

M A N I T O B A                    )     Order No. 159/06  
  )  
THE PUBLIC UTILITIES BOARD ACT    )     November 27, 2006

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

THE CITY OF PORTAGE LA PRAIRIE  
REVISED WATER AND SEWER RATES:  
JANUARY 1, 2007-2009  
July 1, 2007

**Executive Summary**

By this Order, the Public Utilities Board (Board):

- a) approves the City of Portage la Prairie's (City) application for revised and increased water and sewer rates and service charges, to take effect January 1, 2007, 2008 and 2009; and
- b) provides the City with discretionary authority to implement additional increases of up to 2.5%, 5% and 5% on July 1, 2007, January 1, 2008 and January 1, 2009, respectively - these related to nutrient removal.

By application of this Order, water and sewer rates will increase annually through 2009. By 6% for the first two steps of the City's water rate structure, and 8% for the remaining two steps. Sewer rates will increase by 6% for the first step of the schedule and 8% for second step, in each year of the multiple year increase. And, service charges will increase by 6.1% in each of the three years.

By a subsequent decision of the City to effect the discretionary authority herein granted, additional and across-the-board sewer rate increases effective July 1, 2007, January 1, 2008 and 2009 will take place; the first up to 2.5%, the last two, up to 5%, each.

Revenues raised through implementation of the discretionary increases, if fully exercised, will provide approximately \$1 million to the City by December 31, 2009 and, with interest, approximately \$5 million by December 31, 2014. Such funds that are not expended for nutrient removal by those dates are to be segregated in the utility accounts and used only to fund nutrient removal expenditures in subsequent periods, subject to a possible future variance following an application by the City.

Revenues raised for nutrient removal are to be sequestered in a separate Utility reserve account with interest to meet the City's eventual financial requirements for nutrient removal. In advance of the City making the decision to utilize this discretionary authority, it is to consult with large industry, the community and senior government, and provide a report to the Board.

This Order is best considered in conjunction with a review of Board Order 166/05, issued December 14, 2005. Order 166/05 arose out of a 2005 public hearing which followed an application by the City and a subsequent public hearing, which may be accessed on the Board's web site: [www.pub.gov.mb.ca](http://www.pub.gov.mb.ca).

### **Application**

On July 11, 2006, the City applied for revised water and sewer rates, to take effect January 1, 2007, 2008 and 2009.

The City's case for annual rate increases for three years included an identified need to meet increasing operating costs while building the utility reserve to fund required capital upgrades to water and sewer mains. As well, the City noted a need to fund an annual contingency provision, to be expended each year on foreseeable but now-unspecific utility system repairs and enhancements. In the absence of the \$1.9 million annual contingency provision, the City anticipated that either needed upgrades or repairs would have to be deferred or operating deficits would develop as revenue would be insufficient to meet costs.

Public Notice of the City's application and a public Board hearing called for in Portage la Prairie on November 1, 2006 was published and posted within the community. Copies of the Notice were also specifically forwarded to Nutri-Pea Ltd., Simplot Canada Ltd., and McCain Foods Limited, the City's large industrial water and sewer customers.

The Notice invited utility customers to comment on the City's application, particularly with respect to:

- 1) nutrient removal;
- 2) infrastructure renewal requirements and plans;
- 3) regional water service;
- 4) implications related to upcoming changes in municipal accounting; and
- 5) the City's rate proposal.

The City's financial outlook/projections for its utility through to 2010 did not include provision for the receipt of external grants. In the absence of senior government grants, the City's capital plans would be funded entirely through rates and draws on the Utility reserve created through rates - including revenue to meet the servicing of additional debenture debt. The City did not project any reliance on the City's tax base to fund in whole or in part the City's utility capital works to 2010, as the City plans to rely on utility rates to meet future new utility debenture debt servicing requirements.

Should grant monies become available, the City advised it would either reduce its planned withdrawals from the Utility reserve or

the size of any new debenture offerings. In either case, senior government grants would reduce the burden on the City's utility customers.

