

M A N I T O B A) Order No. 114/06
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THE PUBLIC UTILITIES BOARD ACT) July 21, 2006

BEFORE: Graham F. J. Lane, C.A., Chairman
Monica Girouard, C.G.A., Member
Susan Proven, P.H.Ec., Member

THE RURAL MUNICIPALITY OF GRANDVIEW
REVISED WATER RATES

Executive Summary

By this Order, the Public Utilities Board (Board) approves revised water rates for the Rural Municipality of Grandview (Grandview) as follows:

	Existing	Proposed	Approved
Administrative Charge	\$14.55	\$14.55	\$21.30
Commodity/1000 gallons	\$ 4.60	\$ 7.16	\$ 6.75
Minimum Quarterly Bill (residential)	\$28.35	\$36.03	\$41.55

The increase for quarterly residential minimum bills is 47%, a major increase greater than sought by Grandview. On the other hand, the Board varies Grandview's application and reduces the proposed increase in the commodity rate from 56% to 47%. With respect to Grandview's quarterly administrative charge, the Board varies the application to implement an increase of 46%.

The Board's decision follows an application by Grandview and a review by the Board of information related to the application including the receipt of two letters of concern from ratepayers.

The revisions, as varied by the Board, are intended to arrest the risk of a decline in Grandview's utility surplus position while better positioning the utility to meet future capital and operating requirements.

Application

Grandview's water utility currently serves 176 customers. Its initial water utility rates were approved in 1998, and the last rate revision occurred in 2003. No annual operating deficits have been incurred. On May 19, 2006, Grandview applied to the Board for approval of revised water rates:

	Existing	Proposed	%
Administrative Charge	\$14.55	\$14.55	0
Commodity/1000 gallons	\$ 4.60	\$ 7.16	56
Minimum Quarterly Bill (residential)	\$28.35	\$36.03	27

The application was supported by By-law No. 8/06, certified as to having been read the first time on April 27, 2006, and a water rate study dated April 13, 2006.

A Public Notice of the application was mailed to all customers of the utility with a request to write the Board noting any concerns no later than July 14, 2006. The Board received two complaints concerning the application.

Grandview advised that its 2005 utility operating surplus of \$163.00 was grossly inadequate for the magnitude and risks of its utility, representing less than 1% of total annual utility operating costs. Grandview's rate study indicated that based on expense estimates and surplus targets of the Municipality, water utility rates were required to generate approximately \$97,000 in revenue in 2006, compared to 2005 revenue of \$67,327, an increase of 45%.

In the interest of reducing the otherwise 45% required rate increase, and to further the objective of rate stability, Grandview developed estimates of the required commodity rate for 2006, 2007 and 2008, and averaged the required rates to arrive at its proposal. Grandview's proposal was forecast to result in an annual surplus approximating 15% of total operating costs, or \$13,300.

In 2005, the utility recorded its \$163.00 surplus after transferring \$8,000 transfer to utility reserves. The current reserve balance is \$268,500.00, with an accumulated cash surplus balance of \$23,250.00. The annual debenture debt servicing cost for the utility relates to capital expenditures and is being recovered from taxes, \$148,269.00 annually.

Grandview has experienced significant increases in operating costs, as much as 200%, as a result of new Provincial standards for safe drinking water and related employee training. All water utilities are experiencing similar cost impacts. Also, repair costs are projected to increase three fold, to \$12,000 per annum over the next three years.

Grandview plans to spend \$30,000 for utility capital improvements over the next 5 years, and anticipates these costs to be met by transfers from reserves created by annual surpluses.

Grandview projected an annual rate of general inflation of 1%, and annual transfers of \$10,000 annually to the utility fund.

The following are 2005 actual expenditures compared to the rate study:

	2005	Rate Study
Administrative	\$ 12,000	\$ 10,243
Water Production/Distribution	\$ 61,110	\$ 87,748
Sub-total	\$ 73,110	\$ 97,991
Debenture	\$148,269	\$148,269
Total	\$221,379	\$246,260

Other information -

There are no fire hydrants within Grandview's utility system, and because there are a number of "dead end" lines a significant amount of water is used for line flushing resulting in above average unaccounted for water.

Both ratepayers providing the Board with comments suggested that Grandview's proposed customer service charge should be higher to reduce an ongoing subsidy penalizing high volume users. The claim was that administrative costs would not be fully recovered by the rate proposed, Grandview had not proposed an increase to the service charge.

On July 14, 2006, Grandview advised the Board that it had met with one of the complainants, but that the issue concerning the allocation of costs between general municipal administration and utility operations costs remained unresolved.

Board Findings

The Board proceeded with Grandview's application employing the returnable date notice process, a paper process involving public notice to a utility's customers, the questioning of municipality utility officers by written letters and emails, and the review of utility documents. The returnable date notice process is employed by the Board to restrain regulatory costs; public hearings are expensive processes and, in the end, the costs fall to the utility's ratepayers.

