

M A N I T O B A) Order No. 15/07
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THE PUBLIC UTILITIES BOARD ACT) February 20, 2007

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

TOWN OF RUSSELL
REVISED WATER AND SEWER RATES
EFFECTIVE APRIL 1, 2007

Executive Summary

By this Order, the Public Utilities Board of Manitoba (Board) approves the Town of Russell's (Russell) application for increased water and sewer rates. The revised rates will be effective with utility billings issued on or after April 1, 2007 for consumption from January 1, 2007 onward (excepting for bulk water sales); minimum quarterly bills will rise 13.5% from 2006's interim level.

As well, the Board confirms as final the interim rates established by Board Order 155/05 for 2006 and varies Russell's application to:

- a) support addressing utility infrastructure deficiencies; and
- b) promote conservation and environmental objectives.

The Board provides Russell discretionary authority to:

- a) as of utility billings issued on or after April 1, 2008, consolidate the second and third steps of the utility rate schedule at the rate now set for the second step (i.e. \$9.00);
- b) as of utility billings issued on or after April 1, 2009, and provided Russell has previously implemented the consolidation of steps two and three in 2008, eliminate the second step and bill all water consumed at the rate now set for the first step (i.e. \$10); and
- c) for bulk water sales on or after July 1, 2007, amend the bulk water rate from the current flat rate of \$1.00 per 100 gallons to a schedule providing rates no higher than \$2.00 per 100 gallons for quantities up to 300 gallons, with such

lower rates as Russell may determine for bulk water sales in excess of 300 gallons, with a minimum of \$1.50 per 100 gallons.

The discretionary changes will, if implemented by Russell's Town Council, provide additional utility revenue to support water and sewer capital projects and operating costs. Safe and adequate water and effective effluent management are the cornerstones of modern communities.

As well, the discretionary authority reflects:

- a) in the case of both the consolidation of rate steps and the amendment of bulk water rates, recognition of conservation objectives - higher rates promote careful use; and
- b) in the case of the bulk water rate, recognition that \$1.00 per 100 gallons does not fully recover Russell's costs (costs include direct and indirect costs, and provisions for contingencies and reserves).

Minimum quarterly bills for Russell's water and sewer customers will increase from \$37.40 to \$42.00, including a revised quarterly service charge. Sewer only customers will also see an increase to their quarterly bills, from \$37.40 to \$42.00.

This Order follows an oral hearing held in Russell on February 6, 2007, at which no ratepayer objected to Russell's application.

Application

The hearing that gave rise to this Order had its start with Russell's 2005 indication to the Board that it was incurring annual utility deficits. This led to interim rate increases for 2006.

In September 2005, the Board advised Russell that:

"... in the interests of finding a balance between fully addressing the current rate deficiency and the Council's valid desire to protect utility customers from an immediate and large rate increases, the Board will:

- a) approve a 10% increase as of January 1, 2006 in the rates charged by the Town on an interim ex parte basis; and
- b) require the Town to file a rate study with the Board on or before December 31, 2006."

Following the provision of the interim rate increase, Russell filed a rate study and an application for further increases, now dealt with by this Order.

(Gallons)	<u>Combined Water and Sewer per 100 Gallons</u>		
	<u>2002 Rates</u>	<u>2006 Interim Rates</u>	<u>Revised 2007 Rates</u>
Up to 20,000	\$8.00	\$8.80	\$10.00
Next 80,000	\$7.50	\$8.25	\$9.00
Over 100,000	\$6.75	\$7.43	\$8.00
Service Charge	\$10.00	\$10.00	\$12.00
Min. Quarterly	\$34.00	\$37.40	\$42.00
Bulk, per 100	\$ 1.00	\$1.10	\$1.00

Based on its rate study, Russell proposed increases over the interim rates in the range of 11-14%, to be effective April 2007.

Due to constraints on the coin-operated dispenser, the Town proposed the bulk water rate fall to \$1.00 from \$1.10 for 100 gallons (minimum sale is 300 gallons).

