

NOVA SCOTIA REGULATORY AND APPEALS BOARD

IN THE MATTER OF THE PUBLIC UTILITIES ACT

- and -

IN THE MATTER OF AN APPLICATION by the **TOWN OF MIDDLETON**, on behalf of the **Middleton Water Utility**, for approval of amendments to its Schedule of Rates and Charges for Water and Water Services and amendments to its Schedule of Rules and Regulations

BEFORE: Julia E. Clark, LL.B., Vice Chair

APPLICANT: **TOWN OF MIDDLETON**

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

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

Ashley Crocker
Chief Administrative Officer

Bridgett Stennett
Director of Finance

Adam Verran
Director of Public Works

HEARING DATE: June 4, 2025

FINAL SUBMISSIONS: August 4, 2025

DECISION DATE: **September 12, 2025**

DECISION: **The Schedules of Rates and Charges and Schedule of Rules and Regulations are approved, as provided in the Utility's response to the Undertakings.**

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1.0 SUMMARY

[1] On March 7, 2025, the Town of Middleton (Town) applied to the Nova Scotia Utility and Review Board to amend its water utility's Schedule of Rates and Charges for Water and Water Services and its Schedule of Rules and Regulations. On April 1, 2025, on proclamation of the *Energy and Regulatory Boards Act*, S.N.S. 2024, c. 2, Sch. A, the Nova Scotia Regulatory and Appeals Board succeeded the Nova Scotia Utility and Review Board in all matters relating to the regulation of water utilities under the *Public Utilities Act*, R.S.N.S. 1989, c. 380.

[2] The utility's existing rates and charges have been in effect since April 1, 2020, and its Schedule of Rules and Regulations has been in effect since October 1, 2018. A rate study supporting the application was prepared by the utility's consultants, G.A. Isenor Consulting Limited and Blaine S. Rooney Consulting Limited.

[3] The 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 are to take effect on October 1, 2025, April 1, 2026, and April 1, 2027. The utility proposed increases to the average quarterly water bills for these customers of 8.0% in 2025, 10.5% in 2026, and 5.4% in 2027. For all other metered customers, based on the average quarterly consumption for each meter size, the proposed rate increases would be between 4.7% and 19.8% in 2025, 9.1% to 15.7% in 2026, and 5.4% to 5.5% in 2027.

[4] The Board held a public hearing on June 4, 2025, at the Town of Middleton Council Chambers in Middleton, Nova Scotia, after due public notice. The utility's consultants, Gerry Isenor, P.Eng., and Blaine Rooney, CPA, CA, represented the utility, accompanied by the following representatives from the Town: Ashley Crocker, Chief

Administrative Officer; Bridgett Stennett, Director of Finance; and Adam Verran, Director of Public Works. There were no formal intervenors in the matter, and the Board did not receive any requests to speak at the hearing or letters of comment.

[5] The Board reviewed the rate study and the information filed in response to the Information Requests (IRs) during the hearing. The Board requested that the utility submit additional information and a revised rate study to account for some changes to the proposal. The utility subsequently undertook to file those responses following the hearing.

[6] The utility filed its undertaking responses, including the revised rate study, on July 31, 2025. It is this revised rate study that will be referred to in this decision, unless otherwise noted.

[7] The average rate increases for 5/8" meter customers, recalculated in the revised rate study, are 14.1% in 2025, 7.8% in 2026, and 7.7% in 2027. For all other metered customers, average rate increases are projected to be between 10.5% and 28.4% in 2025, 6.2% to 12.7% in 2026, and 7.8% to 7.9% in 2027.

[8] The difference in rate increases over the test period between the original and revised rate study are mostly attributable to changes in the timing and funding of capital expenditures. The utility's response to the undertakings explained these differences:

1. The capital expenditures related to the construction of the new reservoir and associated pumping station in 2025/26 have been assigned to following categories based on the tender;
 - a. Power and Pumping Structures;
 - b. Distribution Reservoirs and Standpipes;
 - c. Electrical Pumping;
 - d. Controls and Monitoring Equipment – I&C;
 - e. Generator and Transformer

It is noted that the reservoir allocation includes an additional \$150,000 for the projected tariff which will be paid for the depreciation fund as noted on Worksheet B-3 (2025/26). The Utility has made an application to have the tariff is (sic) refunded.

