

M A N I T O B A) Order No. 116/10
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THE PUBLIC UTILITIES BOARD ACT) December 6, 2010

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

RURAL MUNICIPALITY OF DUFFERIN
DUFFERIN STEPHENFIELD WATERLINE UTILITY
WATER RATES

Executive Summary

By this order, the Public Utilities Board (Board) varies an application by the Rural Municipality of Dufferin (RM or Dufferin) and establishes revised water utility rates, to take effect as of January 1, 2011.

Current and revised rates are as follows:

\$/1,000 gallons	Current	January 1, 2011	January 1, 2012
Water Rate	\$ 8.85	\$ 11.27	\$ 11.54
Service Charge	\$ 9.00	\$ 21.25	\$ 23.75
Minimum Quarterly (inc. 3,000 gal)	\$ 35.55	\$55.06	\$ 58.37
Quarterly bill using 18,000 gallon	\$168.30	\$224.11	\$231.47
Bulk Water	\$ 8.85	\$ 12.43	\$ 12.84

Details of other utility charges as well as terms of conditions for services, also approved by the Board, can be found on the attached Schedule "A". Rates were previously amended in 2006.

The Board also authorizes Dufferin to incur a deficit of up to \$13,880 in its utility in 2010; recovery to be determined once actual deficit is determined.

The RM's application for revised rates was published in the local newspaper and posted in five locations in the community; neither ratepayer concerns nor complaints were filed with the Board.

Application

Dufferin applied to the Board on January 26, 2010 for approval of rate By-law No. 1848 (read for the first time on September 16, 2009).

The application was accompanied by a rate study and other filings, and supplementary information was provided to the Board over the course of several months. Rates were last reviewed in 2006.

The current rates and those proposed in Dufferin's application are shown below:

\$/1,000 gallons	Current	Proposed 2010	Proposed July 2011	Proposed July 2012
Water Rate	\$ 8.85	\$ 10.35	\$ 10.85	\$ 11.35
Service Charge	\$ 15.00	\$ 15.00	\$ 15.50	\$ 16.00
Minimum Quarterly (inc. 3,000 gal)	\$ 35.55	\$ 46.05	\$ 48.05	\$ 50.05
Quarterly bill using 18,000 gallon	\$168.30	\$201.30	\$210.80	\$220.30
Bulk Water	\$ 8.85	\$ 8.85	\$ 8.85	\$ 8.85
Disconnection/ Reconnection	\$ 35.00	\$ 35.00	\$ 35.00	\$ 35.00
Water used during construction*	\$15 res \$25 comm	\$35 res \$55 comm	\$35 res \$55 comm	\$35 res \$55 comm

*Res - Residential, Comm - Commercial

Contractors using water in connection with the construction of buildings are charged a flat fee every three months until the construction has been completed.

Bulk water service is available at both the Homewood Station and the Stephenfield location. The current rate for bulk water is \$8.85 per thousand gallons; the RM proposed no increase.

The RM provides water services to 612 customers.

The RM's main line serves approximately 80% of the municipality's population; the RM connects customers to its system as requests are received (in 2009, 13 connections were added and in 2008, 19).

The RM assesses a connection fee of between \$7,500 and \$9,000, and any amounts received in excess of actual costs are placed in the Utility Reserve Fund. Dufferin has drawn on these funds as necessary to provide for break-even utility operations.

From 1996 to 2003, and with assistance from Prairie Farm Rehabilitation Association (PFRA) and Manitoba Water Services Board (MWSB), the RM constructed water lines from the Town of Carman's water treatment plant to RM residents east of Carman. However, Pembina Valley Water Cooperative (PVWC) has a water treatment facility in Stephenfield, and, since 2003 Dufferin customers have been provided water sourced solely from PVWC.

PVWC also provides water to the RMs of Grey, Roland and Thompson and the Village of St. Claude through Dufferin's water lines.

The Dufferin "Co-op Line", owned by the RM, provides service to ratepayers surrounding Carman. The RM advises that these 50-year old lines need to be replaced, with the estimated cost being \$329,000 (a funding request to the Building Canada Fund was denied last year).

As previously indicated, the RM purchases water from PVWC's Stephenfield Water Treatment Plant, and anticipates annual

purchases of 49,616,000 gallons and annual sales of 44,654,400 gallons (representing a projected annual water loss of approximately 10%). For 2005 to 2009, water losses ranged from 9.6% to 21.6%, with an average of 14.6%.

In an effort to minimize water losses, and on the advice of an external consultant, the RM installed a meter at the boundary line of St. Claude (RM of Grey) and Dufferin. The RM also installed larger meters at serviced dairy and hog farms, replaced older meters along the Dufferin Co-op Waterline, and began reading all meters every quarter.

Even with these measures, the RM continues to experience 10% water losses, with the largest portion of those losses occurring in the second and third quarters of each year -- the RM continues to investigate the source of the leaks/losses.

