

M A N I T O B A) Order No. 124/09
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THE PUBLIC UTILITIES BOARD ACT) September 1, 2009

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

PEMBINA VALLEY WATER COOPERATIVE
REVISED WATER RATES

Executive Summary

Following a public hearing held in Altona, and by this Order, the Public Utilities Board (Board or PUB) approves Pembina Valley Water Cooperative's (PVWC) application for revised wholesale/bulk water rates; the new rate of \$6.40 per 1,000 imperial gallons (currently \$5.40) will take effect October 1, 2009.

As well, the Board provides PVWC's Board of Directors (Directors) discretionary authority to implement additional rate increases of up to 2% on January 1 of 2011, 2012 and 2013, if the Directors deem the increases to be necessary.

Accordingly, PVWC's Directors may, without making application to PUB:

- a) increase the new rate of \$6.40 as of October 1, 2009 by up to 2% as of January 1, 2011; and
- b) increase the rate that is in place as of January 1, 2011 by a further up to 2% as of January 1, 2012; and
- c) increase the rate that is in place as of January 1, 2012 by a further up to 2% as of January 1, 2013.

If PVWC's Directors conclude that PVWC requires rate changes higher than those provided for above, PVWC shall make application to PUB.

Notice

PVWC shall provide advance notice to its members and other customers of all rate changes, and notice should be provided at least 60 days prior to change (excepting for the October 1, 2009 increase, the application for the October 1 rate change having previously been published in local newspapers and posted).

Future Applications and Information Requirements

PVWC shall make a rate application to the Board (supported by a rate study, financial statements and capital expenditure plans) for amended rates to take effect January 1, 2014 no later than September 1, 2013.

As PVWC reflects both operating and capital expenditures in its rates, PVWC shall inform PUB of any capital project with a projected cost in excess of \$500,000, advising as to the rate implications associated with the project. The Board has the authority to amend rates either through a paper-based or oral process.

Implications for Member Customers

By this Order, the Board also provides approval of member municipalities increasing their water rates to reflect a "pass-through" of additional costs arising out of the PVWC's rate increases provided for in this Order.

With respect to such "pass through" rate increases, member municipal utilities are neither required to make application to the Board or advertise a rate increase in advance of implementing same unless, in addition to reflecting the anticipated cost increases arising out of PVWC's rate increases, the member municipality proposes to either change the design of its rate schedule or implement a rate increase higher than that required to "pass through" PVWC's increase.

This new process is expected to reduce regulatory costs for PVWC's member municipalities, and, through PUB's review of PVWC's rate changes, improve the basis for future rate changes that may be sought by member municipalities.

With respect to the proceeding that led to this Order, PUB was pleased with the cooperation received from PVWC, and impressed by the professional and prudent manner by which PVWC's system, operating in the public interest, has been conducted.

1.0 Background

This Order follows the first rate application received by PUB from PVWC. Previously, PUB exercised regulatory forbearance, and did not require PVWC to submit applications.

PUB changed its approach to PVWC and began exercising regulatory oversight over the Utility in recognition of the magnitude and plans of PVWC and the opportunity to improve

the effectiveness of PUB's overall oversight of PVWC's member municipalities.

1.1 Membership

In the early 1990's, a number of south-central Manitoba municipalities established PVWC, a non-profit entity operating a regional water supply system.

The municipalities were of the view that the area lacked an adequate water supply system, which was (and remains so) necessary for an area experiencing high rates of population and economic growth. PVWC's service area covers approximately 3,500 square miles, which has a current population of approximately 45,000.

PVWC's municipal membership consists of:

- a) The towns of Altona, Carman, Emerson, Gretna, Morden, Morris and Plum Coulee;
- b) The Village of St. Claude;
- c) The City of Winkler; and
- d) Nine rural municipalities (Dufferin, Franklin, Grey, Montcalm, Morris, Rhineland, Roland, Stanley and Thompson).

PVWC's 18-member Board of Directors includes one representative from each municipality, and there are two co-chairs (to recognize the diversity of the members -- rural and urban, agriculture and industry, etc.).

1.2 Customers Served

PVWC provides water not only to its members but also to four other customers, these being the Altona Rural Water Services Coop, Blumengart Colony, Halbstadt Marais Water Coop and Roseau River First Nation (RR). Excepting for RR, PVWC reports no historical record of delinquency or collection difficulties.

And, except for Blumengart Colony and RR, PVWC's supply of water represents a wholesale cost, as the members and other customers distribute water received from PVWC (and, in most cases, other sources) to their customers at retail rates, which incorporate PVWC's billings and the various utilities' own costs of operation and distribution.

