

M A N I T O B A                    )     Order No. 17/08  
  )  
THE PUBLIC UTILITIES BOARD ACT    )     March 7, 2008

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

THE RURAL MUNICIPALITY OF HARRISON  
LOCAL IMPROVEMENT DISTRICT NO. 2 (SANDY LAKE)  
REVISED WATER AND SEWER RATES

### **Executive Summary**

By this Order, the Public Utilities Board (Board) varies the application of the Rural Municipality of Harrison (Municipality) for revised water and sewer rates and approves larger increases than requested effective April 1, 2008.

The Board also gives conditional approval for two further 2.5% increases, to be at the discretion of the Municipality and to take effect, if implemented, effective January 1 in each of the years 2009 and 2010. The last rate increase occurred in 1996.

Existing and revised rates, as of April 1, 2008, are noted below:

<b>Rates</b>	<b>Existing</b>	<b>Revised</b>	<b>Increase</b>
Quarterly Service Charge	\$ 5.65	\$ 6.30	12%
Water (\$/1,000 gallons)	\$ 8.70	\$17.60	102%
Sewer (\$/1,000 gallons)	\$ 2.05	\$ 3.15	54%
Minimum Quarterly Bill (5/8" meter)	\$37.90	\$68.55	81%
Quarterly Sewer-only flat charge	\$26.15	\$34.65	33%
Bulk Water (\$/1,000 gallons)	\$11.25	\$26.50	136%

While the increases are significant, the approved rates will, at least for the near term, provide much needed increased revenues to meet the needs of the Utility.

## **Application**

On October 22, 2007 the Municipality applied to the Board for revised water and sewer rates for the community of Sandy Lake, as set out in By-law No. 10-2007 read for the first time on October 10, 2007. The rates were to be effective upon approval of the Board.

In addition to the By-law, the Municipality filed a rate study, its 2007 Utility Operating Fund Budget and working papers, consumption records and 2007 unaudited financial results.

Then-existing rates and the Municipality's proposed rates were:

<b>Rates</b>	<b>Existing</b>	<b>Proposed</b>	<b>Increase</b>
Quarterly Service Charge	\$ 5.65	\$ 6.30	12%
Water (\$/1,000 gallons)	\$ 8.70	\$16.95	95%
Sewer (\$/1,000 gallons)	\$ 2.05	\$ 3.15	54%
Minimum Quarterly Bill (5/8" meter)	\$37.90	\$66.60	76%
Quarterly Sewer-only flat charge	\$26.15	\$34.65	33%
Bulk Water (\$/1,000 gallons)	\$11.25	\$25.85	130%

A Notice of Application was published in the locally distributed newspaper on two occasions - December 1 and 8, 2007 - and posted in several prominent locations in both the Municipality and the community of Sandy Lake. The Notice invited interested ratepayers to contact the Board by December 21, 2007 with any comments or concerns.

One response was received, that from Father Larry Winslow, expressing concern about the magnitude and justification of the

increase. Father Winslow's concerns are reviewed below.

The Sandy Lake Utility (Utility) serves 201 customers, of which approximately 61 are seasonal or part-time residents. In 2006 and 2007, the Utility incurred operating deficits of \$14,565 and \$25,141 respectively.

Pursuant to an application filed by the Municipality for approval of its 2006 Utility deficit, the Board approved the deficit being recovered from the Municipality's General Fund, while expressing concern about that method of recovery as the cost of operating the Utility is generally to be collected from Utility ratepayers, not taxpayers.

The Board then-required the Municipality to bring forward a rate application and to consider adding 1/3 of the deficit to its operating budget in each of the next three years. The Municipality complied with the request, and, in its application added \$5,000 to the revenue requirements of the Utility for those years.

As the Utility's year-end was close at hand, the Board asked the Municipality to file unaudited financial statements for the Utility for 2007, and the Municipality complied with this request on February 19, 2008.

