

M A N I T O B A) Order No. 168/07
)
THE PUBLIC UTILITIES BOARD ACT) December 28, 2007

BEFORE: Susan Proven, P.H.Ec., Acting Chair
 Alain Molgat, B.Comm, CMA, Member

**THE CITY OF SELKIRK
REVISED WATER AND SEWER RATES**

Executive Summary

By this Order, the Public Utilities Board (Board) varies an application by the City of Selkirk (City) for revised water and sewer rates and increases the City's proposed sewer rates by 10%.

The variances will provide for pre-collection of revenue towards the City's expected future costs of nutrient removal. The additional revenue from the increase in the sewer rate of \$0.36 per thousand gallons is to be deposited in a special Utility reserve fund, for nutrient removal.

The new rates will take effect January 1, 2008:

Commodity Rates (\$/1,000 gallons)	Existing			Revised			% Increase
	Water	Sewer	Total	Water	Sewer	Total	
First 50,000 gallons	\$5.56	\$2.74	\$ 8.30	\$6.67	\$4.00	\$10.67	29
Next 450,000 gallons	\$3.97	\$2.74	\$ 6.71	\$4.64	\$4.00	\$ 8.64	29
All over 500,000 gallons	\$2.83	\$2.74	\$ 5.57	\$3.20	\$4.00	\$ 7.20	29
Bulk Water			\$ 6.27			\$ 7.67	22
Quarterly Service Charge			\$18.69			\$21.32	14
Minimum Quarterly Bill, (5/8" meter)			\$43.59			\$53.33	22
Sewage Receiving Station Rates							
Administration Fee			\$18.69			\$21.32	14
Volume Dumping (\$/1,000 gallons)			\$ 9.70			\$17.35	79
B.O.D. Surcharge (per kilogram)			\$ 0.42			\$ 0.51	21
S.S. Surcharge (per kilogram)			\$ 0.21			\$ 0.25	19
Untested Dumping (\$/1,000 gallons)			--			\$33.24	

Application

The City applied to the Board for revised water and sewer rates

in September 2007 enclosing By-law No. 5129, read the first time on September 24, 2007.

The City proposed that customers dumping sewage and choosing not to have sewage tested for extra strength be charged a flat rate of \$33.24 per thousand gallons.

The last rate increase approved by the Board was by Order 8/04, dated January 23, 2004. In its application, the City proposed revised rates to allow the Utility to meet its long-term goals for financial stability, the upgrading of its facilities and to provide for rate stability to 2010.

A public hearing, for which Notice was provided, was held in the Council Chambers of the City of Selkirk on December 6, 2007. No ratepayers attended to either express concern or comment. The City advised of receiving only one call prior to the hearing, that questioning why the notice was in the local newspaper.

The City considered a number of issues arising from the last rate review, including the following:

Water Production Capacity: In 2004, the Board heard that at times the City had difficulty meeting the City's demand for water during the summer months; to avoid water rationing in 2003, the City sourced a water supply from a private well. In 2006, the City retained Cochrane Engineering to review the condition and capacity of the Water Treatment Plant (WTP), in the context of the conformance objectives of the City.

Highlights from the study are:

1. WTP design capacity is sufficient to meet the City's current demand; however the plant cannot run at its design capacity due to limited raw water supply pumping capacity.
2. During peak demand, the City is challenged to meet supply requirements with its four wells; reliance on water from the Red River and private sources is not sustainable.
3. A major expansion of the WTP is required to meet new demands related to customer growth and expansion of service to the region. To meet this new demand, plant capacity would have to be expanded from 9.5 million litres per day (mL/d) to 16.2 mL/d, a 70% increase.
4. The existing facilities have deteriorated with age; it has been 35 years since operations commenced. While some facilities have been upgraded, others are in need of replacement.
5. Approximately \$13.3 million was identified as being needed to address the immediate, mid-range and long range needs of the City's WTP.

Unaccounted for Water: This refers to water produced and treated but not billed. In 2004, the level of unaccounted for water declined from 2000's 23.8% to 12.5%, however the City reported

the percentage had increased again to 32.0%, advising that the percentage was overstated as it did not reflect a recent \$890,000 water meter replacement program. The City also noted that unmetered water used for fire protection and line flushing are significant factors explaining unaccounted for water.

The City advised that the level of unaccounted for water had fallen to 21.4%, and that it will continue to be vigilant with respect to this matter. The City conducted an extensive leak detection survey in 2001, and intends to conduct another review in 2008. Furthermore, the City is testing the main meter at the WTP. A full report with updated calculations will be provided to the Board in the first quarter of 2008.

Aging infrastructure: The distribution and collection system is over 90 years old and is in need of replacement, and lines continue to be replaced within the yearly financial capacity of the Utility.

Sewage Receiving Station: At the last public hearing, the City reported that sewage received at this station from haulers was over the strength level of domestic sewage, and proposed rates and surcharges to reflect same.

In this application, the City reported that the septage hauling volumes projected in the 2004 Earth Tech Septage Program Feasibility study have been surpassed by 50% and CH2MHILL, the City's consultant, has recommended that the City stop receiving septage from the region, a recommendation accepted by the City.

Residential customers within the City limits continue to have access, but they account for only 5% of the volume.

The consultant also noted the rates charged septage haulers by other utilities were approximately \$25/m³ - the City was charging \$1.86/m³. The City advised it was reviewing this matter, but proposed to employ the rates proposed by Wardrop for the interim.

The City advised that haulers in the regional area are now using other facilities, and that the City is not prepared to perform the necessary repairs to allow continued delivery from its neighbours without a financial contribution. And, if a contribution was provided it would take approximately one year to make the modifications required.

That said, the City indicated it would attempt to obtain the necessary permission from Conservation to allow Rural Municipal neighbours to continue dumping septage into the waste drying beds of the Utility on an interim basis.

Step Rates: Once again, Wardrop recommended that the City consider a reduction in the rate steps in the interest of conservation and to reduce demand pressures on the WTP. In 2004, the City advised it had considered the recommendation but was not then prepared to proceed as it had other priorities. In this application, the City again advised it had no plans to reduce the step rates, as they could find no evidence of such measures being taken elsewhere - the City did not want to take

the lead in this regard. Further, the City indicated a desire to ensure their rates remain competitive, though no evidence was presented suggesting the City's rates were out of line.

With respect to the current application, the City advised that the proposed rates were based on 2007 budgeted expenses, including provisions for an annual transfer to the replacement reserve (\$330,000) and an equal amount for contingencies and planned maintenance.

Projected expenses for the Utility, assuming an annual 1.1% inflation factor, were:

	Projected Utility Expenses		
	2008	2009	2010
Administration	\$ 263,754	\$ 269,624	\$ 275,494
Water Production	637,141	643,011	648,811
Water Distribution	467,081	472,951	478,821
Sewage Collection & Treatment	667,776	673,646	679,516
Total	\$2,035,752	\$2,059,232	\$2,082,712

The following schedule reflects the projected operating results for each of the years before transfers:

Budget Estimate	2008	2009	2010
Revenues	\$2,721,921	\$2,721,921	\$2,721,922
Expenses	2,035,752	2,059,232	2,082,712
Surplus	\$ 686,169	\$ 662,689	\$ 639,209

The City reported its most significant challenge in the near future is to address upgrading requirements to meet future demand, to address expected requirements for nutrient removal, and to address its aging system. The City indicated an expectation to address capital requirements not only through grants and contributions from funding partners, but also from ratepayers.

The original capital cost of the utility system is approximately \$22.1 million, and while important for determination of the Utility's needs for contingency allowance it is no reflection of the current capital needs of the utility.

The following costs were identified in the City's five-year capital plan, prepared prior to the receipt of the Cochrane and the CH2MHILL reports, which, now having been received, require reconsideration.

