

PURPOSE



Public Utilities
Commission
ANNUAL REPORT

2007

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2007 Highlights

Financial	2007	2006
Service Revenue	\$10,566,000	\$9,456,000
Net Gain	\$1,930,000	\$1,009,000
Total Municipal Position	\$4,429,000	\$2,499,000

Operations	2007	2006
Number of Customers	25,592	25,513
Annual Sales (m3)	11,181,306	11,158,991
Peak Daily System Demand (m3)	56,583	61,693

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

General Manager, Public Utilities Commission

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

During the past year the Public Utilities Commission took its first step towards developing a Drinking Water Quality Management System (DWQMS) plan for the city's water works. The Commission in conjunction with the City of Sault Ste. Marie is required to develop a plan, which incorporates a continuous quality management system improvement process and defines the key aspects of the on-going management of the drinking water system. The Commission and the City must submit the plan and an application for a Municipal Drinking Water License to the Ministry of Environment, by January 10, 2010.

A consultant was hired to review our current operating practices and provide a gap analysis of what is needed to comply with the requirements of a DWQMS plan. While our current practices provide adequate security for our water works, a significant effort is necessary to comply with DWQMS requirements. Our focus is to implement the plan by January 1, 2009 and have the City endorse and submit the plan to the Ministry of Environment by October 1, 2009.

Lead in drinking water surfaced as a potential concern in Ontario in 2007 with the discovery of high concentrations in tap water during a routine sampling program by a municipality in southern Ontario. Sault Ste. Marie and 35 other municipalities in Ontario were directed to sample for lead in household tap water in 2007. Of the 20 residences sampled only one exceeded the 10 parts per billion (ppb) standard and only by 1 ppb. The Ministry has introduced a subsequent sampling program that will require us to sample 80 residences, 8 non residential facilities and 16 points in our distribution system twice a year. Depending on the outcome of the sampling program, the Commission will assess, in consultation with other stakeholders such as the Algoma Public Health, what option it should take to minimize any risk associated with lead. It must be stressed that both our water sources, from Lake Superior and groundwater, do not contain elevated lead concentrations. The source of lead is in lead service pipes that were installed over 50 years ago and in lead solder that was used in household plumbing up until the late 1980s.

We continued to renew our aging infrastructure, taking advantage of replacing old distribution mains where the city conducted major street rebuilding projects. In 2007 we invested \$2.2 million in infrastructure. We will significantly increase our capital investment in 2008 with a planned expenditure of \$6.1 million.

We completed the three year phase-in of new charges for watermain extensions and new services to more closely reflect actual installation costs.

I am pleased to advise that Sault Ste. Marie continues to enjoy a safe, palatable and reliable water supply.



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 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 Gros Cap. It extends 860 meters into Lake Superior and is at a depth of 17 meters. The Gros 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 filtration media.

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 10% effective January 1, 2007. 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 "PUC Water Commission - Water Quality Reports" through the PUC website (www.ssmruc.com) or by requesting a copy of the results from the offices of PUC Services Inc.

Reportable Incidents

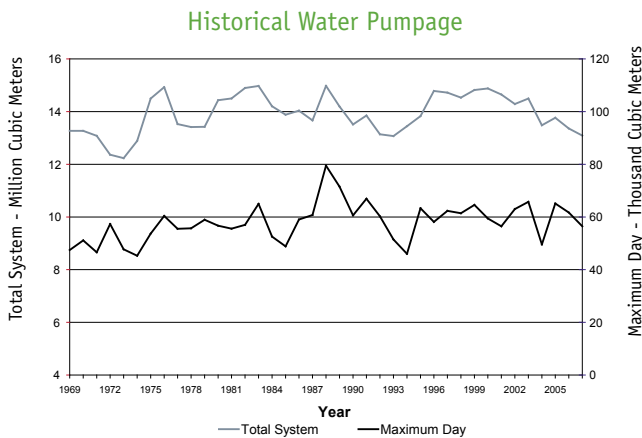
In accordance with the requirements of Ontario Regulation 170/03, there were a number of reportable adverse water quality conditions during the year. These are summarized in the table below.

Facility	Date	Adverse Condition	Re-sample Result	Comment
WTP	March 12/07	High filter turbidity		A filter at the water treatment plant produced water above the 1.0 ntu standard for 26 minutes. After backwashing, filter turbidity decreased to 0.02 ntu.
Crimson Ridge Distribution	April 30/07	Reduced pressure in distribution system	Absent	Piping fixed in pump house. System flushed and re-sampled.
Crimson Ridge Distribution	May 2/07	Presence of Pseudomonas Aeruginosa	Absent	Site re-sampled, disinfection increased and pipes were flushed at the distribution sites and the pump house. Chlorine residual confirmed at 1.05 mg/l
Dryland Distribution	August 8/07	No pressure in distribution system	Absent	Site re-sampled, main flushed and users advised to boil water. Booster pumps were restored.