The City's rate proposal by customer class was:

| Annual Costs:                                     | Existing<br>2006 | Proposed<br>2007 | Proposed<br>2008 | Proposed<br>2009 |
|---|------------------|------------------|------------------|------------------|
| 15,000 gallons/quarter<br>(average domestic user) | \$555            | \$588            | \$623            | \$661            |
| Increase per year                                 |                  | \$33             | \$35             | \$38             |
| Percentage increase                               |                  | 6.0%             | 6.0%             | 6.1%             |
| 1 Million gallons/quarter                         | \$25,378         | \$27,092         | \$28,943         | \$30,916         |
| Increase per year                                 |                  | \$1,713          | \$1,851          | \$1,974          |
| Percentage  |                  | 6.8%             | 6.8%             | 6.8%             |
| 90 Million gallons/quarter<br>(Large Industry)    | \$1,222,098      | \$1,391,975      | \$1,503,051      | \$1,625,015      |
| Increase per year                                 |                  | \$103,640        | \$111,076        | \$121,964        |
| Percentage  |                  | 8.0%             | 8.0%             | 8.1%             |

Included in the City's rate proposal was an application for increased service charges, proposed to rise by 6.1% per year - to recognize improved accounting for shared administrative services. Full details of the City's rate proposal may be reviewed by reference to City By-law No. 06-8326, read for the first time on July 10, 2006.

The City provided a comparison of its proposed rates with those of other jurisdictions. Present residential rates were reported to be similar to those of comparable communities, such as Morden and Winkler, but lower than Winnipeg and Brandon. With respect to industrial rates, the City advised its rates were considerably lower than Winnipeg's, providing the City a significant competitive advantage in attracting and retaining large wet industry.

Proposed rates, and projected Utility annual reserve and contingency provisions and contributions reflecting those rates, along with the magnitude of the City's ten-year utility capital plan were reported to have been affected by recognition of escalating construction costs, particularly those associated with urgently required repairs to utility water mains. The City's 2006 Utility budget was amended in 2006, subsequent to the capital plan provided to the Board at the October 2005 hearing, to reflect expected increased construction costs and newly identified projects.

The amendments required an additional projected draw of \$1.1 million from the Utility reserve to fund the Phoebe utility water main project, meet increased Mall lift station costs and address funding requirements generally. The City's capital expenditure plan increased over the previous version by \$2.9 million - despite the deletion of attention to nutrient removal objectives, this largely to meet increased requirements for utility water main repair work, including repairing and enhancing Saskatchewan Avenue water mains.

The City projected that, with the Board's approval of its rate increase application (which did not include the discretionary authority provided herein), and by and for the calendar year 2009, the water and sewer utility would generate overall an additional \$2.4 million of annual revenue.

Considering anticipated draws on the reserve to meet capital expenditures and contributions from projected annual surpluses, the

additional annual revenue to arise from the rate increases was projected to result in a December 31, 2009 utility reserve fund balance of \$3.15 million.

That said, and as indicated above, the City's new capital plan, including forecast capital expenditures through to and including 2009, no longer includes projections of expenditures related to the planning for and construction of a nutrient removal plant. Construction of such a plant was a major feature of the City's plans as outlined to the Board at the 2005 hearing.

The City's projected and actual net utility operating results to and including 2009, assuming the Board's approval of the sought rate increases (again, excluding the discretionary authority granted herein), were:

|                        |            |
|------------------------|------------|
| 2005 (Actual)          | \$1,116    |
| 2006 (Balanced budget) | \$0        |
| 2007                   | (\$37,913) |
| 2008                   | \$4,635    |
| 2009                   | \$27,666   |

In summary, the City's financial outlook for utility operations for the years 2007 to 2009 yearly was based on:

- a) projected increases in the sale of wholesale water to the regional water system;
- b) projected increases in operating costs, including the allocation of general administration costs to the utility;
- c) an assumption that the Board would approve the City's rate application;
- d) an assumption that the current reduction in water consumption by City's potato processing industry will be temporary;

- e) an assumption of 0.25% annual population growth (no provision has been made for major new industry); and
- f) an assumption that capital expenditures would be consistent with the City's ten-year capital expenditure plan (now without any provisions for nutrient removal, but with increased provisions for water and sewer main replacement and enhancement).

The City has a statutory obligation to budget for breakeven utility operating results, that is annual utility operating costs are to be at least matched by budgeted utility revenue. In supporting its 2006 application, with its provision for Utility reserve building, the City cited Board Order 166/05, in which the Board opined:

"With a system of Portage's complexity, magnitude and age, utility reserves should be considerably higher. In the absence of much higher reserves, future rates are vulnerable to the risk of large increases as capital plant enhancements and major repair and renovation needs unfold."

