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THE PUBLIC UTILITIES BOARD ACT) Order No. 135/11
) October 5, 2011

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

THE RURAL MUNICIPALITY OF WEST ST. PAUL
RIVERS EDGE SEWER UTILITY
FINAL RATES - 2011

Summary

By this Order, the Public Utilities Board (Board) confirms sewer rates for 2011 approved on an *ex parte* basis for the Rivers Edge Sewer Utility in the Rural Municipality of West St. Paul (RM).

For 2011, connected customers are to be billed \$676.95 for sewer services, including \$24.95 for administration costs. While the rates are less than those proposed by the RM, this represents an increase of 91% over previous rates.

It is also important to note that the RM's request for further rate increases for 2012 and 2013 are not approved at this time, pending receipt of audited financial statements for 2009 and 2010.

Introduction

Prior to the current application, rates were last amended by the Board in 2009, when Order 37/09 provided the RM with discretion to implement a 2.5% increase as of January 1, 2010. The RM did not impose the increase.

The RM applied in January 2011 for rate increases which included recovery of estimated deficits experienced by the Utility in both 2009 and 2010.

Pending a thorough review of the RM's application, the Board determined that an interim rate increase was required and approved a revised rate on an *ex parte* basis. Even though the interim rate increase of some 91% was steep, action needed to be

taken to ensure that the financial situation for the utility did not worsen, leading to even greater rate shock in future.

The RM's application had yet to be fully reviewed to ensure all implications of revised accounting practices, in accordance with the standards established by Canada's Public Sector Accounting Board, were reflected. Nonetheless, based on the RM's application a significant rate increase was warranted.

An interim rate is subject to change following a public process which includes an opportunity for the public to review the application and voice its concerns. Thus, a notice of the interim increase and a pending hearing process was issued to the public in June 2011 and a public hearing was held on August 22, 2011 in the RM Council Chambers.

Background

The system includes a batch treatment plant fed by gravity flow sewer lines. The treated discharge then flows into the Red River. The system is classified as Class 2; one of the operators has the appropriate certification and the other is currently pursuing his.

The plant was constructed in 2006 by the developer and transferred to the RM in 2008, at no cost.

The Utility services 97 customers whose water is supplied from wells. Therefore, with no meters in place, the cost is evenly divided amongst the existing customer base. All existing customers are residential.

Application

The RM applied for revised sewer rates, as set out in By-law No. 2011-02 (read the first time on January 13, 2011). This was supported by a rate study prepared on behalf of the RM by their consultant, Mr. G.O. Barron, FCGA.

The RM proposed a three year rate schedule as follows:

	Annual rate	Increase
Previous	\$355	
Proposed 2011	\$763	115%
Proposed 2012	\$779	2%
Proposed 2013	\$795	2%

The rate proposal was based on the following projected revenue requirements:

	Projected 2011	Projected 2012	Projected 2013
General			
Expenses	\$ 2,420	\$ 2,493	\$ 2,567
Deficit recovery	8,374	8,374	8,374
General Revenue Requirement	10,794	10,867	10,941
Sewer			
Expenses	47,745	49,177	50,653
Amortization net of grants	0	0	0
Reserves/Contingency	5,500	5,500	5,500
Future Remediation	10,000	10,000	10,000
Sewer Revenue Requirement	63,245	64,677	66,153
Total revenue requirement	74,039	75,544	77,094
Number of customers	97	97	97
Annual rate	\$ 763	\$ 779	\$ 795

The rate study noted that the assets, valued at \$1.2 million, had been donated by the developer at no cost. Therefore, the

amortization expense net of grant amortization is zero, in accord with Board guidelines.

The rate study points out a possible future liability for site remediation should the current plant be decommissioned as a result of a proposed regional waste treatment plant. While this initiative has not yet been confirmed, the study proposes an amount of \$10,000 per annum be built into rates to build reserves for this possibility. This is in addition to the \$186,000 which the developer will have deposited into a reserve account in accordance with the development agreement.

The RM also requested approval for an amendment to their cost allocation methodology and proposed the following:

Category	Allocation
Chief Administrative Officer, Assistant and Director of Operations	1%
Operator time and training	20%
Vehicle capital expense	20%
Vehicle operating costs	mileage

Public Hearing

Only a few customers attended the public hearing. There was some concern expressed over the proposed rates.

With the RM operating several sewer only systems, residents asked why the significant variations in rates from one system to another. The RM advised that all utility systems are unique, operate differently and have separate requirements: this all affects the operating costs of the utility, which costs are

passed onto the customer. The numbers of customers vary from one area to the next, as does usage and the volumes being treated in the sewer system.

The RM noted that with this application, the rates proposed will get the utility back on track. The previously approved rates were based on best guesses as the utility was new to the RM and little information available on the utility's operation. The rates now being sought better reflect the true cost of operating the sewer utility.

Customers noted that these rates for sewer only services were relatively high, especially given that the assets were donated.

Board Findings

The Board is concerned and dismayed that the RM still does not have audited financial statements for 2009, now some 21 months after the year has ended. In fact, it would not have been unreasonable to expect that the 2010 audited statements would have been available to help assess the application.

It is primarily for this reason that the Board will not approve any provision for deficit recovery in the 2011 rates, and why it will withhold any decision on 2012 and 2013 rates. Without the audited statements, the quantum of the deficits is at best an educated guess, not a sound basis for imposing rate decisions on paying customers.

The Board will direct that those financial statements be filed as soon as available. When received, they will be used to

determine if a rate rider to recover past deficits will be in order for 2012 and 2013. If so, a new order will be issued containing the appropriate information, and a notice will be provided to customers.

The Board, however, does recognize that there is a need for an immediate and significant rate increases to ensure that deficits are eliminated or at least minimized for 2011 and forward. It will therefore confirm the interim approval which it granted in its March 31, 2011 Order No. 48/11.

The Board also accepts the revised cost allocation methodology proposed by the RM is reasonable and will provide its approval of same.

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 Rivers Edge Sewer Utility rates for the Rural Municipality of West St. Paul, By-law 2011-02, as amended April 14, 2011, BE AND ARE HEREBY CONFIRMED AS FINAL with revised annual rates of \$676.95 for 2011.
2. The revised cost allocation methodology proposed for the Rivers Edge Sewer Utility BE AND IS HEREBY APPROVED.
3. The Rural Municipality of West St. Paul file a copy of its 2009 audited financial statements as soon as they are available, as well as an application to address recovery of any deficit realized.
4. The Rural Municipality of West St. Paul file a copy of its 2010 audited financial statements as soon as they are available, as well as an application to address recovery of any deficit realized.

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.
135/11 issued by The Public Utilities
Board

Acting Secretary