

NOVA SCOTIA UTILITY AND REVIEW BOARD



IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -

IN THE MATTER OF AN APPLICATION of the **TOWN OF SHELBURNE**, 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 SHELBURNE**
Gerry Isenor, P.Eng.
G.A. Isenor Consulting Limited

Blaine Rooney, CA
Blaine S. Rooney Consulting Limited

Dylan Heide
Chief Administrative Officer

INTERVENOR: P.G. Comeau, Esq.

HEARING DATE: March 22, 2016

UNDERTAKINGS: April 5, 2016

DECISION DATE: **May 11, 2016**

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

I SUMMARY

[1] The Town of Shelburne (“Town”) applied to the Nova Scotia Utility and Review Board (“Board”) on behalf of the Shelburne 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”). The existing Schedule of Rates for Water and Water Services and Schedule of Rules and Regulations have been in effect since April 1, 2015 and April 1, 2014, respectively.

[2] A rate study to support the Application, dated December 3, 2015 was prepared by G.A. Isenor Consulting Limited in association with Blaine S. Rooney Consultants Limited and was submitted to the Board on December 29, 2015. Information Requests (“IR”s) were issued by Board staff on January 20, 2016, and responses were filed on February 11, 2016. Included with the responses was a revised rate study which corrected errors in the original filing and amended the allocation of revenue requirement from consumption to base charge. Also attached to the IR responses were revised Schedules of Rates for Water and Water Services, incorporating the above noted changes.

[3] The Application proposes rate increases for the fiscal years 2016/17, 2017/18, and 2018/19 (“Test Years”). For 5/8” meter residential customers, based upon an average quarterly consumption of 40 cubic metres, the proposed increases in each of the Test Years are 6.3%, 5.0% and 4.6%, respectively. For all other metered customers, based upon the average quarterly consumption of each meter size, the proposed rate

changes are between a reduction of 5.0% to an increase of 18.5% in 2016/17, increases of 3.4% to 6.9% in 2017/18, and increases of 3.6% to 5.8% in 2018/19.

[4] The Utility currently has 44 unmetered customers, which is one less than its last rate application in 2013. The unmetered rate is based upon quarterly consumption of 68 cubic metres, with proposed increases of 10.3%, 4.4% and 4.3% respectively, in each of the Test Years.

[5] The Application also proposes amendments to the annual public fire protection charge to be paid to the Utility by the Town and the Municipality of the District of Shelburne ("Municipality") for the provision of water for fire protection service. The total annual public fire protection charge is proposed to remain unchanged in the first two Test Years and increases by 5.1% in 2018/19. The total charge is apportioned between the Town and the Municipality based upon the number of fire hydrants operated in each unit.

[6] The public hearing was held at the Fire Station/Community Centre building on March 22, 2016, after due public notice. Gerry Isenor of G.A. of Isenor Consulting Limited and Blaine Rooney of Blaine S. Rooney Consulting Limited, represented the Utility. The Utility was also represented by Dylan Heide, Chief Administrative Officer of the Town. P.G. Comeau, Esq. was the only formal intervenor in the proceeding. Two members of the public: Norman Wallett, Deputy Warden for the Municipality; and Roy O'Donnell, Councillor for the Town, spoke during the hearing. No letters of comment were received by the Board.

[7] While the rate study as amended in the IR responses was presented at the public hearing, the Applicant provided an updated rate study ("Rate Study") in response to Undertaking U-5. The updated Rate Study included amended Rules and Regulations

to address the lack of definition of the term “contract,” and updated rates to reflect the inclusion of only 50% of the depreciation on donated assets during the Test Years. It is the updated Rate Study that is referenced in this decision, unless otherwise noted.

[8] The Schedule of Rates and Charges and the Schedule of Rules and Regulations are approved, as amended and requested by the Utility.

