

M A N I T O B A) Order No. 84/09
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THE PUBLIC UTILITIES BOARD ACT) May 20, 2009

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

RURAL MUNICIPALITY OF RIVERSIDE
LOCAL IMPROVEMENT DISTRICT NO. 1 (DUNREA)
REVISED WATER RATES

1.0 Executive Summary

By this Order, the Public Utilities Board (Board) approves revised water rates for the Rural Municipality of Riverside (RM) serving the community of Dunrea as set out in By-law No. 2 of 2009 effective January 1, 2009 as noted below:

Annual Flat Fee ⁽¹⁾	Existing (2004)	Approved	Increase
Administration	\$ 10.00	\$ 10.00	Ø
Per Residential Equivalent Units (REU) ⁽²⁾	\$330.00	\$405.00	22.7%
Total annual charge	\$340.00	\$415.00	22.0%

Note: ⁽¹⁾Collected with taxes.

⁽²⁾Four customers are assigned 2 REUs and accordingly the annual charges would be \$820.00 (\$405.00 x 2 + \$10.00)

In addition, the Board approves two discretionary increases of up to 10% to be effective January 1, 2010 and 2011.

The Board expresses concern about the affordability of operating the utility based on a customer base of 46 customers which, the RM advises is declining and also, changing to seasonal use only, particularly in light of the upgrading required to the system.

Notice of the RM's application was mailed to each customer with an invitation to write the Board with any concerns or comments by no later than May 1, 2009. No comments were received.

2.0 Background

The RM owns and operates a water distribution system serving 46 customers in the community of Dunrea (Local Improvement District No. 1). Sewer service is not provided. The customer base is declining thus causing a growth in the number of seasonal use customers. There are currently 39 residential and 7 commercial customers.

The water treatment plant was built in approximately 1970. The RM is in the process of installing a bio-filtration system to address water quality issues related to iron and manganese. This upgrade will cost \$120,000. The upgrade is to be financed as follows:

Manitoba Water Services Board	\$ 36,000
LID of Dunrea	\$ 12,600
LID of Dunrea Reserve	\$ 7,400
Gas Tax	\$ 20,000
Debenture	\$ 44,000
Total	<u>\$120,000</u>

The RM intends to issue a debenture for the \$44,000 borrowing to be repaid over 15 years. The debenture is to be recovered by a local improvement tax collected on a per service connection basis.

On March 11, 2008, the RM convened a meeting to discuss the state of the utility and this debenture and no objections were raised.

In early 2008, the RM experienced difficulty finding a replacement water treatment plant operator following the resignation of the previous operator. Eventually, a new operator was hired, though at an increased cost to the utility.

The RM noted that as the customer base declines rates will need to rise to cover the operating costs of the utility.

Water losses in the system are approximately 10.7%.

On August 18, 2008, the RM received the engineering assessment report prepared by Pinter and Associates (Pinter) with 33 recommendations for improvement to the utility system.

The RM filed its Compliance Plan to the Pinter recommendations as required by Water Stewardship with the Board, which included a work plan for 2008 and 2009; as well, the RM confirmed that all work planned for 2008 had been completed.

The RM has not developed an Emergency Plan for its utility as yet and is looking for guidance in this regard. The Board advises the RM to contact Water Stewardship in this regard.

3.0 Application

The RM applied to the Board for revised water rates on February 17, 2009 and attached By-law No. 2 of 2009 passed on April 8, 2009. This By-law should have been submitted to the Board after first reading, as is required by legislation.

The existing (2004) and proposed rates are as follows:

Annual Flat Fee ⁽¹⁾	Existing	Proposed	Increase
Administration	\$ 10.00	\$ 10.00	Ø
Per Residential Equivalent Unit (REU) ⁽²⁾	\$330.00	\$455.00	37.8%
Total annual charge	\$340.00	\$465.00	36.8%

Note: ⁽¹⁾ Collected with taxes.

