

M A N I T O B A) Order No. 157/11
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THE PUBLIC UTILITIES BOARD ACT) November 9, 2011

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

RURAL MUNICIPALITY OF MORRIS
URBAN AND RURAL UTILITIES
REVISED WATER AND SEWER RATES - 2012

Summary

The Public Utilities Board (Board) hereby confirms interim rates set for 2011 and approves revised water and sewer rates for the rural and urban utilities of the Rural Municipality of Morris (RM), effective January 1, 2012. (The urban utility consists of the Lowe Farm, Rosenort and Sperling utilities.)

The RM is now required to amend its rate by-law to reflect the provisions of this Order, and file these with the Board no later than January 1, 2012.

This approval amends the 2011 interim rates approved in Board Order No. 13/11, issued January 21, 2011.

Existing and revised rates:

Urban Utility

Commodity Rate \$/1,000 gallons	Prior to 2011				2011 Approved	2012 Revised
	Lowe Farm (1999)	Rosenort (1999)	Sperling (2006)			
			Rural	Urban		
Water – All Consumption	\$ 7.13	-	\$ 7.60	\$ 9.60	\$ 11.50	\$ 13.30
First 27,500 gallons	-	\$ 6.54	-		-	
Over 27,500 gallons	-	\$ 5.22	-		-	
Rate rider - deficit recovery						\$ 3.61
Sewer	\$ 2.22	\$ 1.09	-	\$ 1.00	\$ 1.75	\$ 1.75
Quarterly Service Charge	\$ 9.70	\$ 8.80	\$ 5.00		\$ 6.00	\$ 20.00
Minimum Quarterly	\$38.54⁽¹⁾	\$32.32⁽¹⁾	\$35.40⁽¹⁾	\$48.40⁽¹⁾	\$ 45.75⁽²⁾	\$ 75.98⁽²⁾
Bulk Water	\$ 8.40	\$ 7.72	\$ 9.60		\$ 15.00 ⁽³⁾	\$ 17.25 ⁽⁴⁾
Reconnection charge	-	-	\$100.00		\$100.00	\$100.00

⁽¹⁾ Includes 4,000 gallons

⁽²⁾ Includes 3,000 gallons

⁽³⁾ Plus a \$6 per customer quarterly service charge

⁽⁴⁾ Includes \$3.61 rate rider plus a \$6 quarterly service charge

Rural Utility

Commodity Rate \$/1,000 gallons	Prior (1999)	2011	2012
Water	\$ 6.50	\$ 8.00	\$ 7.70
Rate rider - deficit recovery	-	-	\$ 0.22
Quarterly Service Charge	\$ 4.00	\$ 6.00	\$ 27.30
Minimum Quarterly*	\$ 30.00	\$ 30.00	\$ 51.06
Reconnection charge	\$100.00	\$100.00	\$100.00

Introduction

The RM originally applied for revised rates, such application having been received by the Board on September 8, 2010.

While the RM's application had yet to be fully reviewed, the Board determined that rate increases were required.

Accordingly, the Board approved the proposed rates on an interim *ex parte* basis, recognizing that the RM's proposed rates were substantially less than those indicated by the RM's rate study which accompanied the September 2010 submission.

Rates approved on an interim *ex parte* basis are subject to revision once the Board has completed its detail review process, a process which includes affording customers the opportunity to examine and comment on proposed changes.

A notice of Public Hearing was published in July 2011, advising customers of an oral hearing to take place in the Council Chambers on July 25, 2011. Customers were encouraged to attend the RM office to review the complete application.

Background

The RM has four Utilities, namely Rosenort, Lowe Farm, Sperling and Rural. The proposal assumes an amalgamation of the non-rural utilities into one, being referred to as the Urban Utility, with one set of rates common to all three.

The Rural Utility serves 252 water-only customers with a system constructed between 1998 and 2008 from contributions made by customers. Some customers are dumping sewage into the lagoons for which there is presently no charge being levied.