Rates charged by municipalities determined by PUB to be a 'public utility' for water and sewer services are required to be approved by PUB, and PUB's review of applications involve either a paper-based or oral public proceeding.

While the rates charged by Altona Rural Water Services Coop and the Halbstadt Marais Water Coop to their customers are also reviewed by PUB, that review is on a "complaints based" basis (rather than the more formal regulatory process).

1.3 Description of the PVWC Water System

PVWC's treated water meets Canadian and Manitoba standards, and is drawn from raw water sources including the Red River.

Following is a brief and summary description of PVWC's system:

1. Water treatment plants at Letellier, Morris and Stephenfield.
2. The Morris plant (producing water at 35 litres per second, lps) serves the Town of Morris, the RM's of Morris, Montcalm, Roland, Thompson and Dufferin, and, in part, the water requirements of the City of Winkler and the RM of Stanley. The remainder of PVWC's supply to Winkler and Stanley is provided from PVWC's Letellier plant. The Morris plant was constructed in 1998 and is currently being upgraded and expanded to include a large raw water reservoir at an estimated cost of \$14.7 million. During summer peak days, the existing plant at Morris is operating over its design capacity.
3. The Letellier plant, which produces the largest output of PVWC's three plants (100 lps), serves the towns of Emerson, Altona, Gretna, Plum Coulee and Morden; the City of Winkler; the RMs of Stanley, Franklin, Montcalm and Rhineland; and Roseau River First Nation. The plant was constructed in 1986, and, in 1998, expanded (tripling its capacity). That said, PVWC reported that during summer peak days the plant operates at or near its design capacity.
4. The Morris and Letellier plants obtain their raw water supply from the Red River.

5. The Stephenfield plant (25 lps) obtains its raw water from the Stephenfield Reservoir, and serves St. Claude and Haywood; and the RM's of Dufferin, Grey and Thompson. The plant also provides a segment of the RMs of Roland and Morris, and Town of Carman's treated water. The plant was constructed in 1999; and, as with the other plants during summer peak days operates above its design capacity.
6. Morden obtains 10% of its supply of treated water from PVWC, drawing and treating the remainder of its requirement from Lake Minnewasta.
7. Winkler obtains 40% of its treated water from PVWC, with the balance of its requirement drawn and then treated from the Winkler Aquifer.
8. Carman obtains 25% of its water supply from PVWC, with the rest drawn from the Boyne River.
9. The upgrade to the Morris plant (well underway) is expected to increase that plant's capacity to 67 lps, and, as PVWC's system is interconnected is expected to reduce the supply pressure on the other two plants. The upgrade includes both the installation of a new treatment process (involving membrane technology), and the construction of a 1.2 million cubic metre raw water storage pond (drawing water from the Red River). The new pond reservoir will provide for the preliminary settling treatment of solids while also establishing the system's

needed drought proofing. In the absence of the reservoir, a drought could now curtail the Morris plant's water supply; the new reservoir is expected to provide PVWC, in the case of a multi-year drought, the time to construct a pipeline to the Sandilands aquifer, this to ensure a continued water supply to the Morris plant and PVWC generally. PVWC reported having obtained a license to access additional raw water from Sandilands, although before developing that new source of raw water the Utility awaits a study on the ground water supply in the area.

10. There are presently eight booster stations in PVWC's system and a reservoir pumping station located near Roland.
11. The inter-connecting distribution system was built in the 1980's by way of plastic pipe; in subsequent expansions of the system PVC or HDPE pipe was used.
12. The three plants are considered Class 2 or 3 facilities; operators possess the required plant operator certifications, though some were issued on a conditional basis.
13. PVWC expects to meet the Provincial Office of Drinking Water's requirement for a comprehensive engineering assessment of its overall system by late 2009, and did not anticipate major difficulties will be identified through the review.

14. PVWC currently produces approximately 724 million gallons of water each year, yet experiences less than 1% unaccounted for water - a loss rate well below the industry average of 10% (the low rate of water loss attributable to both PVWC being a relatively new system and it being a wholesaler, water losses generally occur in local distribution systems).
15. Towns of Altona, Winkler, and the RMs of Morris, Rhineland and Stanley are PVWC's largest customers, and currently represent 51% of PVWC's annual output (no member municipality or other customer consumes 20% or more of PVWC's aggregate production).
16. PVWC reported that the service area's agricultural sector is a major end-consumer of PVWC's water, with the water being used for watering cattle and field spraying. (While employing raw water for spraying would appear to offer savings to consumers, the cost of creating a separate raw water distribution system was judged to be more expensive than PVWC's treated water supply.)
17. PVWC reports promoting water conservation, and that while the average residential use has been declining, noted that new demands arise with both a growing population and new and expanding industry in its service area.

