

M A N I T O B A) Order No. 77/11
)
THE PUBLIC UTILITIES BOARD ACT) May 31, 2011

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

B. J. TRAINOR HOLDINGS LTD.
 REVISED WATER RATES

1.0 Executive Summary

In this Order, the Public Utilities Board (Board) approves increased customer charges as noted below with respect to water to be supplied by B. J. Trainor Holdings Ltd. (Trainor) to its customers.

Per Customer Per season (5 Months)		
	Albert Beach, Travers Bay, Hillside Beach and Belair Areas	Traverse Heights Bay Area
2009 (existing)	\$130	-
2010	\$160	-
2011	\$230	\$100
2012	\$237	\$100
2013	\$217	\$217

2.0 Background

A rate of \$130 was previously approved by Order 82/09 for the 2009 season. The proposed rate increases for 2010 and 2011, were denied and Trainor was required to meet the Board's Minimum Filing Requirements by March 1, 2010 for the Board to consider any further rate changes. (It may be helpful to the reader to review Order 82/09 for full details, available on the Board's website: www.pub.gov.mb.ca.)

Trainor is a privately owned public utility distributing water to 406 customers on a seasonal basis in the Albert Beach, Traverse Bay, Hillside Beach and Belair areas. The number of customers has declined from the 464 reported in 2009; Trainor advises the reduction is due to some customers installing wells.

Utility services are generally activated for the May long weekend.

Trainor operates six separate water production and distribution systems; four were reported in 2009. The water is of excellent quality and only chlorination is required. The utility is licensed pursuant to *The Drinking Water Safety Act* (with all licenses expiring April 30, 2013) and the operator is licensed to the classification of the systems. The newly acquired Traverse Bay Heights system is not yet licensed.

Trainor asserts liability insurance is carried for all the systems.

3.0 Application

On February 14, 2011, Trainor provided to the Board details of the operation of the public utility including operating costs and proposed seasonal rates as noted below:

Per Customer Per season (5 Months)		Increase/ (Decrease)
2009 (existing)	\$130	--
2010	\$160	23%
2011	\$230	44%
2012	\$237	3%
2013	\$217	(8%)

In 2010, Trainor increased the rates to \$160.

Pursuant to an agreement signed in December 2010 for the acquisition of the Traverse Bay Heights utility, Trainor proposed the rates for these 44 customers to remain at \$100 for 2011 and 2012, and in 2013 increase to \$217, bringing these

customers in line with all other customers of the system.

Further, the sellers of the Traverse Bay Heights water system agreed to pay up to \$6,900 for the engineering assessment of the public water system in 2011 (a cost not included in the operating expenses outlined below). If the cost of any work required by the assessment exceeds \$8,500, Trainor will have the right to declare the agreement 'null and void'.

The operating costs projected for the utility are:

	2010	2011	2012	2013
Administration	\$ 4,389	\$ 4,521	\$ 4,657	\$ 4,796
Expenses	59,285	59,172	60,947	62,776
Amortization	6,351	15,435	13,985	10,700
Minor Capital	13,619	0	0	0
Property Taxes	2,792	2,875	2,960	3,050
Engineering Assessments*	0	7,950	7,950	7,950
Regulatory	0	2,160	2,160	2,160
Insurance	3,297	3,740	3,850	3,970
Rate of Return	0	5,422	7,697	5,598
Less Revenues	-3,400	-3,400	-3,400	-3,400
Subtotal	\$ 86,333	\$ 97,875	\$100,806	\$97,600
Less Traverse Bay Heights Revenues	0	4,400	4,400	0
Net Revenue Requirements	\$ 86,333	\$ 93,475	\$ 96,406	\$ 97,600

*This amount does not include the \$6,900 cost for the 2011 Engineering Assessment of the Traverse Bay Heights area

Trainor is seeking a rate of return on assets that are not fully depreciated and constructed since 2004. The rate proposed is 8.5%, an amount approved for 2009 by the British Columbia Utilities Commission, in November 20, 2008 (L-55-08). This decision may be viewed on the Commission's website or at the following link:

http://www.bcuc.com/Documents/ReturnOnEquity/2008/DOC_20663_L-55-08_2009-ROE.pdf.

