

M A N I T O B A) Order No. 26/10
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THE PUBLIC UTILITIES BOARD ACT) March 11, 2010

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

THE RURAL MUNICIPALITY OF ROCKWOOD
THE RURAL MUNICIPALITY OF ROSSER
GROSSE ISLE AND RURAL REGIONAL WATER SYSTEM
WATER AND SEWER RATES

Summary

By this Order and following a public hearing held on February 1, 2010, the Public Utilities Board (Board) varies an application for water and sewer rates brought by the Rural Municipalities of Rosser (Rosser) and Rockwood (Rockwood) and revises the Board's direction provided by interim Order 160/09.

Approved rates effective for water and sewer services in the April 1, 2010 quarterly billing for customers served by the Grosse Isle and Rosser/Rockwood Rural Regional Water system (Utility) are to be as follows:

Quarterly water and sewer commodity rates:

Customer Service Charge	\$16.30
Volumetric Charge per m ³ for water (min. 15 m ³)	\$ 2.49
Volumetric Charge per m ³ for sewer (min. 15 m ³)	\$ 1.12

Minimum Quarterly Charges - Water and Sewer Service:

Meter Size	Water Included (m ³)	Customer Service Charge	Water Charge	Sewer Charge	Quarterly Minimum	Basic Charge*	Basic Quarterly Minimum*
15 mm (5/8")	15	\$16.30	\$ 37.35	\$ 16.80	\$ 70.45	\$ 8.70	\$ 25.00
19 mm (3/4")	30	\$16.30	\$ 74.70	\$ 33.60	\$124.60	\$ 17.40	\$ 33.70
25 mm (1")	60	\$16.30	\$149.40	\$ 67.20	\$232.90	\$ 34.80	\$ 51.10
38 mm (1-1/2")	120	\$16.30	\$298.80	\$134.40	\$449.50	\$ 69.60	\$ 85.90
50 mm (2")	240	\$16.30	\$597.60	\$268.80	\$882.70	\$139.20	\$155.50

* A Basic Quarterly Charge, calculated based on \$0.58 times the minimum amount of water included (based on meter size) plus the customer service charge, will be applicable to customers that have the services installed but are not presently using the water service. Once water is provided, these customers will then be subject to volumetric charges.

Background: Interim Rates

The Board initially set rates by way of interim *ex parte* Order 160/09 (issued, December 3, 2009). The Board then-determined that initial rates were urgently needed as the Utility had been providing services, without charge, to some of its customers since December 2008. In short, the Utility was incurring costs without the benefit of any revenue.

The Board's interim order was immediate and was to be applied retroactively to all customers connected to the system.

This new order should be read in conjunction with Order 160/09, both of which are available on the Board's website.

Application

Rosser and Rockwood originally applied to the Board for initial rates in September 2009. Each municipality filed similar rate by-laws, after having received first reading from their respective councils (Rosser, By-law No. 7-09; and, Rockwood By-law No. 22/09).

The shared application was based on a rate study dated September 23, 2009 and the provision of additional supporting information. In total, the rate study was based on 166 customers connecting to the system; 80 water and sewer customers, and 86 water only customers.

The Utility obtains its water from the Cartier Regional Water System, at a cost of \$8.07 per 1,000 gallons. Additional treatment is provided at the Grosse Isle treatment plant as required.

The application noted that the Utility was a joint project, with Rosser responsible for day-to-day operations including

administration. Rockwood's certified utility operators were to ensure the continued operation and maintenance of the Utility, this to include regular testing at the water treatment plant. Charges are based on service hours.

There are two components to the Utility, one being the Rosser Rural Regional Water system, which provides water to rural residents and farms, the other provides water and sewer services to the community of Grosse Isle (which straddles both municipalities).

As at September 2009, water and sewer services for Grosse Isle were under construction, with individual connections yet to be made. Rosser advised that as of December 31, 2009, 40 customers were connected and were using the services, 19 others had the services installed but had yet to connect, 20 connections had yet to be completed, and there were two connections to vacant land. Rosser advised that once the services in Grosse Isle have been installed, customers have 30 days to transfer to the new services.

