

MANITOBA) Order No. 172/06
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THE PUBLIC UTILITIES BOARD ACT) December 20, 2006

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

THE CITY OF FLIN FLON
REVISED WATER AND SEWER SERVICE UTILITY RATES
EFFECTIVE WITH THE FIRST BILLING IN 2007

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SUMMARY

By this Order, the Public Utilities Board (Board) revises City of Flin Flon (City) water and sewer rates, effective with the first utility billing of 2007. In doing so, the Board varies the City's application with respect to metered customers with meter sizes of 5/8" and 3/4" to address a customer equity issue.

Existing and revised rates and charges will be:

Unmetered Customers

Existing	Revised
\$41.80/month	\$ 68.19/month
\$125.40/quarter	\$204.57/quarter

Metered Customers

Meter Size (Inches)	Meter Capacity Ratio	Minimum Monthly Consumption (Gallons)	Minimum Existing Monthly Charge	Minimum Revised Monthly Charge
5/8	1	6,000	\$ 10.88	\$ 48.00
3/4	2	7,000	\$ 21.76	\$ 56.00
1	4	8,000	\$ 41.80	\$ 64.00
1 1/2	10	20,000	\$ 56.40	\$160.00
2	25	50,000	\$141.00	\$400.00
3	45	90,000	\$253.80	\$720.00

The City proposed minimum monthly consumption of 2,000 gallons and minimum monthly charge of \$16.00 for meter size 5/8 inch, and 4,000 gallons and minimum monthly charge of \$32.00 for meter size 3/4 inch. The Board varies the consumption limits and minimum monthly charges for the two classifications to address an equity differential between metered and unmetered customers favouring metered customers, recognizing the Utility's largely fixed cost nature. The City reports 315 metered customers, 1,976 without meters. Upon all serviced addresses having meters, the City expects to amend its billing approach and further conservation efforts.

The impact of sharply higher minimum monthly charges for metered commercial and institutional customers will be mitigated by significant increases in permitted consumption volumes.

Commodity Charge/1,000 gallons	
Existing	Revised
\$5.64	\$8.00

The revised rates and charges are expected to increase the City's annual utility commodity based revenues by approximately \$650,000, or 50%, allowing the City to meet projected operating costs in 2007 and make a contribution to the amortization of a projected accumulated operated deficit in the range of \$1 million. These latest increases, which follow similarly high increases implemented in 2005, are driven by much higher than expected operating costs at the City's new sewage treatment facility and a need to address the large accumulated deficit that will be carried into 2007.

Also, by this Order, the Board:

- a) provides the City Council discretionary authority to further increase rates and minimum monthly charges by up to 5% as of January 1, 2008, without requiring an application to the Board; and
- b) requires the City to revisit the adequacy of its rates on an annual basis going forward, towards ensuring annual operating costs can be met into the future and the existing accumulated Utility deficit is fully amortized by 2010.

This Order would best be read in conjunction with a review of Board Order 61/05, issued April 29, 2005.

APPLICATION

The City applied to the Board for approval of proposed water and sewer rates, as set out in City By-law No. 2006-13 (first reading, November 2006). In July 2006, the City applied to the Board seeking approval to amortize its accumulated Utility operating deficit through future Utility operating surpluses.

The City's rate application and a proposal to amortize its Utility accumulated deficit through rates were supported by a rate study.

The study forecast a 2007 Utility surplus of approximately \$142,000 with the Board's approval of the City's rate application. The City indicated that the proposed rates were sufficient to generate sufficient Utility revenue to meet all 2007 utility operating costs and amortize a portion of the accumulated Utility deficit.

Utility capital expenditures, a five-year capital expenditure budget of approximately \$2 million was reported (which excludes consideration of the City's estimated contribution to the metering project of approximately \$400,000), would be met through General Fund debentures, tax roll assessments and grants in lieu of taxes, not utility rates. The primary contributor of grants in lieu of taxes is Hudbay Minerals Inc., the mainstay employer in the City and surrounding area.

