

M A N I T O B A) Order No. 124/10
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THE PUBLIC UTILITIES BOARD ACT) December 13, 2010

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

TOWN OF HARTNEY
INTERIM WATER AND SEWER RATES

Executive Summary

By this Order, the Public Utilities Board (Board) approves on an interim *ex parte* basis revised and interim water and sewer utility rates for the Town of Hartney (Town). The rates are effective as of March 1, 2011.

Existing and revised interim rates:

\$/1,000 gallons	Current	Interim
Water	\$ 10.70	\$ 14.10
Sewer	\$ 4.10	\$ 5.70
Quarterly Service Charge	\$ 15.85	\$ 20.00
Minimum Quarterly Bill*	\$ 60.25	\$ 79.40
Average Quarterly Bill**	\$116.04	\$154.05
Bulk	\$ 11.00	\$ 16.00

*Includes 3,000 gallons

**Based on 6,770 gallons

The interim rates represent increases to cover the Town's projected 2011 water and sewer operating costs. The Board will increase the quarterly service charge by 25%, and the bulk water rate by \$5, as requested by the Town. The Board will also increase the annual hydrant rental charge, from the current \$125.00 to \$150.00 (this increase is as of January 1, 2011).

All other rates, charges and terms will remain the same pending a further review by the Board.

Background

Effective January 1, 2009, Public Sector Accounting Board (PSAB) accounting standards became applicable for municipalities, including their utility operations. The implications of the accounting change for municipal utilities are significant and often affect rates, such is this case.

Capital assets are now subject to amortization over the estimated useful service life of the assets. Payments to reduce the principal of outstanding utility debt are no longer considered an expense, although the interest component of the payments is an expense. Under PSAB, grants received are to be recorded as income in the year of receipt, and transfers of funds to and from reserves no longer affect the annual surplus or deficit of utility operations. As well, PSAB requires the consolidation of all "funds", and this includes utilities.

As indicated, these changes have implications for the development of rate proposals. Particularly, the amortization of capital assets, as the amortization of such assets increases the annual expenditures of the utility, and, pursuant to legislation, municipal utilities are expected to break-even on operations annually.

Towards alleviating the otherwise significant upward pressure on customer rates that would often result from these changes, the Board has established a regulatory accounting practice that differs in one respect from PSAB.

For rate submissions to the Board, grants may be amortized over

the same period as the corresponding capital asset is being amortized. Similarly, any water and sewer infrastructure transferred to a municipality by a developer will be considered a donation, and, for rate setting purposes, the Board will allow these donations to be amortized over the same period of time as the acquired capital asset.

Details of PSAB requirements and the Board's allowable regulatory accounting treatments are set out in Order 93/09, available on the Board's website (www.pub.gov.mb.ca).

Backlog

Because of the PSAB-mandated changes, the number of municipal utility applications seeking rate increases and deficit acceptance are much higher than normal.

The Board has a limited staff, and additional time has been required to review the applications, towards ensuring accuracy and completeness.

In an effort to minimize delays, the Board has implemented a 'quick review process' that relies heavily on municipalities. This process applies to any utility rate application received by the Board between June 1 and November 1 of 2010.

For these applications, the Board will perform a cursory review, and, based on the information provided, the Board's general understanding of the specific utility and utilities in general, and the implications of PSAB and Board accounting guidelines, interim *ex parte* rates (*ex parte* means without public notice)

may be established, though not necessarily the rates applied for.

The Board will issue an interim *ex parte* decision on this Application, which will be followed by a detailed review. That review will include an opportunity for ratepayers to comment on the utility's rates. This will be followed by a final order of the Board.

Application

The Town applied for revised water and sewer rates, as set out in By-law No. 1032-10 read the first time on January 12, 2010. The application is supported by a rate study and other additional filings.

The Town proposed the following rates:

\$/1,000 gallons	Current	Proposed
Water	\$ 10.70	\$ 14.35
Sewer	\$ 4.10	\$ 5.90
Quarterly Service Charge	\$ 15.85	\$ 27.90
Minimum Quarterly Bill*	\$ 60.25	\$ 88.65
Average Quarterly Bill**	\$116.04	\$164.98
Bulk	\$ 11.00	\$ 16.00

*Includes 3,000 gallons

**Based on 6,770 gallons

From the information submitted, the Board provides the following summary of expenses:

	2010 Budgeted	2011 Budgeted	Interim Approved
General			
Expenses	\$ 23,702	\$ 24,531	\$ 18,300
Revenues	\$ 100	\$ 100	\$ 100
Total General Requirements	\$ 23,602	\$ 24,431	\$ 18,200
Water			
Expenses	\$ 71,263	\$ 73,757	\$ 73,757
Amortization	\$ 43,893	\$ 43,893	\$ 43,893
Interest	\$ 5,865	\$ 5,259	\$ 5,259
Reserves	\$ 8,361	\$ 8,361	\$ 8,361
Contingency	\$ 10,351	\$ 10,351	\$ 10,351
Revenues	-\$ 22,039	-\$ 22,039	-\$ 22,039
Total Water Requirements	\$ 117,694	\$ 119,582	\$ 119,582
Sewer			
Expenses	\$ 41,918	\$ 43,385	\$ 43,385
Amortization	\$ -	\$ -	\$ -
Interest	\$ -	\$ -	\$ -
Reserves	\$ 2,787	\$ 2,787	\$ 2,787
Minor Capital			
Contingency	\$ 1,336	\$ 1,336	\$ 1,336
Revenues	\$ -	\$ -	\$ -
Total Sewer Requirements	\$ 46,041	\$ 47,508	\$ 47,508

Board Findings

The Board will establish, on an *ex parte* basis, interim water and sewer rates. The Town's rates had not been revised since 2004.

The Board will provide revised rates due to its appreciation of an evident need for an immediate increase in revenue through higher utility rates and quarterly service charges.

Higher rates are required and establishing same is in the public interest. To delay increasing rates when increases appear to be warranted could lead to large deficits and even higher rates.

As previously stated, the Board will conduct a more thorough review of the utility's revenue requirements and rates in 2011; ratepayers will be provided notice and allowed an opportunity to provide comments. Following such a process, which may include an oral hearing, the Board will issue an Order, setting final rates which may vary from those established herein or those applied for by the Town.

The interim quarterly service charge herein established is based on an approximate 25% increase over the previous rate. The interim water and sewer rates herein established have been derived base on anticipated 2011 operating expenses and the net effect of PSAB accounting changes; the latter as affected by the Board's regulatory accounting approach.

These interim rates do provide for contributions to reserve funds and contingencies, as were reflected in the Town's application. In its application, the Town included plans to upgrade its water system; the Board will review these plans in the context of rate requirement in its future review.

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.

IT IS THEREFORE ORDERED THAT:

1. The Town of Hartney enact a by-law conforming with the directions set out in this Order; interim rates are to be effective as of March 1, 2011.
2. The Town of Hartney file a certified copy of the new interim rate by-law with the Public Utilities Board once it has received third and final reading.

Fees payable upon this Order - \$150.00

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"
Chairman

"KRISTINE SHIELDS"
Acting Secretary

Certified a true copy of Order No.
124/10 issued by The Public
Utilities Board

Acting Secretary