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

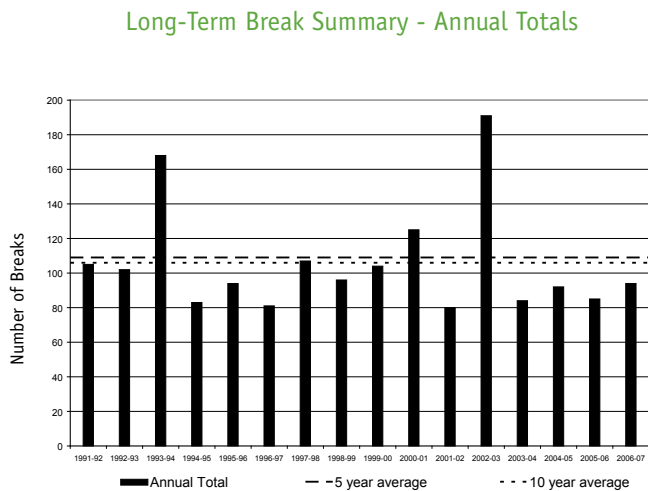
System Total Pumpage

Total water production in 2007 was 13.09 million cubic meters compared to 13.36 in 2006. The maximum day consumption in the year was 56.5 thousand cubic meters, which occurred August 1, 2007. 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 94 breaks in 2007 compared to 85 in 2006. The five year average is 109. The Long Term Break Summary – Annual Totals chart depicts watermain break activity since the winter of 1991-92.



Capital Works for 2007

In 2007 a total of \$2.2 million was spent on capital improvements in the system. Major system works in 2007 included installation of new or replacement of watermains and services as follows:

- Purchased a tract of land historically used by the Commission to landfill excess excavation soils in order to provide for approximately 40 years of additional capacity,
- Replaced 150mm watermain on Shannon Road from Queen Street to Margaret Street,
- Replaced 150mm watermain on MacDonald Avenue from Pine Street to Lake Street,
- Replaced sections of 100mm and 250mm watermain in the area of the intersection of Bay Street with Bruce Street,
- Installed or retired various sections of watermain in conjunction with City road works,
- Installed numerous large services to supply new commercial developments across the City,
- Installed numerous connections to service new subdivisions across the City, and
- Completed extension of 200mm watermain along Old Garden River Rd north-easterly approximately 500 meters.

Operating Requirements

Capital Expenditures

As in past reports, it is emphasized 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, the Commission will need to take on infrastructure

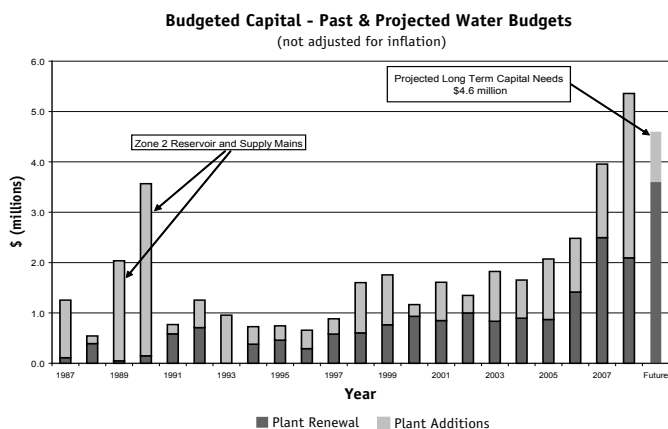
renewal projects on its own. Costs associated with such work will be significantly higher due to road restoration costs.

There are two distinct aspects to total capital needs; capital for replacement or upgrade of existing infrastructure, “plant renewal”; and capital for additions and extensions to serve new customers, “plant additions”.

The chart below provides a graphic summary of the historical levels of capital budgets compared to the projected level required to fully address replacement of infrastructure at sustainable levels. The chart breaks out plant renewal allocations separately from plant additions.

Moving forward, the Commission’s typical annual capital budget is anticipated as follows:

Average Annual Plant Additions	\$1,000,000
Sustaining Infrastructure Renewal	\$3,600,000
Total Capital Budget	\$4,600,000



In 2008 total capital expenditure (for infrastructure only) is budgeted at \$5.4 million. This unusually large amount includes several items carried over from 2007, such as the installation of watermains associated with the South Market Street extension, upgrades to the Penno Road Booster Station and replacement of part of the Water Treatment Plant roof.

