. The Utility was also represented

by Doug Armstrong, Director of Finance and Todd Richard, Director of Public Works. The Municipality was represented by Cathie Osborne, CAO; Richard Sherrard, Director of Public Works; and Martin Laycock, Director of Finance.

[12] The Municipality was the only formal intervenor. No letters of comment were received by the Board and no public presentation was made at the hearing.

[13] The Schedule of Rates and Charges are approved as amended and subject to a compliance filing. The Rules and Regulations are approved as amended and subject to a compliance filing.

## **II INTRODUCTION**

[14] The Utility's source of supply is Mill Lakes, a series of four lakes, which discharge into an impoundment reservoir south of the Town from which the raw water is pumped to the Utility's water treatment plant located in the Municipality. The treated water flows by gravity to the Utility's service area via three transmission lines which pass through the TMP Utility service area. The Utility serves the residents and businesses in the Town and also provides wholesale bulk water to the TMP Utility by way of three connection points, two at the transmission mains before they reach the Town's service boundary and one at the extension of the Town's distribution system. Each connection point has a master meter to record the volume of water supplied to the TMP Utility.

[15] In the last two rate studies the Utility noted a high percentage of non-revenue water. In response to Board IR-4, the Utility provided details on the non-revenue water, which is still relatively high, but has seen some reduction over last few years.

[16] The Utility currently serves 1,298 customers, of which 1,196 are residential (5/8" meter size). It is projected that the Utility's customer base will remain constant over the test years.

[17] 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**

[18] The Rate Study estimates the excess revenue over expenses for the 2014/15 fiscal year to be \$7,189, resulting in an accumulated operating surplus of \$70,116 as of March 31, 2015. The Rate Study projects that with no increase in rates, the accumulated operating deficit will be \$97,894, \$148,301 and \$178,630, for each of the test years, respectively, and an accumulated operating deficit of \$354,709 at the end of the test years.

[19] 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 with the exception of certain expense items including depreciation. The annual depreciation expense is based upon the Utility's existing assets and proposed capital additions.

[20] Mr. Isenor explained the use of a 3% inflationary factor:

...on all operating expenses, we have carried a three percent inflationary factor which we've done in other Utilities. And the intent of that is to allow the Utility to ... to increase costs or to increase their expenses over the projected operating years, recognizing that some expenses will be more and some will be less, but noting that they won't come out to that on average.

[Transcript, p. 13]

[21] The Municipality, in its submission, argued that the 3% inflationary increase is too high, and referred to the Consumer Price Index for Canada and Nova Scotia. The Municipality recommended that the Board approve an annual inflation factor of 2%. Ms. Osborne stated:

... we still submit that the total factor should be reduced down close to two percent as it more accurately reflects the inflation rate of our community. If the value of COLA has been determined to be a fair and reasonable method to establish the cost of doing business here in Nova Scotia then why would the estimated rate exceed this value?

[Transcript, p. 99]

[22] In the Application and responses to Board IRs, the Utility provided actual expenses for 2013/14 and estimates for 2014/15 upon which the test years' expenses were based on. The Utility also explained the changes it has made to the 2013/14 and 2014/15 expenses to calculate the test years' expenses.

[23] The Utility, in response to Undertaking U-6, adjusted the amount of 'Other Income' from \$7,730 to \$13,000 in each of the test years.

### **Findings**

[24] The Board has reviewed the information presented in relation to the Utility's projected operating expenses and finds the Utility's explanation for the variances between the 2013/14 actual and the 2014/15 budgeted amounts to be reasonable. The Board also accepts the increase to the 'Other Income' category for the test years as noted in the response to Undertaking U-6.

[25] The proposed operating expenses over the test years are based upon an annual increase of 3% which is consistent with other rate applications recently approved by the Board. The Board does not agree with the Municipality's submission and finds an annual 3% inflation adjustment to be reasonable and is accepted.

[26] The Board finds the projected operating expenses, including depreciation, to be reasonable and are approved.