As chlorine levels at the end of the RM's distribution lines were too low, a re-chlorination station was constructed in 2009 to ensure proper chlorine levels are maintained throughout the distribution system. The building cost approximately \$120,000, with external funding of \$55,415 received from PFRA and MWSB (the remainder is proposed to be recovered through a transfer from Utility reserves).

The RM circulates a quarterly newsletter providing "tips" on water conservation.

The Utility's estimated expenses and revenues (if rates proposed are approved by the Board) for the current and next two years are:

	2010	2011	2012
Administration	\$ 55,698	\$ 51,868	\$ 58,038
Water			
Expenses	\$435,175	\$449,681	\$463,377
Amortization	\$197,518	\$198,834	\$195,055
Interest	\$ 38,760	\$ 36,822	\$ 34,981
Reserve	\$ 30,000	\$ 25,000	\$ 20,000
Contingency	\$ 30,650	\$ 30,650	\$ 30,650
Less Revenues	(\$246,814)	(\$237,626)	(\$228,896)
Net Requirements	\$485,289	\$503,361	\$515,167
Proposed Revenues	\$431,236	\$475,896	\$497,886
Surplus/(Deficit)	(\$109,751)	(\$79,333)	(\$75,319)

This table provides estimates submitted by the RM and assembled by the Board

Administration costs include a share of salaries and costs, billing costs and incidentals. The RM does not allocate costs to the Utility for shared office space, audits, council time, etc. The RM tracks staff and equipment time spent by public works staff on utility operations, and bills accordingly.

The recorded cost of Utility capital assets was \$6,871,486 as at the end of 2009. The RM projects annual amortization expenses of \$195,055 in future years, likely to change as assets are depreciated and additional connections are made to the water system. Public Sector Accounting Board (PSAB) provides standards for municipalities in recording annual amortization expense and has amended the accounting treatment of debenture debt payments.

The Utility experienced deficits in 2005 (\$50,550), 2007 (\$6,377) and 2009 (\$73,525). The 2009 deficit was, for the most part, the RM's share of the construction of the re-chlorination

station (approximately \$70,000). The RM forecasts a \$13,880 deficit for the Utility for 2010.

As at December 31, 2008, the Utility's balances in its nominal surplus and Reserve Fund were \$70,064 and \$180,588, respectively. Both accumulated surplus and the Reserve Fund are required to meet emergencies and the future replacement of meters and lines.

Since the application was received and updated, PVWC has advised that, as of January 1, 2011, it will increase its water billing rates to its customers by 2%. (The RM currently pays \$6.40 per imperial gallon, and this will increase to \$6.53 on January 1, 2011, thereby increasing the annual cost of water to the municipality by an estimated \$6,351.) In its projections, the RM provided for a 2% increase to all expense categories, including water purchases.

As was required, notice of the RM's application was published in local papers and posted throughout the municipality. The notice noted that rates different from those applied for may be set by the Board. Customers of the utility were invited to write to the Board by September 3, 2010 with any expressions of concern, questions or complaints, none were received.

Board Findings

The Board thanks the RM for its cooperation and commends its staff for their work involved in providing information to the Board.

Based on the information submitted, the Board will vary the application by the RM so as to provide adequate revenues for break-even operations. The revised rates will apply to all water consumed on and after January 1, 2011. The Board will establish rates as set out in this order, with some rates higher than those applied for by Dufferin. For example, the bulk water rate should include all costs to operate the utility including administration.

Revised rates are needed to address increased operating costs as well as the implications to expenses as a result of PSAB. With these increased rates operating deficits should be avoided at least for the next two to three years.

Effective January 1, 2009, PSAB accounting standards became applicable for municipalities, including utility operations. The implications include removing capital expenditures and principal debt payments from operating expenses; removing reserve transfers and transfers from the general operations of the municipality (except for amounts raised by taxes for utility debt servicing) - transfers would not affect the net income or loss of the Utility; and, recording annual amortization expense (increasing annual costs and rates).

The PSAB changes for financial reporting also have implications for the development of rate proposals. The Board has determined that, contrary to PSAB, capital grants related to the utility are to be amortized at the same rate that the respective capital asset is amortized. In the RM's case, there are past grants, which have been applied to offset, to some extent, the rate

impact of recording amortization.

The Board finds the RM's projected annual Utility expenses reasonable; these expenses include provision for annual increases of 2% to meet inflation.

With respect to the 2009 deficit, the Board will expect the RM to submit its 2009 audited financial statements, once completed, with a proposal to address any deficit as soon as possible but not later than January 31, 2011.

The Board will provide approval for the RM to incur a deficit of up to \$13,880 in 2010. Following the year-end, the Board will require an application to be submitted for approval of the RM's plan to recover the actual deficit.

The Board will approve the RM's Shared Allocation policy, which is based on flat rates for administrative costs and actual time for labour and equipment expenses. The RM is reminded that if these methods change, prior Board approval is required. The Board encourages the RM for future applications to allocate to the Utility a share of all costs incurred that benefit the Utility which may include office, audit, and legal costs.

