

MacMillan Point Water Utility
(Successor to Covehead Development Inc.)

Application to Confirm Water Rates

Docket UW64302

Background

February, 2010

MacMillan Point Water Utility Inc.

(formerly Covehead Development Inc.)

Background

Covehead Development Inc. was initially constructed in 1998 and is a privately-owned water system operating in the West Covehead region of PEI.

The development consists of 75 lots that are capable of receiving water service. Out of the 75 properties, 14 have been developed. The rest of the lots remain vacant at present.

In June 2006, the Utility filed an application for approval of an interim water rate and the Commission issued Order UW06-05 which set out a temporary rate based on the Utility's projected expenditures.

The Utility, in its initial rate filing, submitted two rate proposals: one that included expenses associated with chlorination treatment and one without. The Commission reviewed the projections and approved a rate that allowed for the possibility of chlorination treatment. Effective January 1, 2006, an interim rate for a single-family dwelling was set at \$250 per year, and for vacant lots with available service, a frontage charge of \$1.25 per lineal foot—up to a maximum of \$375—was also established.

In its Order to the Utility, the Commission directed Covehead to submit a subsequent rate filing following a period of two years whereby the Utility could track its actual costs to operate the water utility. That subsequent filing is the subject of this application.

Application

In August 2009, the Utility submitted a request that the interim rates approved in Order UW06-05 continue in effect. Also, Covehead requested that its name be changed to MacMillan Point Water Utility Inc. in accordance with its intention to legally transfer the water utility assets from the development company.

Public Notice

A Notice outlining MacMillan Point's application and inviting public response was mailed directly to the property owners. The Notice and application were posted on the Commission's website as well.

The deadline for comments was October 9th, 2009 and, in response to the public notice, the Commission received three letters from ratepayers. Concerns expressed related to the necessity of frontage rates on vacant properties, and the legitimacy of certain expenses.

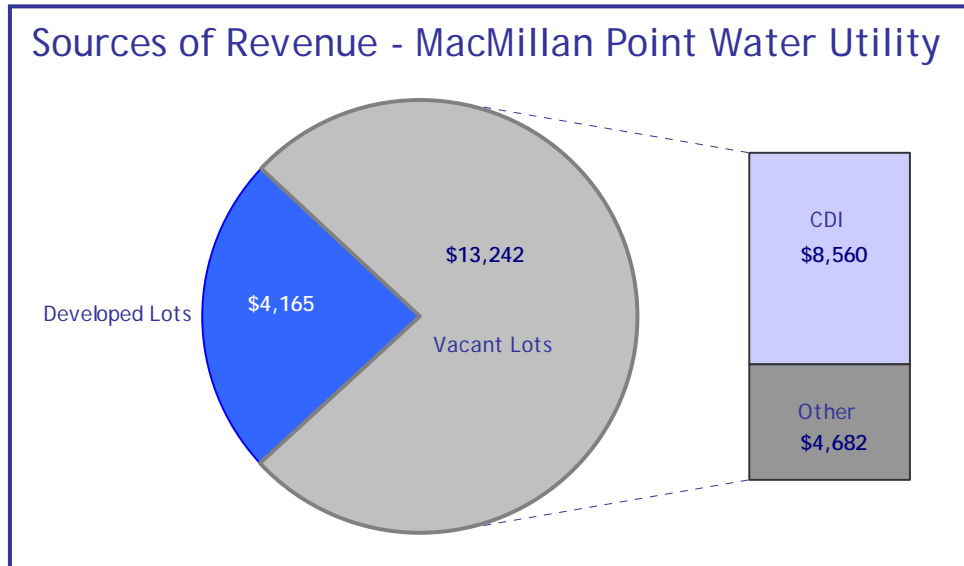
Analysis

Out of the 75 serviced lots in this development, 80% are vacant at this time. Having a rate for undeveloped properties is not unreasonable considering there are costs for having the water service available for use at any time. The rates are designed to offset operating and maintenance costs to run the system and with

only 20% of the total lots developed, it is necessary to recover costs through frontage rates. Customers who use the water system typically pay higher fees.

Roughly half of the Utility's revenues are generated from private lot owners with the other half coming from developer-owned lots (CDI).

At the current rate, the Utility receives approximately \$17,000 in revenues annually. Revenues are broken down as follows:



The Utility's expenditures over the last three years have been in the \$12,000 range, which has resulted in a surplus of approximately \$19,000 at the end of 2008.

Below is a summary of the Utility's revenues and expenditures for the years 2006 to 2008:

MacMillan Point Water Utility

	Actual		
	2006	2007	2008
TOTAL REVENUES	\$17,216	\$17,381	\$17,371
TOTAL EXPENDITURES	\$9,411	\$11,938	\$11,941
Net Income (Loss) for the Year	\$7,805	\$5,443	\$5,430
Cumulative Surplus (Deficit) Dec. 31	\$7,805	\$13,248	\$18,678

Based on the historical revenues and expenditures, current rates appear higher than necessary. Chlorination has not been needed so far and the surplus is primarily from not having to incur expenses of \$2- to \$3,000 annually for this treatment.

