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To:	Deanna Snair
Subject:	Fwd: Amalgamate Windsor & West Hants Water Utilities
Date:	August 29, 2024 4:14:34 PM
Attachments:	UARB Final.docx West Hants Issues.docx

From: Rick Smith
Date: August 29, 2024 at 11:09:46 AM ADT
To: kathryn.duffy, Abraham Zebian <AZebian@westhants.ca>, meaganhalverson; Jeff Hartt <jhartt@westhants.ca>, Laurie Murley <lmurley@westhants.ca>
Cc: Jim Ivey <jivey@westhants.ca>
Subject: Amalgamate Windsor & West Hants Water Utilities

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To members of the West Hants Audit Committee.

I am writing to you regarding the Amalgamate of the Windsor & West Hants Water Utilities. As a resident of Windsor / West Hants, I first became interested in the financial status of the Windsor & West Hants Water Utilities after watching the Audit Committee meeting back in October 2023. I realized back in October that there were issues that needed to be resolved and have followed the developments since then.

As Audit Committee members, I understand that you have a responsibility to deal with matters that require investigation, evaluate internal controls as well as a detailed review of the financial statements. With your help we should be able to get all the correct answers to my unresolved issues.

Attached is a copy of my presentation to the UARB meeting back on May 23, 2024, and a list of my Outstanding Concerns dated August 17, 2024. I will also be sending supporting schedules, reports, and financial statements in a separate e-mail.

I wanted to advise you as members of the West Hants Audit Committee, that I intend to speak at the next Committee of the Whole and Audit Committee meetings in September. My hope is that with your help and involvement my concerns can be resolved.

As you are aware, the UARB regulate water utilities. The Windsor & West Hants Water Utilities currently operate as two separate legal entities, and they have made application to the UARB to amalgamate and as well set new water rates. To date there has been four Water Rate Study updates with some eighty-five (85) inquiries. Keep in mind, that the UARB rely on information provided to them when reviewing and setting rates**. It is, therefore, imperative that the UARB receive all the correct information to set new water rates.**

Some of my concerns have already been raised by Councillor Jim Ivey in his various Information Reports and many discussions on this subject with Council in the past. To date however, I have not seen any impetus by staff or other council members to help resolve these issues.

These issues are material, and I believe that the 2022 -2023 Financial Statements will need to be revised, restated, and updated information provided to the UARB. Your help will make the difference.

It is my expectation, that you as members of the Audit Committee will get inside the numbers, understand them, and insist on getting real precise accurate answers. It is imperative to get all the numbers corrected before new water rates are approved as they will impact residents.

Abe, as Committee Chair of the Audit Committee, would you kindly confirm receipt of this e-mail and let me know if you are committed to getting answers and resolving these issues.

If I can provide any clarity to the information that I have provided, meet with you, or answer questions, please do not hesitate to call me.

Regards Rick Smith

[redacted] [redacted]

UARB Hearings – Amalgamate Windsor & West Hants water utilities into West Hants Water Utility & 2024 Water Rate application on May 23, 2024. Matter No M11538

My name is Rick Smith and I live in Windsor. I first want to say that I appreciate the opportunity to speak at this hearing today.

Just as a bit of background, I became interested with the financial status of the Water Utilities of Windsor & West Hants while watching the Audit Committee meeting video back in October 2023.

I first want to say that I believe that amalgamating the Windsor and West Hants Water Utilities is the right thing to do and should create efficiencies within the Water Utility. Once amalgamated The West Hants Regional Municipality will have the overall responsibility to deliver safe water at a fair & accurate cost to all its customers.

Having said that, I also believe that it is imperative to get all the financial numbers for each of the Utility's correct before proceeding with amalgamation and the proposed water rate increases. It is also essential to get the starting point(numbers) correct and have accurate information when completing the water rate studies. Ultimately to set accurate new water rates for the customers of West Hants.

Therefore, I will focus my comments on only the following three (3) areas of concern.

Financial Statement results for both Windsor & West Hants Water Utilities for the year ended March 31, 2023.