1.4 PVWC's Financial Statements

PVWC's 2008 audited financial statements received a "clean" audit opinion by a firm of chartered accountants.

Highlights:

1. PVWC's property, plant and equipment net of amortization aggregated \$22.7 million (cost \$28.9 million, accumulated amortization, \$6.2 million). PVWC's projections call for aggregate property, plant and equipment to reach \$30.5 million by the end of 2013, net of amortization.
2. 2008 net amortization expense was \$467,183 (amortization of plant and equipment of \$704,111 less credit amortization of \$236,928 with respect to previously received government grants); PVWC's plant and equipment, and, partially offsetting the expense, government grants and customer contributions, are currently being amortized over varying periods of up to 40 years. Grants/contributions are being amortized over 30 years.
3. In 2007 and 2008, the net results were "excess of revenue over expenditure" of \$964,710 and \$762,803, respectively.
4. Annual "excess of revenue over expenditure" results, with net amortization - which is a non-cash item, provide the necessary funds to meet principal

payments on the Utility's bank loans (which, net of grants and customer contributions, fund PVWC's property, plant and equipment expenditures).

5. Net assets as of December 31, 2008 were \$4.9 million, with \$4.4 million of net assets invested in property, plant and equipment and \$521,000 unrestricted. These balances represent the "equity" of PVWC, providing for the measure of the Utility's financial strength - which provides confidence as to the Utility's ability to expand, borrow and maintain its facilities.
6. Including net amortization, PVWC's aggregate expenditures in 2008 were \$3,178,000 and in 2007 were \$3,008,000, while aggregate revenue was \$3,896,000 in 2008 and \$3,960,000 in 2007.
7. The largest expenditures were salaries and benefits (\$548,000), interest and bank charges excluding interest capitalized ahead of the completion of the Morris project (\$506,000), net amortization (\$467,000), chemicals and supplies (\$488,000), general management and administrative expenses (\$362,000), repairs and maintenance (\$286,000), and utilities (\$232,000) - in aggregate these categories of expenditure represented 90% of total expenditures.

PVWC currently has 16 employees, and reports prudent

practices are followed; such as having board members remuneration in 2008 of only approximately \$3,000 and per diems of \$1860 and travel expenses of \$1067, plus having a restrict policy limiting vehicle use for business only.

8. The following annual amortization rates (straight line) are employed:

Buildings	40 years
Water pipelines	40 years
Water treatment plants	40 years
Vehicles and equipment	7 years
Office furniture	7 years
Computer equipment	5 years

PVWC plans to review the amortization periods assigned the various plant and equipment categories as the Utility is concerned that its system infrastructure is experiencing shorter useful service life periods than reflected by the current annual amortization rates.

9. The average rate of interest as of December 31, 2008 on PVWC's \$18.5 million of demand loans outstanding was 4.66% - \$10.0 million of the \$18.5 million was obtained in 2008 (to partially fund the expansion and upgrading of the Morris facility).
10. In 2008, PVWC expended \$1.1 million to meet its

principal payment obligations with respect to the demand loans - those obligations do not include interest on \$8.5 million of the loans.

11. Principal payments on the recent \$10 million loan taken out to fund the Morris project will not be required until the plant project is completed (until then, interest payments are capitalized within the overall 'construction in progress' asset account).
12. Of the new borrowing of \$10 million, approximately \$7 million of the loan was invested short-term as of December 31, 2008, held towards future payments that will be required to complete the Morris project (which is expected to be completed in 2010). A further loan of \$5 million may be required with respect to the Morris project.
13. Water is supplied to PVWC's members and customers based upon contracts - some involve an annual volume commitment, others a dollar sales commitment.

1.5 Other Information

The following additional information was obtained by PUB through PUB's interrogatory process (a process involving PUB posing questions and receiving responses, to and from PVWC, ahead of the public hearing:

1. PVWC does not expect that the upcoming adoption of International Financial Reporting Standards (IFRS), which will form Canadian generally accepted

accounting principles (GAAP), will have a material impact either on its annual financial statements or rate-setting methodology.

2. In its report of March 4, 2009, the provincial Office of Drinking Water (Office) reported that PVWC had fulfilled its obligations in 2008, though PVWC is to file a report with the Office advising how PVWC intends to address an excess of trihalomethane in its treated water.
3. PVWC plans to complete an emergency response plan in early 2010; the plan is required to address risks, not necessarily existing conditions.
4. Other than the Morris upgrade, through to the end of 2013 PVWC expects to spend approximately \$30,000 per year on other capital works. That said, PVWC anticipates that in the future major upgrades may well be required for its plants, other than the Morris facility, to meet ever-increasing water quality standards. As well, if the Sandilands project is undertaken, major capital expenditures will be required, as will also be the case if system pipeline expansions are required. The projections filed by PVWC do not project those expenditures, as its rate application was intended to cover only the period from the present to the end of 2013.
5. PVWC advised of having considerable unused access to debt capacity, beyond its ability to access an

additional \$5 million loan to finish the Morris project (as well, PVWC reports an ongoing \$500,000 loan facility available to meet any relatively small capital asset requirement that may develop unexpectedly).

