

MANITOBA) Order No. 169/07
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THE PUBLIC UTILITIES BOARD ACT) December 28, 2007

BEFORE: Graham F. J. Lane, CA, Chairman
Monica Girouard, CGA, Member
Susan Proven, P.H.Ec., Member

THE CITY OF BRANDON
REVISED WATER AND SEWER RATES

Executive Summary

By this Order, the Public Utilities Board (Board) approves the City of Brandon's (City) application for revised water and sewer rates, effective January 1, 2008 or at the earliest next billing date.

While no rate change occurred in 2007, this application will allow the City to further its progress in these areas and bring the utility closer to self-sufficiency.

The Board encourages the City to review the possible introduction of minimum bills, to reflect the fixed-cost nature of Utility systems, for consideration for the next application. As well, the Board invites the City to bring forward interim rate applications with respect to:

- a) trailer park service, if the City should decide to propose direct service to the trailer park tenants; and/or
- b) developing a specific reserve to assist with nutrient removal plans, if the City concludes that such a reserve would assist it meeting its future obligations with respect to nutrient removal.

The Board commends the City for its professional approach to Utility operations and planning, and for its interest in the environment.

This Order arises out of a public hearing held in Brandon in early December 2007.

The new rate schedule follows:

Commodity Rates (\$/cubic meter)	Existing	Revised		
		2008	2009	2010
Water				
0 – 150	\$1.44	\$1.46	\$1.49	\$1.53
151 – 3,000	\$1.16	\$1.20	\$1.25	\$1.31
Over 3,000	\$0.98	\$1.04	\$1.12	\$1.21
Sewer				
3,000 and under	\$0.68	\$0.73	\$0.77	\$0.81
Over 3,000	\$0.53	\$0.60	\$0.66	\$0.72
Service Charges/quarter	\$12.50	\$13.50	\$15.00	\$16.00
Bulk Water	\$1.57	\$1.57	\$1.57	\$1.57

PROJECTED ANNUAL IMPACT OF RATE CHANGES							
Consumption -cubic meters per quarter	2007	2008	% Increase	2009	% Increase	2010	% Increase
75	\$636	\$657	3.3%	\$678	3.2%	\$702	3.5%
1,000	\$7,528	\$7,876	4.6%	\$8,224	4.4%	\$8,612	4.7%
10,000	\$64,528	\$69,236	7.3%	\$74,224	7.2%	\$79,612	7.3%
30,000	\$185,328	\$200,436	8.2%	\$216,624	8.1%	\$234,012	8.0%

An approximate 20% discount to the service charge will be in effect for customers billed monthly and making monthly payments by direct banking transactions.

Application

The City applied to the Board for revised water and sewer rates, as set out in By-law No. 6877, and as indicated in the Executive Summary. Rates were last amended in 2003, when the Board approved revised rates for 2004, 2005 and 2006.

Notice of the City's Application was published in the Brandon daily newspapers on two occasions and posted in several prominent locations in the City.

The City advised that the previous rate increases and this application were based on the Utility's five goals (see below). The City advised that approval of its application would allow its Utility to further progress with respect to the goals while bringing the Utility closer to achieving rate self-sufficiency.

In summary, the City's five goals were stated to be:

- i) Safety - rates adequate to provide sufficient revenue to maintain a safe water supply and promote conservation (water being a precious resource).
- ii) Environment - water leaving the City's wastewater treatment facility should be in as good condition as water coming into the City, and preferably better.
- iii) Self-sufficiency - the new rates should reduce the City's reliance upon property tax revenue collected for utility purposes.
- iv) Reliability - the new rates should raise sufficient funds to

ensure the capital requirements of the utility are met in a timely fashion.

- v) Competitiveness - the new rates should remain competitive with other jurisdictions.

The current goals are the same as those presented to the Board in the City's 2003 application, and the current application is the third consecutive three-year rate plan.

As in the last two rate applications, the City proposed a flat dollar rate increase across all three rate steps, this approach generating higher percentage increases for large volume customers and promoting increased conservation efforts. The City advised of an intention to gradually eliminate volume discounts and achieve a single rate model by 2013.

