

M A N I T O B A                    )     Order No. 87/08  
  )  
THE PUBLIC UTILITIES BOARD ACT   )     June 23, 2008

BEFORE:   Graham Lane, CA, Chairman  
           Monica Girouard, CGA, Member

THE RURAL MUNICIPALITY OF VICTORIA BEACH  
LOCAL IMPROVEMENT DISTRICT No. 1 (VICTORIA BEACH)  
REVISED WATER RATES

---

**Executive Summary**

By this Order, the Public Utilities Board (Board) approves the Rural Municipality of Victoria Beach's (RM) application for revised annual water rates for Local Improvement District No. 1 (Victoria Beach), effective with the July 2008 billing.

Existing (approved in 2000) and revised rates are:

<b>Annual Rates (Seasonal Service)</b>	<b>Existing</b>	<b>Approved</b>	<b>Increase</b>
1. Single Family Residence/Cottage, Grocery Store; Doctor's office: Service Charge Commodity Charge (1 REU) Total	-- -- \$70.00	\$ 13.75 <u>\$ 101.25</u> \$ 115.00	  64%
2. Restaurant, Bakery: Service Charge Commodity Charge (2 REU) Total	-- -- \$140.00	\$ 13.75 <u>\$ 202.50</u> \$ 216.25	  54.5%
3. Golf Course: Service Charge Commodity Charge <sup>(2)</sup> Total	-- -- \$2500.00	\$ 13.75 <u>\$4086.25</u> \$4100.00	  
4. Non-connected water user/ Vacant lots <sup>(1)</sup> Service Charge Commodity Charge <sup>(2)</sup> Total <sup>(1)</sup> Lots along main water line or in the vicinity of municipal pumps or stand- pipes <sup>(2)</sup> Not based on a REU	-- -- \$15.00	\$ 13.75 <u>\$ 11.25</u> \$ 25.00	  66%

As well, this Order:

1. varies the RM's application by establishing the same service charge for all customers;

2. approves conditional and further annual increases of up to and including 5% as of July 2009, 2010 and 2011, such increases to be implemented at the discretion of the RM and subject to review by the Board. These conditional increases will provide the RM the opportunity to increase water rates to keep abreast of inflation and build reserve funds.

The RM is hopeful the proposed rates, now with the provision of conditional increases available for 2009-2011, will allow the Utility's financial situation to stabilize and improve over the next four years. Yet, as the RM is operating a new WTP with no operating history, the ability to achieve this objective is somewhat uncertain.

The Board is pleased to note Water Stewardship and North Eastman Health Association Inc.'s indication that the new Water Treatment Plant (WTP) is producing a safe quality of water, which has resulted in the rescinding of the Boil Water Advisory.

The Board has reviewed the projected operating expenses for the Utility, noting that with a new WTP, the RM lacks historical experience on which to draw in establishing its rate proposals; the Board finds the RM's projections and proposal reasonable.

While the rate increases are very significant, they are necessary to meet the expected costs of the newly upgraded water supply, with the improvement likely to have a positive effect on property values, health and safety.

**Application**

The RM applied to the Board for approval of revised water rates as set out in By-law No. 1498, which was read the first time on February 15, 2008. Existing and proposed rates were:

	<b>Existing</b>	<b>Proposed</b>	<b>Increase</b>
Single Family Residence/Cottage Grocery Store, Doctor's Office	\$70.00	\$115.00	64%
Restaurant, Bakery	\$140.00	\$230.00	64%
Golf Course	\$2,500.00	\$4,100.00	64%
Non-connected water user	\$15.00	\$25.00	66%
Vacant lots <sup>(1)</sup>	\$15.00	\$25.00	66%

<sup>(1)</sup> Lots along the main water line or in the vicinity of municipal pumps or stand-pipe.

