

M A N I T O B A) Order No. 24/07
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THE PUBLIC UTILITIES BOARD ACT) March 12, 2007

BEFORE: Graham Lane, CA, Chairman
 Susan Proven, P.H.Ec., Member
 Monica Girouard, CGA, Member

TOWN OF WINNIPEG BEACH
WATER AND SEWER RATES
REVISED INTERIM RATES

Introduction

By this Order, the Public Utilities Board (Board) approves, by an Ex Parte process, interim revised water and sewer rates and a change to the method of establishing customer water consumption, for the Town of Winnipeg Beach (Town).

Across-the-board 3% interim rate increases are effective for all water consumed from January 1, 2007. Residential quarterly bills will increase from \$56.80 to \$58.51 for permanent residents, and, for seasonal customers, from \$163.60 to \$167.02 (on an annual basis including connection/disconnection charges).

Further, by this Order and also on an interim basis, the Board approves the Town's proposal to amend its process for determining customer water consumption; this will be based on the "residential equivalent units" (REU) method that will remain in place until such time as the Town's system is metered. The new approach is expected to improve both transparency and fairness.

Background

The Town's proposal was pursuant to Board Order 165/05, which:

- a) followed a public hearing held in November 2005;
- b) provided significant rate increases ranging between 60% to 90%, following years of operating deficits and no increases; and
- c) commented on the challenges that lay ahead for the Town's utility, with particular reference to the need for meters and the risks inherent in an aged system with no provision for nutrient removal.

At that time, the Board suggested that the Town make an application to the Manitoba Water Services Board (MWSB) to seek funding for the metering of the Town's water supply system. The Board also suggested that if the Town was unable to obtain the funding for a 2007 project, that it return to the Board and seek a further rate increase to better prepare itself to meet its future challenges.

Accordingly, the Town made an Ex Parte application for interim rates, after confirming that it was unable to secure financial assistance from MWSB to proceed with the meter project in 2007.

The Town's Application was filed on November 3, 2006, supported by By-law No. 17/2006, read the first time on October 24, 2006.

Also, pursuant to the Board's 2005 Order, the Town developed a formal process to govern changes to the assignment of water consumption levels (REU's) to customers. The Town's water system is unmetered, and the assignment of REUs allows for billings based on estimated water use. A residential customer is assigned one REU, commercial and institutional customers may be assigned more REUs, meaning higher quarterly bills.

At the November 2005 public hearing, the Board heard suggestions that some of the Town's REU assignments were not reflecting appropriate and current estimates of consumption, and that changes were required, in part to reflect business closures and seasonal change uses.

To assist the Town at that time, Board staff performed an audit of customers' water consumption by visiting customer premises; as a result, new REU assignments were established for some non-

residential customers, and the Board directed the Town to develop a formal process to govern REU changes.

It was evident that flexibility was required to allow the Town to review REU assignments on a more regular basis, and that there be an open, transparent and fair process to approve such changes, this to include approval by the Board.

The Board then-proposed the potential for an Ex Parte interim rate application ahead of another public hearing, to avoid the costs associated with advertisement and a full hearing soon after the November 2005 hearing. The Board then-indicated that it was prepared to accept a process of interim changes, subject to finalization at a subsequent public hearing.

The Town developed a process for amending estimated customer water consumption pursuant to criteria established by the Board. That criteria included a requirement for Council approval of a change to the assignment of REUs to any customer before a submission is made to the Board. The Board, ahead of the metering of the system, requires that it approve changes to best ensure fairness between customers. The new process proposed by the Town is set out in By-law No. 17/2006.

An amendment to the REU assignment (estimated water consumption allocation) for the Beach Laundromat is the first application made under this new process. The Beach Laundromat has to date been assigned 12 REU units (i.e. billings based on the assumption that the operation consumes twelve times the water consumed by the average permanent Town resident); the Town proposed to reduce the allocation to 9.

The change was based on a report by the owner of the Beach Laundromat indicating a reduction in the number of working machines, from 13 to 9; the owner sought a similar reduction in the assignment of REUs.

Council Resolution #195/2006, dated October 24, 2006, approved the proposed reduction, and this was reflected in By-law No. 17/2006, subsequently submitted for the Board's approval.

Discussion

The Town's proposed across-the-board rate increase is based in part on ongoing inflation and plans for future maintenance on the system. It also takes into account a utility operating deficit of \$8,252 in 2005. While a surplus is indicated for 2006, it should be taken into consideration relative to the overall accumulated operating deficit that still exists.

The Town proposed to employ the new rates to recover the full accumulated deficit and, by more regular and modest rate increases, avoid future operating deficits.