The City noted that the Utility's future capital expenditure requirements are largely related to bringing about increased water supply, and opined it was appropriate to charge rates which more equitably reflect the demands placed on the water production facility to all users.

The City noted a tension between the goals of achieving rate self-sufficiency and being rate competitive with other communities, but noted that, with respect to its proposed 2008 rates, the new rates would remain quite competitive.

The City provided a comparative analysis of its proposed rates with 13 other western Canadian communities. The survey ranked the City's current residential rate the tenth lowest and the

requested 2008 rates would place them at eighth lowest. Business customers would remain with rates the eleventh lowest, while industrial customers would have the tenth lowest rates. And, in all categories, the City reported its rates would remain well below those of Winnipeg; reportedly, Winnipeg rates are currently higher than Brandon's rates by 35%, 55% and 63% respectively.

As of December 31, 2006, the Utility reported a nominal operating surplus balance of \$4.1 million and Utility reserves of \$7.9 million. While the City had anticipated a Utility deficit for 2007, it is expecting to break-even.

Utility operating costs for 2006 were approximately \$15.5 million, falling into the below categories:

Water Supply	\$ 5.91 million
Sewage collection and disposal	2.92
Transfer to Capital	2.12
Transfer to Reserve	2.00
Debenture Charges	<u>2.53</u>
	\$15.48 million

Rate self-sufficiency is not yet present, and of the annual \$2.53 million Utility debt serving costs, only approximately \$680,000 is being recovered from rates (the remainder through the tax roll). Of the City's \$2.12 million capital expenditures in 2006, \$1.075 million was funded from rates and the balance from other sources (senior government grants and debentures).

2006 capital expenditures were comprised of:

Water Supply	\$1.20 million
Wastewater Disposal	0.85
Wastewater Treatment	<u>0.07</u>
	\$2.12 million

While historical information is helpful, the City noted that its rate proposal was focused on the future needs of its Utility, and that costs of future projects were based on a sound engineering principles and advice from the City's Treasury Department.

Also reflected in its rate proposal was an annual contingency allowance of \$1.0 million for each of water and wastewater operations. Contingency provisions allow for unexpected repair and maintenance expenses to be met without incurring a deficit or a draw on reserves, with reserves retained to contribute to meeting future capital expenditure requirements.

The City advised that its rate proposal was based on the following major assumptions:

1. The City will continue to rely on debenture debt to fund capital expenditures not otherwise provided for, and new debentures are expected to have a 15-year repayment term with interest estimated at 5.75%.
2. To the extent possible, the City will access senior government grants to offset capital expenditure costs.
3. Rates will reflect an expectation of annual transfers of Utility operating revenue to the Utility reserves, towards maintaining reserves and reserve target levels.
4. Customer growth and consumption demand has been estimated to remain constant at recent experience levels.
5. Operating costs for the three-year rate application period are based on sound forecasting techniques.

Given Board approval of the City's application, the following provides a summary of projected Utility operating results for the 2008-2010 period:

	\$ Million		
	2008	2009	2010
Revenue			
Service Charge	\$ 0.71	\$ 0.78	\$ 0.84
Water Charge	8.35	8.94	9.35
Wastewater Charge	<u>3.69</u>	<u>3.91</u>	<u>4.12</u>
Total Revenue	<u>\$12.75</u>	<u>\$13.63</u>	<u>\$14.31</u>
Expenses			
Water			
Operating	\$ 4.96	\$ 5.09	\$ 5.25
Debt	0.69	0.69	0.74
Capital	1.56	2.18	2.02
Transfer to Reserve	<u>1.35</u>	<u>1.35</u>	<u>1.35</u>
	\$ 8.56	\$ 9.31	\$ 9.36
Wastewater			
Operating	\$1.74	\$1.73	\$1.76
Debt	-	-	0.78
Capital	0.20	0.25	-
Transfer to Reserve	<u>0.50</u>	<u>0.50</u>	<u>0.50</u>
	\$2.44	\$2.53	\$3.05
Expense Sub-total	\$11.00	\$11.84	\$12.41
Utility Administration	<u>1.76</u>	<u>1.81</u>	<u>1.86</u>
Total Expenses	<u>\$12.76</u>	<u>\$13.65</u>	<u>\$14.27</u>
Net Income (loss)	<u>(0.01)</u>	<u>(0.02)</u>	<u>0.04</u>