Russell also proposed to maintain the three step declining block system for its rate schedule, and advised that 72% of water sales were billed at first step, 10% at second and 18% at third step (lowest price).

With respect to utility finances, 2006 utility revenue was reported as \$416,000, \$364,000 being from customers and \$52,000 representing transfers from the general operating fund and system upgrade reserve. Expenses, including reserve development and debenture debt servicing, amounted to \$419,000. Water and sewer operating costs were \$314,000, with \$50,000 collected from customers contributed to the utility reserve and \$55,000 for debenture serving and capital.

The 2006 utility deficit of approximately \$4,000 was \$17,000 lower than anticipated due to delays in the meter replacement project and lower than expected costs for lift station upgrades. The utility reserve balance as of December 31, 2006 was \$135,000.

Russell's rate proposal was represented as being adequate to meet all currently projected utility operating costs, provide a \$50,000 contribution to reserves and allow \$13,000/per annum for contingencies. Yet, a single serious water break could use up the entire contingency reserve.

Russell advised the Board that it had incurred utility operating deficits in 2004, 2005 and 2006. The deficit of approximately \$4,000 in 2006 would have been much greater excepting for the aforementioned 2006 interim rate increase and delays in undertaking the replacement of meters and upgrading the lift station, these being funded out of utility revenues.

Further, in the absence of the additional increases applied for, Russell is forecasting future utility deficits and further delays in proceeding with needed infrastructure upgrades. Manitoba law requires municipal utilities to operate on a break-even basis and to attend to the requirements of safe water and effluent.

Prior to the January 1, 2006 interim rate increase, the last rate change in Russell had occurred in 2002. Since then, the infrastructure has continued to age, water breaks and high levels of unaccounted for water have continued, the lagoon's capacity has been exceeded, and provincial water and sewage standards have increased.

Recognizing that past causes and the risk of future operating deficits are related less to non-recurring "emergency" main breaks and more to ongoing utility infrastructure costs and needs, as well as the requirement for annual contingency and reserve provisions, the Board requested that Russell develop a rate review, and Russell complied.

Russell also reported on its capital project plans, five projects to be dealt with through revenue from utility rates (water main replacement, meter replacement, water tower repairs, lift station repairs and well upgrades) and three requiring senior government financing (lagoon, well upgrades and water plant upgrade).

The water main replacement program has been underway for several years, and is being carried out to address major water main break problems; Russell is replacing the mains as funds are available. Russell has long-experienced high levels of unaccounted for water, up to 30% of water produced is not billed; the reasons being a combination of water main breaks and, likely, meters that are not functioning properly.

Accordingly, a water meter replacement project is underway, though problems with contractor availability did not allow for much progress in 2006. Of the total of 702 meters, 137 were replaced in 2004 and 2005; and 28 large volume meters along with 50 to 76 other meters are to be replaced in 2007. By the end of 2007, Russell expects 25% of meters will have been replaced, including all of the larger meters.

The wells supplying the Town also need an upgrade, currently planned to occur in 2007 or 2008; Russell awaits confirmation of a grant from Manitoba Water Service Board (MWSB) for about half of the upgrade cost estimate. In the absence of a MWSB grant, reliance on the Utility Reserve (built through rates) would be fully required if the project proceeds as planned.

As to the other major capital projects requiring senior government assistance, firstly, the sewage lagoon is operating beyond its capacity (this led to an emergency release in 2005). An expansion is to be put in place in 2007 at a cost of approximately \$1.7 million, \$660,000 to come from the Canada/Manitoba Infrastructure, the rest from a debenture - to be serviced through levies on the tax roll.

Further problems lie in the future with a need to upgrade Russell's water treatment facility, currently operating within provincial guidelines though with use ranging from 70% to 90% of capacity. Russell intends to upgrade or replace the plant in 2012. A combination of debentures and senior government funding totaling \$1.2 million is expected, though recent construction price increases may test the adequacy of that estimate.

