

M A N I T O B A) Order No. 74/06
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THE PUBLIC UTILITIES BOARD ACT) May 15, 2006

BEFORE: Graham F. J. Lane, C.A., Chairman
 Monica Girouard, C.G.A., Member
 Susan Proven, P.H.Ec., Member

**THE RURAL MUNICIPALITY OF LAC DU BONNET
WATER AND SEWER RATES, CONNECTION FEE
RATES EFFECTIVE JUNE 1, 2005 AND July 1, 2006**

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1.0 Executive Summary

In this Order, the Public Utilities Board (Board) varies an Application filed by the Rural Municipality of Lac du Bonnet (R.M.) and establishes revised water and sewer rates effective June 1, 2005 and July 1, 2006, as follows:

- a) A pass-through of the cost and rate implications of July 1, 2005 water and sewer rate increases of the Town of Lac du Bonnet (Town), the sole supplier of the R.M.'s water supply, effective July 1, 2005;
- b) the addition of a \$0.50/m³ charge (first 455 metres; \$0.44/m³ thereafter) intended to meet operating expenses and develop a utility reserve, effective July 1, 2006;
- c) an increase in the customer service charge from \$22.56 to \$23.28 quarterly, effective July 1, 2005 and a further increase to \$24.00 quarterly, effective July 1, 2006 (\$12.00 is remitted to the Town, the remainder retained by the R.M. for administrative costs); and
- d) the minimum quarterly bill for the R.M.'s currently sole customer, the Glenn Howard Inn (GHI) is to increase from \$159.76 to \$259.20 effective July 1, 2006 (an increase from \$159.76 as of July 1, 2005 with respect to a) above is to occur, with a further increase to \$259.20 effective July 1, 2006).

In addition, the Board establishes connection charges for existing and future customers. For the R.M.'s currently sole customer, GHI is to be invoiced:

- a) \$7,000.00 as a direct contribution to the R.M.'s obligations to the Town of Lac du Bonnet (Town) with

respect to volumetric usage of the Town's water treatment plant; and

- b) a further levy of \$22,720 (60% of the \$37,867 required to meet the net direct capital costs, after grants, incurred by the R.M. to connect to the Town's water and sewer system).

These levies are operative as of the date of this Order, with interest as to be established by the R.M.

With the agreement of the R.M., GHI connection charges may be financed with annual payments plus interest over a period of no longer than ten years.

Each future residential customer of the R.M.'s utility, initially expected to arise out of the Bilan project, is to be levied initial connection charges of:

- a) \$757 plus interest from the date of this Order (representing in total 40% of the \$37,867 required to meet the net direct capital costs, after grants, incurred by the R.M. to connect to the Town's water and sewer system);
- b) \$700 with respect to the R.M.'s volumetric obligations to the Town of Lac du Bonnet (Town) for the Town's water treatment plant; and
- c) \$12,284 plus related interest costs with respect to the R.M.'s anticipated net capital costs, estimated to be \$331,667, to extend service to the Bilan project.

Variations to the connection charges levied on Bilan customers may be varied by the Board on application by the R.M., upon:

- a) connections within five years differing from the current estimate of twenty-seven (27); and/or
- b) the R.M.'s net capital costs of the project differs from the current estimate of \$331,667.

The R.M. may either:

- a) establish payment plans for Bilan customers for the connection charge, as long as payment plans involving payments beyond one year include an interest factor reflective of the R.M.'s cost of capital; or
- b) establish a Local Improvement District for Bilan, issue a debenture and levy against Bilan ratepayers an annual servicing charge adequate to retire the debenture over no more than twenty years.

Costs of connecting to the R.M.'s system are the responsibility of the connecting customers.

2.0 Application

The R.M. filed an Application, its By-law No. 2-06, and other information in support of its Application.

The R.M. proposed to pass-through higher costs of purchased water from the Town, an increase that took effect June 1, 2005. Recognizing that its Agreement with the Town obliges the R.M. to

meet such increased Town commodity rates as the Board may approve, the R.M. sought the Board's approval to pass-through future Town increases on an automatic basis without the involvement of the Board.

As well, the R.M. proposed to increase its distribution rate by \$0.50/m³ (\$0.44/m³ for volumes in excess of 455m³) to provide for operating costs and the development of a utility reserve. Further, the R.M. proposed to increase its quarterly Customer Service Charge from \$22.56 to \$24.00.

Of this charge, \$12.00 is remitted to the Town, reflecting the Town's increased quarterly charge effective July 1, 2005. The R.M.'s minimum quarterly bill for GHI would increase from \$159.76 per quarter to \$259.20.

