

M A N I T O B A) Order No. 61/07
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THE PUBLIC UTILITIES BOARD ACT) May 2, 2007

BEFORE: Susan Proven, P.H.Ec., Acting Chair
 Graham Lane, C.A., Chairman

THE RURAL MUNICIPALITY OF STRATHCLAIR
LOCAL IMPROVEMENT DISTRICT NO. 1 (STRATHCLAIR)
REVISED WATER AND SEWER RATES
 EFFECTIVE JULY 1, 2007

Executive Summary

By this Order, the Public Utilities Board (Board) approves increased rates for the community of Strathclair in the R.M. of Strathclair (R.M.). The residential minimum quarterly bill for water and sewer services will rise from \$47.85 approved in 2006 to \$84.20 or approximately 75%. The R.M. proposed a more modest increase of 29% over 2 years. However, based on the evidence filed at the hearing and recent past experience with high utility deficits, the Board determined that those levels of increases are insufficient to allow the utility to operate safely and effectively without ongoing dependence on the taxpayers. The Board agreed with the R.M. that the utility must be self sustainable. These increases take effect July 1, 2007.

To monitor the R.M.'s progress the Board has requested variance reports from the R.M. based on the 2007 and 2008 operating results for the utility.

Applications

There were three (3) Applications before the Board for consideration as follows:

1. An Application to confirm the 35% rate increase effective April 1, 2006 approved by the Board in Interim Ex Parte Order No. 67/06 dated May 3, 2006;
2. An Application to approve further rate increases in 2007 and 2008 as follows:

Table 1

	Approved In 67/06	Proposed 2007		Proposed 2008	
\$/1,000 gallons					
Water	\$ 9.36	\$11.86		\$14.30	
Sewer	\$ 2.59	\$ 2.59		\$ 2.59	
	\$11.95	\$14.45		\$16.89	
Administration Charge	\$12.00	\$12.00		\$12.00	
Residential Minimum Quarterly Bill	\$47.85	\$55.35	16%	\$62.67	13%

3. An Application to approve the 2006 revenue deficit in the amount of \$18,356.90 and recovery by a two (2) year tax levy over the residents of Strathclair.

These Applications were reviewed at a public hearing held in Strathclair on April 18, 2007. The hearing was held by Board Member S. Proven on a hear and report basis. The decision was made by a Panel of the Board.

While the R. M. reported there have been a few inquiries and complaints pertaining to the last rate increase only one person attended this hearing. The Applications were unopposed.

Application to Confirm Interim Ex Parte Order No. 67/06

On March 16, 2006, the R.M. applied to the Board for approval of utility revenue deficits for 2004 and 2005 in the amount of \$23,703 and \$18,717 respectively and also, for revised water and sewer rates of 15% in 2006 and 10% for each of the years 2007 and 2008. The proposed rates were set out in By-law No. 3-2006. The Board, in Order No. 67/06 determined that the applied for rates were

insufficient and in the Board's view the financial position of the utility required immediate redress. The utility had incurred two (2) very large deficits and without immediate rate relief the trend was going to continue into the future. Recognizing that the rate relief could only take effect for part of 2006, there was not going to be an adequate opportunity to avoid another large deficit in 2006. Due to an urgent need for a sizeable rate relief, the Board approved interim rates of approximately 35% on an ex parte basis with public notice to follow.

The Board deferred consideration of the proposed increases for 2007 and 2008 and required the R. M. to file a rate study as soon as possible.

Application for Approval of Revised Rates for 2007 and 2008

On February 28, 2007 the R.M. filed an Application for increased rates for 2007 and 2008 as set out in By-law No. 6-2006 filed after first reading on October 24, 2006.

The interim rates approved in Order No. 67/06 and the proposed rates for 2007 and 2008 are noted above. The R.M. proposed a 27% increase in water rates for 2007 and a 21% rate increase for 2008; with no increase in sewer rates and no increase in the administration charge. The bulk water rate was not changing and was remaining at \$1.00 for 80 gallons.

The R.M., in its letter of February 28, 2006 indicated that ". . . Council wanted to keep the cost of water as low as possible for

larger family users."

