

MANITOBA) Order No. 171/07
)
THE PUBLIC UTILITIES BOARD ACT) December 31, 2007

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

THE RURAL MUNICIPALITY OF VICTORIA
LOCAL URBAN DISTRICT OF HOLLAND
REVISED WATER AND SEWER RATES

Executive Summary

By this Order, the Public Utilities Board (Board) amends an application of the Rural Municipality of Victoria (RM) for the Local Urban District of Holland (LUD), for revised water and sewer rates and establishes revised rates effective the next billing.

Commodity Rates (\$/1,000 gallons)	Existing	2008	Approved	
			2009	2010
Water	\$ 7.65	\$ 9.10	\$ 9.20	\$ 9.30
Sewer	1.50	3.30	3.30	3.30
Total	<u>\$ 9.15</u>	<u>\$12.40</u>	<u>\$12.50</u>	<u>\$12.60</u>
Service Charge	\$ 5.00	\$ 5.00	\$ 5.20	\$ 5.40
Minimum Quarterly Bill (5/8" meter)	\$32.45	\$42.20	\$42.70	\$43.20
		(30%)	(1.2%)	(1.2%)
Sewer Only	\$17.00	\$31.40	\$31.60	\$31.80
Bulk Water		\$14.80	\$14.80	\$14.80

The Board will require a report from the RM on the status of the engineering assessment of the lagoon; details of the lagoon work and collection of the related costs; and on the adequacy of the then existing rates by no later than March 31, 2011.

Application

On September 25, 2007, the RM applied to the Board for revised water and sewer rates for the LUD as set out in By-law No. 1292/2007.

Commodity Rates (\$/1,000 gallons)	Existing	Proposed		
		2008	2009	2010
Water	\$7.65	\$10.15	\$10.25	\$10.35
Sewer	<u>1.50</u>	<u>2.25</u>	<u>2.25</u>	<u>2.25</u>
Total	\$9.15	\$12.40	\$12.50	\$12.60
Service Charge	\$5.00	\$5.00	\$5.20	\$5.40
Minimum Quarterly Bill (5/8" meter)	\$32.45	\$42.20	\$42.70	\$43.20
		(30%)	(1.2%)	(1.2%)
Sewer Only	\$17.00	\$23.00	\$23.20	\$23.40
Bulk Water		\$14.80	\$14.80	\$14.80

Notice of the RM's application was published in the local newspaper and posted in six prominent locations in the area. The notice invited comment but no one responded by the due date of December 7, 2007.

The last rate change occurred in 2004.

The Utility incurred a small deficit in 2006 in the amount of \$230.07. As at December 31, 2006, the Utility had approximately \$821 in reserves and an accumulated surplus of \$27,153.

The RM advised of the following reasons for its proposed rate changes:

1. The inflationary increases in operating costs since 2004 and projected costs in the three year rate proposal suggest that the existing rates are inadequate. The RM used 2006 operating costs inflated yearly by 2.5% to derive rates for 2008, 2009 and 2010.
2. The existing rates include no allowance for unexpected repairs to the system (contingency allowance) and no contribution for the utility reserve fund for future capital expenditures related to plant renewal.
3. Administration costs are currently being absorbed by the General Operating Fund, notwithstanding a quarterly service charge is being collected; this application corrects this inadequacy.
4. The lagoon serving the LUD is in much need of repair. It is currently leaking and there is a requirement to remove sludge. The RM initially planned to remove the sludge in 2007 at a cost of \$55,000 and, because the utility has insufficient funds to cover this expense, the RM is considering borrowing from the General Fund and repaying the cost over a period of time.

The following were the forecast expenditures reflected in the rate proposal for 2008, 2009 and 2010.

Operating expenses⁽¹⁾	2008	2009	2010
Administration	\$ 4,000	\$ 4,200	\$ 4,400
Water	71,970	\$ 73,450	\$ 75,050
Sewer	<u>14,465</u>	<u>\$ 14,550</u>	<u>\$ 14,650</u>
	<u>\$ 90,435</u>	<u>\$ 92,200</u>	<u>\$ 94,100</u>
⁽¹⁾ Contingency:	Water	\$6,250	
	Sewer	\$6,250	
Reserves:	Water	\$2,000	
	Sewer	\$1,000	
Debt Retirement:	Water	\$7,000	
	Sewer	\$4,000	

With the anticipated cost of lagoon repairs, the RM is planning to engage an engineering firm to recommend remedial options, which may include a review of the lagoon serving Cypress River, as well. The cost of the engineering assessment was estimated at \$30,000 or more.

