

**NOVA SCOTIA REGULATORY AND APPEALS BOARD**

**IN THE MATTER OF THE PUBLIC UTILITIES ACT**

**- and -**

**IN THE MATTER OF AN APPLICATION** by the **REGION OF QUEENS MUNICIPALITY**,  
on behalf of its **WATER UTILITY**, for approval of amendments to its Schedule of Rates  
for Water and Water Services and amendments to its Schedule of Rules and Regulations

**BEFORE:** Bruce H. Fisher, MPA, CPA, Panel Chair  
Jennifer L. Nicholson, CPA, Member  
Marc Dunning, P.Eng., LL.B., Member

**APPLICANT: REGION OF QUEENS MUNICIPALITY**

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

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

Joanne Veinotte  
Director of Finance

Adam Grant  
Director of Infrastructure

Willa Thorpe  
Chief Administrative Officer

**INTERVENOR: QUEENS COMMUNITY HEALTH BOARD**  
Tara Druzina

**HEARING DATE:** November 19, 2025

**FINAL SUBMISSIONS:** November 25, 2025

**DECISION DATE:** December 22, 2025

**DECISION:** The application is approved, with amendments as directed by the Board in this Decision and subject to a compliance filing.

## TABLE OF CONTENTS

1.0	SUMMARY .....	4
2.0	BACKGROUND .....	5
3.0	ISSUES .....	9
4.0	LETTERS OF COMMENT AND SPEAKER.....	9
5.0	REVENUE REQUIREMENTS .....	10
5.1	Operating Expenditures .....	10
5.1.1	Findings .....	13
5.2	Capital Budget and Funding .....	15
5.2.1	Findings .....	16
5.3	Bulk Water Rates .....	18
5.3.1	Findings .....	18
6.0	DETERMINATION OF "RATE SHOCK" .....	18
6.1	Depreciation.....	19
6.2	Accumulated Deficit to the Municipality.....	20
6.3	Affordability .....	21
6.4	Findings .....	22
7.0	REVENUE REQUIREMENT ALLOCATION .....	24
7.1	Public Fire Protection.....	24
7.1.1	Findings .....	25
7.2	Utility Customers.....	25
7.2.1	Findings .....	27
8.0	SCHEDULE OF RULES AND REGULATIONS .....	27
8.1	Findings .....	28
9.0	CONCLUSION.....	28

## **1.0 SUMMARY**

[1] In July 2025, the Region of Queens Municipality (Municipality) applied to increase the rates for its water utility (utility) by nearly \$350 per year (over 100% increase) for average residential customers effective January 1, 2026. The utility also applied for smaller increases to take effect on April 1, 2026, and on January 1, 2027. In the 2024/25 fiscal year the utility had a deficit over \$250,000. In the 2025/26 fiscal year the utility projects a deficit of over \$650,000. The Municipality has covered the utility's annual deficits and as a result, the utility has a projected accumulated deficit of almost \$1,400,000 that it will owe to the Municipality at the end of 2025/26. The Utility's projected costs are impacted by inflationary pressures, changes in how costs are allocated between other departments in the Municipality and the utility, and earnings for the utility (that it proposes to use to start paying down its debt to the Municipality). Cost pressures also come from planned capital improvements, which have been budgeted to replace aging infrastructure. The utility's last rate application was in 2021 (Matter M10229), in which the Board approved rates for test years 2022/23 to 2024/25.

[2] The Queens Community Health Board (Health Board) was an intervenor in this application. Its evidence and submissions largely focused on affordability concerns given the magnitude of the proposed increases and the presence of vulnerable populations in the community, including those with fixed or low income.

[3] In considering the application, several alternative approaches were reviewed by the Nova Scotia Regulatory Appeals Board (Board). The Board directed the utility to prepare a revised rate study in response to Information Request (IR) IR-2, whereby depreciation reserve funds were redirected to spread out the increase in rates. In addition, the utility prepared its own revised rate study, as a response to IR-4, that used

some reserve funds and lowered the initial annual increase for the average 5/8" meter customer to \$280 or 85% on January 1, 2026. The Municipality will offer a rebate that is applied to water accounts of low-income customers through its Utility Assistance Rebate Policy. The utility has asked the Board to approve the revised rate study provided in response to IR-4.

[4] The Board has reviewed the revised rate study. Despite the revisions, the Board has concluded that the sudden, high initial increases in rates constitute "rate shock" for customers and that the larger increases need to be spread out into 2027. To do this, the Board has directed, among other adjustments, that the utility use a portion of its depreciation reserve funds to smooth the rate increase. The Board has also directed the utility to reduce certain expenditures, reduce repayment of the debt to the Municipality, and eliminate interest on that debt, to be set out in a compliance filing.

