

MANITOBA) Order No. 67/09
)
THE PUBLIC UTILITIES BOARD ACT) April 30, 2009

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

THE RURAL MUNICIPALITY OF WHITEMOUTH
APPLICATION TO MERGE
SEVEN SISTERS FALLS WATER CO-OP LTD.,
WHITEMOUTH WATER CO-OP INC., MANITOBA HYDRO
TOWNSITE WATER SYSTEM AND THE RURAL
MUNICIPALITY OF WHITEMOUTH RURAL WATER LINE

Summary

By this Order, the Public Utilities Board (Board) approves the merger of the Seven Sisters Falls Water Co-op Ltd., Whitemouth Water Co-op Inc., and Manitoba Hydro Townsite water system with the Rural Municipality of Whitemouth's (RM) Rural Water Line.

Further, the Board confirms interim rates established in Order 166/08, for all connected customers (including those served as a result of the merger) the existing rates of RM's Rural Water Line.

This Order should be read in conjunction with Order 166/08, which introduced and provides additional details of the RM's application for merger.

Background

On November 26, 2008, the RM initially applied to the Board for approval to merge the Seven Sisters Falls Water Co-op Ltd. (Seven Sisters Co-op), Whitemouth Water Co-op Inc. (Whitemouth Co-op) and the Manitoba Hydro Townsite water system (Hydro Townsite) with the RM's Rural Water Line (Rural Line).

The Board through Order 166/08 approved the merger, in principle only, as the Board had not yet reviewed the cost implications associated with the merger and the potential implications of the construction of and bringing into service of a new Water Treatment Plant (WTP). The RM was required to make an application to the Municipal Board for approval of financial arrangements for the proposed new water treatment plant, and the

Municipal Board was required to consider, when dealing with an application, the nature of the work and the necessity thereof. The Municipal Board issued its decision by its Order E-08-228 on December 18, 2008, authorizing the RM to expend and borrow money for a new water treatment plant.

In Order 166/08 the Board noted an application to merge four utilities is significant and complex, but may provide economic benefits to all customers through operational efficiencies. The merged utility should also provide increased assurance that the supply of water to all connected customers will be safe and sufficient, so as to meet the long term needs of the communities.

The Board noted that while certain agreements and undertakings were reached, from the Board's perspective more work remained to complete the transaction -- *The Public Utilities Board Act* requires Board approval for a utility to sell, dispose of or merge with that of another utility. Except for the Manitoba Hydro Townsite, all utilities were newly regulated.

The RM submitted the initial application on behalf of all of the entities involved. The Board requested separate confirmation from each entity of their decision to merge indicating their agreement to transfer their assets and responsibilities to the RM.

The Board requested information of the full financial implications of the merger, assurance that members/customers have been advised of the merger, and of the new WTP, and filed a number of questions with the RM; information now received. The

RM advised notice was mailed on December 22, 2008 and invited persons wishing to express any concerns that they may have with any aspect of the proposal to write to the Board by January 26, 2009; no responses were received.

Additional Information

Agreements and Financial

The Board requested the RM file copies of all agreements entered into with regards to the merger. Two agreements were filed; the first between Manitoba Hydro (Hydro) and the RM and the second between Hydro, the RM and Seven Sisters Co-op.

The agreement between Hydro and the RM, dated July 2008, includes details of, among other things, Hydro transferring and delivering to the RM, infrastructure and services for:

- The Hydro-owned Water Distribution System (excepting the water treatment plant).
- The Sewage Collection System (anticipated to be installed in 2009) with Hydro retaining ownership of the Sewage Treatment Plant.

The agreement outlines capital improvements required by each party to ensure properties in the Hydro Townsite are serviced with both water and sewer service provided by the RM, and financial arrangements for water works, sewer works, legal costs and financial commitments from Hydro for the RM's planned new WTP. Hydro has paid the RM \$134,000 for connecting to the water line and connection fees for the existing buildings. Further,

Hydro plans to install new water and sewer lines in the Townsite at an estimated cost of \$2.0 million; this infrastructure will then be transferred to the RM.

The second agreement, dated November 30, 2008, between Manitoba Hydro, the RM and Seven Sisters Co-op details:

- the transfer and disposition of assets of:
 - o Seven Sister Co-op's waterline to the RM; and
 - o Seven Sister Co-op's water treatment building to Hydro;
- The installation by the RM of a waterline connecting the RM's existing WTP to the Seven Sisters Co-op's waterline.

This second agreement provides commitments from the parties for capital improvements and financial arrangements including:

- Seven Sister's Co-op to transfer all chattels, fixtures, structures and equipment of the waterline to the RM;
- Seven Sister's Co-op to transfer all chattels, fixtures, structures and equipment of the WTP to Manitoba Hydro;
- The RM shall install a water line from the RM's WTP to connect to Seven Sister's Co-ops water line;
- Until infrastructure upgrades are completed, Manitoba Hydro shall maintain, operate and repair the former Hydro-owned water distribution system and the Co-op's WTP, excluding

all water treatment.

