

M A N I T O B A)
)
THE PUBLIC UTILITIES BOARD ACT) Order No. 123/11
) September 23, 2011

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

TOWN OF LYNN LAKE
WATER AND SEWER RATES

Summary

The Public Utilities Board (Board) herein approves increases to the water and sewer utility rates for the Town of Lynn Lake (Town), rates previously approved on an interim *ex parte* basis in Order No. 46/11.

The new rates are to be reflected on the next quarterly billing consistent with the Town's by-law; the Town's rate by-law is to be amended to reflect the approvals in this Order.

Previous, interim and revised rates:

Commodity Charge	REU*	Previous	Interim	Revised
Flat Rate per Quarter	-	\$ 80.00	\$ 112.00	\$ 155.00
Quarterly Service Charge	-	\$ 25.00	\$ 35.00	\$ 45.00
Single Family/Small Commercial (otherwise not listed)	1	\$ 105.00	\$ 147.00	\$ 200.00
Pharmacy, Bus Lines, Arena, Hall, ESSO, Car Dealer, etc	2	\$ 185.00	\$ 259.00	\$ 355.00
Bank, Curling, Store and Suites	3	\$ 265.00	\$ 371.00	\$ 510.00
Community Club, RCMP, Laundry, Motel	4	\$ 345.00	\$ 483.00	\$ 665.00
NW Dev Corp, Legion, Offices, Suites, Northern Store	5	\$ 365.00	\$ 511.00	\$ 820.00
Hostels	7	\$ 585.00	\$ 819.00	\$1,130.00
Plaza	9	\$ 745.00	\$1,043.00	\$1,440.00
Hotel/Restaurant/Bar	12	\$ 985.00	\$1,379.00	\$1,905.00
Hospital**	37	\$2,985.00	\$4,179.00	\$5,780.00
School	38	\$3,065.00	\$4,291.00	\$5,935.00
Bulk Water per 100 gallons	-	\$ 1.56	\$ 2.18	\$ 2.18

*REU: Residential Equivalent Unit

**The previous order and by-law incorrectly stated the hospital's REU's as 27

Residential equivalent units (REU's)

Where a system has no meters, the amount of water used and the volume of effluent returned to the sewer system are based on residential equivalent units or REU's, one unit being the volume of water estimated to be used by the average single family

residence. Units allocated to other customers are based on the estimated volume of water they will use, as compared with a residence.

Communities with metered systems have no need to use REU's as the charge for consumption is based on actual metered usage.

It is conventional wisdom in the industry that metered systems will lead to conservation as users are more aware of their consumption and more in control of their costs, which can be reduced through reduced usage. It also addresses the issue of fairness because customers are charged for what they actually use.

Background

Prior to this application, rates had last been reviewed by the Board in 1991, and the Town's utility has incurred operating deficits annually from at least 2003 through to and including 2009.

Effective January 1, 2009, the Public Sector Accounting Board (PSAB) revised its accounting standards for municipalities; the implications of the accounting change are significant.

Based on the audited financial statements of the Town now prepared under generally accepted accounting principles, the Utility had an accumulated surplus of \$728,365 at December 31, 2009, but this included net capital asset values of \$1,954,723. The net debt of the utility was \$1,220,358 to the end of 2009, the culmination of the series of recurring operating deficits.

While the Town's application had yet to be fully reviewed by the Board, the Board determined that an interim rate increase was required and approved same in March of 2011. Being an interim order, the approvals contained therein were subject to change pending a full review, including a public hearing where the views of all affected could be voiced.

Subsequent to the interim order, a public notice was released announcing a public hearing to be held in the Town on July 20, 2011. Customers were encouraged to attend that hearing and to visit the Town office to review its complete application.

The Utility

The Town has a population of some 700 people. The utility services 219 residential and 36 commercial customers.

Water

The utility system was constructed in 1952 and a new water treatment building was built in 2004, and is intended to house a new water treatment facility, being constructed and to be put into use in September 2011. The Town obtains raw water from West Lynn Lake and a new wet well is planned to be located nearer the treatment plant.

Water is circulated and lines are bled to prevent freezing. The water system is unmetered but water losses are likely high as evidenced by reportedly repeated line breakage.