## **2.0 BACKGROUND**

[5] The utility's source of water supply is Town Lake in Milton. The lake is supplied from an 800-acre watershed where the Municipality owns all riparian land and 84.4% of the watershed. The balance of watershed lands are distant from the lake and nearly inaccessible. The water treatment plant is gravity-fed from Town Lake to the South Queens Water Treatment Facility. The facility utilizes conventional treatment consisting of three dissolved air floatation chambers, four gravity media filters, and a gas chlorine disinfection system.

[6] The water treatment facility pumps to the storage reservoir, which feeds back through the facility for filter backwashing purposes and for supplying the

transmission system. The transmission and distribution system is made up of an approximately 35 km network comprised of steel, ductile, high-density polyethylene (HDPE) and polyvinylchloride (PVC) pipes. The components of the system vary in age, with some parts up to 120 years old.

[7] On July 2, 2025, the Municipality applied to the Board to change its water utility's Schedule of Rates for Water and Water Services and its Schedule of Rules and Regulations. The application was made under the *Public Utilities Act*, RSNS 1989, c 380 (Act).

[8] The utility's existing rates and charges have been in effect since April 1, 2024, and its regulations have been in effect since April 1, 2022. The utility stated that it needed to increase rates to continue meeting its operational obligations, address its accumulated deficit, and carry out necessary capital improvements. The utility's consultants, G.A. Isenor Consulting Limited and Blaine S. Rooney Consulting Limited, prepared an initial rate study dated June 16, 2025, supporting the application.

[9] The initial rate study proposed rates for fiscal years 2025/2026, 2026/2027, and 2027/2028 (test years) for its customers. For 5/8" meter customers, most of whom are residential customers, the proposed increases in each test year (based on average quarterly consumption) are 105.4% in 2025/26 (January 1, 2026), 2.9% in 2026/27 (April 1, 2026), and 1.6% in 2027/28 (January 1, 2027). For all other metered customers, based on the average quarterly consumption for each meter size, the proposed rate increases are between 107.5% and 119.5% in 2025/26, 0.2% to 4.0% in 2026/27, and 2.8% to 4.3% in 2027/28.

[10] Board staff issued IRs on August 27, 2025, and October 21, 2025. The Health Board issued IRs on September 15, 2025. The utility responded to the IRs on October 1, 3, 7, and November 7, 2025.

[11] The Board requested an alternative rate study in IR-2, asking the utility to spread the proposed rate increases over the test period. In addition, the utility included a second revised rate study in response to IR-4. This version of the rate study (utility alternative) attempted to smooth rates out over the test period by using depreciation funds to pay principal payments on new and existing long-term debt, deferring depreciation, and withdrawing the balance of the sediment removal reserve as non-operating revenue in 2025/26.

[12] The utility alternative included a worksheet (Worksheet D-1) showing the expected net increase in rates on customers receiving assistance from the Municipality's Utility Assistance Rebate Policy, which provides \$50 per quarter for households with an income of less than \$35,000. The utility alternative rate study from IR-4 is referenced in the remainder of this decision, unless otherwise noted.

[13] The average rate increases for 5/8" meter customers calculated in the utility alternative rate study are 84.8% in 2025/26, 6.8% in 2026/27, and 2.2% in 2027/28. For 5/8" customers who receive assistance from the Utility Assistance Rebate Policy, assuming the same average consumption, the increases would be 24.3%, 10.1%, and 3.1%, in each of the test years, respectively. For all other metered customers, average rate changes are between 87.2% and 113.6% in 2025/26, a decrease of 1.1% to an increase of 7.7% in 2026/27, and an increase of 0.5% to 3.1% in 2027/28. The utility proposed January 1, 2026, as the effective date for the increases in the first test year,

with the 2026/27 increases coming into effect on April 1, 2026, and the 2027/28 increases coming into effect April 1, 2027.

[14] The Board held a public hearing on November 19, 2025, at the Municipality's Council Chambers in Liverpool, Nova Scotia, after due public notice. The utility's consultants, Gerry Isenor and Blaine Rooney, represented the utility, accompanied by the following representatives from the Municipality: Joanne Veinotte, Director of Finance; Adam Grant, Director of Infrastructure; and Willa Thorpe, Chief Administrative Officer.

[15] There was one formal intervenor, the Health Board. The Health Board is responsible for monitoring and advocating for the health and well-being of Queens County residents. It intervened in this application because it considers water affordability fundamental to public health. It also raised concerns with the language of several provisions of the utility's Regulations. The Health Board was represented by Tara Druzina, Chair of the Health Board.

[16] The Board received three letters of comment, one of which included an email exchange between a customer of the utility and the Honourable John Lohr, Minister of Municipal Affairs. The Board also received a request from Paul Deveau to speak at the hearing.

[17] At the hearing, the Board asked the utility to submit additional information, which the utility undertook to file following the hearing. The utility filed its undertaking responses on November 25, 2025.

[18] The Board has concluded that (with some adjustments) the revenue requirements sought by the utility are reasonable. However, the proposed rates constitute



“rate shock” for customers. The Board has provided various directions to the utility to mitigate the impact of rate shock, as set out in this decision, to be addressed in a compliance filing.

