

M A N I T O B A) Order No. 100/10
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THE PUBLIC UTILITIES BOARD ACT) October 6, 2010

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

MUNICIPALITY OF KILLARNEY - TURTLE MOUNTAIN
WATER AND SEWER RATES

Executive Summary

By this Order, the Public Utilities Board (Board) approves revised water and sewer rates for the Municipality of Killarney - Turtle Mountain (Municipality). The rates apply for customers within the limits of the Urban Ward formally known as the Town of Killarney (Town).

Revised rates are to be reflected on the next quarterly bill, due to go out the second week of October. Rates were previously amended in 2006. Existing interim and revised rates are:

\$/1,000 gallons	2006	Interim	\$/1,000 gallons	Oct 1, 2010	Oct 1, 2011
Water Commodity					
First 20,000	\$6.80	\$ 8.84	First 20,000	\$ 10.10	\$ 10.38
Next 80,000	\$4.90	\$ 6.37	Over 20,000	\$ 9.15	\$ 9.39
Over 100,000	\$3.40	\$ 4.42	-	-	-
Sewer Charge	\$2.75	\$ 2.83	Sewer Charge	\$ 2.84	\$ 3.41
Combined Commodity					
First 20,000	\$ 9.55	\$ 11.67	First 20,000	\$ 12.94	\$ 13.79
Next 80,000	\$ 7.65	\$ 9.20	Over 20,000	\$ 11.99	\$ 12.80
Over 100,000	\$ 6.15	\$ 7.25	-	-	-
Service Charge	\$ 8.20	\$ 10.66	Service Charge	\$ 11.92	\$ 11.92
Minimum Quarterly *	\$ 36.85	\$ 45.67	Minimum Quarterly *	\$ 50.74	\$ 53.29
Average (7,500 gallons/qtr)	\$ 79.83	\$ 98.19	Average (7,500 gallons/qtr)	\$108.97	\$115.35
Sewer Only**	\$ 34.52	\$ 38.96	Sewer Only**	\$ 46.00	\$ 46.00
Seasonal Water per annum***	\$134.30	\$174.59	Seasonal Water per annum***	\$203.00	\$203.00
Bulk Water	\$ 8.83	\$ 10.83	Bulk Water	\$ 16.00	\$ 16.00

*Includes 3,000 gallons

**Includes 10,000 gallons per quarter

***Includes 15,000 gallons

The revisions follow a Public Hearing held July 26, 2010.

Introduction

The Municipality applied to the Board on April 13, 2010, for approval of its utility rates By-law No. 3-2010, read the first time on April 7, 2010. The Municipality's application was accompanied by a rate study prepared in March 2010 by Genivar, and also included other filings as required by the Board.

Following an initial review of the application, the Board determined an immediate increase in rates was necessary to generate additional revenues - public utilities are required by statute to break-even. Accordingly, Board Order 68/10 approved a 30% increase to water rates and 3% to sewer rates, on an interim *ex parte* basis. Readers are encouraged to review that order on the Board's website: www.pub.gov.mb.ca.

The Municipality provides both water and sewer services to residents of the Town. The utility is comprised of a water treatment plant, a water distribution system, and a sewage collection and disposal system.

The Town receives its raw water from Lake Killarney. The original water treatment plant was constructed around 1978, with upgrades occurring in 1993. The Town is currently discussing with Manitoba Water Services Board (MWSB) plans to completely replace the existing water treatment plant.

The water distribution system was originally installed over 50 years ago. With an aged infrastructure, between 2005 and 2009

unaccounted for water in the system has varied from a low of 3% in 2008 to a high of 19% in 2007, with an average of 10%. The rate study suggests a leakage detection program be conducted to target and address the worst zones.

The original wastewater collection system was installed in the 1960's. Some areas are only serviced with low pressure sewer system; six lift stations are required to service existing neighbourhoods due to the topography of the area. Sewage is treated in a three cell stabilization pond and discharged into Long River.

The Town indicated that frequent sewer collapses occur due to the age of the system, and that there is limited capacity in the lagoon. The Province has put a hold on additional development in the Town until more capacity is created.

As of the last census (2006) the Town's population was 2,199. Utility services are provided to 1,026 customers, of which ten receive water only services, two receive sewer only services and 25 are non-metered customers; the remainder receive both water and sewer services.

The Town's per capita consumption is ~260 litres per day.

