

M A N I T O B A) Order No. 38/11
)
THE PUBLIC UTILITIES BOARD ACT) March 29, 2011

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

TOWN OF GRANDVIEW
WATER AND SEWER RATES

Executive Summary

By this Order, the Public Utilities Board (Board) varies an application by the Town of Grandview (Town) and establishes revised water and sewer utility rates, to take effect as of April 1, 2011, April 1, 2012 and April 1, 2013.

Existing and revised rates are:

| \$/1,000 gallons | Existing | Revised 2011 | Revised 2012 | Revised 2013 |
|---|------------------|-------------------------|-------------------------|-------------------------|
| Water Rate (1 st 20K) | \$8.72 | \$15.49 | \$16.31 | \$16.80 |
| Next 80,000 | \$7.01 | - | - | - |
| Over 100,000 | \$5.64 | - | - | - |
| Sewer Rate | \$1.67 | \$2.14 | \$2.34 | \$2.54 |
| Quarterly Service Charge | \$25.00 | \$19.75 | \$21.00 | \$22.40 |
| Minimum Quarterly (includes 3,000 gal) | \$56.17 | \$72.62 | \$76.97 | \$80.42 |
| Bulk | \$10.23 | \$17.20 | \$18.10 | \$18.50 |
| Annual Lagoon Tipping | \$250/ hauler | \$250/ hauler | \$250/ hauler | \$250/ hauler |

Full details of all utility charges, as well as terms and conditions of service approved by the Board, are shown in Schedule "A" attached to this Order. The Board also approves recovery of the utility 2010 operating deficit (\$44,532) from Utility surplus, to be drawn over the next three years in equal amounts. (Rates were previously revised in 2006.)

The Town's application was published in the local newspaper and posted in the community; no ratepayer concerns were filed with the Board.

Application

The Town applied to the Board on May 26, 2010 for approval of rate By-law No. 5-2010. The application was accompanied by a rate study and other filings; supplementary information was subsequently provided to the Board. The additional information provided is summarized herein.

The Utility provides services to 463 customers, of which 421 are residential and small commercial users. The remaining customers included the hospital, hotels, and apartment buildings. The Town also provides services to customers outside its boundaries.

Utility capital assets have an historical cost of \$946,365, of which \$245,037 is associated with the sewer system and \$701,308 with the water system. As at December 31, 2009, these assets, after depreciation, had a net book value of \$166,348. The associated annual amortization expense is approximately \$21,063.

The Town is a member of the G3 Regional Water Co-operative (G3); the other two members are the Town of Gilbert Plains and RM of Gilbert Plains. G3 recently constructed a new water treatment plant (WTP); to be financed and operated by MWSB until such time as the debt is repaid by the members.

The final cost of the G3 WTP is estimated at \$4,670,986 of which to Town's share is \$755,902. The final cost of the Water Reservoir Expansion and Pipeline is \$2,061,009; the Town's share is \$632,687.

Manitoba Water Services Board (MWSB) financed the cost for building a pipeline from the new WTP to the Town's existing

distribution plant and for the construction of a new reservoir. Maintenance of the pipeline is the Town's responsibility. The debt is to be repaid through rates MWSB charges the Town, passed on to its customers, for water.

Customers started receiving water from the new WTP in February 2010 and the Town has paid for all water consumed since March 1, 2010.

The Town proposed to collapse its three-step water rate schedule to one rate. The current rates and those proposed in the Town's application are shown below:

| \$/1,000 gallons | Current | Proposed 2010 | Increase | Proposed 2011 | Increase | Proposed 2012 | Increase |
|--|--------------|---------------|----------|---------------|----------|---------------|----------|
| Water Rate (1 st 20K) | \$8.72 | \$16.25 | 86% | \$16.45 | 1.2% | \$17.00 | 3.3% |
| Next 80,000 | \$7.01 | \$16.25 | 132% | - | - | - | - |
| Over 100,000 | \$5.64 | \$16.25 | 188% | - | - | - | - |
| Sewer Rate | \$1.67 | \$1.80 | 8% | \$2.00 | 11% | \$2.20 | 10% |
| Quarterly Service Charge | \$25.00 | \$19.75 | (21%) | \$21.00 | 6% | \$22.40 | 7% |
| Minimum Quarterly (includes 3,000 gal) | \$56.17 | \$73.90 | 32% | \$76.35 | 3.3% | \$80.00 | 5% |
| Bulk | \$10.23 | \$17.00 | 66% | \$17.25 | 1.5% | \$17.80 | 3.2% |
| Disconnection/Reconnection | \$30.00 | \$30.00 | 0 | \$30.00 | 0 | \$30.00 | 0 |
| Hydrant | \$75.00 | \$100.00 | 33% | \$100.00 | 0 | \$100.00 | 0 |
| Annual Lagoon Tipping | \$250/hauler | \$250/hauler | 0 | \$250/hauler | 0 | \$250/hauler | 0 |

The applied for increases are based on the following:

1. The current cost to purchase water of \$9.15 per 1,000 gallons (2010) exceeds the revenue generated from the

current step rates.

2. The Utility has experienced cost increases of approximately 8% since its last increase four years ago.
3. The General operations of the Town have been subsidizing the utility.
4. Public Sector Accounting Board (PSAB) standards now require municipalities and their utilities to record annual amortization expense with respect to capital assets.
5. The utility's accumulated surplus does not meet the Board's desired minimum (which is that working capital surplus must be equal to or greater than 20% of annual expenses, Board Order 93/09).
6. Collapsing the step rates recognizes that the Town no longer produces water and a single rate promotes conservation.

The Town will purchase water from MWSB at the following projected rates for the next three years:

| <u>Year</u> | <u>WTP Operation</u> | <u>Reservoir/ Pipeline Debt</u> | <u>Total per 1,000 gallons</u> |
|-------------|--------------------------|-------------------------------------|------------------------------------|
| 2011 | \$6.27 | \$3.06 | \$9.33 |
| 2012 | \$6.40 | \$3.12 | \$9.52 |
| 2013 | \$6.53 | \$3.18 | \$9.71 |

The rates charged by MWSB reflect both an annual amortization cost and a \$30,000 per year contribution to a capital reserve account. At the end of the WTP's useful life, it is anticipated

that \$2.773 million of accumulated Utility surplus will have accrued, and the surplus is to be turned over to G3 with the transfer of ownership.

The rate charged for the pipeline/reservoir debt reflected an annual contribution to a capital reserve account as well as amortization expense. The Town now advises that the entire amounts charged by MWSB will "go towards" the repayment of the debt.

There is one septic hauler that accesses the lagoon for an annual fee of \$250.00. Usage will be in the range of 20 to 30 loads per year and the Town advises the \$250 fee to be adequate.

Estimated expenses for the three year period are:

| | Year 1 | Year 2 | Year 3 |
|-------------------------------------|------------------|------------------|------------------|
| General | | | |
| Administration | \$33,000 | \$35,300 | \$37,700 |
| Equity Surcharge | \$3,541 | \$3,635 | \$3,782 |
| General Revenue Requirements | \$36,541 | \$38,935 | \$41,482 |
| | | | |
| Water | | | |
| Expenses | \$266,054 | \$270,418 | \$280,040 |
| Amortization | 19,941 | 19,941 | 19,941 |
| Interest | 4,970 | 4,398 | 3,785 |
| Less Revenues | -18,089 | -18,119 | -18,150 |
| Water Revenue Requirements | \$313,374 | \$372,094 | \$335,419 |
| | | | |
| Sewer | | | |
| Expenses | \$29,000 | \$32,330 | \$35,660 |
| Amortization | 1,122 | 1,122 | 1,122 |

| | | | |
|-----------------------------------|-----------------|-----------------|-----------------|
| Less Revenues | -\$250 | -\$250 | -\$250 |
| Sewer Revenue Requirements | \$29,872 | \$33,202 | \$36,532 |

The Town opted not to reflect a provision for reserve fund contributions or contingencies in rates, this to lessen the rate increases.

In the first four months of 2010 (and noting the new WTP began supplying water at the end of February 2010) the Town recorded a 20% reduction in the volume of water produced and purchased compared to the same period in 2008 and 2009. The Town attributed the difference to metering errors, corrected by the conversion to the new WTP.