In its application, Rosser noted that water service for the rural area had been in operation for a short period of time, with some services having been provided since early in the year but with the majority of customers having only switched from their private systems in the spring of 2009.

All services are metered and readings were taken at the beginning of July in anticipation of the Board setting rates and providing approval to bill retroactively. Rosser reported that as at December 31, 2009, 75 customers were connected to the system; in addition, nine services were completed but not yet connected, six connections had yet to be installed, and two connections were provided to vacant land.

Service is also provided to six customers in the RM of Woodland. These customers are subject to the same utility rates as all other customers, and a proportionate share of the debenture costs of the system are collected from these customers.

The following rates were proposed and established, initially, by the Board on an interim *ex parte* basis:

Interim Quarterly water and sewer commodity rates:

Customer Service Charge	\$16.30
Volumetric Charge per m ³ for water	\$ 2.49
Volumetric Charge m ³ for sewer	\$ 1.12

Minimum Quarterly Charges - Water and Sewer Service:

Meter Size	Water Included (m ³)	Customer Service Charge	Water Charge	Sewer Charge	Quarterly Minimum
15 mm (5/8")	15	\$16.30	\$ 37.35	\$ 16.80	\$ 70.45
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The rate study projected the following three-year expenses:

	2010	2011	2012
General Administration	\$ 10,821.69	\$ 12,694.50	\$ 13,018.09
Water Expenses	\$118,499.74	\$121,783.24	\$125,165.23
Sewer Expenses	\$ 22,852.08	\$ 21,467.10	\$ 18,551.71

The rates proposed are calculated using the 2010 expense projections and include provisions for contingency based on 0.1% of the capital costs of the system (\$6,800 annually for water and \$4,500 for sewer) and reserve fund contributions of \$5,700 annually for each the water and sewer.

The capital costs of the utility system are noted below:

	<u>Capital Cost</u>
W Production & Distribution	6,802,510.72
S Collection & Disposal	<u>4,500,000.00</u>
Total	<u><u>11,302,510.72</u></u>

The municipalities received approximately \$8.6 million in senior

government grants for the project; 100% for water production and distribution and approximately \$1.8 million for the sewer collection and disposal system. The municipalities raised their portion of the capital costs for the sewer project through borrowing, to require an annual debenture debt payment of \$123,052.09.

Without previous records to estimate consumption, the rate study based consumption for each residential connection at three persons per connection, with each person projected to use 230 litres per day.

The application did not include a shared cost allocation methodology. The Municipalities held that to date a policy with respect to shared services and equipment between the general operations and the Utility had not been established; the policy is to evolve with the operation of the Utility.

As this was a new Utility, and the Board had set interim initial rates without public input, the Board determined that a public hearing should be held.

Accordingly, Rosser and Rockwood mailed notice of the hearing to all potential customers of the Utility and the notice was posted in nine locations throughout the municipalities.

The hearing was held on February 1, 2010 at the Rosser municipal office. Along with members of both councils, their respective Chief Administrative Officers (CAO) and Utility staff, two customers of the Utility attended the hearing and expressed concerns.

Public Hearing

The public hearing began at 7:00 p.m.

Ms. B. Wells, Rosser CAO, and Mr. J. Douglas, Rockwood CAO, responded to questions of the Board and customers in attendance with respect to the Utility and the application.

The Board was updated as to the status of the connections to date and was advised that the lagoon was now in operation; an application for

a tipping fee for trucked-in septage will be made in due course.

One of the residents that spoke advised that he is a rural customer that while opting to have the lines run to his house and have a meter installed has yet to convert to using the system, and is still using his private well. This resident noted that he had received a minimum quarterly bill from the Utility but opined that he should not be billed, as he is yet to consume system water. He suggested that it is not fair that he should have to pay for a service he is not getting, and asserted that he was not previously advised that he would be subject to the quarterly rates.