Adjusted the total depreciation for the Reservoir from \$74,493 in the rate study filed with the application in 2025/26 to \$133,220 in the revised rate study. The Utility requests the depreciation on the Power and Pumping Structures and the Reservoir be started in 2026/27 for rate design purposes as contained in the attached revised rate study.

The breakdown of the depreciation by component and year is as follows:

a. 2025/26 Electrical Pumping Equipment	\$ 45,357
b. 2025/26 Control and Monitoring I&C	\$ 4,694
c. 2025/26 Generator and Transformer	\$ 26,812
d. 2026/27 Power and Pumping Structures	\$ 14,970
e. 2026/27 Reservoir	\$ <u>41,492</u>
	\$ <u>133,325</u>

2. The School Street watermain renewal project has been moved from 2027/28 to 2026/27 with \$150,000 in approved funding from grants with the balance of the funding being from the Depreciation Fund and \$297,000 from Accumulated Surplus. This is included in the rate study in 2026/27 for rate design to smooth the rates.

[Exhibit M-5. pp. 1-2]

[9] The utility proposes an effective date for the increases in the first test year to be October 1, 2025, with later increases effective on April 1 in the other two test years. After review, the Board finds the utility justified its rate needs and approves Schedules A, B, C, and D, from the revised rate study presented in the undertakings.

2.0 INTRODUCTION

[10] The utility utilizes a groundwater supply system, consisting of three production wells, liquid chlorine disinfection, a covered concrete reservoir and a distribution system consisting of water mains varying in age from two years to more than 100 years in age. No new areas are being served by the utility since the last rate study. The utility is replacing the concrete water storage reservoir during the test period in this application. The replacement of the reservoir with a new glass-lined bolted steel reservoir

was approved by the Board on August 2, 2024. The utility encountered recent difficulties with the delivery of the reservoir tank from its manufacturer, after the imposition of new tariffs by the governments of the United States and Canada. This has further delayed completion of the replacement project.

[11] The utility currently services 775 metered customers and two unmetered customers (a park and cemetery), that the utility does not plan to meter. There is no projected growth in the number of customers over the test years, based on the utility's recent operating history. The utility said it needed to adjust rates to continue to meet increasing operating costs and to carry out necessary capital additions and the associated financing and depreciation.

3.0 REVENUE REQUIREMENTS

3.1 Operating Expenditures

[12] For the fiscal year ended March 31, 2024, the utility had an excess of revenues over expenditures of \$201,923 and an accumulated operating surplus of \$742,501. For the year ended March 31, 2025, the utility projects an excess of expenditures over revenues of \$26,284, reducing the accumulated surplus to \$716,217.

[13] The rate study includes the estimated operating expenditures. In its responses to IR-11, the utility provided reasons for the projected increases in certain operating expense line items from its actual expenditures in 2023/24 to its projected expenses in 2024/25. The rate study projects that, at current rates, the utility's expenditures will exceed revenues by \$129,519 in 2025/26, \$237,527 in 2026/27, and \$358,684 in 2027/28, leading to an anticipated accumulated deficit of \$306,513 at the end

of the test period. This accumulated deficit includes capital out of revenue of \$297,000 in the second test year.

[14] For the most part, the rate study's operating expenses for the test years are based on the utility's 2024/25 budget, with annual increases of approximately 3% for inflation. The utility's responses to IR-17 to IR-20 provided justification for projected changes in operating expenses that exceeded 3%.

[15] The utility noted that there have been no changes to its budgeting process since its last rate application. The utility described its budgeting process in response to IR-15:

The Public Works Director prepares a draft budget based on their knowledge and historical costs, current regulations and experience. This budget is reviewed by the Director of Finance and the CAO. The draft water utility budget is presented to the Town Council who review it with staff. Final budget is then prepared by staff and approved by the Town Council in a formal motion.

[Exhibit M-3, p. 13]

[16] The cost allocation policy between the utility and the Town has not changed since the utility's last rate application in 2018. The policy was last updated in 2006, is reviewed annually and the utility still considers it to be reliable. The utility provided a copy of this "Administrative Charges – Water Utility" policy, along with details on its implementation in response to IR-16b):

Cost allocation is detailed on invoices which are coded, approved, and reviewed on a weekly basis. Staff time is allocated during the bi-weekly payroll process.

