

VILLAGE OF CANNING
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CANNING, N. S.
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June 30, 2009

Ms. Nancy McNeil,
Regulatory Affairs Officer,
The Utility and Review Board,
P. O. Box 1692, Unit M,
Halifax, NS, B3J 3S3

Dear Ms. McNeil:

This letter is to request the guidance of the Board in a matter relating to the depreciation of water utility assets. The circumstances are as follows:

The Municipality of Kings County wishes the Canning Water Utility to extend service to the Kingsport area and the Village Commissioners of Canning are agreeable, provided the extension can be made without an extra cost burden on the Utility's existing water customers. (see enclosed letter).

Studies to determine the extent and cost of the necessary facilities and to find a feasible method of financing have been carried out. The project would require transmission and distribution plant and an additional well. The estimated costs are \$1,950,000 for transmission and distribution plus \$250,000 for the well. These costs would be met in total by grants plus capital contributions from the new customers. The Municipality is prepared to finance the latter over a range of time periods to suit the convenience of individual customers.

The increase in operating costs would have to be borne by the new customers in order to avoid impact on existing customers. Insofar as production costs, administrative and other operating costs are concerned, there is no problem. However annual depreciation costs on the added transmission and distribution assets and depreciation on a share of the new well, calculated at Board approved rates, would raise the annual cost of water for new customers to a level which would discourage participation and, in the opinion of the proponents, probably render the project impracticable.

To quantify this situation using estimated annual costs of service:

Number of Kingsport customers:	40	70	100
Per customer water use costs, \$	73	73	73
Per customer other O&M costs, \$	104	104	104
Per customer depreciation charges, \$	600	343	240
Per customer annual totals	777	519	417

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The depreciation costs could be trimmed to a feasible level if the historic cost could be recovered on an annuity basis, and the purpose of this letter is to ask the Board to indicate whether it would be willing to consider such a solution, or whether annuity depreciation (which is used by Newfoundland and Labrador Hydro) is simply not an option in Nova Scotia.

Depreciation charges sufficient to recover capital cost on an annuity basis over plant life at an interest rate of 3.5 % would result in depreciation charges and annual costs as follows:

Per customer depreciation charges, \$	<u>206</u>	<u>118</u>	<u>82</u>
Per customer annual totals	383	295	259

If the Board considers an ex parte meeting would be helpful, representatives of the Commission would be available at any time.

If the Board indicates a willingness to consider reduction of cost of service by annuity depreciation or by other means with equivalent effect, the Commission intends to prepare a petition for Board approval of the project.

Yours sincerely,



Robert Churchill,
Canning Village Commission, Chair

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Nancy McNeil
Regulatory Affairs Office/Clerk
NS Utility and Review Board
Box 1692, Unit "M"
Halifax, NS
B3J 3S3

Dear Ms. McNeil:

The Canning Water Utility was approached a number of years ago if they would extend the Canning water system to service the Kingsport area. The Canning utility has a small customer base of 375 connections. The Village recently applied for and obtained permission for two substantial percentage increases. Therefore, the Village Commission wanted to be sure that any extension proposed would be of no cost to our present customers.

At the present time, the Hamlet of Kingsport and the cottage section along Longspell Road obtains their water from individual wells. Slowly, many of the drilled and dug wells in the area do not meet Canadian Drinking Water Standards, and salt water intrusion is moving inland. Many of the lots are not of ample size for on-site sewer and water installations. The residents of Kingsport are very much interested in obtaining good quality water by means of an extension from the Canning system. Initially, the option of constructing a supply, storage, and distribution system was considered for the Kingsport area. Supply, quality, new regulations, and accounting procedures would make the cost of water out of reach for a stand alone system for Kingsport.

The Canning Village Commission felt that it would be a very neighborly gesture to assist the resident of Kingsport in their need of good quality water. The County of Kings had obtained grants to assist with capital costs, and the Village of Canning is willing to help their neighbors to the east.

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The accompanying letter to the Board identifies a means by which the proposed extension will work.

We respectfully request that you give our request serious consideration. Should you require a meeting in your office to better explain the situation, we would be happy to meet with you.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert Churchill".

Robert Churchill,
Canning Village Commission, Chair