

M A N I T O B A) Order No. 109/12
)
THE PUBLIC UTILITIES BOARD ACT) August 16, 2012

BEFORE: Susan Proven, P.H.Ec., Acting Chair
 Raymond Lafond, B.A., C.M.A., F.C.A., Member

RURAL MUNICIPALITY OF BLANSHARD
OAK RIVER WATER AND SEWER UTILITY
DEFICIT APPROVALS 2009 and 2011
 AND
REVISED WATER AND SEWER RATES
EFFECTIVE JULY 1, 2012

Executive Summary

By this Order, the Public Utilities Board (Board) varies the application made by the Rural Municipality of Blanshard (RM) for their Oak River Water and Sewer Utility and approves new water and sewer rates effective July 1, 2012. Rates were last amended in 1997.

Previous and revised rates are as follows:

	Previous	Requested	Approved	Increase/ Decrease
Water \$/1,000 gallons	\$15.30	\$25.86	\$26.00	70%
Sewer \$/1,000 gallons	\$1.10	\$5.70	\$4.50	309%
Quarterly Service Charge	\$7.00	\$11.23	\$11.23	60%
Minimum Quarterly*	\$56.20	\$105.91	\$102.73	83%
Bulk Water**	\$15.85	\$23.73	\$25.00	58%
Hydrant Rental Charge	\$70.00	\$75.00	\$75.00	7%

*Based on 3000 gallons

**Minimum charge \$12.50 (previously \$6.00)

The Board also approves herein the deficits for 2009 and 2011 to be absorbed by the Utility's operating surplus.

Details of other fees and charges are shown on the attached Schedule "A".

Introduction

The RM applied for revised water and sewer rates in November 2011. In February of 2012, the RM submitted the related By-law No. 2012-2, read for the first time on February 14, 2012.

Subsequent to the November application, the RM also submitted applications requesting approval of their 2009 and 2011 Utility operating deficits of \$22,921 and \$18,706 respectively. These applications were accompanied by approved Council resolutions.

A Public Notice was issued, informing customers of the proposed rates and inviting them to attend the RM offices to learn more details about the application, and how the proposed rate increases might affect them. Customers were also advised of their right to express concerns and provide comments directly to the Board.

In dealing with applications related to water and sewer utilities, the Board has at its disposal two options, namely to hold public oral hearings or, to deal with the applications on a paper review basis. While the Board received several expressions of concern in response to the Public Notice, all shared a common theme. The Board therefore decided to proceed with a paper based review of the applications.

Background

The Utility's customer base consists of the 71 water and sewer customers and 16 water only customers. The Utility also services eight fire hydrants.

The Oak River Public Water System is operated by the Manitoba Water Services Board (MWSB) and the Rural Municipality of Blanshard. The Oak River Utility purchases its water from MWSB.

The water system was installed in 1965 and has had various upgrades and additions over time. The system meets all current and future needs of the community with no anticipated major expansions or repairs over the next five years. Unaccounted for water is estimated at approximately 5%, well within the industry standard of 10%.

During the 2009 operating year, an engineering assessment of the public water system was completed by the MWSB. The Municipality has addressed the majority of the issues identified in that assessment and expect they will have had the remaining issues addressed by the end of 2012.

The sewer system was also installed in 1965 and has seen various upgrades to keep the system up-to-date. It also meets all current and future needs of the community.

While the RM is in compliance with their environmental license, there have been occasions, caused by wet springs and excess water running into the lagoon, where challenges have been encountered in getting effluent down to acceptable levels. The Municipality is currently working with their consultants to address this issue. No access is permitted to the lagoon by septic haulers outside of the area.

The Utility has a primary plant operator and a backup operator who are training to obtain their certification which they expect to complete in 2013. The Utility recovers the portion of its operator costs related to the water treatment plant from MWSB.

Application

The RM applied for revised water and sewer rates, as set out in By-law No. 2012-2 read the first time on February 14, 2012. The application was supported by a 2011 rate study dated November 15, 2011 prepared by the RM's consultant, Sensus Partnership.

