

reliability



Public Utilities Commission
Annual Report 2005

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Highlights of 2005

Financial	2005	2004
Service Revenue	\$8,295,000	\$7,112,000
Net Gain (Loss)	\$429,649	(\$677,040)
Total Municipal Position	\$1,489,867	\$1,060,000
Operations	2005	2004
Number of Customers	25,523	25,378
Annual Sales (m3)	11,052,141	10,450,470
Peak Daily System Demand (m3)	65,120	49,600



H.J. Brian Curran P.Eng., MBA

President, Public Utilities Commission

To: Mark Howson and Members of the Public Utilities Commission

I am pleased to report that the water supply for the City of Sault Ste. Marie remained safe, secure and reliable in 2005. Hot and dry conditions during the summer resulted in high peak daily demands on the water supply. The supply from the water treatment plant and the wells were more than adequate to meet that demand.

A relatively mild winter resulted in fewer than normal watermain breaks during the year. The 5 year average for watermain breaks is 117; we experienced only 92 in 2005.

The financial position of the utility improved in 2005. For the first time in four years we ended the year in a surplus position. This was achieved as a result of a 10% increase in rates effective January 1, 2005; a lower than normal number of watermain breaks; and capital works being lower than what had been budgeted. A 13% water rate increase was approved for 2006 as we need to build capital reserve to meet future replacement costs of any aging water system. Legislation that is expected to come into effect in 2006 will make it a requirement that residents pay the full cost of water service. Despite the increases in water rates Sault Ste. Marie residents continue to enjoy amongst the lowest water rates in Ontario.

A handwritten signature in cursive script, appearing to read "H. Curran".



Year in Review

The Public Utilities Commission ensures that the municipally owned waterworks provide safe, reliable potable water at cost to residential and business customers within the municipal services boundary of Sault Ste. Marie. Potable water is also supplied to an area of the Rankin First Nations Reserve.

Approximately half of our water is supplied from Lake Superior and the other half from six deep wells located in the east urban and west urban areas of the city. The water intake in Lake Superior is located at Gross Cap. It extends 860 meters into Lake Superior and is at a depth of 17 meters. The Gross Cap pumping station delivers water to the Marshall Drive control tanks. Raw water then flows by gravity to the inlet of the water filtration plant. The water filtration plant is rated at 40,000 cubic meters/day, but is capable of operating hydraulically at 60,000 cubic meters/day. The plant has been designed to extend its capacity to 120,000 cubic meters/day should the demand arise at a future date. The plant uses direct filtration, incorporating chemically assisted coagulation, flocculation and dual media filtration.

The management, maintenance and operations of the waterworks system are carried out by PUC Services Inc. under a 10 year contract.

Water Rates

Water rates increased by 10% effective January 1, 2005. The Commission also approved a by-law raising water rates effective January 1, 2006 by 13%. These rate increases are significant but they must be put in the context of the need to replace an aging infrastructure and to respond to greater levels of regulation. The most recent rate increase will mean a monthly increase of \$2.19 in the average residential water bill. Despite the recent rate increases consumers still pay amongst the lowest water rates in Ontario.

Water Quality

Both raw and treated water are routinely tested at various points in the treatment and distribution system, in accordance with the requirements specified by the Ministry of the Environment (MOE). All test results are

available for review by accessing either the PUC website (www.ssmruc.com) or the City of Sault Ste. Marie's website (www.city.sault-ste-marie.on.ca/puc/puc_main.htm) or by requesting a copy of the results from the Commission.

Reportable Incidents

There were two incidents that were reported to the Ministry of Environment and to local authorities during the year. One incident occurred when untreated water from a private well was mistakenly connected to the municipal distribution system. As the well water was at a higher pressure it fed untreated water into a section of municipal watermain, depleting the chlorine residual. Routine sampling identified the absence of a residual in the affected watermain. Residents affected in the area were notified not to use their water unless it was boiled. The source of the problem was quickly identified and the well water disconnected. The affected line was flushed and when sampling confirmed the water was safe the local boil water advisory was lifted.

