

M A N I T O B A) Order No. 75/06
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THE PUBLIC UTILITIES BOARD ACT) May 15, 2006

BEFORE: Graham F. J. Lane, C.A., Chairman
 Susan Proven, P.H.Ec., Member

THE RURAL MUNICIPALITY OF MOUNTAIN
REVISED WATER RATES
BIRCH RIVER & MAFEKING

Executive Overview

By this Order, the Board varies an application for revised water rates brought by the Rural Municipality of Mountain (R.M.) and establishes new water rates for the communities of Birch River and Mafeking, effective July 1, 2006.

The new rates for both Birch River and Mafeking are based on a flat rate quarterly billing approach. A significant portion of the meters that have been in use for Mafeking (Birch River customers are not metered) are not operating properly, resulting in a high risk of inequitable bills and inadequate revenue; thus, Mafeking will return to flat rate billing.

Application

The R.M. applied to the Board for approval of revised water rates for the communities of Birch River and Mafeking, filing the requisite By-laws Nos. (01/06 for Birch River and 03/05 for Mafeking), following first reading).

Pursuant to Board direction, the R.M. served copies of the Notice of Public Hearing containing information on the R.M.'s application, and posted the Notice in several prominent locations in each community.

A public hearing followed on Friday, April 21, 2006. It was held in the Council Chambers of the R.M. of Mountain, located in Birch River. In support of the application, the R.M. filed a rate study and responded to pre-hearing questions posed by the Board.

Utility customers of both the Mafeking and Birch River water system attended the hearing, at which a petition was presented to the Board. The petition was signed by virtually all of the Mafeking customers, and sought the Board's approval of a flat rate approach for Mafeking, contrary to the R.M.'s application which was based on continued reliance on meters.

Representations at the meeting, not disputed by those present including representatives of the R.M., indicated that only 40% of Mafeking's meters were functional, making readings and resultant billings questionable.

Questions were raised as to the integrity of current meter reading, i.e. whether all volumes consumed were recorded, reinforcing the question regarding the fairness of present billings.

The Board was advised that the cost of replacing the meters was in the range of \$25,000, and excluded ongoing operating costs of maintenance and meter reading.

Information received by the Board suggests that the R.M. confronts a number of significant issues in providing utility service to Birch River and Mafeking, including:

- a) only Mafeking has meters, and Mafeking's meters are not functioning effectively;
- b) although both the Birch River and Mafeking water supply are considered safe, there are water quality problems, particularly with respect to Birch River where there is an apparent need for a new treatment plant with a reservoir-- funding has yet to be secured;

- c) a gravity sewer system is to be installed for Birch River, with the net capital costs to the R.M. to be met by Birch River customers through property tax levies; once installed the related operating costs will need to be recovered from those receiving the service through utility billings;
- d) the net capital costs for the new Birch River sewer system to be recovered from Birch River customers by means of property tax levies represent a significant tax burden to residents, testing their ability to meet increased utility rates;
- e) a First Nations community located nearby Birch River depends upon bulk water purchases from the R.M.'s Birch River treatment plant, despite the quality concerns associated with that plant; and
- f) there is no sewer system for Mafeking, and one is not currently planned. The current approach requires storage and hauling. A feedlot is located within the community.

The affordability of the utility system for the communities served is a major issue in considering rate increases, and the absence of utility reserves underscored that issue. The populations of Birch River and Mafeking are stable or decreasing. Both communities have significant numbers of retired residents on fixed incomes.

Neither community has a health facility and both are dependent upon ambulance service to Swan River. While Birch River has an elementary school, Mafeking's student population is transported by bus to schools in Swan River; Mafeking's school has been closed and is now used for community events.

Birch River

The Birch River segment of the R.M.'s utility presently serves 162 customers, and the last rate increase occurred in 1979 - 27 years ago; considerable general price inflation has occurred since then, as well as significant increases in water and effluent standards.

Birch River has an unmetered water system, drawing water from a deep well close to its aged treatment plant. Water from the plant has a high ammonia content, that while not a present risk from a health perspective, requires expensive testing equipment and ongoing operating costs and maintenance.