The RM also submitted applications in 2012 for approval of deficits incurred in 2009 and 2011. Initially, the RM had proposed to have the 2009 deficit, estimated at the time to be \$14,763, recovered through

rates over a four year period, and provision for this recovery was part of the rate study and rate proposals submitted.

Subsequently, following exchanges of information between the Board and the RM, the RM amended its position and requested that the deficits for both 2009 and 2011 be absorbed within the Utility's operating surplus.

The Utility's working capital position at December 31, 2011, after having absorbed the 2009 and 2011 deficits would be as follows:

	2011
Fund balance, end of year	\$ 715,936
Tangible capital assets	(\$ 695,240)
Long-term debt	\$ 14,233
Reserve Fund balance	\$ 27,511
Working capital surplus, end of year	\$ 62,440

The rate study proposed the following rate schedule:

	Current	Proposed 2012	Increase/Decrease
Water \$/1,000 gallons	\$15.30	\$25.86	69%
Sewer \$/1,000 gallons	\$1.10	** \$5.70	418%
Quarterly Service Charge	\$7.00	\$11.23	60%
Minimum Quarterly*	\$56.20	\$105.91	88%
Bulk Water	\$15.85	\$23.73	50%
Hydrant Rental Charge	\$70.00	\$75.00	7%

*Based on 3,000 gallons

**Includes provision to recover 2009 operating deficit

The rate proposal was developed based on the following actual and projected operating expenses:

	2010	2011	2012	2013	2014
Administration	14	200	200	207	214
Shared overhead		3,799	3,932	4,070	4,212
Penalties	302	300	300	300	300
Net revenue requirement general	- (288)	3,699	3,832	3,977	4,126
Water					
Staffing	26,243	27,000	30,000	31,050	32,137
Water purchases	40,801	44,000	45,500	47,093	48,741
Service of Supply		1,369	1,366	1,414	1,463
Transmission and Distribution	1,777	2,200	2,200	2,277	2,357
Other Water Supply Costs		720	720	745	771
Amortization/ depreciation	18,639	17,439	17,440	17,440	17,440
Interest on long term debt	2,515	1,727	890		
Reserves	2,000	2,000	2,000	2,000	2,000
Contingency	12,913	12,913	12,913	12,913	12,913
Sub-total- water expenses	104,888	109,368	113,029	114,932	117,822
<i>Revenue:</i>					
Connection Revenue	25	70	70	70	70
Hydrant rentals	420	800	800	800	800
Investment Income	1,103	1,000	1,200	1,200	1,200
Amortization of capital grants	10,158	10,158	10,158	10,158	10,158
Taxation revenues (1)	15,123	15,123	15,123		
Other revenue- MWSB	19,200	19,318	19,318	19,994	20,694
Total non-rate revenue - water	46,029	46,469	46,669	32,222	32,922
Net rate revenue requirement - water	58,859	62,899	66,360	82,709	84,900
Sewer					
Staffing	1,641	900	2,000	2,070	2,142
Sewage Collection System		2,000	2,000	2,070	2,142
Sewage Lift Station	2,968	1,700	1,704	1,764	1,825
Sewage Treatment and Disposal	1,620	2,200	2,300	2,381	2,464
Amortization/ depreciation	2,538	3,276	3,277	3,277	3,277
Deficit recovery- 2009		3,691	3,691	3,691	3,691
Contingency	2,204	2,204	2,204	2,204	2,204
Total sewer expenses	10,971	15,971	17,176	17,456	17,746
Less: Amortization of capital grants	738	738	738	738	738
Net rate revenue requirement - sewer	10,233	15,233	16,438	16,718	17,008

The Utility recovers approximately \$1,600 each month from the Manitoba Water Services Board to offset a portion of the wage costs associated with operating the water plant based on an agreement between the MWSB and the RM.

The provision for a reserve contribution of \$2,000 per year is a continuation of Council policy, previously established. Calculation for the contingency amounts is in accordance with Board Guidelines.

Forward projections are based on inflation provisions of 3.5%.

The proposed rates were based on an averaging of the projected expenses for the four year period of 2011 to 2014. This was proposed as a convenience for the consumer so that the rates would be consistent through to 2014.