The Town had embarked on an initiative to install water meters,

with an agreement with the Manitoba Water Services Board for this project. Meter installation was to have commenced in August 2011.

The water's aesthetic qualities have been a problem which will be helped only when a new treatment plant is operational (the replacement of all water lines in addition to the new treatment plant may cure the problem). The Town has periodically been under boil water advisories. There is an acknowledged lack of confidence in the public water system.

An engineering assessment has recommended replacement of raw water intake pipes and this work is included in the Town's capital plans.

Sewer

For sewage, the Town operates an aerated lagoon system which has one cell and discharges into a local creek. While the lagoon capacity is considered adequate, the lagoon has not been cleaned since inception and the Town's three lift stations are beginning to require repeated repairs. These matters are under consideration by the Town.

Application

Rates

The Town applied for revised water and sewer rates, as set out in By-law No. 1346-2011 (read the first time on February 8, 2011). The proposed rates were not adequate to address the then-

projected costs of operating the utility.

	Projected Expenses
General	
Expenses	\$ 45,585
General Revenue Requirements	\$ 45,585
Water	
Expenses	\$197,705
Interest on long term debt	-
Amortization	-
Reserves/Contingency	-
Water Revenue Requirements	\$197,705
Sewer	
Expenses	\$ 63,627
Amortization	-
Reserves/Contingency	-
Interest on long term debt	-
Sewer Revenue Requirements	\$ 63,627

The rate study submitted suggests an initial rate increase in excess of 80%. (It is noted that the rate study had been prepared without the benefit of audited financial statements, which were not available until recently.)

Concern was expressed that implementing the full rate requirement as indicated by the rate study would result in rate shock for customers. The Town therefore proposed that the rates indicated by the rate study not be implemented immediately, but rather proposed a 40% increase, with an expectation that additional increases would be phased-in over time.

The rate study indicated that the annual cost of fire hydrant maintenance approached \$20,000, indicating that the per hydrant

rental cost should be \$370 as opposed to the \$114 current charge. However, the Town's submitted by-law did not include this increase.

The rate study had also recommended a rate rider of \$85 per year to help address the Town's accumulated utility deficits. The Town did not propose to implement this rate rider. It has been seeking funding assistance from the Provincial Government through the Mining Community Reserve Fund. Although unsuccessful in its appeals to date, the Town continues to actively pursue this avenue to address the deficits. Thus, the Town recommended against the rate rider.

Cost allocation methodology

The Town proposed the following cost allocation methodology:

Administration expenses	25% allocated to utility
Truck rental	\$3,000 per annum
Other equipment	Cost prorated based on actual hours used
Operator	Charged back based on actual hours spent

Public Hearing

The hearing was reasonably well attended by the community. As could be expected, there were concerns over rate shock but there was also recognition that the proposed 40% increase would not be adequate.

Water quality was also raised as a concern, as was the issue of

fairness for certain rented housing which may be consuming more than one REU because of multiple occupants in general and especially during hunting season.

Board Findings

Rates

The Board, having had the benefit of a public hearing and having had the opportunity to review in more detail the submission made by the Town, will amend the rates to those recommended in the rate study, with the revised rates effective for the next quarterly billing.

The Board understands the general concern over rate shock. However, to approve rates that will continue to yield deficits for the utility is not appropriate, not in the public interest and in fact contravenes the legislative provisions that require utilities to operate on a break-even basis. In order to alleviate this situation, the Board encourages the Town to try to find operational efficiencies to reduce costs.

To this end, the Board encourages the Town to proceed with its metering of the system. While this will introduce additional amortization expense, it will help with conservation efforts and enable customers to control their own costs. It will also help address the concerns over fairness of charges, especially for those residences that rent to multiple occupants.

The Board is mindful of the fact that the rates proposed by the rate study were based on unaudited financial results. Having

now reviewed those audited statements, the Board accepts the rates proposed by the rate study but requires that the Town prepare and submit revised financial projections, using Appendix "B", available on the Board's website.

The Board will also direct that the fire hydrant rental rate be increased to \$200 per annum. While this is substantially less than the rate indicated in the rate study, it makes a directional adjustment that is more reflective of the true costs of hydrant maintenance. The cost of fire protection is a responsibility of the Town and not the utility. The Town should therefore bear the reasonable related costs. This rate will be subject to adjustment following the submission of revised projections, which must include an analysis of the hydrant maintenance costs.