The R.M. has incurred the higher cost of purchased Town water since June 1, 2005, and the alternative to a retroactive rate increase against GHI is to accept the deficit caused by the higher payments to the Town from June 1, 2005 to July 1, 2006. This would make the deficit the responsibility of all ratepayers, not just the recipient of the water and sewer service, GHI.

In support of retroactivity, the R.M. advised that GHI has been aware of the agreement with the Town from the commencement of service to GHI, and the Town's rate increase implemented on June 1, 2005. As well, the R.M. informed GHI of its rate application when it was filed, and, pursuant to the Board's request,

published a Public Notice of its proposal in the local newspaper and posted the Notice in several prominent locations in the area.

The Notice informed ratepayers and interested parties of salient features of the Application, and advised of the public hearing subsequently conducted by the Board on April 25, 2006 in the offices of the R.M.

In advance of the hearing, the Board filed written information requests of the R.M. The R.M.'s responses together with information obtained at the hearing, the agreement between the Town and the R.M., the Board Order establishing revised utility rates for the Town and related background material formed the evidence before the Board - available to ratepayers upon request to the Board or the R.M.

Two written presentations were filed in advance of the hearing, and heard orally at the public hearing; salient points of these presentations are summarized in this Order. Several other ratepayers and interested parties attended the hearing, and participated by oral comments.

With the planned expansion of service, the costs and risks being taken on by the R.M. related to water and sewer services, and a local controversy concerning the agreement between the R.M. and the Town highlighted in the local newspaper, attendance included both R.M. and Town residents.

Existing and proposed rates, pursuant to the R.M.'s Application, were:

Commodity/ Cubic Metre	R.M. Existing			Town Existing			R.M. Proposed		
	Water	Sewer	Total	Water	Sewer	Total	Water	Sewer	Total
First 455 Cubic Metres	\$0.75	\$0.23	\$0.98	\$0.90	\$0.28	\$1.18	\$1.28	\$0.40	\$1.68
Over 455 Cubic Metres	\$0.63	\$0.23	\$0.86	\$0.76	\$0.28	\$1.04	\$1.08	\$0.40	\$1.48

The Town's quarterly customer service charge to the R.M. was increased to \$12.00 on July 1, 2005, and the R.M. proposed to increase its quarterly Customer Service Charge from \$22.56 to \$24.00 to reflect and mirror that change.

In advance of its Application, the R.M. incurred a \$153 operating deficit in 2005 on utility operations. With the Board's approval of its Application, the R.M. projects to recover the initial deficit and, excepting for the planned reserve development, break even on operations in the future.

With the assistance of senior government grants (\$266,667 by each the provincial and federal governments), the R.M. plans to expand its system in 2006 to serve an additional seventeen (17) new residential customers (the maximum initial potential for additional customers through the expansion was estimated at 27).

The R.M. estimated the additional \$0.50/m³ charge for operating costs and reserve development (\$0.44/m³ for quarterly volumes in excess of 455 cubic metres) would recover an additional annual

\$400.00 from GHI. When applied to the new customers expected to arise through the Bilan expansion, the levy would recover \$40 per year from each new residential customer.

The R.M. advised that its aggregate direct capital costs incurred to bring Town sewer and water service to the point of connection with the R.M. was \$99,265.00, with \$37,867 being funded by the R.M., \$53,710 by the Whiteshell Adjustment Fund (WAF), and the remainder by the Town.

In addition, through its agreement with the Town, the R.M. accepted a projected maximum liability of \$280,000, with an initial \$25,000 payment having been made. The agreement, which enabled the connection of the Town's water and sewer system to the R.M.'s connection point, also contains a provision requiring the R.M. to transfer 50% of its annual tax levies against current (GHI) and future commercial utility-serviced ratepayers to the Town.

Further contributions will be required of the R.M. as the volume of water received from the Town's water service increases and, currently, as a component of the Bilan expansion project. The Bilan project is currently expected to cost \$865,000 (including projected overruns), resulting in \$331,667 of capital costs for the R.M.; the remainder of the aggregate project is to be funded by the senior governments.

Water and sewer services provided by the R.M. now serve only GHI.

Accordingly, the R.M. initially approached GHI to pay \$62,867, comprised of the \$37,867 direct net cost to the R.M. of its connection to Town service and the \$25,000 initial payment made by the R.M. to the Town with respect to the agreement.

