

M A N I T O B A) Order No. 49/10
)
THE PUBLIC UTILITIES BOARD ACT) May 12/ 2010

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

TOWN OF NIVERVILLE
CROW WING SUBDIVISION
REVISED WATER RATES

Executive Summary

By this Order, the Public Utilities Board (Board) approves an application by the Town of Niverville (Town) for revised water rates for its Crow Wing utility (Utility).

The revised rates are to be reflected in the next quarterly billing, as set out below:

Items	Current	Approved	% Increase
Service Charge	\$ 9.00	\$ 8.44	6% Decrease
Minimum Quarterly (includes 3,000 gallons)	\$31.50	\$34.84	10%
Rate (\$/1,000 gallons)	\$ 7.50	\$ 8.80	17%
Disconnection/Reconnection Charge	\$30.00	\$40.00	34%

Notice of the Town's application to the Board was mailed to utility customers with an invitation to write the Board if any concerns were held; no responses were received.

Background

Rates were initially set for the Utility in April 2008.

It is a stand-alone utility with its own water source, treatment facility, distribution system and accounting records. The Town operates other utilities and may seek to establish a combined water and sewer utility at some point.

The Utility provides water to a 173-lot subdivision that is to be developed in two phases with Phase I including 76 lots. The Utility obtains its water from a well, with water treatment involving filtration using sand filters and chlorination.

There are neither fire hydrants in the subdivision nor bulk water

sales. The existing system is adequate only for customers in Phase I; once Phase II begins, a second well will be required.

The majority of the cost of the system was borne by the developer at a cost of \$606,000. The Town shared the costs of the construction of the pump house and treatment plant. The developer operated the Utility from August 2007 through to the transfer of ownership of the Utility to the Town in 2008.

The Town reported a deficit of \$31,448 for the operations of the Crow Wing utility in 2008, and sought approval from the Board to recover that deficit through future higher rates. The Board agreed, and requested that a rate review and an application be conducted and submitted by October 30, 2009.

Application

The Town has applied for approval of revised water rates, as set out in Town By-law No. 678-09 (read for a first time on November 3, 2009).

The projected operating costs of the Utility for a three-year period are:

	2010	2011	2012
General	\$ 2,502	\$ 2,529	\$ 2,565
Operating Expenses	13,096	13,538	14,906
Amortization	41,301	41,301	41,301
Interest – Long Term Debt	25,029	24,171	23,267
Recovery of 2008 Deficit	10,486	10,486	10,486
Recovery of 2009 Deficit	4,223	4,223	4,223
Provision for Contingencies	2,000	2,040	2,081
LESS REVENUES			
Amortization of Capital Grants*	- 10,956	- 10,956	- 10,956
Taxation Revenue	<u>- 53,583</u>	<u>- 53,583</u>	<u>- 53,583</u>
Net Water Revenue Requirements	\$ 31,597	\$ 31,220	\$ 31,725
Projected Revenues	<u>26,405</u>	<u>34,124</u>	<u>41,842</u>
Projected Surplus/(Deficit)	\$ (5,192)	\$ 2,904	\$ 10,117

*Amortizing capital grants and donated assets is a current requirement of the Board (the approach reduces rate pressure).

The Town's Crow Wing rate study notes that there are 41 current residences that have been connected to the water utility, with the number of connected residences projected to increase to 92 by the end of 2012.

The proposed rates are based on projected annual expenses representative of the average three year projected expenses and an assumption of 75 customers connected to the system.

The Town advised that the proposed rate increases are required earlier than expected due to a number of factors, these including:

- slower than anticipated construction and connection of

residences in Phase 1;

- changes in prescribed accounting standards, as required by the Public Sector Accounting Board (PSAB);
- higher than anticipated projected annual operating costs; and
- the necessity of developing a provision to address needed future capital improvements.

The Town submitted a Tangible Capital Asset (TCA) schedule for the Utility reporting capital costs, as follows:

Land	\$ 7,000
Building	211,715
Equipment	403,285
Flush out Hydrants	29,100
Water Mains	<u>208,765</u>
Total Assets	\$ 859,865

The Town indicated that with Crow Wing being a new utility, there is no expectation of a requirement for capital improvements for the next five years.

The Town advised of two capital loans it has acquired to fund the utility; \$8,828 in 2008 and \$29,100 in 2009. Both loans are serviced by property taxes, not Utility revenues. The loans are to be repaid by an annual payment of \$12,642.50; repayment is expected to take three years.

The Utility is also responsible for a loan of \$464,297 as of December 31, 2009, with an annual debt payment of \$40,940. The loan has a 20-year term, with a maturity date falling in 2027 and the annual payment is raised through taxes.

The Utility lacks reserves and had an accumulated deficit as at December 31, 2009 of approximately \$44,000. The Town opined that there was no need to establish a reserve fund for the Utility at this

time, as this is a new utility.

The Town advised that because this Utility is small, many of the costs incurred in operating the Town's overall utilities are shared, and costs incurred by the Town's General Operating Fund on behalf of the utilities are shared in part with the Town's utilities.

The rate study indicates that costs incurred by the Town for Works and Operations and associated with the Utility are based on actual hours of service, which are tracked (both personnel and vehicle use). The costs allocated for office overhead (CAO, Council, office, etc.) are derived from the proportion of the utility clerk's time spent on the Crow Wing utility, which currently is 1.19%.

The Town advises that its lagoon discharges are in compliance with Clean Environment regulations; the lagoon was put into operation in 2008. The Town levies an annual fee of \$61.60 on residents to meet the operating costs of its sewer system, including the lagoon (a fee approved by the Board in 1989).

The Town advises of no specific conservation efforts currently in place, as the Town considers the rates provide a sufficient price signal to incent the conservation of water.