Analysis of the Utility's future projected costs, however, including expenses for accounting fees and legal services, as well as costs associated with the purchase of a \$20,000 generator, indicate that annual costs are expected to increase nearer to the current revenue level of \$17,000.

Specifically, legal costs to set up the separate water utility have been added to the projections, with the expense recovered over a five-year period. As well, in accordance with the Commission's accounting policies, the allowable depreciation expense recoverable for the generator is \$1,000 per year over 20 years, with an interest expense for the financing of the asset over time. These additional costs will increase the Utility's expenditures by roughly \$3,500 per year and were included in the projections.

Below is a summary of the Utility's projected revenues and expenses for the years 2009 to 2012:

MacMillan Point Water Utility

	Projections			
	2009	2010	2011	2012
TOTAL REVENUES	\$17,371	\$17,371	\$17,371	\$17,371
TOTAL EXPENDITURES	\$14,418	\$16,670	\$17,018	\$17,241
Net Income (Loss) for the Year	\$2,954	\$701	\$353	\$130
Cumulative Surplus (Deficit) Dec. 31	\$21,632	\$22,333	\$22,685	\$22,816

The analysis shows that, over the next few years, the current rates are projected to meet the Utility's expenditures. In addition, if chlorination treatment becomes necessary in future, the increased expenses of approximately \$2- to \$3,000 each year would be added to the expenditures shown above. The cumulative surplus would offset additional or unexpected costs.

The Commission, as part of its ongoing regulatory role, will continue to review rates to ensure they are in keeping with the Utility's expenditures and any necessary rate adjustments can be carried out during the Utility's next rate review.

A detailed revenue and expenditure schedule, which shows the Utility's actual numbers to date and future projections, is attached to this report.

Summary

Based on the information provided by the Utility and a thorough review of the financial analysis, it appears that the current rate of \$250 per year, with a frontage rate of \$1.25 per lineal foot, is warranted.

Following receipt of documentation from the Utility on December 14, 2009 confirming the legal transfer and conveyance of the water utility from Covehead Development Inc. to MacMillan Point Water Utility Inc., Commission Order UW10-01 and tariff were issued on February 11, 2010.

MacMillan Point Water Utility

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Utility's Proposal - Rates to Continue in Effect

	Current	No Change	Diff \$	Diff %
S-F-D	\$250.00	\$250.00	\$0.00	0
Ftg Rate/Ft	\$1.25	\$1.25	\$0.00	0

Revenues & Expenditures

	Actual			Projections			
	2006	2007	2008	2009	2010	2011	2012
REVENUES							
Water Revenues	\$17,216	\$17,148	\$17,100	\$17,100	\$17,100	\$17,100	\$17,100
Other	0	\$233	\$271	271	271	271	271
TOTAL REVENUES	\$17,216	\$17,381	\$17,371	\$17,371	\$17,371	\$17,371	\$17,371
EXPENDITURES							
OPERATING							
Salaries & Wages - Operational Employees	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Materials and Supplies	0	0	0	0	0	0	0
Repairs and Maintenance	0	941	2,456	1,750	2,000	2,000	2,000
Electricity	850	1,037	1,365	1,775	1,952	2,147	2,362
Water Testing	611	503	368	500	550	600	650
	1,461	2,481	4,189	4,025	4,502	4,747	5,012
GENERAL							
Salaries & Wages - Administrative Employees	4,500	4,500	4,500	4,500	4,500	4,500	4,500
Office Supplies and Expenses	435	128	0	100	100	150	150
Interest and Bank Charges		75	33	50	50	50	50
Telephone	538	515	576	600	600	625	625
Contractual Services	1,475	2,536	0	2,500	2,500	2,500	2,500
Insurance	308	292	1,232	1,232	1,232	1,300	1,300
Regulatory Commission Fees	0	717	717	717	717	717	717
	7,256	8,763	7,058	9,699	9,699	9,842	9,842
OTHER							
Depreciation Expenses	694	694	694	694	1,694	1,694	1,694
Interest on Long-Term Debt	0	0	0	0	775	735	693
	694	694	694	694	2,469	2,429	2,387
TOTAL EXPENDITURES	\$9,411	\$11,938	\$11,941	\$14,418	\$16,670	\$17,018	\$17,241
Net Income (Loss) for the Year	\$7,805	\$5,443	\$5,430	\$2,954	\$701	\$353	\$130
Cumulative Surplus (Deficit) Dec. 31	\$7,805	\$13,248	\$18,678	\$21,632	\$22,333	\$22,685	\$22,816

Notes:

- 1** Cost increase relates to the inclusion of liability coverage
- 2** Legal fees recoverable over 5 years and annual accounting fees
- 3** Depreciation - generator

* If chlorination occurs-extra \$2-\$3,000 per year in expenses