**(B) Capital Budget and Funding**

[27] The Rate Study included the Utility's proposed capital additions of \$662,330 in 2015/16, \$405,770 in 2016/17, and \$102,000 in 2017/18. The capital requirements in the first two test years are for transmission and distribution upgrades, as well as, new pressure reducing valves, to reduce non-revenue water in the system.

[28] Mr. Isenor noted in the hearing that even though the Utility has reduced non-revenue water over the past number of years, it is still an issue. The provision of pressure reducing valves is expected to help reduce the number of breaks and non-revenue water in the system.

[29] The Utility proposes funding for the capital program from the depreciation fund and long-term debt. Depreciation funding is proposed in the amount of \$300,000 in 2015/16, \$225,000 in 2016/17, and \$102,000 in 2017/18. Funding from long-term debt is projected to be \$362,330 in 2015/16 and \$180,770 in 2016/17, and \$1,000 in 2017/18. Mr. Isenor indicated during the hearing that the \$1,000 of new debt included in the Rate Study in the final test year was an error and the Utility is proposing to use depreciation funds instead.

[30] The Rate Study indicated that the balance in the depreciation fund as at March 31, 2014 was \$502,054. Based upon the proposed funding drawdown, the balance in the depreciation fund is estimated to be \$230,459 at the end of the test years.

[31] The Municipality, in its evidence, suggested that the Utility perform a detailed water audit and forensic analysis in order to determine components of water consumption and non-revenue water in the system.

[32] The Utility argued that doing an audit as suggested by the Municipality would be expensive and time consuming. In addition the results of the audit will only tell what they already know and the Utility is addressing the issues as noted in the Rate Study.

[33] Mr. Sherrard in his testimony clarified that the Municipality was referring to the AWWA water audit process, which the Utility has recently started using and plans to continue. The computer program now used by the Utility helps operators to keep tabs on their system and also indicates where leaks might be occurring.

[34] The Municipality recommended against the water filter redundancy expenditures by the Utility, which is the purchase of land in 2017/18. Ms. Osborne stated:

We understand the need for Windsor Water Utility to address the matter of filter redundancy... We appreciate that Windsor Water Utility has a need to plan for the one option that it has control over, the installation of a second water storage tank and that's a direct quote, however we would submit at this time it's not known if this is the only or the best option for Windsor Water Utility in addressing filter redundancy. We are only asking the Board to allow for other viable options with respect to this funding should they become the better option.

[Transcript, p. 100]

[35] The Utility noted that:

... The expenditure in question is for the purchase on land in the final test year. As stated in the response to West Hants IR-6 the expenditure in question does not impact rates since it is proposed to be funded from depreciation and it is not depreciated. The Windsor Water Utility feels the inclusion of the land does not impact any ongoing discussions with the Province and West Hants and that it is prudent to include it in the rate study as the Assessment Report has identified the deficiency in the existing treatment system that must be addressed.

[Exhibit W-9, p. 7]

## **Findings**

[36] The Board accepts the Utility's explanation of its asset replacement program and its continuing management practices of reducing the amount of non-revenue water. The Board notes the Utility's use of the AWWA water audit software and its commitment to continue. This software will assist the Utility to direct capital and maintenance resources appropriately and to reduce the amount of non-revenue water.

[37] The Board notes that the purchase of land for the filter redundancy will not have any impact on rates in the test years. The funding for this project is from depreciation and does not attract depreciation expense going forward as land is not depreciated.

[38] The Board finds the Utility's proposed capital program and funding, as contained in the Rate Study, to be reasonable and are accepted with the exception of the \$1,000 of new debt in 2017/18.

[39] The Utility is reminded that a 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**

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

[41] There are two categories of non-operating revenue: Operating Agreement with the Municipality and Other Revenues.

[42] In response to Undertaking U-1, the Town provided a copy of the Operating Agreement between the Town and the Municipality. The agreement states that the Town is to provide overall supervision of the water and wastewater treatment plants in

Falmouth, located in the Municipality. The revenues received by the Town are identified in the Rate Study but no related expenses are shown separately. The Board assumes these expenses are included with other expense categories in the Rate Study.

