

M A N I T O B A) **Order No. 133/10**
)
THE PUBLIC UTILITIES BOARD ACT) **December 22, 2010**

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

RURAL MUNICIPALITY OF SOUTH NORFOLK
RATHWELL WATER UTILITY
INTERIM WATER RATES

Executive Summary

By this Order, the Public Utilities Board (Board) approves, on an interim *ex parte* basis, revised and interim water utility rates for the Rural Municipality of South Norfolk (RM), Rathwell Water Utility (Utility).

The rates are effective as of January 1, 2011.

Existing and revised interim rates:

	Current	Interim Approval
Per Residential equivalent unit	\$150 per annum	\$250 per annum
Bulk Water Sales	\$/1,000 gallons	\$/1,000 gallons
Rathwell Municipal Well	\$5	\$5
Treherne Municipal Well	\$5	\$5
Rathwell Waterplant Well	\$7	\$7

Background

The Utility last increased its rates in 2004, and those rates are no longer sufficient to cover the costs of operating the Utility.

Effective January 1, 2009, Public Sector Accounting Board (PSAB) accounting standards became applicable for municipalities, including their utility operations. The implications of the accounting change for municipal utilities are significant.

While the Utility's application neither included financial statements prepared in accordance with PSAB standards, nor take into account all of the implications of PSAB driven changes, the

Board has, on an interim basis, determined that a rate increase is required to reflect the changed standards.

Pursuant to legislation, municipal utilities are expected to break-even on operations annually.

Towards alleviating the otherwise significant upward pressure on customer rates that would often result from the accounting changes, the Board has established regulatory accounting practices that differ in one respect from those set by PSAB.

For rate submissions to the Board, grants may be amortized over the same period the corresponding capital asset is being amortized. Similarly, any water and sewer infrastructure transferred to a municipality by a developer will be considered a donation. For rate setting purposes, the Board will allow these donations to be amortized over the same period of time as the acquired capital asset, resulting in a complete offset.

Details of PSAB requirements and the Board's allowable regulatory accounting treatments are set out in Order 93/09, available on the Board's website (www.pub.gov.mb.ca).

Backlog

Because of the PSAB changes, and the Board's allowable variances, the numbers of municipal utility applications for rate changes that have been submitted within the last six months have been far higher than normal.

The Board has a limited staff to undertake reviews made more

complex by the accounting changes. The Board is expending additional time in reviewing each application, towards ensuring accuracy and completeness.

In an effort to minimize delays, the Board has implemented a 'quick review process' that heavily relies upon municipalities. This process applies to utility rate applications received by the Board between June 1 and November 1 of 2010.

For these applications the Board will perform a cursory review. Based on the information provided, the Board's general understanding of the specific utility, utilities in general, the implications of PSAB and Board accounting guidelines, interim *ex parte* rates (*ex parte* means without public notice). These revised interim rates may not be those sought by the utility.

The Board will issue an interim *ex parte* decision on this Application which is to be followed by a detailed review including an opportunity to hear from customers and obtain further details from the utility. This will be followed by a final order of the Board.

Application

The Town applied for revised water and sewer rates, as set out in By-law No. 2486/10 read the first time on November 9, 2009.

The Town proposed the following rates:

	Current	Proposed
Residential equivalent units*	\$150 per annum	\$250 per annum

Bulk Water Sales	\$/1,000 gallons	\$/1,000 gallons
Rathwell Municipal Well	\$5	\$5
Treherne Municipal Well	\$5	\$5
Rathwell Waterplant Well	\$7	\$7

*There are 74 residential and small business customers, each of which are assigned one residential equivalent unit. In addition, there is a senior citizens' home which is assigned 6 REU's.

The RM indicated that it did not include bulk water sales revenue in Utility results, but, rather, deposited such revenues with general municipal revenues.

Nonetheless, the RM submitted bulk water rates for approval, being of the view that such rates were under the purview of the Board. Expenses related to bulk water sales were reported as minimal. The Rathwell and Treherne Municipal Wells provide untreated water only, and the RM has confirmed that there is clear signage to this effect.

A report from Manitoba Water Stewardship confirmed acceptability of the water supply produced from the Rathwell Water Treatment Plant.

Board Findings

From the information submitted, the Board provides the following projected and estimated summary of annual Utility expenses:

	Interim Approval
Expenses	
Operating costs	\$18,000
Amortization	16,081

Interest	4,029
Reserve provision	1,000
Contingency	1,000
Total Revenue Requirement	\$40,110

Non-rate Revenues	
Amortization of capital grants	3,866
Taxation levies for debenture	8,264
	12,130
Net revenue requirement	27,980
Product sales	
Bulk water sales	14,876
Water sales	20,000
	34,876
Net surplus	6,896

While the RM did not consider amortization expense in its application, the RM did provide the necessary information which the Board has been able to use in determining the above revenue requirement.

The Board is of the view that all water related sales, including bulk sales, should be considered part of the water utility operations and has therefore considered the amortization expenses related to the wells, as well as the attendant revenue, in determining the rates it provides approval of.

The Board will approve, on an *ex parte* basis, interim water rates as applied for by the RM.

The Board makes this interim decision, despite the fact that the new rates will, apparently, be expected to generate a surplus

for the Utility.

The Board notes that the RM's financial statements for 2009 have yet to be completed, and is attentive to the potential that there may be other factors not yet considered in determining the Utility results. The Board is also mindful of the potential deficit which may have been incurred for 2010, and expects that a surplus in 2011 may be required to offset potential 2009 and 2010 operating losses.

As previously stated, the Board will conduct a fuller and thorough review of the utility's revenue requirements and rates in 2011, once the final 2009 financial statements and preliminary 2010 results are available.

Ratepayers will be provided notice and allowed an opportunity to provide comments. Following such a process, which may include an oral hearing, the Board will issue an Order, setting final rates which may vary from those established herein.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure.

IT IS THEREFORE ORDERED THAT:

1. The Rural Municipality of South Norfolk By-law 2486/10 BE AND IS HEREBY APPROVED on an interim ex parte basis, with interim rates to be effective as of January 1, 2011.
2. The Rural Municipality of South Norfolk files a copy of By-law 2486/10 once it has received third and final reading.
3. The Municipality provides notice to customers, with a copy to the Board, of the interim rate increase and the rationale for same as soon as possible.

Fees payable upon this Order - \$150.00

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"KRISTINE SHIELDS"

Acting Secretary

Certified a true copy of Order No.
133/10 issued by The Public
Utilities Board

Acting Secretary