

MANITOBA) Order No. 25/07
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THE PUBLIC UTILITIES BOARD ACT) March 12, 2007

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

THE RURAL MUNICIPALITY OF WHITEHEAD
VILLAGE OF ALEXANDER
INITIAL WATER AND SEWER RATES

Introduction

By this Order, the Public Utilities Board (Board) approves Rural Municipality of Whitehead's (Whitehead) application for initial water and sewer utility rates.

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Water consumption, per 1000 gallons	\$11.25	\$2.75	\$14.00
Administrative charge	\$ 8.85/per quarter		

The residential minimum quarterly bill will be \$50.85.

As well, the Board confirms its interim approval of bulk water rates, as provided January 11, 2006, and amends that rate to \$15 per 1000 gallons concurrent with the approval of the initial system rates. Certain other charges related to hydrant use, late payment and reconnection charges were also approved by the Board on January 11, 2006, and are hereby confirmed.

As these rates are based on an estimation of utility operating costs, the Board requires Whitehead to provide its audited utility financial statements for the year ended December 31, 2007, by no later than March 31, 2008, together with Whitehead's then-view of rate adequacy.

Application

Whitehead applied to the Board for approval of initial water and sewer rates for customers attached to its utility system and bulk water rates, the latter initially approved on an interim basis by Order 4/06, dated January 11, 2006.

The interim bulk water rate set by Order 4/06 was \$11.15 per 1000 gallons, and Whitehead proposed to increase that rate to \$15.00.

Whitehead advised the Board that, as utility customers were connected to its water system, the proposed water rates were charged. However, as sewer connections were not completed until later in 2006, sewer charges were only assessed from the last quarter of 2006.

In Order 4/06, the Board required Whitehead to provide a rate study as soon as possible, to be accompanied by an application for initial water and sewer rates. The application was made on July 4, 2006, By-law No. 2107 was read for the first time on May 8, 2006, and the full particulars of the submission were provided to the Board on January 5, 2007.

By Board direction, details of the application were then-set out in a Public Notice mailed to customers in the Village of Alexander. The Public Notice invited ratepayers to comment on the application; one response was received and forwarded by the Board to Whitehead for comment.

Proposed rates per thousand gallons and bills were as follows (and, by this Order, approved):

	Water	Sewer	Total
All water consumption	\$11.25	\$2.75	\$14.00

Minimum quarterly bills by meter size:

<u>Meter Size</u>	<u>Group Capacity Ratio</u>	<u>Water Included, Gallons</u>	<u>Customer Service Charge</u>	<u>Commodity Charges</u>		<u>Total Quarterly Minimum</u>
				<u>Water</u>	<u>Sewer</u>	
5/8"	1	3,000	\$8.85	\$ 33.75	\$ 8.25	\$ 50.85
3/4"	2	6,000	\$8.85	\$ 67.50	\$ 16.50	\$ 92.85
1"	4	12,000	\$8.85	\$135.00	\$ 33.00	\$ 176.85
1½"	10	30,000	\$8.85	\$337.50	\$ 82.50	\$ 428.85
2"	25	75,000	\$8.85	\$843.75	\$206.25	\$1,058.85

Being a new system, operating costs were estimated to be:

	<u>With Contingency & Reserve, annual</u>	<u>Without Contingency & Reserve, annual</u>
Administrative	\$ 4,000	\$ 4,000
Water	\$53,000	\$48,000
Sewer	\$12,600	\$ 5,000
Total	\$69,600	\$57,000

The Board submitted a number of questions to Whitehead, and they responded on February 7 and March 2, 2007.

Whitehead advised that expenses are shared between the utility and Whitehead's General Operating Fund, allocated based upon time expended. Further, Whitehead advised that its future capital plans for the utility include the acquisition of dedicated pumps to serve new customers if connection to a regional water supply pipeline proceeds.

The Board questioned proposed hydrant charges of \$20.00 per hydrant, a charge to be paid by the Municipality to the utility for fire protection. The Board also questioned the proposed low reconnection fee of \$5.00. In both instances the Municipality advised that these charges may require adjustment in the future to reflect average municipal levels.

The rate study and proposed rate design were consistent with the Board's suggested guidelines.

Ratepayer Concern

Mr. M. Owens, a resident of Whitehead, complained that there should have been full disclosure regarding the rate proposal before rates were proposed to the Board. Mr. Owens also opined that certain projected utility costs exceed reasonableness, these including the projection for utility salaries.

Mr. Owens advised that he saw no reason to pay for water not consumed, objecting to the concept of a minimum quarterly bill.

On March 2, 2007, in response to Mr. Owens' concerns, Whitehead advised the Board that a Committee of Council had discussed the proposed rates and the projected expenditures supporting the proposal. Whitehead reported that its Committee concluded that the initial utility budget represented the best estimate available for operating costs, although the initial operating experience has been more favourable. Whitehead advised that it holds to its rate proposal.

