

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 COUNTY OF COLCHESTER**, on behalf of the **TATAMAGOUCHE WATER UTILITY**, for Approval of Amendments to its Schedule of Rates and Charges for Water and Water Services and its Schedule of Rules and Regulations

BEFORE: Murray E. Doehler, CPA, CA, P.Eng., Member

APPEARING: **MUNICIPALITY OF THE COUNTY OF COLCHESTER**

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

Blaine Rooney, CPA, CA
Blaine S. Rooney Consulting Limited

Scott Fraser,
Director of Corporate Services

Michelle Newell, P.Eng.
Director of Public Works

HEARING DATE: November 29, 2017

UNDERTAKINGS: December 4, 2017

DECISION DATE: **December 21, 2017**

DECISION: **Schedule of Rates, and Schedule of Rules and Regulations approved, as amended by the Utility.**

I SUMMARY

[1] The Municipality of the County of Colchester (Municipality, County) applied to the Nova Scotia Utility and Review Board (Board) on behalf of the Tatamagouche Water Utility (Utility, Applicant) for amendments to its Schedule of Rates 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, 2016, and April 1, 2014, respectively.

[2] A rate study to support the Application dated July 26, 2017, was prepared by G.A. Isenor Consulting Limited, in association with Blaine S. Rooney Consulting Limited, and was submitted to the Board on September 22, 2017 (Rate Study). Information Requests (IRs) were issued by Board staff on October 16, 2017, and responses were filed by the Utility on October 25, 2017.

[3] The Application proposed rate increases for the fiscal years 2017/18, 2018/19, and 2019/20 (Test Years, Test Period). For 5/8" meter residential customers, based upon average quarterly consumption, the proposed increases in each of the Test Years are 7.1%, 6.9%, and 6.5%, respectively. For all other metered customers, based upon the average quarterly consumption of each meter size, the proposed rate increases are 7.3% to 8.0% in 2017/18, 6.0% to 7.2% in 2018/19, and 5.9% to 6.9% in 2019/20.

[4] The Utility has a bulk water fill station, with a current bulk water rate of \$6.50 per cubic metre. The proposed bulk water rates per cubic metre are \$7.50, \$8.00, and \$8.53 for each of the Test Years, respectively.

[5] The Application also proposed amendments to the annual public fire protection charge to be paid to the Utility by the Municipality for the provision of water for fire protection service. The total annual public fire protection charge, which is currently \$46,319, is proposed to decrease by 0.3% in 2017/18, and increase by 9.4%, and 8.4%, respectively, for each of 2018/19 and 2019/20.

[6] The public hearing was held at the Colchester East Hants Public Library, Tatamagouche Branch, on November 29, 2017, after due public notice. Gerry A. Isenor, P.Eng., of G.A. Isenor Consulting Limited, and Blaine S. Rooney, CPA, CA, of Blaine S. Rooney Consulting Limited, represented the Utility. The Utility was also represented by Municipal staff: Scott Fraser, Director of Corporate Services and Michelle Newell, P.Eng., Director of Public Works.

[7] There were no formal intervenors in the proceeding, no requests to speak, and no letters of comment received by the Board.

[8] In response to the IRs, and the Undertakings, the Utility filed an amended Schedules of Rates for 2017/18, to prorate the public fire protection charge, and to maintain the current charge, respectively. In addition, amended Schedules of Rules and Regulations were filed both in response to the IRs, and to eliminate rates for miscellaneous services which are contained in the Schedule of Rates, and in response to the Undertakings, to correct minor errors.

[9] The Schedule of Rates and the Schedule of Rules and Regulations are approved, as amended and requested by the Utility, as filed in response to the Undertakings.

II INTRODUCTION

[10] The Utility's source of water supply is from the French River. The raw water is treated at the water treatment plant, which the Utility indicated meets the current requirements of Nova Scotia Environment. The Utility's system consists of approximately 9,400 lineal metres of transmission and distribution mains, as well as a 168,000 imperial gallon storage tank and 48 hydrants.

[11] It was noted during the last rate application in 2014 that the Utility planned to carry out a meter replacement program to reduce non-revenue water. The Utility indicated that the majority of meters have been replaced, with some of the more difficult replacements requiring plumbing work still in progress. The larger meter sizes are not planned to be replaced due to high costs.