The following are the operating costs used for the purposes of the rate study and the actual results for 2006.

	Table 2			
	2005	Rate	2006	2007
	Actuals	Study	Actual	Adjusted
Administration	\$25,000	\$ 10,609	\$ 24,950	\$ 26,470
Water	61,700	83,060 ⁽¹⁾	79,958	\$ 91,037
Sewer	11,000	14,005 ⁽²⁾	10,469	\$ 21,987
	<u>\$97,700</u>	<u>\$107,674</u>	<u>\$115,377⁽³⁾</u>	<u>\$139,494⁽⁴⁾</u>

- Note (1) Included \$2,335 for contingencies and 3% for inflation for 2007 and 2008.
- (2) Included \$2,335 for contingencies and 3% for inflation for 2007 and 2008.
- (3) This amount does not include debenture debt costs of \$12,950. In 2006 - \$7,420.00 was included as an expense for the recovery of past deficits as ordered by the Board (amount was not specified) and was not recovered as a further deficit was incurred in 2006.
- (4) The adjusted 2006 operating cost allows for the continued annual recovery of the deficits of \$7,420 per year equally between water and sewer which will take 5.18 years to recover (2004 deficit of \$23,703 + 2005 deficit of \$18,717 - \$4,000 recovered from reserves ÷ \$7,420 = 5.18 years), a provision for the same contingency \$4,670 added to sewer only and 3% for 2 years due to the increase in the cost of water (MWSB increases) and \$5,000 per year from reserves of \$2,500 each for water and sewer. As the \$7,420 provision was not recovered in 2006 it is not deducted from the total deficit amount to be collected in future rates. Further, because the water treatment plant is fairly new and the mains appear in good shape and the future cost increases are primarily related to sewer costs the full contingency provision has been added to sewer costs.

Prior to the interim rate increase approved by the Board in 2006 the utility had not revised its rates since 1992, 15 years ago. In this period of time the water treatment plant received significant upgrades (owned by the MWSB) and the R.M. was absorbing the higher cost of purchasing water from the MWSB. Also, the R.M. expanded the lagoon capacity which unfortunately could not be put into service due to compaction issues which now requires urgent redress. Further, the R.M., like all other owners of utilities, must comply

with new drinking water standards including the employment of certified operators.

The R.M. advised that the administration costs for the utility are not being fully allocated to the utility and therefore, utility operations are partially being subsidized by the taxpayers. The R.M. plans to address this inequity in the future.

During the hearing it was disclosed that it appears that the R.M. did not recover its costs related to extending service beyond its boundaries and further, has been paying the cost of cleaning plugged water service lines located on customer's property. The R.M. sought the Board's advise in this regard.

The R.M. candidly advised that in hindsight the 15 year rate freeze was not good policy and has resulted in dire straights for the utility. The R.M. is extremely sensitive to the impacts of rate hikes resembling rate shock. However, they also believe that utility costs must be fully recoverable from the ratepayers on a stand alone basis. They are concerned that no monies are being set aside for future line replacements and for the day when the water treatment plant becomes the property and responsibility of the R.M.

The R.M. advised that the next billing cycle commences July 1, 2007. The R.M. requested an urgent decision with respect to the recovery of the 2006 deficit as the R.M. is in its final stages of its budget for 2007.

Application for Approval of the 2006 Deficit

The 2006 deficit of \$18,356 is related to a rate deficiency and due to the insufficient funds to recover the deficit from accumulated surplus or reserves of the utility, the R.M. sought to recover the deficit by means of a tax levy over two (2) years in approximately equal amounts which equates to 1.5 to 2.0 mills on the utility property assessment in each year. The R.M. advised there is no alternative means to recover the deficit and recovery by taxes will go a long way to enhancing the financial integrity of the utility. Clearly, recovery in future rates is not working.

Background

The R.M. operates a water and sewer utility in the community of Strathclair which currently serves approximately 189 customers of which 186 are residential. Two (2) customers are served beyond the boundaries of Strathclair including a residential customer and the auction mart. A commercial customer in the community is considering relocating outside the boundaries of Strathclair and will remain a customer of the utility.

