

M A N I T O B A)
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THE PUBLIC UTILITIES BOARD ACT) Order No. 112/08
)
) July 25, 2008

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

RURAL MUNICIPALITY OF PORTAGE LA PRAIRIE
REVISED WATER RATES

Executive Summary

By this Order the Public Utilities Board (Board) approves an amended application for revised water rates for the Cartier Regional Water Utility, as proposed by the Rural Municipality of Portage la Prairie (RM) and presented at the public hearing.

Existing (from 1999) and approved rates to take effect on water consumed on and after September 1, 2008 are:

1,000 Gallons	Existing	Approved	Increase
Water	\$6.50	\$11.00	69%
Service Charge	\$2.00	\$ 2.00	0
Quarterly Minimum Bill (5/8" Meter)⁽¹⁾	\$21.50	\$35.00	63%
Bulk Water	\$6.50	\$12.00	85%

⁽¹⁾The minimum quarterly bill provides 3000 gallons. Larger meter sizes have large water allowances and accordingly larger minimum bills.

The past practice of keeping rates low by not passing through increases in the wholesale cost of water incurred by the RM was inappropriate, and has resulted in a significant "catch-up" in rates which was unavoidable.

The Board recommends the RM consider annual applications to pass-through future increases in the wholesale cost of water, which the Board understands should be comparable to CPI increases.

Application

On March 18, 2007 the RM applied for revised water rates for its rural water system, referred to as the Cartier Regional Water Utility. The RM's application was supported by By-law

No. 3010, read for the first time on March 11, 2008, and a water rate study that had been prepared by the RM.

The application was amended by the RM during the public hearing; existing (1999), initially proposed and amended rates are as noted below:

\$/1,000 Gallons	Existing	Initially Proposed	Amended	Increase as Amended
Water	\$6.50	\$12.00	\$11.00	69%
Service Charge	\$2.00	\$2.00	\$ 2.00	0
Quarterly Minimum Bill (5/8" Meter) ⁽¹⁾	\$21.50	\$38.00	\$35.00	63%
Bulk Water	\$6.50	\$12.00	\$12.00	85%

⁽¹⁾The minimum quarterly bill provides 3000 gallons. Larger meter sizes have large water allowances and accordingly larger minimum bills.

The RM advised that its initial rate proposal did not take into account the addition of 100 customers located on Peony Farm, which is expected to increase sales volumes by 10% to 45,451 thousand gallons.

A Notice of Application and Public Hearing inviting public input was issued, and a public hearing was held on July 8, 2008 at 7:00 p.m. in the Council Chambers of the RM in the City of Portage la Prairie.

Since the Utility commenced operations in 1999, it has had a history of revenue shortfalls totaling \$791,338 as noted below:

1999	\$ 20,924
2000	\$ 26,175
2001	\$ 33,024
2002	\$ 63,742
2003	\$ 55,765

2004	\$ 83,838
2005	\$102,121
2006	\$200,194
2007	<u>\$205,547</u>
Total	\$791,338

Each year, the RM transferred funds from its General Reserves to offset the utility revenue shortfall. As a consequence, the deficits were not brought to the attention of the Board, as is required by statute.

Also, since 1999 the wholesale water rate charged by the Cartier Regional Water Co-operative has been increasing, as noted below:

	\$/1,000 gallons
1999/2000	6.00
2000/01	6.00
2001/02	6.00
2002/03	6.20
2003/04	6.25
2004/05	6.42
2005/06	6.50
2006/07	6.69
2007/08	6.84
	(Effective April 1, 2007)
	7.75
	(Effective October 1, 2007)

None of the rate increases were passed on to Utility customers through amended rates and minimum bills. The RM advised that the latest, and sharp, wholesale water rate increase made it essential for the retail rates to increase.

The wholesale cost of water is equal to 78% of the Utility's 2007 operating costs, and is not controllable by the RM.

The 2007 annual cost of water was \$436,277.27 while the total operating cost of the Utility, excluding administration, capital and debenture servicing costs, was \$560,900.58.

The forecast annual operating costs of the Utility, excluding capital costs, as reflected in the current rate study is as follows:

Administration	\$ 5,600
Water	<u>\$491,769</u>
Total	\$497,369

Rates reflect \$4,869 set aside for contingencies, and representing approximately 1% of the historical capital cost of the system. No provision for a reserve to meet future capital replacement requirements was provided for.

As at the end of 2007, the Utility recorded a \$381.00 surplus, there is no balance in the Utility reserve fund.

