

M A N I T O B A) Order No. 28/13
)
THE PUBLIC UTILITIES BOARD ACT) March 20, 2013

REVISED APRIL 2, 2013

BEFORE: Susan Proven, P.H.Ec., Acting Chair
Marilyn Kapitany, B.Sc. (Hons.), M.Sc., Member

RURAL MUNICIPALITY OF ALEXANDER
ORDER VARYING BOARD ORDER NO. 59/12
FOR
PINE GROVE WATER TREATMENT AND DISTRIBUTION UTILITY
RATES 2013, 2014 AND 2015

Summary

The Public Utilities Board (Board) will vary Board Order No. 59/12 with respect to the rates set therein for the Rural Municipality of Alexander (RM) with regard to the Pine Grove Water Treatment and Distribution Utility (Utility). By this Order, the Board will approve the rates as noted below:

Annual rates	2013	2014	2015
Customer Service Charge	29.74	34.23	34.91
Unmetered services flat rate per customer	515.00	505.00	510.00
Total annual charge	544.74	539.23	544.91

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

Background

The Pine Grove Water Treatment and Distribution Utility is located in the RM of Alexander. The Utility has 60 customers and is made up of four pumphouses and a distribution system. The system was constructed in 1980.

The Utility was under boil water advisory and the RM had decided to have an engineering study done to determine what steps needed to be taken to get the system compliant with drinking water standards. After discussing the matter with the Manitoba Office of Drinking Water (ODW), the RM decided to try adding chlorination to the Utility, believing that this would be sufficient to remove the boil water advisory. Once chlorination was introduced, testing showed the water was compliant with standards and the advisory was removed.

Services are unmetered and customers are charged a flat rate annually. Prior to 2013, the Utility had been included as part of the General Operations of the RM of Alexander. Operating expenses were recovered on a cost recovery basis. Expenses were tracked internally by the RM and then charged back on the property taxes of

the 60 homeowners. Therefore, the Utility currently has no working capital surplus or reserve. Board approved rates will be charged starting in January 2013, and the RM has indicated that the audited financial statements will reflect the fact that Pine Grove is a Utility.

The Board has at its disposal two alternative processes to deal with applications. It may determine a public hearing is warranted or a paper review process is sufficient. In the case of the Pine Grove Utility, the Board received four responses from stakeholders. The Board reviewed the responses in conjunction with the application from the RM. The Board concluded a paper review, one which spares the Utility \$1,500 in regulatory charges, was sufficient and in the best interests of everyone concerned.

Application

The RM submitted a letter to the Board dated June 6, 2012 requesting that rates on Order No. 59/12 be varied. This request was subsequently denied on Order No. 123/12. The Board concluded that the RM's request was founded on different information than what was submitted to the Board originally. The RM had requested a \$10,000 "place-mark" which the Board denied based on uncertainty. No consideration had been given to additional treatment costs or to additional staffing costs in the original submission. Further, the original Notice of Application issued September 2011 advised customers of significantly different rates than those requested by the RM in June 2012.

The Board therefore denied the request to vary the rates for Pine Grove, pending a new Notice being issued, thereby allowing customers the opportunity to review the basis of the requested increase in rates and to provide comments to both the RM and the Board. This also allowed the Board an appropriate opportunity to question the basis of the new application for Pine Grove.

In July 2012, the RM disclosed to the Board that prior to the publication of Order No. 123/12, they had charged the \$200 "place mark" on the annual bills for the year 2012. Upon further analysis and questioning of the RM, the Board came to the conclusion that the error was made in good faith and that the results from the 2012 financial statements show that the expenses did, in fact, support the charge.

The new application, accompanied by By-Law 16/12, given first reading November 8, 2012 and Resolution 2012-668 was received by the Board November 8, 2012. A Notice was issued November 9, 2012 and four stakeholder responses were received by the Board.

Public Response

The four stakeholder responses received by the Board expressed concern over the changes to the water distribution system once the RM assumed management of it. Respondents indicated that since the Utility customers did not request the change to chlorination, the RM should pay for the additional costs from the general fund. One stakeholder included a list of annual charges going back to the system's inception in 1982, which showed rates which varied significantly from one year to the next, but were generally under \$100 per year until 2011.