Water operating expenses were projected to increase 5.8% and sewer operating expenses by 1.2% over the three-year period. The reserve allocation over the three-year period was expected to remain stable, at \$1.35 million per year for water and \$0.50 million per year for sewer. With respect to capital and reconstruction costs over the same period, the City plans on spending \$5.76 million on water and \$450,000 on sewer. Administration costs were projected to increase by 3.0% per year.

Over the three-year period, total Utility revenues were forecast to increase by 5.6% in 2008, 6.56% in 2009 and 4.90% in 2010, with consumption charges expected to increase on average by approximately 3.35% in the first step and by 8.53% for larger volume consumption.

The City presented its five-year Utility capital plan, noting the portions of the projected expenditures to be met by rates, reserves and debentures.

\$ Millions				
	Rates	Reserves	Debentures	Totals
2008	\$ 861.2	\$ 2,500.0	-	\$ 3,361.2
2009	2,045.0	1,100.0	\$ 7,750.0	10,895.0
2010	1,735.0	4,954.0	11,250.0	17,939.0
2011	460.0	1,600.0	3,500.0	5,560.0
2012	160.0	1,600.0	-	1,760.0
Total	\$5,261.2	\$11,7540.0	\$22,500.0	\$39,515.2

Approximately 43% of the City's five-year Utility capital plan was projected to be met by rate-generated revenue, inclusive of draws on the reserve.

Projects to rely on debentures are related to Water Treatment Plant disinfections, upgrading of chemical distribution system and reservoir storage, and wastewater combined treatment Phases II and III.

Over the next seven-year period, the City's utility reserve is expected to rise to a high of \$4.8 million for water, then, due to draws to fund capital expenditures, to a low of \$1.1 million by 2013. For wastewater, the reserve is forecast to increase to a high of \$2.98 million, and fall to a low of \$137,818, as expenditures are incurred.

The City advised that the change from quarterly minimum billing to monthly billings continues to be appropriate. In the City's view, the change was well received by Utility customers and is consistent with the objective of water conservation. The City indicated its view that minimum bills encourage excess use by low volume customers.

The City also supported the 20% discount applied to the service charge for customers billed monthly and making monthly payments using electronic commerce, although it provided no direct evidence supporting the specific discount rate.

The public hearing was held in Brandon in early December 2007, and was attended by some members of the public. Information related to the hearing and this Order is maintained at the Board's and the City's offices, and are available for review by the public by appointment. This Order is also on the Board's website, www.pub.gov.mb.ca .

Background

The Utility has approximately 13,076 service addresses, 12,048 being residential. Approximately 26% of total water is sold at the wholesale rate, 23% at the intermediate rate and 42% at the domestic (first step) rate.

The City's water is drawn from the Assiniboine River and the system employs a conventional lime/soda, softening and clarification process followed by filtration and disinfection. The water treatment facility is comprised of three "plants" or process trains, and is 30 to 60 years old. While the plant was reported to be in good order, and having had numerous upgrades, increased capacity and water quality expenditures are required to meet growing demand and changing regulations.

That said, the distribution system currently meets the City's demand for water supply and only nominal upgrades are planned for the future.

The City's unaccounted for water (water produced and treated but not billed) has been 9.2%, and this includes unmetered water

supply related to firefighting and maintenance. Water line breaks also contribute to unaccounted for water, and the City's loss rate is not unusual for municipal water systems.

The City operates two wastewater treatment facilities, namely the Municipal Wastewater Treatment Facility (MWWTF) and the Industrial wastewater facility (IWWTF). The IWWTF is a stand-alone facility dedicated to treating wastewater from the Maple Leaf Pork Plant (Maple Leaf). All of the operating costs of the IWWTF are the responsibility of Maple Leaf, and not a factor in the City's utility rates.