[43] The Utility explained in response to the Board IR-10 that “Other Revenues” in the non-operating revenue category is related to the rental of space on the water tower for antennas.

[44] Non-operating expenditures include debt charges (new and existing), bank service charges and interest paid on customer deposits.

[45] The Municipality, in its Pre-filed Evidence, argued that a 6% interest rate for debt is excessive given the lower rates currently charged for borrowing by the Municipal Finance Corp. Its evidence included a table outlining the rates charged by the Municipal Finance Corp. for a borrowing of \$1.2 million for the past 10 and 15 years, which is 2.73% and 3.14%, respectively.

[46] Mr. Isenor responded to the Municipality’s evidence:

It would not make what I consider a material difference in this Utility here and I ... I believe it just simply takes away some of the latitude that small Utilities need. I mean we are no longer allowed to carry a contingency. This is a small item that allows those Utilities to have a little ... a little leeway in there and certainly, Mr. Chairman, as you’re well aware, we don’t have any small Utilities in this province running huge surpluses because they used a six percent interest rate.

[Transcript, p. 82]

[47] Mr. Rooney also noted that the six percent interest rate only affects the new debt, because existing debt’s interest is shown using the actual rate.

### **Findings**

[48] The Board notes that the Operating Agreement provided in response to Undertaking U-1 is with the Town and not with the Utility. In addition, there is no record

of the Board approving the agreement. The Board finds that the services provided under the Operating Agreement are unregulated and the Utility is ordered to remove all costs and revenues related to the Operating Agreement between the Town and the Municipality from the Rate Study and the Utility's financial statements.

[49] The interest rate included in the Rate Study of 6% on new debt over the test years is consistent with other rate applications recently approved by the Board. The Board finds that although the 6% interest may be somewhat higher than the current actual interest rate paid by the Utility, for the reasons noted by the Utility, the Board finds it reasonable to use 6% interest for purposes of the Rate Study.

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

#### **IV REVENUE REQUIREMENT ALLOCATION**

##### **(A) Public Fire Protection**

[51] The total fire protection charge, currently \$421,500, is proposed to increase to \$425,930, \$446,544, and \$448,912 in each of the test years, respectively.

[52] The methodology used to determine the public fire protection charge is generally consistent with the Board's *Water Utility Accounting and Reporting Handbook* ("*Handbook*") as well as the methodology used by the majority of other water utilities in the Province. The Utility has changed the allocation slightly from the last rate study where water treatment plant was allocated 80/20 and is now at 90/10 to general service/fire protection, and is in line with the *Handbook*.

[53] The total fire protection charge is allocated between the Town and the Municipality, based upon the required fire flow, adjusted for capacity constraints as in

previous rate applications. This results in the allocation of 67.3% to the Town and 32.7% to the Municipality of the total fire protection charge.

[54] In response to Undertaking U-3, the Utility updated the fire protection charges to reflect a 60/40 general service/fire protection split of the proposed expenditures for the pressure reducing valves. This change results in an increase in the fire protection charges and reduces the revenue requirements for the Utility's customers. The updated fire protection charge is estimated to increase to \$445,554, \$465,910, and 468,206 in each of the test years, respectively. The percentage allocation of the total fire protection charge to the Town and the Municipality does not change.

### **Findings**

[55] The Board accepts the methodology used to determine the public fire protection charges as set out in the amended Rate Study filed in response to Undertaking U-3. The Board also approves the requested allocation of the total fire protection charge between the Town and the Municipality as filed in response to Undertaking U-3.

[56] The fire protection charge for 2015/16 is to be calculated based upon prorating the current fire protection charge and the new approved fire protection charge as of the effective date of this Decision.

### **(B) Utility Customers**

#### **(1) Wholesale**

[57] The Rate Study calculated the joint use expenditures by subtracting the total fire protection charges from the total revenue requirements. The Utility has proposed that the allocation of the joint use amount to the Utility and TMP Utility be based on the actual water consumption of the two utilities.