With respect to the Bilan expansion, the R.M. proposes to recover:

- a) its net capital cost of extending Town water and sewer lines to the new development; and
- b) a share of costs incurred and to be incurred by the R.M. arising out of its agreement with the Town.

The R.M. suggested a charge of \$700 per residential connection to recover its direct costs arising out of its agreement with the Town. The R.M. reasoned that such a contribution would be reasonable and take into consideration the provisionally determined levy of \$7,000 against GHI, based upon the larger capacity of the service to GHI.

As previously indicated, the R.M.'s agreement with the Town requires the remittance of 50% of municipal taxes collected from GHI and any new R.M. commercial/industrial account connected to the Town's utility service through the R.M.'s system. In 2005, the Town received \$2,630.00 from the R.M. on this account, GHI being the only currently connected commercial account.

To this point, separate audited financial statements are not maintained by the R.M. for the utility; the utility is reported

within the R.M.'s General Operating Fund. As the system expands, separate utility accounts will need to be maintained and audited.

Currently, no shared service administrative costs from the General Fund are allocated to utility operations. The R.M. intends to make such allocations once the utility has expanded and demands on the general operations of the R.M. have increased.

3.0 Background

The R.M. operates a water and sewer distribution system in the R.M. and currently has only one customer - GHI. Future attachments are planned, most notably the Bilan expansion.

Pursuant to an agreement between the R.M. and the Town, the R.M. purchases water from the Town's utility, supported by the Town's relatively new and increased capacity water treatment plant. The plant was constructed with the assistance of provincial and federal government grants, for the purpose of serving not only the Town but also the surrounding area. The Town's net capital cost, after grants for the \$2.8 million project, was \$1.2 million.

Highlights of the 2003 Water Supply Agreement between the R.M. and the Town are summarized below.

1. The Agreement refers to water service; sewer service, now extended to GHI through the R.M.-Town connection, is to be the subject of a further agreement. GHI, the R.M.'s only current customer, receives Town sewer services, and meets the rate assessed by the R.M. based on Town rates.
2. The Agreement provides for the maximum delivery of 64,000 gallons per day to the R.M., ostensibly representative of 20% of the plant's capacity.
3. The R.M. has a maximum liability to the Town of \$280,000, with an initial payment having been made of \$25,000. The R.M. may draw 5,714 gallons per day from the Town's system. Current GHI consumption averages only 514 gallons per day. Further payments are not due until such time as the R.M.'s draw on Town water increases substantially - even with the Bilan project taken into account, the volume requiring additional payments may not be reached.
4. The R.M. is obliged to meet the Town's water and sewer rates, and the R.M.'s rates are not to be less than the Town's rates. Schedule "A" to the Agreement includes only commodity rates; minimum quarterly bills are at the R.M.'s discretion.
5. The R.M. must remit to the Town 50% of municipal taxes levied on GHI and any new commercial or industrial development receiving utility service.
6. The Term of the Agreement is 20 years,
7. Either party may terminate the agreement, with no less than three (3) years prior notice. Neither the R.M. nor the Town have indicated any interest in giving notice to terminate the agreement; termination would require re-negotiation.

The R.M. and the Town have yet to negotiate a sewer agreement. Rates will be subject to the Board's approval.

In bringing service to GHI in 2003, the Town and the R.M. designed and built a connection and meter pit exceeding the immediate requirements of GHI, providing for the potential for future expansion of the line. The aggregate cost was \$99,265.00, funded by WAF, the Town and the R.M.; the net cost for the R.M. was \$37,867.

The R.M. paid to the Town the initial \$25,000 contribution required under the agreement with the Town, the balance of \$255,000 being due only upon major expansion; payments are based on volume of water drawn by the R.M. from the Town.

Following the 2003 agreement and the connection of service to GHI, the Board approved initial R.M. rates in 2004, pursuant to an Application by the R.M. At that time the R.M. requested the Board approve commodity rates and minimum quarterly bills identical to the rates charged by the Town, and a customer service charge to meet the R.M.'s direct billing costs.

For R.M. residents directly connected to the Town's utility, connection having occurred prior to the agreement, direct service from the Town will continue; these residents are unaffected by the Agreement.

Residents served directly by the Town's utility meet the same commodity rates paid by the Town residents, plus a surcharge of 4.77 mills on assessed property values - again, the same amount paid by Town residents towards the servicing of the net capital cost of the Town's system.