The Board will require the Town to amend its by-law to reflect the requirements in this order, and as set out in Schedule "A" attached hereto. The Board notes that the Town's bylaw does not include some standard required clauses, such as the application of a penalty and for providing services outside the Town's boundaries.

Rate rider for deficits

The Board has wrestled with the proposal in the rate study, not recommended and in fact discouraged by the Town, to implement a deficit recovery rate rider of \$85 per year. The Town's argument that the Mining Community Reserve Fund (MCRF) should be accessed to help address the issue appears to have merit. The

Board is concerned that no response has been forthcoming from the MCRF administrators, providing rationale for not providing the requested assistance.

The Board therefore will not impose the rate rider at this time with the proviso that the Town actively pursues an official response from the MCRF. Should no response be received by March 31, 2012, the Board will reconsider the rate rider.

Cost allocation methodology

The Board will approve the cost allocation methodology proposed in the rate study. The Town has been made aware that any changes to this methodology in the future will require Board approval.

Given all of these uncertainties, and the precariousness of the utility's financial situation, the Board will require that the Town prepare a revised rate study, with up-to-date projections, all to be submitted on or before July 1, 2012.

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 Utility rates for the Town of Lynn Lake, as shown in Schedule "A" attached hereto ARE HEREBY APPROVED effective for the next quarterly billing.
2. By-law 1346-2011 be amended to reflect the decision in this order and Schedule "A" and that the Town file a copy of the revised By-law once it has received third and final reading, not later than October 31, 2011.
3. The interim rates established in Order 167/09 BE AND ARE HEREBY APPROVED and effective from January 1, 2009 to March 2011
4. The interim rates as approved in Order 46/11 BE AND ARE HEREBY CONFIRMED effective up until the next quarterly billing.
5. The cost allocation methodology proposed by the Town of Lynn Lake BE AND IS HEREBY APPROVED.
6. The Town of Lynn Lake provide notice to its customers, with a copy to the Board, of the final rate increases and the rationale for same with the next quarterly billing.
7. The Town of Lynn Lake provide the Board with a progress report concerning the Mining Community Reserve Fund application, together with copies of relevant correspondence, by March 31, 2012.
8. The Town of Lynn Lake file a revised rate study based on an amended "Appendix "B" with details of projected expenses for 2012 to 2015 by July 1, 2012.

Fees payable upon this Order - \$1,500.00

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"
Chairman

"KRISTINE SHIELDS"
Acting Secretary

Certified a true copy of Order No.
123/11 issued by The Public
Utilities Board

Acting Secretary

SCHEDULE "A"
TO BOARD ORDER NO. 123/11
TOWN OF LYNN LAKE
WATER AND SEWER RATES

1. Commodity charges and Residential equivalent unit assignments:

Commodity Charge	REU*	Revised
Water, quarterly		\$117.00
Sewer, quarterly		\$38.00
Flat Rate per Quarter	-	\$155.00
Quarterly Service Charge	-	\$45.00
Single Family/Small Commercial (otherwise not listed)	1	\$200.00
Pharmacy, Bus Lines, Arena, Hall, ESSO, Car Dealer, etc	2	\$355.00
Bank, Curling, Store and Suites	3	\$510.00
Community Club, RCMP, Laundry, Motel	4	\$665.00
NW Dev Corp, Legion, Offices, Suites, Northern Store	5	\$820.00
Hostels	7	\$1,130.00
Plaza	9	\$1,440.00
Hotel/Restaurant/Bar	12	\$1,905.00
Hospital**	37	\$5,780.00
School	38	\$5,935.00

2. Bulk Water:

\$2.18 per 100 gallons

3. Hydrant rentals

\$200 per annum per hydrant

4. Billing and Penalties

A late payment charge of one and one quarter percent (1 ¼%) per month shall be charged on the dollar amount owing after the billing due date. The due date will be the last day of the month of billing.

5. Disconnection

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 Condition Precedent is available for inspection at the Municipality's office.

6. Service to Customers outside the Town

Council of the Town of Lynn Lake 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 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's mains and installing and maintaining service connections will be paid by such customers.

7. Outstanding Bills

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.