In consultations with the Municipal Finance and Advisory office of Intergovernmental Affairs, the RM is planning to expense the study and incur a deficit in 2008 and recover the deficit over three years through increased utility rates. If the study cost exceeds the \$30,000, the balance would be recovered in 2011.

The RM, in response to Board questions regarding its proposal, advised that:

1. If the deficit were to be included in the rates, the RM believes it is premature to determine if rates ought to be adjusted downward after the deficit is recovered. The RM

noted that the deficit is only related to the costs of the study and future rates may need to recover the RM's share of any remedial work.

2. Adding part of the sewer study costs to the water rate is not unreasonable as the customers are the same. The RM noted that this approach was taken in the RM of De Salaberry for St. Malo and approved by the Board. There are no water-only rates affected by the RM proposal.

The RM employs one principle utility person (with a back-up person) to maintain both the Cypress River and Holland utilities. The operator's cost is split between these two utilities based upon the size of each utility. The back-up person is charged based on time spent at each utility. Both persons are duly certified and suitable provisions have been made in the rates for funding on-going training.

Background

There are 204 customers connected to the Utility, of which 196 are residential or small commercial customers. There are no water only customers and three sewer only customers whose service is not metered and are charged flat rates using an average consumption of 8,000 gallons per quarter plus the quarterly service charge.

The system was constructed in the early 1960's and the total

original capital cost of the system is \$1.25 million. Consistent with the Board's Guidelines, the RM has identified contingency allowances in its rates of \$12,500 or 1% of capital costs collected equally in water and sewer rates.

The LUD water treatment plant (WTP) uses a chlorine dioxide and filtration system with chlorine dioxide disinfection. This plant is currently operating at 50 - 60% of capacity.

The sewer system is a gravity flow collection system which flows into a lift station and then pumped into the sewage lagoon. The lagoon consists of primary and secondary cells. The lagoon is currently operating at full capacity and its future is uncertain as noted above.

The RM has not yet developed a five-year capital plan for the utility and is currently focused on issues related to the lagoon.

The RM provided two reports from the Office of the Drinking Water (Office) dated August 16, 2007. While drinking water standards are being met, the Office noted concerns regarding low chlorine dioxide concentrations and high sodium, dissolved solids, and ammonia levels. The RM reports these concerns are being addressed.

Unaccounted for water (water losses), fluctuated considerably from one quarter to another in 2006 with losses ranging from 8% to 18% with an average of 15%. The RM reported a substantial

water leak that was repaired in 2006 and an expectation that 2007's results will be much improved.

Utility annual debenture debt costs of \$24,751.48 are recovered by taxation. All services are metered and a single step rate schedule is employed.

BOARD FINDINGS

The Board has reviewed the RM application and is satisfied that RM's cost projections are reasonable, reflect the current and future needs of the utility, and should afford sufficient revenues to allow for the provision of safe drinking water and adequate utility service into the future.

Of concern is the RM's proposal to add sewer costs to water rates on the basis that all customers are the same and that a precedent has been set elsewhere; the Board is not bound by precedent.

The argument to allocate utility costs to all customers on the assumption they "are the same" does not reflect the principles of setting rates based on the cost of the individual commodities and properly allocating costs to those that cause the costs to be incurred.

Therefore, the RM is to reallocate all sewer costs, including those related to the costs of engineering assessment, to the sewer rates. In this regard, the Board notes there are sewer-

only customers and that this allocation will ensure that these customers pay their fair share of the sewage collection and treatment costs. This is to be done so as to allow for suitable rate amendments.

Concerning future rates and the continued collection of the amortized portion of the engineering assessment costs, the Board will ask the RM to file a report on the actual study costs and the status of collection at the end of 2010, by no later than March 31, 2011. The status of the rates will be examined at that time.

IT IS THEREFORE ORDERED THAT:

1. By-law No. 1292/2007 BE AND IS HEREBY APPROVED as amended, to assign all sewer costs to the sewer rate and to amend the rate schedule accordingly to agree with the revised commodity rates noted below effective the next billing :

Commodity Rates (\$/1,000 gallons)	2008	2009	2010
Water	\$ 9.10	\$ 9.20	\$ 9.30
Sewer	3.30	3.30	3.30
Total	<u>\$12.40</u>	<u>\$12.50</u>	<u>\$12.60</u>

2. The Rural Municipality of Victoria file a report with the Public Utilities Board by March 31, 2011 on:

