

M A N I T O B A) Order No. 107/08
)
THE PUBLIC UTILITIES BOARD ACT) July 16, 2008

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

RURAL MUNICIPALITY OF MOUNTAIN
LOCAL URBAN DISTRICT OF MAFEKING
REVISED WATER RATES

Executive Summary

By this Order the Public Utilities Board (Board) varies an application of the Rural Municipality of Mountain (RM) for revised water rates for the Local Urban District of Mafeking (LUD).

Existing and approved rates:

	Existing	Approved	Increase
Per REU ⁽¹⁾	\$43.52	\$53.20	22%
Service Charge	\$14.00	\$17.00	21%
Reserve Charge	-	5.00	
Total Quarterly Charge	\$57.52	\$75.20	31%
Bulk water (\$/1000 gallons)	\$12.00	\$12.00	

Note 1: This is a charge for each residential consumer as meters are not used for billing purposes. Commercial customers are charged a multiple of the residential charge based on estimated use.

While the Board approves the RM's rate proposals, it also directs that a surcharge of \$5.00 per REU be added, the surcharge to be deposited directly into the Utility's reserve fund.

And, by this Order, the Board also approves 2006 and 2007 Utility operating deficits, to be recovered through property taxes over three years.

A Notice of Application was mailed to each customer with an invitation to write the Board with any concerns or comments; none were received.

Application

On February 14, 2008 the RM applied to the Board for approval of revised water rates for the community of Mafeking (66 customers), and filed By-law No. 02/08 read the first time on February 13, 2008. The RM updated Schedules "A" and "B" to this By-law on April 8, 2008, by reducing the number of REU's assigned AG Service (Feedlot) from 6 REU's to 5.

The existing rates had been approved following a public hearing by the Board held on April 21, 2006 in Birch River. The Board then-issued Order 75/06 approving revised rates, later amending it by Order 113/06, which reduced the REU's assigned to the Feedlot and the Hotel.

The RM proposed:

	Existing	Proposed	Increase
Per REU ⁽¹⁾	\$43.52	\$53.20	22%
Service Charge	\$14.00	\$17.00	21%
Total Quarterly Charge	\$57.52	\$70.20	22%
Bulk water (\$/1000 gallons)	\$12.00	\$12.00	0%

In its application, the RM proposed the introduction of generic categories for multiple REU customers - Commercial I to Commercial IV to be allocated REU's of 1.3, 2.0, 4.0 and 5.0 respectively, this to allow the RM to assign customers to an appropriate Commercial category rather than list the customer by name.

However, given the materiality of expected consumption, the Feedlot and the Hotel will continue to be separately listed; the REU

assignment for the Feedlot was proposed to change from the existing 10 REU's to 5 (amended from 6 REU's as noted above) with the Hotel's allocation to increase from 5 to 10 REU's.

The Utility advised of neither accumulated surplus nor a Utility reserve.

The RM advised the Board that it had held a public meeting to discuss the Mafeking utility and that all in attendance agreed that the RM should continue to bill on a flat rate basis. The RM noted that customers suggested a special 1 mil levy to replenish the utility surplus and reserves; a 1 mil levy equates to an annual charge of \$17.00 for the average property. However, the RM did not propose the levy in its application.

The RM also applied to the Board for approval of utility operating deficits in 2006 and 2007, of \$7,676.00 and \$7,799.72 respectively. The RM proposed to recover the deficits through property taxes over three years.

On December 14, 2007, the RM filed with the Board an October 2007 rate study prepared by its consultant, Sensus, and, as noted, the By-law was filed February 14, 2008.

Sensus noted that the Utility had incurred consistent annual operating deficits since 2003, the deficits ranging from \$4,300 to \$10,047.

Although the Board approved 140% rate increases in 2006, the Utility continued to incur deficits. In Order 113/06, the Board noted that the changes to their REU assignments for the Feedlot and the hotel,

which were accepted by way of an amendment without a corresponding increase in the REU charge for other customers, could be expected to result in a reduction in annual revenues of \$5,200.

