

M A N I T O B A) Order No. 146/12
)
THE PUBLIC UTILITIES BOARD ACT) October 31, 2012

BEFORE: Susan Proven, P.H.Ec., Acting Chair
Larry Soldier, Member

RURAL MUNICIPALITY OF HARRISON
NEWDALE SEWER UTILITY
SEWER RATES - 2012, 2013 AND 2014

Summary

The Public Utilities Board (Board) hereby varies revised sewer rates for the Local Improvement District #1 - Newdale Sewer System (Utility) in the Rural Municipality of Harrison (RM) for the years 2012, 2013 and 2014, effective October 1, 2012 and January 1 in each of the subsequent years.

The current and revised commodity rates are noted below:

| CUSTOMER CHARGES | Current | 2012 | 2013 | 2014 |
|------------------------------------|----------------|-----------------|-----------------|-----------------|
| Service Charge | \$3.00 | \$51.85 | \$53.41 | \$55.01 |
| Commodity Charge per REU* | \$52.00 | \$240.87 | \$246.95 | \$253.21 |
| Deficit Recovery Surcharge per REU | - | \$110.16 | \$110.16 | \$110.16 |
| Total Annual Charge | \$55.00 | \$402.89 | \$410.52 | \$418.38 |

*Residential Equivalent Unit

| ANNUAL CHARGES | REU's | Current | 2012 | 2013 | 2014 |
|--|--------------|----------------------|-------------|-------------|-------------|
| Single family, hall, church, store, municipal office, garage | 1 | \$55.00 | \$402.89 | \$410.52 | \$418.38 |
| Building (suites) | 1.5 | \$81.00 | \$578.40 | \$589.07 | \$600.07 |
| Curling Rink | 1 | \$55.00 | \$402.89 | \$410.52 | \$418.38 |
| Hotel | 5 | \$263.00 (5 REUs) | \$1,807.02 | \$1,838.96 | \$1,871.88 |
| Senior Citizen Home | 7 | \$471.00 (9 REUs) | \$2,509.09 | \$2,553.18 | \$2,598.63 |

Details of other rates may be found in the attached schedule "A". Of note is the Deficit Surcharge that is based on the 2011 deficit of \$50,388.16. In the application, the RM requested the deficit be recovered at \$170 per REU, per year for three years. In response to ratepayers concerns, the Board varies the Deficit Surcharge to be \$110.16 per REU, per year, for five years, thus extending the length of time and lowering the payment for ratepayers.

Introduction

The Rural Municipality of Harrison submitted an application on October 18, 2011 on behalf of the Newdale Sewer Utility. Existing rates were last approved in 1986.

A Notice of Application was issued in January 2012 affording customers an opportunity to comment to both the Board and the Utility with respect to the proposed increases.

The Board has at its disposal two alternative processes to deal with rate applications. It may determine that an oral hearing is warranted or that a paper review process is sufficient. Based on customer response to the Public Notice (several comments were received by the Board including a petition with over fifty signatures), the Board concluded that an oral hearing was in the best interest of all concerned.

A Public Hearing was held in the Newdale Community Hall on September 19, 2012 following a Notice of Public Hearing issued on July 30, 2012. There were approximately 63 stakeholders in attendance.

Background

The RM of Harrison owns and operates a sewer only utility in the community of Newdale with approximately 82 customers. Customers are charged a flat rate known as a Residential Equivalency Unit (REU). The current rate is \$52 per REU with a \$3 service charge for a total of \$55 per REU per year. There are approximately 14 non residential customers and of these 13 are assessed at one REU with the remainder being charged a multiple of REU's. There are 67 residential customers and of these two are assessed at multiple REUs.

The Utility has been subsidized by the General Fund since at least 2005. The RM has had to rely on this and the Reserve Fund from the Utility to cover operating shortfalls. At current rates the Utility is not sustainable without these subsidies.

The RM operates a two-cell lagoon system. The system was constructed in the 1960s. Discharges are made twice a year as required. The sewer lines are said to be in good shape.

The RM advised that the sewage collection system is having a hydraulic loading problem at the lift station. This is likely caused by ground water infiltration. Though the lagoon was expanded and upgraded in 2009, a new lagoon is being considered.

The existing lagoon has never been licensed under the Environment Act. This may require a new lagoon to be constructed. The Municipality has included the cost of a new lagoon in their Five Year Capital Plan but has not considered the operating costs. The study did not include the remediation work on the existing lagoon either.

