

M A N I T O B A                    )  
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THE PUBLIC UTILITIES BOARD ACT    )    Order No. 91/09  
  )    June 4, 2009

BEFORE:   Graham Lane, CA, Chairman  
            Monica Girouard, CGA, Member

RURAL MUNICIPALITY OF MONTCALM  
MONTCALM UTILITY  
REVISED WATER RATES

## 1.0 Executive Summary

By this Order, the Public Utilities Board (Board) varies the application of the Rural Municipality of Montcalm (RM) and approves revised water rates for the Montcalm Utility effective July 1, 2009, as follows:

<b>Rates \$/1000 gallons</b>	<b>Existing</b>	<b>Approved</b>	<b>% Inc./ (Dec.)</b>
First 15,000	\$ 6.25	\$ 8.05	+29%
Over 15,000	\$ 5.10	\$ 7.15	+40%
Minimum Quarterly Bill (5/8" meter) <sup>(1)</sup>	\$25.75	\$30.55	+19%
Service Charge	\$ 7.00	\$ 6.40	- 9%

<sup>(1)</sup>Includes 3,000 gallons and service charge.

The Board rejected the RM's proposal to introduce an additional 3<sup>rd</sup> step to the Montcalm rate schedule and directs continuation of the current 2-step rate schedule.

Accordingly, the minimum quarterly bill for a residential customer will be slightly less than the RM's proposal, while the annual cost of water for the average large volume user consuming 150,000 gallons per quarter may be expected to be \$50 per quarter higher than proposed by the RM (\$4,370 rather than \$4,320).

## 2.0 Background

The Montcalm Utility provides water to rural residents by way of two lines from Pembina Valley Water Co-op (PVWC) Treatment Plants located at Letellier and Morris, Manitoba.

Water is treated and metered at the two locations, and the service has sufficient pressure to serve Montcalm's 100 connected

customers. One additional customer is served beyond the boundary of the RM, and is charged the same rate as Montcalm's other customers (there is no surcharge because the RM's utility has no outstanding debenture debt).

The two distribution lines from the Letellier plant, providing service to customers West of the Red River, were installed in 1993 and 1996. The line from the Morris plant, providing service to customers East of the Red River, was installed in 2000. Water is tested on a regular basis, drinking water standards were reported as being met, and there were no reports of issues with respect to either water colour or taste.

Annual water losses, water treated and purchased but not sold, were reported to be in the range of 15%, and, as the RM advised, primarily due to water line flushing. No water main breaks were reported as having occurred in 2008.

Sewer service is not provided, and all water services are metered: six - 1" meters; one -  $\frac{3}{4}$ " meter and 93 -  $\frac{5}{8}$ " meters. As well, there are no fire hydrants on the system.

PVWC charges \$5.40 per 1000 gallons for the water, and, at the time of the application, the RM anticipated an increase to \$5.70, or 5.6%. That said, PVWC rate changes also require the Board's approval, and no application seeking a change is currently before the Board.

The RM employs two (2) operators with Level 1 certification, meeting the current requirement for a Utility of this type and size. There is no plan for further training, given both operators were recently certified. Shared services between the general operation of the RM and the Utility are allocated based on time spent for regular inspections, maintenance, mileage for vehicles, etc.

The system's capital cost is approximately \$915,000.

### 3.0 Application

The RM applied to the Board for revised water rates for the Montcalm Utility effective July 1, 2009, as set out in By-law No. 673/09 read the first time on February 10, 2009.

In 1994, the Board approved initial rates for the Utility and these, ahead of the changes arising out of this Order, are still in effect. Since that date, no operating deficits have been incurred.

Existing and proposed rates were:

<b>Rates \$/1000 gallons</b>	<b>Existing</b>	<b>Proposed</b>	<b>% Inc./ (Dec.)</b>
First 15,000	\$ 6.25	\$ 8.20	+31%
Next 85,000 (existing over 15,000)	\$ 5.10	\$ 7.30	+43%
Over 100,000 <sup>(1)</sup>	\$ 5.10	\$ 6.60	+29%
Minimum Quarterly Bill (5/8" meter) <sup>(2)</sup>	\$25.75	\$31.00	+20%
Service Charge	\$ 7.00	\$ 6.40	- 9%

<sup>(1)</sup> Proposed new rate step

<sup>(2)</sup> Includes 3,000 gallons and the service charge.

While the Utility currently employs a 2-step rate structure, the RM proposed to add a 3<sup>rd</sup> step to the schedule so as to provide a reduced rate of increase to four large volume customers, each

using over 100,000 gallons per quarter - the average quarterly consumption for these customers has been 150,000 gallons.