With respect to the emergency effluent release from the lagoon in 2005, lagoon releases eventually reach the Assiniboine River and on to Lake Winnipeg. This contributes to the nutrient overload of the Lake. While nutrient removal from effluent for Russell is currently not on the planning horizon, this may arise in the future as provincial requirements continue to increase.

Currently, Russell advises there are no plans to extend service beyond Town boundaries, though that opportunity may present itself once the water treatment plant is upgraded or replaced.

As required by the Board, a Notice of hearing was posted and first reading of bylaw completed.

Background

Russell has a population of approximately 1,700, with approximately 800 utility customers. The source of Russell's water is two 75-foot wells, which access an aquifer that is located ten kilometers from Town.

The water plant was constructed in the 1950s, and is aging; its capacity is being tested as it regularly operates at 70-90% of capacity, to which unaccounted for water contributes. The sewer system is based on gravity collection, with a lift station conveying the effluent to a lagoon.

Over 95% of the utility customers are metered water and sewer customers, the remaining being sewer serviced only. Of the water and sewer customers, virtually all have 5/8" meters, only 7 customers have meters of more than 1". Russell presently has no major industry, with the largest utility customers being from the public sector (hospital, school).

Approximately 18% of water sold is through bulk sales, primarily to customers outside the Town's boundaries. Russell's proposed bulk water rate does not recover all direct and indirect costs, nor does it provide for contingency or reserve development.

Russell's utility had an original capital cost of approximately \$1.5 million, which, pursuant to current generally accepted accounting principles for municipalities, are not amortized. Provision for the eventual replacement and/or upgrading of

capital assets is provided for by the inclusion in rates of a provision for reserve building.

In the absence of a reserve, future ratepayers would face the risk of substantial tax and/or utility increases as current and future capital costs are far in excess of the costs incurred of decades past. Inter-generational inequity issues arise when municipal utilities have inadequate reserve balances.

To this point, Russell has relied on its property tax base and tax levies to fund investments in the capital infrastructure of the utility. Utility rates have been set to meet operating costs, though the utility reserves are called upon to meet such capital expenditures as water main and meter replacements.

Board Findings

Leaving aside the known problems with Russell's utility infrastructure, where substantial upgrades requiring senior government funding assistance are required, the challenges of aging systems, new standards for water quality, effluent safety and employee training and certification require utility rates be set at levels sufficient to allow for balanced utility budgets.

These budgets should include provisions for contingency and reserves. Otherwise, sudden and large rate increases will likely occur once inevitable breakdowns and requirements are assessed and met.

Given the challenges that lie ahead for Russell's utility, the Board will not only approve the Town's application, but will vary the application to provide Russell discretionary authority to:

- a) as of utility billings issued on or after April 1, 2008, consolidate the second and third steps of the utility rate schedule at the rate now set for the second step (i.e. \$9.00);
- b) as of utility billings issued on or after April 1, 2009, and given Russell has previously implemented the consolidation of steps two and three (in 2008), eliminate the second step and bill all water consumed at the rate now set for the first step (i.e. \$10); and
- c) for bulk water sales on or after July 1, 2007, amend the bulk water rate from the current flat rate of \$1.00 per 100 gallons to a schedule providing rates no higher than \$2.00 per 100 gallons for quantities up to 300 gallons, with such lower rates as Russell may determine for bulk water sales in excess of 300 gallons, with a minimum of \$1.50 per 100 gallons.

In relation to bulk water, given the limitations attendant to coin operated dispensers, the Board suggested that Russell consider reducing the volumes dispensed to something less than 100 gallons per \$1 coin in order to achieve an effective pricing up to the levels authorized herein. Russell is to investigate this possibility and advise the Board should it decide to implement this alternative.

The Board will take these actions as it shares Russell's concern with respect to the state of its utility infrastructure, and

supports the Town's plans to continue with repairs, enhancements and replacements.

Water main replacements are to continue, along with meter replacement and water tower repairs, as funds are available through utility rates. The lagoon expansion, to be undertaken and completed in 2007, is to be funded by Canada/Manitoba Infrastructure funding and Town debentures - the latter to be serviced through property tax levies. The upgrades to the Town's wells are expected to be completed by 2008, possibly with MWSB funding assistance for up to half of the project's costs.