Water services are provided on a seasonal basis only. Permanent residents obtain their water supply from privately owned wells. Consistent with past practice, the RM charges non-connected water users and vacant lot owners an annual assessment recognizing their ability to connect to the RM's water system.

Water service is not metered, and all customers are billed on a flat rate basis (residential equivalent units, or REU). Residential and other customers assumed to consume residential level water amounts are assigned one REU unit, while commercial accounts are assigned multiple REUs. The restaurant and the bakery have been assigned two REUs.

The golf course is not assigned an REU but a flat charge, and the RM proposed to increase the golf course charge by the same percentage increase as to be applied to all other customers.

The RM provided the historical operating costs for the first five months of each operating year for the last five years

including the costs to date for 2008. These are noted below:

January 1 <sup>st</sup> - May 31 <sup>st</sup> (1)	
(\$000's)	
2004	\$28.8
2005	\$24.4
2006	\$19.5
2007	\$35.7
2008	\$43.9

<sup>(1)</sup>Note: The five (5) month period was chosen to capture the costs to date of operating with the new WTP, showing the same period for prior years on a comparable basis.

The RM noted that 2008 costs are 23% higher than 2007 costs as a result of the new WTP; the RM projected the following 2008 operating costs:

Administration	\$16.5
Operating	\$67.4
Employee Salaries	\$26.0
Transfer to Reserves	\$10.0
Contingency	\$ <u>1.5</u>
Total	\$121.4

The proposed rates were intended to meet the above projected operating costs and generate an annual surplus in the range of \$7,100.00.

The RM advised that the prior and existing rates have been inadequate for sometime, and, except for the fire that destroyed the old WTP, the RM would have pursued new rates in 2005. The RM had submitted an application for revised rates prior to the

fire but withdrew it shortly thereafter. The RM, at the time, was uncertain what the future held for its Utility.

The RM incurred three years of operating deficits over the last four years, to a total of \$58,024 - an average annual deficit of \$14,506. The 2007 deficit of \$14,569 was approved by the Board to be recovered from the Utility's accumulated surplus account, just as had been the case for the prior deficits.

Upon filing its rate study in February 2008, the RM noted that it had used its best estimate of costs and, as noted earlier, it was estimating annual operating costs of \$121,400. The RM has since updated this estimate, which now stands at \$130,000, \$8,600 higher than its prior estimate. The RM did not amend its rate application as a result of the update, as all the projections are at best estimates given the new WTP.

The RM noted that historical operating costs cannot be used as a predictor of future costs because of the new WTP, and indicated expected higher chemical costs of \$9,000, higher hydro costs (because the plant building is considerably larger) of \$2,500, and higher insurance costs of \$5,500 (the latter following the insurance claim on the old WTP and the higher value of the new plant, that being \$3.4 million). Further, the RM reported plans to increase its annual contribution to the Utility reserve by \$5,000, to an annual amount of \$10,000.

As at December 31, 2007 and prior to addressing the 2007 operating deficit, the Utility had an accumulated cash surplus balance of \$37,298 and a reserve account of \$65,009.

Utility administration costs represent an allocation of the RM's total administration costs, and include the cost of administering the Utility (issuing and collecting Utility bills and data base administration). The RM collects Utility charges with taxes, with the combined approach estimated to save the RM an estimated \$800 each year.

The RM employs five operators for Utility; only qualified operators are authorized to operate the WTP. Two operators have Level 2 certification and one has just completed the Level 2 exam. In the future, the RM plans to employ only certified operators; the cost of training per certification is approximately \$5,000 per operator.

The RM reported that Utility financial accounts are kept separate from the RM's General Operating Account and are audited annually. The RM's financial statements and the auditor's report are available for inspection at the RM's office.

The new WTP is providing water meeting Provincial Drinking Water Standards. On May 29, 2008, the Boil Water Advisory issued on May 10, 2005 was rescinded by the North Eastman Health Association Inc., with notice of the rescinding posted in the area.