II INTRODUCTION

[9] The Utility’s source of supply is Lake Rodney, located in the Rodney/Sable/Jordan primary watershed. The raw water is treated in the Utility’s Dissolved Air Flootation (“DAF”) treatment plant, which was commissioned in May 2009. Chlorine is added for primary disinfection and the injection of hydrated lime is used to control taste, odor and pH value. Chloramines are used for secondary disinfection to combat Trihalomethanes (THMs). The distribution system includes two storage tanks with capacities of 250,000 gallons and 750,000 gallons.

[10] The Utility constructed a watermain extension in 2010 at a total cost of \$1,999,830 and \$1,077,615 of this amount was funded by the Utility with the remainder being contributed by other levels of government. In response to Undertaking U-1, the Utility noted that the initial projection was that there would be an additional 68 residential customers and 15 commercial customers as a result of this watermain extension. Currently 26 customers are being served by the extension, with one additional customer anticipated, during the Test Years.

[11] The Applicant currently has 329 customers, including 44 unmetered customers in buildings previously owned by the Federal (Military Housing) and Provincial

(Youth Centre Housing) Governments. The Utility was questioned if it is contemplating to meter these customers:

The Utility still supports metering unmetered customers and staff have approached unmetered customers in this regard, however there is a lack of willingness on the part of existing customers to make this switch and the Utility considers retention of existing customers to be a priority in light of alternatives available to these customers (i.e. private wells).

[Exhibit S-3, IR-22]

[12] 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

[13] For the year ended March 31, 2015, the Utility had an excess of revenues over expenditures of \$75,665 and an accumulated surplus of \$15,524. The Board, during the hearing, noted that there are significant increases in operating expenses in the current year over the previous year. Mr. Heide explained that there were two reasons driving the increase: the new plant operator left the Utility, increasing the need for external consultants, and the allocation of Town staff time to the Utility is higher than previous years to more accurately reflect Utility' share.

[14] A mitigating factor to the Utility's projected deficit balance is an annual transfer from the depreciation fund of \$60,000 in 2015/16 through 2017/18 and then \$54,000 in 2018/19. The Utility has been making transfers of \$80,019 since the last rate application, in order to cover the principal debt payments. The Utility is now requesting that the previously approved amount of \$80,019 for 2015/16 be reduced to \$60,000. In addition, the Utility is requesting this reduced amount to be approved for the first two Test

Years, and an amount of \$54,000 in the final Test Year. The Utility expects that no further transfers from the depreciation fund will be required after the Test Years.

[15] The depreciation fund balance of \$3,937 is projected at the end of 2015/16. The Board questioned the Utility about the low balance in the depreciation fund and potential unforeseen capital expenditures. The Utility noted that the depreciation balance was projected to increase to \$189,323 at the end of the Test Years, and that that should be sufficient to cover any unforeseen capital requirements.

[16] The Applicant explained the rationale for the projected 2015/16 operating expense items which significantly differ from the previous year. The transmission and distribution expense increased from \$7,437 to \$31,010 in 2015/16. The Utility noted that this was due to salary costs being transferred to transmission and distribution which were previously included in the water treatment. The power and pumping expense increased by approximately 13% in 2015/16 due to very minimal maintenance work being performed on the equipment in 2014/15.

[17] The projected operating expenses for the Test Years are generally based upon the Utility's budget for 2015/16 plus an annual increase of 3% for inflation. The Applicant stated that its budgeting process commences with a review of the prior year's costs. The Finance Manager, in discussion with the plant operator and other staff, estimates amounts for the current year and future years. The budget is then recommended to Council for final approval.

[18] The Applicant provided additional information with respect to expense items which increased by more than the noted 3% from the 2015/16 amounts to the budgeted 2016/17 amounts. In response to IRs, the Utility explained the increase of 19% in

operation and labour expense in water treatment was due to additional cost for labour required at the plant to get the treatment plant fully operational because the plant operator in place at the previous rate hearing had left employment at the Utility. The Utility also noted that the increase of 18% in operation labour and benefits under transmission and distribution was due to an increase in the allocation of staff time in performing Utility related work. Mr. Heide stated:

If there is a need to involve staff from outside of the Water Department, which is only a single staff person full time, then we are accurately costing and projecting that there is going to be a standard amount of assistance needed.