Existing and proposed rates, charges and consumption allowances, as filed by the City, were:

Unmetered Customers

Existing	Proposed
\$41.80/month	\$ 41.80/month
\$125.40/quarter	\$125.40/quarter

Metered Customers

Meter Size (Inches)	Meter Capacity Ratio	Minimum Monthly Consumption (Gallons)	Existing Charge	Proposed Charge
5/8	1	2,000	\$ 10.88	\$ 16.00
3/4	2	4,000	\$ 21.76	\$ 32.00
1	4	8,000	\$ 41.80	\$ 64.00
1½	10	20,000	\$ 56.40	\$160.00
2	25	50,000	\$141.00	\$400.00
3	45	90,000	\$253.80	\$720.00

Commodity Charge/1,000 gallons	
Existing	Proposed
\$5.64	\$8.00

Most of Flin Flon's service addresses, including the vast majority of its residential customers, are not metered.

The City advised of a commitment from the Manitoba Water Services Board for a 2008 grant of \$600,000 towards the purchase and installation of meters. Ahead of that project, the City will continue a moratorium of residential meter installations, this to better ensure equity between metered and unmetered residential customers.

Until all accounts are metered, the City indicated a preference to recognize the largely fixed cost nature of its Utility system by a rate schedule reflecting the principle of equity. In short, metered customers would be assessed minimum monthly bills of the same order as those provided on a flat rate basis to unmetered customers.

Of the metered accounts, less than fifty of the three hundred plus accounts were reported to be using less than 3,000 gallons/quarter. The average water consumption of Canadian residences has been estimated to be in the range of 8,000 gallons a month, though there are users with much lower consumption levels.

Bulk water ratepayers located within the City's boundaries would be charged the same commodity rate as ratepayers connected by the pipeline, recognizing that bulk water users contribute to meeting the utility's capital costs through tax roll assessments, just is the case with serviced customers.

The Board held a public hearing in Flin Flon on December 13, 2006, with Notice of Hearing published and posted by the City pursuant to the Board's instructions in advance of the hearing. At the hearing, which was comprised of two segments, one in the afternoon, the other an evening session to best facilitate public attendance, those present discussed at length the City's rationale for its rate proposal.

Following an approximately 38% increase provided by the Board in 2005 through Order 61/05, the large rate increase proposals considered at the recent hearing generated considerable concern and reflection.

Those in attendance generally supported the City's contention that the increases were required, to allow for the statutorily based requirement for balanced annual Utility budgets to be met. Before the rate increase of 2005, the last rate increase was implemented in 1991, and,

as previously indicated, the City's 2006 application was largely based on unexpectedly high wastewater plant operating expenses.

The City reported that prior to its 2005 application, it delayed seeking rate increases so as to:

- a) await the completion of the new Secondary Sewage Treatment Plan, and discovery of the operating cost experience; and
- b) draw down on previously accumulated surplus, which, as recently as the end of 2002, had a balance of approximately \$700,000.

Population decline from a peak of approximately 12,000 to below 7,000 has resulted in fewer ratepayers to fund costs that have risen with inflation, enhanced provincial water and sewage standards, and the repair and enhancement requirements associated with an aging utility infrastructure.

As indicated, the City cited the cost of operations of its new Sewage Treatment Plant as a major contributor to the requirement for large rate increases so soon after rates were substantially increased in 2005. The City estimated that the new plant is generating considerably higher annual expenditures than were projected by engineering advisors in advance of construction and operation, and this accounted for approximately 60% of the new revenue requirement associated with the proposed rate and charge increases.

The City reported an accumulated Utility operating deficit of \$446,525 as of December 31, 2005, and a projection of a further operating deficit of approximately \$500,000 for

2006. The City has no utility reserve, and, due to inadequate rates, has been unable to provide for annual contingency provisions within its Utility operating budgets; subsequent unforeseen operating costs have contributed to the development of the accumulated Utility operating deficit.

BACKGROUND AND DISCUSSION

The City's water is drawn from Cliff Lake, which is located approximately one kilometer north of Flin Flon. The water supply is disinfected by chlorine gas, and is fluoridated in accordance with regulations established by Manitoba Conservation.

