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THE PUBLIC UTILITIES BOARD ACT) Order No. 59/08
) May 14, 2008

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

TOWN OF DELORAINÉ
WATER AND SEWER RATES
APPLICATION TO AMEND

Executive summary

By this Order, the Public Utilities Board (Board) varies an application by the Town of Deloraine (Town) to revise its billing practices in relation to the provision of water to the Rural Municipality of Winchester (RM).

The Board herein amends the rates chargeable to the RM to include a provision for an equitable share of debenture debt servicing. The Board also enables the Town to bill the RM monthly to address cash flow requirements.

Steps (usage measured quarterly)	Current rate/ 1000 gallons	Approved revised rate/ 1000 gallons
First 20,000 gallons	\$11.14	\$11.80
Next 80,000 gallons	\$9.30	\$9.95
Over 100,000 gallons	\$7.75	\$8.30
Quarterly Service Charge	\$10.25	\$10.25

While the service charge remains unaffected, the commodity rate increases by 7%.

Application

On May 1, 2008 the Town applied to The Public Utilities Board (Board) for approval of its By-law No. 07/2008, which had been read for the first time on April 29, 2008. The by-law represents an amendment to By-law No. 07/99, passed on March 14, 1999 and approved by Order No. 116/99 dated June 28, 1999.

The Town provides water services beyond its boundaries at rates

approved by Order No. 116/99 to the Rural Municipality of Winchester (RM), which operates a bulk water station. The Town currently bills the RM quarterly, consistent with By-law No. 07/99.

The Town's approved water rates and quarterly service charge, last amended in 2001, are as follows:

	Rate/ 1000
First 20,000 gallons	\$11.14
Next 80,000 gallons	\$9.30
Over 100,000 gallons	\$7.75
Quarterly Service Charge	\$10.25

The amending by-law proposes to charge the RM monthly, and to apply the step rates based on monthly consumption.

The proposed monthly billing would increase the overall quarterly water commodity costs to the RM by approximately \$380, to \$2950. In addition, the \$10.25 service charge would be collected each month instead of quarterly. The estimated cost increase is based on usage of 307,000 gallons, which the Town advised was the RM's first quarter 2008 consumption.

Rates charged to other customers will continue to be those approved by Board Order No. 116/99.

Rationale:

The Town's Application was founded on two premises:

1. Monthly billing for a customer the size of the RM would improve cash flow to the Town.

2. The RM purchases much of its water at the third step rate of \$7.75 per thousand gallons, then sells bulk water at \$15.00. In the Town's view the proposed increase is reasonable recognizing the margin earned by the RM.

The Town also advised that, unlike other customers serviced beyond the Town's boundaries, the RM is not surcharged and presently makes no contribution to the debenture debt cost (capital cost) of the Utility.

The Town noted that its water reservoir is quite small, and that if there are capacity constraints experienced in the future the RM's water supply may need to be curtailed.

Proposed Rate study

The Town has not conducted a rate review since 1999, and the Board notes that the Town intends to review its rates in the summer of 2008. Without such a rate review, the Town observed that its application was not based on an increase in costs.

RM Position

The RM filed with the Board copies of letters exchanged with the Town on March 26 and April 22, 2008. The RM advised that while it accepts the Town's proposal to bill monthly for cash flow purposes, it would expect to be treated like all other larger volume customers.

While the RM was prepared to be billed monthly, from its perspective the total cost of water that it will incur should be the same as though the RM was being billed quarterly. On this basis, the RM's

total water cost would be unaffected by a monthly billing.

The RM advised that while the bulk water facility is not separately accounted for, the difference between the purchase price of water and the selling price is meeting their costs, noting that they are operating a facility that had a capital cost of \$75,000. (The rate charged by the RM for the bulk water has not been submitted for Board approval, to-date.)

Board Findings

In absence of a rate study, the Board is unable to determine whether the proposal of the Town reflects a reasonable recovery of operating costs. Given the time that has lapsed since the previous rate approval, the Board directs a rate study be submitted by the fall of 2008.

The Board notes that the declining rate block is not in accordance with the principles of conservation, and requests that this issue be considered in the rate study.

Monthly billings:

Although the proposal to apply quarterly consumption rate structures on a monthly basis is a way of addressing the declining block rates, the Board finds it to be an unsupportable method of increasing revenues. The Board will therefore not approve the monthly billing methodology as proposed.