The R.M.'s direct contribution toward capital costs of the Town's utility under the agreement will, as previously indicated, increase as customers attach. The R.M. estimated that based on average usage, an equivalent of 400 R.M. customers are required to bring about realization of the full \$280,000 notional liability to the Town under the water supply agreement.

Hearing

At the Board hearing, the Reeve of the R.M. indicated a need for Board decisions, including a view on the agreement between the Town and the R.M. before system expansion occurs.

Mr. Bev Trask, representing GHI, made the following salient comments in an oral presentation supported by a pre-filed brief:

1. the proposed \$0.50/m³ charge for future repairs (and reserves) is not a significant issue in itself, though the charge is premature without a history of costs and a larger customer base;
2. the capacity of the Town's Water Treatment Plant has been questioned by Town resident, Mr. Mathers, and that capacity is a significant factor in determining the R.M.'s eventual

- capital cost contribution to the Town that will need to be collected from R.M. customers; clarification is required;
3. the R.M.'s utility duplicates existing resources of and services provided by the Town; it would be more economical if the Town assumed full responsibility for utility services in the R.M.;
 4. while the R.M. remits to the Town 50% of the taxes it collects from GHI, there has been no indication as to how those funds are spent by the Town; the provision in the agreement with respect to said taxes was a means by which the R.M.'s utility avoided annexation by the Town; and
 5. the agreement between the Town and R.M. may not be meeting its objectives, and should be renegotiated.

Mr. Ted Mathers' presentation referred to and supported his pre-filed brief to the Board. Mr. Mathers advised that in his opinion the agreement between the Town and the R.M. is flawed; the R.M.'s obligations are inadequate and as a result the overall billing approach is unfair. His major views were:

1. the agreement between the Town and the R.M. is flawed, this because the Town's residents pay a far greater share of the capital cost of the Town's system than do the residents of the R.M.;
2. residents in the R.M. served directly by the Town pay 4.77 mills on assessed value, in addition to the Town's commodity rates, this being consistent with the Board's Guidelines for Manitoba municipality water and sewer systems, and fair; and

3. the R.M. contributes to the Town's capital costs of its utility services based on the R.M.'s water consumption, presently that being that of GHI; thus, for Mr. Mathers, the current level of contribution is grossly inadequate.

By his estimation:

- a) a Town customer with an assessed value of \$150,000 and 70 feet of frontage would pay \$322.00 per year (equates to 4.77 mills on the assessment) until the debenture is paid (25 years), plus \$600 of up front fees (\$5.00 per frontage foot or \$350.00), plus a flat \$250 for sewer). Combined, the Town resident would pay \$8,650.00 over the 25 year period for water and sewer service; and
- b) a resident of the R.M. would pay \$841 towards the capital cost of the system (based on average consumption).

Mr. Mathers acknowledged that:

- a) his estimates do not represent the present value of payments to be made over 25-years;
- b) his estimate of the capital costs to be paid by a connected resident of the R.M. do not reflect capital costs that will be incurred by the R.M. over twenty-five years;
- c) comparing the situations of Town and R.M. residents on one matter alone, water supply costs, does not reflect the full range of differences that lead families and businesses to locate in the Town or the R.M.; and
- d) in particular, the R.M. plans would have the net capital costs of extending Town service in the R.M. met by new customers, not by the general ratepayers.

Mr. Mathers suggested that if the Town's debenture servicing costs were included in the development of the Town's rates, a fairer recovery of the Town's debenture debt by all consumers would occur. This is because the agreement between the R.M. and the Town requires the R.M. to meet the Town's commodity rates.

Mr. Mathers noted that the R.M. is provided water by a 6" diameter line, with no minimum quarterly bill established by the Town and the Board. If there was a minimum bill, Mr. Mathers suggested that it would be considerably higher than current charges paid by the R.M., as the R.M. currently has only one customer.

4.0 Board Findings

The Board will vary the application filed by the R.M. and establish both revised rates and system connection charges.

The Board establishes approved water and sewer rates as follows:

As of June 1, 2005:

Commodity/Cubic Metre	Existing			Approved		
	Water	Sewer	Total	Water	Sewer	Total
First 455 cubic metres	\$0.75	\$0.23	\$0.98	\$0.90	\$0.28	\$1.18
Over 455 cubic metres	\$0.63	\$0.23	\$0.86	\$0.76	\$0.28	\$1.04

These rates are:

- a) in accordance with the agreement between the R.M. and the Town - representative of the commodity rates charged Town customers as of June 1, 2005; and
- b) before a higher administration charge, that to be \$23.28 per quarterly billing, effective July 1, 2005.

