

M A N I T O B A) Order No. 164/11
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THE PUBLIC UTILITIES BOARD ACT) December 7, 2011

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

TOWN OF SNOW LAKE
WATER AND SEWER RATES
EFFECTIVE JANUARY 1, 2012

Executive Summary

By this Order, the Public Utilities Board (Board) approves new water and sewer rates for the Town of Snow Lake (Town) effective January 1, 2012, and confirms as final the interim rates previously approved by Order 12/11 for 2011.

Previous, current and approved rates are as follows:

Commodity Rate \$/cubic meter (m ³)	Previous		2011	2012
Water		Water		
First 100 m ³	\$2.08	All Consumption	\$2.45	\$2.45
Next 350 m ³	\$1.91	-	-	
Over 450 m ³	\$1.74	-	-	
Sewer	\$1.54	Sewer	\$1.66	\$0.88
Quarterly Service Charge	\$24.20	Quarterly Service Charge	\$19.19	\$72.75
Minimum Quarterly⁽¹⁾	\$73.58	Minimum Quarterly⁽¹⁾	\$75.25	\$118.17
Unmetered Customers⁽²⁾	\$506.95	Unmetered Customers⁽²⁾	\$574.04	\$522.30
Hydrant Rental	\$150	Hydrant Rental	\$150	\$150
Tipping Fees	\$2.93	Tipping Fees	\$2.80	\$3.24
Reconnection charge	\$50	Reconnection charge	\$50.00	\$50.00

⁽¹⁾ Includes 13.64 cubic meters, quarterly.

⁽²⁾ Quarterly fee based on an estimated 135 cubic meters of usage.

The quarterly service charge includes a rate rider of \$59.00 to address the Town's working capital deficit. If all projections prove accurate over time, the Utility's working capital deficit will be eliminated in five years, at which time the rate rider can be removed.

The Town is also directed to make a submission for new rates for the year 2014 or sooner, including an updated rate study, to include the effects of the upgraded Waste Water Treatment Plant.

Introduction

The Town applied for revised rates in August 2010, at a time when the Board was experiencing a backlog due to an influx of applications. A brief review of the application led the Board to conclude that an immediate rate increase was necessary in order to minimize the continuance of deficits for the Utility.

The Board therefore approved new rates for 2011 on an interim *ex parte* basis. Interim rates are subject to change once the Board has completed its review process. This process includes a detailed review of submissions and an opportunity for the public to familiarize themselves with the application and provide comment or concern.

It was then determined that a public hearing would be in order. A public notice was posted in early July advising that the hearing would take place on July 19, 2011 in the Town's Council Chambers. Customers were encouraged to attend the Town offices to review the application and assess the impacts that the rate proposal would have on them.

Background

The Town owns and operates a water treatment plant (constructed in 1960 and upgraded in 1983 and again in 2005), a water distribution system, and a sewage collection and disposal system. The population of the Town in 2006 was 837 and the water distribution system serves 460 customers, only one of which is unmetered with the installation of a meter planned. The Town projects population to grow due to a

new mine being set up by HudBay Mining.

The water system consists primarily of cast iron pipe with newer sections employing PVC. The system includes 50 fire hydrants. The current per capita consumption is estimated at 330 litres per day, a figure higher than other communities due to the use of bleeder taps to prevent freezing.

Sewage is collected and transported by means of gravity collection mains with five lift stations and a mechanical sewage treatment plant. In 2007, the Town indicated that the sewage treatment plant required replacement, having been constructed over 30 years ago. Age has rendered the mechanical treatment process ineffective, and the community's wastewater now depends only on chlorination for treatment before the effluent is discharged into the Lake and no longer meeting requirements. An upgrade is expected to be completed in 2013 at a cost of \$7.0 million, \$4.2 million to be funded by the Manitoba Water Services Board, \$2.0 million by HudBay Mining with the Town paying the remaining \$800,000.

Working Capital Deficits

Working from the 2010 audited financial statements, the Board calculates the Utility's working capital deficit to be as follows:

Working capital as at December 31, 2010	
Current Assets	\$128,292
Reserves	31,131
sub-total	159,423
Current liabilities	657,632
Current portion of long-term debt	44,696
sub-total	702,328
Working capital deficit	<u><u>\$(542,905)</u></u>

The deficit is largely a result of the population base, and therefore billable consumption, being less than anticipated due to the closing of a major mine in 2001.