In its current projections to and including 2009, the City, taking into account implementation of its proposed revised rates and the realization of assumptions made, expects to receive:

- a) 34% of annual utility revenue from residential customers;
- b) 28% from industry;
- c) 21% from customers beyond the City's limits; and
- d) 17% from the City's commercial, government and institutional customers.

The City's wet industry and regional water customers are expected



to represent almost one half of projected future annual utility operating revenues.

For the years 2007 to 2009, years included in the City's revised ten-year capital expenditure plan, the City plans to spend \$6.5 Million on utility capital expenditures, to be funded as follows:

- a) \$3.8 Million through utility rates;
- b) \$1.1 Million from reserves (created by rate provisions); and
- c) \$1.6 Million from a debenture (servicing to be funded from rates).

The capital assets of the City's utility system were acquired partially through debentures, subsequently serviced through tax roll levies and utility rates, draws on past Utility reserves, revenue from Portage's regional partner, the Rural Municipality of Portage la Prairie, senior government grants, and utility rates.

The City currently requires approximately \$1.1 million annually to recover debenture debt costs incurred with respect to previous utility capital expenditures. Approximately 50% of annual debenture debt servicing is to be recovered from rates in 2006, i.e. \$657,218, the balance is to be recovered through property tax levy. It is relevant to note that the City's ability to borrow is subject to the Municipal Board approval, and the tests of borrowing capacity involve both the assessment base of the City and the percentage of annual revenue devoted to servicing debt. In short, there are limits to the City's ability to borrow.

The City also expects to receive in 2006:

- a) \$151,000 from industrial customers for wastewater treatment related projects;
- b) \$7,700 from surcharges against industry to meet "extra-strength" sewage treatment costs; and
- c) \$593,000 from the Rural Municipality of Portage la Prairie (R.M.: \$71,000 related to surcharges and fees, and \$522,533 as a contribution to the City's utility-based capital expenditures.

As previously indicated, while the basis in part for the City's 2005 rate application concerned the City's plans to build and operate a nutrient removal plant, the City removed cost estimates for nutrient removal from the capital and operating plans included within its 2006 rate application. Instead, it substituted newly identified capital expenditure requirements for water and sewer main work, noting that it faced significant capital cost increases due to high demand on the construction industry with recent large capital projects having been re-estimated to cost twice the original forecast cost.

Portage removed the estimates concerning nutrient removal awaiting further direction from the Province. The City advised that it lacked the financial capacity to fund a \$20 - \$25 million nutrient removal plant. At the 2005 hearing it was established that the capital cost estimate for the plant was a preliminary estimate, one subject to the risk of upward revision, and that a commitment for grant support from senior government had yet to occur.

The City projected it would require 2/3rds of the projected capital cost of a nutrient removal plant from senior government, and that

any assistance likely to come from the Manitoba Water Services Board was expected to be modest given the agency's relatively limited annual grant budget. Assuming the City's initial projections for the construction of a nutrient removal plant were accurate, recent experience with other construction project costs appear to belie that assumption, the City would require \$7-9 million to meet its presumed share of construction costs for a nutrient removal plant. And this does not include providing for operating costs.

With respect to the time frame required to construct a nutrient removal plant, the City suggested completion within five to eight years would be optimistic, and that, if committed to, utility rates would have to increase further to fund construction and operations.

In its pre-hearing support for its 2006 application, the City indicated that it would not expend funds and time on engineering studies, plans and discussions related to nutrient removal until the parameters for the undertaking had been clearly established by the Province. The City observed that Winnipeg and Brandon had received direction on nutrient removal from the Province, and noted that both cities have more resources to act on the provincial requirements. The City suggested that by waiting, Portage would have the opportunity to learn from the experiences of Brandon and Winnipeg.

Consequently, the City advised that it had refrained from consulting with its large industrial customers as to nutrient removal, despite the Board having directed such consultation in last year's Board Order 166/05.

However, and at the recent public hearing, the City advised that on the eve of the (just concluded) hearing the Province had renewed discussions regarding nutrient removal, with further discussions planned. This development came too late for the City to reconsider the application it had placed before the Board.

At the hearing, Simplot's representative indicated that industry, as it had last year, wants to discuss with the City its plans for nutrient removal. Simplot indicated that the City's rate proposal, even though it does not include a provision for a nutrient removal plant, represents a potential increase to Simplot's operating costs of \$1 million over three-years. And, Simplot noted, if nutrient removal plans were reintroduced, further major costs would likely arise for industry.