6. With respect to unexpected developments, PVWC advised that Manitoba Highways requires a water line be relocated to accommodate a new bridge over the Red River at Letellier (with this to cost PVWC approximately \$100,000).
7. PVWC carries what the Utility judges to be adequate liability insurance, with present coverage to \$20 million.
8. PVWC's financial plans call for a minimum of 10% of total assets be held as "net assets" (net assets were \$4.9 million as of the end of 2008, that being 16% of aggregate assets).

2.0 Application

2.1 Rate Application

PVWC filed its application with PUB in June 2009, seeking new rates as of October 1, 2009. PVWC charges rates based on meter usage (per thousand imperial gallons), and existing and applied for rates were:

2008 (existing)	\$5.40
2009	\$6.40 (18.5% increase)

PVWC proposed that the new rate of \$6.40 remain unchanged until January 1, 2011, and then increase by 2% per year in for 2011, 2012 and 2013 (2% being a proxy for the estimated rate of annual inflation).

While PVWC's past annual cost increases were reported to have been in the range of 5%, PVWC indicated that providing only for 2% annual rate increases (for the years 2011-2013) would create an incentive for the Utility to seek increased cost efficiencies, and contain costs.

2.2 Pass-through Model of PVWC Increases Approved by the Board

PUB invited public comment on it allowing PVWC member municipalities the authority to pass PVWC rate increases to their customers without a requirement for a PUB hearing, though notice would be required for their customers.

This approach is expected to reduce regulatory lag and costs, and acknowledges that any increase approved by PUB for PVWC represents a cost increase beyond the control of the individual PVWC members.

PVWC will be required to make application to the Board for any proposed rate changes, and such applications will be published in all areas served by PVWC, allowing the public to provide comments to PUB and providing PUB the opportunity to understand ratepayer concerns.

Also, under the proposed process, PVWC member utilities may only pass-through PVWC-caused increases (without mark-up,

except for such allowances as may be required to provide for normal water losses within their systems).

Member municipalities will also have the discretion to decide not to pass-through the full increase granted PVWC if their financial position is strong enough that it could absorb the increase without detrimentally impacting either the financial or operating position of its utility.

2.3 Notice and Public Hearing

Notice of PVWC's application was published in area local newspapers; it provided details of PVWC's proposal and invited the general public to a public hearing to be held on August 11, 2009 in the Council Chambers of the Town of Altona.

While PVWC directors and management were well-represented at the hearing, only a few members of the public attended, and, other than those associated with PVWC, no person made a presentation to the Board.

PUB takes the low level of public participation as an indication that the general public and business community served indirectly by PVWC has no major concerns with either PVWC's mode of operation or its rate increase proposal.

2.4 Application Details

2.4.1 Reason for the Application

The Notice of Application and Public Hearing noted the following:

"PVWC's application to the PUB is largely based on the Utility's cash flow forecasts through to December 31, 2013, which include additional borrowing to meet the Utility's capital expenditure plans. PVWC projects that if the proposed rate increases are approved and implemented it will be able to generate sufficient annual revenue to meet its projected cash disbursements, which include payments of principal and interest on borrowings, and increase its accumulated cash surplus. PVWC projects average annual expenses in excess of \$4 million."

2.4.2 Morris Treatment Plant Upgrade and Related Loan

As previously indicated, PVWC is in the process of constructing upgrades and additions to its Morris facility. Construction began in 2008 and is expected to conclude in 2010.

PVWC expects the upgrade to expand the plant's output, upgrade the treatment process and provide a major new reservoir, all at a capital cost of \$14.7 million (to be funded by bank loans, with principal and interest to be recovered through increased rates).

PVWC noted that it had tendered the project and worked to bring about the lowest possible cost associated with an expected appropriate outcome.

In 2008, PVWC arranged a loan of \$10.0 million from a major chartered bank, and, as previously indicated, has reported having the ability to borrow such additional funds as required to fully complete the project.

The loan, and presumably the possible addition of a further \$5 million of borrowed funds, is to be repaid over 15

years, with interest. While the 'payback' period is less than half the expected amortization period for the plant, the approach is expected to improve the financial capacity of PVWC and better equip it to meet future challenges.