Unaccounted for water is estimated at 21%, which, while above the industry standard (of 10%), represents a reduction from the 27% reported in the 2006 rate application. In order to address the Town has implemented better record keeping, inspected all water meters, installed meters in all locations, and purchased freeze protection units (so that water does not have to run continuously to prevent freezing). The Town also began monitoring and analyzing water losses on a quarterly basis to further address the issue.

The Town indicated that future line replacements in areas experiencing numerous water breaks are contingent upon outside funding from MWSB or an infrastructure program. Without outside funding these upgrades will not proceed. The Town plans to continue to investigate water losses towards reducing the level of loss further; the Town may need to begin replacing lines.

Public Consultation

The Town held numerous public information meetings and hearings on upgrading its water system since 2005. At the last meeting, held in 2008, no objections were noted and overwhelming support was evidenced for a 'user pay' system.

The Town's application was published in local papers and posted throughout the municipality. The notice noted that rates different from those applied for may be set by the Board. Customers of the utility were invited to submit their comments to the Board by December 1, 2010, none were received.

Cost Sharing

The Town shares staff time between the utility and its general operations in the municipality. The Town proposed to include in the utility expenses:

Chief Administrative Officer - 20% of salary and benefits; Clerk - 40% of salary and benefits; and, as to the Operator, actual time spent plus benefits. The Town includes no allocation for shared costs of the building, utilities, council time, etc.

Public Sector Accounting Board (PSAB)

Effective January 1, 2009, new PSAB accounting standards became applicable for municipalities, including utility operations. The implications include removing capital expenditures and principal debt payments from operating expenses; removing reserve transfers and transfers from the general operations of the municipality (except for amounts raised by taxes for utility

debt servicing) - transfers would not affect the net income or loss of the Utility; and, the recording annual amortization expense and finance expenses.

The PSAB changes for financial reporting also have implications for the development of rate proposals. Contrary to PSAB, the Board allows capital grants related to a utility to be amortized at the same rate that the respective capital asset is amortized, this to reduce initial rate pressure. In the RM's case, there are past grants, which have been applied to offset, to some extent, the rate impact of recording amortization.

Revised Expenses and Rates and 2010 Operating Deficit

Since its initial filing, the Town has filed its 2009 audited financial statements as well as an amended forecast of expenses for the utility. Of significance is annual amortization expenses and interest.

| | 2011 | 2012 | 2013 |
|-------------------------------------|------------------|------------------|------------------|
| General | | | |
| Administration | \$33,000 | \$35,300 | \$37,700 |
| Equity Surcharge | \$3,541 | \$3,635 | \$3,782 |
| General Revenue Requirements | \$36,541 | \$38,935 | \$41,482 |
| | | | |
| Water | | | |
| Expenses | \$266,054 | \$270,418 | \$280,040 |
| Amortization | \$69,168 | \$79,737 | \$79,737 |
| Interest | 12,289 | 11,105 | 9,939 |
| Less Revenues | -\$87,115 | -\$87,145 | -\$87,176 |
| Water Revenue Requirements | \$260,395 | \$274,115 | \$282,440 |
| | | | |

| | | | |
|-----------------------------------|-----------------|-----------------|-----------------|
| Sewer | | | |
| Expenses | \$29,000 | \$32,330 | \$35,660 |
| Amortization | \$6,692 | \$6,692 | \$6,692 |
| Less Revenues | -\$250 | -\$250 | -\$250 |
| Sewer Revenue Requirements | \$35,442 | \$38,772 | \$42,102 |

Also included in this filing is the inclusion and amortization of grants the Town received towards the costs of the capital upgrades. The Board allows municipalities to include these as offsetting revenues in calculating utility rates.

The Town recalculated the rates required to recover the above revised expenses advising of reluctance to impose any rate hike more than that already proposed, noting uncertainty in the operating costs with a new system.

In March 2011, the Town advised an operating deficit had been incurred in 2010 in the amount of \$44,532. This amount includes amortization and other changes that are required by PSAB and this Board. The Town sought approval to recover this deficit from the utility surplus.

