

MANITOBA) Order No. 2/12
)
THE PUBLIC UTILITIES BOARD ACT) January 6, 2012

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

RURAL MUNICIPALITY OF WALLACE
WATER RATES
EFFECTIVE JANUARY 1, 2012

Summary

The Public Utilities Board (Board) herein confirms interim rates set on an *ex parte* basis on January 24, 2011 by Order 18/11, and varies an application by the Rural Municipality of Wallace (RM), and sets rates as recommended in the rate study for 2012. The revised rates are effective as of January 1, 2012.

The interim rates have been in effect since the Board's January 2011 order and were to have been reflected in the next quarterly billing, consistent with the RM's utility rates bylaw.

Previous, interim and revised rates:

| Commodity Rate \$/cubic meter (m ³) | Previous | Interim (Order 18/11) | Revised (January 1, 2012) |
|---|----------------|-----------------------|---------------------------|
| Water | \$ 1.18 | \$ 1.38 | \$ 1.79 |
| Quarterly Service Charge | \$ 8.60 | \$23.35 | \$24.10 |
| Minimum Quarterly* | \$24.35 | \$41.80 | \$48.03 |
| Bulk Water | \$ 1.59 | \$ 1.59 | \$ 2.01 |

* Includes 13.37 cu. meters or 3,000 imperial gallons

Background

Utility rates had not been reviewed by the Board since 2005, when initial rates were set. The RM's utility operated on a breakeven basis in the early years, primarily as a result of transfers from the RM's general operations. In 2008 and 2009, the RM reported operating cash deficits of \$32,851.97 and \$77,103.52, respectively.

Effective January 1, 2009, the Public Sector Accounting Board (PSAB) revised its accounting standards for municipalities; the implications of the accounting change are significant.

Of note, in the audited financial statements of the RM, now prepared under generally accepted accounting principles, the Utility shows a fund surplus of \$8,635,459, of which \$8,858,521 are the net tangible capital asset values. The working capital deficit of the utility is \$73,062, which includes the utility reserve fund balance of \$150,000.

Even though the 2009 statements reflected a \$115,204 operating deficit, with PUB required regulatory accounting changes the utility ended the year with a net surplus of \$38,429.

While the RM's application had yet to be fully reviewed by the Board, the Board determined that an immediate increase was required and approved interim rates in January of 2011. Being an interim order, the rates contained therein were subject to change pending a full review, including a public hearing where the views of all affected could be heard.

Subsequent to the interim order, a public notice was released announcing a public hearing to be held in the RM's offices in Virden on September 20, 2011. Customers were encouraged to attend that hearing and to visit the RM office to review its complete application.

The Utility

The utility is a rural water distribution system with 70% of the water used for agricultural purposes. The remaining 30% is used for residential and commercial. All customers are metered.

The initial phases of the utility system were constructed in 2004/2005. Raw water is obtained from a well just north of the RM in the Rural Municipality of Miniota. The well water is influenced by ground water and surface water. Water is treated using a reverse osmosis and chlorination process.

The RM's utility services 290 customers; that number is expected to grow. The RM is planning the immediate addition of 80 customers from within the RM and will be providing services to a large customer base in the Rural Municipality of Pipestone and the Village of Maryfield, Saskatchewan.

Water services are currently provided to customers outside the RM, however, the RM does not assess the surcharge that is required, consistent with its by-laws.

The RM employs certified operators for the utility. The RM reports all drinking water standards are currently being met or exceeded. In a 2009 audit, Manitoba Water Stewardship sought improvements in daily monitoring and corrective action to address turbidity levels.

The public water system engineering report noted that a reservoir expansion should be considered, given that current

capacity could only meet 0.8 days of water use which may not be sufficient should emergency repairs take longer. The report also noted a formal emergency plan had not yet been developed.

Unaccounted for water is reported at 6.5%, well below industry standard.

Application

Rates

The RM applied for revised water rates in November 2010, as set out in By-law No. 2159 (read the first time on November 17, 2010). The proposed rates (preferred rates) were calculated to address the following projected costs of operating the utility.

| | Projected Expenses |
|---|---------------------------|
| General | |
| Expenses | \$37,500 |
| Less Revenues | -2,000 |
| General Revenue Requirements | \$35,500 |
| Water | |
| Net Expenses | \$509,095 |
| Less ⁽¹⁾ (\$426,018-225,790- 64,938+38,705) x 2/3 | -115,995 |
| Water Revenue Requirements | \$393,100 |

⁽¹⁾ (Amortization - grant revenues - taxation revenues + interest costs) x 2/3

The 'preferred rates' calculated on the above revenue requirements do not provide for contingency or reserve contributions.