### **3.0 ISSUES**

[19] There are two main issues in this application.

[20] The first issue is whether the revenue requirements applied for by the utility, and therefore the resulting rate increases, are “just and reasonable”. The second issue is whether the sudden increase in the proposed rates constitutes “rate shock” and, if it does, what is the most appropriate manner to deal with it.

### **4.0 LETTERS OF COMMENT AND SPEAKER**

[21] Two letters of comment take issue with the large, proposed rate increases and their potential impact on seniors and lower-income households. Both letters noted that increases of this magnitude could seriously impact the finances of pensioners on fixed incomes. The letters also noted that households with just one pensioner would be even more impacted than households of two or more.

[22] The third letter of comment was from a landlord who was concerned with affordability. The letter noted that water bills that increased by 100% or more would not be recoverable by landlords given the rent cap of 5% imposed by the provincial government. The letter went on to note that Nova Scotians can’t afford such an increase, nor should they have to, and that a 5% increase in rates is fair, given the restrictions placed on landlords with the rate cap.

[23] Mr. Deveau was the only person registered to speak. Since he agreed to speak during the daytime at the public hearing, it allowed the Board to cancel the evening session.

[24] In his presentation, Mr. Deveau confirmed that he lives in District 5 of Queens County. He is the owner of multiple properties that are serviced by the utility. He focused largely on the utility's duty to furnish safe and adequate service. He was also very concerned with the level of non-revenue water. Mr. Deveau suggested that there is risk of water supply contamination with the significant leakage in the system.

[25] Regarding water loss, Mr. Deveau asserted that the utility's costs would be reduced if water loss was reduced and that at current water loss levels, it is as if customers are paying for three litres of water, one for their own use and two more that are lost into the ground. Mr. Isenor noted that the utility only saves on pumping electricity and chemical costs by reducing water loss and there are small or even no savings in all other cost categories. In addition, he testified that it is likely that much of the non-revenue water is being delivered to customers but is not being recorded accurately because most customers have meters that are around 50 years old. Mr. Deveau asked the Board to deny the application under sections 52A to 52F of the Act, and to enact penalties if targets are not met. He suggested that the Municipality should pay for the lost water.

## **5.0 REVENUE REQUIREMENTS**

### **5.1 Operating Expenditures**

[26] For the fiscal year ended March 31, 2025, the utility had an excess of expenditures over revenue of \$257,203 and an accumulated operating deficit of

\$521,929. For the year ended March 31, 2026, the utility projects an excess of expenditures over revenues of \$665,619, leading to an accumulated deficit of \$1,187,548.

[27] The utility alternative rate study projects that at current rates, the utility's expenditures will increasingly exceed revenues by \$845,350 in 2026/27 and \$900,324 in 2027/28, leading to an accumulated deficit of \$2,933,221 (\$2,693,221 excluding the proposed earnings) at the end of the test period. These deficit figures include using depreciation to pay the principal on new and existing debt and recognizing the sediment removal reserve as non-operating income.

[28] In its responses to IR-20 to IR-23, the utility provided reasons for the projected increases in certain operating expense line items from 2024/25 to 2025/26.

[29] For the most part, the utility alternative rate study's operating expenses in the test years are based on the utility's 2025/26 budget, with annual increases of approximately 2.5% to 5.0%, depending on the expense. The utility described its budgeting process in response to IR-18:

The Utility budget is prepared by the Director of Infrastructure for all operating related expenses. Administrative expenses such as office supplies or insurance are prepared by the Director of Finance. Administrative expenses are budgeted using historical trends or CPI factors depending on the budget line.

The Director of Finance complies with budget numbers submitted by the Director of Infrastructure into the budget document. Once this is completed, the draft budget is presented to council and reviewed in detail along with all municipal operations. Council then adopts the annual budget and the required three-year budget for submission to the Nova Scotia Utility and Review Board.

[Exhibit Q-7, p. 15]

[30] In response to IR-19, the utility explained how costs are allocated between the utility and the Municipality and addressed changes made from previous rate studies, as follows:

Initially costs that are wholly and clearly water utility costs are separated out and allocated directly to the water utility. Salaried staff track time, and the Director of Infrastructure submits these percentages each quarter to the Director of Finance for allocation across

various cost centers, including the Utility. Hourly paid Utility staff charge labor directly to the Utility on timecards which are reviewed by supervisory staff in the Infrastructure department. The Utility Clerk position is 80% allocated to the Water Utility as this person also performs some Operating billing functions. Administrative supplies are allocated to the Water Utility based on usual usage which is minor. All capital expenditures are fully charged to a project and allocated to that aspect of the project that it relates to by the Director of Infrastructure, of which the Utility would be one.