The MWWTF uses a sequencing batch reaction process, and was commissioned in 1994. The facility has to be upgraded to be in compliance with the Provincial Nutrient Management Strategy. The main issue for the wastewater collection system will be the continuation of the separation of combined sewers (sewers carrying waste water and storm water) and the requirement for the upgrading of the wastewater pumping stations to meet forecast increased flows.

Maple Leaf has indicated a need to increase the capacity of the IWWTF and together with the City and Wyeth Organics a development plan has been discussed to allow the IWWTF to treat all City wastewater for nutrient reduction. Under this model, the MWWTF would be retained as a primary treatment facility. The viability of this option is currently being explored.

The City reports it is currently developing a water conservation strategy, and indicated it will share the final document with the Board. The strategy is to include:

- Retrofitting the City's facilities;
- Consumer education;
- Pricing strategy;
- Leak detection; and
- Building code changes to encourage the use of low flow devices.

With respect to planned gradual reduction in rate steps, the City indicated an understanding of the tension between the effort to conserve and rates based on cost causation. However, with respect to cost causation, the City noted that rates now do not reflect capital costs collected by taxes, though operating costs do decline on a per unit basis as more water is used.

The City also has taken into account demands to find new water supply to provide for customer growth, and noted the significant costs associated with additional facilities. In some jurisdictions, where water is in short supply, inverse rate structures have been incorporated allowing for charging high volume users more than lower volume consumers, for water consumed.

The City recognizes that the elimination of rate blocks by 2013 will cause some degree of rate shock for larger volume

customers, and plans to gradually make adjustments rather than moving immediately to a single step rate model.

The City noted that other Cities its size, including Moose Jaw, SK, have moved to a single rate step system, while others have adopted an inverse rate step.

The City's plant operators are duly certified and the City includes in its budget sufficient funds for the continued education of its employees; and is thus in compliance with provincial standards and requirements.

The City reported meeting or exceeding provincial requirements with respect to the water and wastewater treatment processes. Because the City relies on surface water supply, during peak summer run-off period's treatment will include higher than normal disinfection.

The City reported having applied for grants under the Canada Manitoba Infrastructure Works Program for projects already contained in the City's capital budget. The cost shown in the budget for each capital item assumes that no outside funding will be received, except for the IWWTF "nutrient removal" upgrade. The IWWTF upgrade assumes that 80% of the project will be subject to partial funding by senior government, with the City's contribution to be at the level of 50% of the 80% plus the remaining 20%.

Customer Feedback

Pursuant to a request of the Board, the City obtained feedback on the City's rate proposal from the City's largest volume users. These customers would receive the largest percentage increases in commodity rates as a result of the City's long-term plan to collapse the rate schedule to a single step rate by 2013. At the meeting with its customers, the City indicated the majority of concerns raised were related to mobile home parks. Mobile home park owners were concerned about the collapsing of rate steps.

Mobile home park owners charge their residents the retail rates charged by the City and buy water at the wholesale rate, using the margin to operate the internal system of distribution. With the collapsing of the rate structure, there would be no margin left for the park owner to maintain and bill the customer in the trailer park, and park fees would have to increase.

One park owner attended the Board's hearing to voice these concerns directly. This owner also spoke about the cost to update meters if individual lots were to be billed directly by the City.

As well, a representative from the Brandon Regional Health Authority (RHA) also made a presentation at the hearing. The RHA is a large volume user and has concerns about the proposed 8.5% yearly increase, noting that, over the past few three-year rate periods, the RHA has experienced a 65% total increase in utility costs.

The RHA noted that while it is supportive of all conservation efforts, the reduction in rate steps normally occurs in communities facing severe shortages in water supply or high costs of treatment. RHA noted that the use of declining rate blocks recognizes that, without a declining rate model, large volume users will over-contribute to the costs of operating the utility.

The RHA reminded the Board of the benefits large volume users bring to the system, particularly those with a flat demand curve, in that they help reduce the unit costs of operation. Capital costs are not driven exclusively by the RHA, and, for the RHA, costs not related to RHA requirements should be borne by other customers.