A second resident advised that he too opted to have the lines installed on his property in October 2008, this for a building that is not yet constructed. He indicated that the existing residence is an old farmhouse and he did not have the services installed to this house as there is no basement and the crawl space is inaccessible. He confirmed that he intends to fully connect to the system once the building is completed, likely at the end of 2010. He indicated that he had received two quarterly billings, one for the period ending September 2009, the second for the last quarter of 2009 ending December 31.

In a letter dated February 7, 2010, the second resident suggested that anyone that has had a connection but is not yet using the services should not be billed but be provided a grace period. He suggested that those connected as of January 1, 2010 should be given the balance of 2010 to complete the connection before being charged, and any connections installed after that date also be given a one-year grace period.

Ms. Wells responded to both concerns by advising that these customers, and others in similar situations, were included in developing the revenue calculations for the Utility. Ms. Wells opined that all Utility customers, once installations have been completed and services are available, should be paying even if they choose not to complete the connection.

Ms. Wells reminded the Board that customers in Grosse Isle are required to complete the connection within 30 days, but there are no such requirements for the rural customers. The Board was advised that this project went forward with the expectation that all parties that had requested the services be installed would be paying associated maintenance and operating costs.

Ms. Wells confirmed the view that customers, such as those in the rural areas that are not mandated to connect within the 30 days, should be required to pay some portion, as there are costs being incurred by the Utility to maintain and operate the system whether or not the service is turned on at the house.

Ms. Wells further suggested that, at the very least, fixed costs and contributions to reserves and contingencies should be assessed to all customers. Ms. Wells also noted that the initial individual connection costs were subsidized, in the amount of approximately \$2,000.

Anticipating objections, Ms. Wells recalculated the rates to determine that if the Board required these customers be excluded from quarterly billings, what the rates would be. She determined that if dispensation were granted to non-consuming customers:

- Water commodity rate would increase from \$2.49/m³ to \$2.52/m³; and
- Customer service charge would increase from \$16.30 to \$17.23 per quarter.

Board Findings

The Board will vary Rosser and Rockwood's application for rates and will require both municipalities to amend their respective by-laws prior to second reading. These revised rates will not be approved retroactively, but are to be reflected on the next quarterly bill, scheduled to go out in April 2010.

The Board congratulates the municipalities on the work and detail provided in its submission, including incorporating the effects of the now required Public Sector Accounting Board accounting standards as well as the Board's requirements to amortize capital grants for the same number of years that the capital asset is amortized.

The Board was pleased to see that two residents attended the hearing and expressed concerns. While the Board understands the customers' concerns, the Board agrees with the applicants that a charge should be assessed to customers that have requested the services even if they are not using those services.

The Board will direct the municipalities to permit the same grace period for rural residents as that provided for the Grosse Isle residents, that being 30 days.

In discussions with the municipalities, the Board has developed and will approve a charge, in addition to the service charge, to be billed as a basic quarterly charge. This charge has been calculated to recover the basic fixed costs of operating the system such as reserve contributions, contingency and staffing costs less hydrant rental revenue. These fixed costs are then divided by the total amount estimated of water purchases as noted below:

Staffing	\$17,000
Reserve	\$ 5,700
Contingencies	\$ 6,800
Subtotal	\$29,500
Less Hydrant	<u>-\$3,450</u>
Total	\$26,050

Total estimated water purchases: 45,259
Basic quarterly charge: $\$26,050/45,259 = \0.58

These expenses represent a basic cost to operate the system and are

present no matter if water is used or not. The basic quarterly charge will be applied to the minimum quarterly water included i.e. residential with a 15mm meter 15m³ and a 19mm meter, 30m³.

The Board notes that the rates approved are calculated based on only the first year's operating expenses with no provision for inflation. Generally, rate studies project expenses for a three-year period and arrive at a rate to ensure these costs are covered for the full period of time. The Board accepts that the approved rates may only prove adequate to recover the first year's expenses, and will require a review for adequacy be conducted following one full year's experience.

At that time, the Board will also require the Utility file its shared cost methodology to ensure that any shared costs are assessed to the proper entity, i.e. general operations or Utility.