Board Findings

The Board finds the Town's projected annual Utility expenses to be reasonable; these expenses include provision for annual operating cost increases of 3% to meet inflation.

Municipal utilities are, by law, required to breakeven in their operations. On review of additional information provided by the Town the Board finds that the projected expenses for amortization and interest were underestimated and were likely to

produce deficits at the proposed rate levels. However, the Board also notes that the Town had not included the amortization of capital grants as offsetting revenues.

Revised rates are needed to address increased operating costs as well as the implications to expenses as a result of PSAB. The Board will vary the rates approved to ensure the allocated expense is recovered from the proper commodity charge. This will result in a lower water rate and an increased sewer rate.

The Board notes that without contingency or reserve provisions there is little 'wiggle room' to phase in the rates. The Board is of the opinion that increased rates are required to maintain the financial well being of the utility and will approve the rates as indicated in Appendix "A".

The increased rates should also allow the Town to recover the 2010 deficit, if surpluses are realized.

The Board also notes the minimal working capital surplus available to the Town's utility. With the increased rates, any surpluses realized can be put towards costs to upgrade the lines in areas where a large number of water breaks occur.

With respect to the 2010 utility deficit, the Board will approve its recovery over three years from the utility fund surplus. The Board expects the Town to submit its audited financial statements, once completed. If the audited amount of the deficit exceeds \$10,000 (or more than 5% of the utility operating budget) from that approved herein, the Town is to advise the Board by no later than July 31, 2011, and seek the Board's

approval for recovery of the excess deficit.

Based on the 2009 Audited Financial Statements the Board calculates the working capital surplus (as per Order 93/09) at the end of 2009 at \$5,819 plus the utility reserve fund of \$69,625. Therefore, there are not adequate funds in the surplus alone to absorb the deficit in one year.

The Board will approve the Town's Shared Allocation policy, which is based on percentages for administrative staffing costs and actual time for operator labour expenses. The Town is reminded that if these methods change, prior Board approval is required. The Board encourages that the Town, in future applications, to allocate the Utility a share of all costs incurred that benefit the Utility (including a share of the costs associated with council, office, audit, and legal costs).

The Board will require the Town to amend its by-law prior to second reading to be consistent with this order and with the attached schedule "A".

The Board notes that customers located outside the municipal boundaries are to be assessed charges for using the utility, consistent with the utility bylaw.

The Board will require the Town to review its Utility rates in three years, and will, at that time, require the 2013 financial statements be filed, with comments as to the adequacy of rates, and an application for revised rates, if needed.

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. 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 Grandview amend By-law No. 5-2010 prior to second reading, to be consistent with the provisions of this order and attached Schedule "A".
2. The Town of Grandview file a certified copy of By-law No. 5-2010, as amended, once it has received third and final reading and not later than April 30, 2011.
3. The Town of Grandview recover the 2010 utility deficit of up to \$44,532, by means of draws from accumulated utility surplus in 2011, 2012 and 2013 BE AND IS HEREBY APPROVED.
4. The Shared Cost Allocation Policy as submitted by the Town of Grandview BE AND IS HEREBY APPROVED.
5. The Town of Grandview file a copy of its 2013 utility financial statements with the Public Utilities Board, and include comments as to the adequacy of rates, by no later than April 30, 2014.

Fees payable upon this Order - \$1,000.00

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"KRISTINE SHIELDS"

Acting Secretary

Certified a true copy of Order No.
38/11 issued by The Public
Utilities Board

Acting Secretary

SCHEDULE "A"

TO BOARD ORDER NO. 38/11

TOWN OF GRANDVIEW

WATER AND SEWER RATES

BY-LAW NO. 5-2010

1. Commodity rates per M.G.

| | Water | Sewer | Water & Sewer |
|------------------------|--------------|--------------|--------------------------|
| All water consumption: | | | |
| April 1, 2011 | \$ 15.49 | \$2.14 | \$ 17.63 |
| April 1, 2012 | \$ 16.31 | \$2.34 | \$ 18.65 |
| April 1, 2013 | \$ 16.80 | \$2.54 | \$ 19.34 |