Existing quarterly rates compared to the R.M.'s proposed rates are as follows:

<u>Quarterly Flat Rate</u>	<u>Existing</u>	<u>Proposed</u>
Residential/commercial	\$ 33.15	\$ 64.02
Arena	\$ 90.05	\$181.06
School	\$291.05	\$590.70
Bulk water rate, per \$1,000 gallons	\$ 9.25	\$ 10.00

Included in projected operating costs are administrative costs, estimated at \$3,800 annually; these costs are recovered by a quarterly service charge, which was proposed to increase from \$4.50 to \$5.50 (included in the proposed quarterly flat rate).

The R.M.'s proposed Birch River rates were projected to generate sufficient revenue to meet annual projected total operating

costs of an estimated \$46,500 and a \$2,415 provision for contingency. The contingency provision represents an annual levy of 1% on the capital cost of the system, and is established to meet unforeseen repairs.

Capital Improvements -

With respect to the water service to Birch River, in 2003 with the assistance of a \$32,000 grant from the Prairie Farm Rehabilitation Agency (PFRA) and the Manitoba Water Services Board (MWSB), the R.M. constructed a new well and placed it in service.

The R.M. intends to:

- a) embark on a curb stop renewal program for Birch River; and
- b) upon obtaining adequate government funding support, undertake extensive treatment plant upgrades including the development of a reservoir system (approximate cost, minimum of \$200,000, to increase if capacity is to be reserved for the adjacent First Nation community).
Government grants will be required for this undertaking.

The R.M. is prepared to provide treated water to the First Nation community located close to PTH 10, however, as previously indicated, the water treatment facility would require upgrading, the development of a reservoir, and is dependent upon adequate government funding support.

Meters are not proposed for Birch River, as the cost is considered prohibitive without government assistance. Meters are not the highest capital expenditure priority of the R.M.

As at December 31, 2005 the utility had a cash surplus balance of \$7,500 and no reserves. The original capital cost of the system was \$325,000.

Birch River operations incurred revenue deficits in 2004 of \$36,379.21 and 2005 of \$8,421.12, both allowed by the Board to be recovered from the General Operating Fund of the R.M.

Mafeking

The R.M. currently provides well-based treated water (spring fed shallow well located 700 meters from the treatment plant) to approximately 70 mainly-residential Mafeking properties.

Mafeking is a metered system, though approximately 60% of the meters are not considered fully operative.

Proposed commodity rates and minimum quarterly bills are based on a per 1,000 gallons basis. The existing and proposed rates are as follows:

	<u>Existing</u>	<u>Proposed</u>
Commodity rates/1,000 gallons	\$ 4.00	\$ 9.00
Bulk water rate	\$ 6.00	\$ 10.00

Proposed minimum quarterly bills:

Residential, etc. (5/8" meter)	\$ 24.30	\$ 41.00
School, arena and fire hall (3/4" meter)		\$ 68.00
Feedlot (1" meter)		\$122.00
Hotel (1.5" meter)		\$284.00

The R.M. projects annual administrative costs of \$4,200, with these costs recovered by a quarterly service charge to rise to \$14.00, an increase from \$12.30 (included in the proposed minimum quarterly bills).

The R.M.'s proposed quarterly minimum bills were based on the following consumption estimates:

- a) residential, and other 5/8" meters - 6,000 gallons;
- b) school, arena and fire hall -- 6,000 gallons;
- c) feedlot -- 12,000 gallons; and
- d) hotel -- 30,000 gallons.

The R.M. projected total annual Mafeking operating costs of \$24,850, including a provision for contingencies of \$2,900, the latter representing 1% of the initial capital costs of the system.

The last rate increase occurred in 1993. As at December 31, 2005, the utility had no cash surplus and no reserves. The original capital cost of the system was \$550,000.

The utility incurred revenue deficits in 2004 of \$7,676 and 2005 of \$11,914, both allowed by the Board to be recovered from the General Operating Fund.

The R.M. proposed to upgrade and change all the meters in Mafeking, at a cost of approximately \$25,000; without a government grant the cost would be funded by property tax levies.

Board Findings

Considering the lack of reserves, the annual development of deficits, the significant capital and operating needs of the R.M.'s utility the Board will direct substantial rate increases. The increases will be directed despite the Board's reservations about the ability of all of the R.M.'s residents being able to manage increases that may exceed 100%.