The water treatment plant is owned by the MWSB and under an agreement the R.M. purchases all water produced. The R.M. purchases approximately 5.8 million gallons of water per year (rate study) and as of the date of the rate study the unaccounted for water was 8.3%.

As of April 1, 2007 the purchase price of water increased from \$8.57 to \$8.76 per 1,000 gallons (2.2%).

The water plant was upgraded five (5) years ago and when the

related costs are paid, ownership of the water treatment plant will be transferred to the R.M. The R.M. advised that they are meeting with the MWSB in the near future but the transfer may not occur for another 10 years.

The MWSB obtains water from two (2) ground wells and the treatment process includes green sand iron filtration, nano filtration and disinfection.

The R.M. employs a certified operator and recently hired a new employee who will be trained as a certified operator.

There is sufficient water to meet current and future demands of the utility.

The R.M. pumps sewage to its lagoon and on or about May 15 will, under provincial requirements, be allowed to discharge the lagoon. A second cell was constructed in 2004 but remains inoperable as the lagoon failed a compaction test. The cost to repair will be approximately \$136,000 with two-thirds being paid by senior government grants. The R.M. had not yet determined how it will fund its portion.

The distribution system was originally constructed in 1963 and there have been some line replacements but details could not be provided. While a recent excavation suggested that the lines are in good shape, the R.M. suggested it is only a matter of time before further upgrades will be required. The R.M. is experiencing water line breaks but not at an alarming rate.

The R.M. has met all provincial drinking water standards and standards for lagoon discharges.

The R.M. has noted an unexplained rise in water consumption. There has also been an unusual rise in sewage pumping costs suggesting that there may be a water main leaking into the sewer line.

The volume of sewage stored in the lagoon was reported by the operator as being at a high level and the R.M. anxiously is waiting for the May discharge date.

The original capital cost of the system was reported as approximately \$500,000. The annual debenture debt cost collected by taxes is approximately \$13,000.

The utility has incurred of late repeated operational deficits as noted below:

2004	\$23,703
2005	\$18,717
2006	\$18,357

The 2004 and 2005 deficits were approved as follows:

2004 -	\$4,000 from reserves; balance from future rates
2005 -	From future rates
2006 -	By tax levy subject to the approval of the Board

In the 2006 operating statements, pursuant to a Board Order to recover such deficits in future rates, the R.M. recorded recovery of \$7,420. However, as a further deficit was incurred in 2006, this provision for the deficit was not recovered.

Board Findings

The Board was quite pleased with the candor of the R.M.'s representatives. The R.M. recognized and accepted the urgent need to restore the financial integrity of the utility and was quite aware it will take substantial rate increases to do so.

By law, utilities are required to recover all operating costs. This is unavoidable and in fairness to the taxpayers who occasionally may be called upon to assist, there is a heavy onus on the R.M. and the Board to set out a financial plan that will ensure rates are adequate to provide safe and adequate water and sewer services for the community without the need for recoveries from taxes.

Unfortunately, the Board agrees with the R.M. and orally provided approval to the R.M. to recover the 2006 revenue deficit by means of taxes over two (2) years in approximately equal amounts. There was no alternative and the need to start the long road to recovery trumps the otherwise unacceptable approach to recover operating costs by taxes.

It was also evident to the Board that Interim Ex Parte Order No. 67/06 ought to be confirmed. There was no opposition to confirmation and the higher rates were necessary to commence the long road to recovery.

In the Board's view it is clear with the benefit of the year end operating results for the utility for 2006 and the information provided at the hearing, that the rate increases sought in the

application of the R.M. are inadequate. The utility has significant operational challenges ahead of it and the rates as proposed are inadequate to meet these future challenges. The Board accepted the R.M.'s commitment to restore the financial integrity of the utility.

During the hearing the Board noted that the Notice of Public Hearing clearly indicated that the Board may find it necessary to determine rates which may be different than those applied for by the R.M. While it is rare that the rates vary substantially from those proposed and published in the Notice, in the Board's view exceptional circumstances require an exceptional change.