[Transcript, p. 19]

[19] The Utility explained an 8% increase in chemical additives was due to costs required to get the plant up and running effectively, and using more chemicals to meet the Nova Scotia Environment Regulations.

[20] The projected depreciation expense in each of the Test Years is based upon the planned infrastructure additions included in the Utility's capital budget. The depreciation rates used are as set out in the Water Utility Accounting and Reporting Handbook ("*Accounting Handbook*"), or in several cases where they differ, the rates are based upon the asset's expected useful life. The Utility also requested inclusion of outstanding depreciation on contributed assets over the three Test Years in the amounts of \$35,551 in 2016/17, \$11,850 in 2017/18, and \$11,850 in 2018/19. The Board requested the effect on rates if no depreciation on donated assets is included during the Test Years. The Utility, in response to Undertaking U-5, recommended that the depreciation amount on donated assets be reduced to \$16,000 in 2016/17, \$9,500 in 2017/18, and \$4,000 in 2018/19 and provided an amended rate study incorporating this change.

Findings

[21] Although the Utility is currently in a surplus position, it is projected to be in a deficit position by the end of the Test Years, without an amendment to its rates.

[22] The largest operating expense item is related to the water treatment and has been an ongoing issue for the Utility since the departure of the previous operator prior to the last rate application. Unfortunately, after the loss of the replacement operator, additional labour and consulting costs have remained a requirement. The Board accepts the water treatment expenses as presented, but expects the upward trend in these expenses over the last several years will not continue after the Test Years.

[23] The Board finds the 3% annual increase in operating expenses over the Test Years to be reasonable, and further accepts the explanations when additional expense items have been budgeted.

[24] The Board accepts the allocation of costs between the Town and the Utility, which are tracked and charged to the Utility on the basis of actual time or resources used. The Board reminds the Utility to review these allocations on an ongoing basis to ensure accuracy.

[25] The Utility refiled the Rate Study in response to Undertaking U-5, with a 50% reduction to the depreciation on contributed assets. The Board accepts this revision to the depreciation expense and the projected capital budget.

(B) Capital Budget and Funding

[26] The Rate Study includes the Utility's capital budgets in each of the three Test Years, totaling \$137,000, \$35,000 and \$35,000, respectively. Meters and services are budgeted in each of the Test Years in the annual amounts of \$10,000 and \$25,000,

respectively. In the first Test Year the other projects include: lagoon sludge control (\$50,000); and purification equipment (\$52,000).

[27] The proposed funding for the capital budgets over the Test Years is as follows:

	2016/17	2017/18	2018/19
Depreciation Fund	\$ 90,000	\$ 35,000	\$ 35,000
Long Term Debt	\$ 47,000	-	-
Total	<u>\$137,000</u>	<u>\$ 35,000</u>	<u>\$ 35,000</u>

[28] The Rate Study projects that, with the proposed funding from depreciation, as set out above, the depreciation fund balance will be \$189,323 at the end of the Test Years.

Findings

[29] The majority of the Utility's capital funding is through depreciation. The Board finds the proposed capital budget and funding for each of the three Test Years to be reasonable.

(C) Non-Operating/Other Revenues and Expenditures

[30] Other operating revenues in each of the Test Years are: private fire protection in the annual amount of \$3,800; sprinkler service in the annual amount of \$2,150, and a small amount for forfeited discounts.

[31] Non-operating revenues in each of the Test Years are: \$2,500 for jobbing and contract; \$2,000 for interest; and a transfer from the depreciation fund in the amounts of \$60,000 in 2016/17, \$60,000 in 2017/18, and \$54,000 in 2018/19. The transfers from the depreciation funds are being utilized over the test years to pay the principal amount

of the debt and moderate proposed rate increases. These amounts have been reduced from the previously approved amount and are planned to end after the Test Years.