The results for 2007 indicated a significant deterioration in the financial position of the Utility. The Utility incurred a \$25,141 deficit, not including the following:

1. A further transfer of \$20,000 from the General Fund;

2. A withdrawal of \$4,000 from the Utility reserve, nearly depleting the reserve; and
3. A \$10,348 transfer from the General Fund to pay for lagoon work.

Absent these transfers, the Utility would have incurred a deficit of approximately \$59,490, representing 53% of the total projected operating costs of the Utility used by the Municipality in developing its proposed revised rates.

In making its rate application, the Municipality stated that the rate increases applied for were necessary to recover rising costs of operation and wages. The Municipality reported that in the past Utility operating costs had been partially funded by contributions from reserves, which now are almost depleted, requiring some costs to be met by transfers from the General Fund.

As well, the proposed rates included neither provisions for contingencies, to rebuild reserves for future unexpected capital replacement costs, nor provision for future inflation. The Municipality forecast the following operating costs for the Utility and reflected same in their rate proposal:

Administration	\$ 5,064
Water	\$ 91,334 <sup>(1)</sup>
Sewer	<u>\$ 16,867</u>
Total	<u>\$113,265</u>

<sup>(1)</sup> Net of hydrant revenues of \$2100 but including \$5,000 for recovery of 2006 deficit.

Total operating costs of the Utility in 2006 were \$105,300, excluding debenture debt costs. In 2007, total costs were \$116,569, excluding lagoon repair costs paid for by the General Fund, debenture debt costs recovered by taxes and the 2006 deferred deficit.

The Municipality advised the Board that the water treatment plant had been upgraded to an osmotic membrane filtration system in 2004, through joint funding with the Manitoba Water Services Board (MWSB), and that soon thereafter, MWSB turned the ownership and operation of plant over to the Municipality.

The lagoon serving the Utility was expanded in 2006.

The Utility has unaccounted for water (water produced but not billed) of 4.4%, well below industry averages. Water losses usually arise from line flushing, hydrant use and system breaks, with the industry average being in the range of 10%.

The capital costs of the Utility are recovered through a debenture, collected by taxes in the amount of \$47,938 annually. Debt servicing costs are not reflected in rates.

#### Ratepayer Concerns

In response to the Municipality's application, Father Larry Winslow wrote and emailed the Board on several occasions questioning the need for substantial rate increases.

The Municipality responded to Father Winslow indicating that the rate increases were necessary to meet existing and projected expenditures and reduce the need for Operating Fund subsidies.

In Father Winslow's last correspondence, he sought clarification of certain variations in Utility expenditures over the years, which, in his opinion, had been unexplained, and also questioned the allocation of shared services between the Utility and the Municipality, as the allocation pertains to wages. While Father Winslow eventually concluded that a need existed for a sizable increase, particularly because of the lapse in time between rate increases, that being nearly 12 years, he opined that a 25% increase would be sufficient and generate \$15,000 in additional revenue, which could be set aside in reserves.

#### **Board Findings**

The Board carefully examined the Municipality's application and the submissions of Father Winslow. The Board determines that the rate increases sought by the Municipality are insufficient, particularly taking into account the Utility's preliminary operating results for 2007.

Rates have not changed for nearly 12 years and while the proposed increases are large it is evident that the current rates are inadequate and fail to provide the Municipality any ability to recover 2006 and 2007 revenue deficits of \$14,565 and \$25,141, and address annual transfers from the General Fund. Nor does the proposal provide for contingencies for unexpected repairs or for the rebuilding of the reserve fund for future capital renewal projects.

Of immediate concern to the Board is the financial viability of the Utility and the need to provide sufficient revenues to allow the Utility to operate on a breakeven basis without the need for a transfer from the General Fund. The legal requirement is for utilities to generate adequate revenue to meet all operating costs.

Also of concern is the recovery of the 2006 and 2007 deficits, as well as the need to establish a rate program to allow the Utility to remain sustainable in the future.

Due to the financial constraints faced by the Utility, regrettably, the Board finds it necessary to confirm its prior Order that approved the recovery of the 2006 deficit from the General Fund, as initially proposed by the Municipality, and will not establish rates adequate to recover those deficits from rates.

