

MANITOBA) Order No. 133/12
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THE PUBLIC UTILITIES BOARD ACT) October 15, 2012

BEFORE: Susan Proven, P.H.Ec., Acting Chair
Marilyn Kapitany, Member

RURAL MUNICIPALITY OF VICTORIA
CYPRESS RIVER UTILITY SYSTEM
DEFICIT APPROVAL - 2010
AND
REVISED WATER AND SEWER RATES - 2012

Summary

The Public Utilities Board (Board) hereby varies the application made by the Rural Municipality of the Victoria (RM) and approves revised water and sewer rates for the Local Urban District of Cypress River (Utility).

Revised rates will be effective December 1, 2012.

The current and revised commodity rates are noted below:

	Current	Approved December 1, 2012	Increase/ Decrease
Water \$/1,000 gallons	\$11.20	\$22.87	104%
Sewer \$/1,000 gallons	\$2.85	\$1.21	-58%
Quarterly Service Charge	\$5.10	\$11.47	125%
Minimum Quarterly*	\$47.25	\$83.71	77%
Sewer Only Quarterly**	\$27.90	\$21.15	-24%
Water Only Quarterly**	\$38.70	\$80.08	107%
Bulk Water	\$21.10	\$25.00	18%
Reconnection fee	\$30.00	\$30.00	0%
Hydrant Rental Charge	\$250.00	\$250.00	0%

*Based on 3,000 gallons

**Based on 8,000 gallons

The Board also approves the deficits incurred for 2010 of \$24,940 to be recovered through the Operating Fund Surplus.

Details of other rates may be found in the attached Schedule "A".

Introduction

The Rural Municipality of Victoria submitted an application on February 28, 2012 for revised water and sewer rates for the Local Urban District of Cypress River. Rates were last amended in By-law No. 1293/07 which included rates up until 2010.

While reviewing the application, the Board also discovered that deficits had been incurred in both 2010 and 2011. The Board sought applications from the RM for approval of those deficits. The application for the 2011 deficit is still pending, and is expected before the end 2012.

A Public Notice of application was issued in March 2012 affording customers the opportunity to comment to both the Board and the Utility with respect to the proposed increases.

The Board has at its disposal two alternative processes to deal with rate applications. It may determine that an oral hearing is warranted or that a paper review process is sufficient. Based on customer response to the Public Notice (no comments were received), the Board concluded that a paper review process, one which avoids the expense of an oral hearing, was in the best interest of all concerned.

Background

The Utility services 164 customers, 2 of which receive sewer services only and 15 of which receive water services only.

The water treatment plant and Utility lines were constructed in 1993 and 16 rural customers from outside the Local Urban District (LUD) were added in 2000.

Unaccounted for water was reported to be approximately 25%, substantially higher than the industry standard of 10%. This has reportedly been a long-standing issue; however, in October 2010 a booster station was found to be leaking and was replaced. Unaccounted for water has reportedly dropped to 5 1/2% since the replacement.

The water system complies with the terms and conditions of its operating license and, while the Utility is compliant with the terms of its environmental license, discussions are underway with government regarding replacement of the Cypress River lagoon.

The five-year capital plan includes \$1,646,400 to fund the Cypress River lagoon replacement. However the RM is considering a regional lagoon, yet to be confirmed.

The wastewater is collected in the Cypress River lagoon and discharges into the Cypress River after traveling approximately two miles through sloughs and marshes.

The water treatment plant, sewage lagoon, and water and sewer lines are class I facilities. Operators, consisting of one full-time and two part-time staff members, are appropriately certified.

Application

Rates

The RM submitted an application on February 28, 2012 for revised water and sewer rates for the Local Urban District of Cypress River. The application was accompanied by By-law No. 1344/2012 as well as a rate study completed by the RM's consultant, Mr. Dale Lyle of Way To Go Consulting Inc.

The rate study proposed the following rates for the Utility:

	Current January 2010	Proposed 2012	Increase/ Decrease	Proposed 2013	Increase/ Decrease	Proposed 2014	Increase/ Decrease
Water \$/1,000 gallons	\$11.20	\$14.56	30%	\$18.23	25%	\$22.36	23%
Sewer \$/1,000 gallons	\$2.85	\$2.14	-25%	\$1.60	-25%	\$1.19	-26%
Quarterly Service Charge	\$5.10	\$6.38	25%	\$7.97	25%	\$9.75	22%
Minimum Quarterly*	\$47.25	\$56.48	20%	\$67.46	19%	\$80.40	19%
Sewer Only Quarterly**	\$27.90	\$23.50	-16%	\$20.77	-12%	\$19.27	-7%
Water Only Quarterly**	\$38.70	\$50.06	29%	\$62.66	25%	\$76.83	23%
Bulk Water	\$21.10	\$21.10	0%	\$20.88	-1%	\$25.81	24%
Reconnection fee	\$30.00	\$30.00	0%	\$30.00	0%	\$30.00	0%
Hydrant Rental Charge	\$250.00	\$250.00	0%	\$250.00	0%	\$250.00	0%

*Based on 3,000 gallons

**Based on 8,000 gallons

The rate increases are attributed to two primary factors, namely the effects of following Public Sector Accounting Standards and a revised shared cost allocation policy (see below).

