

M A N I T O B A) Order No. 117/10
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THE PUBLIC UTILITIES BOARD ACT) December 6, 2010

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

TOWN OF BEAUSEJOUR
INTERIM WATER AND SEWER RATES

Executive Summary

By this Order, the Public Utilities Board (Board) approves on an interim *ex parte* basis revised and interim water and sewer utility rates for the Town of Beausejour (Town). The rates are effective as of January 1, 2011.

Existing and revised interim rates:

\$/1,000 gallons	Current	Interim
Water	\$ 2.69	\$ 4.42
Sewer	\$ 2.22	\$ 3.41
Minimum Quarterly Bill*	\$30.85	\$39.61
Average Quarterly Bill**	\$59.33	\$85.02
Bulk	\$10.00	\$10.00

*Includes 3,000 gallons

**Based on 8,800 gallons

All other rates, charges and terms will remain the same pending a further review by the Board.

Background

Effective January 1, 2009, Public Sector Accounting Board (PSAB) accounting standards became applicable for municipalities, including their utility operations. The implications of the accounting change for municipal utilities are significant and will often affect rates; such is the case with the Town.

Capital assets are now subject to amortization over the estimated useful service life of the assets. Payments to reduce the principal of outstanding utility debt are no longer considered an expense, although the interest component of the payments is an expense. Grants received from senior government

or other sources are to be recorded as income in the year of receipt. Transfers of funds held in reserves or to reserves no longer affect the annual surplus or deficit on utility operations. As well, the new PSAB standards require the consolidation of all "funds", and this includes utilities.

As indicated, these changes have implications for the development of rate proposals. Particularly, the amortization of capital assets, as the amortization of such assets increases the annual expenditures of the utility, and, pursuant to legislation, municipal utilities are expected to break-even on operations annually.

Towards alleviating the otherwise significant upward pressure on customer rates that would often result from these changes, the Board has established regulatory accounting practices that differ in one respect from those set by PSAB. For rate submissions to the Board, grants may be amortized over the same period the corresponding capital asset is being amortized. Similarly, any water and sewer infrastructure transferred to a municipality by a developer will be considered a donation. For rate setting purposes, the Board will allow these donations to be amortized over the same period of time as the acquired capital asset, resulting in a complete offset.

Details of PSAB requirements and the Board's allowable regulatory accounting treatments are set out in Order 93/09, available on the Board's website (www.pub.gov.mb.ca).

Backlog

Because of the PSAB changes, and the Board's allowable variances, the numbers of municipal utility applications for rate changes that have been submitted within the last six months have been far higher than normal.

The Board has a limited staff to undertake reviews made more complex by the accounting changes. The Board is expending additional time in reviewing each application, towards ensuring accuracy and completeness.

In an effort to minimize delays, the Board has implemented a 'quick review process' that heavily relies upon municipalities. This process applies to utility rate applications received by the Board between June 1 and November 1 of 2010.

For these applications the Board will perform a cursory review. Based on the information provided, the Board's general understanding of the specific utility, utilities in general, the implications of PSAB and Board accounting guidelines, interim *ex parte* rates (*ex parte* means without public notice). These revised interim rates may not be those sought by the utility.

The Board will issue an interim *ex parte* decision on this Application which is to be followed by a detailed review including an opportunity to hear from customers and obtain further details from the utility. This will be followed by a final order of the Board.

Application

The Town applied for revised water and sewer rates, as set out in By-law No. 1647/10 read the first time on May 25, 2010. The application is supported by a rate study and other additional filings.

The Town proposed the following rates:

\$/1,000 gallons	Current	Proposed
Water	\$ 2.69	\$ 5.63
Sewer	\$ 2.22	\$ 3.60
Service Charge	\$16.12	\$22.57
Minimum	\$30.85	\$50.26
Bulk	\$10.00	\$ 5.85

From the information submitted, the Board provides the following summary of expenses:

	2009 Actual	2010 Budgeted	Interim Approved
General			
Expenses	\$ 66,584	\$115,000	\$86,559
Revenues	\$ (1,901)	(\$ 2,000)	(\$ 2,000)
Total General Requirements	\$ 64,683	\$113,000	\$84,559
Water			
Expenses	\$ 180,998	\$233,280	\$199,098
Amortization	\$ 120,435	\$120,435	\$120,435
Interest	\$ 5,653	\$ 5,017	\$ 4,343
Reserves	\$ 48,277	\$ 42,600	
Minor Capital	\$ 25,948	\$ 11,000	
Contingency			
Revenues	(\$ 97,284)	(\$97,284)	(\$66,446)
Total Water Requirements	\$284,027	\$315,048	\$257,430

Sewer			
Expenses	\$149,431	\$154,325	\$156,903
Amortization	\$ 97,635	\$ 97,635	\$ 97,635
Interest	\$ 10,358	\$ 8,449	\$ 6,981
Reserves			
Minor Capital	\$ 25,948		
Contingency			
Revenues	(\$ 65,752)	(\$ 65,752)	(\$ 62,663)
Total Sewer Requirements	\$217,620	\$194,657	\$198,856

Board Findings

The Board will establish, on an *ex parte* basis, interim water and sewer commodity rates.

The Board will provide revised rates due to its understanding of the utility's requirement for an immediate increase in revenue through higher utility rates. Other proposed rates, fees and charges, and terms of service, are to remain the same as last approved by the Board.

The Board will act due to its conclusion that higher rates are required and that such rates will be in the public interest. To delay increasing rates when increases appear to be warranted would be expected to generate deficits and result in higher rate increases in the future.

As previously stated, the Board will conduct a fuller and thorough review of the utility's revenue requirements and rates in 2011; ratepayers will be provided notice and allowed an opportunity to provide comments. Following such a process, which may include an oral hearing, the Board will issue an Order,

setting final rates which may vary from those established herein or those applied for by the Town.

The interim quarterly service charge herein established is based on an approximate 30% increase over 2009 expenses, less anticipated revenues. The interim water and sewer rates herein established have been derived by adding 10% (5% for sewer) to recorded 2009 expenses plus the net results of all PSAB accounting changes as affected by the Board's regulatory accounting approach.

The interim rates set will not provide for contributions to reserve funds, contingencies or minor capital projects, as were intended to be reflected in the Town's application. Consideration of these matters will take place in the subsequent review.

Despite the interim rate increases granted herein, the Board suspects the utility will record deficits in 2010 and 2011. As part of the full review, the Board will address the actual deficit incurred in 2010, and consider the implications for 2011 and subsequent years following a review based on additional information to be sought and received from the Town.

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.

IT IS THEREFORE ORDERED THAT:

1. The Town of Beausejour enact a by-law agreeing with the provisions in this order, with interim rates to be effective as of January 1, 2011.
2. The Town of Beausejour file a certified copy of the new interim rate by-law with the Public Utilities Board once it has received third and final reading.

Fees payable upon this Order - \$150.00

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"KRISTINE SHIELDS"

Acting Secretary

Certified a true copy of Order No.
117/10 issued by The Public
Utilities Board

Acting Secretary