An overall review of costs and allocations is completed several times a year when forecasts are presented to Council.

[Exhibit M-3, p. 13]

[17] The depreciation expense projected in each test year is estimated based on the previous year's depreciation plus depreciation on capital additions. In response to IR-21, the utility stated that the depreciation rates used for the proposed capital additions

over the test period conform to the Board's *Water Utility Accounting and Reporting Handbook (Handbook)*.

[18] After the final test year from its last rate application, the utility started to transfer the projected depreciation and debt servicing expenses for the reservoir replacement into a reserve fund. This was done because the reservoir was not replaced as originally scheduled, and the costs associated with that capital project were already included in rates. The utility applied to the Board on February 8, 2024, to set up the reserve account and the Board approved the request on March 1, 2024. The delayed replacement project ended up being more expensive than originally estimated. By putting these funds aside in reserve, the utility had a large amount of funding available to help offset the increased cost of the project.

[19] At the time of the utility's last rate application in 2018, the amount of treated water lost or used in the system and not sold (non-revenue water) was approximately 44% of total production. The utility noted that since 2018, it replaced old hydrants, which would be expected to reduce non-revenue water. At the time of the application, non-revenue water was estimated to be 31%, after accounting for a 3% allowance for flushing.

[20] As in the last hearing, the utility explained that the majority of the water lost in the system relates to leakages at the old reservoir. A 2019 study by CBCL estimated that the reservoir was leaking 10,000 litres per hour, while an updated study in 2024, also by CBCL, indicated that the leakage has increased to 16,300 litres per hour. This amount represents approximately 34% of the average daily demand. The utility expects this leakage should be almost eliminated when the new reservoir is put into operation. The

Board approved the replacement of the reservoir on August 2, 2024. As explained earlier, the project has encountered delays and is now planned for 2025/26.

Findings

[21] The Board commends the utility's efforts to set money aside, already in rates, for the eventual replacement of the failing reservoir. Since the expense was included in rates for that purpose, putting it aside in the approved reserve to be used as a funding source, as opposed to having it fall into a general surplus, was a prudent decision.

[22] The Board accepts the utility's explanation for the allocation of expenses between the Town and the utility. As the utility currently does, the Board reminds it to review the allocations periodically and revise them as necessary. This rate study relied on the previous rate study's allocation of expenses, which was accepted by the Board at that time.

[23] Based on the information provided, the Board accepts the operating expenses included in the rate study. The utility provided reasonable explanations for its estimated expenses, on which the test years' expenses are based. The Board also accepts the depreciation expenses for the test period, which are based on the current actual depreciation expense plus annual depreciation on the gross cost of capital additions. The Board accepts the utility's proposal to adjust the timing of when capital projects and associated depreciation are recognized, for rate-making purposes, designed to smooth the rate increases over the test period.

3.2 Capital Budget and Funding

[24] The rate study included the utility's proposed capital additions of \$101,400 in 2024/25, \$5,753,793 in 2025/26, \$717,000 in 2026/27, and \$1,142,000 in 2027/28. In addition to larger projects, the planned capital additions included in the totals above are \$18,000 per test year for new hydrants and \$24,000 for valve replacements in each of the final two test years.

[25] The utility's response to IR-22 provided a breakdown of the projects included in the capital programs for 2024/25 and the test period. The larger projects proposed are the reservoir replacement and School Street watermain replacement, which have already been reviewed and approved by the Board.

[26] The funding for the capital program comes from reserve funds, depreciation funds, and new long-term debt, broken down as follows:

	2024/25	2025/26	2026/27	2027/28
Outside Funds			\$ 150,000	
Reserves/Surplus		\$4,173,115	\$ 297,000	
Depreciation funds	\$ 101,400	\$ 150,000	\$ 270,000	\$ 200,000
Long-term Debt		\$1,430,678		\$ 942,000

[27] The utility said it expects its depreciation fund balance to increase slightly from \$234,346 at the end of 2023/24 to \$239,988 at the end of the test period.

Findings

[28] The Board accepts the utility's proposed capital program and funding as set out in the rate study. The Board finds that the utility's projected depreciation fund balance by the end of the test period appears adequate for a utility of its size. Furthermore, the

increase in the depreciation expense, mainly due to the reservoir replacement, will lead to larger amounts being transferred to the depreciation fund going forward.