Community Lead Testing

Amendments to Regulation 170/03 of the Safe Drinking Water Act came into effect July 26, 2007 requiring water supply authorities to institute specific lead testing programs. In particular the Amendments require the Commission to:

1. sample for and monitor lead in drinking water from residential and non residential facilities twice per year;
2. notify users of the facilities from which the samples were taken of the analytical results; and
3. where samples have lead concentrations in excess of the 10 ppb, to put a plan in place to address the problem.

The first sampling period is from December 15, 2007 to April 15, 2008 and the second period from June 15 to October 15, 2008. Samples are required from at least 80 private residences, 8 non residential facilities and 16 points in the water distribution during each period. The Regulation requires that water samples are taken at facilities where the presence of lead service lines is known or suspected or where buildings are suspected to have plumbing containing lead solder (plumbing installed prior to 1990).

The regulation imposes a strict sampling protocol. Samples for residences must be taken at the kitchen tap. The tap must be allowed to run for five minutes and then turned off for not less than 30 and not more than 35 minutes before the sample is taken. Within seven days of receiving the results of the sample analysis the occupant of each premise tested must be provided with a copy of the results.

If more than two percent of samples exceed the 10 ppb limit for lead in any two of three sampling periods, a plan must be submitted within one year to the Ministry of Environment that assesses the source of the lead entering the water supply, provides options to mitigate the problem, indicates a preferred action plan and sets out a schedule to implement the proposed plan.

The Commission worked closely with Algoma Public Health to develop public outreach materials and ensure coordinated efforts in addressing this issue. An information brochure for the general public was developed and distributed to all water customers as a billing stuffer, as well as being made available on the Commission’s website.

The Commission also worked with the City’s Social Services Division in regards to a funding program instituted by the Ministry of Community and Social Services to provide point of use lead filters for high risk low income households.

Municipal Drinking Water Licensing

Changes to the legislation related to municipal drinking water systems were implemented by the MOE in response to the problems in Walkerton and subsequent Justice O'Connor's report. The changes were introduced through the Safe Drinking Water Act (SDWA), which was enacted in 2002. The key change for all municipalities is the requirement for owners of municipal drinking water systems to obtain a municipal drinking water licence.

These changes brought into effect the previously unproclaimed Sections of the SDWA, excluding Sections 14 (Agreement with accredited operating authority), 19 (Standard of care, municipal drinking-water system) and 121 (Administrative penalties). All of the requirements for Licensing came into effect May 2007 and a proclamation was issued that Sections 14 and 19 of the Act will come into force on January 1, 2013.

The provisions of the upcoming Municipal Drinking Water Licence program include five components:

1. Development of an Operational Plan – the document outlines the owner/operating authority's processes and procedures for the overall management and operation of the drinking water systems under its jurisdiction;
2. Accreditation of the Operating Authority – a government appointed accreditation body must certify the Operating Authority conforms to the requirements of the Drinking Water Quality Management Standard (DWQMS). The Operating Authority must develop and implement a Quality Management System (QMS) in order to accomplish this.
3. Valid Permit to Take Water;
4. Drinking Water Works Permit (previously a Certificate of Approval); and
5. Approved Financial Plan.

These five elements will form the basis for the Ministry to issue a Municipal Drinking Water Licence to the owner of a municipal drinking water system in order to operate and manage their system."

For each drinking water system, the owner must develop and submit an Operational Plan that meets the requirements of the DWQMS and that has been customized to the Owner and Operating Authority's operations. Once the Operational Plan has been developed and the procedures documented, implementation of the

Operational Plan must be undertaken to transform it from a manual of procedures into a way of doing business. When the Operational Plan has been implemented, the owner/operator will have a QMS in place for its drinking water system.

Operating authority accreditation is done through the hiring of an accreditation auditor that is specified by the MOE. The operating authority must pass the audit (i.e., demonstrate conformance to the DWQMS) each year in order to remain accredited and thereby retain the Drinking Water Licence.

The details and requirements of the Application for the Drinking Water Works Permit have not been finalized. However the Commission must submit the application for the Drinking Water Works Permit along with the application for the Municipal Drinking Water Licence by January 1, 2010.

In August 2007, the MOE released Ontario Regulation 453/07 related to Financial Plans. This is the last component of the drinking water license and the regulation has a set timeline of July 1, 2010 or 6 months after accreditation (whichever is the later of the two) to prepare and have approved a financial plan for the drinking water system.

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, 2007 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, 2007 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 25, 2008

CITY OF SAULT STE. MARIE PUBLIC UTILITIES COMMISSION

Statement of Financial Position

December 31, 2007, with comparative figures for 2006

	2007	2006
Financial assets:		
Accounts receivable	\$ 2,056,324	\$ 1,883,380
Unbilled service revenue	475,550	450,007
Local improvements receivable	497,916	281,182
Prepaid expenses	-	3,465
Receivable from related company, PUC Services Inc.	2,198,654	367,495
	5,228,444	2,985,529
Financial liabilities:		
Accounts payable and accrued liabilities	1,024,002	722,381
Total net financial assets	4,204,442	2,263,148
Inventory	224,967	236,038
Total net assets	\$ 4,429,409	\$ 2,499,186
Municipal position:		
Operating fund	\$ 3,429,409	\$ 2,499,186
Capital fund	1,000,000	-
Total Municipal position	\$ 4,429,409	\$ 2,499,186

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 Balances

Year ended December 31, 2007, with comparative figures for 2006

	Budget	Operating Fund	Capital Fund	2007	2006
	\$	\$	\$	Total	Total
				\$	\$
Revenues:					
Service revenue:					
Residential	5,757,655	5,810,831	-	5,810,831	5,153,473
General	4,021,698	4,212,827	-	4,212,827	3,811,617
Hydrants	537,680	541,855	-	541,855	491,245
	10,317,033	10,565,513	-	10,565,513	9,456,335
Other:					
Occupancy	165,885	161,081	-	161,081	226,246
Investment income	35,000	86,045	-	86,045	163,303
Non-service revenue	206,521	394,358	-	394,358	44,981
Local improvement revenue	278,000	-	224,153	224,153	423,987
	685,406	641,484	224,153	865,637	858,517
Total revenues	11,002,439	11,206,997	224,153	11,431,150	10,314,852
Expenditures:					
Purification and pumping	2,680,594	2,363,361	-	2,363,361	2,430,967
Transmission and distribution	2,040,066	2,139,517	-	2,139,517	1,884,214
Capital expenditures	4,284,524	-	2,187,358	2,187,358	2,303,391
Hydrants	322,441	337,565	-	452,291	315,893
Billing and collection	829,531	828,253	-	828,253	776,860
General and administration	1,780,896	1,644,873	-	1,644,873	1,594,028
Total expenditures	11,938,052	7,313,569	2,187,358	9,500,927	9,305,353
Net revenues (expenditures)	(935,613)	3,893,428	(1,963,205)	1,930,223	1,009,499
Transfers from operating fund for					
current year capital expenditures	-	(1,963,205)	1,963,205	-	-
Proceeds from long-term borrowing	1,000,000	-	-	-	-
Transfer from operating fund for					
future capital expenditures	-	(1,000,000)	1,000,000	-	-
Change in fund balances	64,385	930,223	1,000,000	1,930,223	1,009,499
Fund balances, beginning of year	-	2,499,186	-	2,499,186	1,489,687
Fund balances, end of year	-	3,429,409	1,000,000	4,429,409	2,499,186

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, 2007, with comparative figures for 2006

	2007	2006
Cash provided by (used for):		
Operations:		
Excess of revenues over expenditures	\$ 1,930,223	\$ 1,009,499
Uses:		
Increase in local improvements receivable	(216,734)	(127,394)
Increase in accounts receivable	(172,944)	(264,949)
Increase in unbilled service revenue	(25,543)	(19,969)
Decrease (increase) in prepaid expenses	3,465	(2,928)
Decrease (increase) in inventory	11,071	(17,679)
Increase (decrease) in accounts payable	301,621	(6,636)
Increase in cash from operations	1,831,159	569,944
Financing:		
Change in receivable to PUC Services Inc.	1,831,359	(569,944)
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

Notes to Financial Statements

Year ended December 31, 2007

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:

The historical cost and accumulated amortization of capital assets are not recorded for Commission purposes. Capital assets are reported as an expenditure on the statement of financial activities and fund balances in the year of acquisition as part of the capital fund.

(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, 2007

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 may not be directly comparable with current year actual amounts.

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 \$86,045 (2006, \$44,981) was charged during the year.

The Commission was charged management fees and operational fees by Services in the amount of \$1,869,528 (2006 – \$1,854,512). Occupancy fees charged to the other related companies was \$161,081 (2006 – \$163,303). 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:

	2007	2006
Salaries and benefits	\$ 3,465,649	\$ 2,312,690
Materials, supplies and services	3,847,920	4,689,272
Capital	2,187,358	2,303,391
	<u>\$ 9,500,927</u>	<u>\$ 9,305,353</u>

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 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

Claudio Stefano P. Eng., MBA Secretary



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