The RM advised that the large users are livestock producers, and sought to provide these customers a lower rate by introducing a third-step to the rate structure, in recognition of difficult economic times in the livestock industry.

While the majority of customers consume on average 15,000 gallons of water or less each quarter, there are also several customers using over 15,000 gallons per quarter, including the aforementioned large livestock operations.

Under the RM's proposal, while commodity rates would increase at each consumption step and all customers would incur a significant increase in the cost of water, the rate of increase for the four large customers would be slightly lower (as such customers would also be billed for water below the first and second step thresholds, where the increases would be larger).

The proposed commodity rate for consumption in the proposed third step category would provide a 29% increase over existing rates, and represent a 20% discount off the first rate step and a 10% discount off the second step.

The annual cost of water at the proposed rates for the average large volume customer using 150,000 gallons per quarter would be approximately \$4,320, an increase from \$3,160 (current rate) or 36%. However, if the Board accepted the RM's proposal the few customers using more than 100,000 gallons a quarter were expected to be billed an average \$4,320 per quarter rather than the \$4,370 that would result if the Board rejected the addition of a 3<sup>rd</sup> step to the rate schedule.

And, if the present a 2-step rate structure was maintained, a

minimum quarterly residential customer would save \$0.45 each quarter from an otherwise bill of \$31.00 (that would occur if the 3<sup>rd</sup> step were introduced).

As at December 31, 2007, the Utility reported a \$5,622 surplus and had an accumulated surplus of \$35,604. As at December 31, 2008, the Utility reported a small operating surplus of \$448.00 (unaudited), and its Utility Reserve Fund balance was approximately \$94,150.

The following projected annual expenditures were reflected in the RM's proposed rates:

Administration	\$ 2,550
Water Purchases	\$47,840
Operating	<u>\$ 8,750</u>
<b>Total</b>	<b>\$59,140</b>

Water purchases from PVWC account for 81% of total operating costs, with PVWC's rates outside of the direct control of the RM.

The RM included \$4,575 for annual contingencies in the above expense forecast, though no provision was provided to build the reserve fund -- the RM taking the view that the current level of reserves is adequate.

In the RM's review of its overall five-year capital plan, no capital costs related to the Utility were identified.

The RM has not yet prepared the Tangible Capital Asset (TCA) schedule required to be filed with the Province in early 2009; the RM agreed to file the TCA with the Board once prepared.

Notice of the application was mailed to each water consumer by first class mail and posted in five prominent locations in the RM, with an invitation to advise the Board with concerns or comments by no later than May 15, 2009. No comments were received.

#### **4.0 Board Findings**

The number of rate steps in a rate schedule is generally based on cost causation principles. The general approach usually has large volume users paying rates very close to the cost of treating and purchasing water, this to avoid such users contributing excessively to the distribution costs of a utility (which are more reflective of fixed costs than variable water purchase costs).

However, in this case, and as noted earlier, the wholesale cost of water represents approximately 81% of utility operating costs, thus there is only a small amount of non-water operating costs that could be distributed other than by a customers proportionate consumption of water. In short, there is little in the way of economies of scale.

And, the employment of a cost causation principle suggesting lower rates for higher consuming customers is to be balanced with other broad policy objectives, including the provincial objective of enhancing conservation, which is a feature of less rather than more rate steps.

When considering the sourcing and treating of water, the question arises as to whether it is necessary to treat water to the same level employed for human consumption when the water is used for livestock. In this case, the question is moot as all water consumed by the Utility's customers is treated, coming from PVWC in that form.

So, after due consideration, the Board concludes that an increase in the number of steps in the rate schedule is not appropriate, and, accordingly, the Board will not approve the addition of a 3<sup>rd</sup> rate step. This decision is based on the general view that rates should encourage conservation, towards extending the useful life of current infrastructure.

In denying a third step, the Board also notes that the 15,000 gallon threshold for the first rate step is quite low, allowing a considerable rate break for large volume users as the 2<sup>nd</sup> rate step represents a considerable discount as it is.

And, if the RM's proposal had been granted, the large users would have, on average, perhaps saved less than \$50 quarterly, as most of their consumption is at the second step rate. In any case, the addition of a 3<sup>rd</sup> step would have been at best a symbolic act to recognize distress in the livestock industry. While the Board is sympathetic to that expression, the small benefit it would provide the large users does not justify over-riding the objective of conservation.

Schedule "A" to this Order reflects recalculated rates that

maintain the 2-step rate schedule, with a threshold of 15,000 gallons.

