

M A N I T O B A)	Order No. 22/08
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THE PUBLIC UTILITIES BOARD ACT)	March 20, 2008

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

TOWN OF ARBORG
REVISED WATER AND SEWER RATES

Executive Summary

By this Order the Public Utilities Board (Board) varies an application for revised rates by the Town of Arborg (Town) and establishes new rates for billing in July 2008. The previous rate change occurred in 1996.

Effective for the 2nd quarterly billing in 2008

Per 1000 gallons	Existing	Revised	Increase
Water			
First 20,000 gallons	\$ 5.50	\$ 5.50	0%
Next 80,000 gallons	\$ 3.50	\$ 5.50	57%
Over 100,000 gallons	\$ 1.80	\$ 5.50	206%
Sewer	\$ 0.80	\$ 1.82	127.5%
Water and Sewer	\$ 6.30	\$ 7.32	16%
Service Charge	\$10.75	\$14.00	30%
Minimum Quarterly Charge (5/8" meter size)	\$29.65	\$35.96	21%
Sewer only	\$17.25	\$36.67*	113%
Bulk water - > 500 gals	\$20.00	\$20.00	0%
- < 500 gals		\$10.00 minimum	

*Includes a \$14.00 quarterly service charge. Previously no service fees were charged. Excluding the new service charge, the average increase is 31%.

A residential customer using 15,000 gallons per quarter may expect a quarterly bill increase, from \$105.25 to \$123.80 (an increase of 18%). A large volume user using 80,000 gallons per quarter may expect a quarterly bill increase from \$394.75 to \$599.60 (an increase of 52%).

The new rates are effective for consumption on and after April 1, 2008.

In addition to approving new rates, the Board requests that the Town file its 2008 budget and capital plans with the Board, as much of the increase allowed is to address the Town's aging utility infrastructure.

Application

On January 11, 2008, the Town applied for approval of revised water and sewer rates, as set out by By-law No. 10-2007, read for the first time on December 12, 2007. The Town sought revised rates effective for consumption on and after April 1, 2008, a period to be billed in early July 2008.

Existing and proposed rates were:

Proposed to be effective for the 2 nd quarterly billing in 2008			
Per 1000 gallons	Existing	Proposed	Increase/ Decrease
Water			
First 20,000 gallons	\$ 5.50	\$ 5.16	(6%)
Next 80,000 gallons	\$ 3.50	\$ 5.16	47%
Over 100,000 gallons	\$ 1.80	\$ 5.16	187%
Sewer	\$ 0.80	\$ 1.82	127.5%
Water and Sewer	\$ 6.30	\$ 6.98	11%
Service Charge	\$10.75	\$14.00	30%
Minimum Quarterly Charge (5/8" meter size)	\$29.65	\$34.94	18%
Sewer only	\$17.25	\$29.67*	31%
Bulk water - > 500 gals	\$20.00	\$20.00	0%
- < 500 gals		\$10.00 minimum	

*Included a \$7.00 quarterly service charge, no service fees were previously charged. With the additional service charge, the average increase was proposed to be 72%

Pursuant to the Town's proposal, a residential customer using 15,000 gallons per quarter would have expected an increase in his/her quarterly bill from \$105.25 to \$118.70, an increase of 13%. A large volume user using 80,000 per quarter would have expected a quarterly bill increase from \$394.75 to \$572.40, an increase of 45%.

The last utility operating deficit occurred in 1999. Early indications are that a \$13,000 surplus will be recorded for 2007; operating accounts were not closed for 2007 at the time of the hearing. The Town indicated that their application was made in part

because of the encouragement of the Board for a rate review to better assure rate adequacy, given rates had not changed for over a decade. In its review, the Town determined that continuing with the existing rates would not have allowed it to upgrade an aging system.

Notice of Application and Public Hearing including the Revised Notice was published and posted in several prominent locations in the area. Because there had not been a public hearing in the Town for some time and because, in some respects the rate impacts of the application were significant, the Board determined a public hearing was necessary.