Application

The Town applied for revised water and sewer rates, as set out in By-law No. 896/10 (read the first time on August 17, 2010). The application was supported by a rate study dated August 15, 2010 prepared by the Town's consultant, Genivar.

The proposed rates were expected to generate sufficient annual revenue to recover the following projected annual expenses:

	Projected Expenses
General	
Expenses	\$26,998
Equity Surcharge	10,000
Less Revenues	- 1,700
General Revenue Requirements	\$35,298
Water	
Expenses	\$226,013
Interest on long term debt	55,523

Amortization	106,294
Reserves/Contingency	10,000
Minor Capital	-
Less Revenues	(148,770)
Water Revenue Requirements	\$249,060
Sewer	
Expenses	\$130,856
Amortization	19,653
Reserves/Contingency	25,000
Interest on long term debt	-
Less Revenues	(7,500)
Sewer Revenue Requirements	\$168,009

As the financial impacts of the Wastewater Treatment Plant upgrade were unknown, the impacts of this upgrade were not included in the rate study.

The rate study included a proposal for a cost allocation methodology.

The Hearing

The oral hearing took place as announced. The Town indicated that positive changes have occurred since the last rate application and the financial position of the utility has improved. The population of the town has increased faster than thought.

The Town presented clarification and answered questions posed by the Board.

Public attendance was sparse, with, other than Town council and staff, only two people in attendance.

One cabin owner expressed some concerns with respect to the lagoon tipping fees including the potential of cross subsidization of haulers fees/charges with those connected to the sewer system. He also suggested lagoon tipping fee revenues should be set out separately on the Town's financial statements.

The other person present appeared to be in attendance simply to understand what was transpiring.

Board Findings

Rates

After reviewing the application and the answers to questions posed subsequent to the application, the Board will approve new rates for 2012.

The rates now approved for January 1, 2012 are based on the following projected annual expenses:

	Proposed	Approved
Administration	\$ 26,998	\$ 26,998
less revenue	-1,700	-1,700
	25,298	25,298
Rate rider- for working capital	10,000	108,581
	<u>\$ 35,298</u>	<u>\$ 133,879</u>
Water costs:		
Expenses	204,464	204,464
Other costs	21,550	21,550
Amortization	106,294	106,294
Interest	55,522	55,522
Contingency	10,000	10,000
Reserves	-	-
subtotal	<u>397,830</u>	<u>397,830</u>

Less	Hydrant	-7,500	-7,500
	Amortization of grants	-36,000	-36,000
	Taxation revenue	-105,270	-105,270
		<u>-148,770</u>	<u>-148,770</u>

Net water costs	\$ 249,060	\$ 249,060
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Sewer costs:

	Expenses	113,127	55,000
	Other costs	17,729	17,729
	Amortization	19,653	19,653
	Interest		
	Contingency	5,000	5,000
	Reserves	20,000	-
	sub-total	175,509	97,382
Less	Tipping fees	<u>-7,500</u>	<u>-8,300</u>

Net sewer costs	\$ 168,009	\$ 89,082
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The working capital rate rider is intended to eliminate the working capital deficit, as at December 31, 2010, over a 5-year time frame. Once the working capital deficit has been eliminated, this provision will no longer be required.

The Board recognizes that the deficit is the result of a fluctuating customer base due to mine closures. It is on this basis that the Board encourages the Town to determine whether it is entitled to assistance from the Mining Community Reserve Fund in addressing its deficit. Should such an appeal be successful, the Town should consider filing an application with the Board to amend or eliminate the rate rider.

In determining the approved rates, the Board eliminated the proposed reserve provision of \$20,000 in order to reduce the revenue

requirement and therefore the rate requirement. It would be reasonable to expect that this reserve provision will be reinstated once the working capital rate rider has run its course.

Projected sewer expenses were reduced from the application based on the audited results for 2009 and 2010. The forecast expenses were considerably more than the audited experience of the last two years, and were not supported by any explanation for the increased cost projection. The Board however, did approve the new cost provisions of \$17,729 for fuel, operator training and insurance, as included in the application. Should the Town be able to provide evidence supporting the projected sewer expenses as shown in the rate study, the Board would be prepared to entertain a request to review and vary the 2012 sewer rate approved herein.

Tipping fees have been recalculated based on the revised sewage rate, and adjusted to include the administrative expenses, including the rate rider, which had been omitted from the calculation in the application.

Cost Allocation Methodology

The methodology submitted by the Town was incomplete. While accepting the allocation made for the purposes of this rate review, the Board will require that the Town refine that methodology and resubmit it for approval. The Town is encouraged to discuss this with Board staff to clarify the requirements.