[58] Source of supply and water treatment costs are allocated 100% to joint use, while other expense categories range from an allocation of 16.95% to 91.53% using different activity basis. These allocations are included as an appendix to the Rate Study. The joint use costs are then allocated to the Municipality and the Town using the percentage of water consumption in each utility compared to the total water consumed by both utilities.

**(a) Municipality's Consumption**

[59] In response to West Hants IR-1, the Utility outlined the method it used to determine consumption for the TMP Utility for 2015/16. The Board understands that the Utility calculated this amount by taking the TMP Utility's consumption for 2013/14 and adding 15% additional consumption to account for a more accurate readings provided by a new meter. The Utility then reduced consumption volumes for test years two and three, based on the projections included in the most recent rate application by the TMP Utility.

[60] The Municipality, in its Pre-filed Evidence, agreed with the method used by the Utility in setting consumption volumes for 2015/16 based on 2013/14 volumes plus the 15%. However, it suggested that this amount should be further decreased by 1% to account for expected annual reduction in water usage for 2015/16.

[61] The Utility noted that records as of May 12, 2015 suggest that current consumption continues at the 2014/15 level, and that instead of reducing the consumption by 1% the actual consumption for 2015/16 may actually be higher than the amount used in the Rate Study.

[62] In its Reply Evidence, the Utility suggested that the additional adjustment of 1% for 2015/16 is not material in establishing the consumption for the test years.

[63] The Board issued supplementary IRs on July 23, 2015, following responses to Undertakings and Final Submissions by the Town and the Municipality. In its response, the Utility provided actual meter readings for the TMP Utility for the first quarter of 2015/16 which shows water consumption for the TMP Utility being higher in the first quarter of 2015/16 than the same quarter in 2014/15. If extrapolated for the full year, the annual consumption for the TMP Utility will be much higher in 2015/16 than the consumption volume used in the Rate Study (approximately 116 million versus 68 million gallons). This suggests that a further decrease of 1% is not reasonable.

[64] In the same response the Utility also outlined consumption by TMP Utility for the three years leading up to the test years to be 65.2 million gallons, 59.9 million gallons, and 96.2 million gallons for the years 2012/13, 2013/14, and 2014/15 respectively.

[65] In response to the Board's August 20, 2015 letter the Utility suggested that using the first quarter of 2015/16 to calculate first test year's consumption is not reasonable. It noted that water leaks in its system have now been fixed thus reducing the annual test year's consumption levels. The Utility recommended using consumption levels of 92,654,825 gallons for 2015/16, 72,734,568 for 2016/17 and 70,837,400 for 2017/18.

[66] The Municipality in its response to the Board's August 20, 2015 letter recommended using the 2015/16 consumption of 96 million gallons would be more reasonable rather than using an extrapolated amount based on the first quarter of 2015/16. The Municipality also agreed that a number of leaks identified leading to a larger

increase in consumption in 2014/15 than expected have been fixed and consumption levels are returning to normal.

### **Findings**

[67] The Board notes that both the TMP Utility and the Utility agreed that an increase in consumption for 2015/16 of about 17% over 2013/14 has been recorded, so the Municipality is already seeing a lower consumption volume using the 15% increase in the Rate Study.

[68] The Board finds that the consumption figures being used in the Rate Study are conservative, based upon the actual meter reads for Q1 2015, and responses to the Board's August 20, 2015 letter and as such does not accept the Municipality's request to decrease the consumption amount by an additional 1% percent.

[69] The Board notes that the consumption in the first test year of 92,654,825 gallons as recommended by the Utility is close to the 96 million gallons the amount recommended by the Municipality. The Municipality also noted that, since the water leaks in the system are fixed, there should be a drop in consumption for the final two test years.

[70] Taking into account the past three years of consumption patterns and considering the leaks in the TMP system are now fixed, the Board finds the consumption amounts as recommended by the Utility in its September 2, 2015 letter to be more reasonable and accepts them. The allocation of joint use expenses between the Utility and the Municipality is to be based on these consumption levels by the TMP Utility plus a portion of non-revenue water as noted later in the Decision

**(b) Non-Revenue Water**

[71] In response to Undertaking U-10, the Utility provided an updated rate study which included an appendix outlining the amount of non-revenue water and total water produced at the treatment plant, as well as, projections of what these volumes would be over the test years.