The RM filed a letter dated May 13, 2008 from Water Stewardship (WS) concerning a water study conducted by Dr. Eva Pip. While Dr. Pip's study makes reference to "copper sulfate", WS advised that Dr. Pip's study and WS's own studies of Lake Winnipeg measured "copper" concentrations only and not copper sulfate. Both studies confirmed concentrations of copper well below

allowable limits of 1.0 mg/L.

WS noted that:

"As can be seen, copper concentrations were between 26 and 300 times lower than the established drinking water guidelines of 1.0 mg/L and are considered to be well within compliance in all cases."

The RM confirmed that with respect to licensing of the WTP, WS has advised being in the process of gathering information ahead of issuing an operating licence, which is expected to be issued in due course.

The RM reported that during the start-up phase, change Orders and modifications to the WTP were required and the cost of such changes and modifications will be dealt with in 2008. The RM opined that it is not responsible for these additional costs and that they will seek assistance from their contractors. The WTP still requires fencing.

The RM does not operate a sewer utility and hence no rate application was made in this regard. This matter is commented on further in this Order.

### **Background**

The Victoria Beach, Local Improvement District No. 1 includes 1,203 water service connections, representing approximately 60% to 65% of the total residential properties in the municipality.

The Utility consists of a new WTP (operational in 2008) with a capital cost of approximately \$3.4 million and an above ground

water distribution system serving approximately 1,027 cottage/residential properties, 2 commercial properties, a golf course and 173 vacant/non-connected properties.

The debenture for the new \$3.4 million WTP was approved by the Municipal Board. To help finance the new plant, besides insurance proceeds, the RM used \$100,000 from the Utility Reserve fund. The balance was paid for by the debenture, as no provincial or federal grants were available despite applications by the RM.

The debenture requires annual servicing costs of \$184,189.30 through to 2017, and the required payments are planned to be recovered through property tax levies. No part of the debenture debt cost has been imbedded in the rates.

The old WTP burned down in April 2005, and an interim water supply system was built providing service from May 2005. The water was filtered but not chlorinated and therefore, water was supplied under a Boil Water Advisory. The cost to provide interim service was largely met by using the insurance proceeds. The total amount of insurance proceeds was \$426,000, an amount that exceeded the "book" value of the "old" plant of \$200,000.

The new WTP includes a new intake into Lake Winnipeg (raw water source), a new much larger concrete reservoir for treated water, a John Meunier water treatment system and a new steel structure. The overall building is considerably larger than the very small WTP it replaces. The WTP is designed (40 L/S) and has the capability to service the entire Municipality. The treatment process can be expanded to include UV, if necessary, without

significant added costs. The 40 L/S capacity was chosen because the smaller plant (27 L/S) offered savings of less than \$100,000 whereas a future upgrade of a smaller plant would likely have cost in excess of \$1.0 million.

The water main lines are made of plastic (ABS or PVC) and hence, only seasonal service can be provided (mid-May to mid-October). The Municipality has spent approximately \$32,000 on water lines, clamps, adaptors, etc. over the past four years. The age of the water main lines varies as segments are replaced on an as-needed basis. In addition, the RM intends to add a new water main line (in 2008) to an area where the adequacy of the water supply and water pressure has been a concern.

#### *Sewer Service*

As noted earlier, the Utility does not provide sewer services. Residents without approved septic fields are required to use holding tanks (referred to as "pump out" systems). New regulations will require all residents to use "pump outs" for black and grey water. For all new cottages, or when upgrades occur for existing cottages, owners will be required to install "pump outs".

Each resident is responsible for the cost of emptying their tanks, and the RM pays the Rural Municipality of Alexander \$75,000 to \$80,000 annually for the use of its lagoon for the RM's residents.

The RM advised it has no present intention of constructing a sewage collection system, as costs were expected to be

prohibitive.