The Board notes that the lagoon is now in operation and will require the municipalities to file an application to establish lagoon tipping fees, for users of the lagoon.

Finally, the Board notes that the minimum amounts of water included in the quarterly charges differ from those suggested in the Board's guidelines. For example, a 5/8" meter would receive 15 cubic metres and a 1-1/2" meter, 120 cubic metres and a 2", 240 cubic metres. The Board's guidelines recommended amounts to be included in a 1-1\2" meter is 10 times that of a 5/8" meter and for a 2", 25 times. When asked, the municipal representatives advised that they were not aware that the numbers were inconsistent and as there were currently no customers on those sized meters, any changes directed by the Board would not yet affect any customers.

The Board will not direct any changes to the amounts proposed to be

included, and will rely on the Utility owners to bring forth any recommended changes should an issue arise. With a lesser amount of water included in the minimum billings, the Board senses conservation efforts may be better employed to ensure usage remains low.

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

Schedule "A"
 to
 Board Order No. 26/10

Rural Municipality of Rosser
 and
 Rural Municipality of Rockwood
 Grosse Isle and Rosser/Rockwood Rural Regional Water system

1. Quarterly water and sewer commodity rates

Customer Service Charge	\$16.30
Volumetric Charge per m ³ for water	\$ 2.49
Volumetric Charge m ³ for sewer	\$ 1.12

Basic Quarterly Charge calculated based on \$0.58 times the minimum amount of water based on the meter size plus the customer service charge as noted in the Minimum Quarterly Charges.

2. Minimum Quarterly Charges - Sewer and Water Service

Meter Size	Water Included (m ³)	Customer Service Charge	Water Charge	Sewer Charge	Quarterly Minimum	Basic Charge	Basic Quarterly Minimum
15 mm (5/8")	15	\$16.30	\$ 37.35	\$ 16.80	\$ 70.45	\$ 8.70	\$ 25.00
19 mm (3/4")	30	\$16.30	\$ 74.70	\$ 33.60	\$ 124.60	\$ 17.40	\$ 33.70
25 mm (1")	60	\$16.30	\$149.40	\$ 67.20	\$ 232.90	\$ 34.80	\$ 51.10
38 mm (1-1/2")	120	\$16.30	\$298.80	\$134.40	\$ 449.50	\$ 69.60	\$ 85.90
50 mm (2")	240	\$16.30	\$597.60	\$268.80	\$ 882.70	\$139.20	\$155.50

Water Only Customers

Minimum charges will be the same for each meter size as shown above, but the Sewer Commodity Charge will be excluded.

Basic Quarterly Charge

Basic Quarterly Charges are applicable to customers that have the services installed onto their properties, but are not receiving the service to date. Once water is provided, these customers will then be subject to the then-approved volumetric charges.

3. Service to Customers Outside Municipality

The Council of the Municipality may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Municipality. Such agreements shall provide for payment of the appropriate rates as set forth in paragraphs 1 and 2 of this schedule, as well as a surcharge, set by Resolution of Council, which shall be equivalent to the frontage levy, general taxes and special taxes for Utility purposes in effect at the time, or as may be in effect from time to time and would be levied on the property concerned if it were within these boundaries. In addition all costs of connecting to the Utility's mains, and installing and maintaining service connections will be paid by the customer.

4. Billings and Penalties

A late payment charge of One and One Quarter Percent (1 1/4%) per month shall be charged on the dollar amount owing after the billing due date. The due date will be the last day of the month of billing.

5. Disconnection

The Public Utilities Board has approved the Conditions Precedent to be followed by the municipality with respect to the disconnection of service for non-payment including, such matters, as notice and the right to appeal such action to the Public Utilities Board. A copy of the Conditions Precedent is available for inspection at the Municipality's office.

6. Reconnection Fee

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$50.00 have been paid.

7. Hydrant Rentals

The Rural Municipality of Rockwood and Rosser will pay to the Utility an annual rental of \$150.00 for each hydrant connected to the system.