In response to a Board-directed question to the Simplot representative as to whether there was any opportunity for pre-treatment of nutrient loading by Simplot, the representative advised that the Portage plant is Simplot's only plant discharging effluent into a river. In Simplot's other locations, it was reported that discharges were used as fertilizer on farmer fields. The representative indicated that Simplot has an abiding interest in the environment, and in the communities that it operates within.

Other matters of concern at the 2005 hearing were addressed in the City's 2006 application:

- a) apparent under funding of administration costs related to the utility; and
- b) the City's four and two step water and sewer rate structure

which involves reduced rates for higher consumption/output. By Order 166/05, the Board had directed the City to review rate schedule design from the perspective of conservation and sustainability objectives.

In its 2006 application, the City reported that it had reviewed the cost allocations between its general operations and the utility for cost centres such as Council, Administration, Human Resources and Finance. The city advised that as a result of the review allocations of 35% of salaries, benefits and administration expenses were now being made against the utility, addressing the Board's 2005 concern. Accordingly, service charges were proposed to increase by 6.1% per year.

With respect to the four and two-step rate structures, the City provided increased cost-allocation related rationale for declining rates, supporting its contention that the schedules were reasonable when considering the elements of cost of the service at various consumption levels. That said, Portage applied for differentiated increases for the various rate steps, to reduce the gap between the rate steps. The Board understands that Portage attracted large industry partially on the basis of very competitive water and sewer rates and that cost levels are important to these very competitive industry customers.

The City expressed concern as to the impact its sought after rate increases would have on its major industrial customers, particularly those in the existing wet industry which provide significant economic prosperity for the City and surrounding area. The City advised that it had carefully considered its concern when

developing its multi-year rate application and proposed rate schedule amendments.

With respect to recognizing the impact of higher rates on the City's utility customers, Simplot's representative asked if the City had achieved any efficiency gains, observing that industry generally allocates a material portion of annual capital budgets to expenditures related to achieving efficiency gains. The City reported examining its internal processes on an ongoing basis, and benchmarking operating costs with other cities, searching out opportunities to reduce or restrain costs. However, the City noted that the majority of its cost increases have been related to necessary maintenance and customer usage requirements.

Asked by the Board whether the City had received any complaints from its ratepayers and utility customers concerning its rate application and whether the rate Application had been an issue during the recent municipal election, City councillors present at the hearing indicated that this had not been the case.

With respect to the expected upcoming change in generally accepted accounting principles, to require the amortization of capital assets over their expected service life, the City advised that the implications for Portage will be assessed closer to the effective date of the change. The Board understands that the expected change in municipal accounting principles will place increased focus on the need to develop reserves to replace assets at the end of their service lives.

In its initial support of its Application, the City filed a copy of By-law No. 06-8326, and certified it as having been read for the first time on July 10, 2006. The By-law provides the details of the rate and charge increases and terms of service approved herein by the Board.

### **Background**

The City anticipates approximately 4,580 utility customers by 2009, deriving services from a system with an original capital cost of approximately \$105 million. (Construction costs and water and effluent standards have increased significantly since the facilities were put in place, the replacement cost for the existing facilities and distribution system are likely several times more costly than the original cost. It is replacement and enhancement costs at current prices that represent a major challenge to all Manitoba municipal water and sewer utilities.)

The City last applied for rate increases in 2005. In that application, the City applied for five (5) consecutive annual rate increases of:

- (a) 3% in water rates; and
- (b) 6.5% and 8.5% in sewer rates, for the first and second rate steps, respectively.

By Order 166/05, the Board approved increases only for 2006, deferring consideration of the City's application for future years while directed that additional information be provided:

- a) a report on negative 2005 budgetary variances developed subsequent to the 2005 public hearing;

- b) a more definitive forecast of expected nutrient removal plant requirements and operating costs, including planning;
- c) consultations between the City, industrial customers, the Manitoba Water Services Board (MWSB) and the Province; and
- d) a report on the appropriateness of the City's utility rate design, in particular the four step declining rate model for water consumption.

