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M A N I T O B A ) Order No. 70/07  
THE PUBLIC UTILITIES BOARD ACT )  
May 24, 2007

BEFORE: Susan Proven, P.H.Ec., Acting Chair  
Graham Lane, C.A., Chairman

THE RURAL MUNICIPALITY OF SHELLMOUTH-BOULTON  
LOCAL URBAN DISTRICT OF INGLIS  
REVISED WATER AND SEWER RATES  
EFFECTIVE JULY 1, 2007

### **Executive Summary**

By this Order, the Public Utilities Board (Board) varies an application for revised water and sewer rates by the Rural Municipality of Shellmouth-Boulton (RM) for the Local Urban District of Inglis (Inglis), and approves revised rates effective July 1, 2007.

The Board establishes higher rates than proposed and provides discretionary authority to implement up to three additional 5% rate increases in 2008, 2009 and 2010, to recognize and provide for higher utility costs and allow for the development of Utility reserves. The reserves will prove helpful upon an expected future transfer of the water treatment plant to the RM by the Manitoba Water Service Board (MWSB).

Approved and applied for rates are as follows:

	<b>Approved</b>	<b>Applied For</b>
Quarterly Administrative Charge	\$ 9.90	\$ 9.90
Water Charge/1000 gallons	\$16.00	\$14.90
Sewer Charge/1000 gallons	\$ 4.00	\$ 3.90
Bulk Water Charge/1000 gallons	\$20.00	\$20.00

Minimum quarterly residential bills will rise to \$69.90 (currently, \$55.03), rather than \$66.30 as proposed.

### **Application**

Prior to this Order, Inglis' water and sewer rates had been unchanged since 1995, except for interim increases implemented as of April 1, 2006, approved by the Board by way of an Ex Parte process (Order 30/06, dated March 1, 2006).

In Order 30/06, the Board approved an increase in water rates to meet a corresponding increase in the wholesale cost of water purchased by the RM from MWSB. After providing for unaccounted for water losses, the increase in the cost of purchased water was \$3.46 per 1000 gallons. Accordingly, water commodity rates were increased from \$11.00 to \$14.46 per 1000 gallons (32%), and the residential minimum quarterly bills to \$55.03 from \$44.65 (23%).

On February 15, 2007, the RM applied to the Board for further increases, to apply to both water and sewer operations to meet higher operating costs. And, in conjunction with seeking further increased rates, the RM also sought confirmation of Order 30/06.

A Notice of Public Hearing was published in the local newspaper on two occasions, and posted in several prominent locations in the area. A Public Hearing was held at 7:00 p.m. on May 14, 2007 in the Community of Inglis. Only RM representatives appeared, and in support of the application.

The Board received no objections with respect to the confirmation of Order 30/06. And, the RM advised the Board that representations from ratepayers with respect to the further rate increases sought were to the effect "why was the Application not made sooner."

Board Member Susan Proven presided on a "hear and report" basis. Pursuant to *The Public Utilities Board Act*, one Board member may hear an application and makes a report to another Board Member who together forms the necessary quorum for the Board.

In support of its application, the RM also filed By-law No. 0710, read the first time on February 14, 2007, and a rate study. Current rates, as approved by Order 30/06, and the RM's proposal follows:

	\$/1000 gallons	Existing	Proposed	Increase
Water		\$14.46	\$14.90	3%
Sewer		<u>\$ 2.25</u>	<u>\$ 3.90</u>	73%
Total		\$16.71	\$18.80	13%
Quarterly Administrative Charge		\$ 4.90	\$ 9.90	102%
Bulk water <sup>(1)</sup>		\$20.00	\$20.00	
Sewer only		\$18.00	\$21.60	20%
Residential minimum quarterly bill		\$55.03	\$66.30	20%

<sup>(1)</sup>Increased from \$15.00 by Order 30/06.

In its application, the RM forecast operating costs and current and long term capital requirements for the Utility. The RM noted:

- 1) The Water Treatment Plant (WTP) is owned by MWSB, and is to be transferred to the RM in 2011. While the design of the WTP is "state-of-the-art" and less than four years old, a utility reserve is required and should be gradually built-up to fund future major repairs and/or modifications.
- 2) In announcing increased water sale prices (\$13.95 to \$14.26 per 1000 gallons, effective April 1, 2007), MWSB advised the RM that it had deferred an additional price increase of 10% on the basis the RM expected volumes related to the Asessippi facility would increase, increasing MWSB's revenues. The MWSB advised it would monitor usage and, if it does not transpire, a further increase may be necessary. A larger utility surplus and/or reserve would allow the RM to phase-in a future rate increase if water purchase costs increase again, thereby avoiding rate shock.