This public hearing was held at 7:00 p.m. on March 4, 2008 in the Town Council Chambers. The only persons attending were the Mayor, other elected officials and Town staff.

In support of its rate application, the Town relied on the report of its consultant, Anthony J. Reid Chartered Accountant Inc.

The following forecast of utility expenditures were used to determine the rate proposal; average costs for the period 2003 to 2006 were adjusted to reflect current circumstances and the utility's cost pressures.

Administration	\$ 29,200
Water	\$148,100
Sewer	<u>\$ 46,250</u>
Total	<u>\$223,550</u>

In arriving at the above estimate of expenditures, the consultant advised that he had examined the allocation of expenses between the three cost categories and adjusted them based on his understanding

of the circumstances. Though a specific adjustment was not made to reflect inflation, certain estimates were based on rising cost trends being experienced by the utility.

The Capital Plan of the utility extends to 2011 and includes 16 projects. While not all of the projects have been priced, the majority have for a total of \$3.3 million. The projects relate to system enhancements and maintenance.

The Town noted that the utility, like so many others, is aging and in need of attention, and suggested that its first priority was to address the high level of unaccounted for water, that being 27%. Some investigation has been done to date and the Town reported being committed to finding the cause of the leak and conducting repairs in 2008.

Besides the sale of metered water and sewer services, the Town has provided lagoon service under agreements with the Rural Municipality of Gimli (RM) and Winnipeg Environmental (WE). The agreement with WE is complete. However, the agreement with the RM has been extended for one more year, to December 31, 2008, with the expected revenue for 2008 being \$10,500. This revenue was not included in the rate study due to uncertainty with the service extension existing at the time of preparation.

In preparing the rate application, the Town considered the state of repair of the utility and the need to set monies aside for future small capital works. For this work, the Town included \$36,000 in water rates for contingencies and reserves and \$12,000 in sewer rates also for contingencies and reserves.

The calculated bulk water cost, as per the rate study, is \$6.70 per thousand gallons and the Town's current rate is \$20.00. The Town proposed no change as negligible bulk water has been sold to date.

The utility currently serves 510 customers of which 420 are residential and the balance commercial. All customers are metered.

The historical capital cost of the system is \$2.7 million and consistent with the Board's Guidelines, the contingency provision in rates was based on approximately 1% of the capital cost (\$18,000 for water and \$6,000 for sewer). The same percentage was used to determine the appropriate amount to be added to reserves.

The annual debenture debt cost of the utility is \$66,521, which is being recovered by property taxes and not by utility rates.

The application included the elimination of large volume discounts, by means of reducing the 3-step rate schedule to a single step. Equalization of second and third step rates resulted in increases of 47% and 187% respectively with respect to the volumes of those steps. The increased revenue from this change provided for reducing the rate for the first step by 6%.

After taking all factors into account, a residential customer's minimum quarterly bill was to rise to \$34.94 from \$29.65 or 18% while a commercial customer's bill using 80,000 gallons per quarter was to rise to \$572.40 from \$394.75 or 45%.

While Council had concerns about the customer impacts of collapsing rate steps, it looked ahead to the capital needs of the utility, and determined it was necessary to avoid postponement of future capital projects.

The Town recently hired a third utility person. The supervisor and second most senior staff member are certified in water treatment and distribution and will be attending further courses to complete their certifications. The Town appreciates the importance of continuing professional development and has included a provision for ongoing training in the utility budget.

The Town's consultant confirmed that the Town is appropriately allocating costs between the General Fund and the utility. The Town confirmed that the need for future rate increases will be assessed on a more regular basis, and that it expects the interval between rate increases will be much shorter, perhaps every three years.

The Town does not bill the minimum quarterly bill in advance.

In determining the rate charged to sewer only customers, the consultant estimated the costs of providing sewer service only to the six customers, and developed a rate of \$29.67 per quarter to recover this cost. This was an increase from \$17.25 or 72%. Excluding the effect of the proposed new \$7.00 quarterly sewer charge, the increase in the consumption rate was 31%

The Town noted that in the past it did not charge these customers a quarterly service charge for bill preparation and collection as other customers are charged and in this application proposed a charge of \$7.00 per quarter. The charge for all other customers is \$14.00 per quarter. The Town noted that sewer only customers have no meters to read as the sewer rate is a flat charge. Including this additional \$7.00 fee the increase for sewer customers only would bring the increase to 72%.