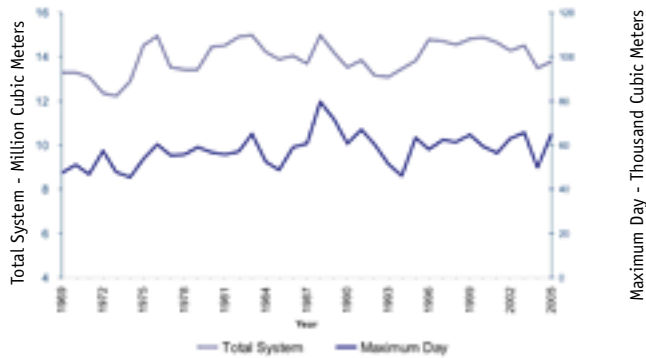
The other incident occurred when an ammonia feed pump at one of our wells failed. Ammonia is fed with chlorine to produce chloramines as a residual disinfection agent in the distribution system. Despite the lack of ammonia the chlorine injection continued providing protection to the distribution system and avoiding any hazard to consumers.

System Total Pumpage

Total water production in 2005 was 13.75 million cubic meters compared to 13.47 in 2004. The maximum daily pumpage in the year was 65.12 thousand cubic meters, which occurred July 11, 2005. The capacity of the supply and treatment system is approximately double present demand. Average consumption has fluctuated around 14 million cubic meters over the past three decades.



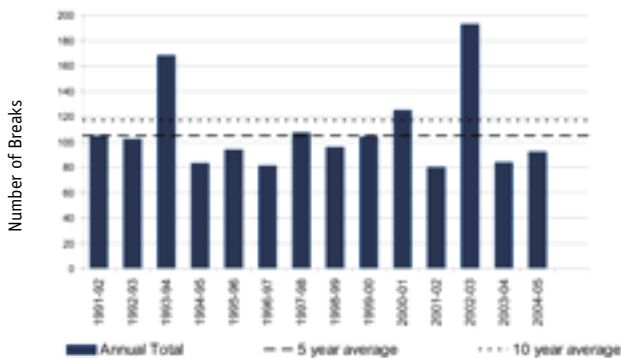
Historical Water Pumpage



Watermain Breaks

There were 92 breaks in 2005 compared to 84 in 2004. The five year average is 117. The Long Term Break Summary – Annual Totals chart shows the activity since the winter of 1984-85.

Long-Term Break Summary - Annual Totals



Capital Works for 2005

In 2005 a total of \$1.67 million was spent on capital improvements in the system. Major system works in 2005 included installation of new or replacement of watermains and services as follows:

- extended 200mm watermain along Fourth Line east of Great Northern Road approximately 400 meters;
- replaced watermains and service lines along Second Line from Farwell Terrace to Third Avenue in conjunction with City reconstruction of the roadway;
- replaced various sections of existing watermains, installed some new watermains and retired several sections of abandoned watermains along the new Transportation Corridor and along Queen Street from Huron Street to the International Bridge;

- completed replacement of the roof over the filter floor area of the Water Treatment Plant that was started late in 2004;
- developers installed watermains and water services to 14 new residential lots in subdivisions.

Operating Requirements

In carrying out the recommendations of Commissioner O'Connor, the Ministry of the Environment engaged the services of the Canadian Standards Association (CSA) to work with municipal stakeholders to develop a Drinking Water Quality Management Standard. The Standard will outline the mandatory quality management elements of the emerging Municipal Drinking Water Licence regime in support of the Safe Drinking Water Act, 2002. Specifically it will identify the processes that an operating authority operating a municipal drinking water system will be expected to undertake in order to receive accreditation.

Under the Act, the Commission will be required to obtain a license to use and operate each drinking water system. A license will be issued only when five key requirements are met:

1. Permit to Take Water (as necessary)
2. Drinking Water Works Permit (for each works)
3. Operational Plan (for each works)
4. Accredited Operating Authority (for each works)
5. Financial Plan

A draft Standard was developed and placed on the MOE website for public review and comment late in 2005. The review period ended in January 2006.

The Sustainable Water and Sewage Systems Act, 2002 was promulgated on December 13, 2002. The Act mandates full recovery of all costs associated with providing service to consumers. Lifecycle costs are to be assessed and rates set accordingly to recover the full cost of service.

The Act imposes a requirement to perform three key activities. These include:

1. Prepare a report on the full cost of water service
2. Prepare a Cost Recovery Plan
3. Implement the Cost Recovery Plan



The details of implementation have not yet been defined. Regulations addressing the details were expected soon after the Act was passed, but they have not yet materialized.