The RM advised that Asessippi is a metered water and sewer customer, responsible for hauling their sewage to the utility lagoon's system.

- 3) There are possibly five (5) new cottage developments being considered in the RM, outside the boundaries of the LUD, and the developers would haul sewage to the lagoon used by Inglis. The RM advised that a new lagoon cell will be required to save the customers of Inglis harmless from added costs, and that the RM expects the cottage developers to pay the cost of the lagoon expansion project.

The cost of the lagoon project was estimated to be in the range of \$700,000 and \$800,000, and there is an agreement in principle for a single developer to pay \$255,000 toward this cost. The RM and not Inglis would contribute \$250,000, and funding of the remaining balance is yet to be determined.

- 4) While the WTP is owned by the MWSB, the RM is responsible for operations and has hired three part-time staff with proper certification to operate the plant. The level of training required has increased substantially since rates were last increased, and the RM's rate proposal recognized this.
- 5) Staff use their own vehicles, and the RM provides reimbursement. The Utility owns neither construction nor service vehicles; all services are contracted out.
- 6) All water lines in the community have been upgraded, which has resulted in reduced unaccounted for water in Inglis (from 20% to a low of 1.5%).
- 7) The RM noted that when the rate study was prepared the MWSB increase of April 1, 2007 was not included. The increased

cost of purchasing water is expected to be \$1,166 per year.

- 8) Since 1995, the wholesale cost of water has doubled from approximately \$7.00 per thousand to \$14.26, and a further 10% increase is expected in time. Such cost increases cannot be absorbed and must be reflected in rates.
- 9) The RM has allocated a charge of \$1,500 to the utility for expenses for staff and equipment other than vehicles; in 2008, the charge is to be increased to \$2,000.

The RM opined that with the approval of revised water and sewer rates all current costs would be recovered, ensuring the utility would be self-supporting and sustainable. There has been no cross subsidy from the RM's General Fund, the RM agrees subsidies are inappropriate. With the expected higher water sales and new lagoon services, there are new revenue opportunities for the utility in the future. Notwithstanding this, the RM noted that higher rates are necessary to support the building of reserves, again, for the day ownership of the WTP is transferred to the RM.

The RM advised that its utility customers are acutely aware of the need for conservation. And, the RM reported that its Council is concerned that some customers are using too little water for their health. Customers have been advised that the minimum quarterly amount of water included in their bill is 3,000 gallons, yet some continue to use less than 1,000 gallons of water per quarter. Furthermore, low-flow is presenting other operational problems for the Utility, related to line freezes.

Projected operating costs for the Utility used in the rate study were as follows:

Administration	\$ 5,188
Water	\$55,937
Sewer	<u>\$ 9,273</u>
	\$70,398

Water and sewer costs include \$5,085 and \$843 for contingency respectively. The proposed bulk water rate includes the recovery of part of the cost of servicing the Utility's debenture debt.

The RM accepts the need for more regular reviews of rate adequacy in the future, particularly following the transfer of the WTP.

#### **Background**

The community of Inglis has 131 customers, 128 being residential and small commercial customers. There are no customers now served outside the RM.

The source of the RM water supply is two wells and the treatment process includes a membrane nano - filtration system. The current capacity of the reservoir is 42,000 gallons and the plant capacity is 2.1 L/second. The sewage treatment process includes ultra-violet rays and storage in a lagoon. The current capacity includes three cells - one main and two secondary -- a new cell is proposed for 2008.

As at December 31, 2006 the utility had approximately \$11,700 in surplus and no reserve fund. The RM purchases annually approximately 3,760,000 gallons of water, of which only 1.5% is unaccounted for. Over the last decade, the RM has replaced all community water lines, and this has assisted in minimal line losses.

The RM has a single step rate structure which encourages efficient use of water, and has adopted the standard minimum 3,000 gallon allowance for the 5/8" meter size for minimum bill calculations.

The RM advised that they are in the third year of repaying a 20-year debenture, and that the annual servicing cost is \$14,586.15 which is recovered by taxes. The debenture provided for the RM's line replacement and extension projects. The recovery of the WTP's capital costs are included in MWSB's commodity rates. Future WTP costs will include membrane replacement and other incidentals.

Drinking water is meeting Provincial Drinking Water Standards, and discharges from the lagoon are to a local drainage ditch in May and October of each year, upon the necessary approval.

The RM noted that at no time will customers of the Inglis utility be held responsible for costs more appropriately recovered from customers outside the LUD. Further, the RM noted that WTP capital costs are recovered in commodity rates, alleviating any need for a surcharge for this purpose.