The rate study also included estimates to 2013, as follows:

| | Audited | | Projected | |
|--|-------------------|-------------------|-------------------|-------------------|
| | 2009 | 2011 | 2012 | 2013 |
| General | | | | |
| <i>Expenses:</i> | | | | |
| Administration (building, office, staff, etc.) | 70,386.00 | 37,000.00 | 38,110.00 | 39,253.30 |
| Billing and collection | 205.00 | 500.00 | 515.00 | 530.45 |
| Total general expenses | 70,591.00 | 37,500.00 | 38,625.00 | 39,783.75 |
| <i>Revenue:</i> | | | | |
| Investment Income | 2,377.00 | | - | - |
| Penalties | 581.00 | 2,000.00 | 2,000.00 | 2,000.00 |
| Total general revenue | 2,958.00 | 2,000.00 | 2,000.00 | 2,000.00 |
| Net general revenue requirements | 67,633.00 | 35,500.00 | 36,625.00 | 37,783.75 |
| Water | | | | |
| <i>Expenses:</i> | | | | |
| Purification and treatment | 35,371.00 | 40,000.00 | 41,200.00 | 42,436.00 |
| Service of Supply | 128,244.00 | 150,000.00 | 154,500.00 | 159,135.00 |
| Transmission and Distribution | 108,702.00 | 142,500.00 | 146,775.00 | 151,178.25 |
| Other Water Supply Costs | | 5,000.00 | 5,150.00 | 5,304.50 |
| Amortization/ depreciation | 272,869.00 | 426,018.08 | 426,018.08 | 426,018.08 |
| Interest on long term debt | 42,128.00 | 38,705.00 | 37,224.00 | 35,664.00 |
| Reserves* | 50,000.00 | 50,000.00 | 50,000.00 | 50,000.00 |
| Contingency | | 25,000.00 | 25,000.00 | 25,000.00 |
| Equity Surcharge | | 9,147.00 | 9,244.00 | 9,345.00 |
| Sub-total- water expenses | 637,314.00 | 886,370.08 | 895,111.08 | 904,080.83 |
| <i>Revenue:</i> | | | | |
| Investment Income | | 2,400.00 | 2,400.00 | 2,400.00 |
| Amortization of capital grants | - | 225,789.58 | 225,789.58 | 225,789.58 |
| Taxation revenues (1) | 64,459.00 | 64,938.00 | 64,937.00 | 64,938.00 |
| Total non-rate revenue - water | 64,459.00 | 293,127.58 | 293,126.58 | 293,127.58 |
| Net water revenue requirements | 572,855.00 | 593,242.50 | 601,984.50 | 610,953.25 |

Based on the above revenue requirements, the calculated rates are:

| Commodity Rate \$/cubic meter (m ³) | 2011 | 2012 | 2013 |
|---|---------|---------|---------|
| Water | \$ 2.10 | \$ 2.10 | \$ 2.15 |
| Quarterly Service Charge | \$23.35 | \$24.10 | \$24.85 |
| Bulk Water | \$ 2.33 | \$ 2.33 | \$ 2.38 |

The rate study included another alternative rate of \$1.79 per cubic meter (based on 2011 expenses). This alternate rate included recovery of the full amortization expense but no provision for contingency, reserve fund or equity surcharge.

The RM reports no capital expenditures in the utility in the next five year period.

Cost allocation methodology

The RM proposed in a November 2010 resolution of council the following cost allocation methodology:

| | |
|--|------------------------------|
| Chief Administrative Office and other administrative staff | 30% allocated to utility |
| Supervisor of Public Works | 75% allocated to the utility |

Public Hearing

A public hearing was held at the RM's office in Virden on September 20, 2011.

The RM's Chief Administrative Officer (CAO) reported that the Rural Municipality of Pipestone should be making a 21.4% capital contribution to access the RM's utility based on an estimate of the amount of water to be sold.

With the rapid growth of the utility, the RM projects it would cost \$2.0 million (2011 dollars) to expand the water treatment plant to allow for full distribution to the RM.

The RM's water treatment plant operator noted the water treatment plants maximum operating time to deliver treated water is 20 hours per day. In August 2011, the water treatment plant operated almost at capacity to meet demands, suggesting the plant and storage reservoir may require expansion to meet future growth and demand.

The RM noted that all taxpayers pay for the capital costs of the utility.

The RM also advised it is selling bulk untreated water, for which no rate has been approved by the Board.

Board Findings

Rates

Upon review of the application and evidence provided at the public hearing, the Board will amend the interim rates, and approve the alternate rate calculated in the rate study. The revised rate will be effective for water consumed after January 1, 2012, consistent with the RM's by-law.