Financial numbers used in the Water Rate Studies.

Water Utility Consumption Reports for Windsor & West Hants.

I will first speak on the Financial Results for the year ended March 31, 2023.

During the audit meeting back in October, the Auditor noted that the Windsor Water Utility was showing a deficit/loss of ($ 425,784) at the end of the 2022 -2023 year compared to a budgeted surplus/profit $ 118,064. And he went on to say that the West Hants Utility was showing a surplus/profit of $340,526 compared to a budgeted deficit/loss of ($187,918).

In other words, the Windsor Utility results showed a **negative** change of (**$543,848)** while the West Hants Utility results showed a **positive** change **of $528,444** for the 2022-2023 year compared to budget results.

As a retired Chief Financial Officer, I was very surprised that neither the Auditor nor Director of Finance provided any explanation for differences between the two utilities. It was of particular interest to me as a $500,000 plus or minas change represents about 25 % of the annual budget for each of the utilities.

After having a quick look at the Audited Financial Statements of each of the Utilities I noted that revenue for Windsor was down while revenue for West Hants was up. It was similar for expenses.

Windsor expenses were up and expenses for West Hants were down. This did make me question the allocation of revenue and expenses between the two Utilities keeping in mind I was simply trying to understand the reason for the significant differences.

During a subsequent Council meeting questions were raised about the financial differences between the two Utilities. Eventually Council was told by staff that a significant credit / correction in the amount of ($297,000) had been issued to correct billings to Three Mile Plains. The result of this credit reduced revenue for the Windsor Utility and increased revenue for the West Hants Utility.

On November 28, 2023, Council requested that staff provide a three (3) year detailed schedule for each of the utilities showing actual results compared to budgets.

Once this schedule was available, I reviewed it and noted several concerns that normally would require explanation to ensure confidence in the results. The issue of the credit for ($ 297,000) became apparent as well as several expenses such as the cost of power, taxes and administration to note a few. These cost all increased in the Windsor Utility by $160,084 while they reduced by ($125,802) in the West Hants Utility. Again, I was simply trying to understand the results for the 2022 -2023-year end.

Staff were subsequently questioned on these items during a Council meeting. However, there was a total lack of clear, concise, accurate answers that would provide clarity to Council. In addition, there was no concise timeline or calculation provided for the exceptionally large credit of ($297,000). This credit likely should have been identified and recorded as a prior year's adjustment. As well, a credit of this size would normally require special approval such that Council should have been aware.

I believe it was this lack of clarity that led Council to direct the CAO to secure an independent firm to undertake a detailed, operational and financial audit of the West Hants and Windsor Water Utilities on January 9, 2024

It is my understanding that this audit has not been started.

Water Rate Studies

While doing a cursory read of the Combined Windsor / West Hants Water Utility Study dated January 18, 2024 (Worksheet B-1) I noted that the combined budget for 2023/2024 was shown as a deficiency of revenue over expenses as a negative $482,021.

The actual approved budget for the Windsor Utility was a positive $306,646 and the West Hants Utility a negative of $95,092. In other words, a combined approved positive budget of $211,555 compared to the negative $482,021.

Another anomaly was the depreciation rates used for Distribution Reservoirs & Standpipes i.e. (Water Tower) within the various water rate studies. The rates used changed in the various water studies. Depreciation on a $6 M asset will certainly impact the Net Operating Profit of the Utility and therefore water rates.

Depreciation rates are clearly defined by class in the **Water Utility Accounting and Reporting Handbook and should alleviate any uncertainty.**

I also had a cursory review of the many Requests (IR 70) raised by the UARB. It was a tedious process and admit I got lost in the detail trying to follow all the changes. There were also references to see revised rate study. As a result of these Requests, changes were subsequently made to the Water Rate Study which included expense allocations, capital costs and depreciation to name a few.

Water Utility Consumption Reports

At Councils request, staff provided a quarterly Water Utilities Consumption Report dated December 2023. The report outlined the water consumption by quarter for both West Hants identifying TMP, Hantsport, and Falmouth and Windsor identifying the bulk master meters Dill Road, TMP, Underwood Road and Wentworth Road.