The rate of return is calculated as follows:

	2011	2012	2013
Plant in Service			
Balance at the beginning	\$ 55,000	\$111,000	\$111,000
Net Additions	\$ 56,000	-	-
Balance at year end	\$111,000	\$111,000	\$111,000
Mid Year Average	\$ 83,000	\$111,000	\$111,000
Accumulated Depreciation			
Balance at the beginning	\$ 43,298	\$ 58,733	\$ 72,718
Net Additions	\$ 15,435	\$ 13,985	\$ 10,700
Balance a year end	\$ 58,733	\$ 72,718	\$ 83,418
Mid Year Average	\$ 51,106	\$ 65,726	\$ 78,068
Net Plant	\$ 31,894	\$ 45,274	\$ 32,932
Rate of Return			
Rate Base	\$ 31,894	\$ 45,274	\$ 32,932
Rate of Return	8.5%	8.5%	8.5%
Pre-tax income	\$ 2,711	\$ 3,848	\$ 2,799
Allowable Income*	\$ 5,422	\$ 7,697	\$ 5,598

*The allowable income included in the revenue requirements for the Utility is an amount doubled for income taxes.

In 2010, Trainor increased the rates to \$160. Even with this increase, Trainor expects to incur a loss. In 2009, Trainor earned a surplus of \$32,994 for the utility. Trainor indicated the surplus a result of very little salary included in expenses and increased efforts to collect past due accounts.

In 2008, the utility ended the year with a \$49,380 operating deficit. On a net basis, retained earnings since 2007 have declined from \$184,604 to \$168,218.

Currently all utility systems meet drinking water standards. However, further to a Water Stewardship requirement, in 2011 each system will have installed a reservoir and a distribution pump to allow more contact time of chlorine with the water supply before delivery. These costs are estimated at \$40,000.

Trainor estimated engineering assessments for all systems will cost a total of \$42,000, including Traverse Bay Heights. All assessments are planned for 2011 and are required every five years. The results of the assessments may identify additional works to be performed on the systems. As such work has yet to be defined no costs are included in the scope of this application.

Other planned projects include replacing one pump house in 2011, at a cost of \$16,000, and another in the next five years.

Trainor advised in the past, capital projects had been paid for by the owners except in one instance in 2004 where Hillside customers were surcharged \$200 to cover 1/3 of capital costs. Trainor indicates that surcharges will not be imposed in the future and will rely on owner equity or loans to recover such costs.

Trainor proposed to maintain the \$300 connection charges assessed for each new connection. This charge covers the cost of labour and supplies. Through agreement, residents in Traverse Bay Heights are charged \$700 for a new connection. This reflects the high costs of extending services to the area.

Trainor advised he mailed the April 11, 2011 Public Utilities Board Notice of Application to each customer connected to the water systems and posted the Notice in several locations throughout the communities. The notice invited customers to file objections of Trainor's proposal directly with the Board by April 27, 2011. No complaints were received.

4.0 Board Findings

Based on the information provided, the Board will confirm the rates implemented by Trainor in 2010 and approve the application for revised water rates for 2011, 2012 and 2013. The anticipated expenses for the utility appear reasonable and therefore the rates just.

Although the increases for 2010 were imposed without prior Board approval, the Board will authorize collection of that amount.

The Board received many inquiries in 2010 from Trainor's customers as to whether the increase to \$160 was approved by the Board and their options for payment. Customers were advised that the decision to pay was theirs however, that the higher rate had not been Board approved. If customers paid the full amount (\$160) and the rate was not subsequently approved by the Board, then Trainor would be required to provide a refund or credit to the account.

However, with the rate now-approved, these customers will not be affected.