Sensus projected that in the absence of a rate increase, the RM would be unable to break even or set monies aside in reserve for future capital replacements and unanticipated expenditures. Sensus stated:

- "1. The RM would like to generate a surplus, however, due to the large losses in the prior years a more realistic goal will be to breakeven on an annual basis.
2. The RM is not planning any capital projects for the next three years.
3. Management feels there is a slight chance of an increase in usage. For the purposes of this rate study we have assumed a constant usage for the forecast period due to the uncertainty of any increases."

The following projected annual operating costs were used to develop the RM's proposed rates (compared to 2007 actual):

	Rate Study	2007
Administration	\$ 4,600	\$ 4,629
Water	<u>\$20,040</u>	<u>\$19,412</u>
Total	\$24,640	\$24,041

The rate study derived proposed rates on a volumetric basis and then converted such rates to REU's. The consultant recommended the following REU allocations and bills:

	REU Assignment	Commodity Bill
Residential	1.0	\$ 53.19
Commercial	2.0	\$ 106.37
Hotel	10.0	\$ 531.90
Feedlot	20.0	\$1,063.70

The RM accepted the consultant's recommendation with respect to all assignments except for the Feedlot, which it proposed to reduce to an allocation of 5 REUs. By so doing, the expected annual revenues fell by approximately \$3,190, this affecting the consultant's projected surplus, as noted below.

By way of a follow-up, the RM advised the Board on July 7, 2008 that 4 cows were the equivalent of 1 REU and that each cow is assumed to consume 5 gallons of water per day (pursuant to the Manitoba Environmental Farm Plan Workbook). The RM further advised that on average they anticipate 20 cows in the feedlot, and, that therefore the consensus of the community was that a 5 REU allocation would be appropriate.

The RM proposed to charge the Feedlot a commodity charge of \$266.00 quarterly; this to develop a revenue reduction of \$3,190.80. The reduction is calculated as follows: $[(\$1,063.70 - \$266.00) \times 4 = \$3,190.80]$.

Based on its REU allocation amendments, the RM projected the following annual revenue:

Service Charge	\$17 x 66 customers x 4	= \$ 4,488.00
Commodity Charge	\$53.20 x 98.9 REU's x 4	= <u>\$21,045.92</u>
Total		= <u>\$25,533.92</u>

The total assigned REU's in the community is 98.9.

Using 2007 expenses of \$24,641, the proposed rates would generate an approximate surplus of \$1,493. This is a reduction from the \$7,292 surplus projected by the consultant.

The consultant also recommended an increase in the bulk water rate to \$14.00 per thousand gallons, but the RM proposed to not increase from the existing rate of \$12.00. The RM advised that it did not propose a change to the rate to promote increased bulk water sales.

Board Findings

The Board has considered carefully the RM's application, the consultant's report, and the responses provided by the RM to the Board's questions. The Board will vary the RM's application to add a special charge of \$5.00 per REU, so as to provide for the development of a utility reserve; the special charge is expected to generate \$2,000.00 annually for deposit into the reserve. The Utility needs a reserve fund, and the Board is encouraged to note that the customers agree.

The Board notes that customers were subjected to a substantial increase in rates in 2006 because, in large part, rates had then not been changed since 1993. Yet, the higher rates set in 2006 did not allow the Utility to produce breakeven annual results. While the rate increases approved in this Order are substantially below the percentage rate increases provided in 2006, they may prove sufficient for the utility to breakeven and build a small reserve.

However, as noted in the Board's last Order, the utility faces significant operational challenges and has a very low customer base on which to count on for revenue. Nonetheless, it is a health and economic necessity that a safe and an adequate supply of water continue to be provided to the community.

Also of concern is the RM's continued reliance on recovering utility costs through tax levies, particularly when the approach may provide for utility bills to be partially met by the Manitoba Education Property Tax Credit Advance (Credit). Utility bills are not eligible for the credit.

However, with the Utility's weak financial position, the RM has no real choice but to recover the 2006 and 2007 deficit through the tax rolls, and, accordingly, the Board will approve the recovery of the deficit by taxes over three years, to be levied in approximately equal amounts.

For similar reasons and regarding the use of the Credit, the Board will not approve the customer-suggested 1 mil levy to build the Utility reserve fund. The recovery of utility costs should be on a user pay principle. Thus, the Board has opted for a special and additional \$5.00 REU surcharge.