The consumption for Underwood Rd was incomplete as readings had apparently not been taken for several quarters. As well consumption for Falmouth for the third quarter was shown as 16,403,309 imp gal.

In a subsequent report dated February 2024, the results for Underwood Road were reported as 46,626,609 imperial gallons which apparently represented four quarters of consumption. As well the Falmouth third quarter consumption was revised from 16,403,309 imp gal. to 6,781,204 imp gal a reduction of some 9,622,105-imp gal. No reason was given for this change.

The consumption report dated February 2024 noted that the variance between TMP and bulk meters was 64,311,884 imp gal. or 71.9%. This represents unbilled water and on an annual basis (four quarters) estimated could top 85,000,000 imp gal. A substantial reduction of this lost water would certainly provide additional capacity (saleable water) for future use. We must also be aware that this lost water has already been treated at a significant cost and represents a valuable resource.

This Consumption Report has proven to be inaccurate and unreliable to date. I would suggest that all the meters be read every month. This would create some history, stats to compare to, reconcile to, investigate and determine how to improve the efficiency of the meters going forward. The goal being to minimize the lost water and reduce treatment costs.

Summary:

The operational & financial audit of the Water Utilities -this should be completed before the Rate Study is finalized. There are many unanswered questions regarding the credit issued to TMP for $297,000 as well as the allocation of expenses. It is imperative to get these numbers correct.

Water Utility Consumption Reports – The lost water is estimated at about 85 M imp gal., per year as previously noted. This lost water not only represents capacity for future saleable water but also a value of about $568,650 (85M x .00669 per imp gal,).

This same 85M imp gal currently represents a significant cost to the Water Utility and this cost is currently being included in the water rates. The water treatment expense budget for 2023-2024 alone is just over $1M. The cost to treat this lost water is very costly.

As I indicated previously this consumption report needs ongoing work. I trust that I have therefore interpreted the information on this report accurately as I would not want to misrepresent any part of the report.

The Water Rate Study – The Audit requested by council must be completed any all-outstanding matters resolved before finalizing changes to the Water Rate Study and developing new rates.

Conclusion:

I believe that it is incumbent on West Hants Council to ensure that all these issues are resolved and fully vetted before proceeding with any water rate changes.

I realize that there have been many changes made to the Water Rate Study since January when council approved the proposed new rates. The objective, however, must be to finally get it right and provide confidence to all West Hants customers that any new proposed rates are in fact correct.

It is my understanding, that one of the mandates of the Utility and Review Board of NS is to regulate public utilities such as water, by setting rates and ensuring that customers receive safe reliable service at a reasonable price. I would therefore urge the UARB to ensure that all issues are fully resolved before approving any water rate changes.

Respectfully submitted.

Rick Smith

Prepared by Rick Smith – July 15, 2024, Updated August 17, 2024

Outstanding Concerns re Amalgamate Windsor & West Hants Water Utilities

Draft Only

West Hants – Items to Note & Review re Audit Process

Status of the motion by the Council to direct CAO for operational & financial audit of the Water Utilities. **This audit should & must be completed prior to setting new water rates to provide and ensure all the financial numbers are correct.**

Develop a policy on issuance of credit notes, processing adjustments and correction of errors to include proper disclosure.

Develop a policy on the use of Surplus accounts ($$) to reduce expenses, apply to capital items etcetera and proper disclosure.

Develop a policy on prior period adjustments to include proper disclosure and notes to financial statements.

Windsor & West Hants Water Utilities

The explanation for credits issued that totaled about $297,000 and negatively affects the 2023 results for the Windsor Water Utility is still not clear to me. I have seen the calculations; however, I **cannot make sense of them**. This matter needs to be revisited and corrected. This credit adjustment is material and is a prior period adjustment. As such the financial statements need to be revised and restated along with a note to the financial statements. Refer to the West Hants response to (UARB) Undertaking U-4 below and my comments.