The RM advised it actively promotes the need to protect Lake Winnipeg. However, to date, there is no requirement for the RM to arrange for nutrient removal. The mandatory use of "pump outs" and the prohibition of new septic fields is expected to assist in the protection of the underground water supply from contamination.

The RM conducted a groundwater study three or four years ago. The study indicated that chloroform levels have increased slightly, though no "ecoli" was present. The RM's engineering consultant confirmed that the new requirements for "pump outs" will improve groundwater quality prospects.

### **Ratepayers**

Ratepayers present at the hearing inquired about the lack of grant for the new WTP, the RM's intended use of connection revenues if present subdivisions are connected (one 150 to 200 lot sub-division and two 50 to 60 lot sub-divisions), whether the test wells used to conduct the groundwater studies were capped, use of insurance proceeds, future rate increases and the consequence of new accounting rules and more specifically the impact related to accounting for depreciation. One ratepayer inquired as to how the proposed rates compare with other municipalities.

The Chief Administrative Officer (CAO) of the RM advised that, with respect to new connection revenue, it would be his recommendation to Council to add any such revenues to the

Utility Reserve Fund. Further, regardless of the date of connection, the CAO will recommend that each new lot owner pay the same capital cost contribution for the new WTP of \$2,416.30 paid by lot owners in the LID and further, be responsible for their own hook-up costs.

The RM advised that they had been approached to assume ownership of one of the sub-divisions and the RM has advised it would only do so on the basis water is provided from the new WTP.

The RM's engineering consultant advised that the test holes made in the groundwater study have been capped or filled in.

#### *New Accounting Standards*

New accounting standards applicable to all municipalities will take effect in 2009 and will introduce the concept of depreciation. A ratepayer asked if this means they will be required to pay for the plant twice. While depreciation will have an impact on utilities, the rate implications will depend in large part on the magnitude of reserves and the annual contributions being made to reserves; a definitive answer to the question cannot be provided until further research is conducted.

During the hearing the Board noted that regulatory costs can be substantial for small utilities, thus the Board would consider providing conditional and additional rate increases, to be exercised at the discretion of Council given adequate information is provided to the Board prior to implementation. One ratepayer suggested such an approach is desirable to keep abreast of inflation.

### **Board Findings**

The Board reaffirms statements made during the hearing that the capital cost of the new WTP and the resultant debenture were dealt with through a Municipal Board process and were not issues for the hearing.

However, the Board supports the view that new customers should be obliged to pay a connection charge of \$2,416.30, as is collected from lot owners inside of LID No. 1 (Victoria Beach), and that such revenues should be deposited in the Utility Reserve fund. New customers should also be responsible for hook-up costs.

While no customer at the hearing complained about either the non-connected water user or vacant lot fee, the Board did receive a written complaint about this practice. After due consideration, the Board finds the RM's approach to be reasonable, recognizing that water service is available to all customers and this likely contributes to property values. A non-connected water user is, in a sense, a Utility customer that has a stop valve at h/her lot, but water is not being taken.

The Board also noted that water quality is not a matter over which the Board has jurisdiction or expertise. However, it is pleased to note that the Boil Water Advisory has been lifted and that assurances have been provided that the water from the new WTP meets safe drinking water standards.

The Board is also pleased to note and applauds the efforts of the RM to meet the residents' need for safe drinking water early

in the 2008 season. The Board accepted the confirmation from the RM that the operating licence for the WTP's, not yet issued, is only a formality.

The Board carefully reviewed the projected operating costs of the Utility and notes that such estimates are at best just estimates, as the new WTP has no operating history.

The Board accepts the assertion made by the RM that as experience is gained operating costs of the new WTP, which have recently risen to above forecast levels, are expected to decline, and, therefore, the projected operating costs are reasonable for setting rates.

Accordingly, the Board will make no changes to the rate proposal other than to separate the RM's flat rates into a commodity rate and a service charge. The Board will amend the application to avoid multiple REU customers paying multiple service charges unfairly. (The service charge has been calculated as follows: administration costs (\$16,500) ÷ customers (1027 + 2 + 1 + 173) = \$13.75.)