The RM was unable to provide a rationale for why rate increases had not been sought earlier, except that past municipal administrations had preferred to leave rates unchanged despite rising costs.

The RM annually levies a charge on all assessable property within the Municipality, with the exemption of otherwise exempt properties, and collects \$300,000 annually through this measure. This practice was started in 1999 to help defray connection costs to allow all property owners to gain access to the system. To "freeze" rates, past Council determined it would be beneficial to allocate some of \$300,000 to the Utility to allow for such repairs and/or maintenance required.

The Utility has 2 Utility operators, co-shared with Oakville and the LUD of Oakville utilities. The Utility pays 40% of the Utility Operator's salary and 77.5% of the Assistant Utility Operator's salary. The Utility Operator has Class 1 Water Treatment and Wastewater Collection and Treatment and Class 2 Water Distribution certificates. The Assistant has Class 1 Water Distribution and Wastewater Collection and Treatment certificates.

The RM understands the Board's concerns related to the prudent use of water, but, other than recognizing that rates needed to be increased to match expected costs - which may help with conservation, has to this point not encouraged water conservation.

In 2006 and 2007, the Utility experienced water main breaks. However, there is no plan in place at this time to replace any existing lines. The RM plans to expand the system to new customers and will continue to also allocate all or a part of \$300,000 to fund such expansions, drawing on any additional funding requirements from the General Reserve.

Background

There are currently 790 customers being served. The total projected sales volume is 45,451 thousand gallons. Current water losses of 4.4% include the water used to flush new lines.

In 1999, the RM identified a need to develop a rural water distribution system, this because of poor water quality and limited supplies in certain parts of the municipality.

Council then determined that the \$300,000 annual levy would be allocated for system expansion, with the specific

expenditures in any year determined in part by the cost of the project and such funds as may have been received from PFRA and customers (the latter through connection charges). Any surplus was transferred to the General Reserve, which had sufficient funds to meet the annual operating account deficit and allow for the continuation of the rate freeze.

As at the end of 2006, there was \$484,022 in the General Reserve. When the expansionary mode concludes, any remaining funds will be used for other expenditures as may be determined by Council.

The RM expects over the next 3 to 4 years the system expansion will be completed. At that time, the \$300,000 levy can either be reduced or transferred to build a reserve for future replacement costs. The level of expansion planned for 2008 was yet undetermined at the time of the hearing.

There are no hydrants on the system.

As the system expands bulk water sales decline.

Ratepayer Submission

In response to the Notice of Application, a number of residents wrote the Board complaining about the high increase in rates that the RM had proposed, which resulted in the Board convening the public hearing. Many of those who wrote the Board were in attendance at the hearing.

Most customers understood the need for some rate increase, though the 85% increase sought was considered to be unreasonable. One customer suggested current customers should not be required to meet such a large increase when it was required because of poor past decisions.

Some suggested that if they had known what the actual cost of water was, they may not have connected to the system. Those in attendance were of the view that the former policy of low water rates was misleading.

Regulation of the Yellowhead Regional Water Co-operative (YRWC) was raised. The Board advised that rates are currently determined by the Manitoba Water Services Board (MWSB), a non-regulated entity. However, once the debt of the treatment plant has been repaid, responsibility for operating and setting rates will reside with the YRWC rather than MWSB, and Public Utilities Board approval will be required.

Board Findings

The past accounting for the operation of this Utility is of concern to the Board. The Board agrees with customers' suggestion that the prior policy of keeping rates low may have been motivated to promote the expansion of the service, and that the policy was inappropriate.

Also of concern is the past policy of the RM to annually transfer funds from the General Reserve Fund to allow the utility to breakeven, thereby avoiding the need to apply to the Board for approval of operating deficits and recovery of same.

Such a policy precludes the Board from taking action to ensure rate adequacy.

The increases approved herein certainly meet the definition of rate shock. Nonetheless, the increased rates are necessary, with 78% of the Utility's cost of service being uncontrollable and represented by the wholesale cost of

water. Of some comfort, the Board notes that future increases in the cost of purchased water is expected to be tied to the rate of general inflation.

In the future, such increases ought to be passed through annually, by the RM making an application to the Board.

If, rather than reflecting water losses and other operating costs, the RM applies to the Board for only a pass-through increase of costs arising with the cost of purchased water, the Board will consider such requests on an interim ex parte basis, with notice to follow to the RM's customers. Using this process recognizes the uncontrollable nature of the cost and reduces regulatory costs and no hearing would be required.

