

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 STEWIACKE** 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: Jennifer L. Nicholson, CPA, CA, Member

APPEARING: **TOWN OF STEWIACKE**
Gerry Isenor, P.Eng.
G.A. Isenor Consulting Limited

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

Jeff Sibley
Superintendent of Public Works

Randi Buchi
Manager of Finance

HEARING DATE: August 20, 2019

UNDERTAKINGS: August 21, 2019

DECISION DATE: **September 16, 2019**

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

I SUMMARY

[1] The Town of Stewiacke (Town), applied to the Nova Scotia Utility and Review Board (Board) on behalf of its Water Utility (Utility) 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 July 1, 2013, respectively.

[2] A rate study to support the Application (Rate Study), dated March 19, 2019, was prepared by G.A. Isenor Consulting Limited, in association with Blaine S. Rooney Consulting Limited, and was submitted to the Board on May 1, 2019. Information Requests (IRs) were issued by Board staff on June 13, 2019, and responses were filed on June 21, 2019.

[3] During the hearing, the Utility suggested revised wording for part 7(c) of the Rules and Regulations. Revised wording was provided at other recent water rate hearings in the province. To be consistent this wording has been adopted.

[4] The Rate Study proposed rate increases for the fiscal years 2019/20, 2020/21, and 2021/22 (Test Years). For unmetered customers, the proposed increases in each of the Test Years are 18.7%, 5.6%, and 6.6%, respectively. For 5/8" meter residential customers, based upon average quarterly consumption, the proposed increases in each of the Test Years are 16.6%, 5.3% and 6.8%, respectively. For all other metered customers, based upon the average quarterly consumption of each meter size,

the proposed rate increases are between 7.0% to 18.7% in 2019/20, 5.5% to 10.8% in 2020/21, and 6.3% to 13.4% in 2021/22.

[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, currently \$161,065, was proposed to increase to \$175,199 in 2019/20, increase to \$189,000 in 2020/21, and decrease to \$188,598 in 2021/22.

[6] The public hearing was held at the Royal Canadian Legion in Stewiacke on Tuesday, August 20, 2019, after due public notice. 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 Jeff Sibley, Superintendent of Public Works, and Randi Buchi, Manager of Finance. There were no formal intervenors in the proceeding. No members of the public requested to speak during the hearing, and no letters of comment were received by the Board.

[7] As set out in this Decision, the Schedule of Rates and Charges and the Schedule of Rules and Regulations, as amended, are approved as requested by the Utility.

II INTRODUCTION

[8] The Water Utility's supply comes from the St. Andrew's River. The water treatment process consists of flocculation, dissolved air floatation clarification, rapid sand filtration, chemical feed systems, and a chlorine contact chamber. The water storage consists of 454,000 litres at the water treatment plant and a 2,054,000 litre steel storage

standpipe located at Tower Road. The Utility provides water service to approximately 90% of the Town through 13 kilometres of various sized mains.

[9] The Utility currently serves approximately 627 customers. At the time of the last rate application, the Utility also provided a bulk water service which has since been discontinued due to the cost of the service. The Application predicts the customer base will remain constant over each of the Test Years, consistent with the recent history of the Utility.

[10] 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

[11] For the year ended March 31, 2018, the Utility had an excess of revenues over expenditures of \$76,898 and an accumulated surplus of \$473,876. If current rates are left in place, the Utility is projecting an accumulated deficit balance of \$101,489 by the end of 2021/22.

[12] The operating budget is drafted by staff of the Utility, based on review of the past 3 to 5 years of financial records. Staff then present the budget to Council for review and final approval.

[13] The projected operating expenses for the Test Years are generally based upon the Utility's budget for 2018/19 plus an annual increase sufficient to cover inflation (with the exception of depreciation). In response to IR-14, the Utility explained that Operations Labour and Mains O&M have larger increases due to an additional employee

added to the Utility. The associated labour cost was split between these two expense items.

[14] The Utility noted that the Town has not been charging the full cost of administration to the Utility. The Rate Study notes that the full cost of administration of the Utility was calculated to be \$76,380 in 2019/20, \$78,681 in 2020/21, and \$81,032 in 2021/22. For rate design purposes, the Town suggested phasing in the higher administration cost over the Test Years. The costs included in the Rate Study are \$51,633 in 2019/20, \$62,500 in 2020/21, and \$81,032.