[72] The Utility indicated that non-revenue water in its system is 77,836,236 gallons in 2014/15 and is expected to decrease to 76,279,511 gallons in 2015/16, 74,753,921 gallons in 2016/17, and 73,258,843 gallons in 2017/18.

**Findings**

[73] Non-revenue water depends on the operation and rigour of leak detection by a Utility. The Utility has been making strides to improve the water system via capital and maintenance expenditures. This is evident by some reduction in the amount of non-revenue water over the last few years.

[74] The Board accepts the amount of non-revenue water as presented in response to the Undertakings.

**(c) Allocation Percentage**

[75] The percentage of water consumption (consumption ratio) between the Utility's retail customers and the TMP Utility is the factor used in the Rate Study to allocate the Utility's joint expenses between the two utilities. In determining the consumption ratio, the Utility uses as its denominator the sum of its own customers' consumption and the master meters readings of the TMP Utility. The Utility calculated the Municipality's share of the joint use cost as 43.8%. By using this method, the Utility is allocating the cost related to the non-revenue water by the same factor.

[76] The Municipality objected to this method and suggested that it should not be paying for the non-revenue water since a majority of its customers are serviced directly from the main line passing through its service area and before these lines reach the Utility's distribution system. The Municipality provided a calculation using total water produced as a denominator in the calculation of the allocation factors. This reduces the allocation factor for the Municipality from 43.8 % to 25.3%. The TMP Utility included 5.7% of the total non-revenue water, to account for the TMP Utility's share of the non-revenue water.

[77] During the hearing, Mr. Isenor addressed this issue as follows:

...we feel, based on what we see, is that production... could be used for a portion of the expenses related to water treatment and that would be primarily electricity, chemicals and sludge disposal which vary with the cost of production. The other costs really don't change with the cost of production and certainly the cost of ... of running the distribution system or recovering it. And costs are recovered by the Utilities based on their sale of water, not on water produced, so it's more to do with the distribution.

[Transcript, p. 31]

[78] In response to Undertaking U-10, the Utility submitted an updated rate study looking at the effects of allocating the joint use expenses based on production volume. The revised allocation factors, based on a partial consumption/production basis as recommended by the Utility, are 39.31% in 2015/16, 39.39% in 2016/17, and 39.46% in 2017/18. This shows a reduction of about 4.5% in the water treatment expense category allocation factor for each of the test years over what was included in the Rate Study.

[79] The production volumes used to calculate these allocation factors were 233,001,239 gallons in 2015/16; 230,280,423 gallons in 2016/17; and 227,611,147 gallons in 2017/18.

[80] In its Reply Submission, the Municipality stated:

We still maintain that the method by which "Joint Use" has been established between the Windsor Water Utility and West Hants customers is unfair in that it requires residents of West Hants to offset the costs of produced water which it can never benefit from....

These joint use calculations require further change to ensure a more fair distribution of costs is established on a go forward basis.

[Exhibit W-12, p. 2-3]

[81] The Utility, in its Rebuttal Submission, stated:

...Utility disagrees with this statement. All the water consumed by both the Windsor Water utility and the Three Mile Plains/Wentworth Water Utility comes from the same source and treatment plant. Water Quality must be maintained in accordance with Province of Nova Scotia guidelines... the water quality is maintained for all customers including MWH.

[Exhibit W-13, p. 2]

[82] It was noted by the Municipality that the master meters are at a distance of 1.7 km (Back Road), 2.8 km (Dill Road) and 8.2 km (Wentworth Road) respectively from the water treatment plant. The rate study indicated that the shared mains between the two utilities account for a total of 16.95% of the total system length of the Utility. The Board understand that this works out to be 2.27% for the Backroad meter, 3.74% for the Dill Road meter, and 10.94% for the Wentworth Road meter.

