

# Cavendish Sewer Utility

Application for Sewer Rate Increase

Docket UW47306

## Backgrounder

July, 2009

# The Cavendish Sewer Utility

The Cavendish Sewer Utility was constructed in the 1990s and provides sanitary sewer services to approximately 300 properties within the Resort Municipality of PEI.

In 2003, the Utility took over the sewer operation in the privately-owned Seawood Estates subdivision located in the community.

The Utility's current annual rate for a single-family dwelling is \$262.07 for all customers and has been in effect since 1996.

## Utility's Rate Proposal

In April 2009, the Utility filed an application for sewer rate increases, effective January 1, 2009.

In its application, the Utility proposed to introduce a two-tiered rate structure wherein residents of the Seawood Estates subdivision would be charged a different rate than the remaining serviced customers within the community. Specifically, the Utility proposed the following rates:

Type of Service	Current Rates	Proposed Rates	
	All Customers	Resort Core	Seawood Estates
<b>Unmetered</b>			
Per Unit	\$262.07	\$306.62	\$484.83
<b>Metered</b>			
Customer Charge	\$161.85	\$189.36	\$189.36
Demand Charge, Per Unit	\$76.56	\$89.58	\$141.64
Flow Charge, Per Cubic Metre	\$0.26	\$0.30	\$0.30
<b>Frontage Charge (As applicable)</b>			
Per Lineal Foot	\$0.90	\$1.05	\$1.67

Cavendish's proposal for a separate Seawood rate stems from the Utility's understanding that in 2003 when it took over the responsibility of operating and running the Seawood sewer utility—which had previously been privately-owned and operated—that a distinct rate would be developed to offset the extra costs in bringing Seawood customers on board. However, the Commission did not approve a separate rate for Seawood customers at that time.

Since 2003, the majority of servicing within the Seawood Estates subdivision has been carried out and Seawood-related financial costs have stabilized. The Utility, in its rate filing, provides information and support for its proposed two-tiered rate structure.

## Public Notice

In May, a Notice outlining Cavendish's Application was published in *The Guardian* and the application was posted on the Commission's website for review and comments. In addition, a direct mailing of the Notice was sent to Seawood customers as many of them are seasonal residents. Extra time was given to accommodate the delivery and turn-around response time for those customers.

The original filing deadline for comments on the matter was June 19, 2009, but following a request for an extension of that date, the Commission extended the deadline to June 26, 2009.

During the time the Notice was published, the Seawood Estates Property Owners Association (SEPOA) held discussions with the Cavendish Utility regarding an alternate rate scenario.

Subject to the Commission's approval, the Utility and SEPOA agreed on a uniform rate for all customers, with an infrastructure charge for Seawood customers to offset the related infrastructure costs.

In total, there were 5 rate-related complaints received in response to the Utility's proposal. Out of the 5 replies, 4 were from Seawood customers who primarily did not agree with a separate rate.

Ten responses were received from Seawood customers indicating support of the alternate rate proposal.

## Background

The Cavendish Utility was built in 1992 for a cost of approximately \$3.1 million. The Utility received partial funding towards the project which reduced its initial capital costs. In addition, to minimize costs, IRAC approved the Utility's request to charge a one-time capital contribution charge from each customer who had land fronting on the sewer main. As a result, the Utility's annual sewer rates for a single-family dwelling have remained in the \$260 range since the Utility has been in operation.

In 2003, the Cavendish Utility commenced billing for sewer services in Seawood Estates. The Commission set the Seawood rates the same as Cavendish's existing rates which resulted in an increase in Seawood customers' rates at that time.

Since taking over the Seawood development, the Cavendish Utility has spent approximately \$1.2 million on infrastructure costs related to Seawood. The Utility received roughly \$774,000 in funding and was left with approximately \$380,000 to be recovered. In comparison, the Utility has incurred approximately \$100,000 in infrastructure debt for work done in areas outside Seawood Estates.

To complicate matters, existing regulations prevent Cavendish from charging Seawood customers the one-time capital contribution charge that it is normally able to charge its new customers, which inhibits the Utility's ability to recover infrastructure costs from Seawood customers.

## Analysis

The need for an increase is primarily related to construction projects undertaken by the Utility over the last few years. Compared to 2008, the Utility's expenditures have increased, on average, approximately 108% since 2001, with interest and depreciation expenses experiencing the largest increases overall.

By comparison, Utility revenues have increased by only 52% during the same period.

Commission Staff's analysis of the Utility's financial statements confirms the Utility's proposed rates appear reasonable and necessary. Without a supplemental rate to Seawood customers to offset infrastructure costs, the Utility would experience losses in the \$28,000 to \$35,000 range per year, and without a rate adjustment at this time, customers would be subjected to an extreme increase within the next 3–5 years.

## Impact on Customers

The Cavendish Utility services approximately 300 properties. Roughly 1/3 of those customers have undeveloped lots and are only subject to an annual frontage charge at this time. Of the 200 or so remaining customers, 55 are commercial-based and 145 are residential. Roughly half of the residential customers are located within Seawood Estates.

Serviced residential customers will see rates increase monthly from \$21.84 to \$25.55. In addition, all Seawood customers will be subject to an infrastructure contribution fee of \$14.58 per serviced lot, per month.

The frontage rate, based on a 100-foot lot, will go from \$7.50 per month to \$8.75 for all customers who pay an annual frontage charge.

Commercial customers in Cavendish are metered and their rates will vary depending upon consumption. For example, a commercial customer who is charged 1.0 proportionate unit per year, and who consumes 300 cubic metres annually, will see their rates go from \$26.37 per month to \$30.75.

## Summary

The importance of a unified rate within the community is understood; however, the impact on rates of the Utility's inability to recover infrastructure costs from Seawood customers is also recognized. The addition to the Tariff of a supplemental charge to Seawood customers allows the Utility an opportunity to recover some of those costs.

Following a review of the application, as well as an analysis of the Utility's revenues and expenditures, the Commission determined that increased rates are warranted at this time and Order UW09-04 and tariff were approved on July 30, 2009, for effect January 1, 2009.