[15] The Rate Study proposed that the annual depreciation expense on the major capital expenditure in distribution piping also be phased in over the Test Years with 0% recognized in 2019/20, 50% recognized in 2020/21, and the remaining 50% recognized in 2021/22. This was proposed for rate design purposes to avoid a single large increase in 2019/20.

Findings

[16] The Board finds the projected operating expenses over the Test Years to be reasonable. The Board accepts the proposed phase-in of both the increased administration charge from the Town and the depreciation expense over the Test Years as proposed.

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

b) Capital Budget and Funding

[18] The Rate Study included the Utility's capital budgets in each of the three Test Years, totaling \$1,161,132, \$520,000, and \$20,000, respectively. The Utility has budgeted \$1,023,132 in the first Test Year and \$10,000 in each of the second and third Test Years for replacement of faulty distribution mains. The first Test Year also has \$100,000 budgeted for a water supply study, and \$28,000 for financial software. The second Test Year has budgeted \$500,000 for source of supply structures. Each Test Year has \$5,000 budgeted for Meters and \$5,000 budgeted for Hydrants.

[19] The proposed funding for the capital budget is as follows:

| | 2019/20 | 2020/21 | 2021/22 |
|------------------------|---------------------|-------------------|------------------|
| Outside Funding | \$ 772,586 | \$ 365,000 | - |
| Depreciation Fund | \$ 250,000 | \$ 100,000 | \$ 18,500 |
| Capital from surplus | \$ 137,046 | \$ 53,500 | - |
| Capital out of revenue | \$ 1,500 | \$ 1,500 | \$ 1,500 |
| Total | \$ 1,161,132 | \$ 520,000 | \$ 20,000 |

[20] The Rate Study projects that, with the proposed funding as set out above, the depreciation fund balance will be \$185,473 at the end of the Test Years.

[21] During the hearing the Board asked the Utility how assured it was regarding the receipt of the public funding used in the Rate Study. Ms. Buchi responded that the likelihood of receiving the funding this year was not good, but that the Utility is confident that it will ultimately receive the funding and that it will continue to apply every six months. The replacement of the remaining faulty water mains will be delayed until the required outside funding is received.

[22] Mr. Isenor noted during the hearing that the Utility had been having problems with poorly installed mains for the last two decades, which have been slowly replaced over this time period. Distribution mains typically have a useful life of 75 years

but the mains in Stewiacke were installed in the 1970's and have not lasted nearly as long as expected. The distribution mains replacement included in the Rate Study represents the last of the older problematic mains. The mains replaced thus far have had a positive impact on the non-revenue water, resulting in a significant reduction since the last rate application. The current non-revenue water is in the range of 25% down from approximately 35% in the last rate study.

Findings

[23] The Utility is primarily focusing on repairing and replacing current infrastructure over the Test Years. The intended capital program will complete the necessary replacement of poorly installed distribution mains. The Board recognizes the necessity of completing this work.

[24] The Board finds the proposed capital budget and funding for each of the three Test Years to be reasonable. However, the Utility is reminded that the inclusion of the proposed capital projects in the Rate Study does not constitute Board approval of these projects. Separate Board approval is required for projects in excess of \$250,000 as set out in s. 35 of the *Act*. The Board understands that the receipt of outside funding is not guaranteed, and expects that the Utility will make a new application to the Board to address this issue should the outside funding projected not be received in the next few years.

c) Non-Operating/Other Revenues and Expenditures

[25] The total annual amount for other operating revenues in each of the Test Years is \$5,150, \$5,305, and \$5,464, respectively. The only non-operating revenue is interest and other income.

[26] The non-operating expenses include debt payments, and the corresponding interest expense, and capital out of revenue. No new debt is proposed over the Test Years.

[27] The rates of return calculated in the Rate Study provided in response to Undertaking U-1, which are calculated using the total non-operating expense revenue requirement, are 3.03%, 2.62% and 2.56%, respectively, in each of the Test Years.

Findings

[28] The Board finds the Utility's other and non-operating revenues and expenditures to be reasonable and accepts them as presented.