... previously wage allocations were prorated throughout the year in absence of actual time tracking. Since the last application we have transitioned to a more accurate approach where staff time is recorded. Hourly employees submit a time sheet bi-weekly to payroll with their hours recorded in a cost center, salaried staff also record their hours which are adjusted to utility cost centers.

...

Staff time is charged directly depending on the actual time logged on time cards. Other charged costs are typically 100% Utility so no allocation is required with the exception of the Audit fees at year end, some postage for bills, and perhaps some office supplies. The Utility considers the current system accurate.

...

Staff have included and addressed all issues that they are aware of based on the information they have at this time. The Region of Queens strives for continual improvement in reporting and cost allocations to ensure the most effective and efficient operations of the Utility.

[Exhibit Q-7, p. 15-16]

[31] Non-revenue water was calculated to be 69.1% in the 2024 Community of Liverpool Water System Water Loss Assessment Study prepared by GMac Water Ltd. This was up from an estimated 60.3% at the time of the previous rate application. The utility noted in response to IR-5 that it has taken measures to address non-revenue water. These measures include:

- hiring GMac Water Ltd. to provide leak surveys and the above noted water loss assessment study, including a water balance assessment;
- initiation of a single phase of transmission main replacement (not yet in service);
- continuing its leak detection program to locate and repair leaks;
- taking steps to reduce/control non-metered water at one of the municipal facilities; and
- budgeting leak detection and repairs in each of the test years.

[32] In addition, in response to IR-B from the Health Board, the utility provided a summary record of the watermain leaks and actions taken since 2023.

[33] Mr. Grant said old meters, which may not be reading all the water passing through them, may significantly contribute to non-revenue water. This issue was canvassed during questioning at the hearing. Mr. Grant noted that the current meters are at least 50 years old. Meter replacements could have a large impact on non-revenue water. There are no meter replacements budgeted in the current test period. The utility noted that it had recently looked into procuring meters but was unsuccessful in finding contractors to supply and install the meters.

[34] When asked by the Board why the utility did not file a rate application sooner when it realized how dire its financial situation was, it cited several factors, including staffing turnover and shortages, and significant operational challenges due to two catastrophic lightning strikes on the water treatment plant, and its aftermath. The lightning strikes caused significant equipment failure, which resulted in large increases in treatment expenses and repairs that were not covered by insurance.

#### **5.1.1 Findings**

[35] Increases in general operating expenses over several years caused the utility's recent operating deficits and its accumulated deficit. The utility's inability to file for rate increases sooner led to continued annual deficits and turned the utility's accumulated surplus into an accumulated deficit. This was compounded by the lightning strikes which had significant consequences. The changes in reporting to more accurately allocate costs between the utility and the Municipality were among the main drivers in the large increases in operating expenses. Ms. Veinotte testified that, since the last rate study, allocations have been continually refined to reflect what is actually happening, to the point where the utility and Municipality are confident that the allocations used in this application are appropriate.

[36] The Board notes that most of the expenses associated with running the utility and delivering safe drinking water to its customers are fixed costs, regardless of the amount of leakage. Lowering water loss by fixing leaks would save a proportional amount of electricity used for pumping and chemical costs but would not lead to a large, overall reduction in costs. Regardless, fixing leaks requires ongoing operating funds and additional capital investment. Reducing funds or levying penalties means there will be less funds for that work to occur. This will likely make the current situation worse and further deteriorate the utility's financial situation. The Board's primary concern is ensuring that safe, reliable water is available to ratepayers at a reasonable cost.

[37] The Board accepts that most operating expenses requested by the utility are reasonable costs that are required for the proper functioning of the utility. That said, filing a rate application earlier could have reduced the accumulated deficit and produced more gradual rate increases rather than producing the significant and sudden increases in rates presented in this application, which are more difficult for customers to manage.

[38] The Board also accepts the utility's explanation for the allocation of expenses between the Municipality and the utility. Despite the confidence that the Municipality and the utility currently have with allocations, the Board reminds the utility to continue to review allocations and revise them if necessary. If the utility significantly changes its allocation methodology during the test period, it should also apply for changes in rates that consider the new allocations, instead of waiting until the end of the current test period to avoid the situation that arose in this application.

[39] The Board directs one change in how the utility has included operating costs in its rate study. The operator position discussed at the hearing is currently vacant and

will not be filled until at least April 1, 2026, leading to \$29,000 in costs for 2025/26 that will not be required. The Board directs the utility to reduce its operating expenses for 2025/26 by \$29,000.

[40] Except as noted above, the Board accepts the operating expenses contained in the rate study.

## **5.2 Capital Budget and Funding**

[41] The rate study included the utility's proposed capital additions of \$3,722,617 in 2025/26, \$911,153 in 2026/27, and \$309,435 in 2027/28. The utility said that many of its assets are older, with many of the pipes in the system being approximately 120 years old.

