

M A N I T O B A) Order No. 88/07
)
THE PUBLIC UTILITIES BOARD ACT) July 4, 2007

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

THE RURAL MUNICIPALITY OF ROCKWOOD
COMMUNITY OF BALMORAL
REVISED WATER AND SEWER RATES
EFFECTIVE JULY 1, 2007

Executive Summary

By this Order, which follows a public hearing held in Balmoral, Manitoba, the Public Utilities Board (Board) approves an application of the Rural Municipality of Rockwood (R.M.) for revised water and sewer rates for the community of Balmoral, effective with billings on and after July 1, 2007.

	<u>Revised</u>	<u>Existing</u>	<u>Incr. %</u>
\$/Cu metre			
Water	\$ 2.15	\$ 1.15	87%
Sewer	<u>\$ 0.43</u>	<u>\$ 0.30</u>	43%
	\$ 2.58	\$ 1.45	
Minimum Quarterly Bill (5/8")	\$ 51.70	\$ 41.50	56%
Minimum Quarterly Bill (1")	\$167.80	\$128.50	31%
Bulk water	\$ 3.43	\$ 2.40	

The revisions include a lower allowable volume of water of 15 cubic metres a quarter, rather than the present 20 cubic metres. Similarly, the R.M. lowered the minimum volumes for a 1" meter from 80 cubic metres to 60 cubic metres. As well, the R.M. is to pay the utility \$150.00 per hydrant per year, an increase from the present \$90 (water consumed is included). Further, a \$50 flat fee per fill plus 3.43/m³ for bulk water service is established. To dump sewage into the lagoon system, each hauler must pay an annual "key fee" of \$800.

The Board also approves the R.M.'s application for meeting a 2006 utility revenue deficit of \$11,215 out of future utility surplus.

Application

On May 2, 2007, the R.M. applied to the Board for revised water and sewer rates for Balmoral, a copy of By-law No. 12/07 and a rate study prepared by the R.M.'s consulting firm was attached. The R.M. also applied for approval to offset a 2006 utility revenue deficit in the amount of \$11,215.

A public hearing was held on June 18, 2007 in the Balmoral Community Hall. Presiding on a "hear and report basis" was Board Member Proven; the necessary quorum was provided by Board Chairman Lane, following Ms. Proven's report, with recommendations.

The meeting followed Notice of Hearing, which had been mailed to each customer and posted in several prominent locations. Initial water and sewer rates for Balmoral were approved by the Board in 2003, which was the R.M.'s first application for utility rates.

Then-existing and proposed rates were as follows:

	<u>Proposed</u>	<u>Existing</u>	<u>Inc.%</u>
\$/Cu metre			
Water	\$ 2.15	\$ 1.15	87%
Sewer	<u>\$ 0.43</u>	<u>\$ 0.30</u>	43%
	\$ 2.58	\$ 1.45	
Minimum Quarterly Bill (5/8")	\$ 64.60	\$ 41.50	56%
Minimum Quarterly Bill (1")	\$219.40	\$128.50	71%
Bulk water	\$ 3.43	\$ 2.40	

The R.M. proposed that the allowable volume of water for the quarterly minimum bills remain at 20 cubic metres. However,

subsequent to the hearing, the R.M. advised it was prepared to lower the minimum allowance to 15 cubic metres for a 5/8" meter (3,300 gallons), and to 60 cubic metres for a 1" meter (13,200 gallons), and filed an amended rate schedule.

Since the construction of a new water treatment plant and the concomitant approval of initial rates, the utility incurred operating deficits of \$13,349.95 and \$11,215 in 2005 and 2006, respectively. The first deficit was met by transfer from the accumulated utility surplus.

The R.M. advised of contributing factors that caused the deficits, the deficits providing support for the application for increased rates:

1. Forecast variance.

Initial rates were determined at a time of uncertainty as to future cost and revenue development. While the projection of expenditures proved reasonably accurate, revenue forecasts were unduly optimistic, as the volume of projected water consumed was not realized. The original rate study forecast annual water consumption of 24,000 cubic metres, yet, in 2006, the actual amount was 17,000 cubic metres. The R.M. advised that this factor accounted for 35% of the overall revenue requirement increase reflected in the rate application.

2. New provincial regulations requiring increased monitoring

and certified technicians.

The R.M. spent \$15,000 on operator training in the last three years. The utility is operated by one full-time and four part-time operators. The full time operator is a Level 3, the others are at Level 1, though some are working towards Level 2.

3. New regulations require all utilities to undergo an engineering assessment.

The assessment is required to better ensure that current and future needs of the community for safe and adequate water supplies are met; assessments are expensive and can result in additional capital costs once projects are identified.

4. Unduly low commodity rates.

The initial water commodity rate established in 2003 should have been \$1.76 per cubic metre, not the \$1.15 proposed and implemented.