The Drinking Water Quality Management Standard, in conjunction with the Sustainable Water and Sewage Systems Act, will place significant demands on the Commission to proactively plan, monitor, test and review its operating and management procedures, practices and policies. There is no definitive time frame for implementation of either the Standard or the Act, but it is anticipated that both will come into effect in 2006.

Watershed-Based Source Protection Planning

As part of its strategy to protect Ontario's drinking water from source to tap, the government is proceeding with the development of watershed-based source protection plans. Watershed-based source protection was a key recommendation of the Walkerton Inquiry.

The Clean Water Act proposes legislative provisions necessary for the development of source protection plans. The provisions include the establishment of source protection areas, the designation of source protection boards, the establishment of source protection committees and their respective roles and responsibilities in the development of assessment reports and source protection plans for each watershed in the source protection area. The legislation also sets out provisions governing the submission and approval of assessment reports and source protection plans, as well as the appeal and amendment of plans.

The Clean Water Act, 2005 was introduced for First Reading on December 5, 2005. The Act, if passed, will ensure that communities are able to identify potential risks to their supply of drinking water and take action to reduce or eliminate these risks. The Government of Ontario is calling for municipalities, conservation authorities, landowners, farmers, industry, community groups and the public to all work together to meet common goals. In Sault Ste. Marie, the Commission is working closely with the local Conservation Authority to meet these goals.

A comprehensive groundwater management and protection study was completed in 2003 under the lead of the Commission in conjunction with area stakeholders, including the City of Sault Ste. Marie, Prince Township, SSMR Conservation Authority, Algoma Health Unit, North Shore Planning Board and Batchewana First Nation in the St. Mary's River Watershed. As a result of the study, the Commission installed a total of 13 groundwater monitoring wells in the fall of 2004 and spring of 2005. These wells form part of the provincial groundwater monitoring network.



Management Responsibility

To the Members of City Council

The attached financial statements and other financial information have been prepared by the Commission's management which is responsible for their integrity and objectivity. To fulfill this responsibility, the Commission maintains appropriate systems of internal control and policies and procedures to ensure that its reporting practices and accounting and administrative procedures are of high quality, consistent with reasonable costs. These policies and procedures are designed to provide reasonable assurance that relevant and reliable financial information is produced. The statements have been prepared in conformity with accounting principles as recommended by the public sector accounting board. Where appropriate, they reflect estimates based on judgments of management. Financial information presented elsewhere in this Annual Report is consistent with that shown in the accompanying financial statements.

KPMG LLP, the independent auditors appointed by the Commission, have examined the financial statements of the Commission in accordance with auditing standards generally accepted in Canada to enable them to express to the Commission their opinion, without reservation, on the financial statements. Their report as auditors is set out on the following page.

The statements have been further examined by the Commissioners, who meet regularly with management to review the activities of the Commission. The auditors have full access to the Commissioners. The Commissioners oversee management's financial reporting responsibilities and are responsible for reviewing and approving the financial statements.

Terry Greco, CA
Treasurer



Auditors' Report

To the Commissioners of the Sault Ste. Marie Public Utilities Commission, Members of Council, Inhabitants and Ratepayers of The Corporation of the City of Sault Ste. Marie

We have audited the statement of financial position of the City of Sault Ste. Marie Public Utilities Commission as at December 31, 2005 and the statements of financial activities and fund balance and changes in financial position for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2005 and the results of its operations and the changes in its financial position for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Sault Ste. Marie, Canada
March 14, 2006



CITY OF SAULT STE. MARIE PUBLIC UTILITIES COMMISSION

Statement of Financial Position

December 31, 2005, with comparative figures for 2004

	2005	2004
Financial assets:		
Accounts receivable	\$ 1,618,431	\$1,464,695
Unbilled service revenue	430,038	438,911
Local improvements receivable	153,788	151,231
Prepaid expenses	537	2,551
Loan receivable from related company, PUC Energies Inc.	-	280,000
	<u>2,202,794</u>	<u>2,337,388</u>
Financial liabilities:		
Accounts payable and accrued liabilities	729,017	1,182,992
Payable to related company, PUC Services Inc.	202,449	317,443
	<u>931,466</u>	<u>1,500,435</u>
Total net financial assets	1,271,328	836,953
Inventory	218,359	223,085
Total net assets	<u>\$ 1,489,687</u>	<u>\$ 1,060,038</u>
Municipal position:		
Operating fund	\$ 1,489,687	\$ 1,060,038
Total Municipal position	<u>\$ 1,489,687</u>	<u>\$ 1,060,038</u>

The accompanying notes are an integral part of the financial statements.