3.3 Non-Operating/Other Revenues and Expenditures

[29] The revenue requirements identified in the rate study include projections of other operating revenue, non-operating revenues and non-operating expenditures.

[30] The utility included non-operating expenses for principal and interest on expected new debt that it will use to fund part of its capital program. For 2023/24 and 2024/25, the utility had no debt servicing expenses. It recorded the transfer to the reservoir reserve of \$89,948 as its only non-operating expenditure.

[31] The utility is projecting miscellaneous non-operating revenues of \$1,000 in each of the test years.

[32] The utility's rate base in each of the test years is the gross utility plant in service, less the accumulated depreciation and unamortized capital contributions. Its return on rate base is determined from its non-operating revenue less non-operating expenses.

[33] For the years 2024/25 through to 2027/28, the utility has calculated its projected return on rate base as 3.15%, 2.83%, 2.47%, and 3.51%, respectively. The return on rate base is primarily being used to fund the utility's planned debt servicing costs over the test period.

Findings

[34] The utility has projected new long-term debt to fund part of its capital program over the test period. The Board finds the utility's non-operating revenue and expenses to be reasonable and accepts them as presented in the rate study provided

with the undertakings. The Board also accepts the calculated rates of return on rate base as they are within a reasonable range.

4.0 REVENUE REQUIREMENT ALLOCATION

4.1 Public Fire Protection

[35] The methodology used in the 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.

[36] The allocation of utility plant in service to public fire protection is calculated as 43.2% in 2025/26, 44.3% in 2026/27, and 45.7% in 2027/28 and subsequent years. These allocations, along with 10% of all other expenses, end up with total costs allocated to fire protection of 29.0%, 30.0%, and 31.9%, in the respective test years.

[37] Based upon the rate study's calculations, the fire protection charge is proposed to increase by 7.7%, 14.4%, and 17.6%, respectively, in each of the test years.

[38] The total fire protection charge is applied to the Town and the Municipality of the County of Annapolis (County) based upon the number of hydrants serving each municipal unit. In September 2023, the Town engaged Aqua Data Atlantic to inspect the Town's hydrants. As part of the inspection, the number of hydrants in each municipal unit was inventoried. The utility has a total of 100 hydrants, 92 in the Town and eight in the County. This differs from the previous rate application, in which the utility estimated that it had 90 hydrants, 84 in the Town and six in the County.

Findings

[39] The reservoir replacement project has a significant impact on the proposed fire protection charges. However, the methodology used to determine the total public fire protection charge conforms to the methodology set out in the *Handbook*.

[40] The Board approves the utility's proposed fire protection charges for each of the test years, as presented in the rate study. The Board notes that the first test year's fire protection charge will be based on six months of the current rate and six months of the new rate, as calculated in Worksheet D-2.

4.2 Utility Customers

[41] The remainder of the utility's revenue requirement, after the allocation to fire protection charges, is to be recovered from its customers.

[42] The methodology the utility used to allocate the revenue requirement to customer, base, delivery, and production charges was similar to what it used in its last rate application. The allocations are consistent with the *Handbook*, except for depreciation and return on rate base for the first test year. For the final two test years, the allocations follow the *Handbook*. The allocations the utility used for these expenses for the first test year are as follows:

Depreciation		Customer	Base	Delivery	Production
2025/26	Utility		50%	25%	25%
	Handbook		40%	30%	30%
Return on Rate Base		Customer	Base	Delivery	Production
2025/26	Utility		50%	25%	25%
	Handbook		40%	30%	30%

[43] These allocations allow the revenue from the customer and base charges to be 46.3% in 2025/26, 43.2% in both 2026/27 and 2027/28.

[44] The utility currently has 777 customers, 775 of which are metered. This is down from 782 customers at the time of the previous rate application. This 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 in each of the test years.

[45] The current mix of customers consists of the following:

Customer Meter Size	Number of Customers
Unmetered	2
$\frac{5}{8}$ "	724
$\frac{3}{4}$ "	4
1"	31
1 $\frac{1}{2}$ "	6
2"	9
3"	1
Total	777

[46] The calculation of overall consumption charges in the rate study is based on the estimated annual water consumption of 230,245 m³ in 2024/25. Although other water utilities in the province have recently experienced decreases in average residential consumption, the Middleton utility submitted that its average usage has increased by 1.4% since the previous rate study in 2018. Given this, it is projecting average residential consumption to stay the same over the test years.