Without the benefit of the 2010 audited statements to confirm amortization expenses and debenture debt payments, the Board relies on the 2009 statements and the rate study submitted.

The Board understands the general concern over rate shock. However, to approve rates that will continue to yield deficits for the utility is not appropriate, not in the public interest and contravenes the legislative provisions that requires utilities to operate on a break even basis. In order to alleviate this situation, the Board encourages the RM to try to find operational efficiencies to reduce costs.

The Board will require the RM to amend its by-law to reflect the requirements in this order, and as set out on Schedule "A" attached hereto.

Cost allocation methodology

The Board will approve the cost allocation methodology proposed by the RM. The RM has been made aware that any changes to this methodology in the future will require Board approval.

Given that the RM anticipates significant growth to the utility with additional customers both within and outside the RM, the Board will require the RM to again review revenue requirements of the utility after 2012. The RM is to file a report with the Board as to the adequacy of rates, with updated financial information as well as an application for revised rates, if so indicated.

In that submission, the RM should also include a proposal for a rate for the bulk untreated water it is selling.

The Board notes that the penalty charge set out in the RM's by-law is 1½% per month, which exceeds the approved 1¼% (Order 105/04). Further, the disconnection of services for non-payment of account will also require amending, this to be consistent with the Board's requirements. The RM will need to amend their by-law to effect this change.

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 Utility rates for the Rural Municipality of Wallace, as set out in this order and shown in Schedule "A" attached hereto ARE HEREBY APPROVED effective for all water consumed after January 1, 2012.
2. The Rural Municipality prepare a by-law to reflect the decision in this order and Schedule "A" and file a copy of the by-law with the Public Utilities Board once it has received third and final reading, not later than February 29, 2012.
3. The interim rates established in Order 18/11 BE AND ARE HEREBY APPROVED and effective to December 31, 2011.

4. The cost allocation methodology proposed by the Rural Municipality of Wallace BE AND IS HEREBY APPROVED.
5. The Rural Municipality of Wallace provide immediate notice to its customers, with a copy to the Public Utilities Board, of these revised rate increases and the rationale for same.
6. The Rural Municipality of Wallace file a report with the Public Utilities Board as to the adequacy of rates, with updated financial information as well as an application for revised rates, if required by July 1, 2013.

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.
2/12 issued by The Public
Utilities Board

Acting Secretary

SCHEDULE "A"

TO BOARD ORDER NO. 2/12

**RURAL MUNICIPALITY OF WALLACE
 WATER RATES**

1. Commodity rates per m³:

| | |
|-----------------------|-----------------------|
| | Water |
| All water consumption | \$1.79/m ³ |

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

| Meter Size mm (inches) | Group Capacity Ratio | Water Included m ³ | Customer Service Charge | Commodity Water Charges | Total Quarterly Minimum |
|---------------------------|----------------------------|----------------------------------|-------------------------------|----------------------------|----------------------------|
| 16mm (5/8") | 1 | 13.370 | \$24.10 | \$23.93 | \$48.03 |
| 19 mm (3/4") | 2 | 26.739 | \$24.10 | \$47.86 | \$71.96 |
| 25 mm (1") | 4 | 53.478 | \$24.10 | \$97.52 | \$121.62 |
| 38 mm (1 1/2") | 10 | 133.696 | \$24.10 | \$239.32 | \$263.42 |
| 50 mm (2") | 25 | 334.239 | \$24.10 | \$598.29 | \$622.39 |

3. Bulk Sales Rate:

All water sold in bulk by the Rural Municipality of Wallace shall be charged for at the rate of \$9.14 per 1,000 gallons

4. Service to Customers outside Town limits:

The Council of the Rural Municipality of Wallace may sign agreements with customers for the provision of water services to properties located outside the legal boundaries of the Rural Municipality of Wallace. 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. Billings and Penalties:

Accounts shall be billed quarterly, and shall be due payable 30 days after the date of billing. A penalty of 1¼% per month shall be added if not paid by the due date. (Note: Due date may be set as Council sees fit to do so).

6. Disconnection for non-payment:

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.

The charge for the disconnection and/or reconnection of service whether at the customer's request or because of disconnection for non-payment is \$75.00 per disconnection or reconnection.

7. Request for Meter Testing:

Any customer may request that the water meter be tested. Upon receipt of a \$45.00 deposit, the RM of Wallace will submit the meter for testing so an independent testing company. Should the meter be found to be reading in excess of actual flows, the said deposit of \$45.00 shall be returned to the customer. Should the meter be found to be accurate or reading below the actual flows, the customer shall forfeit the deposit to cover the cost of testing.

10. Outstanding Bills:

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