As well, and on this occasion only, the Board will take no position with respect to the 2007 \$20,000 transfer from the General Fund to the Utility, noting however, that the Utility should be self sustaining in the future. Further, the Board will take no issue with the transfer from reserves, other than to note the reserve fund balance is reduced to near zero and needs to be rebuilt as soon as possible. The Board will also not take issue with the transfer from the General Fund to pay for lagoon work, as residents outside of Sandy Lake are using the lagoon.



This now leaves the recovery of the 2007 deficit and 2008 operating expenditures to be dealt with, and the Board will vary the Municipality's rate application and increase rates sufficient to allow for recovery of 1/3 of the 2007 operating deficit from rates, over the next three years. The Municipality included in rates \$5,000 for the recovery of the 2006 deficit, and this will be increased to \$8,380, that being 1/3 of the 2007 operating deficit of \$25,141.

As the cost overruns appear largely related to water supply, the Board will require the difference of \$3,380 (\$8,380-\$5,000) to be reflected in water rates, and the revised water rate will be \$17.60, which is \$0.65 higher than the requested rate of \$16.95 and \$8.90 higher than the existing rate of \$8.70 (per one thousand gallons).

Further, the Board will establish a bulk water rate of \$26.50 per thousand gallons, to include recovery of part of the debenture debt costs of the Utility.

The revised increases should address the immediate crisis for the Utility and barring unforeseen expenditures should allow the Utility to breakeven on a go-forward basis. While the increases are significant and can be considered as representing a consumer rate shock, the increases are necessary and not unique within the water and sewer field, particularly for utilities not reviewing rates on a regular basis.

Rate adequacy needs to be regularly reviewed; the alternative is subsidies from the General Operating Fund, utility deficits and deferred maintenance work, none of which being desirable.

All deficits arising out of prudent expenditures must be recovered, and if rates are inadequate the shortfall must be recovered from other sources in the Utility, i.e. accumulated surpluses, reserves and taxation. It is only because of the current poor financial condition of the Utility that the Board will maintain its previous decision to allow the 2006 revenue shortfall to be recovered from the General Fund. Through this Order, the Board takes steps to change the future outlook, that to be consistent with the user-pay principle.

Of current concern to the Board, notwithstanding the level of the rate increase, is the fact that the proposed rates do not address the longer-term needs of the Utility. No inflation expectation has been built into the rates, nor is there a contingency allowance, which usually is based upon 1% of the original capital cost of the Utility depending on the condition of the system. As well, there is no provision to rebuild Utility reserves.

Accordingly, and as a first though modest step towards addressing the remaining problems, the Board will also approve two 2.5% discretionary rate increases, effective January 1, 2009 and January 1, 2010, which may be implemented by the Municipality at its discretion subject to the Municipality filing the necessary rate by-laws with the Board and year-end operating results for 2008, 2009 and 2010. Notice of such changes is to be provided in advance to Utility customers.

In approving the discretionary increases, the Board notes that after the repayment of the deficit by the end of 2010, there may

be some surplus available to the Utility, barring unforeseen circumstances, to assist in a modest contribution to the Utility reserve.

Finally, the Board understands that the Municipality collects a fee of \$150.00 per handler for the dumping of sewage into the Municipality's lagoon, and that these fees are being reviewed. The Board will require the Municipality to submit these fees to the Board for approval, and expects a proposal by no later than September 1, 2008.

**IT IS THEREFORE ORDERED THAT:**

1. By-law No. 10-2007 IS HEREBY APPROVED effective April 1, 2008, subject to amendments to agree with this Order and Schedule "A", attached hereto.
2. The Rural Municipality of Harrison has the discretion to implement 2.5% rate increases to be effective each of January 1, 2009 and January 1, 2010, subject to the Rural Municipality of Harrison filing the required by-laws and financial statements with the Board prior to implementation.
3. The Rural Municipality of Harrison file year-end financial results for 2008, 2009 and 2010 and budgets for the following year.
4. The Rural Municipality of Harrison is required to provide notice to all customers of discretionary increases at a minimum of 30 days prior to the effective date of the increase.