Administration fees were stated to be 10% in Undertaking U-5 (UARB) however most notable the Windsor Utility was charged 20% in 2022-2023.

The administration fee at 10% would be $110,127 not 20% or the $220,242 as charged. **This is a very significant error and needs to be corrected and restated in the financial statements.**

There have been any number of updates and corrections to the Water Rate Study over the past several months. Any corrections like the allocation of taxes for example should be corrected and restated in the financial statements.

Council should be informed and approve the use of Surpluses in the Water Rate Study.

2024 – 2025 Operating from Surplus $ 100,000

2025-2026 Operating from Surplus $ 450,000

Worksheet B-1 (Comparative Statement of Operations) dated June 2, 2024, in the updated Water Study needs to be corrected.

The Surplus amount of $100,000 appears twice and the worksheet does not add. (2024-2025)

The Excess (Deficiency) of Revenues Over Expenditures for 2024-2025 is stated as a negative (loss) of -$ 522,041. The actual approved budget for the West Hants Water Utility (May 29, 2024) is a negative (loss) of -$236,441 and the Windsor Water Utility a positive (profit) of $177,557 for a combined negative (loss) of -$58,884.

The difference between the loss of -$522,041 used in the Water Rate Study and the approved combined budgets of a loss of -$58,884 is **-$ 463,157. This must be corrected to help ensure correct water rates are calculated properly.**

Worksheet B-3 (Calculation of Depreciation of Tangible Plant at Total Cost)

This Worksheet indicates a total of $13,657,240 as additions for 2024-25. The approved budget is for only $11,978,025 and the difference of $1,679,215 will increase depreciation expense. **This needs to be resolved and corrected as it will impact water rates.**

Consumption Reports.

The Consumption Report dated December 2023 (first report provided to Council) included info for Q1, Q2 & Q3. The water consumption for Falmouth Q3 results at 16,403,309 Imp. gal. did not appear to be correct. No plausible explanation was provided. In addition, the Q1result for WH Underwood Rd was shown as 42,234 Imp gal without any results for Q2 & Q3.

The Consumption Report dated February 2024 was an update on the previously issued report for Q1, Q2, & Q3. The Q3 consumption for Falmouth was changed from 16,403,309 Imp gal to 6,781,204 Imp gal. without any explanation.

In addition, the Q3 consumption for WH Underwood Rd included 46,584,375 Imp. gal which had not been previously reported. Apparently, this consumption represented four (4) quarters of consumption as the meter had not been read. Not sure what the 42,234 Imp gal reported in Q1 represents?

This report also included changes to the consumption for TMP for Q1 and changes to TMP & Hantsport for both Q1 & Q2. These changes might be considered small however previously taken meter reading should not change. Results reported in the column for Q 4 did not seem relevant to the report?

The Consumption Report dated March 2024, contains the consumption results for Q 1, Q 2, Q3 & results for Q4 (consumption results for the year ended March 31, 2024). This report includes many errors and changes.

The Q 3 consumption for Falmouth was changed yet again to 16,429,046 Imp. gal. This was previously changed in the February 2024 report to **6,781,204** Imp gal. from 16, 403, 309 Imp gal. in the December 2023 report. Are these meter readings or not? What is the correct meter reading?

The Q 4 consumption for WH Underwood was reported as 6,249,979 Imp. gal which does not seem reasonable if four quarters of consumption was 46,584,375 Imp. gal? Again, is this a correct meter reading?

The total consumption for the WH Underwood meter for 2024 as per the March report was 52,876,588 Imp. gal. The value of this water is about $132,720 using the value of $2.51 per 1000 Imp. gal. This is very confusing as the actual value stated in the three (3) year history prepared by WH for 2021, 2022, and 2023 was $718, $380 and $410 respectively. The budget for this meter for 2024 was stated as only $376 yet the budget for 2025 is stated at $62,750.

There are issues with the reporting for the WH Underwood meter, over the past number of years and they need to be correctly reported.