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 at www.pub.gov.mb.ca.

IT IS THEREFORE ORDERED THAT:

1. The Town of Snow Lake amend its water and sewer rate By-law, effective for January 1, 2012, to agree with provisions of this Order and Schedule "A", attached hereto, and file that By-law with the Board following third reading by no later than January 31, 2012.
2. The interim water and sewer rates for 2011 for the Town of Snow Lake, as approved in Order No. 12/11, ARE HEREBY CONFIRMED AS FINAL.
3. The Town of Snow Lake provide immediate notice to its customer, with a copy to the Public Utilities Board, of this Order, the revised rates and the reason for the revised rates for 2012.
4. The Town of Snow Lake refine its cost allocation methodology and submit same for approval by the Public Utilities Board on or before January 31, 2012.
5. The Town of Snow Lake update its rate study to include the impacts of the upgraded wastewater treatment plant as soon as those are known, and in any event no later than September 1, 2013 for rates effective January 1, 2014.

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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.
164/11 issued by the Public Utilities
Board

Acting Secretary

SCHEDULE "A"
TO BOARD ORDER NO.164/11
THE TOWN OF SNOW LAKE

WATER AND SEWER RATES

A schedule of water and sewer rates for the Town of Snow Lake, effective January 1, 2012.

SCHEDULE OF RATES:

1. Commodity Rates per Cubic Meter (C.M.)

	<u>Water</u>	<u>Sewer</u>	<u>Water & Sewer</u>
All consumption	\$2.45	\$0.88	\$3.33

2. Minimum Charges, Quarterly

Notwithstanding the Commodity rates set forth in paragraph 1 hereof, all customers will pay the applicable minimum charge set out below, which will include water allowances indicated:

(a) Water and Sewer Customers

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption (C.M.)	Service Charge	Commodity Rates		Minimum Quarterly Charges
				Water	Sewer	
16mm - 5/8"	1	13.64	\$72.75	\$33.42	\$12.00	\$118.17
19mm - 3/4"	2	27.28	\$72.75	\$66.84	\$24.01	\$163.59
25mm - 1"	4	54.56	\$72.75	\$133.67	\$48.02	\$254.44
38mm - 1-1/2"	10	136.4	\$72.75	\$334.18	\$120.03	\$526.96
50mm - 2"	25	341	\$72.75	\$835.45	\$300.08	\$1,208.28
75mm - 3"	45	613.8	\$72.75	\$1,503.81	\$540.14	\$2,116.70

3. Unmetered Customers

Based on a quarterly consumption of 135 cubic metres, non-metered sewer and water customers shall pay \$522.30 per quarter, which includes the quarterly service charge.

4. Service For Connecting Customers Outside of the Town Limits

The Council of the Town of Snow Lake may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Town. Such agreements shall provide for payment of the appropriate 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's mains and installing and maintaining service connections will be paid by the customer.

5. Billing And Penalties

Accounts shall be billed quarterly, and shall be due and payable upon receipt by owner. A late payment charge of 1 ¼% shall be charged on the dollar amount owing after the billing due date. The due date will be at least fourteen days after the mailing of the bills.

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

7. Reconnection

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and reconnection fee of \$50.00 have been paid. Any customer wishing to have billings discontinued due to vacancy of premises shall be required to pay a service disconnection fee of \$50.00 and to pay \$50.00 reconnection fee when service resumes.

8. Outstanding Bills

Pursuant to section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water and sewer service may be collected by the municipality in the same manner as a tax may be collected or

enforced under this Act.

9. Hydrant Rentals

The Town of Snow Lake shall pay to the utility an annual rental of \$150.00 for each hydrant connected to the system. This includes water for fire purposes.

10. Water Allowance Due To Line Freezing

That in any case where, at the request of the Council, the customer allows water to run continuously for any period of time to prevent the water lines in the water system from freezing, the charge to that customer for the current quarter shall be the previous quarter to the same customer, or to the same premises if the occupant has changed.

11. Sewer Surcharge

- a) There may be levied annually, in addition to the rates set forth above, a special surcharge on sewage having a Biochemical Oxygen Demand in excess of 300 mg/L, to be set by resolution of Council.
- b) A special surcharge for substances requiring special treatment shall be charged based on the actual costs of treatment required for the particular sewage or industrial waste.

12. Tipping Fees

The rate of \$3.24 per cubic meter shall be charged for the dumping of septage by haulers.