The RM advised that the proposed financial transactions are related to the financing of the proposed new WTP, the amalgamation of the four systems, and the creation of a Reserve Fund to move forward. The RM advised that in determining financial arrangements, fairness was the first principle incorporated, recognizing that capital costs for the Rural Line, Seven Sisters Co-op and Whitemouth Co-op were all paid for and funded by the persons connected to each particular system.

RM By-law No. 501/08 provides for borrowing for the proposed new WTP, which received Municipal Board approval on December 19, 2008. The By-law includes schedules for all properties proposed to be connected to and charged for the new WTP, with separate schedules for properties included in each utility separately; the Rural Line, Seven Sisters Co-op, Whitemouth Co-op and the Hydro Townsite. The schedules as currently stated, require all connections to be levied an estimated one time charge of \$4,557 or \$500.29 annually for 15 years.

The RM advised that Seven Sisters and Whitemouth Co-ops have agreed to transfer their assets to the RM, including any reserve funds; the Rural Line also has a reserve fund. The RM suggests that in order to make the construction of the WTP affordable, and to use the reserve funds for their intended purpose, the RM decided to use these funds to offset the costs of the WTP.

The scenario provided by the RM envisions each system transferring their reserve funds to the RM once the WTP is completed. The RM would then use the funds, less 15% of one

years' revenue from each system, to offset the costs for connecting to the new WTP. The 15% would be set aside and used to create a consolidated reserve fund.

The RM filed copies of the Co-ops and Rural Line unaudited financial statements. The following information was extracted from these statements.

<u>Co-op</u>	<u>Year Ending</u>	<u>Reserve Balance</u>	<u>Annual Revenues</u>	<u>Annual Expenses</u>	<u>Capital Assets</u>
Seven Sisters	May 31, 2008	\$50,040	\$22,620	\$23,948	\$476,794
Whitemouth	January 31, 2008	\$360,000	\$82,678	\$75,704	\$558,327
Rural Line	December 31, 2008	\$217,538	\$278,109	\$197,214	\$271,547

With respect to a financial contribution for the new WTP for properties within the Hydro Townsite, Hydro has committed to paying the \$4,557 connection fee for all 84 lots (~\$382,750). Hydro attaches no value to the utility assets it owned within the Hydro Townsite as the infrastructure is scheduled to be replaced in 2009/2010 at an estimated cost of \$2.0 million.

Each utility supplied a letter confirming their decision and agreement to merge, including transferring their assets and responsibilities to the RM.

The Water Systems

The Seven Sisters Co-op has 93 connections. The RM advises the system, originally constructed in 1995, has been upgraded as required, and the system is in good condition. Future upgrades that will be required in the next five years include, additional flush outs and looping would be an asset to the system.

The Whitemouth Co-op has 142 connections, has received regular maintenance and the RM advises it is in good condition. The RM advises that as a merged utility, the existing treatment plant would be used as a reservoir, re-chlorination and pumping station. The system, originally constructed in 1983, would require changes to the existing plant to accommodate a pumping station; upgrades with a minimal cost.

As noted above, Hydro Townsite will receive new water and sewer lines in the 2009/10 budget year.

The Rural Line was constructed in the early 1990's and has 134 connections. The RM advises the system to be in good condition, as upgrades have been completed as required. Future upgrades include additional flush outs as well as those included through the construction of the new WTP (Actiflo 21 litres/second).

All of the water systems currently require certification level of Water Treatment I and Water Distribution I; current operators meet or exceed these requirements. The RM advises that with the construction of the new WTP serving the merged utility, Water Treatment II certification will be required; one of the current operators has this certification, one will be acquiring this certification in May 2009 and two other operators are certified Level I.

The New Water Treatment Plant

The RM advised that in 2005 their consultant, JR Cousins Consultants (JRC), prepared a feasibility study for the construction of a new WTP to accommodate the utilities on a

merged basis. Four treatment options were considered; dissolved air flotation, actiflo, zenon and memcor. The Actiflo system was recommended, which according to the consultant would:

"reduce colour and turbidity to current and projected guidelines. Along with chlorine and UV disinfection, it would provide multiple barrier removal for Cryptosporidium and Giardia cysts and viruses, and would reduce THM's to meet stringent design requirements."

The estimated cost for the Actiflo system in 2005 was \$3,909,700; 2008 estimates are \$4.2 million.

Other options explored by the RM for the provision of safe water were:

- To supply water from the Town of Lac du Bonnet WTP. The RM advised this option was ruled out because the cost to connect to the Town's WTP was estimated at \$6.7 million. Further, the RM indicated a commitment was needed from the RM of Lac du Bonnet to move forward; this was never made.
- To supply water from the Local Government District of Pinawa (LGD) WTP. The RM advised that the LGD's resident Administrator indicated the LGD's WTP did not have adequate capacity.
- The RM inquired with Manitoba Water Services Board (MWSB) as to the availability of a sufficient supply from ground water sources. The RM advised that the MWSB replied that there is not enough volume to serve the system.