The Board will require the RM to amend its by-law prior to second reading to be consistent with this order and with attached schedule. By-law 1848 does not include a clause providing for a fee for reconnecting services following disconnection as had been included in previous by-laws. The omission was inadvertent, and the RM confirmed that the \$35.00 reconnection fee remains adequate to cover expenses.

The Board will require the RM to review its Utility rates in three years, and will, at that time, require the 2013 financial statements be filed, with comments as to the adequacy of rates, and an application for revised rates, if needed.

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. The Board's Rules may be viewed on the Board's website at www.pub.gov.mb.ca.

IT IS THEREFORE ORDERED THAT:

1. The Rural Municipality of Dufferin amend By-law No. 1848 prior to second reading to be consistent with the provisions of this order and the attached Schedule "A".
2. The Rural Municipality of Dufferin file a certified copy of By-law No. 1848, as amended, once it has received third and final reading.
3. The Rural Municipality of Dufferin is to file its 2009 audited financial statements (including notes and schedules) with the Public Utilities Board, and an application to address recovery of any deficit incurred in the utility operations, no later than January 31, 2011.
4. The Public Utilities Board hereby grants approval to the Rural Municipality of Dufferin to incur a deficit of up to \$13,880 in its utility in 2010.
5. The Rural Municipality of Dufferin is to submit the 2010 financial statements to the Public Utilities Board, and if required, an application to recover the actual utility deficit incurred, not later than April 1, 2011.
6. The Public Utilities Board approves the Shared Cost Allocation Policy as submitted by the Rural Municipality of Dufferin, for administrative and public utility works costs.
7. The Rural Municipality of Dufferin file a copy of its 2013 utility financial statements with the Public Utilities

SCHEDULE "A"
TO BOARD ORDER NO. 116/10
RURAL MUNICIPALITY OF DUFFERIN
WATER RATES
BY-LAW NO. 1848

Schedule of Quarterly Rates:

1. Commodity rates per M.G.
- | | <u>Water</u> |
|---------------------------|--------------|
| Effective January 1, 2011 | |
| All water consumption | \$ 11.27 |
| Bulk Water | \$ 12.43 |
| Effective January 1, 2012 | |
| All water consumption | \$ 11.54 |
| Bulk Water | \$ 12.84 |
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:

Water Customers - Effective January 1, 2011

	Group	Water	Customer	Commodity	Total
Meter	Capacity	Included	Service	Charges	Quarterly
Size	Ratio	Gallons	Charge	Water	Minimum
5/8 "	1	3,000	\$ 21.25	\$ 33.81	\$ 55.06
3/4"	2	6,000	\$ 21.25	\$ 67.62	\$ 88.87
1"	4	12,000	\$ 21.25	\$ 135.24	\$ 156.49
1.5"	10	30,000	\$ 21.25	\$ 338.10	\$ 359.35
2"	25	75,000	\$ 21.25	\$ 845.25	\$ 866.50
3"	45	135,000	\$ 21.25	\$1,521.45	\$1,542.70

Water Customers - Effective January 1, 2012

	Group	Water	Customer	Commodity	Total
Meter	Capacity	Included	Service	Charges	Quarterly
Size	Ratio	Gallons	Charge	Water	Minimum
5/8 "	1	3,000	\$ 23.75	\$ 34.62	\$ 58.37
3/4"	2	6,000	\$ 23.75	\$ 69.24	\$ 92.99
1"	4	12,000	\$ 23.75	\$ 138.48	\$ 162.23
1.5"	10	30,000	\$ 23.75	\$ 346.20	\$ 369.95
2"	25	75,000	\$ 23.75	\$ 865.50	\$ 889.25
3"	45	135,000	\$ 23.75	\$1,557.90	\$1,581.65

3. Service to Customers Outside the Rural Municipality of Dufferin

(a) The council of the Rural Municipality of Dufferin may sign agreements with customers for the provision of water services to properties located outside the legal boundaries of the Rural Municipality of Dufferin for supplying water to such Municipalities, Corporations and individuals.

(b) The rates to be charged to such outside users shall be the same 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 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 mains and installing, maintaining service connections will be paid by the customer.

4. 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 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.

5. Billings and Penalties

Accounts shall be billed quarterly and shall be due and payable at least fourteen days after the billing date. A penalty of 1¼% per month shall be charged on the dollar amount owing after the billing due date.

6. Disconnection and Reconnection of Service for Non-Payment

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 the right to appeal such action to the Public Utilities Board. A copy of this Conditions Precedent is attached as "Schedule B" to this By-law No. 1848.

Any service disconnected due to non-payment of account or otherwise shall not be reconnected until all arrears, penalties and a reconnection fee of \$35.00 have been paid.

7. Outstanding Utility Charges are a Lien on Land

Pursuant to Section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water 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.

8. Water Used During Construction

Contractors using water in connection with the construction of buildings be charges a flat fee of \$35.00 for residential dwellings and \$55.00 for commercial buildings for every three month period until completion.