The previous rate increases provided to the R.M. took place in 1979 and 1993, Birch River and Mafeking respectively. General inflation since then has been considerable, as well water quality standards have increased. In future, the Board suggests the R.M. revise its rates no later than every three years.

The Board will vary the R.M.'s application with respect to Mafeking, and, in response to the residents' petition, will direct a flat rate billing approach for Mafeking.

With only 40% of Mafeking meters being considered operative and with questions as to the fairness of bills given inadequate metering, the Board will accept the petition and vary the application to place Mafeking service on a flat rate basis.

While meters are desirable for conservation, environmental, customer equity and other reasons, the Board is unwilling to support the use of meters that have proved ineffective and may well be contributing to inequitable rate setting between customers. If the present meters are not recording the full volumes of consumption, the situation is not different than using volumetric estimates and proceeding to set bills on a flat rate basis.

Until such time as both Birch River and Mafeking receive sufficient government grants to allow new meters to be installed in both communities, the Board accepts that flat rate systems should be in place.

The Board encourages the R.M. in its efforts to, given adequate government assistance, upgrade its sewer and water service. In particular, the Board encourages the R.M. to involve the First Nation in its effort to upgrade the Birch River water treatment plant and install a reservoir.

Once Birch River has a sewer system, this will leave Mafeking dependent upon tanks and hauling. The R.M. should consider a community system for Mafeking, particularly with a feedlot within its boundaries. The Board suggests the R.M. consult with the relevant government departments and the Water Services Board.

Overall, noting the lack of reserves and the major capital expenditures that may well lie ahead for the R.M., the Board will, as previously indicated, vary the application further and direct higher bulk water charges than proposed by the R.M.; bulk

rates should reflect operating, capital, and reserve development factors.

The following flat rate water rate schedules for Birch River and Mafeking will be directed:

Birch River -

<u>Quarterly Flat Rate</u>	<u>Existing</u>	<u>Revised</u>
Residential/commercial	\$ 33.15	\$ 64.02
Arena	\$ 90.05	\$181.06
School	\$291.05	\$590.70
Customer Service charge, included		\$ 5.50
Bulk water rate, per \$1,000 gallons \$9.25		\$ 12.00

Mafeking -

	<u>Existing</u>	<u>Revised</u>
<u>Quarterly Flat Rate:</u>		
Residential	\$ 24.30*	\$ 57.52
Commercial, Legion and other accounts		\$101.04
School (former), arena and fire hall		\$101.04
Feedlot		\$884.40
Hotel		\$449.20
* previous minimum quarterly		
Customer Service charge, included		\$ 14.00
Bulk water rate, per \$1,000 gallons \$6.00		\$ 12.00

The quarterly minimums are higher than that proposed by the R.M., this to best ensure reserve development and to promote equity between customers. The minimum for Commercial, Legion and other accounts has been established at twice that of the residential bill before the customer service charge plus the customer service charge. For the former school, arena and fire hall, also twice; for the feedlot, twenty times; and for the hotel, ten times.

Other than adjusting for the differences between a commodity-based as compared to a flat rate system, and considering revenue and reserve requirements, the major variance from the R.M.'s proposal is to the approach to the feedlot. Based on information available to the Board with respect to the quantity of cattle on the feedlot and prior metered readings, the Board concludes recent meter readings do not reflect a fair estimate of water consumption. Accordingly, the Board directs the establishment of a considerably higher flat rate charge than the minimum quarterly bill proposed by the R.M.

The Board is willing to entertain a motion from the R.M. for a variance to this Order's direction with respect to these minimums, if the R.M. is able to arrive at minimums more reflective of the fair treatment the Board's directions seek to establish.