This report also contained an additional eight (8) other changes to the consumption results previously provided in the February 2024 consumption report. Changes were made to the following readings TMP Q1 & Q3, Hantsport Q1, Q2 & Q3, Windsor Q1, Q2 & Q3. Again, I am not sure why previously taken meter readings would change.

The variance between TMP and bulk master meters is 81,296,300 Imp. gal. as stated in the March 2024 Water Consumption Report. This is a substantial amount of lost water. This lost water has already been treated and represents a significant cost to West Hants and its taxpayers and is included in the water rates. This lost water also represents a valuable resource and would provide additional saleable water capacity.

West Hants response to (UARB) Undertaking U-4

A**n** analysis for the 5 Back Road Meter was provided to the UARB and included the billing periods. start & ending meter reads, credit adjustments, consumption of water & amounts billed for the years ended March 31, 2019, 2020, & 2022.

The difference between the starting and ending meter readings (cubic meters) are multiplied by 219.97 to calculate/convert to Imp. gallons. The gallons are then multiplied by 2.51 per 1000 Imp gal to get the amount to be billed.

The analysis is very difficult to follow, however I offer the following comments

For the billing period April 1, 2019 – March 31, 2020, the total amount billed was **$20,683.61.**

For the billing period April 1, 2020 – March 25, 2021, the total amount billed was **$32,217.44.**

Net of the credit adjustment of -$24,794.15, the billed would have been $7,423.29. Meter readings during this period were incomplete. There was also a billing error relating to the billing for $2,755.09. The billing correction was calculated based on 4,989.7 cubic meters and was not converted to Imp. gal. which was 1,097,584. This billing should have been $11,000.94.

For the billing period March 25, 2021- March 31, 2022, the total amount billed was **$311,012.64.** Net of the credit of -$270,110.32, the billed would have been $40,902.32.

The two (2) credits issued in the amounts of -$24,794.15 and -$270,110.32 apparently were posted on April 20, 2022. I have applied the credits as noted above to determine what the billings would have been with the adjustments made in the same billing period for comparison purposes only.

Unfortunately, the details in this summary appear to be incomplete and do not relate to actual consumption and billings for the years ended March 31,2020 to March 31, 2022, as presented in the actual financial statements.

For information and comparison purposes the total annual consumption for TMP as per the Consumption Report dated March 2024 is 114,317,231 Imp. gal. The value of this water is $286,936.25 (114,317,231 x $2.51 per 1000 Imp. gal).

As stated in the analysis provided, the need to issue credit notes was apparently necessitated to correct over billings/ mistakes in the year ended March 31, 2021, for -$24,794.15 and in the year ended March 31, 2022, for -$270,110.32 and appears to have only been entered into the financial records for the: year ended March 31, 2023. If these credit adjustments were completed on April 20, 2022, why were they not recorded in the appropriate years?

Based on the actual annual revenue reported below, it would seem that these credit notes were incorrectly issued.

The actual total revenue for TMP for the years 2021, 2022 & 2023 recorded in the financial statements were as follows.

March 31, 2021 - $251,169

March 31, 2022 – $244,426

March 31, 2023 - $56,453 (This result is obviously not consistent with consumption))

March 31, 2024 - $ 286,936 **(I have calculated this based on consumption numbers in the March 2024 Consumption Report of 114,317,231 Imp. gal).**

It is unfortunate as a resident, I must bring theses issues to your attention, however they need to be corrected. It is my contention that collectively these issues have a material affect on the March 31, 2023, results as well as potentially impacting the March 31, 2024, results.

I have interpreted the information based on information provided and prepared by West Hants and I would certainly not want to misrepresent any part of the various reports. As a resident it is difficult to get answers without intervention from the Audit Committee or Council.

I would also say that my concerns as outlined in this report do not necessarily represent all issues that may exist, but simply a few that I have identified with the limited information available to me.

The financial results for both the Windsor Water Utility and West Hants Utility will impact the water rates and taxpayers well into the future.

It is incumbent upon West Hants to get it right.