The Board's major findings of Order 166/05, other than 2006 rate increases, were that:

- a) the City's utility reserves were inadequate for the size, complexity, importance and future requirements of its water and sewer system;
- b) water and sewer rates need to be increased to fund increased costs and future capital projects;
- c) the City's conceptual plans to enhance the sewer treatment system to remove nutrients from effluent prior to discharge into the Assiniboine River were responsible but required further consultations and discussions with industry, the City, the MWSB and the Province prior to the Board providing further rate increases;
- d) the City's efforts to assist adjacent communities by extending its water and sewer system outside its boundaries represented a cooperative and commendable approach;
- e) the City's multiple block water and sewer rate design should be reviewed for adherence to the principles of customer class equity, financial sustainability, and conservation; and
- f) together with additional information with respect to operating and financial plans and budgets, and with respect to consultations and discussions with the Province, the MWSB and industry on nutrient removal, the City should file a new rate



application for years from 2007, towards a fall 2006 public hearing.

In part, the City complied with the Board's directions, in that it filed additional financial and capital expenditure information and applied to the Board for revised rates from January 1, 2007.

Since 1996, the City and senior government have invested in excess of \$92 Million in the utility, bringing the aggregate investment at cost of the system to in excess of \$100 million. The City continues to face cost pressures related to the need for increased water production and capacity, for improved water quality, enhanced wastewater treatment and increased wastewater treatment capacity. Historically, for larger projects the City has sought financial assistance from appropriate levels of government, industry and through its own debentures.

The expansion of its service beyond its boundaries has provided a critical service to the region while providing a wider sharing of the City's water service costs to the benefit for the City's ratepayers. Water is priced to regional customers utilizing only steps one through three of the four-step schedule, step four, which provides the lowest rate, is not available to regional customers.

### **Board Findings**

The Board's authority includes the ability to accept, deny or vary an application. In this case, the Board accepts the proposed increases advanced by the City while varying the application to provide the City with discretionary authority to implement

additional sewer rate increases.

The groundwork for this Order was laid in large part through Order 166/05 and the hearing that preceded it in October 2005. At that time the City applied for approval of increases to take effect in each year through to 2010, but the Board approved only increases to take effect January 1, 2006, seeking additional information prior to considering further increases. The City, through its 2006 application and the subsequent hearing process, has provided the Board enough information to allow for a multi-year decision, this being it.

The Board is satisfied with the City's rate proposals, and considers the proposals to be reasonable given the pressing capital expenditure needs facing the City's utility. The City is responsible for providing its citizens and customers with a safe and adequate water supply and proper discharge of effluent. Accordingly, the Board will approve the water, sewer and administrative charge amendments sought by the City.

However, and in addition, the Board will provide the City with discretionary authority to increase sewer rates by up to 2.5% as of July 1, 2007, up to a further 5% as of January 1, 2008, and up to a further 5% as of January 1, 2009. These discretionary increases will be provided to further the City's developing plans and responsibilities with respect to nutrient removal.

The Board was not in agreement with the City's decision to delete provisions for nutrient removal that had been included in its 2005 application but not in its 2006 rate application. Rather than

pursue the issue with the Provincial Government and industry, as the Board anticipated in Order 166/05, the City chose to wait for further provincial direction. Based on the City's report at the November 2006 hearing, the Province has now reiterated its interest in the City pursuing nutrient removal, and the City has reported that it expects to enter into further discussions with the Province.

The deletion of attention to nutrient removal in the most recent rate application created an element of material uncertainty for the City's customers, particularly large firms in the wet industry, major contributors both to nutrient effluent load and annual utility revenues. While the Board appreciates the City's reasons for deleting nutrient removal from its ten-year utility plan, it believes it is inevitable that action on that front will be required of the City.

Just as Simplot suggested at the hearing, municipalities and industry have a duty of care for the protection of the environment, and issues related thereto would best be reflected in long-term capital budgets and plans of the City's utility.

In large part, the City's capital plans meet that duty of care, and the Board is pleased to note that the Province has now confirmed it will advance the discussion with the City with regard to nutrient removal. And, as noted in Order 166/05 of 2005, the Board strongly recommends that the City extend these consultations to include the City's wet industry customers.

The Board anticipates that major wet industry firms will be part of the approach to reduce nutrient loading on Manitoba's rivers and lakes. At the 2005 and 2006 hearings, industry representatives provided no indication of a lack of interest in the objective.