[42] In response to IR-25, the utility provided a list of the capital projects included over the test period. Worksheet B-3 included the funding sources for the projects as follows:

	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
<b>Outside Funding</b>	\$2,836,179	\$387,384	\$309,425
<b>Depreciation Funds</b>	\$874,439	\$523,769	\$0
<b>Long-term Debt</b>	\$12,000	\$0	\$0

[43] The utility noted that the outside sources of funding for the multi-year Mount Pleasant Service Extension and the Waterloo project have been secured. The funding has been budgeted and allocated to the utility based on the percentage of the overall project belonging to the utility.

[44] The 2024 Water Loss Assessment Study states that most of the meters used by the utility were purchased from the City of Halifax in the 1970s. These meters have not been replaced over time and are well past their useful lives. The utility explained that a large portion of non-revenue water could be from the old meters not registering all water passing through them, as meters tend to slow down over time. The utility noted that it had looked into replacing meters but was not successful in procuring them or finding a contractor to do the work.

[45] The utility is also projecting principal and interest payments to service its new and existing debt during the test period, of which the principal payments are being offset with depreciation as noted below. The interest on the new debt is based on an interest rate of 6%. The 2024/25 debenture was issued at 4.5%.

### **5.2.1 Findings**

[46] The Board accepts the utility's proposed capital program with adjustments to the depreciation and long-term debt funding required, based on the directives in this decision. The Board accepts that the utility's projected depreciation fund balance will change due to the directives as well. The Board notes that, although anticipated to be relatively low, the depreciation fund will start to replenish as the new assets are put into service and their associated depreciation is transferred to the depreciation fund.

[47] The Board notes that once the planned capital programs are completed, they should have some impact on non-revenue water, although the amount is unknown. When asked by the Board why no reduction in non-revenue water was budgeted for the test years based on the planned capital program, the utility said that when a leaky section of pipe is replaced, it can cause pressure to rise elsewhere in the system, which could



cause more leaks, depending on the age and condition of the pipe. The utility does not expect significant reductions in water losses from pipe repairs until most of the older pipes are replaced.

[48] The Board strongly encourages the utility to initiate a meter replacement program, which would be expected to provide the utility with more certainty in its usage measurements and assumptions. The meter replacement program should be considered in the next rate study.

[49] The Board also encourages the utility to replace its aging infrastructure as funding and staff time allow. The utility should look to all levels of government for funding support.

[50] The Board also notes that the utility assumes its debt payments (principal and interest costs) commence in the same year that the budget is approved. Testimony at the hearing confirmed that these payments will not occur until the year after the debt is issued. The Board understands that the utility assumes debt payments commence in the same years that the budget is approved to improve its cash flow position. However, considering the high rates being requested, the Board directs the utility to include such payments in the year they would be made, typically the year after the budget is included in the utility alternative rate study. For clarity, the debt for 2025/26 capital projects should commence in 2026/27. Debt payments for 2026/27 capital projects included in that year should commence in 2027/28.

[51] The Board notes that the 6% interest rate used for the debt is unnecessarily conservative. The Board directs the utility to use a 4.5% interest rate, as was used in 2024/25, for all new debt in the utility alternative rate study.

### **5.3 Bulk Water Rates**

[52] Although the utility doesn't project any bulk water sales, it sets bulk water rates anyway. Worksheet C-9 in the utility alternative rate study calculates the rate for bulk water as operating and non-operating expenses divided by total water consumption, then marks that up by 30%.

#### **5.3.1 Findings**

[53] The Board approves the utility's proposed bulk water rates for each of the test years and notes that a 30% markup is what most utilities use for bulk water stations.

### **6.0 DETERMINATION OF "RATE SHOCK"**

[54] There is no clear definition of "rate shock". The Board tends to review not only the percentage increase but also the dollar amount. In this case the Board finds that the proposed rate increases (the first two rate increases are only three months apart) are clearly "sudden and significant" and fall within the scope of what is understood as "rate shock".

[55] The Board commends the actions of the Municipality in providing a low-income rebate to offset the impact of water rate increases on those with less than \$35,000 in annual income. The Board has no authority to compel the Municipality to do so; the Municipality acted on its own initiative. The costs of this program must be borne by the Municipality itself, and not the utility, as there is no ability for the utility to provide rate rebates under the Act.

[56] In other matters, the Board has dealt with rate shock on a case-by-case basis, depending on the specific circumstances. In some instances, the Board has

directed a utility to defer rate increases through using short-term borrowings. This allows ratepayers additional time to adjust to the increased payments. However, the interest costs from such borrowings add additional future costs for the utility, and ultimately its customers, to repay. Considering the significant debt that the utility already has, this is not a realistic option. In other cases, the Board has not offset rate increases at all. The Board finds that the utility is in a difficult position. The Board also finds that, other than the minor adjustments directed above, the required revenues in the application are just and reasonable, and necessary to produce safe, reliable water. Yet its rate increases clearly fall within the definition of “rate shock”.