The proposal included a phasing in of rates, presumably to reduce rate shock. The proposed rates were based on the following expenditure projections:

	2012	2013	2014
General			
Administration	6,571	6,703	6,837
Consultants	3,000		
less: Penalties	179	182	186
Net revenue requirement general	9,392	6,521	6,651
Water			
Purification and treatment	53,040	54,101	55,183
Service of Supply	1,122	1,144	1,167
Transmission and Distribution	4,000	4,080	4,162
Other Water Supply Costs	408	416	424
Amortization/ depreciation	17,726	16,450	16,450
Contingency	10,873	11,090	11,312
Sub-total- water expenses	87,169	87,282	88,699
<i>Revenue:</i>			
Connection Revenue	3,060	3,121	3,184
Bulk Water	1,350	1,336	1,638
Hydrant rentals	2,250	2,250	2,250
Total non-rate revenue - water	6,660	6,707	7,072
Net rate revenue requirement- water	80,509	80,575	81,627
Sewer			
Sewage Collection System	128	131	133
Sewage Lift Station	918	936	955
Sewage Treatment and Disposal	2,040	2,081	2,122
Amortization/ depreciation	190	190	190
Contingency	116	116	116
Total sewer rate requirement	3,392	3,454	3,517

Deficit

The RM submitted an application for approval of the 2010 deficit requesting that the deficit be applied against the Operating Fund Surplus.

The RM expects that, with the proposed contingency provisions, there would be sufficient working capital to cover the deficit and that the working capital is expected to grow over the next few years.

Cost Allocation Methodology

The cost allocation methodology proposes that administration, audit and office costs be allocated on the basis of 12% to the RM's two utilities (Holland and Cypress River). This is based on the expense ratio of operating the utilities as compared to the core government expenses. This allocation, as well as the cost of the Utility staff, is then allocated 55% to the Holland Utility and 45% to the Cypress River Utility, again based on their respective operating costs.

In the past, overhead costs were not assigned to the utilities. This is a new expense contained in the projections and this along with amortization, constitute the main causes for the increases required.

Board Findings

Rates

The Board will vary the RM's rate proposal.

The Board has considered the RM's desire to phase in the rate increases to attempt to insulate its customers from what is perceived to be rate shock. However, the Board noted that this

Utility has incurred deficits for the past several years. Deferring the required rates would only result in further deficits being incurred over the next two to three years.

The Board also points out that the rate increases now approved by this Order, while substantial, are not the largest rate increases that the Board has been required to approve over the last few years.

By statute, municipal water and sewer utilities are not allowed to incur deficits without the Board's approval. The Board is therefore bound to approve rates sufficient to cover reasonably anticipated expenses. Having reviewed the projections, the Board finds that they are reasonable and will therefore approve rates sufficient to cover those expenses, albeit that a deficit will still be expected in 2012 because the revised rates will not be effective until December 1, 2012.

The Board first calculated the rates that would be required in each of the three years based on the projections contained in the rate study. However, the differential in rates in each of the three years was not material enough to warrant a fluctuating rate schedule. The Board therefore established the rates based on averaging the calculated rates.

While a minor item, the Board has also recalculated the bulk water sales rate based on the Board recommended methodology. The bulk rate has been established so that the average is calculated over the three-year period being assessed.

In relation to the effective date, the Board is hesitant to approve rates retroactively and is mindful of the probable effect on the 2012 operating results.

The Board will therefore monitor the 2012 results and expect that the Utility will submit an appropriate deficit application accompanied by a duly completed Council Resolution should a 2012 deficit indeed be incurred.

Deficit - 2010

The Board will approve the proposal to have the 2010 deficit absorbed by the Utility's operating fund surplus. The following is a recap of the working capital position as at December 31, 2011:

Fund surplus	\$1,677,215
Deduct Tangible capital assets	\$1,680,104
sub-total	(\$2,889)
Add long-term debt	\$0
Less current portion of long term debt	\$0
Add reserves	\$29,140
Working capital surplus (deficit)	\$26,251
20% of expenses projected 2012	\$18,659

While the Board is hesitant to approve a plan which will result in a working capital surplus that is less than the Reserve balance, the Board notes that the working capital position will remain above the Board's threshold of 20% of operating expenses.

Shared cost allocation methodology

The Board will approve the shared cost allocation methodology as submitted by the Municipality. This methodology must be applied consistently in the future and can only be varied with approval by the Board.

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 water and sewer rates for the Local Urban District of Cypress River in the Rural Municipality of Victoria, as set out in Schedule "A" to this Order, BE AND ARE HEREBY APPROVED with revised rates to be effective December 1, 2012.
2. The Rural Municipality of Victoria amend its water and sewer rate By-law for the Local Urban District of Cypress River's Utility System to reflect the attached schedule "A" and submit it to the Board once it has received third and final reading.
3. The operating deficit for 2010 (\$29,940) BE AND IS HEREBY APPROVED, to be absorbed by the Utility's Operating Fund Surplus.