As of July 1, 2006:

Commodity/Cubic Metre	Existing			Approved		
	Water	Sewer	Total	Water	Sewer	Total
First 455 cubic metres	\$0.75	\$0.23	\$0.98	\$1.28	\$0.40	\$1.68
Over 455 cubic metres	\$0.63	\$0.23	\$0.86	\$1.08	\$0.40	\$1.48

These rates are:

- a) in accordance with the agreement between the R.M. and the Town - representative of the commodity rates charged Town customers;
- b) before a higher administration charge, that to be \$24.00 per quarterly billing effective July 1, 2006.

The Board will approve the \$0.50/m³ charge (\$0.44/m³ for quarterly volumes in excess of 455 cubic metres), notwithstanding the system is new and the R.M. has only a single customer. Experience has shown that it is prudent to set aside funds to meet anticipated operating costs, provide for unforeseen expenses, and begin the development of a Utility Reserve account to meet the eventual costs of replacement.

The Board does not agree with GHI that the new levy be deferred. Particularly in the case of a new system, unforeseen costs are exactly that, and the R.M. has identified a significant exposure to the risk of a water main break.

The rates to be established for July 1, 2006 will include the new levy and are not unreasonable for quality water delivered in adequate and as needed volumes. The annual cost of water and sewer that can be anticipated for GHI with these new commodity rates approximates \$1,500; GHI is a modern hotel with twenty-two guest rooms and a restaurant.

Connection Charges

While the R.M.'s Application did not seek the Board's intervention with respect to establishing connection charges, the R.M.'s Reeve sought certainty with respect to the Board's view on all matters related to its utility, a justifiable position given the approaching expansion.

The Board will employ its statute-based authority to set initial connection charges. The Board does so with the intent of providing increased certainty ahead of the Bilan expansion.

GHI's Connection -

The Board is aware of past discussions between GHI and the R.M. regarding:

- a) recovery of the costs of the connection between the Town and the R.M.; and
- b) a contribution by GHI towards the R.M.'s obligations under the agreement with the Town.

The Board understands that the R.M. and GHI agree that GHI should be assessed for the service connection, with only the amount being in question. The Board's interest in this matter stems from the fact that cost of the connection is a cost to the utility, and if compensation is inadequate it will affect rates and costs for other customers and/or ratepayers.

The Board understands that Town water is delivered at the R.M. connection point by 6" meter, and that GHI is served by a 1½" meter. The Board notes that using meter capacity ratios, GHI is presently capable of using one-seventeenth of the total capacity of the 6" meter (capacity does not represent normal usage). This suggests the contribution of GHI to the costs of the R.M./Town connection should be less than the R.M.'s net of grant cost.

That said, the connection was installed primarily (if not entirely for) for the use of GHI, and allowed GHI to end its prior practice of hauling in water and hauling out effluent, an expensive and less than ideal situation for a modern hotel. As well, proper planning supports the installation of a larger line to provide for potential future expansion. The Board notes that the Bilan residential project is to utilize the same meter pit and six inch line now employed to bring service to GHI.

GHI and future R.M. customers have and will benefit from the grants secured with respect to both the treatment plant and the utility infrastructure of the Town and the R.M.

It is also important to take into account the R.M.'s obligations to the Town pursuant to the water supply agreement. These obligations include the R.M. sharing municipal tax revenue received from present and future commercial and industrial customers. Presently, the R.M. remits 50% of GHI taxes to the Town, and this obligation will survive for the duration of an indefinite term agreement. The present value of this obligation is significant.

For all of these reasons, the Board concludes GHI should be held responsible for 60% of the net cost to the R.M. of the connection, and that interest on this assessment should be assessed from the date of this Order.

This said, the Board establishes the charges to be made against GHI, these being:

- a) \$7,000.00 as a direct contribution to the R.M.'s obligations to the Town of Lac du Bonnet (Town) with respect to volumetric usage of the Town's water treatment plant; and
- b) a further levy of \$22,720 (60% of the \$37,867 required to meet the net direct capital costs, after grants, incurred by the R.M. to connect to the Town's water and sewer system).

These levies are operative as of the date of this Order, with interest as to be established by the R.M.

With the agreement of the R.M., GHI connection charges may be financed with annual payments plus interest over a period of no longer than ten years.