[57] In determining how to proceed, the Board will consider depreciation expenses; the accumulated deficit to the Municipality; and affordability.

## **6.1 Depreciation**

[58] In the Board’s accounting guidelines, depreciation funding is essentially reserve funding and is entirely different from depreciation in the traditional accounting sense. Rather, under the Board’s accounting guidelines, a capital reserve called “Depreciation” must be funded and the funds are to be used for capital projects. Contributions are based on the previous year’s depreciation expense plus depreciation on new capital additions.

[59] The utility stated that the depreciation rates used for the proposed capital additions over the test years conform to the Board’s *Water Utility Accounting and Reporting Handbook (Handbook)*. It proposed two exceptions to this. First, it proposed delaying the depreciation contribution on the transmission and distribution improvements in 2025/26 to 2026/27. Secondly, it proposed using depreciation funds to pay for the principal costs on debt. It made these proposals to lower the rates it had initially proposed.

It is not unusual for utilities to propose exceptions to the *Handbook*, which the Board considers on a case-by-case basis.

[60] The utility said it expects its depreciation fund balance, which was \$1,149,247 as of March 31, 2025, to fall to \$166,371 at the end of the test period. This decrease includes funding of the capital program as requested, as well as funding the principal payments on new and existing long-term debt.

[61] The utility objected to the rate scenario the Board requested in IR-2 which would have used depreciation funds to offset rate shock. In IR-2 the utility stated that it has significant concerns about using depreciation funds to reduce rates by paying down the deficit. The utility further noted that this use of depreciation funds conflicts with Section 3050 (Policy 2) of the *Handbook* and will result in increased borrowing and higher rates at the end of the test period for all customers, and in its opinion would likely conflict with Generally Accepted Accounting Principles (GAAP) and might not be permitted by the utility's auditors.

[62] In addition to the depreciation reserve, the utility is proposing to transfer \$124,422 from the sediment removal reserve to reduce rates in the first test year. Mr. Grant testified that the utility no longer needs this reserve because sediment is not accumulating at the rate that was anticipated when the reserve was established and as a result those funds can be used for other purposes.

## **6.2 Accumulated Deficit to the Municipality**

[63] The utility accrued interest owing to the Municipality for funding its deficits as an expense. It also included earnings of \$100,000 and \$140,000 in the final two test years, respectively. It plans to use the earnings to pay down the accumulated deficit owed to the Municipality. If earnings stay at the proposed level, the accumulated deficit would

be paid off over approximately seven years. The utility calculates interest on the deficit owing to the Municipality using an interest rate of 3%, as per the response to Board staff IR-38.

[64] In response to IR-A1, from the Health Board, regarding interest rates and payment terms for the deficit owed to the Municipality, the utility noted that to date, it has not been charged interest. The non-operating revenue and expenses were discussed in more detail during the hearing. In these discussions, it was noted that the Municipality has not requested interest on the amount owed to it, nor has it set payment terms for the utility's deficit that it has been funding.

### **6.3 Affordability**

[65] The Health Board's evidence included information and statistics on the demographics and income levels in the Municipality. This information indicates that residents in this area of the province may be more vulnerable to large rate increases than elsewhere. The Health Board requested that the Board only approve increases in the 15-20% range and ensure that customer protection programs be put in place.

[66] To combat at least some of the "rate shock" and address the Health Board's concerns, the Municipality has implemented its Utility Assistance Rebate Policy, in which households making under \$35,000 per year can receive assistance of \$200/year (\$50/quarter). In the utility alternative rate study, the utility included in worksheet D-1 the theoretical impact on rate increases for customers that receive funds from the Municipality's rebate program. For 5/8" meter customers receiving the rebate, the increase in test year 1 would be approximately 24%, down from 85% for those without the rebate.

## 6.4 Findings

[67] The Board has concluded that approval of the application based on the utility alternative rate study will cause rate shock to ratepayers. Expenditures, however, are reasonable and are required to provide safe and reliable water. The Board has considered requiring the increase to be deferred, using short-term borrowings to cover the costs, however, with the current level of debt this would cause additional financial distress to the utility.

[68] The Board reviewed the debt that is owed to the Municipality. The Municipality has not provided any direction to the utility as to repayment terms and conditions including any interest. Rather, the utility assumed a 3% interest rate and included interest in all three test years and earnings in test years 2 and 3. The Board appreciates the utility's wish to be financially responsible and to pay off the debt over a limited time period, but finds that this will cause additional hardship for ratepayers.

[69] The Board commends the Municipality on its commitment to help lower-income households. The Board has no jurisdiction over such a program but notes its benefit in addressing affordability concerns in these circumstances. Indeed, many households with incomes that exceed the Municipality's current low-income threshold would also benefit from an expansion of the program.