However, the Board will approve monthly billing on an amended basis,

such that the RM's costs will not be greater than would be expected to be the case under a quarterly billing scheme. As such the Town's cash flow will be improved. The Board notes that the RM does not oppose monthly billing for this purpose.

Rates for non-residents:

The Board supports the principle of collecting surcharges, both with respect to bulk water sales and where service is extended by pipeline beyond the Town's boundaries.

Clause 4 of the Town's By-law 7/99 sets out the basis for determining a surcharge for non-Town connected customers.

4. SERVICE TO CUSTOMERS OUTSIDE THE TOWN LIMITS

The Council of the Town of Deloraine may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Town of Deloraine. Such agreements shall provide for payment of the appropriate minimum quarterly rates, as well as a surcharge, set by resolution of Council, which shall be equivalent to the frontage levy, general taxes and special taxes for the 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 the town boundaries. In addition, all costs of connecting to the utility's mains and installing and maintaining service connection will be paid by the customer.

In this particular case, the customer being served is a bulk water facility and not a residential or commercial customer and, therefore, the guidance for determining the appropriate surcharge as set out in Clause 4 may not be appropriate.

Using the Board's Guidelines, a water rate set to collect a fair portion of the debenture debt costs of the utility may be as calculated below:

Non-Town rate multiplier:

$$\frac{\text{Total Operating Cost} + \text{debenture}}{\text{Total Operating Costs}} = \frac{\$290.5 + \$20.8}{\$290.5} = 1.07$$

The commodity rates using the multiplier on a \$/1000 gallons would then be as follows:

Current Rate	Multiplier-debenture contribution	Revised Rate
\$11.14	1.07	\$11.80
\$ 9.30	1.07	\$ 9.95
\$ 7.75	1.07	\$ 8.30

At these rates and using 307,000 gallons, the following would be the quarterly bill increase allowing for the recovery of debenture debt costs:

<u>1000 gallons</u>	<u>Rate</u>	<u>Quarterly charge</u>
20	\$11.80	\$236.00
80	\$9.95	796.00
207	\$8.30	1,718.00
307		\$2,750.00
Current Charge		\$2,570.00
Increase		\$180.00

Note: These are approximations for commodity costs only.

Utility rates are set for the purpose of allowing a utility to operate on a breakeven basis, taking into account reasonable provision for contingencies and reserves. Rates are neither designed to earn a profit nor to offset the profits of others.

Rate adjustment:

While the Board is hesitant to use a proxy for a surcharge without a specific application from the Town and a full opportunity for the RM to respond, the Board is concerned that charges to the RM are not appropriately reflecting the cost of the water sales to the RM, which are essentially being subsidized by the Town's ratepayers.

Board staff reviewed the situation with the RM, which indicated understanding the need for fair cost recovery; the RM did not request special treatment.

The Board will amend the Application allowing the quarterly rate to be amended to include recovery of an appropriate portion of debenture debt servicing costs from the RM as follows:

Steps	Current rate/ 1000 gallons	Approved revised rate/ 1000 gallons
First 20,000 gallons	\$11.14	\$11.80
Next 80,000 gallons	\$9.30	\$9.95
Over 100,000 gallons	\$7.75	\$8.30
Quarterly Service Charge	\$10.25	\$10.25

Except for the service charge, this represents a 7% increase.

The Board believes that it is important from a fairness perspective, to make this adjustment as soon as possible. With the Town committed to making an application in 2008, there will be a timely opportunity for the RM, as well as the Town and the Board, to consider the matter further.

IT IS THEREFORE ORDERED THAT:

1. The application by the Town of Deloraine to apply the billing structure to the Rural Municipality of Winchester from quarterly to monthly BE AND IS HEREBY DENIED.
2. By-law NO. 07/2008 BE AND IS HEREBY AMENDED to:
 - a) allow for the monthly billing and collection of an estimated prorated quarterly bill to the Rural Municipality of Winchester, to be reconciled at the end of the quarter at rates approved in 2.b); and
 - b) reflect billing rates to the Rural Municipality of Winchester, including a contribution to debt servicing costs, consistent with this Order.
3. The Town of Deloraine file a copy of its By-law after third and final reading.
4. The Town of Deloraine file a rate study with the Board on or before October 1, 2008.

Fees payable upon this Order - \$150.00.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"G. O. BARRON"

Acting Secretary

Certified a true copy of Order No.
59/08 issued by The Public Utilities
Board

Acting Secretary