[12] The Utility's financial statements for the year ended March 31, 2017, which were filed in response to the IRs, indicated an amount of \$67,074 as public fire protection revenue, which differs from the amount approved by the Board, and the amount indicated in the Rate Study, by approximately \$22,000. This additional amount represents an operating grant for fire protection which is provided by the Municipality to the Utility. This is a continuation of the past practice of the Municipality, which was discussed in previous rate applications. The Rate Study separates the amount into operating revenue, the operating revenue public fire protection amount as approved by the Board, and non-operating revenue, identified as additional fire protection.

[13] The Utility's financial statements include two line items for depreciation expense: "Depreciation" (\$127,028), which is netted to \$0 with a corresponding transfer of funds in the same amount; and "Depreciation-NSUARB" (\$34,819), which is the

amount indicated in the Rate Study for 2016/17. In the past, the Utility has only been depreciating a portion of its total asset values. In the last rate application, the Board approved a proposed phase-in of the remaining depreciation, which the Utility did not implement due to an oversight. The Application also noted that the depreciation on contributed assets had been understated. The current Rate Study proposes to phase-in the remaining depreciation by adding an amount of \$11,607 to the depreciation expense in each of the Test Years.

[14] It was identified during the last rate application that the financial statement presentation of the Utility's depreciation fund balance, which included the two reserves of depreciation and filter replacement, was confusing, and that the reserves should be separated. The Utility commented that although the reserves are kept separate for accounting purposes, they are combined for financial statement presentation.

[15] As had been noted in past rate applications, there are issues with the Utility's financial statement presentation, which do not comply with the *Water Utility Accounting and Reporting Handbook (Accounting Handbook)*. The Board understands while the consolidated statements of the Municipality follow appropriate accounting policies, they are not sufficient for the regulation of the Utility.

[16] The Utility currently serves 271 customers, all of which are metered. There is no projected growth in the number of customers over the Test Years, based upon the Utility's recent history.

[17] The Application was presented to the Board based upon the need to adjust the rates to meet its present financial requirements, and to provide funds for projected increases in operating costs and necessary capital improvements.

III REVENUE REQUIREMENTS

(A) Operating Expenditures

[18] The Rate Study indicates that the Utility had forecasted an excess of revenues over expenditures for the 2016/17 fiscal year of \$12,359, with an accumulated operating deficit of \$198,847. This differs slightly from the actual figures indicated in the audited financial statements, which shows an excess of revenues over expenditures for the year of \$11,301 and an accumulated operating deficit of \$199,433. It is projected that, at current rates, there will be an excess of expenditures over revenues in each of the Test Years, resulting in an accumulated operating deficit of \$320,037 at the end of the Test Period.

[19] In response to the Board's inquiry as to the cause of the current accumulated operating deficit, Mr. Rooney explained that unexpected repairs to the water treatment plant resulted in an increase in expenses, which, due to the small size of the Utility, impacted its operating position.

[20] The Rate Study states that the projected operating expenditures for 2017/18 and 2018/19, are based upon the Utility's budget, as prepared by staff. The 2019/20 operating expenditures are based upon the 2018/19 budget plus 3% for inflation.

[21] Taxes are included as an operating expense item in the Test Years, however there is a non-operating revenue item in the same amount in each Test Year identified as "Grants-Municipal Taxes", which represents a continuation of the Municipality's practice. This is in addition to the Municipal grant identified as the non-operating revenue item, "Public Fire Protection-Additional".

[22] The Utility provided explanations for several operating expense line items in 2017/18 and 2018/19 in response to the IRs. It was noted that the salaries and wages expense for each of the operating expenses of source of supply, water treatment and transmission and distribution is budgeted to decrease in 2017/18. This is due to higher overtime costs in the previous year, and ongoing contract negotiations, with the budgeted wage increases at 0%, until an agreement is reached, in comparison to the 3.5% increase in the previous year.

[23] The Transmission and Distribution expense is budgeted to decrease by approximately 8% in 2017/18 due to one time costs in the previous year related to testing and repair of the corrosion control system in the reservoir.

[24] The Utility noted two errors with line items under the Administration and General expense in 2017/18. The telephone expense budget was overstated by \$3,000 while the furnace oil expense was understated by \$1,727, leaving a net overstatement of \$1,273, which was noted to be immaterial in the calculation of rates.

[25] In response to the IRs, the Utility described its on-going budgeting process, in which staff prepare the budget based upon past experience and three year projections to submit to the Utility Committee for review and recommendation, prior to approval by the County Council.

[26] The Applicant noted that most Utility costs are direct. Mr. Fraser explained that the allocation of common costs between the Municipality and the Utility, which generally consists of salaries and administration, is based on time sheets to determine the appropriate percentages to use. The Board commented that given the level of

financial support provided by the Municipality to the Utility, it is important to periodically review these cost allocations.