The RM contracts with the Town of Erickson to maintain the Utility system. The Operator is certified and training costs are shared with the Town of Erickson.

Application

The RM submitted its application on behalf of the Newdale Sewer Utility on October 18, 2011 accompanied by a Rate Study prepared by the RM's consultant. The application was also accompanied by By-law 6-2011 read for the first time on October 5, 2011. Rates were last set in 1986.

The rate study proposed the following rates for Newdale.

| CUSTOMER CHARGES | Current | 2012 | 2013 | 2014 |
|----------------------------|----------------|-----------------|-----------------|-----------------|
| Service Charge | \$3.00 | \$51.25 | \$52.75 | \$54.35 |
| Commodity Charge per REU* | \$52.00 | \$258.00 | \$264.00 | \$269.00 |
| Total Annual Charge | \$55.00 | \$309.25 | \$316.75 | \$323.35 |

*Residential equivalent unit

| ANNUAL CHARGES | REU's | Current | 2012 | 2013 | 2014 |
|--|--------------|----------------|-------------|-------------|-------------|
| Single family, hall, church, store, municipal office, garage | 1 | \$55.00 | \$309.25 | \$316.75 | \$323.35 |
| Building | 1.5 | \$81.00 | \$438.25 | \$448.75 | \$457.85 |
| Curling Rink | 2 | \$107.00 | \$567.25 | \$580.75 | \$592.35 |
| Hotel** | 9 | \$263.00 | \$2,373.25 | \$2,428.75 | \$2,475.35 |
| Senior Citizen Home | 9 | \$471.00 | \$2,373.25 | \$2,428.75 | \$2,475.35 |

** Currently assigned 5 REU's

The proposed rates were based on the following projected expenses:

Budgeted costs:

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|------------------|------------------|------------------|------------------|------------------|
| Total general expenses | - | 12,144.00 | 4,200.00 | 4,326.00 | 4,455.78 |
| Deficit Surcharge | | | 16,800.00 | 16,800.00 | 16,800.00 |
| Sewer Expenses: | | | | | |
| Staffing | | | 12,360.00 | 12,730.80 | 13,112.72 |
| Sewage Collection System | 12,996.00 | 5,708.00 | 6,180.00 | 6,365.40 | 6,556.36 |
| Amortization/ depreciation | | | | 20,000.00 | 20,000.00 |
| Interest on long term debt | - | - | - | 13,333.00 | 12,930.00 |
| Reserves | | | 2,000.00 | 2,000.00 | 2,000.00 |
| Contingency | | | 5,000.00 | 5,000.00 | 5,000.00 |
| Total sewer expenses | 12,996.00 | 5,708.00 | 25,540.00 | 59,429.20 | 59,599.08 |
| Revenue | | | | | |
| Amortization of capital grants | | | | 11,935.00 | 11,532.00 |
| Taxation revenues | - | - | - | 21,398.00 | 21,398.00 |
| Other Revenue | 5,102.00 | 5,212.00 | | - | - |
| Total non-rate revenue-sewer | 5,102.00 | 5,212.00 | 0.00 | 33,333.00 | 32,930.00 |
| Net revenue requirement - sewer | 7,894.00 | 496.00 | 25,540.00 | 26,096.20 | 26,669.08 |

The increase is being attributed to the length of time since the last rate study 26 years ago, unexpected expenses of \$23,124 in 2011 from flooding and repairs to the lift station pump costing \$16,639 and \$2,887.

The Utility has been using reserves as well as transfers from the general fund since at least 2005. The Utility has a history of operating deficits every year as far back as 2005.

2005 - (\$2,427)

2006 - (\$2,875)

2007 - (\$8,912)

2008 - (\$13,262)

2009 - (\$21,500)

There are expected revenue shortfalls for 2010 of (\$12,620) and (\$12,800) for 2011.

Had the RM made application to the Board for approval of the deficits each year, earlier intervention would have occurred. The Reserve Fund cannot sustain these shortfalls.

The RM advises that the system is in good condition. However in the review of past operating costs there is variability from \$1,678 to as high as \$6,501. A contingency provision of \$5,000 has been included in the budgetary costs. If this allowance is not used it may be deposited into Reserves.

The rate study suggests a \$2,000 annual amount be collected in rates to rebuild the Reserve Fund. As noted earlier, the Reserve Fund has been used in the past to cover deficits.