The Urban Utility serves 285 customers connected to the system and 446 bulk water customers. The system was constructed mainly in approximately 1985 (Rosenort and Lowe Farms) and 2002 (Sperling).

The water supply for all Utilities is from the Pembina Valley Water Co-operative. The RM pressurizes the water, and re-chlorinates it before distribution. All non-bulk customers are metered using remote metering devices.

Unaccounted for water stands at 15%, well above the 10% standard set for the industry. The RM is aware and is proposing to conduct a study of the causes.

The Urban sewer system is a low-pressure service. Lagoon capacity in the Lowe Farm community approaches maximum.

All systems comply with Drinking Water and Environmental standards and licensing requirements.

Application

The RM applied for revised water and sewer rates, as set out in its By-law No. 1659/09 (read the first time on December 10, 2009). The RM sought revised rates to address increasing costs and projected further increased costs.

While a rate study prepared in 2010 recommended rate increases greater than those sought by the RM, the RM decided to seek approval of rates that, while representing significant increases, are not as high as indicated in the rate study, this to reduce "rate shock" for ratepayers.

One of the rate recommendations in the Study was to add a rate rider of \$3.45/1,000 gallons to the Urban Utility customers. However, this was not included in the RM's submitted By-law.

The RM indicated its preference that rates again be reviewed in 2012, to address recorded experience and projected further developments.

The RM's rate study had also proposed a lagoon tipping fee of \$2.50 per quarter, but in subsequent correspondence indicated that the charge was now deemed excessive. They will propose a lesser fee.

The RM proposed a cost allocation methodology which consisted of a \$22,250 allocation for administration time and benefits, as well as a \$6,900 allocation for operator salary and \$9,100 for the use of the municipal truck.

Public Hearing

The oral hearing was held in accordance with the published notice. The hearing was only attended by all but one member of council and three members of the RM's staff.

Council, represented mainly by the Reeve, indicated that the rates proposed in the originally filed rate study were based on incorrect information, this being the principal cause of the significant increase indicated therein. Based on this, the RM held to the position that the rates, as approved on an interim basis were sufficient.

The RM then indicated that it would file a revised rate study for 2012. The RM also undertook to file responses to a series of questions raised both at the hearing, and separately in correspondence, by the Board. The most significant of these information requests included forecast of the operating results expected with the rates being proposed, a justification for those rates and rationale for not implementing a proposed rate rider to address the RM's working capital deficiency.

Board Findings

Rates

Though three months have elapsed since the hearing, the Board has not received any of the undertakings from the RM.

The Board has had an opportunity to review the RM's submitted 2010 rate study and, in the absence of any information gainsaying the findings and proposals in that rate study, find

it to be the most credible and reliable evidence that has been placed before the Board.

The Board will direct that the RM submit an alternative rate proposal for lagoon tipping fees. The proposal should include rate, rationale and effective date. This proposal, if approved will become an addendum to the rate by-law.

The Board appreciates that the indicated rate increases are significant, although not the highest that this Board has been required to approve in recent years. Nonetheless, utilities are required by the governing legislation to operate on at least a break even basis, and the Board is committed to approving rates that will avoid recurring deficits.

The rate approval is based on projected expenses as follows:

	Rural Utility	Urban Utility
Net Administrative expenses	\$ 27,526	\$ 22,816
Water		
Expenses	214,725	241,566
Amortization	130,553	28,645
Interest		15,260
Contingencies	5,000	10,000
Reserves	5,000	5,000
Less: Amortization of grants	65,278	14,719
Taxation revenue	65,275	24,866
Other revenue	2,520	-
Water - Net Revenue Requirements	\$222,205	\$260,886
Sewer		
Expenses		5,389
Amortization		36,367
Contingencies		5,000
Reserves		2,500
Less: Amortization of grants		18,863
Sewer - Net Revenue Requirements		\$ 30,393

The Board noted the shared cost allocation methodology proposed by the RM and will accept it for the purposes of the current rate setting process. However, the Board will seek further clarification for future rate setting purposes.