If customers only paid the then-approved \$130, they will now be required to pay the differential based on the approval contained in this order. However, Trainor may only assess interest or late payment charges to these accounts if payment is not made by July 31, 2011. Interest may be applied consistent with Public Utilities Board Order No. 105/04, available on the Board's website.

Trainor is providing an essential service and to continue to do so safely to meet customer demand requires a utility with a strong financial position. It does not serve utility customers well to starve a utility of sufficient funds required for the safe operation of an essential utility.

The Board wishes to thank those who have called the Board's office to make inquiries concerning the rates; feedback is important.

The Board notes the Engineering Assessments are planned for this year, and the results may outline areas of the public water system that must be upgraded. These items will likely need to be addressed as soon as possible and further increases may be required. The assessment report may also provide opportunities for improvement and recommendations, which the Utility will need to develop a long range plan to address.

Privately owned public utilities are typically regulated on the expectation of a rate of return based on the owner's investment, adjusted for income tax. In the past, this was not likely achieved; losses were experienced.

The Board will approve the rate of return proposed by Trainor for the period of time under review. If significant changes occur which may no longer deem this rate appropriate, the Board will expect Trainor to return with an application to adjust the approved rate of return.

Because Trainor has submitted the information to the Board as required under the "Complaint Based Regulatory Model" and

following circulation of the Notice of the proposed rates, where no objections or expressions of concern were filed with the Board, from this point forward, Trainor is to return to the annual filing requirements and procedures as set out on the attached Schedule A.

Should Trainor wish to alter the rates approved herein, the process outlined in Clause 2 of the attached Schedule A must be followed.

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.

5.0 IT IS THEREFORE ORDERED THAT:

1. The per customer charge for water services per season proposed by B. J. Trainor Holdings Ltd. BE AND ARE HEREBY APPROVED as noted:

For Albert Beach, Traverse Bay, Hillside Beach and Belair areas: 2010 - \$160; 2011 - \$230; 2012 - \$237.

For Traverse Bay Heights area: 2011 - \$100; 2012 - \$100.

2. The per customer charge of \$217 per season proposed by B.J. Trainor Holdings Ltd. BE AND IS HEREBY APPROVED effective 2013 to be assessed to all customers in the utility.
3. B. J. Trainor Holdings Ltd. shall not alter or vary these rates unless the proper process outlined in item 2 of the Complaints Based Regulatory Model (attached hereto as Schedule A) has been completed.

Fees payable upon this Order - \$350.00

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"
Chairman

"KRISTINE SHIELDS"
Acting Secretary

Certified a true copy of Order
No. 77/11 issued by The Public
Utilities Board

Acting Secretary

SCHEDULE "A"
Of Board Order No. 77/11

Complaint Based Regulatory Model
Minimum Annual Filing Requirements
(Private and Cooperatively Owned Public Utilities)

1. Number of customers served and the nature of service i.e. water (potable or non-potable water), sewer (gravity-based, pump-out).
2. i) Current rates, date of last rate change. Also, if rates are to change within the next year provide justification to the Board 60 days before implementation.

ii) Customers are to be notified of the intended rate change at least 30 days ahead of the change, with the reasons outlined and notice of their right to file any complaint with the Board.

iii) A copy of the notice in 2 (ii) is to be filed with the Board, with information advising as to how the notice was distributed and the date of distribution.
3. Latest financial statements, with notes and auditor's comments (if applicable).
4. Details of operator qualifications/certification.
5. i) Confirmation that the utility is duly licensed under the Drinking Water Safety Act. If not applicable, explain.

ii) If providing potable water, details of water testing and confirmation that water meets Drinking Water Standards.
6. If a sewer utility, details of service with confirmation environmental licenses if applicable are being complied with.
7. The due date for the annual reports is six months following the end of the prior fiscal year. **(REVISED AS OF JUNE 11, 2010)**
8. Certificate of Insurance from your insurance provider. **(NEW REQUIREMENT)**