[32] The non-operating expenses include current debt payments in each of the Test Years of \$80,019 and interest charges of \$45,998, \$43,116, and \$40,011 respectively. Also included are principal payments on new debt of \$1,278, \$1,354, and \$1,436, and the corresponding interest, estimated at amounts of \$2,820, \$2,743, and \$2,662 respectively in each of the Test Years. New debt payments are being incurred to fund a portion of the capital program planned over the Test Years. Also included in non-operating expenses is a minor amount of bank charges.

[33] The required rates of return are calculated as 4.23%, 4.25% and 4.27%, respectively in each of the Test Years.

Findings

[34] The Board finds the Utility's other and non-operating revenues, as presented, to be reasonable and accepts them. This includes the transfer from the Utility's depreciation fund, which lowers the Utility's revenue requirements in the Test Years. The Board approves this transfer until the end of the 2018/19 fiscal year. The Utility should review its financial position and seek the Board's approval if it determines that there is an ongoing need for the transfer from depreciation fund after 2018/19.

[35] The Board notes that the interest rate of 6% is included in the Rate Study on new debt over the Test Years which is consistent with other rate applications recently approved by the Board and only applies to new debt. The Board finds it reasonable to use 6% interest for the purposes of the Rate Study.

[36] The Board further accepts the calculation of the required rates of return as presented in the Rate Study.

(D) Allocations of Revenue Requirement

1. Public Fire Protection

[37] The methodology used in the Rate Study for the determination of the public fire protection charge is consistent with that used in the previous rate applications and in accordance with the *Accounting Handbook*. The percentage allocation of utility plant in service to public fire protection, which was approximately 36% at the time of the last rate application, has remained consistent within a range of 35.7% to 36.1% over the Test Years.

[38] The fire protection charges calculated in the Rate Study are projected to remain at the current amount of \$124,765 for all Test Years.

[39] The total fire protection charge paid by the Town and the Municipality is based upon the number of hydrants in each unit. There has been no change in the number of hydrants since the last Application.

Findings

[40] The Board accepts the Utility's determination of the fire protection charges, as presented in the Rate Study and approves them.

2. Utility Customers

[41] The remaining revenue requirement after the allocation to fire protection charge, is to be recovered from the customers of the Utility. The allocations used for the

base charge, customer charge and delivery and production, are consistent with that used in the last rate application, and consistent with the methodology as set out in the *Accounting Handbook*.

[42] The Application is based upon consumption remaining constant during the Test Years and is projected to be 102,866 m³. Mr. Isenor explained during the hearing that there has been no change in consumption for the Utility over the last three years.

Findings

[43] The Board accepts the methodology used by the Utility in the calculation of base and consumption rates for each of the Test Years, which is consistent with the previous applications.

[44] The Board further accepts the calculation of the rates for unmetered customers.

(E) Submissions and Utility Response

[45] There was one formal intervenor, P.G. Comeau, Esq., who questioned the efficiency of the Utility's accounting and management. He also questioned the ability of the customer base to afford the proposed rate increases, and asked the Utility if there were any incentive programs that they could utilize in order to increase its customer base. Mr. Isenor responded that the Utility was already covering the cost of running the services from the mainline to the property boundary as an incentive and that waiving the connection fee could not be implemented as all customers within the same class must have the same cost allocation. This was reiterated by the Board.

[46] Mr. Comeau also questioned the level of water losses. In a response to Undertaking U-3, the Utility responded that there was 24.6% non-revenue water in 2015 and a main contributor was a major break on the Water Street. Non-revenue water also includes hydrant use and flushing.

[47] Mr. Comeau noted that there was an inoperative meter on his property, which did not come to his attention until he received three identical billings. He questioned the Utility on why more auditing of the system was not being done. Mr. Heide responded that the finance department generally checks such items and sends a list to the Utility to check, but due to staff turnover during the past year the process was slower than usual.

[48] Mr. Comeau asked the Utility if increasing rates will be the trend going forward. Mr. Isenor noted that due to the population decrease of towns and an ageing population, he believes that this will be an ongoing struggle for the Utility. Mr. Rooney added that the biggest source of the increasing rates over the Test Years is the increasing depreciation, which puts the Utility in a better position to replace aging infrastructure.