CITY OF SAULT STE. MARIE PUBLIC UTILITIES COMMISSION

Statement of Financial Activities and Fund Balance

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Revenues:		
Service revenue:		
Residential	\$ 4,574,105	\$ 3,822,735
General	3,293,271	2,891,846
Hydrants	428,082	397,455
	<u>8,295,458</u>	<u>7,112,036</u>
Other:		
Occupancy fees	121,747	165,603
Investment income	14,917	32,867
Non-service revenue	227,578	277,798
Local improvement revenue	132,933	-
	<u>497,175</u>	<u>476,268</u>
Total revenues	8,792,633	7,588,304
Expenditures:		
Current:		
Purification and pumping	2,219,532	2,004,370
Transmission and distribution	1,751,396	1,537,182
Hydrants	329,270	441,196
Billing and collection	811,085	835,125
General and administration	1,582,666	1,616,009
	<u>6,693,949</u>	<u>6,433,882</u>
Capital:		
Transmission and distribution	1,556,754	1,725,163
Hydrants	112,281	106,299
	<u>1,669,035</u>	<u>1,831,462</u>
Total expenditures	8,362,984	8,265,344
Excess of revenues over expenditures (expenditures over revenues)	429,649	(677,040)
Fund balance, beginning of year	1,060,038	1,737,078
Fund balance, end of year	\$ 1,489,687	\$ 1,060,038

The accompanying notes are an integral part of the financial statements.



**CITY OF SAULT STE. MARIE
PUBLIC UTILITIES COMMISSION**

Statement of Changes in Financial Position

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Cash provided by (used for):		
Operations:		
Excess of revenues over expenditures (expenditures over revenues)	\$ 429,649	\$ (677,040)
Uses:		
Increase in local improvements	(2,557)	-
Increase in accounts receivable	(153,736)	(208,510)
Increase in inventory	-	(20,418)
Decrease in accounts payable	(453,975)	-
	(610,268)	(228,928)
Sources:		
Decrease in loan receivable	280,000	-
Decrease in unbilled service revenue	8,873	130,324
Increase in accounts payable and accrued liabilities	-	135,327
Decrease in prepaid expenses	2,014	21,804
Decrease in inventory	4,726	-
	295,613	287,455
Increase (decrease) in cash from operations	114,994	(618,513)
Financing:		
Change in receivable from PUC Services Inc.	-	301,070
Change in payable from PUC Services Inc.	(114,994)	317,443
	(114,994)	618,513
Net decrease in cash	-	-
Cash, beginning and end of year	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

CITY OF SAULT STE. MARIE PUBLIC UTILITIES COMMISSION

Analysis of Operating Fund Operations

Year ended December 31, 2005, with comparative figures for 2004

	2005	2005	2004
	Budget	Actual	Actual
Revenues			
Service revenue:			
Residential	\$ 4,499,479	\$ 4,574,105	\$ 3,822,735
General	3,154,540	3,293,271	2,891,846
Hydrants	424,985	428,082	397,455
	8,079,004	8,295,458	7,112,036
Other:			
Local improvements	410,000	132,933	-
Occupancy fees	132,156	121,747	165,603
Investment income	43,525	14,917	32,867
Non-service	170,400	227,578	277,798
	756,081	497,175	476,268
Total revenues	8,835,085	8,792,633	7,588,304
Expenditures:			
Operations:			
Purification and pumping	2,257,767	2,219,532	2,004,370
Transmission and distribution	1,521,736	1,751,396	1,537,182
Hydrants	414,194	329,270	441,196
Billing and collection	763,575	811,085	835,125
General and administration	1,586,475	1,582,666	1,616,009
Total expenditures	6,543,747	6,693,949	6,433,882
Net revenue	2,291,338	2,098,684	1,154,422
Financing and transfers:			
Transfers to capital fund	(2,072,000)	(1,669,035)	(1,831,462)
Change in operating fund balance	219,338	429,649	(677,040)
Operating fund balance, beginning of year	1,060,038	1,060,038	1,737,078
Operating fund balance, end of year	\$ 1,279,376	\$ 1,489,687	\$ 1,060,038

The accompanying notes are an integral part of the financial statements.



CITY OF SAULT STE. MARIE PUBLIC UTILITIES COMMISSION

Notes to Financial Statements

Year ended December 31, 2005

The Sault Ste. Marie Public Utilities Commission (the “Commission”) is a body appointed by the Corporation of the City of Sault Ste. Marie to supply water and related services to its residents.

1. Significant accounting policies:

The financial statements of the Commission are prepared by management in accordance with accounting principles generally accepted in Canada for government organizations as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by the Commission are as follows:

(a) Inventory:

Inventory, which consists of parts and supplies acquired for internal construction or consumption, is valued at the lower of cost and replacement cost.

(b) Capital assets:

Capital assets are reported as an expenditure on the statement of financial activities and fund balances in the year of acquisition.

(c) Revenue recognition:

Revenue is recognized on the accrual basis, which includes an estimate of unbilled revenue for water consumed by customers since the date of each customer’s last meter reading. Actual results could differ from estimates made of actual water usage.

(d) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures, assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.



CITY OF SAULT STE. MARIE PUBLIC UTILITIES COMMISSION

Notes to Financial Statements

Year ended December 31, 2005

2. Budget figures:

The budgets established for capital funds are based on a project-oriented basis, the costs of which may be carried out over one or more years. As such, they are not directly comparable with current year actual amounts and budgets have not therefore been reflected on the statement of financial activities and fund balance.

3. Related party transactions:

The following entities are identified as related parties to the Commission:

PUC Inc. – 100% owned by the Corporation of the City of Sault Ste. Marie (City).

PUC Distribution Inc. (Distribution) – 100% owned by PUC Inc.

PUC Services Inc. (Services) – 100% owned by PUC Inc.

PUC Energies Inc. (Energies) – 100% owned by PUC Inc.

PUC Telecom Inc. (Telecom) – 100% owned by PUC Inc.

The Commission has a management, operation and maintenance agreement with Services, which expires January 1, 2011, under which Services manages, controls, administers and operates the business of the Commission.

The Commission charges interest on balances receivable from Services at the Royal Bank prime less 2%. Interest of \$5,930 (2004, \$17,467) was charged during the year.

The Commission was charged management fees and operational fees by Services in the amount of \$1,923,583 (2004 – \$1,878,196). Occupancy fees charged to the other related companies was \$121,747 (2004 – \$165,603). These transactions have been recorded at the exchange amount which is the agreed amount between the related parties.

4. Expenditures by object:

Total expenditures by object are as follows:

	2005	2004
Salaries and benefits	\$ 2,248,350	\$ 2,140,087
Materials, supplies and services	4,445,599	4,293,795
Capital	1,669,035	1,831,462
	\$ 8,362,984	\$ 8,265,344

Governance

The assets of the Public Utilities Commission are owned by the Corporation of the City of Sault Ste. Marie. The Commission is responsible for ensuring that the water treatment and distribution systems are properly managed and maintained. In 2000, a 10 year management agreement was signed with PUC Services Inc. whereby PUC Services will manage, operate and maintain the treatment and distribution systems. Commission assets will continue to be owned by the City.

The Commission is composed of three commissioners, one of whom serves as Chair. These members were appointed by City Council. The Commission holds public meetings as required to review the work of PUC Services, approve capital and operating budgets and annual financial statements and consider matters that are brought to its attention by the General Manager of the Public Utilities Commission.



Mark Howson



Maureen Sullivan



Pat Mick

Current Members of the Commission

Commission Chair Mark Howson P. Eng., MBA Senior Maintenance Engineer, Algoma Steel Inc.

Maureen Sullivan MBA CHRP Human Resources, Ministry of Natural Resources

Pat Mick BA City Councillor

Officers

H.J. Brian Curran P. Eng., MBA General Manager

Terry Greco CA Treasurer

Clyde Healey CHRP Secretary



www.smpuc.com