### **Findings**

[83] The Board notes that the majority of the water that leaves the treatment plant and flows to the TMP Utility's system does not pass through the Utility's system. The TMP Utility's service area is closer to the water treatment plant than that of the Utility's system, with the exception of a small number of customers on Wentworth Road in the Municipality. For the Wentworth Road customers, water must pass through the Utility's system before being metered to the Municipality.

[84] The Board finds that due to the make-up and inter-connection of the systems, it is unreasonable to allocate non-revenue water to the TMP Utility on the basis of consumption volume in each of the test years.

[85] The Board notes that any leaks in a major transmission line are generally infrequent and are more likely to be quickly noticed and fixed, thus, contributing insignificant non-revenue water to the system. The distribution networks tend to be where most of the leaks in water systems occur. The Board finds, therefore, that the non-revenue water related to those portions of the transmission lines that provide water to the TMP Utility before reaching the Utility's system to be minimal and not a significant part of the non-revenue water.

[86] The Board also notes that in order to reach the Wentworth Road meter, water must pass through the Utility's distribution system and as such should be subject to a portion of the non-revenue water in the Utility's system. Since the distance to the Wentworth Road meter makes up 10.94% of the Utility's system it is reasonable to allocate this amount of non-revenue water to the Municipality. This would account for any possible leaks that happen between the water treatment plant and the Wentworth Road system.

[87] The Board finds that the allocation of joint use expenses to the TMP Utility should be based on the consumption volumes set out in the Utility's September 2, 2015 letter, plus 10.94% of the non-revenue water divided by total water produced, using the information as shown in the Rate Study and included in response to Undertaking U-10.

[88] The Board understands that any increase in wholesale rates will affect the TMP Utility. However, the Utility is projecting a deficit situation and requires timely rate

relief. If the Municipality determines that it requires an amendment to its rates as a result of the Decision and approved increase to wholesale rates, the Board will deal with the matter expeditiously.

[89] The Board suggests that the Municipality and Utility monitor the water meter readings to ensure estimated volumes in the Rate Study are not substantially different than actual and to take appropriate action to seek rate relief, if necessary.

## **(2) The Retail Customers**

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

[91] The base charge is calculated based upon 1,298 customers in 2015/16, with no change over the test years.

[92] The consumption volumes, based upon the Utility's total annual consumption of 88,527,916 gallons in 2014/15, is proposed to decrease slightly in each of the test years and is estimated to be 86,322,071 gallons in the final test year.

[93] The Board notes that the Rate Study projects a slight reduction in retail rates in the first test year, followed by a small increase in the second and third test years.

## **Findings**

[94] The Board accepts the methodology used by the Utility in the calculation of base rates and consumption charges for the test period.

[95] The Board notes the retail rates may be affected by changes approved in the Decision and are to be recalculated in the compliance filing.

## **V SCHEDULE OF RATES AND CHARGES**

[96] The Application proposes a number of changes to its Schedule of Rates and Charges. In response to the Board IR-27, the Utility outlined these changes and why they were being made.

[97] The majority of the proposed changes related to increasing rates for existing services to levels seen in other recent applications by water utilities in Nova Scotia. In addition to the increases to existing rates a “New Account Creation Fee” of \$50 was proposed.

[98] Mr. Isenor outlined the proposed changes as follows:

...there were four proposed. One is that we change the sprinkler rate to 200 to 250 and it's to reflect what's happening in other locations in the province 'and it also, Mr. Chair, aligns the 6-inch sprinkler to be the same rate as a private hydrant, which we feel is quite appropriate.

We are asking that they approve a new account creation fee, which we've done in a number of Utilities and it's a separate charge from the connection fee and it's just simply to set up the account. It's to pay for the staff to ... to do the paperwork. We are revising the system connection fee accordingly and we are asking the change for the charge for non-negotiable cheques include a statement of we basically add on whatever the banks choose to charge us for that service, which is becoming more than what the fee is.