The expenditure projections reflected a proposed shared cost allocation plan defined as follows:

Item	Allocation %
Chief administrative officer	3.0%
Council costs	0.5%
Legal and audit costs	5.0%
Office space and utilities	3.0%
Direct labor - Town Foreman	1.0%

Shared costs were not allocated to the Utility prior to 2011.

Customer Response

The Board received communication from eight customers in response to the Public Notice. All eight customers expressed the view that the increase was excessive. Five of the responses suggested that the rate increases should be implemented over a longer period of time and two were concerned about the effects of the rate increases for residents on fixed incomes.

Subsequent to its application and presumably in response to customer concerns, the RM advised the Board that it would support a phasing-in of the rate increases.

Board Findings

Rates:

The Board has considered the concerns expressed by those consumers who made the effort to contact the Board. The Board understands that rate increases in the range of 50 to 75% could be considered to be rate shock. However, the Board is also aware of the fact that rates have not been amended for some 15 years, since 1997. In cases where regular rate reviews have not been conducted by municipal utilities, it has not been unusual for the Board to be required to approve these large percentage increases. In fact, there have been increases approved of larger magnitude than those contained in this Order.

To avoid this, it is vital that municipalities continuously review their revenue requirements to ensure that their rates are up to date. For this reason, the Board will direct that the RM submit an application for revised rates for the year 2015, on or before June 30, 2014.

Utilities are not allowed to incur deficits in Manitoba without prior approval of the Public Utilities Board. Having reviewed the projected expenses as outlined in the rate study, the Board considers that the level of expenditure anticipated by the RM is reasonable, relative to past experience. The Board is therefore required to approve rates sufficient to meet projected expenses.

The Board considered a proposal to phase-in the rate increases over a three year period. However, that would result in operating deficits for the intervening years, deficits which would have to be recovered through rate riders in subsequent years. In effect, this would be asking future users to pay a portion of the costs for current user consumption. The Board therefore rejected this proposal.

As previously noted, the sewer rate proposal was based on the anticipation that the 2009 deficits would have to be recovered through sewer rates. As further discussed below, this will not be the case. This has been absorbed by the Surplus Fund, thereby reducing the sewer rate from \$5.70 per 1,000 gallons as originally proposed, to \$4.50 per 1,000 gallons, as now approved.

The Board also detected an oversight in the rate calculation for water. The revenue anticipated from bulk water sales was not considered when determining the net water rate revenue requirement for metered sales. In consideration of the fact that the 2012 rate amendment will only be effective July 1, 2012, therefore not providing for a full year's revenue, the Board has not adjusted for this factor. The water rate has been rounded to \$26.00 for ease of administration.

Finally, the Board has made a slight amendment to the bulk water rate. While the calculated rate as proposed by the RM was not significantly different from the rate determined using Board methodology, the Board has rounded the bulk water rate to \$25 per 1,000 gallons, making administration of bulk water sales simpler.

As a result of the amended rates, and giving consideration to the fact that the 2012 rate adjustment is only effective July 1, the

following are the projected operating results for 2012, 2013 and 2014:

		2012	2013	2014
Expenses				
General		\$ 3,832	\$ 3,977	\$ 4,126
Water		\$ 66,360	\$ 82,709	\$ 84,900
Sewer		\$ 12,747	\$ 13,027	\$ 13,317
Total		\$ 82,939	\$ 99,713	\$ 102,343
Revenue				
Service charge		\$ 3,908	\$ 3,908	\$ 3,908
Water sales*-	Bulk	\$ 8,599	\$ 10,525	\$ 10,525
	Other	\$ 59,274	\$ 74,631	\$ 74,631
Sewer *		\$ 8,037	\$ 12,917	\$ 12,917
Total		\$ 79,819	\$ 101,981	\$ 101,981
Net projected results		\$ (3,120)	\$ 2,268	\$ (362)

*Based on volumetric projections of 2,870,430 gallons provided by the RM

The Board accepts the RM's initial proposal to establish the rates based on an average for the three years so that rates do not vary each year. The projected result over the three year time frame is a cumulative deficit of approximately \$1,000 which might easily be absorbed by positive results; it may however preclude or reduce anticipated contributions to the Reserve Fund.