IT IS THEREFORE ORDERED THAT:

1. By-law No. 01/06 of The R.M. of Mountain serving Local Urban District of Birch River BE AND THE SAME IS HEREBY APPROVED subject to amendment on second reading to agree with Schedule "A" attached hereto.
2. By-law No. 3/05 of The R.M. of Mountain serving Local Urban District of Mafeking BE AND THE SAME IS HEREBY APPROVED subject to amendment on second reading to agree with Schedule "B" attached hereto.
3. The R.M. of Mountain is to file for the Board's review revised by-laws consistent with the directions provided herein.
4. The Rural Municipality of Mountain is to provide an update of its utility's financial position, projections for 2006/07 and 2007/08, and capital project plans by December 31, 2006, following which the Board will consider if there is a need for further rate increases or adjustments.
5. That the Rural Municipality of Mountain advise its customers of this rate increase and the change in billing approach for Mafeking as soon as possible or at its next billing period.

SCHEDULE "A"

TO BOARD ORDER NO. 75/06

THE RURAL MUNICIPALITY OF MOUNTAIN
LOCAL URBAN DISTRICT OF BIRCH RIVER

WATER RATES

BY-LAW NO. 01/06

1. Customer Service Charge:
The customer service charge shall be \$5.50 per quarter.
2. Commodity Rates:
The commodity rates for all water consumption shall be \$58.52.
3. Schedule of Minimum Quarterly Charges:

<u>Customer</u>	<u>Group Capacity Ratio</u>	<u>Customer Service Charge</u>	<u>Commodity Charge</u>	<u>New Quarterly Charges</u>
Residence	1.0	\$5.50	\$ 58.52	\$ 64.02
Commercial	2.0	\$5.50	\$117.04	122.54
Arena	3.0	\$5.50	\$175.56	\$181.06
School	10.0	\$5.50	\$585.20	\$590.70

4. Bulk Water Sales
The charge for bulk water sales shall be at the rate of \$10.00 per thousand gallons of water.
5. Hydrant Rentals
An annual charge of One Hundred Dollars (\$100.00) per hydrant shall be made by the said utility to the Local Unincorporated District of Birch River for Fire Protection services, which annual charge shall include water used.
6. Billings and Penalties
All accounts billed to customers under Section 1 hereof shall be due and payable, thirty (30) days after billing date and shall be liable to penalty, at a rate of 1¼% on any outstanding balance.

7. Disconnection

Water services may be discontinued immediately and without further notice in the event on non-payment extending to a period of 90 days from the billing date.

8. Reconnection

a reconnection fee of \$25.00 shall be payable in addition to all arrears and penalty prior to service being provided to any consumer disconnected under Section 6 hereof.

9 Outstanding Water Bills

Pursuant to Section 252(2) of The Municipal Act, the amount of all outstanding charges for water service are a lien and charge upon the land services, and shall be collected in the same manner in which ordinary taxes upon the land are collectible, and with like remedies.

SCHEDULE "B"

TO BOARD ORDER NO. 75/06

THE RURAL MUNICIPALITY OF MOUNTAIN

LOCAL URBAN DISTRICT OF MAFEKING

WATER RATES

BY-LAW NO. 03/05

1. Customer Service Charge
The customer service charge shall be \$14.00 per quarter.
2. Commodity Rates:
The commodity rates for all water consumption shall be \$9.00 per one thousand gallons.

3. Schedule of Minimum Quarterly Charges

<u>Customer</u>	<u>Customer Service Charge</u>	<u>Commodity Charge</u>	<u>New Quarterly Charges</u>
Residential	\$14.00	\$43.52	\$57.52
Commercial, Legion, School (former), arena, and fire hall	\$14.00	\$87.04	\$101.04
Hotel	\$14.00	\$435.20	\$449.20
Feedlot	\$14.00	\$870.40	\$884.40

4. Bulk Water Sales:
All bulk sales shall be at the rate of \$12.00 per thousand gallons of water.
5. Hydrant rentals
An annual charge of One Hundred Dollars (\$100.00) per hydrant shall be made by the said utility to the Local Unincorporated District of Mafeking for Fire Protection services, which annual charge shall include water used.
6. Billings & Penalties
All accounts billed to customers under Section 1 hereof shall be due and payable thirty (30) days after billing date and shall be liable to penalty, at a rate of 1¼% on any outstanding balance.

7. Disconnection

Water services may be disconnected immediately and without further notice in the event on non-payment extending to a period of 90 days from the billing date.

8. Reconnection

A reconnection fee of \$25.00 shall be payable in addition to all arrears and penalty prior to service being provided to any consumer disconnected under Section 6 hereof.