Board Findings

The Board has a general concern that the Utility may require even higher rates than those proposed and approved herein. The concern relates in particular to the pace of development, which has been slower than expected. The Town had initially estimated that the Utility could be self-sustaining with 30 connections, but has now suggested 41 connections are required to achieve that status. By legislation in Manitoba, utilities are to operate on a breakeven basis with any deficit recovered in the next year.

The Board will require the Town to amend Schedule "A" of its Crow

Wing By-Law to reflect a correct calculation of the minimum quarterly bill, this to be consistent with Schedule "A" attached to this Order. Further, the Board notes that the clause for Disconnection of Service (for non-payment of accounts) is not consistent with the requirements of the Board, and will require an amendment of that clause to conform with the Board's requirement, as well.

With no reserve funds and an accumulated deficit, the Board agrees that an increase in rates is needed. The Board notes the Town's reluctance to establish a reserve account but expects that if the anticipated surpluses are realized as projected, the Utility's equity should develop.

Generally, the Board requires utilities maintain equity levels at least equal to 20% of the prior year's operating expenses. With the Utility, the Board recognizes that as a fairly new utility, building to an adequate equity position will take time.

The Board will require the Town to monitor the annual results of the Utility and provide a report to the Board within three years of operating with the revised rates. The report is to include the year-end results for 2010, 2011 and 2012, as well as provide comments on the adequacy of rates and the utility's ability to meet its ongoing annual operating expenses. The Board expects the report to be filed no later than April 30, 2013.

The Board accepts and approves the Town's allocation of administrative costs. Should there be any changes made to this method of allocation, the Town should seek to obtain the Board's approval.

The Board also approves the recovery of the Utility's 2008 and 2009 deficit through rates as requested and as noted herein.

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, www.pub.gov.mb.ca.

IT IS THEREFORE ORDERED THAT:

1. By-law No. 678-09 of the Town of Niverville BE AND IS HEREBY APPROVED as amended, to be consistent with Schedule "A" as attached hereto, effective the next quarterly billing to be issued following third and final reading of the by-law.
2. The Town of Niverville file a copy of By-law No. 678-09 with the Public Utilities Board once it has received third and final reading.
3. The Public Utilities Board provides approval for the recovery of the 2008 and 2009 operating deficits of the Crow Wing utility through rates, as noted herein.
4. The Public Utilities Board approves the cost allocation methodology as submitted by the Town of Niverville, as noted herein.
5. The Town of Niverville submit a report to the Public Utilities Board following three years of operating the Crow Wing utility (2010, 2011 and 2012), that report to include comments as to the adequacy of rates. The report is to be filed no later than April 30, 2013.

Fees payable upon this Order - \$500.00.

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THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA."

Chairman

"KRISTINE SHIELDS"

Acting Secretary

Certified a true copy of Order No.
49/10 issued by The Public Utilities
Board

Acting Secretary

SCHEDULE "A"

TO BOARD ORDER NO. 49/10

TOWN OF NIVERVILLE
CROW WING SUBDIVISION

REVISED WATER RATES

BY-LAW NO. 678-09

1. Single-Step System:
Domestic Rate of \$8.80 per 1000 Imperial Gallons.
2. Minimum Quarterly Charges:
Notwithstanding the commodity rate set forth in Section 1 above, all customers with water service shall pay the applicable minimum charge set out below, which include water allowance as indicated:

<u>Meter Size</u>	<u>Group Capacity Ratio</u>	<u>Water Included Gallons</u>	<u>Water</u>	<u>Service Charge</u>	<u>Minimum Quarterly Billing</u>
5/8"	1	3,000	\$ 26.40	\$8.44	\$ 34.84
3/4"	2	6,000	52.80	8.44	61.24
1"	4	12,000	105.60	8.44	114.04
1 1/2"	10	30,000	264.00	8.44	272.44
2"	25	75,000	660.00	8.44	668.44

3. Bulk Water Rate:
There are no Bulk Water Sales off this system.
4. Billings and Penalties for Non-payment of Account:
All connected customers shall be billed quarterly and payment shall be due and payable within 21 days after the mailing of the bills. A late payment charge of 1.25% (1 1/4%) 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 the bills sent to the customers.
5. Disconnection of Service:
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 the Conditions Precedent is

available for inspection at the Municipality's office.

Service may also be disconnected upon receipt of the owner's written request by the Town. A disconnection fee of \$40.00 shall be applied for this service. If a residence within the water utility is disconnected from the utility, the party will continue to be responsible for the minimum service charge.

6. Reconnection of Service:

Any service disconnected, whether due to non-payment of account or for any other reason(s) mutually agreed to by the customer and the Town (i.e., repairs necessitated by negligence of the customer, changes in tenant, vacancy for an extended period of time, etc.) shall not be reconnected until a reconnection fee of \$40.00 and all arrears and penalties, if any, have been paid.

7. Liability for Charges:

Where charges and penalties pursuant to this by-law are not paid within sixty (60) 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.

8. Testing of Water Meters for Accuracy:

Any customer desiring and requesting their meter to be tested for accuracy shall deposit with the Town 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 the average flow.

9. Service to Customers outside Town limits:

Council of the Town of Niverville may sign agreements with customers for the provision of water services to properties located outside the legal boundaries of the Town. Such agreements shall provide for payment of the appropriate rates set out in this 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 from time to time, or may be in effect from time to time and which would be levied on the property concerned if it were located within the Town boundaries. In addition, all costs of connecting to the utility's mains and installing and maintaining the service connection(s) shall be paid for by the customer.

10. Water allowances due to line freezing:

That in any case where, at the request of Council, a customer

allows water to run continuously for any period of time to prevent the waterlines in the water system from freezing, the charge to the 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.