The Town proposed the following addition to its By-law:

"2(d) Quarterly Charges for Vacated Properties With Lot Line Connections

- i) The Town of Arborg shall charge the owners of vacated property, where a building once utilizing the service remains, the minimum water and sewer charges as shown in (a), (b) or (c) above;
- ii) The Town of Arborg shall charge the owners of vacated property, where the building once utilizing the services has been removed, the Customer Service Charge as shown in (a) or (c) above."

These clauses reflect the current and longstanding practice of the Town as set out in Resolution of Council #41/87 dated February 11, 1987 which states as follows:

"Be It Resolved That Council do hereby require that the minimum water and/or sewer charge be charged to each account whether active or inactive."

Clause 2(d)(i) reflects circumstances where the property was once served and now is vacant. Service continues to be provided and is available to the occupant at any time notwithstanding no water is used. The Town continues to read the meter to verify there has been no use.

Clause 2(d)(ii) is similar to Clause 2(d)(i) except the building has been removed.

The Town advised that the total annual revenue collected from such circumstances is \$2,040.00 for 17 properties (9 with vacant buildings on the property and 8 with no buildings) and was included in the rate study.

In a letter filed on March 11, 2008 following the close of the hearing, the Town advised that the addition to the By-law was added as a result of a complaint by a customer regarding the assessment of the charge on the property with no buildings.

The Town believes that maintaining the minimum quarterly charge on all such properties is an incentive to the owner to fix or clean-up their property with respect to vacant lots. The Town stated it is an advantage to the lot owner to have service available.

Finally, the Town advised that billing would become quite cumbersome where property is vacated temporarily, such as while on vacation, as the Town does not have a turn-on and turn-off charge for these customers.

As at December 31, 2006, the utility has a cash surplus of \$50,490 and reserves of \$145,989.

The Town is planning to review its capital plan as part of its budgeting process for 2008 and agreed to advise the Board with respect to these plans once finalized.

Description of System

The Town obtains raw water from a well that is located 4.5 km west of the Water Treatment Plant (WTP). In 2005, an iron removal system was installed at the WTP. In 1995 a 450,000 gallon reservoir and pumping station were constructed adjacent to the WTP to satisfy the Town's requirement for water and fire protection. The reservoir receives regular checking and in 2006 all water lines were swabbed. The Town is meeting Drinking Water Standards.

The Town utilizes a lagoon for sewage treatment that should meet the needs of the community to the year 2020. Conditions of the Town's Environmental Act License are in compliance.

The water distribution system is largely cast iron that is becoming less reliable with age. There are locations where breaks are consistently reoccurring.

The Town advised that an engineering assessment of its system will be conducted in 2009.

With respect to conservation, the Town noted that the reduction in rate steps is a significant step forward in increasing the value of water and promoting conservation. They are considering the distribution of further information and noted that the CMHC handbook titled "Household Guide to Water Efficiency" is an excellent source of information. In addition, staff does respond to customer inquiries in this regard.

Board Findings

The Board was extremely pleased to see the bold steps taken by the Town to encourage water conservation and thereby stave off capital expansion by eliminating the large volume discount step rates to a single step. The Town's intentions were well communicated to the Town's large volume users, and no one appeared before the Board to complain.

The immediate benefactors of the proposed rate changes are residential and small commercial customers, whose commodity rates were to decline by 6%.

In the Board's view, while the utility seems to be well managed, it has considerable challenges ahead to address an aging system. Under such circumstances, the Board is concerned that a rate reduction to any customer after 12 years of no change will send the wrong price signal and further reduce much needed revenues for plant upgrading.