	Million
Water Distribution	\$ 1.5
Water Production	10.6
Sewage Collection and Treatment	1.1
Total	\$13.2

The City expects that it will be required to remove phosphorous and nitrogen (nutrient removal) from sewage, and places a preliminary estimate of costs at \$17.9 million.

The City stated that existing rates do not provide sufficient revenues for the Utility to meet its long term plans and hence, the City proceeded with an application to increase rates. While

2007 results are preliminary, the City expects to incur an operating loss in 2007 rather than the \$9,299 surplus projected earlier, resulting in no funds available to meet future capital project needs.

The City advised that its target level for Utility reserves were based upon a report prepared for Council in 1995. At that time, the City indicated a desire to have reserves at the \$8 to \$10 million level by 2015; the current balance at the end of 2006 was \$2.6 million.

The City's policy is to transfer operating surplus to reserves at the end of each year; in 2006, the Utility earned a \$6,667 surplus, which was transferred.

The total operating cost of the utility was \$3.3 million, including \$356,762 recovered by taxes for debenture debt and capital costs recovered by grants of \$737,782.

In 2006, the utility was able to transfer \$256,899 to its reserves and budgeted for a similar transfer in 2007.

The City continues to promote water conservation to its ratepayers, partly through a brochure titled *Water Treatment Plant - a Promised New Tomorrow*. The report identifies the volumes of water used by typical home appliances and lists methods to reduce such use.

Concerning future partnerships with respect to the delivery of water and sewer services both within and outside the City's

boundaries, the City advised that discussions were continuing.

Discussions are being held for the expansion of services outside the City's limits, and involve the Rural Municipalities of St. Andrews and St. Clements and the Federal Government of Canada - Parks Canada/Public Works Lower Fort Garry Historical site. The City noted that the Rural Municipality of St. Clements has decided to build its own water treatment system, though discussions will continue with respect to sewer services.

The City has met its environmental licence requirements and expects to continue to do so, although, with regional expansion, upgrades will be required by 2011. Discussions have been held with the Manitoba Water Services Board (MWSB) for funding, and while substantial support from the MWSB will not be available in 2008, the City noted that funds may be available in 2009 and 2010.

CH2MHILL was engaged by the City to review the City's Wastewater Treatment Plant (WWTP) system, largely unaltered since 1976. The consultant reviewed a number of scenarios, particularly those including the delivery of services to the City's neighbours. The 2007 report estimated total capital costs to upgrade the WWTP at \$19.6 million.

The consultant noted that whether or not the City provides services to neighbours will not change the cost estimate but may affect timing. CH2MHILL developed draft sewer hook-up rates to be considered for implementation if services are extended - this

matter was not before the Board for approval in this application.

Draft rates are as follows:

St. Clements	\$ 5,525 per unit
St. Andrews	\$ 4,390 per unit
Public Works and Government Services Canada	\$151,310

A unit is described as equivalent to a single family residence or equivalent.

CH2MHILL also recommended that the City start preparing for nutrient removal upgrade costs. While a specific date for the new requirement was not known, it was suggested at the hearing that the date may be 2014. The City was aware that the City of Portage la Prairie, with the Board's approval, was collecting a 5% surcharge on its sewer rates to be set aside in a reserve fund, specifically for nutrient removal. The City, in response to Board questions, advised that if the Board was to direct a variance to provide for 10% increase to the sewage charge in each year (2008 to 2010) for this purpose, the City would not object.

Board Findings

The Board will vary the City's application for revised water and sewer rates and amend proposed sewer rates upward by an additional 10%, with the projected additional revenue to be set aside in a special reserve for a future nutrient removal capital

expenditure.

The Board noted that the operating costs of the Utility are estimated to be increasing at an annual rate of only 1.1% - only half the rate of inflation. The City is to be commended for such cost containment. The important and critical needs of the City with respect to its Utility are related to the capital renewal program, nutrient removal and system expansion, the latter if the Utility plans to meet the needs of the City's surrounding neighbours (Regional Area) are followed through on.