[27] Included as an operating expense in the Test Years is the reserve for filter replacement in the annual amount of \$12,300, which is consistent with the Utility's practice in the last rate application to provide a funding reserve for the periodic replacement of filters in the water treatment plant.

[28] The Applicant noted that it has not been fully depreciating its assets, with the calculation of depreciation on contributed assets understated. The Utility's consolidated financial statements for the year ended March 31, 2017, indicate two depreciation items: "Depreciation", in the amount of \$127,028 and "Depreciation-NSUARB", in the amount of \$34,819. In response to the Undertakings it was clarified the addition of the two figures (\$161,847) is the actual depreciation, of which only \$34,819 is funded. The unfunded amount (\$127,028) is netted out of the depreciation, leaving the \$34,819 as the depreciation expense. It is the \$34,819 amount which is included in the Rate Study.

[29] The Rate Study proposes to include a total of \$34,820 of the unfunded amount in the Test Years, through an annual phase-in of \$11,607 (coming to a total depreciation of \$69,639 in 2019/20 for the present assets). It is proposed that the remaining unfunded amount will be included in future applications. The Utility noted that the proposed magnitude of the annual phase-in is for rate design purposes, to include more of the unfunded depreciation in the rates, while maintaining an annual rate increase at around 7%. In response to the IRs, the Utility filed projections of annual rate increases in the 10% to 18% range with the full depreciation phased-in equally over the Test Years.

[30] The depreciation expense projected in each of the Test Years is based upon the depreciation associated with the capital additions, at rates set out in the *Accounting Handbook*, with the inclusion of the proposed portion of the depreciation on contributed assets.

[31] The Board noted, during the hearing, the difficulty in reviewing the Utility's financial position with the consolidated statements which were filed in response to the IRs. The Board stated that, in the future, the Utility's non-consolidated statements are required, unless the schedules to the Municipality's consolidated financial statements can be made to conform to the *Accounting Handbook*. In response to the Undertakings, the Utility's internal financial statements were filed, which presented the information in a format that is consistent with the *Accounting Handbook*.

Findings

[32] The operating expenses over the Test Years are generally based upon an annual increase of 1% to 3%, with explanations provided for any deviations. The Board finds the projected operating expenses for the Test Years, including the reserve for the filter replacement, to be reasonable. The Board agrees that the net impact of the errors noted in the Administration and General expense is immaterial in the calculation of rates.

[33] The Board accepts the grants from the Municipality to the Utility, which have the result of lowering the Utility's revenue requirements.

[34] The Board is concerned that the Utility has not fully funded its depreciation reserve. The Utility appears to be trying to resolve this through its proposed phase-in, while considering the rate implications, which the Board accepts. Given that unexpected capital requirements can have a significant impact on a utility of this size, a healthy

depreciation fund balance is especially important. The Board expects that the Utility will carryout the phase-in and continue with the process in future applications. The Board accepts the annual depreciation expenses in the Test Years, as proposed in the Rate Study.

[35] The Board accepts the allocation of costs between the Municipality and the Utility. The Board reminds the Utility to review these allocations on a periodic basis to help ensure accuracy.

[36] There continues to be difficulties with the Utility's filing of consolidated financial statements, which do not clearly present its financial position for the Board's purposes, both for operations, and capital, as discussed below.

[37] To meet the requirements of the *Act*, the Utility is required to produce annual financial statements that comply with the *Accounting Handbook*. A copy of the *Accounting Handbook* had been sent to all accounting firms that perform utility audits. It is acceptable to the Board if the schedules to the Municipality's consolidated statement comply with the presentation outlined in the *Accounting Handbook*. This would include separate balance sheets for the operating and capital funds for each Utility. If desired, the Board could explain these requirements to the auditors if the Utility has any difficulty in outlining its needs.

(B) Capital Budget and Funding

[38] The Rate Study includes the Utility's proposed Capital Budget for the Test Years of \$21,000 in 2017/18, \$11,000 in 2018/19, and \$11,000 in 2019/20. The funding of the Capital Budget is entirely from the Utility's depreciation fund. The Utility's depreciation fund balance at the beginning of the 2017/18 fiscal year, as described in the

Rate Study, is \$369,860. This differs from the financial statements, which combines the depreciation reserve with the reserve for filter replacement.

[39] With the projected increases from the annual depreciation expense, due to both the capital additions, and the depreciation phase-in, as described above, and the proposed depreciation funding drawdowns, the depreciation fund balance is expected to be \$528,238 at the end of the final Test Year (2019/20).