Accordingly, the Board will revise the rates and approve no reduction in the commodity rates in the first step. This will mean that the water commodity rate in the first step will remain at \$5.50 per 1,000 gallons and the minimum quarterly bill for a residential/small commercial customer with a 5/8" meter size will increase to \$35.96 instead of \$34.94 or 3% higher than proposed or 21% higher than the existing rate of \$29.65. Maintaining the \$5.50 commodity rate will cause the bill for all customers using in excess of 20,000 gallons

per quarter (volumes higher than the first step) to be higher than proposed as reflected in the Executive Summary noted above.

It has been some time since the last rate review occurred and clearly, this rate review has demonstrated that the sewer service was under-billed. By a 127.5% rate increase in the sewer rate, a correction is made for this longstanding inequity. Sewer charges are only 25% of the total commodity rate, and the \$1.02 per thousand gallon sewer increase, increases the minimum quarterly bill by only \$3.06.

Accordingly, the Board will approve the sewer rate increase as requested.

The Board will also revise the sewer only customers' flat charge to include the full \$14.00 administrative charge. Because there are only six customers, this will not generate a significant amount of increased revenue but the Board believes the full charge is consistent with the industry's practice and is not unreasonable.

The bulk water rate exceeds the calculated cost but was not changing from the existing rate of \$20.00 per thousand gallons. As there are negligible volumes of bulk water sold and as no person complained, the Board will make no change in this regard.

Of concern to the Board, and the Town, is the high water loss percentage and the risk of any further delays in the Town's capital renewal program. The Board is satisfied that the Town will take all reasonable efforts to resolve the unaccounted for water level in 2008, and this should enable the Town to focus on and commence its capital renewal program, promptly.

Too often capital projects are not started until external grants are available. While this is acceptable under normal circumstances, in some cases the work should proceed even in the absence of a grant. Utility services are not discretionary services - the community

depends on a safe and sufficient water supply for both health and economic wellbeing. The Town, through these increases, and noting its current surplus and reserve position, should prioritize projects of a critical nature.

The Board does not manage utilities, that being the responsibility of the municipalities. Therefore, the Board will not prioritize the capital program for the Town though it expects to be advised once the capital program has been determined.

During the hearing, the Board reviewed with the Town the concept of allowing the Town pre-approval of future discretionary rate increases. This approval has been given to municipal utilities by the Board to address financially unhealthy utilities and when regulatory costs may be a significant and additional burden on the utility. The Board looked carefully as to whether the Town falls within this category, and determined such was not the case.

The utility is expecting to earn a \$13,000 surplus in 2007 (when the operating accounts are closed), and it did not include \$10,500 in revenue for the lagoon service to the RM. As well, it included \$48,000 in rates for contingency allowance and reserves while its current surplus and reserve position together amount to \$196,479.

However, the Board does encourage the Town to consider rate changes more frequently, and notes that this is also the intention of the Town.

Finally, the Board will approve the amendment to the By-law to charge the minimum quarterly bill for vacant serviced properties. The Board accepts that there is a cost of providing service to such properties, whether or not water is consumed. This includes making water and sewer services available, meter reading and billing and collection.

However, with respect to properties where no building exists, the Board believes no charges should be assessed. The Board noted that

through property taxes the debenture debt of the utility is being serviced by all property owners. Therefore, as no service is being provided or available until a dwelling is erected, the Board believes no charges should be levied.

IT IS THEREFORE ORDERED THAT:

1. By-law No. 10-2007 of the Town of Arborg BE AND THE SAME IS HEREBY APPROVED subject to amendment to agree with this Order and Schedule "A" attached hereto.
2. The Town of Arborg file its five-year capital plan and 2008 budget upon completion and by June 1, 2008.

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

THE PUBLIC UTILITIES BOARD

"SUSAN PROVEN, P.H.Ec."

