

A high-speed photograph of water splashing, with a central column of water falling and splashing into a pool of water at the bottom. The background is a light, hazy blue.

Water Conservation

a World of Good

Public Utilities Commission
Annual Report 2006



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Highlights of 2006

Financial	2006	2005
Service Revenue	\$9,456,000	\$8,295,000
Net Gain	\$1,009,000	\$430,000
Total Municipal Position	\$2,499,000	\$1,490,000
Operations		
Number of Customers	25,513	25,396
Annual Sales (m3)	11,158,991	11,052,141
Peak Daily System Demand (m3)	61,693	65,120

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

General Manager, Public Utilities Commission

To: Chair Mark Howson and Members of the Public Utilities Commission

We have maintained the security and reliability of the water treatment and delivery system serving the City of Sault Ste. Marie. There were no reported exceedences of water quality objectives. Using the high quality source waters of Lake Superior and the aquifer in the Sault Ste. Marie area the water delivered to residents and businesses in our municipality remained safe and palatable.

Water rates increased by an average of 13% effective January 1, 2006 and a 10% increase was approved for 2007. Future increases are expected to be more in line with inflation. Residents in Sault Ste. Marie are not alone in experiencing significant rate increases over the past few years. Water rates have risen sharply, not just in Ontario, but in other communities in the developed world. Aging infrastructure needs to be replaced and water sources continue to require greater diligence as they come under increasing threat from population and industrial expansion. Annual capital expenditures which were recently in the order of \$2 million are expected to be \$4 million in 2007.

Water production was down 2.9% from last year but sales increased by 1%. A reduction in losses is the reason for the discrepancy. We begin recording the number of watermain breaks from November of each year. Relatively mild winter weather resulted in 85 watermain breaks during the year compared to the five year norm of 105.

A new watermain extension on Old Garden River Road was commissioned in December, providing water to households whose well systems had been compromised by bacterial contamination. The remainder of the homes along Old Garden River Road will be connected next year.

The protection of our water sources is a major priority for us. PUC Services staff is working with the Sault Conservation Authority to identify potential threats to our source waters and to develop strategies to protect against any identified threats.



Year in Review

System Description

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

Approximately half of the 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 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 for short durations. 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 plant, wells and distribution system are carried out by PUC Services Inc. under a 10 year contract.

Water Rates

Water rates increased by an average of 13% effective January 1, 2006. The rate increase is significant but it must be put in the context of the need to replace an aging infrastructure and to respond to greater levels of regulation. Despite the increase 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 the Commission's "Water Quality Annual Summary Report" through either the PUC website (www.ssmruc.com) or the City of Sault Ste. Marie's website (www.cityssm.on.ca) or by requesting a copy of the results from the Commission.

Reportable Incidents

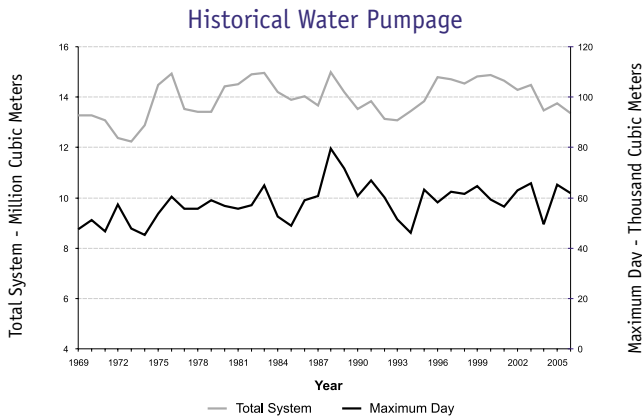
In accordance with the requirements of Ontario Regulation 170/03, there were a number of reportable adverse water quality conditions during the year. These are summarized in the table below.

Facility	Date	Adverse Condition	Re-sample Result	Comment
Lorna Well #1	Mar. 3/06	High Sodium results of 31.2 mg/L	32.0 mg/L	This is a 5 year test in which notifications to the Spills Action Centre (SAC) and to the Algoma Health Unit (AHU) must be notified if results are over 20.0 mg/L
Shannon Pump Station	Jun.7/06	Low Combined Chlorine in distribution of <0.25 mg/L	Flushed mains & Chlorine residual > 1.00mg/L	Distribution sample maintained free chlorine residual throughout flushing.
Shannon Well	July 27/06	High Sodium results of 30.3 mg/L	28.0 mg/L	This is a 5 year test in which notifications to SAC and AHU must be sent if results are over 20.0 mg/L
Shannon Well	Aug. 17/06	High Benzo (A) Pyrene of 0.06 ug/L	0.01 ug/L	Well was resampled and shutdown until results were obtained. Results came back within regulatory requirements.
Lorna Well #2	Oct 15/06	High Sodium results of 32.0 mg/L	32.1 mg/L	This is a 5 year test in which notifications to SAC and AHU must be sent if results are over 20.0 mg/L

All other parameters analyzed in accordance with the requirements of the Ontario Drinking Water Standard (ODWS), including volatile organics, inorganics, and pesticides, showed no exceedences.

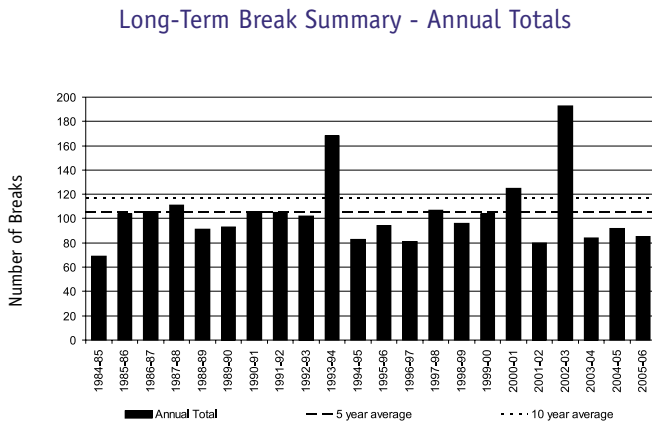
System Total Pumpage

Total water production in 2006 was 13.36 million cubic meters compared to 13.75 in 2005. The maximum day consumption in the year was 61.7 thousand cubic meters, which occurred July 13, 2006. The current capacity of the supply and treatment system is approximately double the present system average daily pumpage of 37 thousand cubic meters. Average consumption has fluctuated around 14 million cubic meters over the past three decades.



Watermain Breaks

There were 85 breaks in 2006 compared to 92 in 2005. The five year average is 105. The Long-Term Break Summary – Annual Totals chart shows the activity since the winter of 1984-85.



Capital Works for 2006

In 2006 a total of \$2.3 million was spent on capital improvements in the system. Major system works in 2006 included installation of new or replacement of watermains and services as follows:

- Replaced 150mm watermain on Gloucester St. from Wellington St. W. to Cathcart St.
- Replaced 150mm watermain on Goulais Ave. from Bonney St. to Wallace Terrace.
- Replaced 200mm watermain on Pentagon Ave. from McNabb St. to Pleasant Dr.
- Replaced 300mm watermain on Devon Rd. from Farwell to Korah.
- Replaced watermains and services on Second Line W. from Farwell Terrace to Third Avenue.
- Installed or retired various sections of watermain in conjunction with the Transportation Corridor Project.
- Extended 200mm watermain along Old Garden River Rd easterly approximately 700 meters.

Operating Requirements

As in past reports, it is emphasised that, given our ageing infrastructure, we are facing an ever-growing need to accelerate the replacement of deteriorated plant that has reached the end of its useful life. Moving forward, we will need to devote greater and greater resources to replacing watermains, service lines, hydrants and pumping stations.

The replacement of water works has, so far, been closely tied to the City's road reconstruction program in order to minimize restoration costs to the water utility. We take advantage of the City's program to replace complete distribution systems, including the mains, services and hydrants at an economical rate.

However, unless the City significantly increases the scope of its annual road reconstruction program in the near future, we will need to take on infrastructure renewal projects on our own. Costs associated with such work may be significantly higher to cover road restoration costs.

Municipal Drinking Water Licensing

On October 30, 2006 the Ministry of Environment gave notice that it is moving ahead with the Municipal Drinking Water Licence Program and posted five notices on their Environmental Bill of Rights (EBR) Registry for public review and comment. The notices included:

Policy Decision Notice

1. Drinking Water Quality Management Standard (DWQMS)

Policy Proposal Notices

2. Drinking Water Quality Management Standard Guidance Document
3. Director's Direction for Operational Plan Submission
4. Accreditation Protocol for Operating Authorities

Regulation Proposal Notice

5. Prescribed Dates Regulation for the Municipal Drinking Water Licence Program

The draft Prescribed Dates Regulation establishes the dates by which an Owner must submit the following items to the Ministry:

- An application for a Municipal Drinking Water Licence;
- An application for a Drinking Water Works Permit; and
- An Operational Plan that meets the requirements of the DWQMS.

The requirement for submitting applications and operational plans across the province will be phased in over a period of 18 months starting July 1, 2008 and ending December 1, 2009. We are scheduled for October 1, 2009.

Watershed-Based Source Protection Planning

The Clean Water Act, 2006 received Royal Assent on October 19, 2006. However, the Act is not yet in force, pending proclamation of Sections 1 through 116 on a date yet to be determined by the Lieutenant Governor.

The Act is watershed based legislation designed to protect existing and future sources of drinking water

from activities that are determined to be significant drinking water threats. A key focus of the legislation is the production of locally developed, science-based source water assessment reports and protection plans. The assessment report will identify both existing and future significant drinking water threats. The source protection plan must then contain measures intended to ensure that existing significant drinking water threats are effectively addressed and the occurrence of future significant drinking water threats are prevented.

As part of each assessment report, Ontario municipalities are required to prepare a long term municipal water supply strategy. The strategy will provide details on where the municipality gets its drinking water, how the water is protected, and where the water will come from in the future. The strategy must determine whether the current supply will meet future needs or if more water supplies are needed.

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.

A handwritten signature in black ink, appearing to read 'Terry Greco', is positioned above the printed name.

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, 2006 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, 2006 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that serves as a separator or underline.

Chartered Accountants. Licensed Public Accountants

Sault Ste. Marie, Canada
March 9, 2007

CITY OF SAULT STE. MARIE PUBLIC UTILITIES COMMISSION

Statement of Financial Position

December 31, 2006, with comparative figures for 2005

	2006	2005
Financial assets:		
Accounts receivable	\$ 1,883,380	\$ 1,618,431
Unbilled service revenue	450,007	430,038
Local improvements receivable	281,182	153,788
Prepaid expenses	3,465	537
Receivable from related company, PUC Services Inc.	367,495	-
	<u>2,985,529</u>	<u>2,202,794</u>
Financial liabilities:		
Accounts payable and accrued liabilities	722,381	729,017
Payable to related company, PUC Services Inc.	-	202,449
	<u>722,381</u>	<u>931,466</u>
Total net financial assets	2,263,148	1,271,328
Inventory	236,038	218,359
Total net assets	\$ 2,499,186	\$ 1,489,687
Municipal position:		
Operating fund	\$ 2,499,186	\$ 1,489,687
Total Municipal position	\$ 2,499,186	\$ 1,489,687

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, 2006, with comparative figures for 2005

	2006	2005
Revenues:		
Service revenue:		
Residential	\$ 5,153,473	\$ 4,574,105
General	3,811,617	3,293,271
Hydrants	491,245	428,082
	<u>9,456,335</u>	<u>8,295,458</u>
Other:		
Occupancy fees	163,303	121,747
Investment income	44,981	14,917
Non-service revenue	423,987	227,578
Local improvement revenue	226,246	132,933
	<u>858,517</u>	<u>497,175</u>
Total revenues	10,314,852	8,792,633
Expenditures:		
Current:		
Purification and pumping	2,430,967	2,219,532
Transmission and distribution	1,884,214	1,751,396
Hydrants	315,893	329,270
Billing and collection	776,860	811,085
General and administration	1,594,028	1,582,666
	<u>7,001,962</u>	<u>6,693,949</u>
Capital:		
Transmission and distribution	2,136,803	1,556,754
Hydrants	166,588	112,281
	<u>2,303,391</u>	<u>1,669,035</u>
Total expenditures	9,305,353	8,362,984
Excess of revenues over expenditures	1,009,499	429,649
Fund balance, beginning of year	1,489,687	1,060,038
Fund balance, end of year	\$ 2,499,186	\$ 1,489,687

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, 2006, with comparative figures for 2005

	2006	2005
Cash provided by (used for):		
Operations:		
Excess of revenues over expenditures	\$ 1,009,499	\$ 429,649
Uses:		
Increase in local improvements	(127,394)	(2,557)
Increase in accounts receivable	(264,949)	(153,736)
Increase in unbilled service revenue	(19,969)	-
Increase in prepaid expenses	(2,928)	-
Increase in inventory	(17,679)	-
Decrease in accounts payable	(6,636)	(453,975)
	569,944	(610,268)
Sources:		
Decrease in loan receivable	-	280,000
Decrease in unbilled service revenue	-	8,873
Decrease in prepaid expenses	-	2,014
Decrease in inventory	-	4,726
	569,944	114,994
Increase in cash from operations	569,944	114,994
Financing:		
Change in payable to PUC Services Inc.	(569,944)	(114,994)
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, 2006, with comparative figures for 2005

	2006	2006	2005
	Budget	Actual	Actual
Revenues			
Service revenue:			
Residential	\$ 5,122,649	\$ 5,153,473	\$ 4,574,105
General	3,672,723	3,811,617	3,293,271
Hydrants	485,107	491,245	428,082
	9,280,479	9,456,335	8,295,458
Other:			
Local improvements	498,000	226,246	132,933
Occupancy fees	140,718	163,303	121,747
Investment income	16,000	44,981	14,917
Non-service	145,500	423,987	227,578
	800,218	858,517	497,175
Total revenues	10,080,697	10,314,852	8,792,633
Expenditures:			
Operations:			
Purification and pumping	2,491,465	2,430,967	2,219,532
Transmission and distribution	1,884,314	1,884,214	1,751,396
Hydrants	374,299	315,893	329,270
Billing and collection	873,689	776,860	811,085
General and administration	1,692,101	1,594,028	1,582,666
Total expenditures	7,315,868	7,001,962	6,693,949
Net revenue	2,764,829	3,312,890	2,098,684
Financing and transfers:			
Transfers to capital fund	(2,483,100)	(2,303,391)	(1,669,035)
Change in operating fund balance	281,729	1,009,499	429,649
Operating fund balance, beginning of year	1,489,687	1,489,687	1,060,038
Operating fund balance, end of year	\$ 1,771,416	\$ 2,499,186	\$ 1,489,687

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, 2006

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, 2006

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 \$44,981 (2005, \$5,930) was charged during the year.

The Commission was charged management fees and operational fees by Services in the amount of \$1,854,512 (2005 – \$1,923,583). Occupancy fees charged to the other related companies was \$163,303 (2005 – \$121,747). 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:

	2006	2005
Salaries and benefits	\$ 2,312,690	\$ 2,248,350
Materials, supplies and services	4,689,272	4,445,599
Capital	2,303,391	1,669,035
	\$ 9,305,353	\$ 8,362,984

Governance

The assets of the Public Utilities Commission are owned by 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 water treatment and distribution systems.

The Commission is composed of three commissioners, one of whom serves as Chair. These members are 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 audited 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