Deficit

The RM has indicated that they had not proposed to implement the rate rider, and that they had initiated a water loss study, believed to be a significant cause of the deficits. While the Board applauds that study, it is mindful that this will only influence future results. Past deficiencies will remain.

The RM's audited 2009 utility financial statements reveal the following at December 31, 2009:

	Financial Assets	Reserves	Liabilities	Long term debt	Current portion of long term debt*	Working capital deficiency
Rosenort	\$ 44,706	\$ 6,449	\$ 203,392			\$152,237
Lowefarm	106,623		252,595	49,541	7,742	104,173
Sperling			312,189	239,537	24,864	97,516
Rural system		<u>32,802</u>	<u>910,518</u>	<u>1,079,756</u>	<u>233,513</u>	<u>1,473</u>
	<u>\$151,329</u>	<u>\$39,251</u>	<u>\$1,678,694</u>	<u>\$1,368,834</u>	<u>\$266,119</u>	<u>\$385,399</u>

*Includes both principal and interest

The Board is mindful of rate shock, and will therefore accept the proposal made in the rate study to recover the deficit over a five year period.

The rate rider will be different for rural and urban customers, based on causality. Based on the deficiencies shown above and water consumption volumes provided in the rate study (2009 -

19,600,000 urban versus 28,800,000 rural), the indicated rider for rural customers will be \$0.22 per 1,000 gallons. The indicated rider for urban customers is \$3.61 per 1,000 gallons.

As a rider, it will only remain in effect until the working capital deficiency has been addressed. The RM will be required to review this every year end to determine if and when the rider should be removed, and so advise the Board, with supporting evidence.

Amalgamation

During the course of the hearing, and in a subsequent response to Board queries, the RM indicated that it had amalgamated the operations of the Lowe Farm, Sperling and Rosenort utilities. The Board notes the following provision within *The Public Utilities Board Act*:

[82\(1\)](#) No owner of a public utility shall

(h) without the approval of the board, sell, lease, mortgage, or otherwise dispose of or encumber its property, franchises, privileges, or rights, or any part thereof, or merge or consolidate its property, franchises, privileges, or rights, or any part thereof, with that of any other public utility or its owner;

The Board will therefore require that the RM make appropriate application to the Board to have the amalgamation approved in accordance with the Act.

Final decisions of the Board 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, available on the Board's website: www.pub.gov.mb.ca.

IT IS THEREFORE ORDERED THAT:

1. The Rural Municipality of Morris amend its water and sewer rate by-law to reflect the rates effective for January 1, 2012 as set out in this Order and shown in the attached Schedule "A".
2. The water and sewer rates for the Rural Municipality of Morris approved on an interim basis for 2011 are HEREBY CONFIRMED AS FINAL.
3. The Rural Municipality of Morris file a copy of its amending by-law once it has received third and final reading, and no later than January 1, 2012.
4. The Rural Municipality of Morris file a proposal for a rate addendum for lagoon tipping fees on or before January 1, 2012.
5. The cost allocation methodology for the Rural Municipality of Morris be approved for the current rate setting process, and be subject to change for future rate setting.
6. The Rural Municipality of Morris annually review the rate rider approved for deficit recovery and prepare and submit a report on same to the Public Utilities Board by January 31 in each year beginning in 2013.
7. The Rural Municipality of Morris make application to the Board to approve the amalgamation of the Lowe Farm, Sperling and Rosenort Utilities.