The RM advises the Shared Cost Allocation Policy is as follows:

CAO time and benefits - 5%
CAO Assistant time and benefits - 5%
Office costs - 2%
Operator time - as incurred per contract

These are administrative costs and the total is \$4,200; \$4,000 for staff time and \$200 for office costs.

The Working Capital Surplus (WCS) using the most recent audited financial statements (2009), which have been adjusted to reflect the lower Reserve Fund as of the end of 2011 is as follows:

| | |
|-------------------------|-------------------|
| Fund Surplus | \$22,519 |
| Less TCA | - \$0 |
| Add Long term debt | + \$0 |
| Add Reserves | <u>+ \$2,792</u> |
| Working Capital Surplus | = \$25,311 |

The Board requires the Working Capital Surplus to be equal or to exceed 20% of operating expenses. Operating expenses are over \$25,000 for 2012, 2013 and 2014, thus requiring a WCS of approximately \$5,000 per year.

Public Response

Public responses included:

- Letter signed by about 50 residents and business owners of Newdale making accusations of mismanagement by the previous Council.
- Letter from Janice Norosky - stakeholder says they should have introduced rate increases incrementally, also includes accusations of mismanagement.

- E-mail from Duncan Waddell - rate increases for the Hotel, the store and Harrison House will be unsustainable for the businesses involved; does not want such large increases implemented all at once.
- Letter on behalf of Eva Merry - opposing the rate increase due to the impact on the Village as most residents are seniors on a fixed income.
- Letter from Enid Clark on behalf of the Newdale Senior Citizens Home - opposing such huge increases; the magnitude of the increase over a short time span will have dire consequences
- Letter from A.W. Nicholl - says rates went up from \$55.00 to \$309.25 and has other expenses
- Letter from Melissa and Dale Smith-opposing rate increases of 562%-904 % - mismanagement of rate increases for 25 plus years and how this affects the few remaining businesses.

The Public Hearing took place in accordance with the Notice. Approximately 63 stakeholders attended. Those in attendance reiterated the concerns expressed in the written submissions received by the Board. The stakeholders represented both residential and commercial customers.

The proposed increase in rates was not well received by the stakeholders. There was a general dissension in the room. As the Hearing progressed the CAO and Council Members provided explanations for the increase. Residents expressed concern that Newdale would lose its commercial businesses with the proposed increases. Several stakeholders asked if the deficit could be covered by borrowings over a longer period of time, 25 years was suggested.

Stakeholders communicated displeasure with the Council for not having addressed rates for the past 26 years and indicated that in future smaller, inflationary increases are preferred.

Board Findings

The RM advised the Board on October 19, 2012 of REU assignments changes. The original rate study is no longer representative of the current Utility Customers.

The REU assignment for the Senior Citizens Home will go from 9 REUs to 7 REUs and the Curling Club from 2 REUs to 1 REU, approved by Council Resolution No. 259-2012. The original rate study was calculated using a total of 99.5 REUs and the changes brought forward by Council now include a total of 91.5 REUs.

The RM advises the Board that in the time since the Public Hearing the Hotel has been sold. The RM has decided to leave the REUs assigned to the Hotel at the existing rate of five (5).

| ANNUAL CHARGES | REU's | Current | 2012 | 2013 | 2014 |
|--|----------------|----------------------|----------------|----------------|----------------|
| Single family dwelling, (65) Grocery store/post office, Drop-in Centre, 3 Garages, Office Bldg, Municipal Office, Community Hall, Equipment Shed, Fire Hall, United Church, Curling Rink, MTS Bldg. (13) | 1 | \$55.00 | \$402.89 | \$410.52 | \$418.38 |
| Building (suites) (1) | 1.5 | \$81.00 | \$578.40 | \$589.07 | \$600.07 |
| Hotel (1) | 5 | \$263.00 (5 REUs) | \$1,807.0 2 | \$1,838.9 6 | \$1,871.8 8 |
| Senior Citizen Home (1) | 7 | \$471.00 (9 REUs) | | \$2,553.1 8 | \$2,598.6 3 |
| CUSTOMER CHARGES | Current | 2012 | 2013 | 2014 | |
| Service charge | \$3.00 | \$51.85 | \$53.41 | \$55.01 | |
| Commodity charge per REU* | \$52.00 | \$240.87 | \$246.95 | \$253.21 | |
| Deficit recovery Surcharge per REU | - | \$110.16 | \$110.16 | \$110.16 | |
| Total annual charge | \$55.00 | \$402.89 | \$410.52 | \$418.38 | |