As well, PVWC holds that embedding the full annual "cash" cost of major projects in rates better reflect the "user pay" system that its members prefer.

PVWC did not seek senior government grants for the Morris project, advising PUB that if grants had been provided to PVWC for the Morris project the ability of its member municipalities to secure grants for their own utilities would have decreased correspondingly.

With respect to whether intergenerational equity was fairly accounted for with respect to PVWC planning to repay the expected debt to arise out of the Morris project over 15 years, when the asset will be amortized over a period approaching 40 years, PVWC opined that plant upgrading to meet increasing water quality standards and population growth is a "never-ending" process, and that it expects there will be future major capital projects with significant costs that will require future generations to fund.

PVWC further noted that its Stephenfield and the Letellier plants will need upgrading within 5 to 10 years, well before the conclusion of the present 40-year amortization period for those plants, and that the Utility and its members are of the view that "faster loan paybacks"

represents prudent business practice, and result not only in the retention of a capacity to borrow at reasonable rates but also the avoidance of higher aggregate interest costs that would be involved with a longer payment period.

Further, PVWC holds that it is prudent to maintain a strong "balance sheet", to meet the rapidly growing needs of the region.

2.4.3 Financial "Pro Forma" Statements

PVWC provided PUB "Pro Forma" financial statements for the period 2009 through to and including 2015, based on PUB approving its application for increased rates.

The projections coincided with the revised Projected Income Statement and Cash Flow projection that had been filed with PUB on July 7, 2009.

Compiled for PVWC by its auditor, the projections assumed the following annual excess of revenue over expenditures (which do not take into account required principal payments on debt):

2009	\$950,072
2010	\$397,898
2011	\$433,490
2012	\$506,001
2013	\$585,782
2014	\$697,278
2015	\$817,630

As indicated previously, annual positive excess of revenue over expenditures are required to allow PVWC to meet its principal payment obligations on existing and future debt.

The following assumptions were used:

1. Loan interest rates remain unchanged from current levels;
2. Amortization periods remain as they currently are, and represent the expected useful life of PVWC's assets (though PVWC will be reviewing the amortization schedule and may reduce the amortization period for certain assets, which, if implemented, would increase annual expenditures and reduce currently forecast annual excess of revenue over expense forecasts);
3. Cost and revenue projections were based on estimates, with 2008 as the reference year; and
4. PVWC will continue to be income tax exempt.

While revenues were projected to increase 15% in 2010 as a result of the implementation of the rate increase sought in its application, PVWC forecast that, despite increased amortization, interest expense and operating costs associated with a completed Morris project, overall expenditures would be sufficiently restrained through measures to increase overall operating efficiency to allow for all obligations to be met through to the end of 2013, at which point a new rate application would be developed.

PVWC also filed projected production and cash flow costs for the 2009-2018 period:

Year of Operation	Production Cost (\$/1000 gallons)	Cash Flow Cost (\$/1000 gallons)
2008	\$4.40	\$5.41
2009	\$4.36	\$5.99
2010	\$5.92	\$6.14
2011	\$5.86	\$6.14
2012	\$5.80	\$6.06
2013	\$5.74	\$6.72
2014	\$5.64	\$7.18
2015	\$5.54	\$7.18
2016	\$5.45	\$6.37
2017	\$5.40	\$5.59
2018	\$5.36	\$5.61

Production costs involve the projection of expenditures divided by forecast water sales volume. Cash flow costs include the required annual principal repayment of bank loans, after deducting net amortization expense from forecast expenditures, and provide the major non-capital expenditure offset to expected cash revenues, producing the projected annual surplus or deficit of cash receipts.

The projections suggests that the \$6.40 rate sought for the

last quarter of 2009 through to the implementation a possible further 2% increase as of January 1, 2011, and further possible 2% increases on January 1, 2012 and 2013, are expected to produce sufficient cash receipts to meet "cash costs" to the end of 2013.

The following projections were presented by PVWC with respect to the Utility's anticipated annual surplus or deficit on its cash account:

Year of Operation	\$'000
2008	35.0
2009	(226.0)
2010	234.8
2011	225.1
2012	311.3
2013	(160.9)
2014	(492.6)
2015	(471.9)
2016	191.2
2017	856.6
2018	887.9

Over the period, the projections forecast varied annual results within the Utility's means to accommodate through to the end of 2013 and another application will be under

consideration ahead of the projected cash deficits for 2014 and 2015.

Of course, if major capital expenditures are required ahead of or during 2017/18, the major gains in "cash" now projected will likely not be realized, that is assuming the Utility's self-imposed requirement for a "net asset" position of 10% of assets is not exceeded.