Cost Allocation Methodology

The methodology submitted by the RM is generally acceptable and the Board will approve its use. The Board reminds the RM that any subsequent changes to the methodology will require Board approval.

Deficits

The Board approves the RM's proposal to absorb the 2009 and 2011 operating deficits within the working capital surplus of the Utility.

The Board notes that this will still leave the Utility with a working capital surplus in excess of 20% of projected annual operating expenditures, in accordance with the Board's guidelines.

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 water and sewer rates for Rural Municipality of Blanshard's Oak River Utility, as reflected in Schedule "A", BE AND ARE HEREBY APPROVED, effective July 1, 2012.
2. By-law 2012-2 be amended to reflect Schedule "A" and that a copy of that By-law be submitted to the Board following third and final reading.
3. The Rural Municipality of Blanshard submit a rate study for approval of 2015 rates on or before June 30, 2014.
4. The cost allocation methodology proposed by the Rural Municipality of Blanshard's Water and Sewer Utility BE AND IS HEREBY APPROVED.

SCHEDULE "A"
TO BOARD ORDER NO. 109/12
THE RURAL MUNICIPALITY OF BLANSHARD
OAK RIVER WATER AND SEWER UTILITY

WATER AND SEWER RATES

1. Commodity Rates Per 1000. Gallons (effective July 1, 2012)

Water	Sewer	Combined
\$26.00	\$4.50	\$30.50

2. Minimum Charges, Quarterly

a. Water And Sewer Customers

Meter Size (Inches)	Group Capacity Ratio	Minimum Quarterly Consumption	Service Charge	Water	Sewer	Minimum Quarterly Charges
5/8	1	3,000	\$11.23	\$78.00	\$13.50	\$102.73
3/4	2	6,000	\$11.23	\$156.00	\$27.00	\$194.23
1	4	12,000	\$11.23	\$312.00	\$54.00	\$377.23
1 1/2	10	30,000	\$11.23	\$780.00	\$135.00	\$926.23
2	25	75,000	\$11.23	\$1,950.00	\$337.50	\$2,298.73

b. Water Only Customers

Customers with water only services shall be charge the minimum quarterly rate applicable to the customer' meter size less the sewer charge.

3. Bulk Sales

Bulk water sales will be charged at the rate of \$25.00 per 1,000 gallons with a minimum charge of \$12.50

4. Service To Customers Outside The Village Limits

The Council of the Rural Municipality of Blanshard may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Village of Oak River. Such agreements shall provide for payment of the appropriate rates sent 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 the Utility purposes in effect at the time or which may be in effect from time to time, and which would be levied on the property. Costs of connecting to the Utility's mains and installing and maintaining service connections will be paid by the customer.

5. Billings And Penalties

Accounts shall be billed quarterly, and shall be due and payable by the 15th day of the month following the month in which the bills are issued. A penalty of 1.25% of the amount of the bill shall be charged on the dollar amount owing after the billing due date. Additional penalties of 1.25% will be charged monthly and compounded monthly on any outstanding dollar amounts.

6. Disconnection and Reconnection

The Public Utilities Board has approved the conditions precedent to be followed by the Municipality with respect to the disconnection of service for nonpayment including, such matters as notice and the right to appeal such action to the Public Utilities Board.

A copy of the conditions precedent will be attached to and form part of the water and sewer By-law.

Any service disconnected due to the nonpayment of account shall not be reconnected until all arrears, penalties, and a reconnection fee of \$35.00 have been paid.

7. 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 in charge upon this land serviced, and may be collected by the Municipality in the same manner as a tax may be collected or enforced under the Municipal Act.

8. Hydrant Rentals

The Rural Municipality of Blanshard shall pay to the Utility an annual rental of \$75.00 for each hydrant connected to the system. This includes the cost of water for fire fighting.

9. Sewer Surcharge

- a. There may be levied annually, in addition to the rates set forth above, a special surcharge on sewage having a five day 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.