The Board varies the contingency provision and the Reserve Fund allocation as follows:

- Reserve Fund allocation - from \$2,000 to \$1,000
- Contingency Provision - from \$5,000 to \$2,500

The final rates were based on the following projected expenses:

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--|------------------|-----------------|------------------|------------------|------------------|------------------|------------------|
| Total general expenses | - | 12,144.00 | 4,200.00 | 4,326.00 | 4,455.78 | 4,589.45 | 4,727.13 |
| Deficit Surcharge | | | 10,080.00 | 10,080.00 | 10,080.00 | 10,080.00 | 10,080.00 |
| <i>Sewer Expenses:</i> | | | | | | | |
| Staffing | | | 12,360.00 | 12,730.80 | 13,112.72 | 13,506.10 | 13,911.28 |
| Sewage Collection System | 12,996.00 | 5,708.00 | 6,180.00 | 6,365.40 | 6,556.36 | 6,753.05 | 6,955.64 |
| Amortization/ depreciation | | | | 20,000.00 | 20,000.00 | 20,000.00 | 20,000.00 |
| Interest on long term debt | - | - | - | 13,333.00 | 12,930.00 | 12,930.00 | 12,930.00 |
| Reserves | | | 1,000.00 | 1,000.00 | 1,000.00 | 1,000.00 | 1,000.00 |
| Contingency | | | 2,500.00 | 2,500.00 | 2,500.00 | 2,500.00 | 2,500.00 |
| Total sewer expenses | 12,996.00 | 5,708.00 | 22,040.00 | 55,929.20 | 56,099.08 | 56,689.15 | 57,296.92 |
| <i>Revenue</i> | | | | | | | |
| Amortization of capital grants | | | | 11,935.00 | 11,532.00 | 11,877.96 | 12,234.30 |
| Taxation revenues | - | - | - | 21,398.00 | 21,398.00 | 21,398.00 | 21,398.00 |
| Other Revenue | 5,102.00 | 5,212.00 | | - | - | - | - |
| Total non-rate revenue- sewer | 5,102.00 | 5,212.00 | 0 | 33,333.00 | 32,930.00 | 32,930.00 | 32,930.00 |
| Net revenue requirement - sewer | 7,894.00 | 496 | 22,040.00 | 22,596.20 | 23,169.08 | 23,759.15 | 24,366.92 |

By law, Manitoba utilities are not allowed to incur deficits. Should the Utility incur a deficit, the Utility is required to submit an application for Board approval. The Board is therefore duty bound to approve reasonable rates based on reasonable expense projections.

The Board has reviewed the RM's forecasts and finds them to be reasonable with the variation set out in the revised projected expenses.

The deficit of \$50,388.36 for 2011 will be recovered as follows: a deficit recovery charge of \$110.16 per/REU, per/year, over 5 years, beginning in 2012 and continuing until 2016 inclusive.

The Board is sensitive to the reaction of customers to the significant rate increases. The increases herein approved may cause a rate shock, a common occurrence when rate requirements have not been addressed for significant periods of time. In this case, it has been 26 years since a rate change was instituted. Consumers are generally more tolerant of regular, smaller increases. Regular reviews of revenue requirements must be conducted by the RM in the future.

While the Board is generally hesitant to approve rates retroactively, it notes that notice of the rate increase has been published for some time. Further, the RM bills the consumers once per year and requires the increase for 2012 in order to avoid another operating deficit.

The Board will approve the shared cost allocation methodology and reminds the RM that this methodology must be used consistently in the future and requires Board approval should any changes be considered.

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.

IT IS THEREFORE ORDERED THAT:

1. The sewer rates for the Newdale Sewer Utility within the Rural Municipality of Harrison, as set out in Schedule "A" to this Order, BE AND ARE HEREBY APPROVED for the years 2012, 2013 and 2014, effective October 1, 2012 and January 1 in each of the subsequent years.
2. A deficit recovery charge of \$110.16 per REU/per Year over five (5) years, beginning in 2012 and continuing until 2016 inclusive.
3. The Rural Municipality of Harrison amend its sewer rate By-law for the Newdale Sewer Utility to reflect the decisions in this Order and submit a copy to the Board once it has received third and final reading.
4. The RM submit audited financial statements for 2010 and 2011 when they have been finalized.
5. The Rural Municipality of Harrison prepare and submit an application for revised rates for the Newdale Sewer Utility no later than July 31, 2014 for the year 2015.
6. The Board will approve the shared cost allocation methodology as submitted.