Findings

[40] The Board has considered the information presented with respect to the proposed capital projects and associated funding. Since the annual capital expenditures are all less than \$250,000, separate Board approval is not required.

[41] The Board accepts the proposed capital funding from depreciation. The Utility is reminded of the importance of maintaining a healthy depreciation fund balance for future asset replacement requirements. Increasing the balance with the proposed phase-in of depreciation is a positive step to achieving this goal.

[42] The Board again recommends that the Utility discuss its financial statement preparation with its auditors, to clearly separate various reserve funds, and their respective balances, by Utility.

(C) Non-Operating Revenues and Expenditures

[43] The Test Years' revenue requirements identified in the Rate Study include projections of other operating revenue, non-operating revenues and non-operating expenditures.

[44] The other operating revenue, "Sundry", is projected in the annual amount of \$4,775, consisting of: Sprinkler Charges (\$2,000); Fuel Tax Rebate (\$938); Connection Fees (\$400); Interest (\$737); and Bulk Water Sales (\$700). The Utility noted that bulk water sales in 2016/17 were \$780, with no sales in the prior two years.

[45] The non-operating revenues estimated in 2017/18, 2018/19, and 2019/20 consist of the "Public Fire Protection-Additional", and the "Grants-Municipal Taxes" mentioned earlier in this Decision.

[46] The Rate Study includes projected non-operating expenditures related to the principal and interest charges on existing debt associated with capital upgrades to the water treatment plant facility in 2008. The debt will be retired in 2018/19. No new debt is projected in the Test Years.

[47] Also, included as non-operating expenditures in the Application are "earnings" in the amounts of \$5,000, \$12,000 and \$30,000, respectively, in each of the Test Years. The Utility explained that the purpose of the proposed amounts is to address the operating deficit over a reasonable period, while keeping rates affordable.

[48] Including the proposed earnings, the return on rate base is a negative amount, with the Rate Study showing the Utility's rate of return on rate base as 0% for each of the Test Years. In response to the IRs, the Utility corrected an error in the amount of accumulated depreciation, which had no impact on the rate of return figures.

Findings

[49] The Board finds the Utility's projected other operating revenue, including revenue from bulk water sales, and non-operating expenditures to be reasonable, and accepts them as presented.

[50] The Board further accepts both the non-operating revenue items of the additional fire protection charge which is essentially a grant from the Municipality, and the Municipal grant for taxes, which help to reduce the Utility's revenue requirements and are consistent with past practice.

[51] The return on rate base, which includes the proposed "earnings" is negative due to the Utility's low amount of debt. The correction to the accumulated depreciation in response to the IRs has no impact on the return on rate base calculation. The Board accepts the "earnings" as proposed in the Rate Study, and the calculated rate of return on rate base as nil.

(D) Allocations of Revenue Requirement

1. Public Fire Protection

[52] The methodology used in the Rate Study for the determination of the public fire protection charge is in accordance with the *Accounting Handbook*.

[53] The allocation of utility plant in service to public fire protection is calculated in the Rate Study as 21.1% in 2017/18 and 21.0% in each of 2018/19 and 2019/20, with total expenses being allocated to fire protection at 14.3%, 14.6%, and 14.8% in each Test Year respectively.

[54] The Board questioned why the fire protection charge is proposed to decrease slightly, by \$162, in the first Test Year, prior to increasing in each of the remaining Test Years. Mr. Isenor noted that as the decrease projected in 2017/18 is small, the charge could remain at the current level. In response to the Undertakings, the Schedule of Rates and Charges for 2017/18 was amended to keep the fire protection charge at its current level.

[55] As noted above, the Rate Study contains the non-operating revenue item of “Public Fire Protection-Additional”, which Mr. Isenor explained is a contribution to the Utility from the Municipality. In the Utility’s financial statements, this is combined with the Board approved fire protection charge in one operating revenue line item.

Findings

[56] The methodology used to determine the total public fire protection charge conforms to the methodology set out in the *Accounting Handbook*. The Board approves the Utility’s proposed fire protection charges for 2018/19 and 2019/20, as presented in the Application. For 2017/18, the charge is to remain at the current level, as presented in the response to the Undertakings.

2. Utility Customers

[57] The remaining revenue requirement, after the allocation to fire protection charges, is to be recovered from the customers of the Utility. The allocations used for the base charge, customer charge, delivery, and production are consistent with the guidelines set out in the *Accounting Handbook*, except for the allocation for depreciation expense. This allocation is 100% to base charge, compared to the 30% to base, 30% to delivery and 30% to production as suggested in the *Accounting Handbook*. The Utility noted that the allocation was done for rate design purposes to reduce the revenue risk for the small utility, and is consistent with the previous application.

