

M A N I T O B A                    )     Order No. 172/07  
  )  
THE PUBLIC UTILITIES BOARD ACT    )     December 31, 2007

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

**THE RURAL MUNICIPALITY OF VICTORIA  
LOCAL URBAN DISTRICT OF CYPRESS RIVER  
REVISED WATER AND SEWER RATES**

**Executive Summary**

By this Order, the Public Utilities Board (Board) approves an application of the Rural Municipality of Victoria (RM) for the Local Urban District of Cypress River (LUD) for revised water and sewer rates, effective the next billing.

<b>Commodity Rates \$/1,000 gallons</b>	<b>Existing</b>	<b>2008</b>	<b>Approved 2009</b>	<b>2010</b>
Water	\$ 8.20	\$10.75	\$11.00	\$11.20
Sewer	<u>2.00</u>	<u>2.80</u>	<u>2.85</u>	<u>2.85</u>
Total	\$10.20	\$13.55	\$13.85	\$14.05
Service Charge	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.10
<b>Minimum Quarterly bill (5/8" meter)- combined service</b>	\$35.60	\$45.65 (+28%)	\$46.55 (+2%)	\$47.25 (+1.5%)
<b>Minimum Quarterly bill -Sewer Only *</b>	\$12.00	\$27.40	\$27.80	\$27.80
<b>Bulk Water \$/1,000 gallons</b>	\$12.25	\$20.65	\$21.00	\$21.10

\* Proposed rates based on 8000 gallons- previously based on approximately 3000 gallons per quarter.

The Board requires the RM to file an application seeking a commodity surcharge rate for water sold outside the boundaries of the LUD, this to ensure a fair portion of the capital cost of the utility is received through rates from bulk water customers.

The Board will also require a report be filed from the RM on water loss experience, that by no later than March 15, 2008.

## **Application**

The RM applied to the Board on September 25, 2007 for water and sewer rates in the LUD, to be effective January 1, 2008. The RM's application included a 28% increase in the minimum quarterly bill for a residential customer for 2008, and for lesser increases in 2009 (2%) and 2010 (1.5%).

Notice of the RM's application was published in the local newspaper and posted in six prominent locations in the area. The notice invited public comment, no one responded by the due date of December 7, 2007.

The last rate change occurred in 2004. The Utility has incurred no deficit since 2004 and reported a \$610.00 surplus in 2006. As at December 31, 2006, the Utility has approximately \$22,107 in reserves and an accumulated surplus of \$18,911.

The RM supported its application with the following comments:

1. Inflationary increases experienced in operating costs since 2004 and further projected increases in the three year rate proposal such that the existing rates are inadequate. The RM used 2006 operating costs inflated yearly by 2.5% to derive rates for 2008, 2009 and 2010.
2. The existing rate includes no allowance for unexpected repairs to the system (contingency allowance) and no monies to be placed in the utility revenue fund for future capital expenditure related to plant renewal.

3. Administration costs had been funded by the General Operating Fund notwithstanding that a quarterly service charge was being collected; this application, if approved, will correct the inequity.

Projected expenditures reflected in the rate proposal were:

<b>Expenses</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Administration	\$ 2,750	\$ 2,800	\$ 2,850
Water	\$47,280	\$48,250	\$49,250
Sewer <sup>(1)</sup>	\$11,200	\$11,300	\$11,400
	\$61,230	\$62,350	\$63,500

<sup>(1)</sup> Sewer expenses are about \$3,000 per year - the balance is contingency. The lagoon is leaking and is in much need of repair (under Order to do so).

The RM included in its rate proposal reflection of an annual provision for reserves of \$2,000.00 for water and \$1,000.00 for sewer.

In 2006, the RM sold 960,000 gallons of water to 16 rural customers outside the LUD's boundaries, with no surcharge being levied. While the customers have paid the capital cost to extend service, and continue to pay to maintain the lines serving them, they make no contribution to the capital cost of the Utility infrastructure.

The RM amended its application with respect to bulk water rates, lowering the bulk water rates as noted below:

<b>\$/1,000 Gallons</b>	<b>Initially Proposed</b>	<b>Amended</b>
2008	\$20.65	\$19.50
2009	\$21.00	\$19.80
2010	\$21.10	\$20.00

The higher rates appeared in the notice. Bulk water rates

include a portion of the debenture costs, consistent with the Board's guidelines, to ensure customers make a contribution to the utility's capital costs. Such costs are not included in the commodity rates charged to connected customers, as these costs are recovered by taxes.

With respect to the calculation of the sewer charges, the RM included a provision for contingencies 2.6 times the cost of sewage treatment.

The RM employs one principal utility person (with a back-up person) to maintain both the Cypress River and the Holland utilities. The operator's cost is split between these two utilities based upon the size of each utility. The back-up person is charged out based on time spent at each utility. Both persons are duly certified and suitable provisions have been made in the rates to fund continuous training.

### **Background**

There are 138 customers connected to the Utility, of which 128 are residential or small commercial customers. There are 5 sewer-only customers, and their service is not metered - they are charged flat rates using an average consumption of 8,000 gallons per quarter plus the quarterly service charge.

The number of gallons assumption was increased on the basis that typically un-metered customers use more water than a metered customer. To charge based on approximately 3000 gallons would

understate average customer use of the sewer service. Where customers believe that 8000 gallons is too high, the customer may ask the Utility to meter the customer's water usage and be charged based on the metered supply.

The system was constructed in 1993, and the total original capital cost of the system was \$1.48 million. Consistent with the Board's guidelines, the RM reflected a contingency allowance of \$14,800 (equally divided between water and sewer) in rates.

The Cypress River Water Treatment Plant uses a manganese filtration system and also provides chlorination. This plant was reported to be operating at 50 to 75% of capacity.

The sewer system is a gravity collection system that flows into a lift station and is then pumped into the sewage lagoon, which consists of primary and secondary cells. The lagoon is currently utilized at 60 - 80% capacity.

The RM has yet to develop a five-year capital plan for the Utility. Drinking water standards were reported to being met.

Unaccounted for water (water produced but not billed) fluctuated considerably from one quarter to another in 2006, with losses ranging from 18% in the first quarter to a high of 31% in the second quarter, and with the average for 2006 being 29%. The RM reported there was a substantial water leak repaired in 2006, and that it expects 2007 results will be much improved bringing down water losses to an acceptable level.

## **Board Findings**

The Board will approve the application, though requiring the RM to bring forward an application for a surcharge on the water sold beyond its boundaries.

Such sales make up nearly 23% of the total water sold and these customers are not making any contribution to the capital cost of the Utility. The Board will require the RM to give some consideration to this matter in the first quarter of 2008, and to propose a surcharge no later than March 15, 2008.

The fact that customers are responsible for bringing service to their properties and for the maintenance of the lines are not reason enough to escape paying their fair share of initial Utility capital costs.

When providing a recommendation for a bulk water rate surcharge, the Board will also expect a report on water losses by quarter for 2007.

The Board notes that the contingency allowance in the sewer rate exceeds the sewer rate itself by 2.6 times. However, the Board is satisfied with the RM's explanation that the lagoon may need upgrading in the near future.

In all other respects, the Board finds the application reasonable.