Acting Chair

"GERRY GAUDREAU, CMA"

Secretary

SCHEDULE "A"
TO BOARD ORDER NO. 22/08

TOWN OF ARBORG
WATER AND SEWER RATES
BY-LAW NO. 10-2007

SCHEDULE OF QUARTERLY RATES:

1. Commodity Rates per M.G.

	<u>Water</u>	<u>Sewer</u>	<u>Water & Sewer</u>
All Water Consumption	\$5.50	\$1.82	\$7.32

2. Minimum Charges, Quarterly

Notwithstanding the Commodity Rates set forth in Paragraph 2 hereof, all customers will pay the applicable minimum charges set out below, which will include water allowances indicated:

(a) Water and Sewer Customers

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption	Customer Service Charge	Commodity Charges Water	Commodity Charges Sewer	Total Quarterly Minimum
5/8 inch	1.00	3,000	\$14.00	\$ 16.50	\$ 5.46	\$ 35.96
¾ inch	2.00	6,000	\$14.00	\$ 33.00	\$ 10.92	\$ 57.92
1 inch	4.00	12,000	\$14.00	\$ 66.00	\$ 21.84	\$ 101.84
1½ inch	10.00	30,000	\$14.00	\$165.00	\$ 54.60	\$ 233.60
2 inch	25.00	75,000	\$14.00	\$412.50	\$136.50	\$ 563.00
3 inch	45.00	135,000	\$14.00	\$742.50	\$245.70	\$1002.20

(b) Water Only Customers

Minimum charge will be the same for each meter size as shown above, but the Sewer Commodity Charge will be excluded.

(c) Sewer Only for Residential Customers

The Town of Arborg shall charge the owners or occupants of land serviced with sewer, but no water, the sum of **\$36.67** per quarter which includes a Customer Service Charge of \$14.00.

(d) **Quarterly Charges for Vacated Properties With Lot Line Connections**

The Town of Arborg shall charge the owners of vacated property, where a building once utilizing the service remains, the minimum water and sewer charges as shown in (a), (b) or (c) above.

3. **Bulk Sales Rate**

All water sold in bulk by the Town of Arborg shall be charged for at the rate of **\$20.00 per 1,000 gallons** on a pro-rated basis for all quantities greater than 500 gallons. For any quantity of 500 gallons or less the minimum charge will be **\$10.00**.

4. **Service to Customers Outside the Town of Arborg Boundaries**

The Council of the Town of Arborg may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Town of Arborg. 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**

- a) Accounts shall be billed quarterly; and
The due date will be at least **14 days** after the date of billing;
- b) A late payment charge of **1¼%** shall be charged on the dollar amount owing after the billing due date;
- c) 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 for non-payment of the account. If the account remains unpaid **30 days** past the due date, customers will be sent a reminder notice. If after a further 30 days, the account remains unpaid, a second notice will be issued providing disconnection advice unless payment is received within **30 days**. All disconnection notices shall advise the customer of the specific date of the disconnection and of their right to appeal to The Public Utilities Board and include the Board's relevant contact information.

7. **Reconnection**

Any service disconnected due to non-payment of accounts shall not be reconnected until all arrears, penalties and a reconnection fee of **\$50.00** have been paid.

8. **Outstanding Bills**

Pursuant to Section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water and sewer service 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.

9. **Hydrant Rentals**

The Town of Arborg will pay to the utility an annual rental of **\$200.00** for each hydrant connected to the system.

10. **Water Allowance Due to Line Freezing**

That in any case where, at the request of the Council, a customer allows water to run continuously for any period of time to prevent the water lines in the water system from freezing, the charge to that customer for the current quarter shall be the average of the billings for the last two previous quarters to the same customer, or to the same premises if the occupant has changed.

11. Sewer Surcharges

- (a) There may be levied annually, in addition to rates set forth above, a special surcharge on sewage having a Biochemical Oxygen demand in excess of 300 parts per million, to be set by resolution of Council.
- (b) A special surcharge for substances requiring special treatment shall be charged based on the actual costs of treatment required for the particular sewage or industrial wastes.

12. Disconnect and Reconnect Water

Where service is requested to be disconnected or reconnected for any length of time as a result of vacation or renovation, a service charge of **\$50.00** shall be assessed for each disconnect and/or reconnect. Further, the minimum water and/or sewer charge shall continue to be charged to each account whether the service is active or inactive.