The aggregate "connection-based" invoice to GHI arising out of the above decisions is \$29,720. While this is a significant sum, the Board notes:

- a) the overall cost of connecting the Town and the R.M. utilities was approximately \$100,000 (grants reduced the R.M.'s share to \$37,867), excluding the present value of the 50% share of present (GHI) and future commercial taxes;
- b) the Town's new treatment plant and its higher capacity were instrumental to the formation of the R.M.'s service and the connection to GHI, and that plant involved senior government contributions in the range of \$1.6 million; in short, the treatment plant was highly subsidized, reducing the cost for both Town and R.M. customers;
- c) absent GHI, the R.M. would not have connected to the Town's water and sewer services at the location of the connection; in short, the connection and the costs are directly attributable to the presence of GHI and its expressed need for an adequate supply of quality water and safe and effective effluent removal;
- d) an aggregate connection charge of \$29,720, that can be financed with reasonable interest charges over ten years is

not an unreasonable burden for a commercial operation which previously bore the cost of bringing in water and trucking out effluent; and

- e) there is no assurance that beyond the Bilan expansion, other R.M. ratepayers, current or future, will benefit from the Town-R.M. connection point near GHI.

Bilan Connection -

The Board will also establish connection charges with respect to the Bilan expansion, and considers the approach to represent a basis for planning for all future expansions. The R.M.'s cost to extend the services to the new area is to be recovered, with interest:

- a) either at time of construction; or
- b) through extended payment plans; or
- c) by means of the establishment of a Bilan Local Improvement District, the issuance of a debenture, and the levying of debenture servicing costs against Bilan property owners.

Future and residential customers of the R.M.'s utility, initially expected to arise out of the Bilan project, are to be levied initial connection charges of:

- a) \$757 plus interest from the date of this Order (representing in total 40% of the \$37,867 required to meet the net direct capital costs, after grants, incurred by the R.M. to connect to the Town's water and sewer system);

- b) \$700 with respect to the R.M.'s volumetric obligations to the Town of Lac du Bonnet (Town) with respect to the Town's water treatment plant; and
- c) \$12,284 plus related interest costs with respect to the R.M.'s anticipated net capital costs, estimated to be \$331,667, to extend service to the Bilan project, expected to accommodate up to 27 customers. As previously indicated, these costs may be recovered in one of three approved ways.

If the number of residential Bilan customers connected to the expanded system within five years differs from the current estimate of twenty-seven (27), or if the R.M.'s net capital costs of the project differs from the current estimate of \$331,667, amendment of the charge is to occur.

Such amendments are to be subject to the review of the Board.

Costs of connecting to the R.M.'s system are the responsibility of connecting customers.

Future Town rate changes -

The Board will not approve the R.M.'s request for automatic rate adjustments to account for Town rate changes, but appreciates the need for regulatory economies to be preserved in a situation where the R.M. is obliged by agreement to pass through cost and rate increases by the Town.

The Board understands that a delay of a pass-through will result in an under-recovery of costs and the subsequent need for the R.M. to request approval of a retroactive increase so as to preserve the financial integrity of the R.M. utility. Nonetheless, utility rate changes require the Board's approval.

There is an evident need for future rate changes to be more timely, and the Board will consider processing future R.M. applications for revised rates based on Town rate changes by paper process.

The Board will require the R.M. advise its ratepayers of an impending rate change upon the Town applying to the Board for amended rates.

Subject to the R.M. making a subsequent application to the Board within thirty days of the Town's action, the Board is prepared to ensure that such higher rates as it may approve for the Town will be concurrently implemented for R.M. customers.

In so doing, the revised Town rates will take effect for the R.M. concurrent with the implementation of higher Town rates. No hearing would be required, though an amending rate by-law by the R.M. will be required.

This prospective new process will reflect a least cost regulation process that is in the ratepayers' best interest. In making this commitment, the Board notes an intention to ensure

that the perspectives of the R.M. and its customers are accounted for in future Town rate application processes.

The Board notes the Town's plans to upgrade and/or replace water mains, a project expected to cost approximately \$2 million over time. Such a level of expenditure, if not met through grants and the Town's tax system, may involve future Town applications seeking higher commodity rates. If and when this development occurs, the Board will carefully assess the potential impact on the R.M. and its customers, and receive representations.

Board's Perspective on the R.M./Town Agreement

The Board has considered the concerns expressed at the hearing and in the public arena prior to the hearing. Presenters evidenced concerns regarding the agreement between the R.M. and the Town and suggested that the agreement was unfair to Town residents.

The Board notes that, without the Town's success in obtaining funding for a new and higher capacity water treatment plant, neither the Town nor the R.M. would have the quality water and utility service prospects that now exist.