### **Board Findings**

The Board was pleased to learn that the utility infrastructure in Inglis is modern and sound. The RM is congratulated for having the foresight to upgrade its facility to meet the needs of its utility customers, and also for the high level of service to its neighbours. Progress occurred with minimal utility deficits and without rate increases, except for the interim water rate increase in 2006.

The absence of ratepayers at the hearing suggested to the Board that ratepayers are pleased with the level of service and

understand the reasons for higher rates.

While there are opportunities for increased revenues for the utility, the RM should consider the increased risk associated with extending service beyond the boundaries of the LUD. The community of Inglis has only 131 customers and every precaution should be taken to ensure future customers pay their fair share of capital and operational costs. Once a tipping fee proposal has been drafted by the RM, for the new lagoon service related to the new cottage areas, the Board expects the RM will make application to the Board for approval - which the Board intends to address through a paper process to restrain regulatory costs.

The Board agrees a reserve fund by-law should be established, and that it would be prudent to develop such a fund ahead of acquiring the WTP. To build a reserve fund will require a higher rate increase than proposed by the RM. In the Board's view a \$2,000 annual provision reflected in rates is reasonable at this time.

The Board also believes that further adjustments to the proposed rates are required. The RM's application did not provide for the recovery of the MWSB increase of April 1, 2007. This cost needs to be reflected in the rate adjustment.

The Board will allow in rates provision for the full recovery of the higher cost of staff and equipment and not wait for 2008 as proposed by the RM. The Board will reflect an additional annual cost of \$500 in setting the water and sewer rates.

The Board's revised calculations are noted hereunder:

Calculations for adjusted rates:	<b>Adjusted</b>	<b>Proposed</b>	<b>Existing</b>
Water Rate (\$/1000 gallons)			
<u>\$55937 + \$2000 (reserves) + \$1166 (MWSB) + \$250</u>			

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3708	\$16.00	\$14.90	\$14.46
Sewer Rate (\$/1000 gallons)			
<u>\$9273 + \$250</u> <u>2382</u>	<u>\$ 4.00</u>	<u>\$ 3.90</u>	<u>\$ 2.25</u>
Total	\$20.00	\$18.80	\$16.71

The adjustments to projected costs will increase the combined water and sewer rate from the existing rate of \$16.71 to \$20.00, a 20% increase, and the 5/8" minimum quarterly bill for a residential customer from \$55.03 to \$69.90, a 27% increase (5.4% higher than proposed by the RM).

However, should the RM's favourable projections not be realized or the reserve provisions be inadequate for when the ownership of the plant is transferred, the Board will provide the RM with the discretion to implement additional 5% annual increases effective January 1 for 2008, 2009 and 2010 subject to confirming, in writing, to the Board the RM's decision to implement such increases. If such increases are necessary to increase the reserve provision the RM should advise the Board of the revised amount which will be reflected in a mandatory transfer to the reserve fund in the financial statements for the utility.

The adjusted rates together with the discretionary 5% increases will allow the RM to set money aside for expected future costs and lower the risk of a future rate shock. The Board will require the RM to provide its financial statements for its Utility for the years 2007, 2008 and 2009, to allow the Board to provide reasonable oversight.

By this Order, the Board also confirms as final Order 30/06.

**IT IS THEREFORE ORDERED THAT:**

1. By-law No. 0710 be amended to include the revised charges noted hereunder effective July 1, 2007 and filed with the Board after final reading.

Water commodity charge/1000 gallons	\$16.00
Sewer commodity charge/1000 gallons	\$ 4.00

2. The Rural Municipality of Shellmouth-Boulton establish a reserve fund for the utility and transfer a minimum of \$2,000.00 per year to reserves from operating revenue, assuming no operating deficit has been incurred.
3. Funds expended from the utility reserve fund shall be used only to support existing infrastructure, unless the Board has authorized the expenditure pursuant to Section 168 of The Municipal and Various Acts Amendment Act, c. 58.
4.
  - i) The Council of the Rural Municipality of Shellmouth-Boulton be provided the discretion to increase the water and sewer commodity rates an additional 5% in each year commencing January 1 of 2008, 2009 and 2010 with corresponding changes to the schedule of rates.
  - ii) The Rural Municipality of Shellmouth-Boulton confirm, in writing, to The Public Utilities Board such decisions to implement the rate increases.
5. The Rural Municipality of Shellmouth-Boulton file year end financial statements for the utility for the years 2007, 2008 and 2009, when available the following respective year.
6. The Rural Municipality of Shellmouth-Boulton file with the Board an application for tipping fees for sewage dumping prior to the service being provided.

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Fees payable upon this Order - \$500.00.

THE PUBLIC UTILITIES BOARD

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Chairman

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Acting Secretary