⁽²⁾ Four customers are assigned 2 REUs and accordingly the proposed annual charges for these would be \$920.00

This is an unmetered system and water usage is estimated on a

residential equivalent unit basis (REU) consistent with industry practice. The RM advised that the assignment of multiple REUs to its four customers was reviewed as part of the rate study

The RM bills utility customers within its annual property tax billing.

As at December 31, 2008 the Utility had a reserve fund balance of \$304.14 and an accumulated cash surplus of \$3,205.21.

The Utility operating costs to develop the rates were as follows:

Administration	\$ 455
Operating	<u>\$21,400</u>
Total	<u>\$21,855</u>

These costs include an additional capital cost of \$2,500 for water treatment plant upgrades and \$4,000 for debenture debt repayment.

In 2008 (unaudited), the Utility earned a \$3,205 operating surplus after a transfer of \$10,000 from the Revenue Fund and Gas Tax Reserve and \$25,000 from the utility reserve. In 2008, the utility spent \$23,760 on a capital improvement yet to be completed.

With respect to shared services the RM has included a nominal amount in rates for administrative services and there are little to no other shared services.

The RM has set aside \$525 in its budget for operator training and the operator will be challenging the exam for certification shortly.

No services are extended beyond the utility boundaries and no further utility capital projects are planned in the next five years. The RM does not provide bulk water services.

The RM provided its Tangible Capital Asset schedule including total utility assets of \$317,106. The \$120,000 capital cost of

the new filtration system was not included in the schedule as the project is not yet complete.

The RM had intended on including the debenture repayment cost of \$107.33 per service connection per annum over 15 years in the utility rates as customers are charged on a flat rate REU basis. However, in doing so, those customers who are charged on a multiple REU basis would pay a multiple of the per service connections charges which may not be consistent with Municipal Board Order No. E-08-127. Board staff reviewed this with the RM who advised it will not be collected in the utility charges.

Furthermore, the RM advised that the 2009 tax bills had been already prepared based on existing charges and, once the Board decision is issued, a revised utility bill would be forwarded, where necessary.

The Board understands that when utility charges are added to tax bills that it is possible that ratepayers with low assessed property values may have a portion of their property tax bill offset by the annual provincial Education Property Tax Credit. The RM should ensure that no utility charges are offset by a credit related to education tax relief.

As a result of the change in recovery of the debt repayment cost, the proposed rates are required to be amended downward.

4.0 BOARD FINDINGS

The Board was troubled by the details of the application, and though through no fault of the RM, there are issues that will prove very difficult to address.

The RM's utility is experiencing a declining customer base at the same time as operating costs are increasing; if these conditions persist rates for those remaining customers will need to be

revised upwards on a regular basis.

As to the rate increases proposed and approved herein, while they are "large", the Board has approved larger increases as warranted by the circumstances.

The Board notes that drinking water standards continue to be met but the engineering assessment raises some serious issues which will need to be addressed. The Board was pleased to note that the work required to be performed in 2008 was completed in accordance with the RM's Compliance Plan and expects those scheduled for 2009 will also be attended to in a timely manner.

The Board was also pleased to see that the RM has engaged the community with respect to these increases which likely explains why no comments were received with respect to the RM's application.

The Board notes that the debenture debt repayment charge will now be collected separately from the rates proposed which would reduce the forecasted operating expenses of the utility by \$4,000.

However, noting the current low level of reserves and that no provision has been made in the rates for recovery of amortization expense related to PSAB, the Board will approve rates which will allow for a recovery of the reduced expense from \$4,000 to \$2,000. This additional \$2,000 is to be added to the utility reserve fund if not required to meet the additional cost in 2009 to complete the Compliance Plan.

As well, the Board will approve two additional rate increases of up to 10% effective January 1, 2010 and 2011 to provide the

utility with additional monies for future projects. These provisional increases are to be granted even though the Board is uncertain as to the impact on revenue requirement that may develop as a result of changing accounting standards.

The Board recognizes that the current quality of water, while safe to drink, may not be desirable for laundry use. Nonetheless, even such a low level of quality water involves costs, and these costs must be recovered through adequate rates to allow the utility to operate on a breakeven basis.

The Board noted that shared services have been assigned to the utility on some nominal basis. The Board will accept this method for this rate application only and when the RM next applies for revised rates, the Board will look for a more precise method to actually reflect the costs of operating the utility.

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 at www.pub.gov.mb.ca.

5.0 IT IS THEREFORE ORDERED THAT:

1. Rural Municipality of Riverside By-law No. 2 of 2009 BE AND IS HEREBY approved subject to amendment to agree with Schedule "A" attached hereto.
2. The Rural Municipality of Riverside BE AND IS HEREBY granted two additional rate increases of up to 10% effective January 1, 2010 and 2011, the increases to be implemented at the discretion of the Rural Municipality of Riverside.
3. The Rural Municipality of Riverside shall file with the Public Utilities Board its methodology for allocation of expenses for shared services and equipment to the utility the next time a rate application is made or if any change is made to the nominal amount provided for in this Order.

4. The Rural Municipality of Riverside shall file its Tangible Capital Asset schedule once updated for the new upgrades with the Public Utilities Board noting once filed any changes thereto must be approved by the Public Utilities Board.

Fees payable upon this Order - \$100.00

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"
Chairman

"GERRY BARRON, FCGA"
Acting Secretary

Certified a true copy of Order No.
84/09 issued by The Public Utilities
Board

Acting Secretary

SCHEDULE "A"
TO BOARD ORDER NO. 84/09

RURAL MUNICIPALITY OF RIVERSIDE
LOCAL IMPROVEMENT DISTRICT NO. 1 (DUNREA)
WATER RATES
BY-LAW NO. 2 OF 2009

UNITS	CUSTOMER	SERVICE CHARGE	COMMODITY RATE	ANNUAL BILL
1	Single family residence, Church, Hall, Shop	\$10.00	\$405.00	\$415.00
1	Rink	\$10.00	\$405.00	\$415.00
2	Municipal Complex	\$10.00	\$810.00	\$820.00
2	Hotel	\$10.00	\$810.00	\$820.00

Service to Customers outside L.I.D. #1 Limit

The Council of the Rural Municipality of Riverside may sign agreements with customers for the provision of water services to properties located outside the legal boundaries of Local Improvement District No. 1.

Such agreements will provide for payment of the appropriate rates as set forth in the table above as well as a surcharge, set by resolution of Council which will be equivalent to the frontage levy and general 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 in connection to the utility's mains, installing and maintaining service connections will be paid by the customer.

Billing and Penalties

Accounts shall be billed ANNUALLY ON THE TAX NOTICES and shall be due and payable together with the taxes October 31st, of each year unless otherwise identified in the Tax Levy By-law of the municipality. Penalties will correspond with those imposed by the Levy by-law at the rate of 1 ¼% per month (15%) per annum.

New Connections

Any person wishing to connect to the water distribution system must make the arrangements with the municipal office. Any new connection from the passing of this study/by-law requires a curb stop to be installed and will be invoiced the applicable rate % ratio to that portion of the year remaining.

Disconnection

The Public Utilities Board has approved the Conditions Precedent to be followed by the municipality with respect to the disconnection of service for non-payment including, such matters, as notice and the right to appeal such action to the Public Utilities Board. A copy of the Conditions Precedent is available for inspection at the Municipality's office.

Reconnection

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$20.00 have been paid.

Hydrant Rentals

In the event of hydrants being installed, the Rural Municipality of Riverside shall pay to the utility an annual rental sufficient to cover the cost of maintaining and replacing all hydrants connected to the system. The Rural Municipality of Riverside to pay also for any water used for firefighting, since this is not a utility responsibility and should be recovered through taxes. The hydrant rental charge be set at the Rate of \$75.00 per hydrant per year.