The Town's success in obtaining funding in excess of 50% of its \$2.8 million water treatment plant came in part from the support offered the project by the R.M.

Governments, provincial and federal, have expressed through the actions of the Manitoba Water Services Board and other departments and entities a strong interest in regional water and sewer development. The economies of plant and service construction are such that regional development provides opportunities to advance quality water and safe effluent goals difficult to otherwise achieve.

The safety of the communities of Manitoba and future economic development depend in part on the provision and maintenance of adequate supplies of quality water and safe discharge and treatment of effluent.

Also, without the R.M.'s success in obtaining WAF and Town funding support, it would not have been financially able to form its new utility and connect to the Town's service - bringing a considerable benefit and useful service to GHI and its customers.

This initial success has since been followed up by further success in obtaining funding. The next project is to be the Bilan project expansion, where approximately a further \$533,333 of senior government funding has been secured.

With respect to the capacity of the water treatment plant, the Board accepts that different estimates of capacity have been circulated. While this may be an important issue from an operational perspective, it is not a matter for current rate-making.

And, while some presenters at the hearing have indicated an interest in this matter being determined definitively, the Board notes:

- a) the issue is not elaborated on in the agreement;
- b) the R.M. is well below the volumetric use level requiring additional payments to the Town;
- c) the agreement was negotiated in good faith by both parties with the assistance of the Manitoba Water Services Board, with no party expressing an intention to review its terms; and
- d) both parties function in a cooperative manner; if matters arise in the future requiring adjustments to understandings, the Board is confident the R.M, and the Town can reach amicable amendments, if required.

Accordingly, until such time as changes to the agreement may be made, the liability of the R.M. such as it may relate to the Town's treatment plant and its capacity shall remain as is.

It is apparent that:

- a) the R.M. and the Town intended to share in the capital cost of the treatment plant, and its use;
- b) grants to build the plant were extended on this basis; and
- c) the Town is currently servicing most of the cost of the plant, and the eventual amount paid by the R.M. will be determined by future events.

Further with respect to the fairness of the agreement, the Board makes the following additional observations:

1. the R.M. has expended approximately \$63,000 net of grants;
2. the R.M.'s remaining potential liability with respect to contributions to the Town's net infrastructure costs is \$280,000 less the \$25,000 paid to-date;
3. the R.M.'s agreement to remit 50% of GHI tax payments to the R.M, and 50% of such payments by future commercial and industrial customers has a significant present value that could exceed \$100,000 (with over half of that sum related to existing tax levels and payments with respect to GHI);
4. R.M. residents connected directly to the Town's service contribute to the Town's net infrastructure costs and will continue to do so;
5. R.M. residents purchase bulk water from the Town, and bulk rates include a provision for net capital costs; and
6. the treatment plant's capacity provides an opportunity for the Town to extend the reach of its regional water supply service beyond the R.M. of Lac du Bonnet.

The payments and liabilities of the R.M. and its ratepayers with respect to water supply arrangements with the Town are not unsubstantial, particularly given the R.M. currently only has one customer.

The Board understands Mr. Mathers expressed desire for fairness, a rate-making principle of the Board. However, Mr. Mathers fails to recognize that the Town's approach to meeting utility costs need not be the same as the approach taken by the R.M.

The Town and the R.M. are in dramatically different circumstances.

The Town has a mature system, with all residents connected. The R.M.'s utility is in its formative stages. Mature systems that extend service to residents on a universal basis within a relatively contained geographic area are in a different position than new systems, particularly those such as the R.M.'s, with most ratepayers not connected and with unconnected ratepayers often geographically distant from each other.

Mr. Mathers has claimed that R.M. residents, who now (GHI) or in the future connect to the R.M.'s system, will receive their service at drastically reduced cost compared to the cost and rates incurred by Town residents.

However, and with respect to volumetric charges, R.M. ratepayers connected to the R.M.'s water system will pay more than the volumetric charge made against Town residents.

Further, with respect to capital costs, just as GHI will be invoiced for its connection to the R.M.'s system, new R.M. customers will be required to pay a share of net of grant expansion costs and of the R.M.'s obligation to the Town under the water supply agreement. As well, new customers, as has occurred with GHI, will be fully responsible for costs to extend R.M. water and sewer lines into their properties, meet commodity and customer service charges, and pay the new \$0.50/m³ operating

cost and reserve levy (\$0.44 for volumes in excess of 455 metres).