The Municipality provided the following additional operating cost details to the Board:

EXPENSES

AT DECEMBER 31, 2006

	BUDGETED	ACTUAL
HYDRO	\$ 8,000.00	\$ 4,677.60
SALARIES	20,000.00	14,445.53
		1,180.00
TRAINING	1,500.00	215.00
CHLORINE	500.00	
ANTI SCALENT	800.00	
SODIUM HYDROXIDE	500.00	
WATER TESTING REAGENTS	1,000.00	
		3,036.51
MEMBRANE CLEANING CHEMICALS		
	1,000.00	448.43
PREFILTER	2,000.00	
BACTERIOLOGICAL TESTING	4,000.00	1,474.38
INSURANCE	500.00	817.00
TELEPHONE	400.00	312.00
MAINTENANCE	<u>3,000.00</u>	<u>1,530.16</u>
SUB-TOTAL	\$43,200.00	\$28,136.61
MEMBRANE REPLACEMENT	\$ 4,800.00	\$ 4,800.00
RESERVE FUND	<u>\$ 5,000.00</u>	<u>\$ 5,000.00</u>
TOTAL	\$53,000.00	\$37,936.61

Actual operating costs for 2006 were reported at \$37,936, compared to the budget used to develop the proposed rates of \$69,600; the latter includes \$12,600 for contingencies and reserves.

Background

Whitehead recently installed a water treatment plant and distribution system to serve the Village of Alexander and, through the sale of bulk water, the surrounding area.

Approximately 90 of the total estimated 125 customer base have now

connected to the distribution system and are consuming water. The Municipality advised that connecting customers are abandoning their private wells.

The water treatment plant is currently operating at 20% of production capacity. The plant was designed to supply water to a rural water supply system, currently being developed. The water supply is derived from a well located in an aquifer located approximately 2 kilometers North-East of the plant, and testing has proven the water supply to be of good quality.

The sewage treatment system is a low-pressure gravity system with a 2 cell lagoon. Provincial standards for drinking water were reportedly being met, with no discharges from the lagoon expected for 2 years.

Whitehead is of the view that residents are aware of the value of water, particularly as up until now the water supply was quite limited. The Municipality also expressed the view that the importance of water conservation has not escaped its customers.

The original capital cost of the system was:

Water	\$1,800,000
Sewer	<u>\$ 800,000</u>
	\$2,600,000

The rural portion of the treatment plant was funded by a \$270,000 Canada-Manitoba Infrastructure Grant; the Village of Alexander's portion of overall project costs is to be levied against all properties within the local improvement district. The annual debenture debt cost is estimated to be \$25,000, recoverable from taxes by frontage charges (\$8,000) and by property tax assessments

(\$17,000).

All costs for the development and installation of a rural pipeline system will be charged to the rural customers serviced by the pipeline together with a portion of the capital cost of the plant. The water pumps are to be a direct cost assigned to rural customers.

Board Findings

The Board will approve the application and finalize interim rates set in January 2006 and as billed since. As well, pursuant to *The Public Utilities Board Act*, the Board declares the sewer utility a public utility.

The Board is satisfied that the Public Notice provided a reasonable opportunity for ratepayers to express views, and welcomed the comments of Mr. Owens. In the Board's opinion no further process is required.

While actual operating expenses have been less than expected to-date, this will provide the opportunity to develop utility reserves without the necessity of higher rates at this time.

Of note, of the expenses projected in the rate calculation, \$12,600, or 18% of the total projected operating costs are dedicated amounts set aside for future membrane replacement, line breaks and other capital works.

These are reasonable provisions, with the total allocation for reserves representing approximately one-half of 1% of the original

capital costs of the system. This compares to the industry standard of 1% each year.

There remain uncertainties regarding the quantum of annual operating costs that will develop as experience is incurred and costs related to the connection of the rural system become known.

Accordingly, notwithstanding early stage operating expenses for rate-making are higher than one year's operating expense, the Board will make no rate adjustment at this time. If surpluses are earned they are to be set aside to further the financial strength of the utility, towards placing it in a better position to withstand the cost of future replacement work.

That said, Whitehead will be required to provide a further rate study at the end of 2007, by no later than March 31, 2008. At that time, the Board will assess the adequacy of rates.

The Board finds the proposed \$20.00 per hydrant charge out-of-step with industry averages and will vary Whitehead's application and set in place a \$100.00 per hydrant charge, to include all water used for fire fighting. The Board is advised that as there are 17 hydrants, with the higher charge the utility will generate total annual revenue of \$1,700 for fire hydrants.