For 2009, PVWC projects incurring a special \$562,500 interest payment related to interest being incurred but capitalized on the "currently" \$10 million loan during the Morris project, and projects that this 'special' payment will result in the projected cash flow shortfall - as the applied for rate increase would only take effect for the last three months of the year.

During the full period forecast, cash shortfalls and cash balance increases vary, following the now-expected terms of existing loan servicing agreements.

2.4.4 Operating Costs by Plant Site and Postage Stamp Rate

PVWC tracks the operating costs of each of plants, and the cost per 1,000 imperial gallons vary. However, in developing proposed rates, PVWC employs the projected costs of the entire system and develops and proposes a single "postage stamp" rate to be charged its members and other customers (regardless of the customer's location or the plant from which the treated water is supplied).

PVWC has employed this approach since it was established,

and considers the approach appropriately representative of the inter-connectedness of the overall system.

2.4.5 Financial Reporting by Membership

PVWC reported that the billing of municipal members is based on each member's share of total treated water consumed.

The allocation methodology is reviewable by the auditor of each of the members.

No patronage dividends to members, allowable under the Utility's bylaws, have been projected.

2.4.6 Pembina Valley Development Corporation (PVDC)

PVDC has been in operation since 1964 and assisted PVWC initiative and, initially, PVWC purchased all of its administrative work from the PVDC.

However, over the years PVWC assumed responsibility for its own administration and, in 2002, PVWC purchased its Altona office building, providing office space to the PVDC.

This arrangement is expected to end in 2010, when PVDC is anticipated to establish in a separate location with its own staff.

In 2008, PVDC paid PVWC \$25,000 in contract fees.

Board Findings

3.1 Overview

PUB finds PVWC to be well managed and commends the Utility, its management and Directors for their attention to the current and future water requirements of their service area and members.

PUB will approve PVWC's application for an increase in the water rate to \$6.40, and, further, will also provide Directors discretionary authority to implement further 2% increases as of January 1, 2011, 2012 and 2013.

PUB will also permit PVWC's member municipalities to "pass through" PVWC rate increases, as reflected in projected annual costs for the members, in their 'retail' rates for their ratepayers/customers, without requiring an advance notice to ratepayers/customers or an application to PUB. That said member municipalities "passing through" PVWC-based water cost increases will be expected to advise their customers/ratepayers of the increase(s) and the basis for the change, that being PVWC's increased rates, with their first billing at the new rate(s).

PUB will attach a few conditions to the approvals, including requiring applications for member municipalities if their proposed rate changes reflect matters other than PVWC rate pass-through (many of PVWC's member municipalities obtain only a portion of their water supply from PVWC, and rely on their own treatment plant and

distribution system for the rest of their supply and their distribution to their customers of treated water).

PVWC will be required to file with PUB its annual audited financial statements with PUB. PUB will also require PVWC to advise PUB of any new major capital expenditure (including any material increase in the cost of the Morris project), and, as well, if any patronage dividends for its members are being considered (in advance of any such distribution).

3.2 Regulatory Jurisdiction

The jurisdiction of the Board is set out in the *Public Utilities Board Act* and is quite broad. All utilities declared, by PUB, to be a public utility are required to comply fully with the Act, which includes provision for PUB issuing directions.

PUB's major mandate is to determine the public interest, and that while rates are one dimension of the public interest, particularly the fairness and adequacy of rates, for the benefit of both utilities and their customers, there are other provisions of the Act that deal with other matters regulated by PUB.

Of particular note are clauses dealing with the obligation of utility owners regarding matters such as discriminatory and preferential rates (not the case for PVWC), and the need to provide advance notice of disconnection.

The Board issues policy statements by way of its orders,

and these are available at the Board's website at www.pub.gov.mb.ca. Recent generic orders deal with financial reporting requirements and the disconnection of service.

PVWC's co-operation is expected to lead to less costly regulation of its member utilities, and, as well, a lessening of the regulatory lag that has occurred with respect to pass-through rate increases of PVWC's water rate increases to member municipalities and their ratepayers.

Initially, PVWC questioned the Board's decision to exercise its jurisdiction and regulate the Utility, concerned about regulatory costs and the risk that regulation could affect its attention on the requirements of its Morris Water Treatment Plant upgrade.

While PUB understands PVWC's concerns, noting that the project has rate and cost implications for both member municipalities and PVWC's other customers, PUB concluded that its regulation of PVWC is required.

And, while PUB incurred approximately \$4,000 in initial legal costs in the process of commencing its regulatory oversight over PVWC operations, costs that normally are assessed to the regulated utility, PUB will absorb its legal costs in recognition of the fact that the change in regulation was initiated by the Board following many years of regulatory forbearance.