The balance of operating costs amount to approximately 22% of Utility's total cost of service, and is reasonable recognizing that water quality monitoring costs are necessary.

Also, of some concern to the Board is the standing policy of Council to levy \$300,000 annually to fund future expansion, noting that in Council's view these are non-utility funds though the funds are employed in part to recover the capital costs of the Utility.

The Board encourages the RM to set up a utility reserve fund, specifically for capital expansion, and further, to create a separate reserve fund for general utility operations with any surplus from rates being deposited in such a reserve. This fund should be used to pay for line repairs and parts replacements only.

Pleased that rates are proposed to increase to reflect

actual costs, the Board will approve the amended application for revised water rates, to take effect for water consumed on an after September 1, 2008.

The Board notes that Clause 6 of the proposed By-law dealing with disconnection for non-payment does not agree with the current practice allowing for reasonable notice and appeals to the Board, and will, by this Order, direct the amendment of the provision.

In all other respect to the charges proposed by the RM as set out in By-law No. 3010 are acceptable and will be approved.

IT IS THEREFORE ORDERED THAT:

1. By-law No. 3010 is HEREBY APPROVED subject to amendment to agree with Schedule "A" attached hereto.

Fees payable upon this Order - \$350.00

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"G. BARRON, FCGA"

Acting Secretary

Certified a true copy of Order
No. 112/08 issued by The
Public Utilities Board

Acting Secretary

SCHEDULE "A"
TO BOARD ORDER No. 112/08
THE RURAL MUNICIPALITY OF PORTAGE LA PRAIRIE
REVISED WATER RATES
BY-LAW NO 3010

1.) QUARTERLY RATES FOR WATER SERVICE

COMMODITY RATES per M.G.

	Water
All water consumption	11.00

2.) MINIMUM QUARTERLY CHARGES

Notwithstanding the Commodity rates set forth in paragraph 1 hereof, all customers will pay the applicable minimum charges set out below, which will include water allowances indicated.

a) Water and Sewer Customers

5/8"	1	3,000	2.00	33.00	35.00
3/4"	2	6,000	2.00	66.00	68.00
1"	4	12,000	2.00	132.00	134.00
1.5"	10	30,000	2.00	330.00	332.00
2"	25	75,000	2.00	825.00	827.00

3.) BULK SALES

All water sold in bulk by the Rural Municipality of Portage la Prairie shall be charged for at the rate of \$12.00 per 1,000 gallons on a pro-rated basis for all quantities greater than 500 gallons. For any quantity of 500 gallons or less the minimum charge will be \$6.00.

4.) SERVICE TO CUSTOMERS OUTSIDE MUNICIPALITY, TOWN, OR L.I.D., LIMITS

The Council of the Rural Municipality of Portage la Prairie may sign agreements with customers for the provision of water services to properties located outside the legal boundaries of the Municipality. Such agreements shall provide for the payment of the appropriate rates set out in the schedule, as well as a surcharge, set by resolution of Council, which shall be equivalent to the frontage levy, general taxes and special taxes for Utility purposes in effect at the time, or as may be effect from time to time, and which would be levied on the property concerned if it were within these boundaries. In addition, all costs of connecting to the Utility's mains, and installing and maintaining service connections will be paid by the customer.

5.) BILLINGS AND PENALTIES

Accounts shall be billed quarterly. A later payment charge of 1.25% per month shall be charged on the dollar amount owing after the billing date. The due date will be at least fourteen days after the mailing of the billings.

6.) 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.

7.) RECONNECTION

A customer who has had service disconnected for any reason shall not be reconnected until all regulations have been complied with, and all arrears, penalties and a reconnection fee of \$25.00 have been paid.

8.) OUTSTANDING BILLS

Pursuant to Section 252(2) of The Municipal Act, "A Charge Referred to in Clause (1)(a) may be collected by the Municipality in the same manner as a tax may be collected or enforced under this Act."

9.) WATER ALLOWANCE DUE TO LINE FREEZING

That in any case where, at the request of the Council, a customer allows water to run continuously for any period of time to prevent the water lines in the water system from freezing, the charge to that customer for the current quarter shall be the average of the billings for the last two previous quarters to the same customer, or to the same premises if the occupant has changed.

10.) OTHER FEES

- a) Where there is evidence of meter tampering, a minimum charge of \$500.00 will be applied to any account plus value of estimated unmetered water consumed.
- b) Charge to remove meter at request of customer shall be \$100.00 plus any charges incurred for the testing of said meter. Should the meter test to be faulty, this charge will be waived.