[47] Based on its assumptions about the number of customers and consumption volumes in the test years, the utility proposed rate increases in each of the three test years, with the largest of the increases occurring in the first test year.

[48] Given the size of the increases proposed in this application, the Board is concerned about rate shock for customers. That said, at the hearing, the utility said it had not received any formal complaints about the proposed increases. In the rate study filed in response to the undertakings, the utility has taken measures to spread the increases more evenly over the test period.

Findings

[49] 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 return on rate base, which differed from the *Handbook* for the first test year but is reasonable for the purpose of rate smoothing.

[50] 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. Based on the information filed, the Board approves the customer rates as presented in the rate study submitted with the responses to the undertakings.

5.0 SCHEDULE OF RATES AND CHARGES

[51] In addition to the proposed rate changes for water supply to its customers, the utility proposed one change to its Schedule of Rates and Charges. This change relates to Rule 11, charges for non-negotiable cheques. As explained in the utility's response to IR-38, this change has been made to expand the charge to include pre-

authorized payments that have been dishonoured or returned. Few customers are paying by cheque, and the utility explained that the administrative burden is the same for other failed payments.

Findings

[52] From the information presented, the Board finds that the utility's proposed Schedule of Rates and Charges is reasonable. The Board approves Schedules A, B, and C, as filed in response to the undertakings. The rates in these schedules will come into effect on October 1, 2025, April 1, 2026, and April 1, 2027, respectively.

6.0 SCHEDULE OF RULES AND REGULATIONS

[53] The utility proposed one amendment to the Schedule of Rules and Regulations. The amendment is to Rule 25, Service Pipes. The wording of this rule was amended to indicate that the customer is 100% responsible for the cost of providing a new service pipe. The existing regulations have the customer responsible for \$500, with any remaining costs borne by the utility. This change has the customer requesting the service pipe to cover the full cost, without any contribution from existing rate payers. The rule was also updated to require developers of new subdivisions to install service pipes from the watermain in the street to the property line.

Findings

[54] The proposed Schedule of Rules and Regulations is generally consistent with most other water utilities in the province that have had recent rate applications. The Board approves the amendments to the Schedule of Rules and Regulations as proposed in the original application and resubmitted in the utility's response to the undertaking.

There were no objections or comments from interested parties on these changes.

[55] 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 existing Rules and Regulations or add new ones at times other than a general rate application.

[56] The Board approves Schedule D, as presented in response to undertakings, effective October 1, 2025.

7.0 CONTINGENCY PLANNING

[57] In response to IR-41, the utility provided general information on its efforts related to contingency planning, cybersecurity, and emergency preparedness. The utility noted that it does not have a formal risk assessment document that considers contingencies or emergencies that could affect the water system. The same response noted that the Town has an Asset Management Plan identifying risks due to climate change, some of which could affect the water utility. The utility reassured the Board it had an emergency action plan regarding a possible failure of the water reservoir.

[58] The utility also noted that it has reviewed its source water protection plan since the last rate application, as directed by the Board in its previous decision. The response listed actions taken by the utility regarding further protections.

[59] The utility provided a summary of the Town's cybersecurity measures, noting that it will continue to operate using the best cybersecurity practices.

[60] Maintaining and updating contingency, cybersecurity, and emergency preparedness strategies and associated communication plans are crucial aspects of a

public utility's work and service to customers. The Board recommends the utility continue its work on risk assessment and management with a view to continuous improvement in these areas.

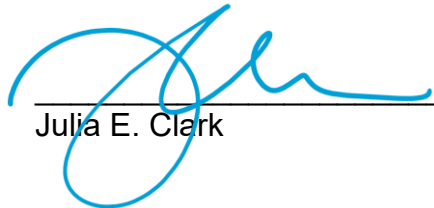
8.0 CONCLUSION

[61] The Board approves the Rates and Charges for Water and Water Services, effective October 1, 2025, April 1, 2026, and April 1, 2027, as shown in Schedules A, B, and C, as revised by the utility and filed in response to Undertaking U-1 [Exhibit M-5].

[62] The Board approves the Schedule of Rules and Regulations filed in response to the undertakings, as Schedule D, with an effective date of October 1, 2025.

[63] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 12th day of September 2025.



Julia E. Clark