

M A N I T O B A) Order No. 40/07
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THE PUBLIC UTILITIES BOARD ACT) April 5, 2007

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

THE TOWN OF BEAUSEJOUR
REVISED WATER AND SEWER RATES

Executive Summary

By this Order, the Public Utilities Board (Board) approves the Town of Beausejour's (Town) application for revised water and sewer rates, effective April 1, 2007. Rates were last increased in 1994.

Commodity rates for water and sewer will increase from \$3.95 per 1,000 gallons to \$4.45 (12.6%); the minimum quarterly bill for a residential customer will increase from \$26.47 to \$28.99 (9.5%). The Board also provides the Town with the authority to implement two further 5% or lower rate increases effective January 1, 2008 and 2009, at the Town's discretion.

These increases will place the Town in a stronger position to support utility infrastructure and maintenance planning.

Application

The Town applied for approval of revised water and sewer rates, as set out in By-law No. 1599/07 filed with the Board after first reading on January 9, 2007.

The Board held a public hearing in Beausejour on March 26, 2007; in advance a public notice was published and posted.

No ratepayers attended to express concerns about the application.

Then-existing and proposed rates were as follows:

	\$/1,000 gallons		
	<u>Existing</u>	<u>Proposed</u>	<u>Change</u>
Water	\$2.29	\$2.44	6.6%
Sewer	<u>\$1.66</u>	<u>\$2.01</u>	21.1%
Total	\$3.95	\$4.45	12.6%
Administration Charge	\$14.62	\$14.62	0%
5/8" Minimum Bill	\$26.47	\$28.99	9.5%
Bulk Water/1,000 gals.	\$10.00	\$10.00	0%

Since 1994, the date of the last rate increase, the Town's utility has incurred only one operating deficit, that occurring in 2003 in the amount of \$195,386. The Town attributed the absence of annual deficits to a well-maintained infrastructure. The 2003 deficit arose because of water tower maintenance.

Due to an absence of historical utility records, the Town could not fully explain how the Utility managed to avoid deficits without a rate increase since 1994.

Nonetheless, the Town advised of having performed an extensive review of utility operations, both from an operational and a financial perspective, leading to the application, a planned engineering assessment and an intention to file more frequent rate increase applications in the future. While lower rates are important, the Town advised that even more important is the continued provision of adequate and safe water and sewer service.

The Town plans to conduct a comprehensive engineering assessment

of the Utility. While significant capital expenditures for the system were not required over the past decade, an aging infrastructure is expected to require repair in the near future.

The application for increased rates reflected the Town's objective of building its Utility reserves to facilitate system expansion and repair in the future, while continuing to avoid operating deficits and a need for large rate increases.

Board approval of the application will increase annual Utility revenues generating funds for the Expansion Reserve Fund and the Replacement Reserve Fund. As at December 31, 2006, these Reserves had balances of approximately \$320,000 and \$70,000, respectively. The balance in the Expansion Fund was funded from transfers from the General Operating Fund, i.e. from tax roll levies.

In 2006, \$30,000 was drawn from reserves to retrofit the well pumps. These funds are to be repaid out of Utility rates over four years; the first payment was \$7,497.22 in 2006.

The Replacement Reserve is funded through Utility rates, by means of transfers from annual operating surplus. From this reserve the utility recently expended \$40,000.00 for new pumps for Lift Station No. 6.

Projected annual provisions for reserves from rates:

<u>Water</u>	<u>Sewer</u>	<u>Total</u>
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Expansion Fund	\$10,000	\$10,000	\$20,000
Replacement Reserve	\$17,000	\$17,000	\$34,000

Also reflected in the proposed rates for 2007 was the expected cost of the engineering assessment, that being \$21,000.00, to be repaid to the reserve over three years in equal amounts commencing in 2007.

The Town projected the following operating costs for 2007, and reflected these costs in its rate proposal:

Administration	\$ 76,325
Water	173,045 ⁽¹⁾
Sewer	130,639 ⁽¹⁾
Total	<u>\$380,009</u>

(1) Includes reserve provisions noted above.

As noted earlier, the Town advised the Board of its intention to reconsider rates on a much more frequent basis in the future, to ensure rates keep abreast of rising operating costs and the costs of meeting expected capital and maintenance requirements.

The Town's Mayor, several councillors, the Chief Administrative Officer and the utility operator, and representatives from KGS Group, the Town's engineering consultant, attended the hearing in support of the application.

Background

As of the end of 2005, the Utility had 1,220 customers, an increase from 1,183 customers in 2001. The Town produces approximately 80 million gallons of water each year, and sells approximately 65 million gallons to metered customers; bulk water sales have been negligible. The annual cost of serving the Utility's debenture debt, \$83,736.92, is met by the General Operating Fund (property tax levies).

The original cost of the system was:

Water	\$17,301,000
Sewer	<u>\$11,040,000</u>
Total	\$28,341,000

The Town's drinking water is supplied from wells drawing water from an underground aquifer. Last summer, there were concerns regarding water sufficiency, though only related to treatment capability not water supply. However, water rationing was not required.

A sixty-four lot housing subdivision is being planned for 2008, and the Town will need to consider its water and sewer capacity requirements before attaching new customers. It is expected certain capital costs will be recovered from the developer.

The water meters in the Town's water treatment plant were replaced in 2006. However, many of the customer meters have

been in place since 1964; approximately 12 meters have been replaced each year.

The Town employs three certified utility operators and has a total Utility staff complement of six.

Utilities provide vital services, essential for both the health of the community and its economic wellbeing. In advance of this hearing, the Board was pleased to receive the Town's report that, for the period 1993 to the end of 2006:

- a) there has not been the need to ration or restrict water use;
- b) there has not been a significant disruption in the availability of safe potable water;
- c) no lagoon releases have occurred that were defined as environmentally unacceptable;
- d) the Town has not received a significant report from the Province indicating concern with the Town's water; and
- e) with the exception of 2003, no utility operating deficits have been incurred.

Unaccounted for water represents approximately 18% of water produced, the high loss rate attributed to leaks, meter malfunctioning, flushing lines, fire-fighting activity and training. The Town indicated an expectation that the planned engineering assessment would identify the sources of water loss and provide recommendations on how to reduce water loss. The percentage of unaccounted for water has fluctuated over the

years from 9 - 18%, while the industry average is approximately 10%.

The Town recently separated its Utility accounts from the General Operating Fund, and expressed the view that the Utility should be self-sustaining. By separating the accounts, the Town expects it will be able to better ensure that Utility expenses are properly allocated to the utility.

The Town queried the Board as to the appropriate balance between building reserves for future capital projects through current rates and restraining rates. The concern was that by building reserves through current rates, current customers would be contributing to system expansion benefiting others.

In general, reserves built up through rates should be used to fund replacement projects, with expansions funded by developers and/or the general tax roll. It was noted that large capital works are often funded in part by senior government and/or the Manitoba Water Services Board.

With respect to sewage and the Town's sewer system, the Town indicated it was interested in provincial attention to nutrient removal, but does not expect that any requirement to remove nutrients will be imposed on the Town for some time.

With respect to water conservation, the Town indicated that many years ago its then 3-step rate schedule was consolidated into a

single step. While the decision met with some opposition at the time, it is a decision that the Town has not regretted. A single step rate supports water conservation. As to the Town's water quality, the Town advised it is considering monitoring other wells in the area to ensure that the quality of the Town's water supply is not in jeopardy.

As to service beyond its boundaries, the Town indicates that currently it serves only nine customers beyond its boundaries.

Board Findings

By this Order, the Board approves revised water and sewer rates as proposed by the Town. The Board also provides the Town with discretionary authority to implement two further increases of up to 5%, effective January 1, 2008 and 2009.

The Board provides the Council with this discretionary authority in recognition of the developing nature of the Town's capital and repair plans, dependent in large part on the engineering assessment to be undertaken. As well, in providing discretionary rate authority to the Town, the Board recognizes the cost of regulation and wishes to provide the Town the ability to proceed to increase Utility revenue without requiring another public hearing within three years.

If the Town exercises this authority, it is to file with the Board the revised rates along with the most recent financial

statements and budgets, any rate study supporting the Town's action, and the requisite by-law.

As previously indicated the historical cost of the Town's utility approximates \$28.3 million and its projected operating costs for 2007 are \$380,009. For an operation of this magnitude, the Board concludes the Town's utility reserves, projected reserve contributions and contingency provision are too low.

The Board also accepts the Town's proposal to not change the administration charge; it could have been increased from \$14.62 to \$15.64, the higher level supported by the rate study. The Board expects that the Town's changed approach to cost allocation will better identify Utility costs in the future and if such rates are required to be changed as supported by the calculations, that the Town will then propose a change.

As previously indicated, the Town could not explain why the operation of the utility had not resulted in more deficits over the past 13 years. The Board is of the view that the Town's cost allocation methodology affecting the division of costs between the Utility and the General Operating Fund may have subsidized the Utility.

If the engineering assessment identifies the need for extensive work, larger rate increases will be necessary in the future. As it is, the Board is pleased the Town is developing a longer-

range maintenance plan, this to identify future needs.

The engineering assessment and the long range maintenance plan will allow for planned action through general operations of the utility, rather than requiring withdrawals from reserves set aside for larger one time projects.

Of concern to the Board, and also as noted by the Town, is the current low annual provision in rates for future replacement projects. Typically utilities include a provision for reserves and a provision for contingencies. These are separate matters. The Town has only included provisions for reserves, if an unexpected event occurs in the Town a withdrawal from reserves would be required reducing the Town's ability to set money aside for future major replacement work.

The amount of contingency allowance in rates should be based on an assessment of the system. For some other utilities contingency provisions in the range of 1 to 2% of original system cost \$280,000 for this Utility have been implemented. Without the engineering assessment, the Town is unable to determine what the contingency provision should be.

The Board accepts the Town's proposal not to increase the bulk water rate, because bulk water sales are minimal. Should sales increase to an appreciable level, bulk water rates will need to be increased.

The Board accepts the Town's assurance that it will strive to ensure its utility remains self-sustaining. The Board supports the Town's objective that the Expansion Reserve be funded in the future by developers and Utility customers, not by general taxpayers. Some of the costs of expansion may be met by senior government grants.

Furthermore, the cost of future expansion of the water and sewer infrastructure to meet the needs of new customers in the new subdivision should be met by developer fees and not Utility reserve funds.

The Board remains pleased with the Town's single-step rate schedule. However, the Board expects the Town to continue to promote water conservation through other means, such as the promotion of water saving devices.

In summary, the Board accepts the rates proposed by the Town, and provides two discretionary rate increases.

The provision of a safe and adequate water supply and safe sewer discharges needs careful planning and the utility must be self-sustaining and never short of funds to operate the system.

IT IS THEREFORE ORDERED THAT:

1. The rates set out in the By-law No. 1599/07 ARE HEREBY APPROVED effective April 1, 2007.
2. Discretionary rate increases of up to 5% each, as determined by the Town of Beausejour, ARE HEREBY APPROVED effective January 1, 2008 and 2009. If implemented, the Town shall file duly executed copies of the necessary by-laws with the Board, along with recent financial statements, budgets and rate studies.

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

THE PUBLIC UTILITIES BOARD

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

"G. O. BARRON"
Acting Secretary

Certified a true copy of
Order No. 40/07 issued by The
Public Utilities Board

Acting Secretary