[49] Mr. Comeau questioned the Utility regarding the work performed by its consultants CBCL and ABL, specifically if the work was tendered or not. Mr. Heide responded that the work was not tendered because CBCL had designed the plant and this work was a follow-up to that. The amount paid to ABL was a specific operational need and a small sum of money.

[50] Mr. Comeau noted that the existing operator does not have the required training to operate the facility, and asked if his training was in the Utility's plans. Mr. Heide responded that the current operator is not in a permanent position and once the position is permanently filled, that would be the Utility's intention. The Board questioned the Utility

whether the requirement of the Nova Scotia Environment is to have qualified people operating the plant is being met. Mr. Heide responded yes.

[51] The Utility was asked to respond to Mr. Comeau's concerns of what is being done to be more efficient and cost effective. The Utility responded in Undertaking U-7 that it had engaged consultants to review the processes currently in place at the Utility, develop standard operating procedures to ensure the work is being done efficiently, and make recommendations for process optimization.

[52] Norman Wallett, Deputy Warden for the Municipality, requested if there was anything that could be done to reduce water rates for lower income or pensioners in the Town.

[53] Roy O'Donnell, Councillor for the Town of Shelburne, made the comment that he believes the Utility should be jointly owned by the Town and the Municipality.

Findings

[54] With respect to lower income customers, the Board noted that it does not have the mandate under the *Public Utilities Act* to charge rates based on income level.

[55] A number of issues discussed by the Intervenor and members of the public were addressed by the Utility in response to the Undertakings. The Rate Study filed in response to Undertaking U-5 reduced the originally proposed rates by including only 50% of the depreciation on donated assets.

[56] The Board understands the difficulty the Utility has encountered in recent years due to a lack of continuity in the Plant Operator's position, and difficulties associated with the new water treatment plant. The Board expects the Utility to operate in the most efficient manner possible.

(F) Schedule of Rates and Charges

[57] In addition to the rates for water supply to its customers, the Application noted only one other proposed change to its Schedule of Rates and Charges. The charge for non-negotiable cheques has been updated to include any additional bank charges in addition to the \$20 fee.

[58] Mr. Isenor stated that the effective date in the first Schedule of Rates and Charges should read July 1, 2016, as opposed to April 1, 2016. The revised Schedules were filed in response to Undertaking U-5.

Findings

[59] The Board has reviewed the proposed amendments included in the Schedule of Rates and Charges filed in response to Undertaking U-5, and finds them to be reasonable.

[60] The Schedule of Rates and Charges for Test Years are approved as amended in the Rate Study filed in response to Undertaking U-5.

(G) Schedule of Rules and Regulations

[61] The Applicant noted in response to Board IRs that there were no proposed changes to the Schedule of Rules and Regulations. However, during the hearing the Board noted that the term contract has been used without a corresponding definition. The Utility updated the Schedule of Rules and Regulations in its Rate Study filed in response to Undertaking U-5, to note when a contract between the Utility and its customers is deemed to exist.

Findings

[62] The Schedule of Rules and Regulations are consistent with most other water utilities in the Province which have had recent rate applications.

[63] The Board approves the Schedule of Rules and Regulations as amended in response to Undertaking U-5.

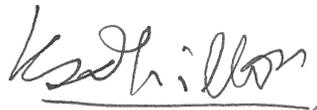
IV CONCLUSION

[64] In response to Undertaking U-5, the Utility refiled the Schedule of Rates and Charges for Water and Water Services to include the revisions set out in the IR responses, to reduce the depreciation on contributed assets by 50%, and to amend the effective date. Accordingly, the Board approves the Schedule of Rates and Charges for Water and Water Services, effective July 1, 2016, April 1, 2017, and April 1, 2018, as filed in the Rate Study in response to the Undertaking U-5.

[65] The Board approves the Schedule of Rules and Regulations as amended in the Rate Study and filed in the response to Undertaking U-5, effective July 1, 2016.

[66] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 11th day of May, 2016.



Kulvinder S. Dhillon