

Order No. 28/17

**AN ORDER RESPECTING
THE ROSSBURN MUNICIPALITY
SUNSET POINT UTILITY
INTERIM WATER RATES**

March 2, 2017

BEFORE: The Hon. Anita Neville, P.C., B.A. (Hons.), Acting Chair
Carol Hainsworth, C.B.A., Member
Sharon McKay, B.G.S., Member

1.0 Executive Summary

By this Order, the Public Utilities Board (Board) approves, on an interim basis, water rates applied for by the Municipality of Rosssburn (Municipality) for the Sunset Point water utility (Utility).

The annual flat rate of \$284.40 per customer is approved effective January 1, 2016.

Rationale for the PUB's decisions may be found under "Board Findings".

2.0 Application

On November 14, 2016 the Rosssburn Municipality applied to the PUB for approval of initial rates on an interim basis for its Sunset Point Utility.

The Rosssburn Municipality was formed in January 2015 with the amalgamation of the Town of Rosssburn (Town) and the Rural Municipality of Rosssburn (RM). The Sunset Point Utility is located within the former RM. The Municipality advised the Board that it was under the impression that the utility was considered a "private utility" and not subject to regulation under The Public Utilities Board Act, and has only recently been made aware of this oversight.

The water plant was installed in 2007 by the developer and gifted to the RM in 2009. In September of 2009, the RM took over operations of the Utility, and began charging for the services in the final quarter of 2011. The RM believed that this was a "private utility" and did not receive PUB approval for the rates being charged.

The former RM and current Municipality have been charging an annual rate of \$284.40 to any property owner within the Sunset Point development with a water connection. This rate was calculated using the rates approved by the PUB for the Town of Rosssburn Utility in Board Order No. 77/10, issued July 2010. The two utilities are not connected and do not share any infrastructure.

The RM calculated the flat rate using the assumption that each customer would use the minimum quarterly amount of 3,000 gallons then multiplying this consumption by the Town's rate of \$12.20 per 1,000 gallons for a quarterly water charge of \$36.60. The RM then added the quarterly service charge of \$34.50 and multiplied the entire quarterly amount by four quarters to come to an annual charge of \$284.40.

The Municipality provided the following information regarding the number of customers connected to the utility system:

| | |
|------|--------------|
| 2011 | 4 customers |
| 2012 | 7 customers |
| 2013 | 11 customers |
| 2014 | 14 customers |
| 2015 | 18 customers |
| 2016 | 20 customers |

The Municipality advised that although meters are installed for active water connections, no readings have been taken. The 2013 audited financial statements for the RM of Rosburn (the most recent information provided) show that the Utility was not accounted for as required. There is no Schedule of Utility Operations (Schedule 9) included, despite the fact that the Consolidated Schedule of Tangible Capital Assets lists "Water and Sewer Assets" with a net book value of \$154,752. This oversight means that the Municipality and Board can't review the financial results for the Utility, since they have not been presented apart from those of the RM as a whole.

The Municipality requested that the Board approve the rate that has been charged since 2011, and has indicated it plans to provide a rate study for Sunset Point by December 29, 2017 to the Board.

3.0 Board Findings

In some cases, the Board can establish interim rates, which are rates that are subject to review following a more complete process. When setting initial rates for a new utility, the Board will often approve interim rates. These are then confirmed as final once there is sufficient historical information about the utility to provide accurate projections for rate setting purposes. The Board has determined this is appropriate in the case of the Sunset Utility. Though this Utility is not new, it is the first time that rates are to be considered by the Board for this Utility.

The Board finds the flat fee charged annually, based on 12,000 gallon usage, originally based on the rate approved for the Town of Rossburn in Board Order No. 77/10 to be an ineffective calculation for a number of reasons:

- The Town of Rossburn Utility has no relation to the Sunset Utility, and its operating costs do not reflect those of Sunset in any way.
- The rates being used are very outdated even for the Town itself; they were set in 2010.
- The Town Utility has 284 customers, while the Sunset Utility has historically had between four (4) and twenty (20).
- In 2010 the Town indicated the water treatment facility infrastructure was aging and the revenue requirements used to calculate the rates included \$10,000 for reserves and \$6,937 for contingency. The Sunset Utility is comparatively new.
- Total amortization expense included for the Town Utility's water system was \$20,177 and the amortization expense for the Sunset Utility (as per Schedule 1 of the 2013 audited financial statements) was \$4,665.
- The rates for the Sunset calculated their flat charge using a 3,000 gallon per quarter minimum charge as a guide. Typically, flat charges are calculated using Residential Equivalency Units (REUs), one REU being the volume of water estimated to be used by the average single family residence. Units allocated to other customers are based on estimated water they will use, as compared with a

residence. REUs are typically used in communities with unmetered distribution and collection systems, where information regarding actual consumption is unavailable.

The Board will, on an interim basis, approve the annual flat fee to remain the same as proposed by the Rossburn Municipality for the Sunset Point Utility. The Municipality's request was not accompanied by a By-law outlining the rates requested, as is the standard process. The Board will require the Municipality to issue a utility rate By-law, and if it contains any further clauses not previously approved by the Board, the Municipality will need to ask for approval prior to giving the By-law third reading.

Subsequent to the Municipality applying for these interim rates, the RM of Rossburn 2014 audited financial statements were uploaded to Manitoba Municipalities Online (MMO). The statements are marked draft but are accompanied by a statement from the Municipality approving the statements, signed by the Mayor. These financial statements do include a Schedule 9 for Sunset Point Utility, which indicates a significant operating deficit. The Municipality has not yet applied to the PUB for approval of this deficit, or provided a PUB Schedule 9 showing the deficit is offset by amortization of capital grants/contributed assets.

The Board will require the Municipality to provide a rate application on or by June 30, 2017.

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

4.0 IT IS THEREFORE ORDERED THAT:

- 1) The initial annual flat water rate of \$284.40 per customer for the Sunset Point Water Utility in the Rosscburn Municipality BE AND IS HEREBY APPROVED effective January 1, 2016.
- 2) The Rosscburn Municipality submit a copy of its water rate By-law to the Public Utilities Board once it has received third and final reading.
- 3) The Rosscburn Municipality review the Sunset Point Utility water rates for adequacy and file an application for revised rates with the Public Utilities Board, by no later than June 30, 2017.
- 4) The Rosscburn Municipality file applications for approval of all operating deficits experienced by the Sunset Point water utility, including method of recovery, with the Public Utilities Board, by no later than April 30, 2017.

Fees payable upon this Order - \$150.00

THE PUBLIC UTILITIES BOARD

"THE HON. ANITA NEVILLE, P.C., B.A(Hons.)"
Acting Chair

"JENNIFER DUBOIS, CPA, CMA"
Acting Secretary

Certified a true copy of Order No. 28/17 issued
by The Public Utilities Board

Acting Secretary