Including the capital cost of a nutrient removal facility, the estimated total capital cost to be incurred over the next decade was reported to be \$51.3 million, without consideration of other upgrading costs included in the City's 5-year capital plan.

The Board recognizes that some of these cost estimates were derived from consultant's reports and may require further analysis, at the least to establishing priorities. However, the Board understands that future capital costs will be significant.

For an order of magnitude, the Board noted that the total capital cost estimates for the next ten years, exceeds by twice the historical capital cost of the entire utility. While the Board projects that some of these capital costs would be met by grants and funding partners in the Regional Area, the balance will need to be funded by the utility rates, reserves or taxes.

Historically, the City has met its share of capital expenditures by way of tax levies on City ratepayers. However, there is an

increased desire by stakeholders to recover such costs through rates, so that rates more adequately reflect the true cost of service. This true costing model allows rates to influence customer demand and enhance conservation efforts. The Board is supportive of this view in principle, though implementation will need to be considered on a case-by-case basis.

When and if services are extended beyond the City's boundary in the Regional Area, and funding agreements are being considered, the City must ensure that the terms of any agreements entered into reflect a reasonable cost sharing so there is no undue hardship on the residents of the City.

The City's by-law addresses the extension of services beyond its boundary, and the by-law incorporates the principle. The Board understands the intent is to have costs associated with any extension of water and sewer services to the Regional Area met by agreements to fund by regional partners and senior government.

The Board accepts and shares the City's view that requirements for nutrient removal are inevitable. While the City did not request a rate increase to set aside for a future nutrient removal project, the Board concludes such a pre-collection levy is reasonable. A similar practice is being followed in the City of Portage la Prairie.

While City proposed a sewer rate of \$3.64 per thousand gallons, the Board will vary the application and direct a 10% increase to this rate to \$4.00; the difference of \$0.36 per thousand gallons

is to be set aside in a special reserve for nutrient removal.

Using annual sold volumes in the rate study, the estimated annual revenue to be collected is \$68,000. This amount is not large when compared to the total estimated capital cost of providing for nutrient removal, but directionally it is correct, fair and reasonable.

Concerning the issue of step rates, the Board agrees with the City's consultant that a reduction in the step rates is appropriate. Accordingly, the Board will require the City to perform an analysis in this respect and file a proposal to move towards a single rate structure at the next rate proceeding. In the City's proposal the Board expects the City will assess the competitiveness of its current and proposed rates.

While an immediate reduction in rate steps will not alleviate the current demands on the WTP, in future, a reduction in rate steps will promote conservation and may reduce the speed at which future expansion may be required.

The Board is pleased with the vigilance taken by the City with respect to reducing the amount of unaccounted for water. The Board accepts the City's position that the issue appears to be related to meter reading accuracy rather than leakage. The Board expects the City to file a report in this regard in the first quarter of 2008.

IT IS THEREFORE ORDERED THAT:

1. By-law No. 5129 BE AND IS HEREBY APPROVED subject to the following amendments:

i) The sewer rate be increased to \$4.00 per thousand gallons, rather than the proposed \$3.64 per thousand gallons, with appropriate amendments to the rate schedule - the revenue collected from the increase is to be set aside in a Special Reserve Fund for Nutrient Removal.

ii) The Sewage Receiving Station Rate in Clause 4 be amended, by adding:

Customers dumping sewage who choose not to have the sewage tested will be charged a flat rate of \$33.24 per thousand gallons.

2. In the next rate application, the City of Selkirk is to file a plan to reduce the number of rate steps.

3. The City of Selkirk file a report of unaccounted for water for the year ended December 31, in 2007 and 2008, by no later than March 31, 2008 and 2009, respectively.

Fees payable upon this Order - \$1,500.00.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

December 28, 2007
Order No. 168/07
Page 16 of 16

Chairman

"G. O. Barron, CGA"

Acting Secretary

Certified a true copy of Order
No. 168/07 issued by The Public
Utilities Board

Acting Secretary