In the near future, all municipal water and sewer utilities will be affected by changing accounting standards. The most significant impact of the new accounting standards is expected to be the recognition of amortization (depreciation) of utility assets. In the absence of a TCA schedule, the Board is unable to assess in general terms the implications of the adoption of Public Sector Accounting Board standards for the utility.

That said, the Board notes the RM feels the level of reserves is sufficient, and, accordingly, no provision for building the Reserve Fund has been made. The prudence of this decision can only be assessed following the adoption of the new accounting standards and the filing of financial statements based on PSAB guidelines, required for 2009.

The Board notes and accepts the process used by the RM to allocate shared equipment and services between the General Operation of the RM and Utility, that process based on mileage and time spent respectively. The Board expects the RM to file any future changes with the Board at the time of submitting a new rate application.

There appear to be no operational issues being faced by the Utility at this stage.

The Board recommends that the RM review rate requirements on a regular basis, to avoid large increases in any one year. Customers are generally more agreeable to more modest rate increase implemented on a regular basis.

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](http://www.pub.gov.mb.ca).

**5.0 IT IS THEREFORE ORDERED THAT:**

3. Any changes to the methodology used to allocate shared equipment and services based on mileage and time spent respectively are to be approved by the Public Utilities Board.

Fees payable upon this Order - \$300.00

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"  
Chairman

"GERRY BARRON, FCGA"  
Acting Secretary

Certified a true copy of Order  
No. 91/09 issued by The Public  
Utilities Board

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Acting Secretary

**SCHEDULE "A"**  
**TO BOARD ORDER NO. 91/09**

**RURAL MUNICIPALITY OF MONTCALM**  
**MONTCALM UTILITY**  
**WATER RATES**  
**BY-LAW NO. 673/09**

1. Commodity Rates per M.G.:

First 15,000 I.G.	\$8.05
Over Next 15,000 I.G.	\$7.15

2. Schedule of Quarterly Rates:

Notwithstanding the Commodity Rates set out above, all customers will pay the applicable minimum charges set out below, which will include water allowances as indicated.

<u>Meter Size</u>	<u>Group Capacity Ratio</u>	<u>Water Included Gallons</u>	<u>Water</u>	<u>Service Charge</u>	<u>Total</u>
5/8"	1	3,000	\$ 24.15	\$6.40	\$ 30.55
¾"	2	6,000	\$ 48.30	\$6.40	\$ 54.70
1"	4	12,000	\$ 96.60	\$6.40	\$103.00
1½"	10	30,000	\$228.00	\$6.40	\$234.40
2"	25	75,000	\$549.75	\$6.40	\$556.15

2. Billings and Penalties:

All connected customers shall be billed quarterly and payment shall be due and payable at least 14 days after the mailing of the bills. A late payment charge of 1.25% (1¼%) per month shall be charged on the dollar amount owing after the billing due date and a notice to this effect shall be clearly printed on all bills sent to customers.

3. Liability for Charges:

Where charges and penalties pursuant to this by-law are not paid within ninety (90) days from the date when they were incurred; said charges and penalties shall be added to the taxes on the property and collected in the same manner as other taxes as per authority of Section 252(2) of The Municipal Act of Manitoba.

4. Testing of Water Meters for Accuracy:

Any customer desiring and requesting their meter to be tested for accuracy shall deposit with the municipality the sum of \$ 40.00, which will be retained if the meter (when tested) shall be found to be within the allowable limits of

variation from accuracy. If the meter is found to register in excess of the allowable limits, the deposit shall be refunded and the customer's account adjusted to reflect an accurate consumption. The allowable limit of variation shall be 4% of average flow.

5. Disconnection and Reconnection:

i) The Public Utilities Board has approved the Conditions Precedent to be followed by the municipality with respect to the disconnection of service for non-payment including, such matters, as notice and right to appeal such action to the Public Utilities Board. A copy of the Conditions Precedent is available for inspection at the Municipality's office.

ii) Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$ 50.00 have been paid. Service may be disconnected or reconnected upon receipt of a written request and payment of \$ 25.00. Service may be removed upon written request and a payment of \$ 50.00.

6. Responsibility for Service Connections:

The Utility is responsible for all costs involved to bring services to the property line of the owner (including any water losses that may occur to that point.) The owner is responsible for all costs of services (including water losses) from the property line into the building being serviced.

7. Service to Customers outside the limits of the Municipality:

The Council of the Rural Municipality of Montcalm may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the municipality. Such agreements shall provide for payment of the appropriate rates set out in Section 1 of this schedule (for each applicable year), 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 may be in effect from time to time which would be levied on the property concerned if it were within these boundaries. In addition, all costs for connecting to the utility's mains and installing and maintaining service connections shall be paid for by the customer.