

Crapaud Water Utility

Application for a Water Rate Increase

Docket UW16306

Backgrounder

December, 2013

Prepared by: Commission Staff

Crapaud Water Utility

Background

In 2006, the Community of Crapaud acquired land from Sherwood Forest Development Inc. The acquisition included a privately-owned, domestic water system, which the community inherited as part of the transaction. The transference of responsibility for the provision of service from private ownership to municipal authority necessitated Crapaud having to establish a utility bylaw and the Crapaud Water Utility was established.

The system is approximately 35 years old and there are 27 customers currently within the serviced area. In 2006, an interim water rate of \$190 per unit, per year, was approved by the Commission. The Utility bills approximately 55 proportionate units, which generates annual revenues of roughly \$10,000.

Wastewater treatment—established in 1967—is also available in Crapaud and presently there are 121 sewer customers within the community. The current annual sewer rate is \$385 per unit, approved effective on January 1, 2012, following major sewer plant improvements carried out in 2010–11.

Crapaud has no plans to expand water beyond the existing serviced area of Sherwood Forest, however, the system is able to accommodate additional growth within the development.

Application

The application currently before the Commission is for increased water rates only. In September 2013, the Crapaud Water Utility filed a request for approval to increase the annual rate from \$190.00 to \$380.00 per unit, for effect January 1, 2013. The request is primarily to offset plant improvements carried out in 2012 (see Commission Permit UW12/01), as well as increased operating costs for the engagement of a certified water plant operator.

Public Notice

The Commission sent a notice by direct mail to each customer and invited written feedback on the Utility's proposal. In addition, the notice and a copy of the Utility's application were made available on the Commission's website. The Utility also provided customers with a written explanation in advance of the application.

In response to the request for feedback, the Commission received two replies. Comments included concerns expressed over the proposed January 1, 2013 effective date, and the amount being requested.

Analysis

Historically, the Utility generated annual revenues in the area of \$10,000 and expenses were around \$9,000. In 2012, however, the Utility saw expenses increase by 83% over 2011 costs (from \$9,026 to \$16,481) and, going forward, costs are expected to be in the \$21,000–\$22,000 range.

The additional revenue requirement of approximately \$11,000 required each year to meet increased costs is the basis for the Utility's application.

Higher costs are mainly for depreciation and interest expenses related to the plant improvements (roughly \$3,000), as well as for the employment of a certified water plant operator (approximately \$8,000)—a requirement under the *Environmental Protection Act Drinking Water and Wastewater Facility Operating Regulations*.

The necessary improvements in 2012 totaled \$122,000 and the Utility received \$66,000 (54%) in funding to offset costs. Ratepayers would be facing a greater impact on water rates at this time without the contribution in aid of construction.

Rates are established by the Commission based on a Utility's costs to operate. Presently, there are 27 customers—56 proportionate units—sharing the water utility's expenses. The current water system can accommodate growth, which could result in rates being lowered, depending on future costs and whether any new water customers are realized in the next few years.

The Commission's independent analysis of the Utility's finances supports that the proposed increase in water rates will allow the Utility to meet its anticipated expenditures.

Proposed Effective Date of January 1, 2013

Crapaud requested a January 1, 2013 implementation date but did not file its application until September 2013. Typically rate requests are made in advance of the proposed effective date and the Commission does not consider approving rates retroactively to this extent.

In addition to analyzing the Utility's proposed January 1, 2013 date, the Commission looked at the impact on the Utility's financial position of July 1, 2013 and January 1, 2014 effective dates.

Leaving the increase until January 1, 2014 would create a significant deficit and become burdensome for the small customer base to recover.

A January 1, 2013 effective date does not provide sufficient time for ratepayers to prepare and adjust for the budgetary impact of the proposed changes.

Therefore, the Commission considers that a July 1, 2013 effective date will allow the Utility to begin to offset its increased costs, as well as allow ratepayers to better prepare for the full impact of the increase in 2014.

Summary

Following a review of the application, as well as an analysis of the Utility's revenues and expenditures, the Commission determined that an increase in water rates is warranted at this time and approved Order and Tariff UW13-06 on December 5, 2013, for effect July 1, 2013.