The Board also finds the proposed reconnection charge of \$5.00 to be unduly low and not representative of the expected cost. Accordingly, the Board will vary the application and approve a reconnection charge of \$25.00.

The Board has reviewed the plan of the Municipality to recover a

fair share of the water plant costs and other capital costs directly from the customers of the rural water supply system. Should there be any change to this recovery proposal the Municipality is required to apprise the Board and await its direction.

The Board notes that Clause 4 in Whitehead's utility By-law sets out general parameters regarding the provision of water to customers outside the boundaries of the Municipality or local improvement district; the Municipality should be guided by these principles.

Furthermore, Clause 7, which deals with Billings and Penalties, does not reflect current industry practices, and the Board will vary the application and approve the standard clause. This will allow for late fees to be collected in a manner similar to other late payment charges, and not the 10% flat fee as proposed.

The Board is aware that the Municipality has been charging an interim rate subject to the final rate being approved by the Board. While these rates have been charged without authority, they have avoided any need for retroactivity and reflect the reality that the water was being consumed.

The Board also considered Mr. Owens' complaint about the minimum quarterly bill. In the Board's opinion minimum bills allow for the fair recovery of utility costs from all customers, without encouraging water wastage. Minimum bills allow for basic needs for hygiene and for better maintenance of the sewer system.

IT IS THEREFORE ORDERED THAT:

1. By-law No. 2107 of the Rural Municipality of Whitehead serving the Village of Alexander BE AND THE SAME IS HEREBY APPROVED subject to amendment as set out in Schedule "A" attached hereto.
2. The Municipality file details of any change to its proposal to recover capital costs from customers forming part of the rural water supply system.
3. The Municipality file its audited financial statements for the utility for and as at December 31, 2007 by no later than March 31, 2008, with commentary regarding the adequacy of rates.
4. Pursuant to Subsection 2(6) of *The Public Utilities Board Act* C.C.S.M. c. P280, the sewage collection and disposal system in the Village of Alexander of the Rural Municipality of Alexander is hereby declared to be a public utility.

Fees payable upon this Order - \$500.00

THE PUBLIC UTILITIES BOARD

"GRAHAM F. J. LANE, C.A."
Chairman

"G. O. BARRON"
Acting Secretary

Certified a true copy of Order
No. 25/07 issued by The Public
Utilities Board

Acting Secretary

SCHEDULE "A"

TO BOARD ORDER NO. 25/07

RURAL MUNICIPALITY OF WHITEHEAD

VILLAGE OF ALEXANDER

INITIAL WATER AND SEWER RATES

BY-LAW NO. 2017

SCHEDULE OF QUARTERLY RATES:

1. Commodity rates per M.G.

	Water	Sewer	Water & Sewer
All water consumption	\$11.25	\$2.75	\$14.00

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:

Meter Size	Group Capacity Ratio	Water Included, Gallons	Customer Service Charge	Commodity Charges		Total Quarterly Minimum
				Water	Sewer	
<u>Water & Sewer Customers</u>						
5/8"	1	3,000	\$8.85	\$ 33.75	\$ 8.25	\$ 50.85
3/4"	2	6,000	8.85	67.50	16.50	92.85
1"	4	12,000	8.85	135.00	33.00	176.85
1 1/2"	10	30,000	8.85	337.50	82.50	428.85
2"	25	75,000	8.85	843.75	206.25	1058.85

Water only Customers

Minimum Charges will be the same for each meter size as shown above, but the Sewer Commodity Charge will be excluded.

3. Bulk Sales Rate

All water sold in bulk by the Alexander Water & Sewer Local Improvement No. 1 shall be charged for at the rate of \$15.00 per 1,000 gallons on a pro-rated basis for all quantities.

4. Service to Customers outside Municipality, or L.I.D. limits

The Council of the Rural Municipality of Whitehead may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Rural Municipality of Whitehead. Such agreements shall provide for payment of the appropriate rates as set forth in paragraphs 1 and 2 of this 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 as may be in effect from time to time, and 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. Disconnection

Service may be disconnected and discontinued immediately and without further notice in the event of non-payment of the account within 30 days after due date.

6. Reconnection Fee

A customer who has had his service disconnected for any reason shall not be reconnected until all regulations have been complied with, and all arrears paid, as well as any penalties and a reconnection fee of \$25.00.

7. Billing & Penalties

A late payment charge of 1¼% shall be charged on the dollar amount owing after the billing due date. The due date will be at least fourteen days after the mailing of the bills.

8. Hydrant Rentals

The Rural Municipality of Whitehead will pay to the utility an annual rental of \$100.00 for each hydrant connected to the system.

9. 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.

10. Water Allowance Due to Line Freezing

That in any case where, at the request of the Council, a customer allows water to run continuously for any period of time to prevent the water lines in the water system from freezing, the charge to that 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.