Using the adjusted 2006 expenditures noted above the Board determined that the following rates are just and reasonable which were based on the same consumption figures reflected in the R.M.'s rate study:

Table 3

<u>Operating Costs</u> \$ 15,000 \$ 91,037 + 26,470 <u>- 15,000</u> \$102,507 <u> </u> <u> </u> Total <u>\$139,494</u>	Administration ⁽¹⁾ $\frac{\$15,000}{189 \times 4} = \$19.85/\text{quarter}$ Water $\frac{\$102,507}{5,806} = \$17.65/1,000 \text{ gallons}$ Sewer $\frac{\$21,987}{5,806} = \$3.80/1,000 \text{ gallons}$
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⁽¹⁾ Noting that the administration costs are under review, the Board used \$15,000 and placed the balance of administration costs in the water cost calculation.

Using the above rates the minimum residential quarterly bill will rise from \$47.85 to \$84.20 or approximately 75%.

In the Board's opinion, the 2006 adjusted costs are reasonable for setting rates. As noted under the Table 2, the rates should allow for further rate increases from the MWSB, inflationary increases for 2007 and 2008, recovery of past deficits, contingencies and reserves. The Board expects the R.M. to manage its affairs prudently for these rate objectives to be met.

These rates clearly represent rate shock and together with the prior increase of 35% represent a substantial increase over a one and a half year period. Circumstances leave the R.M. and the Board with little option. The Board has approved this increase and will require the R.M. to file its year end operating results with an explanation of all variances to the budget for the years 2007 and 2008 by no later than March 31 of the following year.

Recognizing that these rates allow for the recovery of past operating deficits to be fully recovered over 5 or 6 years, an opportunity is created once fully recovered to use such monies to more aggressively build up the reserves for the utility.

It is regrettable that such rate increases are necessary and the Board appreciates the impact it will have on persons on fixed incomes and others. However, the Board feels it is necessary to ensure that the utility has the financial ability to operate the utility effectively and safely.

Also of some concern to the Board, which is somewhat addressed by the appointment of a new operator and a new assistant, is the lack of clear maintenance records of the operation of the utility. As a result many issues remain unclear to the Board such as ... the abnormally high level of the lagoon, the cause of line leaks, and the recovery of line extensions costs. The Board expects better record keeping in the future, as such records are imperative for the safe and effective operation of the utility.

The utility does not charge a surcharge to customers beyond the boundary of the L.I.D. of Strathclair although there was some evidence that the deficit mill rate proposed will be charged to customers served beyond the boundary of the L.I.D. Such surcharges are intended to recognize that customers beyond the boundary of the L.I.D. are not paying for the capital cost of the utility and in fairness ought to pay the same rates as a customer in the L.I.D. plus a surcharge to be set by the R.M. The R.M. agreed to review this matter. The provision for the surcharge is set out in Schedule "A" to the R.M.'s rate by-law.

Also, with respect to the capital cost of extending the system both inside the L.I.D. and beyond, the R.M. agreed to review its charges for such extensions including that of the distribution main.

Finally, with respect to clean out costs, the applicable clause to the R.M.'s by-law was noted. According to the by-law the customer is responsible for clean out costs on the customer's property and the R.M. is only responsible for costs from the main to the customer's property line. Again, the R.M. was going to review its practices.

IT IS THEREFORE ORDERED THAT:

1. Interim Ex Parte Order No. 67/06 dated May 3, 2006 IS HEREBY CONFIRMED.
2. The 2006 revenue deficit of \$18,356.90 be recovered by means of tax levies over the residents of the L.I.D. of Strathclair over 2 years in approximately equal amounts.
3. The Rural Municipality of Strathclair amend By-law No. 6-2006 incorporating the following rates in its rate schedule with appropriate changes to the minimum quarterly bills:

Administration	\$19.85
Water /1,000 gallons	\$17.65
Sewer /1,000 gallons	\$ 3.80

4. The amended By-law, once enacted, should be filed with the Board.

5. The Rural Municipality of Strathclair file a copy of the utility financial statements for 2007 and 2008 by March 31 of the following year with an explanation of all variances to budget.

Fees payable upon this Order - \$350.00

THE PUBLIC UTILITIES BOARD

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

"G. O. BARRON"
Acting Secretary

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No. 61/07 issued by The Public
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Acting Secretary