[70] The Board reviewed the utility's comments about using depreciation funds to deal with rate shock through lowering rates or paying off debt. The Board does not accept the utility's comments regarding the *Handbook* or GAAP requirements. The *Handbook* is produced by the Board as a general guide to how the water utilities it regulates can conform to regulatory accounting. Depreciation funding under the *Handbook* is a creation of the Board that amounts to a capital reserve. It is not the same

as depreciation under GAAP that is a non-cash item that recognizes the “using up” of assets over their useful lives. Regulatory accounting depreciation is not required by GAAP. Moreover, the *Handbook* specifically notes in Section 3050 that the Board “upon application by the water utility, may direct that depreciation funds be used for other purposes”. This discretion is also consistent with the Board’s authority under s. 39(2) of the *Act*.

[71] Regardless, the Board appreciates that using capital reserve funds to deal with rate shock is not ideal. Such funds are needed by the utility to deal with its aging infrastructure and to address such issues as meter replacements and leaks. In the circumstances, however, the Board has concluded that, on balance, it is in the best interest of ratepayers to use depreciation funds to offset rate shock. Therefore, the Board directs the utility to:

- Transfer \$600,000 from the depreciation reserve to operating over the first two test years (\$288,000 in year 1 and \$312,000 in year 2);
- Contribute full depreciation in 2025/26 for the transmission and distribution mains; and
- Refrain from using depreciation funds to pay down principal.

[72] The Board understands this will require the utility to change its capital program funding to use more debt over the test period, which will also change the principal and interest payments in the revenue requirements. It directs the utility to assume that \$400,000 of depreciation funding in the 2025/26 capital budget will be replaced with debt, with repayment assumed to start in 2026/27.

[73] In addition, the Board finds that the utility’s assumptions about paying down municipal debt are causing hardship to ratepayers. As no repayment terms and conditions exist with the Municipality, it directs that the utility:

- eliminate the requirement for earnings in test year 2;
- reduce the earnings in test year 3 from \$140,000 to \$70,000; and
- eliminate interest on the debt to the Municipality for all test years.

[74] The Board directs the utility to prepare a compliance filing incorporating the findings and directives made in this decision are incorporated.

## **7.0 REVENUE REQUIREMENT ALLOCATION**

### **7.1 Public Fire Protection**

[75] The methodology used in the utility alternative rate study for the determination of the public fire protection charge follows the *Handbook* and is consistent with that used in the previous rate application. The total fire protection charge is billed to the Municipality.

[76] The allocation of utility plant in service to public fire protection is calculated as 45.3% in 2025/26, 46.2% in 2026/27, and 46.5% in 2027/28. These allocations, along with 10% of all other expenses, result in total costs allocated to fire protection of 21.6%, 26.6%, and 27.6% for each of the three years, respectively.

[77] Based upon the utility alternative rate study's calculations, the fire protection charge is proposed to increase by 57.3%, 38.6%, and 7.2%, respectively, in each of the test years.

[78] The fire protection charge for the first test year is proposed to be calculated based on nine months of the current charge and three months using the new charge.

[79] In its evidence, the Health Board stated that an increase in the fire protection charge would work its way through the system and end up being paid for by citizens through property taxes, further compounding the increases in the water bills.



### **7.1.1 Findings**

[80] The methodology used to determine the total public fire protection charge conforms to the methodology set out in the *Handbook* and is the same as the previous rate study.

[81] The Board accepts the methodology used to calculate the fire protection charge in this application but notes that the changes to the revenue requirement from the directives in this decision will change the fire protection charge. This new calculation must be included in the compliance filing.

### **7.2 Utility Customers**

[82] The remainder of the utility's revenue requirement, after the allocation to fire protection service, is to be recovered from customers. The methodology the utility used to allocate revenue requirement to customer, base, delivery and production charges is similar to what it used in its last rate application. The allocations are consistent with the *Handbook*, except for transmission and distribution expenses, depreciation, and return on rate base. The allocations the utility used for these expenses, and under the *Handbook*, are set out in the table below:

Transmission and Distribution		Customer	Base	Delivery	Production
2025/26	Utility		100%	0%	
	Handbook			100%	
2026/27	Utility		80%	20%	
	Handbook			100%	
2027/28	Utility		80%	20%	
	Handbook			100%	
Depreciation and Return on Rate Base		Customer	Base	Delivery	Production
All Years	Utility		100%		
	Handbook		40%	30%	30%

[83] These allocations allow the revenue from the fixed charges to be 37% in 2025/26, 40% in 2026/27, and 39% in 2027/28. The Board understands that the utility may adjust the allocation in the compliance filing to meet its desired range of revenue from base charges for revenue stability.

[84] The utility currently has three unmetered customers and 1,230 metered customers. This is seven more customers than at the beginning of the previous rate study. The application projects that the number of customers will stay the same during the test period. The utility used the projected number of customers to calculate the proposed base charges. The utility described the three unmetered customers as seasonal properties and stated that there are no plans to meter them due to their low water consumption. The calculation of overall consumption charges in the rate study is based on the actual annual water consumption of 280,309 m<sup>3</sup> in 2024/25. The utility noted that the consumption for

5/8" metered customers is down by about 3.5% per year since the previous rate study. The utility projects this trend to continue, though at a slower rate. The reduction for 5/8" customers included in the rate study is 2% per year. This would be an average drop from 134 cubic meters to 126 cubic meters per customer.