6. The 2007 operating deficit of \$25,141 in the Utility is hereby approved and is to be recovered from rates over 3 years.

Fees payable upon this Order - \$500.00.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"G.O. BARRON, FCGA"

Acting Secretary

Certified a true copy of Order No.  
17/08 issued by The Public  
Utilities Board

Acting Secretary

**SCHEDULE "A"**

**TO BOARD ORDER NO. 17/08**

**THE RURAL MUNICIPALITY OF HARRISON  
LOCAL IMPROVEMENT DISTRICT NO. 2 (SANDY LAKE)  
WATER AND SEWER RATES  
BY-LAW NO. 10-2007**

**SCHEDULE OF QUARTERLY RATES:**

**1. Commodity rates per M.G.**

	Water	Sewer	Water & Sewer
All water consumption	\$17.60	\$3.15	\$20.75

**2. Minimum Charges, Quarterly**

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**

Meter Size	Group Capacity Ratio	Water Included, Gallons	Customer Service Charge	Commodity Charges		Total Quarterly Minimum
				Water	Sewer	
5/8"	1	3,000	\$6.30	\$52.80	\$9.45	\$68.55
3/4"	2	6,000	\$6.30	\$105.60	\$18.90	\$130.80
1"	4	12,000	\$6.30	\$211.20	\$37.80	\$255.30
1 1/2"	10	30,000	\$6.30	\$528.00	\$94.50	\$628.80
2"	25	75,000	\$6.30	\$1,320.00	\$236.25	\$1,562.55

**(b) Water Only Customers**

Minimum charge will be the same for each meter size as shown above, but the sewer commodity charge will be excluded.

**(c) Sewer Only for Residential Customers**

The Rural Municipality of Harrison do charge the owners or occupants of land serviced with sewer but no water the sum of \$34.65 per quarter.

**3. Bulk Sales Rate**

All water sold in bulk by the Rural Municipality of Harrison shall be charged for at the rate of \$26.50 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 \$13.00.

4. Service to Customers outside Municipality, Town, or L.I.D., limits

The Council of the Rural Municipality of Harrison may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Rural Municipality of Harrison. Such agreements shall provide for payment of the appropriate rates set out in the schedule, as well as a surcharge, set by resolution of Council, and shall be equivalent to the frontage levy, general taxes and special taxes for Utility purposes in effect at the time, or may be in 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 service connections will be paid by the customer.

5. Billings and Penalties

A late payment charge of 1 1/4% shall be charged on the dollar amount owing after the billing due date. The due date will be at least fourteen days after the mailing of the bills.

6. Termination of Service

When service to a customer is commenced or terminated during a quarter, the minimum charge payable for part of the quarter during which service was received shall be calculated on a monthly basis to the nearest whole month of the rates set forth in paragraph 2 hereof.

7. Reconnection

A customer who has had his service disconnected for any reason shall not be reconnected until all arrears, penalties and a reconnection fee of \$50.00 have been paid.

8. Outstanding Bills

Pursuant to Section 252 (2) of The Municipal Act, the amount of all outstanding charges for water and sewer service are a lien and charge upon the land serviced, and shall be collected in the same manner in which ordinary taxes upon the land are collectible, and with like remedies.

9. Hydrant Rentals

The Rural Municipality of Harrison will pay to the Utility an annual rental of \$60.00 for each hydrant connected to the system.

10. Sewage Dumping Charge

Customers dumping sewage in the lagoon shall pay a flat rate charge of \$300.00 per year.

11. Sewage Surcharges

- (a) There may be levied annually, in addition to rates set forth above, a special surcharge on sewage having a Biochemical Oxygen demand in excess of 300 parts per million, to be set by resolution of Council.
- (b) A special surcharge for substances requiring special treatment shall be charged based on the actual costs of treatment required for the particular sewage or industrial wastes.