Actual and forecast 2006 operating costs for the utility were indicated to be:

	<u>Actual</u>	<u>Forecast</u>
Administration	\$ 5,012	\$ 4,600
Water Production/Distribution ⁽¹⁾	\$30,158	\$38,928
Sewage	\$ 8,689	\$ 7,284

Persons outside the boundaries of Balmoral are able to dump sewage into the lagoon system at no charge, though each hauler must pay an annual "key fee" of \$800. The R.M. advised that as use of the facility is difficult to monitor; it was equally difficult to determine an equitable charge.

The R.M. advised that its utility is being assigned a fair share of the shared costs between the R.M. and the Balmoral utility. Such costs are accumulated throughout the year and allocated at the end of the year. Furthermore, the R.M. and neighbouring municipalities are sharing the costs of trained operating staff, this based upon time spent. Similarly, equipment costs are shared and charged out on a reported equitable basis.

The R.M. has not been promoting water conservation, but has adopted a single step rate. Higher volume users receive no discounts.

The R.M. also indicated a desire to "grow" the utility by increasing the number of customers, this to better ensure that fixed utility costs are recovered.

Comments at Hearing

Several residents appeared at the hearing seeking information about:

- a) opportunities for expansion if land development restrictions are not lifted;
- b) the costs of connection; and
- c) clarification as to the volume of water allowed to be consumed without exceeding the residential minimum quarterly bill.

The initial application provided for consumption of 20 cubic metres (4,400 gallons) of water per quarter within the minimum quarterly bill. Several customers suggested that the 20 cubic metre allowance was too high, and would penalize individuals who either deliberately conserve or simply do not use that volume of water. They argued for lower allowable quarterly volume within the minimum quarterly bill, suggesting a reduction in the 87% increase proposed for the water rate.

The R.M. advised at the hearing it would not change its application, and that it intended that the volume of water allowed within the minimum quarterly bill would not be changed. However, subsequent to the hearing, the R.M. advised it was prepared to lower the minimum allowance to 15 cubic metres (3,300 gallons) and filed an amended rate schedule.

The R.M. reminded residents that with only 86 customers, a rise in operating costs can have a substantial impact on rates. In

retrospect, the R.M. advised that the initial water commodity rate established in 2003 should have been \$1.76 per cubic metre, not the \$1.15 proposed and implemented. The R.M. noted that the unduly low rates had been at the cost of the utility, with deficits arising partially as the result.

In conclusion, the R.M. opined that while its proposed increases were high and could be considered rate shock, the proposed rates should allow the utility to operate on a breakeven basis for at least the immediate future.

Background

As noted by the Board in 2003, the new water treatment plant was required to meet the need for potable water. The new system has reportedly been producing extremely high quality water that has been compared to the quality of bottled water.

All 86 customers are metered; customers include a school, an arena and a personal care home. Balmoral has 14 fire hydrants; the R.M. is to pay the utility \$150.00 per hydrant per year for fire protection (up from \$90 per hydrant). Water use is included in that charge.

The capital cost of the utility system was \$2.5 Million. The annual cost of servicing debenture debt of \$30,312.64 is being met by tax assessments.

As at December 31, 2006, the utility had a negative surplus

position of \$18,197 and reserves of \$15,733. The estimated cost of a filter replacement in 2007 dollars was estimated at \$35,000; the reserve is held to meet replacement costs.

Board Findings

The Board will approve the revised rates as requested by the R.M., including the reduction in the allowable volume of water to be consumed within the minimum quarterly bill.

The Board accepts the rationale for the rate and volume revisions, as outlined by the R.M. in its application and at the public hearing. The Board accepts the R.M.'s position that the initial rates for the new plant system were too low. To some extent this Order and the revised rates and rate schedule represent a "catch-up" required to allow the utility to operate on a breakeven basis, and set money aside for future capital replacement.

The Board will make no changes to the R.M.'s application with respect to the septage haulers. The use of the lagoon has not increased and the Board accepts that, at this time, the cost to monitor the lagoon use may exceed the benefit. The situation should be monitored on a going-forward basis.

The Board notes, from the by-law, that water and sewer service is "billed quarterly in advance together with any excess charges for metered water and sewer services for the preceding quarter". The R.M. is suggesting that the new rates apply to both the

estimated service for the coming quarter as well as the excess charges for April, May and June, 2007. In the interest of avoiding retroactive rate increases, the Board will approve the increased rate to be applicable to service on or after July 1, 2007 only.

IT IS THEREFORE ORDERED THAT:

1. By-law No. 12/07 BE AND IS HEREBY APPROVED subject to being amended to reflect the minimum quarterly bill for a 5/8" meter size being reduced to include 15 cubic metres and for a 1" meter to include 60 cubic metres.
2. The 2006 revenue deficit BE AND IS HEREBY APPROVED subject to recovery from future surplus of the utility.

Fees payable upon this Order - \$300.00.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, C.A."
Chairman

"G. O. Barron"
Acting Secretary

Certified a true copy of
Order No. 88/07 issued by The
Public Utilities Board

Acting Secretary