The Board believes that as there is uncertainty about future costs of the Utility, there is a need to provide for modest future rate increases without requiring a relatively costly regulatory process.

Accordingly, the Board will conditionally approve up to 5% rate increases for 2009, 2010 and 2011, to be implemented at the discretion of Council and to be based on Council's assessment of future costs and need to build reserves. The RM will be

required to advise the Board if the discretion is to be exercised by providing a copy of its revised rate By-laws, financial statements and budgets.

The Board does not believe the costs of providing water in neighboring municipalities is completely relevant, as utility costs vary by jurisdiction for numerous reasons (for example, the quality of raw water). However, to satisfy a ratepayer's request for a comparison, the Board notes that a seasonal customer in Winnipeg Beach for a 6-month period is charged \$167.02 per quarter or \$278.37 for five months, as compared to \$117.00 now approved for Victoria Beach.

**IT IS THEREFORE ORDERED THAT:**

1. By-law No. 1498 of the Rural Municipality of Victoria Beach serving Local Improvement District No. 1 (Victoria Beach) BE AND IS HEREBY AMENDED as per Schedule "A" attached.
2. The Rural Municipality of Victoria Beach is hereby given discretionary authority to implement 5% rate increases in 2009, 2010 and 2011 subject to such By-laws and supporting financial statements and budgets being filed with the Board Prior to implementation.

Fees payable upon this Order - \$500.00.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"G.O. BARRON, FCGA"

Acting Secretary

Certified a true copy of Order No.  
87/08 issued by The Public  
Utilities Board

\_\_\_\_\_  
Acting Secretary

SCHEDULE "A"

TO BOARD ORDER NO. 87/08

THE RURAL MUNICIPALITY OF VICTORIA BEACH

LOCAL IMPROVEMENT DISTRICT NO. 1 (VICTORIA BEACH)

WATER RATES

BY-LAW NO. 1498

1. Water rate covering seasonable service to customers connected to the water system shall be levied as follows:

Annual Rates	Approved
1. Single Family Residence/Cottage, Grocery Store; Doctor's office: Service Charge Commodity Charge (1 REU) Total	\$ 13.75 <u>\$ 101.25</u> \$ 115.00
2. Restaurant, Bakery: Service Charge Commodity Charge (2 REU) Total	\$ 13.75 <u>\$ 202.50</u> \$ 216.25
3. Golf Course: Service Charge Commodity Charge <sup>(2)</sup> Total	\$ 13.75 <u>\$4086.25</u> \$4100.00
4. Non-connected water user/ Vacant lots <sup>(1)</sup> Service Charge Commodity Charge <sup>(2)</sup> Total <sup>(1)</sup> Lots along main water line or in the vicinity of municipal pumps or stand-pipes <sup>(2)</sup> Not based on a REU	\$ 13.75 <u>\$ 11.25</u> \$ 25.00

2. Water rate covering seasonal service to customers not directly connected to the water system, but who are using water obtained from municipal pumps or stand-pipes shall be levied as follows:

Any Customer/per year	Service Charge	\$13.75
	Commodity Charge	<u>\$11.25</u>
		\$25.00

3. Water rate equivalent payment covering vacant lots along main water lines or in the vicinity of municipal pumps or stand-pipes shall be levied as follows:

Any Customer/per year	Service Charge	\$13.75
	Commodity Charge	<u>\$11.25</u>
		\$25.00

4. The rates set forth in paragraphs 1, 2 and 3 hereof shall be billed to each customer on a separate utility invoice and shall be payable on or before July 31<sup>st</sup> of each year. A late payment charge of 1.25% shall be charged on the dollar amount owing after the billing due date and shall be calculated on the first day of each month, until paid in full. The due date will be at least fourteen days after the mailing of the bills.