[29] The Board finds the Rate Study's calculated return on rate base to be reasonable and accepts it as presented.

d) Allocations of Revenue Requirement

1. Public Fire Protection

[30] The methodology used in the Rate Study to determine the public fire protection charge is in accordance with the *Accounting Handbook*. At the time of the last rate application, the Utility was allocating 50% of the reservoirs and 50% of the distribution mains equipment to the fire protection charge for rate design purposes. This allocation

has now been brought in line with the recommended allocation in the *Accounting Handbook*.

[31] The percentage allocation of utility plant in service to public fire protection is calculated in the Rate Study to be within a range of 48.2% to 51.5% over the Test Years. The fire protection charges calculated in the Rate Study produced a reduction in the fire protection charge in the second Test Year. For rate design purposes, the Utility is requesting to maintain the fire protection charge in the range of the first Test Year to avoid a decline. Therefore, the fire protection charge requested as part of the Application, as set out in the Rate Study, is \$189,140, \$189,000, and \$188,598 in each of the Test Years, respectively.

Findings

[32] The Board accepts the Utility's determination of the fire protection charges as presented in the Rate Study, with the proposed change to the charge in the second Test Year and approves them as requested.

2. Utility Customers

[33] The remaining revenue requirement, after the allocation to the fire protection charges, is to be recovered from the customers of the Utility.

[34] The Utility currently has approximately 627 customers, which is projected to remain the same throughout the Test Years. The Utility based this estimate on the recent history of the Utility. The Utility has projected a slight reduction in consumption over the Test Years, which is consistent with trends seen in other utilities across the Province.

[35] The allocations of costs used in the Rate Study are consistent with the methodology as set out in the *Accounting Handbook*, with the exception of Transmission and Distribution which has been allocated 25% to the Base charge and 75% to the Delivery charge as opposed to 100% to Delivery. This change was proposed to keep the revenue from the Base charge in the 40% range. This change was requested to maintain the financial stability of the Utility.

Findings

[36] The Board accepts the methodology used by the Utility in the calculation of base and consumption rates for each of the Test Years as proposed.

e) Schedule of Rates and Charges

[37] In addition to the rates for water supply to its customers, the Application included other proposed changes to its Schedule of Rates and Charges. These changes are generally proposed in order to bring the Schedule of Rates and Charges in line with the majority of the Utilities in the Province.

Findings

[38] The Board has reviewed the proposed amendments included in the Schedule of Rates and Charges, and finds them to be reasonable.

[39] The Schedule of Rates and Charges for the Test Years are approved as reflected in the Rate Study.

f) Schedule of Rules and Regulations

[40] There were also some changes proposed to the Schedule of Rules and Regulations. The amendments, again, are generally meant to bring the Utility in line with the majority of other Utilities in the Province.

[41] During the hearing, Mr. Isenor noted that the Utility suggested a further change to regulation 7(c) to be consistent with new wording adopted at other recent water rate hearings in the province.

[42] The Board approves the following wording for regulation 7(c):

- (c) Customer Over billed – Notwithstanding 7(a) above, in the event a customer has been billed in error for a Service they did not receive, the Utility will reimburse such customer the amount billed to and paid by the customer, together with interest calculated as simple interest paid on savings accounts by the Utility's bank, respecting the period during which the customer was incorrectly billed by the Utility, such period not to exceed five years.

Findings

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

[44] The Board approves the Schedule of Rules and Regulations as presented in the compliance filing submitted on September 13, 2019.

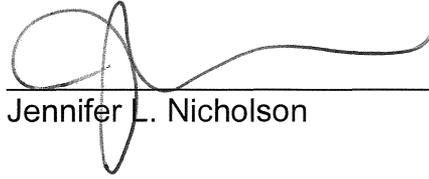
IV CONCLUSION

[45] The Board approves the Schedule of Rates and Charges for Water and Water Services, effective October 1, 2019, April 1, 2020, and April 1, 2021.

[46] The Board approves the Schedule of Rules and Regulations as proposed, and amended in the compliance filing, effective October 1, 2019.

[47] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 16th day of September, 2019.

A handwritten signature in black ink, consisting of a large, stylized initial 'J' followed by a series of loops and a long horizontal stroke that ends in a small hook.

Jennifer L. Nicholson