Fees payable upon this Order - \$1,750.00

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE CA"

Chairman

"HOLLIS SINGH"

Secretary

Certified a true copy of Order No.
157/11 issued by The Public
Utilities Board

Secretary

SCHEDULE "A"

TO BOARD ORDER NO. 157/11

RURAL MUNICIPALITY OF MORRIS

WATER AND SEWER RATES

SCHEDULE OF QUARTERLY RATES EFFECTIVE JANUARY 1, 2012

1. URBAN UTILITIES

1.1 Commodity Rates per one thousand gallons of water

Urban water consumption	\$13.30/1,000 gallons
Bulk water consumption	\$17.25 /1,000 gallons
Sewer charge	\$1.75/1,000 gallons
Deficit recovery rate rider*	\$3.61/ 1000 gallons

*Temporary charge to be lifted once the working capital deficit of the Utility has been recovered.

1.2 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:

(a) Water Customers

<u>Meter Type</u>	<u>Water Included Gallons</u>	<u>Customer Service Charge</u>	<u>Commodity Charges Water</u>	<u>Sewer Charge</u>	<u>Total Quarterly Minimum</u>
5/8 inches	3,000	\$20.00	\$ 50.73	\$ 5.25	\$ 75.98
3/4 inches	6,000	\$20.00	\$ 101.46	\$ 10.50	\$ 131.96
1 inches	12,000	\$20.00	\$ 202.92	\$ 21.00	\$ 243.92
1 ½ inches	30,000	\$20.00	\$ 507.30	\$ 52.50	\$ 579.80
2 inches	75,000	\$20.00	\$1,268.25	\$131.25	\$1,419.50

(b) Water Only Customers

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

(c) All of the above water rates shall be increased by the amount of any increases from Pembina Valley Water Cooperative, plus 10 % for line losses, at the time of such increases.

2. RURAL UTILITY

2.1 Commodity Rates per one thousand gallons of water

Rural water consumption	\$7.70 / 1000 gallons
Deficit recovery rate rider*	\$0.22/ 1000 gallons

*Temporary charge to be lifted once the working capital deficit of the Utility has been recovered.

2.2 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:

(a) Water Customers

<u>Meter Type</u>	<u>Water Included Gallons</u>	<u>Customer Service Charge</u>	<u>Commodity Charges Water</u>	<u>Total Quarterly Minimum</u>
5/8 inches	3,000	\$27.30	\$ 23.76	\$ 51.06
3/4 inches	6,000	\$27.30	\$ 47.52	\$ 74.82
1 inches	12,000	\$27.30	\$ 95.04	\$122.34
1 ½ inches	30, 000	\$27.30	\$237.60	\$264.90
2 inches	75, 000	\$27.30	\$594.00	\$621.30

(b) All of the above water rates shall be increased by the amount of any increases from Pembina Valley Water Cooperative, plus 10 % for line losses, at the time of such increases.

3. The Rural Municipality of Morris reserves the right to sign agreements with customers outside the Rural Municipality of Morris to connect to the water and/or sewer system. The agreement shall provide for payment of the appropriate rates set out in this Schedule, plus a surcharge, set by resolution of Council, which shall be the equivalent to the frontage levy, general taxes, and special taxes for utility purposes in effect at the time, or which may be in effect from time to time, and which 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.

4. Disconnection

The Public Utilities Board has approved 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 Municipal office.

5. Reconnection

A customer who has his service disconnected for any reason shall not be reconnected until all regulations have been complied with, and all arrears, and penalties have been paid, together with all municipal expenses incurred in conducting the disconnection and reconnection, said expense to be no less than \$100.00.

6. Billing and Penalties

Accounts shall be billed quarterly, and shall be due and payable 21 days after the date of the billing and that a penalty of 1.25% of the bill shall be added per month if not paid by the due date.

7. That pursuant to Subsection 252(2) of *The Municipal Act*, the amount of all outstanding charges for water and sewer services is a lien charge upon the land serviced and shall be collected in the same manner in which ordinary taxes upon the land are collectable, and with like remedies.

8. 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 be the average of the billings of the last two quarters to the same customer, or to the same premises, if the occupant has changed.