Fees payable upon this Order \$1,500.00

THE PUBLIC UTILITIES BOARD

"SUSAN PROVEN, P.H.Ec."
Acting Chair

"JENNIFER DUBOIS, CMA"
Acting Secretary

Certified a true copy of Order No.
146/12 issued by The Public
Utilities Board

Acting Secretary

SCHEDULE "A"

TO BOARD ORDER NO. 146/12

**THE RURAL MUNICIPALITY OF HARRISON
 Newdale Sewer Utility**

SEWER RATES

1. Annual Charges - 2012

| <u>Customer</u> | <u>Residential Equivalency Units (REUs)</u> | <u>Commodity Charge</u> | <u>Service Charge</u> | <u>Deficit Charge</u> | <u>Total Annual Charge</u> |
|--|---|-----------------------------|---------------------------|---------------------------|------------------------------------|
| Single family dwelling, Grocery store/post office, Drop-in Centre, 3 Garages, Office Bldg, Municipal Office, Community Hall, Equipment Shed, Fire Hall, United Church, Curling Rink, MTS Bldg. | 1 | \$240.87 | \$51.85 | \$110.16 | \$402.89 |
| Building (Suites) | 1.5 | \$361.31 | \$51.85 | \$165.24 | \$578.40 |
| Curling Rink | 1 | \$240.87 | \$51.85 | \$110.16 | \$402.89 |
| Hotel | 5 | \$1,204.35 | \$51.85 | \$550.80 | \$1,807.02 |
| Senior Citizens Home | 7 | \$1,686.09 | \$51.85 | \$771.12 | \$2,509.09 |

SCHEDULE "A"

TO BOARD ORDER NO. 146/12

**THE RURAL MUNICIPALITY OF HARRISON
 Newdale Sewer Utility**

SEWER RATES

2. Annual Charges - 2013

| | <u>Residential Equivalency Units (REUs)</u> | <u>Commodity Charge</u> | <u>Service Charge</u> | <u>Deficit Charge</u> | <u>Total Annual Charge</u> |
|--|---|-----------------------------|---------------------------|---------------------------|------------------------------------|
| Customer | | | | | |
| Single family dwelling, Grocery store/post office, Drop-in Centre, 3 Garages, Office Bldg, Municipal Office, Community Hall, Equipment Shed, Fire Hall, United Church, Curling Rink, MTS Bldg. | 1 | \$246.95 | \$53.41 | \$110.16 | \$410.52 |
| Building (Suites) | 1.5 | \$370.43 | \$53.41 | \$165.24 | \$589.07 |
| Curling Rink | 1 | \$246.95 | \$53.41 | \$110.16 | \$410.52 |
| Hotel | 5 | \$1,234.75 | \$53.41 | \$550.80 | \$1,838.96 |
| Senior Citizens Home | 7 | \$1,728.65 | \$53.41 | \$771.12 | \$2,553.18 |

SCHEDULE "A"

TO BOARD ORDER NO. 146/12

**THE RURAL MUNICIPALITY OF HARRISON
 Newdale Sewer Utility**

SEWER RATES

1. Annual Charges – 2014

| | <u>Residential Equivalency Units (REUs)</u> | <u>Commodity Charge</u> | <u>Service Charge</u> | <u>Deficit Charge</u> | <u>Total Annual Charge</u> |
|--|---|-----------------------------|---------------------------|---------------------------|------------------------------------|
| Customer | | | | | |
| Single family dwelling, Grocery store/post office, Drop-in Centre, 3 Garages, Office Bldg, Municipal Office, Community Hall, Equipment Shed, Fire Hall, United Church, Curling Rink, MTS Bldg. | 1 | \$253.21 | \$55.01 | \$110.16 | \$418.38 |
| Building (Suites) | 1.5 | \$379.82 | \$55.01 | \$165.24 | \$600.07 |
| Curling Rink | 1 | \$253.21 | \$55.01 | \$110.16 | \$418.38 |
| Hotel | 5 | \$1,266.05 | \$55.01 | \$550.80 | \$1,871.86 |
| Senior Citizens Home | 7 | \$1,772.47 | \$55.01 | \$771.12 | \$2,598.63 |