PVWC operates one of the largest water supply utilities in Manitoba, and in a quasi-monopoly environment. Rates

charged by PVWC are passed through to member municipalities and their utility customers, and often make up a substantial part of the ultimate cost of water to the end-consumers.

Regulating PVWC provides PUB the opportunity to implement a more effective and efficient process with respect to its regulation of PVWC's member municipalities and their water utilities.

While regulatory costs will be incurred by PVWC as a result of PUB's proceeding and regulation, the cost to PVWC of this proceeding should, particularly over time, be more than recovered by lower and long-term regulatory cost savings by member municipalities.

As well, PUB absorbs its travel costs, and applicant water and sewer utilities are only required to cover the billing time of PUB staff and Board members.

As long as PUB is able to rely on the municipalities and utilities and is not obliged to retain external professional advisors, regulatory costs associated with PUB, for water and sewer utilities, will continue to be but a fraction of the costs assumed by Crown Corporations.

3.3 Decision on the Application

The Board, after a careful review of PVWC's application and supporting documents, and, finding the application supported by the evidence obtained through the proceeding, will approve the application.

Specifically, PUB will approve:

- a) a rate of \$6.40 per 1000 imperial gallons from October 1, 2009; and
- b) discretionary rate increases for 2011, 2012 and 2013 of up to 2% per year - the discretion to be exercised by PVWC's Directors, with a minimum 60 days advance notification to PVWC members and other customers.

3.4 Capital Projects and Financing

PVWC was committed to the Morris Water Treatment Plant upgrade and new reservoir project prior to filing its rate application with PUB.

Nonetheless, PUB, having reviewed PVWC's rationale for the project, accepts that the upgrade and new reservoir are necessary and is aware that PVWC's means of funding its costs are through rates charged for water, government grants and customer capital contributions.

PUB also accepts that PVWC operates efficiently, and, with respect to the Morris plant, the main driver of the rate proposal, expects that the costs of the project will be prudently incurred.

PUB also understands PVWC's decision to repay loans incurred to finance major capital projects over a shorter period of time than its amortization schedule for the assets constructed and acquired.

PUB accepts that the current amortization periods may not

represent the actual experience, and that the service lives of such assets may be shorter than experienced in previous periods due to increasing water quality standards, population growth and higher inflation for construction projects than the general inflation rate.

However, as major capital projects and decisions with respect to the terms of loans taken out to fund all or part of such projects have rate implications, the Board will require an opportunity to review such matters ahead of commitments being made.

In short, PUB is of the view that it would be reflective of PVWC's prudent business practices if PVWC provided PUB advance notice of its major capital expenditures, to allow PUB to consider the rate implications ahead of commitments being made.

Accordingly, PUB will establish a \$500,000 threshold; new capital projects expected to have a cost in excess of \$500,000 are to be reviewed by PUB for rate implications ahead of commitments being made.

3.5 Financial Forecast

PUB reviewed PVWC's financial forecasts and is satisfied that they are reasonable, given the knowledge of the day.

And, the Board accepts and will agree to PVWC's suggestion that it be given discretionary authority to implement further rate increases of 2% per annum in 2011, 2012 and 2013, to, hopefully, meet inflation-driven cost increases.

Revenue projections, including the additional 2% rate increases, and the projections of expenses reasonably reflect the growth and past operating experience of the utility, and PVWC's desire to achieve further cost efficiency over time.

The Board notes the years where cash flow shortfalls are expected, and accepts the reasons. The Board anticipates that PVWC, given continued prudent management, will be able to meet its financial commitments over the long term.

The Board also notes PVWC's minimum "net asset" Policy, and agrees that the Utility should maintain a reasonable level of "net assets", including unrestricted reserves, to assure itself of its ongoing ability to borrow at reasonable terms for future capital projects.

It is a sign of PVWC's successful financial conservatism that it has achieved a good and continuing relationship with a major chartered bank, and its ability to secure reasonable interest rates, credit availability and other terms.

3.6 Postage Stamp Rates

The Board accepts PVWC's "postage stamp" single rate, and finds it appropriate for the Utility.

PUB notes that similar practices are in place for Manitoba's Crown-owned electricity and natural gas utilities, where interconnectedness of systems are also recognized.

3.7 Amortization Rates for Property, Plant and Equipment

Any change to the present amortization rates for plant and equipment are to be approved by PUB; this due to the significance of annual amortization charges and their relationship to rates.

In the Board's recent Financial Reporting order, the Board accepted existing amortization rates set by municipalities, and will also do so for PVWC. However, as per that previous Order, any future changes to amortization rates are to be approved in advance by PUB. PUB will not unreasonably withhold changes, nor will PUB's review prove costly for the Utility.