4. The cost allocation methodology for shared services and equipment as submitted by the Rural Municipality of Victoria BE AND IS HEREBY APPROVED.
5. The Rural Municipality of Victoria submit its audited financial statements for the years 2011 and 2012 as soon as they are available; including any and all deficit applications as required.
6. The Rural Municipality of Victoria provides its customers with notice of the rate increase, to be included with the next quarterly bill.

Fees payable upon this Order \$500.00

THE PUBLIC UTILITIES BOARD

"SUSAN PROVEN, P.H.Ec."
Acting Chair

"JENNIFER DUBOIS, CMA"
Acting Secretary

Certified a true copy of Order No.
133/12 issued by The Public
Utilities Board

Acting Secretary

SCHEDULE "A"
TO BOARD ORDER NO. 133/12
THE RURAL MUNICIPALITY OF VICTORIA
LOCAL URBAN DISTRICT OF CYPRESS RIVER
WATER & SEWER UTILITY SYSTEM

1. **COMMODITY RATES PER 1000 GALLONS**

Effective October 1, 2012

	WATER	SEWER	COMBINED
2012	\$22.87	\$1.21	\$24.08

2. **MINIMUM QUARTERLY RATES**

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

a) **WATER & SEWER CUSTOMERS**

Meter Size (Inches)	Group Capacity Ratio	Minimum Quarterly Consumption	Service Charge	Water	Sewer	Minimum Quarterly Charges
5/8	1	3,000	\$11.47	\$68.61	\$3.63	\$83.71
3/4	2	6,000	\$11.47	\$137.22	\$7.26	\$155.95
1	4	12,000	\$11.47	\$274.44	\$14.52	\$300.43
1 1/4	10	30,000	\$11.47	\$686.10	\$36.30	\$733.87
2	25	75,000	\$11.47	\$1,715.25	\$90.75	\$1,817.47

b) **WATER ONLY CUSTOMERS**

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

c) **SEWER ONLY RESIDENTIAL CUSTOMERS**

Customers using sewer service only will pay the relevant minimum charge shown in a) above except that the water commodity charge will be omitted and the minimum charge will be based on quarterly consumption of 8000 gallons.

3. **BULK SALES**

All water sold in bulk shall be charged \$25.00 per 1,000 gallons:

4. **SERVICE TO CUSTOMERS OUTSIDE THE BOUNDARIES**

The Council of the Rural Municipality of Victoria may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Local Urban District of Cypress River. 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 the Community 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. **BILLINGS AND PENALTIES**

Accounts shall be billed quarterly based on water used and the due date shall be at least 14 days after the mailing of the bills.

A late payment charge of 1.25% per month shall be charged on the dollar amount owing after the billing due date.

6. **DISCONNECTION**

The Public Utilities Board has approved the Conditions Precedent to be followed by the RM 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 is available for inspection at the RM office.

7. **RECONNECTION**

Any service disconnected whether due to non-payment of account or for any other reason(s) mutually agreed to by the customer in the RM (e.g. repairs necessitated by negligence of the customer, changes in tenant, vacancy for an extended period of time, etc.) shall not be reconnected until all arrears, penalties, and a reconnection fee of \$30.00 have been paid.

8. **LIABILITY FOR ARREARS**

Where charges and penalties pursuant to this bylaw are not paid within 90 days from the date when they were due, said charges and penalties shall be added to the taxes on the property and collected in the same manner as other taxes pursuant to Section 252(2) of *The Municipal Act*. The amount of all outstanding charges for water and sewer services, including fees and penalties, 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.

9. **HYDRANT RENTALS**

The Rural Municipality of Victoria shall pay to the Utility an annual hydrant charge of \$250.00 for each hydrant connected to the System, which includes the cost of water for fire fighting.

10. **WATER ALLOWANCE DUE TO LINE FREEZING**

Where at the request of Council a customer allows water to run continuously for any period of time to prevent the water or sewer lines in the water or sewer system from freezing, the charge to the 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.

11. **SEWER SURCHARGES**

- 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 parts per million, 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. METER TESTING

Any customer wishing to have a meter tested for accuracy will pay a fee of \$100 in advance, plus any applicable meter testing costs. In the event the meter tests prove that the meter is recording water flows in excess of actual flows, the meter testing fee and associated costs will be refunded to the customer and the customer's account will be reviewed and adjusted accordingly.

13. METER TAMPERING

Where there is evidence of meter tampering, a minimum charge of \$500 will be applied to the customer's account in addition to an amount calculated to adjust for the tampering based on historical usage.

14. CHANGE OF WATER OR WATER & SEWER

A charge for changes to the water and sewer service will be levied to recover the cost of completing the change. The charge shall be:

- a) during normal working hours – \$35.00
- b) outside of normal working hours – \$80.00

15. CROSS CONNECTIONS

No person shall make any connection or communication of an independent water supply with a pipe or main which is part of or connected to the waterworks system.