[58] The Application projects no change to the number of customers over the Test Years; however, total consumption is expected to decrease due to a projected 1.0% annual decline in average residential (i.e. 5/8” meter size) consumption. The Utility noted

that the proposed decline is based on the recent trend observed for this customer class by all utilities reporting declining residential consumption.

[59] The Rate Study projects that the annual consumption volume for the other meter sizes will remain constant throughout the Test Period.

Findings

[60] Based upon the information provided, the Board approves the methodology used by the Applicant in the calculation of customer rates for each of the Test Years. The Board also approves the customer rates as presented in the Rate Study.

(E) Schedule of Rates

[61] In addition to the rates for water supply to its customers, the Application proposed amendments to some existing miscellaneous rates and charges, including: Item 8, Connection Fee; Item 9, Disconnection Fee; and Item 10, Charge for Re-Establishing Water Service. The purpose of these changes is to better reflect the cost to provide the service and to be more in line with rates charged by other water utilities in the Province.

[62] The Schedule of Rates and Charges filed in response to the IRs proposed to move the “charge for special services” from the Schedule of Rules and Regulations to the Schedule of Rates and Charges, and to amend the rate for consistency with the other proposed miscellaneous charges.

[63] The Application proposes to amend the charge for Item 13, Bulk Water, based upon the same methodology used to calculate the current bulk water rate.

[64] In response to the Undertakings, the Utility refiled the Schedule of Rates for the first Test Year the public fire protection charge remaining at its current level.

Findings

[65] The Board approves the proposed amendments to the Schedule of Rates filed in response to the Undertakings.

[66] These are approved with effective dates of January 1, 2018, April 1, 2018, and April 1, 2019.

(F) Schedule of Rules and Regulations

[67] The Rate Study proposed amendments to three of the existing rules: Rule 2b, Liability for Payment of Water Bill; Rule 5, Billing; and Rule 7, Adjustment of Bills. For “Liability for Payment of Water Bill”, it is proposed to have all accounts for rental properties in the name of the property owner. For “Billing” it is proposed to have seasonal customers pay the base charge for the entire year that the system is available for their use. The proposed amendment to “Adjustment of Bills” includes a limit on the time period for repayment of over billing.

[68] It is further proposed to add rules relating to Water Conservation Directives and Curb Stop/Control Valve Service Box, for enforcement of conservation directives at times of water shortages, and to ensure the accessibility of the curb stop/control valve service box.

[69] An amended Schedule of Rules and Regulations was filed in response to the IRs to eliminate duplication of Rules containing charges, which are included in the Schedule of Rates and Charges. A further amendment was filed in response to the Undertakings, to correct numbering typos.

Findings

[70] The Board finds that the proposed amendments to the Schedule of Rules and Regulations are reasonable, and are generally consistent with those of other Utilities. The Board approves Schedule Rules and Regulations, as filed in response to the Undertakings.

(G) Contingency Planning

[71] In response to the IRs, the Utility provided general information on its efforts related to contingency planning and emergency preparedness. It noted that it has developed emergency contingency plans to deal with a number of events, which is reviewed and submitted annually to Nova Scotia Environment. It was further indicated that a Source Water Protection Committee has been established to deal with activities in the watershed.

[72] The Board reminds the Utility of the importance of maintaining and updating its contingency and emergency preparedness strategies and the associated communication plans.

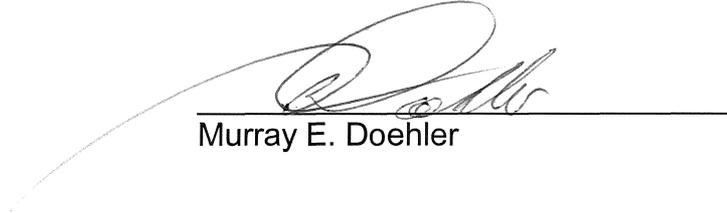
IV CONCLUSION

[73] The Board has considered the information presented, and approves the Schedule of Rates for Water and Water Services as proposed by the Applicant in the Rate Study, with effective dates of January 1, 2018, April 1, 2018, and April 1, 2019, for each of the Test Years.

[74] The Board further approves the Schedule of Rules and Regulations as proposed, and amended by the Utility, with an effective date of January 1, 2018.

[75] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 21st day of December, 2017.



Murray E. Doehler