And, by 2012, Russell intends the enhancement or replacement of the water treatment plant, this also to be funded by senior government grants and debentures - the latter to be serviced through property tax levies.

By providing discretionary authority to Russell to consolidate rate steps and increase bulk water sale revenue, the Board provides Russell the opportunity to increase revenues further, and materially, in 2007, 2008 and 2009, without having to return to the Board with a further rate application.

This should assist Russell in either meeting repair and upgrade costs that exceed budget estimates, supplement grant receipts and/or build reserves ahead of the major water plant upgrade now scheduled for 2012. Even with the new rates set herein being further supplemented by Russell's full use of the discretionary authority now granted, Russell's water and sewer rates will not be high relative to many other municipal rate schedules in

Manitoba. Also, providing discretionary authority to Russell will assist in restraining regulatory costs (Board hearing process costs are reflected in rates).

The Board will expect Russell to file with the Board notification of its use of the discretionary rate schedule change authority provided herein, as well updates as to its capital project plans and utility rate adequacy.

Planning to meet infrastructure inadequacy includes putting in place funding plans ahead of actual need. A component of such plans involves seeking timely rate increases on a regular basis. Inadequate utility revenue places stress on utility operations, contributing to or risking delays in repairs and enhancements. Inadequate revenue results in an inability to attend to normal and extraordinary operating situations, whether brought about by acts of nature, inflation, increased standards or overall sector growth.

Further, consumers adjust better to price changes when they are implemented regularly to avoid hyper-inflationary increases.

Russell is informed and articulate about the future needs of its utility, and the Board is satisfied that on a go-forward basis, utility needs will be recognized, grants sought, debentures planned and rates regularly adjusted, all on a timely basis.

While there is no need to advise residents of the importance of an adequate and safe water supply and the need to avoid emergency discharges from the lagoon, Russell should remain

vigilant in regularly reminding utility customers of the desirability of water conservation. The elimination of step rates would speak to the importance of conservation.

While supportive of Russell's current capital project development plan, the Board notes that no attention has been paid to the issue of nutrient removal. Nutrients are poisoning Lake Winnipeg and affecting the quality of all Manitoba's waterways. For example, and with respect to Lake Winnipeg, nutrients have resulted in large algae blooms in the summer months affecting fishing, recreational enjoyment and the environment. In time, these concerns will also have to be addressed.

Finally, the Board will require Russell to provide a bill insert reporting on the Board's decisions and supporting rationale; a draft insert is to be provided to the Board for its review prior to publication.

The Board appreciates the openness, transparency and commitment to address utility concerns and deficiencies as expressed by Russell's Council and Administrator through the hearing process.

IT IS THEREFORE ORDERED THAT:

1. By-law No. 1470/13/06 of the Town of Russell BE AND THE SAME IS HEREBY APPROVED;
2. The water and sewer rates set forth in Schedule "A" hereto shall apply to all customers of the utility effective with billings issued and or after April 1, 2007;
3. The Town of Russell have discretionary authority to:
 - a) as of utility billings issued on or after April 1, 2008, consolidate the second and third steps of the utility rate schedule at the rate now set for the second step (i.e. \$9.00);
 - b) as of utility billings issued on or after April 1, 2009, and provided Russell has previously implemented the consolidation of steps two and three (in 2008), eliminate the second step and bill all water consumed at the rate now set for the first step (i.e. \$10); and
 - c) on or after July 1, 2007, the Town of Russell, at its discretion, may amend the bulk water rate from the current flat rate of \$1.00 per 100 gallons to a schedule providing rates no higher than \$2.00 per 100 gallons for quantities up to 300 gallons, with such lower rates as Russell may determine for bulk water sales in excess of 300 gallons, with a minimum of \$1.50 per 100 gallons.
3. The Town of Russell is to consider the desirability and implications associated with nutrient removal, and provide

a report to the Board on this subject on or before December 31, 2008.