2. Minimum Charges, Quarterly

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

(a) Water and Sewer Customers

April 1, 2011

| Meter Size | Group Capacity Ratio | Water Included Gallons | Customer Service Charge | Commodity Charges | | Total Quarterly Minimum |
|-----------------------|-------------------------------------|---------------------------------------|--|--------------------------|--------------|--|
| | | | | Water | Sewer | |
| | | | | | | |
| 5/8" | 1 | 3,000 | \$19.75 | \$ 46.47 | \$ 6.42 | \$ 72.64 |
| 3/4" | 2 | 6,000 | 19.75 | 92.94 | 12.84 | 125.53 |
| 1" | 4 | 12,000 | 19.75 | 185.88 | 25.68 | 231.31 |
| 1 1/2" | 10 | 30,000 | 19.75 | 464.70 | 64.20 | 548.65 |
| 2" | 25 | 75,000 | 19.75 | 1161.75 | 160.50 | 1342.00 |

April 1, 2012

| Meter Size | Group Capacity Ratio | Water Included Gallons | Customer Service Charge | Commodity Charges | | Total Quarterly Minimum |
|------------|----------------------|------------------------|-------------------------|-------------------|--------|-------------------------|
| | | | | Water | Sewer | |
| | | | | | | |
| 5/8" | 1 | 3,000 | \$21.00 | 48.93 | 7.02 | 76.95 |
| 3/4" | 2 | 6,000 | 21.00 | 97.86 | 14.04 | 132.90 |
| 1" | 4 | 12,000 | 21.00 | 195.72 | 28.08 | 244.80 |
| 1 1/2" | 10 | 30,000 | 21.00 | 489.30 | 70.20 | 580.50 |
| 2" | 25 | 75,000 | 21.00 | 1223.25 | 175.50 | 1419.75 |

April 1, 2013

| Meter Size | Group Capacity Ratio | Water Included Gallons | Customer Service Charge | Commodity Charges | | Total Quarterly Minimum |
|------------|----------------------|------------------------|-------------------------|-------------------|--------|-------------------------|
| | | | | Water | Sewer | |
| | | | | | | |
| 5/8" | 1 | 3,000 | \$22.40 | 50.40 | 7.62 | 80.42 |
| 3/4" | 2 | 6,000 | 22.40 | 100.80 | 15.24 | 138.44 |
| 1" | 4 | 12,000 | 22.40 | 201.60 | 30.48 | 254.48 |
| 1 1/2" | 10 | 30,000 | 22.40 | 504.00 | 76.20 | 602.60 |
| 2" | 25 | 75,000 | 22.40 | 1260.00 | 190.50 | 1472.90 |

(b) Water Only Customers

Minimum charge will be the same for each meter size as shown, above, but the Sewer Commodity Charge will be excluded.

3. Bulk Sales Rate

All water sold in bulk by the Town of Grandview shall be charged for at the rate of \$17.20 per 1,000 gallons effective April 1, 2011, \$18.10 per 1,000 gallons effective April 1, 2012, and \$18.50 per 1,000 gallons effective April 1, 2013 on a pro-rated basis for all quantities greater than 500 gallons.

For any quantity of 500 gallons or less the minimum charge will be \$2.00 for a quantity of 100 gallons.

4. Turn-on Charge

There shall be a turn-on service charge of \$30.00.

5. Service to Customers outside Municipality, Town, or L.I.D. Limits

The Council of the Town of Grandview may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Town of Grandview. 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.

6. Billings and Penalties

A late payment charge of 1 1/4% per month 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.

7. 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.

8. Reconnection

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$30.00 have been paid.

9. Outstanding Bills

Pursuant to Section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water and sewer 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.

10. Hydrant Rentals

The Town of Grandview will pay to the utility an annual rental of \$100.00 for each

hydrant connected to the system.

11. Water Allowance Due to Line Freezing

That in any case where, at the request of the Council, a 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 average of the billings for the last two previous quarters to the same customer, or to the same premises if the occupant has changed.

12. Lagoon Tipping Fee

There will be an annual tipping fee for use of the lagoon by private septic haulers in the amount of \$250.00. Amounts hauled to the lagoon must be reported to the town office on an annual basis.