### **7.2.1 Findings**

[85] The Board accepts the method used by the utility to distribute expenses to base, customer, delivery, and production charges. The Board also accepts the proposed allocation of depreciation and transmission and distribution expenses, which were set to reduce revenue risk to the utility by moving more expenses to the base charge than the *Handbook's* suggested allocations.

[86] The Board accepts the projected number of customers over the test period and finds the projected consumption amounts to be reasonable, given the utility's recent history.

[87] Based on the information filed, the Board approves the methodology for setting customer rates as presented in the rate study submitted in response to Undertaking U-5. The Board has made findings and issued directives that will impact the customer rates subject to a compliance filing.

## **8.0 SCHEDULE OF RULES AND REGULATIONS**

[88] The Health Board brought forward questions and concerns regarding several of the utility's Rules and Regulations. In response to Undertaking U-5, the utility addressed these concerns.

[89] Originally, the utility was not proposing any changes to its schedule of Rules and Regulations, but in its undertaking responses has proposed minor changes and housekeeping corrections to address the Health Board's concerns.

[90] In response to the undertakings, the utility included an update to its Schedule of Rules and Regulations to address the points noted above. The utility proposes an effective date of January 1, 2026 (Schedule D of the utility alternative rate study).

### **8.1 Findings**

[91] The current Schedule of Rules and Regulations is generally consistent with most other water utilities in the province that have had recent rate applications. The Board accepts the utility's proposal to include the updates filed in response to Undertaking U-5, effective January 1, 2026.

[92] The Board reminds the utility to regularly review its Regulations to ensure that they meet its needs and provide certainty for its customers. The Board notes that the utility can request Board approval to update its Regulations or add new ones at any time.

## **9.0 CONCLUSION**

[93] The Board approves the Rates for Water and Water Services set out in the utility alternative rate study (Schedules A and B, and C), subject to the changes made to fire protection and customers' rates and changes flowing from the directives in this decision. The updated schedules will come into effect on January 1, 2026, April 1, 2026, and April 1, 2027, respectively, upon acceptance of the compliance filing. The compliance filing is due December 30, 2025.

[94] The Board approves the Schedule of Rules and Regulations set out in the utility alternative rate study, with an effective date of January 1, 2026.

[95] In the compliance filing, as noted above, the Board directs the utility to file an updated rate study, based on the utility alternative rate study, incorporating the following:

- On the Accumulated Deficit:
  - Eliminate the interest on debt to the Municipality;
  - Reduce earnings in test year 2 from \$100,000 to \$0; and
  - Reduce earnings in test year 3 from \$140,000 to \$70,000.
- On the Depreciation Fund:
  - Assume that \$400,000 of depreciation funding in the 2025/26 capital budget be replaced with debt, with repayment assumed to start in 2026/27;
  - Make a depreciation fund withdrawal of \$288,000 and recognize it as non-operating revenue in 2025/26;
  - Make a depreciation fund withdrawal of \$312,000 and recognize it as non-operating revenue in 2026/27;
  - Lower the depreciation funding by \$400,000 for the 2025/26 capital program, and assume additional debt at 4.5% interest with interest and principal payments starting in 2026/27;
  - Do not use depreciation funds to offset principal repayment on new or existing debt; and
  - Contribute to the depreciation fund as per the *Handbook* for each of the test years, including the contribution for transmission and distribution mains which the Board directs to be made in 2025/26.
- Other
  - Update the interest rate for new debt to 4.5% (down from 6%) with interest and principal payments due the year after capital project is budgeted for; and
  - Reduce the budget to account for the operator vacancy by \$29,000 in 2025/26.

[96] In addition, the Board directs the utility to file with the Board no later than July 1, 2027:

- The projected financial results for the 2026/27 fiscal year;

- The estimated surplus/deficit and accumulated deficit as of March 31, 2027;
- A variance analysis of the revenue requirement for test years 1 and 2 to the actual results for each of those years;
- The results of any discussions with the Municipality as to terms, conditions and timeline for repaying the accumulated deficit;
- The results of non-revenue water estimates and leak surveys undertaken since January 1, 2026;
- The utility's plans for any significant capital projects including meter replacement;
- A statement explaining when the utility intends to file its next rate application, and what considerations led it to make that decision; and,
- Any other matter of significance the utility believes the Board should be informed of.

[97] An Order will issue accordingly.

**DATED** at Halifax, Nova Scotia, this 22<sup>nd</sup> day of December 2025.




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Bruce H. Fisher



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Jennifer L. Nicholson



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Marc Dunning