4. The Town of Russell is to file with the Board amendments to its water and sewer rates pursuant to the discretionary authority provided herein, along with updated utility forecasts for its current and next fiscal year within thirty days of exercising said discretion.
5. The Town of Russell is to insert within its next billing of utility customers an indication of the rate changes and discretionary authority provided by the Board, along with a summary of the reasons. A draft of the insert is to be provided to the Board for its approval prior to being produced and issued.

Fees payable upon this Order - \$1,000.00.

THE PUBLIC UTILITIES BOARD

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

"GERALD GAUDREAU, CMA"
Secretary

Certified a true copy of
Order No. 15/07 issued by The
Public Utilities Board

Secretary

SCHEDULE "A"

TO BOARD ORDER NO. 15/07

TOWN OF RUSSELL

WATER AND SEWER RATES

BY-LAW NO. 1470/13/06

SCHEDULE OF QUARTERLY RATES:

1. Commodity Rates per M.G.

	<u>Water</u>	<u>Sewer</u>	<u>Water & Sewer</u>
Domestic (First 20,000 gals/quarter)	\$8.90	\$1.10	\$10.00
Intermediate (Next 80,000 gals/quarter)	\$7.90	\$1.10	\$9.00
Wholesale (Over 100,000 gals/quarter)	\$6.90	\$1.10	\$8.00

2. Minimum Charges, Quarterly

Notwithstanding the commodity rates set forth in paragraph 1 hereof, all customers will pay the applicable minimum charges set out below, which will include water allowances indicated:

(a) Water and Sewer Customers

<u>Meter Size</u>	<u>Group Capacity Ratio</u>	<u>Water Included Gallons</u>	<u>Customer Service Charge</u>	<u>Commodity Charge</u>	<u>Total Quarterly Minimum</u>
5/8"	1	3,000	\$12.00	\$ 30.00	\$ 42.00
3/4"	2	6,000	\$12.00	\$ 60.00	\$ 72.00
1"	4	12,000	\$12.00	\$ 120.00	\$ 132.00
1 1/2"	10	30,000	\$12.00	\$ 290.00	\$ 302.00
2"	25	75,000	\$12.00	\$ 695.00	\$ 707.00
3"	45	135,000	\$12.00	\$1,200.00	\$1,212.00
4"	90	270,000	\$12.00	\$2,280.00	\$2,292.00

(b) Sewer Only for Residential Customers

All customers connected to the sewer system but not to the water system, shall pay a flat rate for sewer service of \$30.00 plus the service charge of \$12.00 for a total of \$42.00.

3. Bulk Sales Rate

All water sold in bulk by the Town of Russell shall be charged for at the rate of \$1.00 per 100 gallons on a pro-rated basis for all quantities greater than 300 gallons. For any quantity of 300 gallons or less the minimum charge will be \$3.00.

4. Service to Customers outside Municipality, Town, or L.I.D., limits

The Council of the Town of Russell may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Town of Russell. Such agreements shall provide for payment of the appropriate rates set out in the schedule, as well as a surcharge, set by resolution of Council, which shall be equivalent to the frontage levy, general taxes and special taxes for utility purposes in effect at the time, or may be in effect from time to time, and which would be levied on the property concerned if it were within these boundaries. In addition, all costs of connecting to the utility's mains and installing and maintaining service connections will be paid by the customer.

5. Billings and Penalties

Accounts shall be billed quarterly, and shall be due and payable 20 days after date of billing. A late payment charge of 1 ¼% shall be charged on the dollar amount owing after the billing due date. The late payment charge will compound monthly, and will appear on the customer's next quarterly bill if unpaid.

6. Disconnection

Service may be disconnected and discontinued immediately and without further notice in the event of non-payment of the account within 30 days after due date.

7. Outstanding Bills

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

8. Hydrant Rentals

The Town of Russell will pay to the utility an annual rental of \$125.00 for each hydrant connected to the system.