Most of Flin Flon's water distribution and collection system was built fifty years ago, when the City's population was roughly twice the current level. The population has fallen and the system has aged, while water quality and environmental standards have increased. This has necessitated costly renovations to the utility's infrastructure, adding additional fixed costs to the operation of a system where, due to the rocky and hilly terrain in a cold climate, overall annual costs do not directly correspond to volumes or number of services.

The City indicated a strong possibility that in the mid-term a new Water Treatment Plant will be required, and estimated the cost of constructing such a facility as between \$5 and \$8 million. Generally, senior government assistance is available for such projects, and recent sharing of the funding of major capital projects securing government support has been 60-40, with 60% from senior

government. If the plant is constructed in the future, the City indicates its contribution would not be through utility rates, but through debentures supported by the tax base.

The present utilization rate of Flin Flon's drinking water capacity was reported to be 75%, the other 25% is unaccounted for, attributable to the terrain and the aging system. The City, unable to firmly determine the reasons for its water losses, cites:

- a) Incomplete metering: without meters, actual usage can only be estimated;
- b) The double main re-circulating distribution system model results in difficulty in calculating usage per service (or loop), again given the absence of full metering; and
- c) as the water is continuously in motion, being drawn and returned, it has proven difficult to locate leaks, or, when circulating pressure is low, provide sufficient water to "bleed" the lines.

The water supply capacity is 6,200 cubic meters/day. Average annual daily water flow was reported to be 4,400 cubic meters. The design capacity of the new Sewage Treatment Plant was based on a maximum wet weather flow rate per day of 9,600 cubic meters; the average flow rate per day has been 4,800 cubic meters.

The City's Utility revenue requirement is met through levies on flat rate, metered and delivered accounts. All

commercial, industrial and institutional buildings have meters, as do all apartment buildings with three or more suites. Some residential dwellings and duplexes have meters, as a result of customer requests. The City also provides water and sewer service beyond its borders to the Whitney Forum and Midwest Drilling, billed as metered accounts.

As previously indicated, the City meets all Utility capital costs, after senior government grants, through debentures serviced by the General Operating Fund, property tax and grants in lieu of taxes. Annual service costs of the debenture debt associated with the Utility now approaches \$1 million; the most recent increase related to the new Sewer Treatment Plant, completed in 2005.

The City's ability to take on debt is restricted by its agreement with Hudbay Minerals. Hudbay provides significant annual grants in lieu of taxes to the City's General Fund, which fund significant portions of debenture servicing costs related to City capital expenditures, including capital expenditures related to the Utility.

Hudbay, which operates its own utility and does not draw water from the City, has placed no restrictions on the City's range of action with respect to utility reserves, excepting in the case of the funding of such a reserve being through the General Fund.

If a utility project is to be funded by debenture debt, the total amount of City debt cannot exceed the amount specified in the agreement without the prior approval of Hudbay.

With respect to shared services between the City's general operation and utility operations, costs are reportedly being fairly allocated between the City and the utility based on ascribed personnel duties and equipment usage estimates.

One test of Utility efficiency is the benchmarking of rates. At the hearing, the City provided the following comparison of its proposed commodity charge per 1,000 gallons with selected other Manitoba communities:

<u>City/Town</u>	<u>Last Increase</u>	<u>Rate</u>
Altona	2006	\$12.12
Gimli	2006	10.82
Winnipeg	2005	10.66
Brandon	2005	9.62
Churchill	2006	8.30
Flin Flon	2007	8.00
Tache (R.M.)	2006	8.00
Dauphin	n.a.	6.29
Steinbach	2005	4.26

BOARD FINDINGS

In considering the application, the Board considered what is in the public interest. The public interest includes not only the immediate financial interests of consumers, but also the fiscal health of regulated utilities. Water and sewer services are critical to the health, welfare and economic development of communities, and the utilities that provide such services have to be properly funded to meet repair and enhancement requirements.