The Board notes PVWC's concern with respect to the reasonableness of current amortization periods, and will not be surprised if changes are sought.

3.8 Customer Class

While PVWC provides water to its members at one rate, the members charge their ratepayers/customers varying rates, reflecting the diversity of approaches, sources of water and nature of existing distribution systems.

The implications related to customer diversity and the rate outcomes related thereto are matters best determined at the retail level, by member municipalities.

3.9 IFRS

PVWC does not expect significant change for the Utility's

accounting upon Canadian GAAP complying with International Financial Standards.

The Board will monitor developments, and to that end, will require PVWC to file its audited annual financial statements with the Board within six months of the end of each fiscal year.

3.10 Pass-through of Increases by PVWC Members

PUB received a letter from the City of Winkler supporting the rate change "pass-through" process referred to earlier in this Order.

Having notified all PVWC members and customers, and the retail customers of PVWC's members of the intended abbreviated regulatory process, and having heard no opposition, the Board will adopt the aforementioned "pass-through" process and will arrange to provide notice of this decision to applicable parties.

This new process will allow ratepayers to more effectively intervene in applications with implications for major cost increases while also reducing overall regulatory costs.

The process to be followed is as follows:

- Step 1. Each municipality or cooperative shall consider the implication of any increase approved by the Board for the PVWC.
- Step 2. If the cost increase is to be reflected in the rates of a municipality, and with the one

exception that changes in the rate of water losses in the system may also be included, the municipality need only inform PUB and its ratepayers/customers of the "pass through" rate change.

Step 3. If rates are to change for any other reason, the municipality must make application to PUB, which may decide to proceed to hear the application by way of a paper-based process or by way of an oral public hearing.

Step 4. For such "pass through" rate changes, municipalities shall file an amended rate by-law with PUB and provide notice of the change to its customers. There will be no need for either a rate study or advance notice to customers.

PUB notes that many member municipalities of PVWC obtain only a portion of their overall treated water supply from PVWC and that not only is a portion of their water supply obtained from other sources but all municipalities operate their own distribution systems, and that the costs of non-PVWC operations for member municipalities are expected to increase over time, and that for rate increases related to non-PVWC water cost increases applications to PUB and approval by PUB will be required. That said, PUB will assess the materiality of such non-PVWC based rate increase proposals from PVWC member municipalities in determining whether a paper-based process for the review of the required application will suffice.

And, with respect to future PVWC applications seeking a rate change, the ratepayers/customers of member municipalities will again be given an opportunity to comment to PUB through advance notice of a PUB proceeding, whether it is to be by way of a paper-based process or an oral hearing being published in each area that PVWC supplies water to.

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 (Rules). The Board's Rules may be viewed on the Board's website, www.pub.gov.mb.ca.

4.0 It Is Therefore Ordered That:

1. The Application of the Pembina Valley Water Cooperative for an increase in water rates to \$6.40 per thousand gallons effective October 1, 2009 **BE AND IS HEREBY APPROVED;**
2. Pembina Valley Water Cooperative may, by a resolution of its Board of Directors, increase the \$6.40 water rate now approved by up to 2% per year (as of January 1, 2011, 2012 and 2013);
3. Pembina Valley Water Cooperative shall make application to the Public Utilities Board, with adequate supporting documentation including a rate study, the Utility's latest annual audited financial statements, and projections of revenues, expenses and capital expenditures for the following five years, for approval of revised rates for 2014 and beyond, by no later than September 1, 2013;
4. Pembina Valley Water Cooperative shall file, for approval by the Public Utilities Board, details of all capital projects exceeding a projected cost of \$500,000 in advance of commitment to the project;
5. Pembina Valley Water Cooperative shall file for approval with the Public Utilities Board any change to the current amortization rates for plant and equipment;

6. Pembina Valley Water Cooperative shall file with the Public Utilities Board its annual audited financial statements for the previous calendar year by June 30 of each year with respect to the previous fiscal year ending December 31;
7. Pembina Valley Water Cooperative shall file with the Public Utilities Board any decision and/or resolution of Pembina Valley Water Cooperative's Board of Directors enabling the payment of a patronage dividend to any or all members; and
8. Pembina Valley Water Cooperative shall advise its member municipalities that in "passing through" the costs of PVWC water rate increase(s) to their customers/ratepayers the member municipalities are to advise their customers/ratepayers of the increase(s) and the reason for the increase(s) - i.e. PVWC PUB-approved rate increases.

Fees payable upon this Order - \$4,695.00

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"G. O. BARRON"

Acting Secretary

Certified a true copy of Order No.
124/09 issued by The Public
Utilities Board

Acting Secretary