While reminding the City of the Board's observations with respect to nutrients in Order 166/05, the Board also notes a recent, November 8<sup>th</sup>, pronouncement of Conservation Minister Struthers suggesting a shared responsibility towards bringing about clean waterways. Minister Struthers reported that the Province's plans include a long-term objective of bringing about upgraded municipal wastewater treatment capabilities and capacity.

Portage la Prairie is a major population centre with considerable industry. With both residential and industrial effluent flows including nutrients into the Assiniboine River and on to Lake Winnipeg, the City's inclusion within an overall provincial plan to reduce nutrients entering the waterways seems virtually certain.

As cited in Order 166/05, nutrients have and are damaging Manitoba's rivers and lakes, and have caused increasing toxic algae blooms in Lake Winnipeg in the summer months. These blooms risk the recreational and commercial value of Lake Winnipeg, and the removal of nutrients at source is required to effect beneficial change. It is the Board's understanding that Winnipeg and Brandon have received provincial direction to address nutrient removal, and that Portage la Prairie is likely to be added to the list.

Thus, while there was some less certainty regarding the commitment of the Province as to the timing of action with respect to Portage

la Prairie and nutrient removal last year, at least some of this uncertainty no longer exists. It is no longer a question of "if", but only "when" and "how". And, the "how" will without little doubt involve a significant financial requirement of the City and its utility customers.

In its 2005 Order, the Board questioned whether the City had sufficient financial strength to meet its utility risks and challenges - challenges including nutrient removal. The City responded with its 2006 application, stating that its proposed rates would provide the necessary financial strength to the utility to allow for meeting current needs for infrastructure renewal. Its application updated the capital plan, recognizing yet additional capital expenditure requirements related to water and sewer mains.

The problem is that its plan left out any provision for nutrient removal. The Board concurs with the City's judgement that higher rates are required, and, through adding additional revenue opportunities to further nutrient removal activities, the Board will provide the City the ability to increase its utility revenues to meet known challenges, including nutrient removal.

Excluding any consideration of nutrient removal, the City projected future annual utility operating results based on a capital expenditure plan, other projections, and the assumption the Board would provide the City with higher rates. The result was projected utility operating results over the three years of 2007 through to and including 2009 of a deficit of \$5,612, immaterial when compared with a \$100 million, at original cost capital, investment in an

utility with identified needs for tens of millions of additional capital expenditures.

The City also projected a 2009 ending Utility reserve balance of \$3.15 million, also inadequate when compared to the challenges that lie ahead. If the expected accounting changes requiring the amortization of capital assets had occurred years ago, rather than a Utility reserve of \$3.15 million projected as of December 31, 2009 the City would be confronted with a large accumulated deficit.

Through providing the City discretionary authority to levy additional sewer rate increases totaling 12.5% in addition to approving the rate increases proposed by the City, the Board provides the City the fiscal ability to advance planning for nutrient removal and meet other current requirements.

In doing so, and while regretting the additional burden to arise for the utility's customers, particularly those of low-income and industries operating in competitive markets, the Board notes an absence of options. The City has only two routes to raise revenue other than borrowing - and borrowing simply defers cash demands to future periods - these being to either increase utility rates or taxes.

It is the Board's understanding that the City has non-utility infrastructure requirements that suggest the tax rolls not be unduly called upon to meet utility capital requirements, and the Board accepts the City's choice to rely on utility revenues to meet utility expenses.

With respect to "sharing the burden" of nutrient removal, the Board understands that both residences and industry contribute to the City's aggregate nutrient loading, and not only the sewage of wet industry. The Board is also aware that industry already pays a surcharge to the utility for the treatment of extra strength sewage, and some firms perform some pre-treatment of effluent at plant gate. As well, the Board is mindful of the economic benefit of Portage's wet industry to the City and its ratepayers, and does not want to so burden large industry as to drive it to reduce operations and cease considering expansions.

Consequently, the Board will not target the rate burden of nutrient removal at industry alone, but provide the City with discretionary authority to raise sewer rates across all customer classes and rate steps.

If the discretionary rate authority to be provided herein is fully exercised by the City it will accumulate approximately \$1 million by December 31, 2009 towards nutrient removal, and will receive, with interest, in excess of \$5 million by 2014, with further annual revenues to flow. While the City's share of a future nutrient removal plant may exceed the funding provided by the targeted discretionary rate increases, the increases would provide a start. Future rate applications will provide opportunities to consider grant availability, potential debentures and related debenture servicing costs, rate adequacy and rate schedule design.