Budgeted Expenditures

<i>Expenses:</i>	2011	2012	2013	2014	2015
Administration (building, office, staff, etc.)	3,019.25	410.70	1,500.00	1,545.00	1,591.35
Total general expenses	3,019.25	410.70	1,500.00	1,545.00	1,591.35
Equity surcharge (1% of annual expenses)			284.28	509.00	503.00
Net revenue general	3,019.25	410.70	1,784.28	2,054.00	2,094.35
Water					
<i>Expenses:</i>					
Staffing	4,000.00	14,275.67	19,200.00	19,680.00	20,172.00
Purification and treatment	994.40	1,532.80	2,000.00	2,000.00	2,000.00
Service of supply	105.93	749.00	-	-	-
Transmission and distribution	3,012.08	2,945.06	3,000.00	3,000.00	3,000.00
Other Water supply costs	1,705.75	1,225.75	1,500.00	1,500.00	1,500.00
Amortization/depreciation	-	-	20,000.00	20,000.00	20,000.00
Reserves	-	-	2,000.00	2,000.00	2,000.00
Minor capital upgrades	-	7,700.00	3,200.00	2,120.00	1,928.00
Sub-total- water expenses	9,818.16	28,428.28	50,900.00	50,300.00	50,600.00
<i>Revenue:</i>					
Amortization of capital grants			20,000.00	20,000.00	20,000.00
Total non-rate revenue - water		-	20,000.00	20,000.00	20,000.00
Net rate revenue requirement - water			30,900.00	30,300.00	30,600.00

The budgeted expenditures included a charge for Administration, but the RM did not include a cost allocation methodology for shared services and equipment. The By-law also did not include a customer service charge to recover the costs included in the budgeted expenditures.

Board Findings

The Board will vary the water and sewer rates for 2013, 2014 and 2015, as applied for by the Rural Municipality of Alexander, including an annual customer service charge to cover administrative expenses.

The Board will allow the \$200 charge levied in error against the customers of the Utility to stand, as it would be unreasonable to ask them to refund the amount, and then order them to recover the resulting deficit by means of a rate rider. The Board would like to remind the RM that in future, the Utility must receive approval in the form of a Board Order prior to charging rates to their customers.

While the Board understands that such a significant increase to the rates being paid by customers constitutes "rate shock", analysis of the budgeted expenditures that the RM proposed show the expenses to be reasonable, and a Public Hearing would add \$1,500 in regulatory costs to the Utility. Such large rate increases have not been unusual in recent years, and are warranted given the increases in operating costs for the Utility to be in compliance with the Office of Drinking Water standards.

The Board has long been a proponent of user-pay and looks for fair and reasonable rates that can sustain a Utility.

By law, Manitoba utilities are not allowed to incur deficits. Should a Utility incur a deficit, the Utility is required to submit an application for Board approval. The Board is therefore duty bound to approve reasonable rates based on reasonable expense projections.

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 request to review and vary rates for the Pine Grove Utility, AS SET OUT IN Schedule "A" to this Order, BE AND IS HEREBY APPROVED with revised rates to be effective January 1, 2013.
2. The Rural Municipality of Alexander prepare and submit a cost allocation methodology for the Pine Grove Utility by June 30, 2013.
3. The Rural Municipality of Alexander account for the Pine Grove Utility as a separate Utility in their audited financial statements.
4. The Rural Municipality of Alexander file with the Board a revised water and sewer By-law to reflect the decision in this Order, once it has received third and final reading.

Fees payable upon this Order - \$150.00

THE PUBLIC UTILITIES BOARD

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

"JENNIFER DUBOIS, CMA"
Acting Secretary

Certified a true copy of Order No.
28/13 issued by The Public Utilities
Board

Acting Secretary

SCHEDULE "A"

TO BOARD ORDER NO. 28/13

Rural Municipality of Alexander

By-law 16/12

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1. BILLINGS AND PENALTIES

a. Accounts shall be billed annually no later than May 31st each year, and shall be due and payable August 31st of the same year the bill is issued. A late payment charge of one and a quarter percent (1¼%) per month shall be charged on the dollar amount owing after the billing due date.

2. DISCONNECTION

a) Service may be disconnected and discontinued immediately and without further notice as per the PUB Order 127/08, "The Establishment of Conditions Precedent concerning the disconnection of water and/or sewer for non-payment of accounts."

b) Service may be disconnected upon request of the property owner following a payment of \$50.00 for said disconnection service.

3. RE-CONNECTION

Any service disconnected due to non-payment of account or as a result of a request from the property owner shall not be reconnected until all arrears, penalties and a reconnection fee of \$50.00 have been paid.

4. 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.