[Transcript, p. 42]

[99] The Application proposed the new rates to be effective July 1, 2015, but in its response to Undertaking U-10 the Utility noted that the date indicated would not be met and requested rates be adjusted at the next billing quarter with an effective date of October 1, 2015.

## **Findings**

[100] The Board finds the proposed amendments to the Schedule of Rates and Charges to be reasonable and approves them, as amended in the Decision effective October 1, 2015.

[101] The Board notes that for 2014/15 the Utility is not in a deficit position and accepts the request to postpone the effective date of new rates to October 1, 2015. This delay is not expected to have a negative financial impact on the Utility.

## **VI SCHEDULE OF RULES AND REGULATIONS**

[102] The Application proposes two changes to its Schedule of Rules and Regulations. In Response to the Board IR-28, the Utility outlined these changes and reasons for them.

[103] One of the changes which the Board has seen in other utilities is to billing, which clarifies the calculation of bills at times other than the regular billing period and allows the Utility to charge the full year's base charge to its seasonal customers.

[104] The other change was in relation to the Liability for Payment of Water Bills. The Board understands that the Utility's request is to change the customer on record to the property owner and not a tenant. The Utility is also proposing to have this retroactive so that any customer of record who is not the property owner now is required to be changed within 12 months of Board approval.

[105] The existing Regulation states:

... At the discretion of the Utility, a property owner who rents or leases a property or self-contained unit to a tenant or lessee may be required to open an account for the provision of water at the property rented or leased.

[Rules and Regulations, p. 12]

[106] The Utility, in its Rate Application, proposed that:

...

A property owner who rents or leases a property or self contained unit to a tenant or lessee will be required to open an account for the provision of water at the property rented or leased. After the Rules and Regulations are approved by the Utility and Review Board all existing property owners will be notified by the Utility and they will be required to become customers of the Utility for the provision of water at the lessor of 12 months of the date of notification by the Utility or the lease renewal date.

[Exhibit W-2, p. 54]

[107] The matter was discussed in detail during the hearing and in response to Undertaking U-10, the Utility proposed the following wording of this Regulation:

A property owner who rents or leases a property or self contained unit to a tenant or lessee will be required to open an account for the provision of water at the property rented or leased.

[Exhibit W-11, p. 82]

### **Findings**

[108] The Board finds the requested amendments to the Schedule of Rules and Regulations to be generally consistent with most other water utilities in the Province, which have had recent rate applications, with the exception of "Liability for Payment of Water Bills". The Board accepts that for all new accounts the Utility can require the property owner to be the customer of record and approves the wording as amended in response to Undertaking U-10.

[109] The Board approves the Schedule of Rules and Regulations, as amended, with an effective date of October 1, 2015.

## **VII COMPLIANCE FILING**

[110] The Board has approved a number of changes to the test years expenses and revenues, including wholesale allocation factors. The Utility is to file a compliance

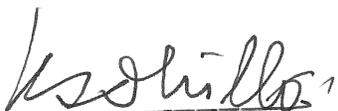
filing including revised rate study, Schedule of Rates and Charges and Schedule of Rules and Regulations incorporating the Decision. The Municipality is to provide its comments to the Board no later than one week after the compliance filing by the Utility. The Board will issue an Order after the compliance filing and comments from the Municipality.

## VIII SUMMARY

[111] Following is the summary of the Board's Decision:

1. The Schedule of Rates and Charges and Schedule of Rules and Regulations as amended are approved effective October 1, 2015.
2. The allocation of non-revenue water between the Utility and the Three Mile Plains Utility has been amended and approved.
3. The Board has determined that the service agreement between the Town and the Municipality is a non-regulated activity and all related revenues and expenses be removed from the Utility's financial accounts.
4. The total fire protection charges and allocation between the Utility and the Municipality as amended are approved.
5. The Board has concerns with the amount of non-revenue water and has made recommendations in the Decision.
6. An Order will be issued after the compliance filing by the Utility and comments received from the Municipality.

**DATED** at Halifax, Nova Scotia, this 24<sup>th</sup> day of September, 2015.

  
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Kulvinder S. Dhillon