Also, of concern to the Board is the frequent changing of REU assignments to the Feedlot. Since the Application was filed the RM has changed the assignments from the existing 10 REU's to 6 and now to 5 units. The Board appreciates that the business cycle of the Feedlot changes depending on market circumstances. However, major swings in the REU assignment can have substantial impact on the finances of the Utility, as noted above, and ability of the Utility

to remain sustainable.

The REU assignment needs to be fair and reasonable. However, the Board believes that the Utility needs revenues to recover its costs, notwithstanding a customer's business cycle. Accordingly, while it will approve a minimum REU assignment of 5 for the Feedlot, it will further require a quarterly reassessment of the assignment to the Feedlot (to address the business cycles).

Any future change to the REU assignment to the Feedlot is to be supported by Council by resolution. The RM will need to determine the basis for the change, and file such changes as may occur with the Board on an annual basis.

The Board accepts the objective of generating additional bulk water sales and will approve the proposed bulk water rate.

IT IS THEREFORE ORDERED THAT:

1. By-law No. 02/08 of the Rural Municipality of Mountain BE AND IS HEREBY APPROVED subject to amendments to reflect the attached Schedule "A";
2. The revenue deficit of 2006 and 2007 in the amount of \$7,676.00 and \$7,799.72 respectively BE AND IS HEREBY APPROVED to be recovered by taxes over three years in approximately equal amounts.
3. The Rural Municipality of Mountain file with the Board annually all changes made to the assignment of residential equivalent units to Ag Centre made quarterly by resolution of Council.

Fees payable upon this Order - \$150.00.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"G. BARRON, FCGA"

Acting Secretary

Certified a true copy of Order No.
107/08 issued by The Public Utilities
Board

Acting Secretary

SCHEDULE "A"
TO BOARD ORDER No. 107/08
THE RURAL MUNICIPALITY OF MOUNTAIN
LOCAL URBAN DISTRICT OF MAFEKING
REVISED WATER RATES
BY-LAW NO 02/08

1. **Customer Service Charge:**
The customer service charge shall be \$17.00 per quarter.
2. **Commodity Rates:**
The commodity rates for all water consumption shall be \$53.20 per Residential Equivalent Unit.
3. **Schedule of Minimum Quarterly Charges**

Customer	Residential Equivalent Unit	Customer Service Charge	Commodity Charge	Reserve Charge	New Quarterly Charges
Residential	1.0	\$17.00	\$ 53.20	\$ 5.00	\$ 70.20
Commercial I	1.3	\$17.00	\$ 69.15	\$ 6.50	\$ 86.15
Commercial II	2.0	\$17.00	\$106.40	\$10.00	\$123.40
Commercial III	4.0	\$17.00	\$212.80	\$20.00	\$229.80
Commercial IV	5.0	\$17.00	\$266.00	\$25.00	\$283.00
Ag Service	5.0	\$17.00	\$266.00	\$25.00	\$283.00
Hotel	10.0	\$17.00	\$532.00	\$50.00	\$549.00

4. **Bulk Water Sales:**
All bulk sales shall be at the rate of \$12.00 per thousand gallons of water.
5. **Hydrant Rentals:**
An annual charge of One Hundred Dollars (\$100.00) per hydrant shall be made by the said utility to the Local Unincorporated District of Mafeking for Fire Protection services, which annual charge shall include water used.

6. **Billings & Penalties**

All accounts billed to customers under Section 1 hereof shall be due and payable thirty (30) days after billing date and shall be liable to penalty, at a rate of 1 ¼% on any outstanding balance.

7. **Disconnection**

Service may be disconnected and discontinued for non-payment of the account. If the account remains unpaid **30 days** past the due date, customers will be sent a reminder notice. If after a further 30 days, the account remains unpaid, a second notice will be issued providing disconnection advice unless payment is received within **30 days**. All disconnection notices shall advise the customer of the specific date of the disconnection and of their right to appeal to The Public Utilities Board and include the Board's relevant contact information.

8. **Reconnection**

A reconnection fee of \$25.00 shall be payable in addition to all arrears and penalty prior to service being provided to any consumer disconnected under Section 6 hereof.

9. **Outstanding Water Bills**

Pursuant to Section 236(1)(b) of The Municipal Act, the amount of all outstanding charges may be added to taxes and be collected in the same manner.