With respect to the overall position of the utility, the unaudited financial statements for 2006 report an operating surplus of \$19,257, this assisted by a \$7,111 transfer from the General Operating Fund (general tax revenues) and the deferral of an extension project with an estimated cost of \$19,800.

However, notwithstanding the 2006 surplus, the utility reports an accumulated operating deficit of \$18,302. And, as at December 31, 2006 the Town reports aggregate utility reserves, held to meet future capital expenditures, of \$74,713. None of

the reserves are held in cash, being due from the General Operating Fund.

The overall capital cost of the Town's water and sewer system approximates \$1.04 million at historic costs, the replacement cost of the system and current construction and equipment prices would be multiples of that level. The utility's reserves are quite modest and incapable of funding any major upgrade to the system.

The Town also filed responses to queries posed by the Board arising out of the 2005 public hearing, as follows:

With respect to the meter project, and related discussions with the Manitoba Water Board:

The Water Services Board (MWSB) has advised it has no available funds to meet the Town's request for funding the meter project, MWSB's grant capacity having been fully allocated for 2006 and 2007. Funds may be available for 2008. (This project, if funded fully by the Town, could cost in the range of \$75,000.)

With respect to consultations with the Province on wastewater quality and well water safety:

Consultations with the Province on wastewater quality and well water safety occur twice yearly as per license agreement; the testing of well water is done every two weeks.

With respect to development of a formal process governing REU allocation amendments:

Changes as proposed in this application.

With respect to amendments to the Town's accounting approach to ensure full and fair allocation of a share of the Towns general and administrative costs to its Utility:

The Town reports that a fair allocation of a share of the Town's general and administrative has been provided for in the 2006 Budget.

With respect to the possible consolidation of Utility reserve Balances.

The Town reports that Utility reserves have not been consolidated as suggested by the Board. First reading of By-Laws to establish a Water Utility Reserve and a Sewer Utility Reserve have occurred.

With respect to the operating account result for the Utility for 2005/2006 and an updated projection for 2006/07 and 2007/08 reflecting the Town's plans for metering and other matters:

The Town reported that budgets for 2007 and 2008 remain to be completed, and copies of the Town's financial statements have been provided to the Board.

With respect to the Town's plans with respect to a new rate Application:

The Town proposes to increase water and sewer rates by 3%, as suggested in Board Order 165/05.

The preferred time for public hearing is in the summer, when the majority of the Town's residents are available. Interim rates now set would then be reviewed, for possible finalization or amendment.

Board Findings

By this Order, the Board approves the Town's application for interim rate increases, as well as a new methodology for assigning REUs to customers and a proposed change to the REU assignment for the Beach Laundromat.

The Board agrees with the Town's assessment that a public hearing would best be held in the summer. To restrain

regulatory costs, this Order is made on an Ex Parte basis, without notice.

The rate increases approved by Board Order 165/05 were significant, ranging up to 90%, as the need for increased revenue was then urgent. These relatively modest and interim increases, subject to review and finalization through a later public process, will allow the utility to strengthen its financial position and, hopefully, avoid large increases in the future.

The resulting revenue increase will allow the Town's new proactive approach to system maintenance to be pursued, and, also allow for a reasonable contingency provision and a contribution to the Utility reserve.

The estimated additional annual revenue of \$2,750 to be collected by the 3% across-the-board increases is not unreasonable and will assist in continuing the improvement in the financial position of the utility. This rate change, which approximates the rate of inflation, should avoid the risk of future rate shock increases.

The Board expects the Town to consider financing the meter project from reserves if it is unable to secure MWSB grant funding in the next few years. While there is no certainty that the MWSB will make funds available, particularly in 2008, the need to proceed to advance the objectives of fairness and conservation are evident.

The Board also reviewed the Town's update report of various other matters and finds the Town's report acceptable. The Board

will look for an update from the Town on the installation of meters at the hearing to be scheduled, that to occur no later than the summer of 2008.

The Board considered the changes to the REU assignment to the Beach Laundromat and the new process to be followed for filing such changes and finds them both acceptable.

IT IS THEREFORE ORDERED THAT:

1. Across-the-board water and sewer rate increases of 3% are approved, on an interim basis.
2. The increases will be reviewed in a public hearing process to be called by the summer of 2008, where rates may be either finalized or varied.
3. The Town of Winnipeg Beach is to provide notification of this Order and resultant interim rate changes by a bill insert, the insert to be subject to the pre-approval of the Board.

Fees payable upon this Order - \$250.00.

THE PUBLIC UTILITIES BOARD

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

"G. O. BARRON"
Acting Secretary

Certified a true copy of
Order No. 24/07 issued by The
Public Utilities Board

Acting Secretary