Board Findings

The Board is pleased with the City's operation of the Utility. The City has been professional in its approach to meeting the current and future needs of its customers while evidencing a need for the protection of the environment. The City has clearly defined its short and long term needs, and has adopted and is pursuing five key objectives, all of which are important and achievable.

The rate increases sought by the City are minimal, recognizing the capital challenges faced by the Utility. If it were not for the successful historical financial results of the Utility, and the careful planning that is followed by the City, the Board may

have varied the application and directed higher rate increases than those sought by the City.

While the Board accepts the cost causation argument of the RHA, and is fully aware of the cost of service principle to which the RHA refers, the Board believes that steps to promote conservation are more important, and that the City's proposal is reasonable, though difficult for large water consumers to manage.

The City proposes to gradually reduce the difference in rates and move to a single step rate system, thereby helping to avoid rate shock. Water is generally an undervalued commodity, and a considerable portion of capital expenditures related to the existing system, primarily senior government grants, is not recognized or reflected in the rate schedule.

Also, as noted by the City, water rates continue to be subsidized through taxation, i.e. levying for the recovery of capital costs, and the Board supports the City's plan to move away from reliance on taxation and bring about a rate system that reflects more of the costs of utility systems in rates. Right now, and even with the move to a reduction in the rate steps, the full cost of water is not reflected in rates.

The Board notes that non-capital Utility costs have been increasing at or below the rate of general inflation. It is the future capital requirements of the City that are driving current rate increases.

And, the Board notes that the rates are based on what was described by the City as a "worse case scenario". Conservative ratemaking is not a bad thing, as a utility is expected to break-even on operations every year, and by suppressing expenses or overstating projected revenues no one's interests are served.

However, if the City is able to access senior government grant monies, then the capital costs now projected will be shared, taking some pressure off the City. On the other hand, construction costs have risen sharply in the last few years, and many public works projects have noted actual costs well in excess of those initially expected. The Board will monitor developments in this regard, but also notes that the costs related to nutrient removal have not been included.

Future rate increases will be partially determined by the costs related to nutrient removal. Hence, the Board supports the City's effort to cost-share the project; through agreement with stakeholders, the City may be able to reduce the otherwise very expensive costs associated with a stand alone nutrient removal system.

In the case of Portage la Prairie's Utility, the Board allowed the Utility to assess a pre-construction levy for nutrient removal of 5%, through an increase in the sewer rate, that to be set aside in a specific reserve fund. Because Brandon is in negotiations with its stakeholders, the Board will defer a decision on whether to provide the City with such discretionary authority at this time, though the City may apply for it if circumstances warrant.

With respect to the concerns of the trailer park owners, while appreciative of their comments, the Board does not accept that the rate structure of the City ought to be influenced by the internal arrangements of the parks. The City must act in the best interest of all its customers, and customers buying water for resale must work within the parameters set by the City and approved by the Board.

Whether the City decides to provide assistance to trailer park owners with respect to meter replacement or billing, must be decided on a sound business case. The Board trusts the City will act accordingly. The Board noted that, if the City took responsibility for billing trailer park residents directly for water, the City would add approximately 1,000 customers to its customer base, while reducing the responsibilities of the park owners. The City may bring an application to the Board with respect to trailer parks at its convenience, though only after consulting with park owners and considering the implications of a change to direct Utility service to individual park tenants.

IT IS THEREFORE ORDERED THAT:

1. By-law No. 6877 BE AND IS HERBY APPROVED, to be effective with the first billing in 2008.
2. The City of Brandon file with the Public Utilities Board its Conservation Strategy, once finalized.
3. The City of Brandon provide annual reports of the City's five year capital plan and related grants to the Board by no later than April 30th of each year.
4. The City of Brandon provide a report of the agreement with its stakeholders regarding the upgrading of the industrial wastewater facility including nutrient removal costs and the City of Brandon's costs with respect thereto.

Fees payable upon this Order - \$1500.00.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE CA"
Chairman

"GERRY BARRON FCGA"
Acting Secretary

Certified a true copy of
Order No. 169/07 issued by
The Public Utilities Board

Acting Secretary