- And lastly, the RM investigated an alternative treatment called Mainstream; a slow sand filtration system similar to the process used in London, England. The RM advised that the Province was not prepared to approve this option at that time due to the lack of an engineering component required to get final approval from the Office of the Drinking Water.

The RM identified many synergies and potential savings in merging the four utilities and constructing a new WTP, such as:

- One WTP, operating instead of four
- Chemical savings due to the treatment process
- Three or four operators instead on eight to twelve
- On water system assessment done every five years instead of four assessments
- One billing system instead of four
- One board to operate the system instead of three boards and Manitoba Hydro

Of the estimated \$4.2 million required to construct the WTP, the RM expects to borrow a maximum of \$2.1 million, the remainder to come from funding from the MWSB. Since the initial application for funding to MWSB, the RM advises it has also made application to Building Canada Fund, which if approved, would provide 1/3 Federal, 1/3 Provincial and 1/3 Municipal funding arrangement.

This may change the amount needed to be borrowed by the RM, for the better. The RM advises that approval from either sources of funding will not likely be confirmed until the end of April 2009, at the earliest.

Board Findings

The Board reiterates its previous observation that the application to merge four utility systems into one is a significant and complex matter; one which the Board congratulates the RM for endeavouring upon. The Board by this Order will approve the merger as proposed, including the financial arrangements such as the use of each utility's existing reserve accounts, and for the creation of a new consolidated reserve account.

The Board commends the RM for the arrangements made with all parties to effect this merger noting the information submitted provided the Board with a clear understanding of the process. The RM suggested many synergies and identified potential savings of operating a utility on a merged basis and the Board senses these will allow the RM to provide safe water to meet the long term needs of the region. The Board believes the RM has investigated other options for the safe provision of water for residents in the communities as a whole, for now and into the future.

The Board notes the Whitemouth Co-op will merge with the utility once the new WTP has been constructed and operational. The Board accepts this, noting that once connected to the system, Whitemouth Co-op customers will pay the rates previously

approved by Order 166/08. The Board also notes that an agreement for the merger between the RM and the Whitemouth Co-op was not provided, and expects that when an agreement has been negotiated and signed, a copy will be filed with the Board.

The Board also notes as is required by Order 166/08 that the RM complete and file a rate study encompassing all customers to be served following the completion of the merger, and to provide concurrent commentary on the potential rate implications associated with a new WTP, with the Board no later than April 30, 2010.

The Board notes that on December 17, 2008, the RM started providing domestic water to the existing Seven Sisters Co-op customers.

The Board notes the RM was initially required to file an Engineering Assessment with Water Stewardship by September 1, 2008, a Compliance Plan by December 1, 2009 and an Emergency Response Plan by June 1, 2010. These filings are non-routine reporting requirements contained within the RM's operating licence for the utility. The Board notes an extension was granted for filing the Engineering Assessment to March 1, 2011 and the Office of the Drinking Water is developing a guideline to assist with the completion of the compliance plan.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website at www.pub.gov.mb.ca.

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IT IS THEREFORE ORDERED THAT:

1. The application by the Rural Municipality of Whitemouth to merge Seven Sisters Falls Water Co-Op Ltd., Whitemouth Water Co-Op Inc., Manitoba Hydro Townsite Water System and the Rural Municipality of Whitemouth Rural Water Line BE AND IS HEREBY APPROVED.
2. The Public Utilities Board confirms Order 166/08 and authorizes the Rural Municipality of Whitemouth to charge rates previously approved by Orders 92/93 and 43/99 to all customers, as they connect to the merged utility to be known as the Rural Municipality of Whitemouth Rural Water Line (as per Schedule "A" attached hereto).
3. The Rural Municipality of Whitemouth complete and file a rate study encompassing all customers to be served following the completion of the merger by no later than April 30, 2010.

Fees payable upon this Order - \$750.00

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"KRISTINE SCHWANKE"

Acting Secretary

Certified a true copy of Order No.
67/09 issued by The Public
Utilities Board

Acting Secretary

SCHEDULE "A"

TO BOARD ORDER NO. 67/09

The minimum quarterly bills are as follows:

Restrictor Size Gallons per Minute (GPM)	Water Included Gallons	Charge
3 GPM ⁽¹⁾	3,000	\$37.65
3 GPM	3,000 to 15,000	\$37.65 plus \$4.55 per thousand over 3,000 gallons
3 GPM	Over 15,000	As above plus \$1.75 per thousand gallons for every thousand over 15,000
5 GPM ⁽²⁾	15,000	\$108.25
5 GPM	Over 15,000	\$108.25 plus \$1.75 per thousand for every thousand over 15,000
25 GPM ⁽³⁾	15,000	\$108.25 plus \$1.75 per thousand for every thousand over 15,000

⁽¹⁾3 GPM - residential connections

⁽²⁾5 GPM - agricultural connections

⁽³⁾25 GPM - Whitemouth Water Co-op Inc.