Water and sewer utilities in Manitoba are obliged by statute, regulation and policy to meet prescribed health

and safety standards (safe drinking water and treatment of effluent, etc.), and to function financially on a breakeven basis. Utilities are not to rely on the tax base to fund utility operations; utility services are intended to be user-pay based.

The Board will grant the City's request for higher Utility rates, the second such application in two years. The Board accepts the City's explanation that this latest increase is attributable to projected-actual operating cost increases experienced with the new wastewater treatment facility, and the need to address the accumulated deficit.

Given the magnitude of the accumulated deficit, the lack of a utility reserve and the absence of annual provisions for contingencies, the Board will also provide the City with discretionary authority to implement further rate increases of up to 5% on January 1, 2007; without an application to the Board. The City should exercise this authority to best ensure a continuation of breakeven operations in 2008 ahead of completion of the metering project, if needed. Unforeseen costs have been a regular occurrence, and this discretionary authority provides flexibility to the Council.

The Board will expect the City to annually assess rate adequacy and return to the Board with a new rate application upon:

- a) determining rates are not adequate to ensure annual breakeven operations and amortization of the accumulated deficit; and/or
- b) completion of the metering project, which would allow for revised rate schedules.

The Board commends the City Council and Administration for addressing the existing rate inadequacy, and also with respect to its plans to pursue metering, capital improvements and consider a new water treatment plant. The Board accepts the City's intention to not let fifteen years go by before a new rate application is placed before the Board.

The Board understands the nature and importance of the City's agreement with Hudbay Minerals, and respects the City's intention to honour its agreement and discuss with Hudbay its capital expenditure requirements.

All this said, the Board expresses concern over the rate shock and potential hardship that will be experienced by low-income ratepayers. Yet, the Board notes the statutory requirement for breakeven utility operating results, the special circumstances related to the City's topography, and the aged nature of the existing infrastructure. Quality water is critical to a community's well-being and future, and, though rates will rise again, and significantly, the rates are heavily subsidized by Hudbay and senior government.

With respect to commercial and institutional accounts, the massive minimum bill increases approved herein are mitigated in part by higher included consumption volumes.

As well, this Order corrects the Board's misunderstanding of residential equity issues that affected the 2005 rate changes. The City sought minimum bills for metered residential customers that would be the same as those for unmetered customers, but the Board rejected that argument.

On reconsideration, the Board agrees with the City and largely corrects the situation herein. When all residential accounts are metered, the rate schedule will be revisited and provision provided for those customers that consume less water than the average. Meters also allow for a fairer rate schedule, and provide an opportunity for customers to monitor use and enhance conservation efforts.

Noting the City's report that its system is aging and in need of repair, the Board is pleased to note that the City has a renewal plan for the utility incorporated within its five-year Capital Plan.

The Board recognizes that the City intends to make more frequent applications in the future for rate increases. As more frequent rate adjustments would better reflect on-going cost experience, and avoid one-time rate shocks, the Board supports the City's intention.

IT IS THEREFORE ORDERED THAT:

1. Rates and minimum monthly consumption and Utility charges be amended with the City of Flin Flon's first billing in 2007 to reflect the directions provided herein.
2. Flin Flon's City Council be provided discretionary authority to further increase rates and minimum monthly charges by up to 5% as of January 1, 2008, without making an application to the Public Utilities Board.
3. The City of Flin Flon annually review rate adequacy and the balance of the accumulated Utility operating deficit.
4. The City file a new rate application with the Board upon discovering either a projection of rate inadequacy or an inability to fully amortize the accumulated Utility operating deficit by the end of 2010.
5. The City of Flin Flon pursue its plan to install meters at every service address by 2010, and, upon this being accomplished, submit a new rate application and proposed rate schedule to the Public Utilities Board reflecting the metering.
6. The City of Flin Flon file with the Board Utility financial statements and budgets on an annual basis by June 30th of each year.

Fees Payable upon this Order - \$1,500.00

THE PUBLIC UTILITIES BOARD

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

"G. O. BARRON"
Acting Secretary

Certified a true copy of Order No.
172/06 issued by The Public
Utilities Board

Acting Secretary