Having reviewed Grandview's application and assessed the financial needs of its utility, the Board will vary Grandview's application and approve amended rates.

While the increases are significant, it is critical for a utility providing an essential service such as water to have the necessary resources to operate the utility safely and to ensure an adequate supply. While the last rate increase occurred three years ago, annual expenses have risen substantially and these increases need to be reflected in rates.

While in relative terms, the utility currently has a reasonable financial position, narrow break-even annual results given projected significant capital expenditures in the near-future

represent a financial risk to ratepayers. A significant unforeseen expenditure would result in a deficit, and rates need to be increased against that risk.

In reaching its determinations, the Board also considered the submissions of ratepayers, whose complainants, quite similar if not identical in some respects, are reflected in the substance of the Board's revisions to Grandview's application. The administrative levy will increase and the commodity charge per 1,000 gallons will be reduced from Grandview's application.

Pursuant to the Board's recommended guidelines for the development of rates, administrative costs are to include costs for meter reading, billing, collection and office staff costs. In the Board's view, Grandview's approach has been calculated consistent with the Board's guidelines and reflects industry practice; accordingly, the Board will not vary the type of expenses reflected in the administration levy. With respect to the number of customer accounts used in the rate study versus that used from billing records, variation is not unusual as the rate study is a projection.

However, the Board notes that 2005 actual administration costs were \$12,000 and are projected at approximately \$15,000 during the three-year forecast period; in the rate study, only \$10,243 was forecast. Grandview confirmed that \$15,000 of annual utility administrative costs was the more accurate forecast.

Basing the customer service charge on \$15,000, the quarterly service charge should be \$21.31, not \$14.55 as proposed. The variance to the higher level will generate \$4,800 additional

revenue to the utility. Given the increase in the administrative levy, Grandview's proposed increase in the commodity charge is excessive, being larger than the overall revenue requirement increase.

Accordingly, the Board will reduce the commodity rate increase to reflect \$6.75 per thousand gallons rather than the proposed \$7.16 per thousand gallons. Taking the minimum quarterly volume into account and the increase in the administrative cost levy, minimum quarterly bills for residential customers will be set at \$41.51, rather than the \$36.03 proposed by Grandview.

Overall, the Board commends Grandview for taking a proactive approach to its utility's financial situation, while the initial impact of this approach will include sharply higher bills for its ratepayers, in the long haul the water supply will be better protected and met, as intended, by user charges.

IT IS THEREFORE ORDERED THAT:

1. BY-LAW NO. 8/06 be amended to reflect the attached schedule A and the revised rates be implemented with the next billing to customers.
2. The Rural Municipality of Grandview provide the Public Utilities Board with a revised forecast for 2006, 2007 and 2008 based on the revised rates as established in this Order.

Fees payable upon this Order - \$500.00.

THE PUBLIC UTILITIES BOARD

"GRAHAM F. J. LANE, C.A."
Chairman

"H. M. SINGH"
Acting Secretary

Certified a true copy of Order
No. 114/06 issued by The Public
Utilities Board

Acting Secretary

SCHEDULE "A"

TO BOARD ORDER NO. 114/06

THE RURAL MUNICIPALITY OF GRANDVIEW

WATER RATES

BY-LAW NO. 8/06

SCHEDULE OF QUARTERLY RATES:

1. Commodity rates per M.G.
All water consumption - Water \$6.75
2. Minimum Charges, Quarterly:
Notwithstanding the Commodity rates set forth in paragraph 1 hereof, all customers will pay the applicable minimum charges set out below, which will include water allowances indicated:

(a) **Water Customers**

Meter Size	Group Capacity Ratio	Water Included Gallons	Customer Service Charge	Commodity Charges Water	Total Quarterly Minimum
5/8"	1	3,000	\$21.30	\$20.25	\$ 41.55
1"	4	12,000	\$21.30	\$81.00	\$102.30

Minimum charge will be the same for each meter size as shown above.

3. **Billings and Penalties**
Accounts shall be billed quarterly, and shall be due and payable 30 days after date of billing. A penalty of 1¼% of the amount of the bill shall be added if not paid by the due date. (Note: due date may be set as Council sees fit to do.)
4. **Disconnection**
Service may be disconnected and discontinued immediately and without further notice in the event of non-payment of the account within 30 days after due date.
5. **Reconnection**
Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$30.00 have been paid.

6. **Outstanding Bills**

Pursuant to Section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water service are a lien and charge upon the land serviced, and shall be collected in the same manner in which ordinary taxes upon the land are collectible, and with like remedies.

7. **Water Allowance Due to Line Freezing**

That in any case where, at the request of the Council, a customer allows water to run continuously for any period of time to prevent the water lines in the water system from freezing, the charge to that customer for the current quarter shall be the average of the billings for the last two previous quarters to the same customer, or to the same premises if the occupant has changed.