Mr. Mathers preference would have had the R.M.'s full capital contribution of \$280,000 under the water supply agreement paid "up-front" to the Town. Such an approach would have lowered the net capital costs reflected in the Town's debenture and the tax levies on Town residents.

However, it is doubtful that such an approach would have led to an agreement given that the R.M. would have had to finance a \$280,000 up-front payment when only one current customer was in place, a customer with annual commodity charges at the time of less of \$1,500.

The Board further understands that if the Town were to include in its utility rates the servicing cost of utility debenture debt, under the water supply agreement the R.M. would be obliged to pay the higher rates that would result.

Such an outcome may address Mr. Mathers fairness question, at least from his perspective. However, this would require a change in policy and a new by-law by the Town, new Town rates, the amendment of the agreement with the R.M. (negotiated on the premise that debenture service costs were not in Town utility costs and rates) and the agreement of the Board. No interest in any of these changes by any of the parties, including the Board, has been evidenced to-date.

Both Town and R.M. ratepayers, now in particular GHI, enjoy water service and prospects of further expansion at considerable less cost that would have been the case if neither the Town nor the R.M. had been successful in securing significant grant support. The grant support arose in part because of a need for quality water and a desire for regional water service.

The Board neither takes issue with the water supply agreement, nor does it consider it unfair to either party. As well, the Board notes that neither party to the Agreement has expressed a desire to re-open the Agreement. The Board accepts the reasonableness of that position, as well.

Other matters

The Board will require the R.M. file with the Board:

- a) a copy of any Sewer Agreement with the Town, once negotiated - such an agreement may require the Board's approval with respect to rates and charges;
- b) any proposal to reduce or otherwise amend connection charges as established by this Order;
- c) a report on the final arrangements with GHI, as to payments due and to be financed;
- d) a report on the Bilan expansion; and
- e) a pre-final draft of any proposed amendments to the water service agreement with the Town.

The Board expects the R.M. to segregate its utility operations from its General Operating Fund and commence financial reporting

on utility operations and capital fund account on a stand-alone basis by 2008. This is particularly important given the R.M.'s plans for future expansion.

Further, there should be a sharing of R.M. administration costs between the utility and general operations, and, again, the Board expects such a sharing to be in place by 2008.

This is particularly important to reflect the appropriateness of the administration charge on a go forward basis.

Finally, the Board understands that raw water is plentiful for R.M. and Town residents. Accordingly, some may advance the view that the argument for conservation is not as strong as is found in water-restrained areas. However, the treatment plant cost almost \$3 million, and on-going treatment and other costs can be restrained through the wise use of water by all consumers.

The R.M. expects expansion, and as its number of customers and volumes of water used increases it should set standards with developers, homeowners and businesses for the efficient use of water.

Given the R.M.'s utility is in its formative stages, with only one current customer and very low operating revenue, the Board will reduce its billing of the R.M. for the costs of this proceeding to a relatively nominal amount. As well, in accordance with a recent Board policy change affecting rural municipalities, the Board will not assess travel charges.

5.0 IT IS THEREFORE ORDERED THAT:

1. The Rural Municipality of Lac du Bonnet is to develop and file a revised by-law conforming to the Board's decisions herein.
2. Connection charges be established as provided for herein and filed with the Board
3. Such surplus funds as may develop from the new levy of \$0.50/m³ (\$0.44/m³ for volumes in excess of 455m³) as of July 1, 2006, less operating costs including the Board's fee as established herein and any existing operating deficit, be placed in reserve for future use by the utility.
4. The Rural Municipality of Lac du Bonnet segregate the financial reporting of utility operations from its General Fund by 2008.
5. The Rural Municipality of Lac du Bonnet file with the Board:
 - a) a copy of any Sewer Agreement with the Town, once negotiated - such an agreement may require the Board's approval with respect to rates and charges;
 - b) any proposal to reduce or otherwise amend connection charges as established by this Order;
 - c) a report on the final arrangements with GHI, as to payments due and to be financed;

- d) an update report on the Bilan expansion, as of December 31, 2006; and
- e) a pre-final draft of any future proposed amendment to the water service agreement with the Town.
- f) a copy of the Sewer Agreement, to be entered into with the Town of Lac du Bonnet, prior to execution and advise the Town of Lac du Bonnet of this requirement.

Fee Payable upon this Order - \$1,000.00.

THE PUBLIC UTILITIES BOARD

"GRAHAM F. J. LANE, C.A."
Chairman

"G. O. BARRON"
Acting Secretary

Certified a true copy of
Order No. 74/06 issued by The
Public Utilities Board

Acting Secretary