In short, the Board is aware that certainty as to the eventual capital cost and any opportunity to avoid nutrient removal costs through industry pre-treatment are yet unknown. As well,

definitive direction to the City from the Province has yet to come. However, the Board is confident that nutrient removal requirements and action will come about. As noted by utility guru James Bonbright, the Board is of the view that the true cost of sewage treatment is best reflected in rates. The Board notes and shares Mr. Bonbright's criteria for appropriate utility rates, as set out in his treatise entitled Principles of Public Utilities Rates:

1. Attributes of simplicity, understandability, public acceptability, and feasibility of application.
2. Freedom from controversies as to proper interpretation.
3. Effectiveness in yielding total revenue requirements under the fair-return standard.
4. Revenue stability from year to year.
5. Stability of the rates themselves, with a minimum of unexpected changes seriously adverse to existing customers.
6. Fairness of the specific rates in the apportionment of total costs of service among the different consumers.
7. Avoidance of "undue discrimination" in rate relationships.
8. Efficiency of the rate classes and rate blocks in discouraging wasteful use of service.

To not provide the City with the authority to implement increases ahead of a requirement to build and operate a nutrient removal plant would establish an undue and high risk that a future generation of utility customers would be faced with very large increases. As well, if rates are not raised now for the likely future need, the City would face the prospect of debenture debt testing the ability of the City to then-meet other utility and non-utility infrastructure requirements.



Finally, with respect to the City's rate schedule, which now is comprised of a four-step water and two-step sewer approach, while the Board is appreciative of the additional support provided by the City for its schedule it is mindful of the goals of conservation. These goals suggest schedules where all water or effluent comes at one price. Accordingly, the Board:

- a) suggests the City restrict access to step four of the water schedule to existing industry and current step four customers, and, as it does with respect to regional customers, have as its lowest rate block step three for new customers; and
- b) indicates that if it accepts the Board's advice in this matter, the City should propose such a revised schedule to the Board so it can be considered.

In making this suggestion, the Board is mindful of the factors that led present large wet industry firms to locate in and adjacent to the City, and is not inclined to disturb the understandings then present that were relied in part as to the competitiveness of the City's utility rates. Portage la Prairie's large wet industry customers are important mainstays of the Portage economy; this is an important reality, and the Board understands this.

Finally, the Board is conscious of the cost of regulation as these costs are ultimately borne by the utility's customers through reflection in rates. By providing Portage la Prairie with discretionary authority to implement additional rate

increases to meet identified objectives, the Board avoids what otherwise would have required a hearing. The Board is of the view that sufficient information has been provided and is known, through two hearing processes, to allow the Board to take this approach.

The City has the opportunity to file a new application or seek reconsideration of this Order if it determines there is a problem or issue that requires a further public Board process.

**IT IS THEREFORE ORDERED THAT:**

1. The rates and charges set out in the City of Portage la Prairie's By-law No. 06-8326, certified as to having been read the first time on July 10, 2006, be and are approved;
2. The City of Portage la Prairie has authorization to implement further across-the-board sewer rate increases of up to 2.5% as of July 1, 2007, and up to 5%, effective January 1, 2008 and 2009, to be implemented upon the City filing with the Board a By-law giving effect to such increases;
3. The City enact a new By-law(s) as may be required to effect the authority granted by the Board;
4. The City of Portage la Prairie file with the Board annually through to and including 2009, annual budgets and utility financial statements with an explanation of significant variances;
5. The City of Portage la Prairie file with the Board updates on or before May 31, 2007, November 30, 2007 and November 30, 2008, with respect to its discussions and consultations with industry, the Province and any other party with respect to nutrient removal,;
6. The City of Portage la Prairie consider restricting the availability of step four of its water rate schedule to existing industry and other customers; and
7. The City of Portage la Prairie inform its utility customers of the Board's decisions and summary findings by way of bill inserts, to be approved in advance of distribution by the Board.

Fees payable upon this Order - \$2,500.00.

THE PUBLIC UTILITIES BOARD

"GRAHAM F. J. LANE, C.A."  
Chairman

"G. O. BARRON"  
Acting Secretary

Certified a true copy of Order  
No. 159/06 issued by The Public  
Utilities Board

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Acting Secretary