Rate Proposal

The Municipality proposed the following rates and changes to the rate structure:

\$/1,000 gallons	2006	2010	2011
Water Commodity			
First 20,000	\$ 6.80	\$ 10.10	\$ 10.38
Next 80,000	\$ 4.90	\$ 9.15 (Over 20,000)	\$ 9.39 (Over 20,000)
Over 100,000	\$ 3.40	-	-
Sewer Charge	\$ 2.75	\$ 2.84	\$ 3.41
Combined			
First 20,000	\$ 9.55	\$ 12.94	\$ 13.79
Next 80,000	\$ 7.65	\$ 11.99	\$ 12.80
Over 100,000	\$ 6.15	-	-
Service Charge	\$ 8.20	\$ 11.92	\$ 11.92
Minimum Quarterly *	\$ 36.85	\$ 50.74	\$ 53.29
Average (7,500 gallons/qtr)	\$ 79.83	\$108.97	\$115.35
Sewer Only**	\$ 34.52	\$ 46.00	\$ 46.00
Seasonal Water per annum***	\$134.30	\$203.00	\$203.00
Bulk Water	\$ 8.83	\$ 16.00	\$ 16.00
Hydrant Rentals	\$100.00	\$150.00	\$150.00

*Includes 3,000 gallons

**Includes 10,000 gallons per quarter

*** Includes 15,000 gallons

The Municipality proposed to reduce the current three-step declining block rate to two steps, advising that reduction to a single rate would be considered for the next application. Currently, about 18% of water is sold at the intermediate rate and 10% at the wholesale rate.

The Municipality proposed to phase-in the increases over two years, in an effort to reduce the effects of rate shock.

The 25 unmetered water only customers are, for the most part, seasonal customers. The municipality proposed to charge these customers an annual flat rate that is equal to four times the quarterly service charge plus 15,000 gallons at the domestic rate.

For the two sewer only customers, the Municipality proposed to charge for the quarterly service charge plus 10,000 gallons per quarter at the sewer rate.

For the average home using 7,500 gallons per quarter, if the rates were approved by the Board the proposed quarterly bill would initially increase by about 37%, from \$80 to \$109, and an additional 7% with the second increase.

The Municipality's application included the following financial projections for the period 2010 to 2013.

Description	2010	2011	2012	2013
General				
Expenses	\$ 49,000	\$ 49,490	\$ 49,985	\$ 50,485
Revenues	-1,500	-1,515	-1,530	-1,545
Net General Requirements	\$ 47,500	\$ 47,975	\$ 48,455	\$ 48,940
Water				
Expenses	\$450,200	\$454,682	\$459,209	\$463,781
Amortization	\$ 4,998	\$165,165	\$165,165	\$165,165
Interest	-	\$262,500	\$256,095	\$249,242
Membrane Filtration (for new WTP)	-	\$ 20,000	\$ 20,000	\$ 20,000
Reserve	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000

Contingency	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Less Revenues	-23,050	-456,633	-456,633	-456,633
Net Water Requirements	\$467,148	\$479,713	\$477,835	\$475,554
Sewer				
Expenses	\$ 69,000	\$ 69,690	\$ 70,387	\$ 71,091
Amortization	\$ 65,379	\$ 65,379	\$ 65,379	\$ 65,379
Reserve	-	\$ 25,000	\$ 25,000	\$ 25,000
Less Revenues				
Net Sewer Requirements	\$134,379	\$160,069	\$160,766	\$161,470
Total Revenues Requirements	\$649,027	\$687,757	\$687,056	\$685,963
Projected Revenues	\$649,413	\$688,520	\$688,520	\$688,520
Surplus/(Deficit)	\$ 386	\$ 763	\$ 1,464	\$ 2,557

The Municipality noted that the projections were based on a number of variables and that actual revenues may well vary. Further, the estimated operating and maintenance costs are based on a new water treatment plant.

The rate study recommends that the Municipality pay close attention to the "true" costs once the plant is in full operation. This will then determine if the utility's revenue base will be adequate, with available funds to put towards reserves and other capital projects.

The only debenture related to the utility currently being recovered by taxes is for the 1995 lagoon upgrade. The annual payment is \$35,251 and the debenture matures in 2010. The Municipality advises of new debentures for the new water source and the water treatment plant upgrades to begin in 2011. These projects will be partially funded, 50%, by the MWSB.

Municipalities are required to determine and allocate a

proportion of costs shared between the utility and the general operations. These costs include administration, equipment, building, council and staff time, etc. The Municipality indicates that a flat rate is assessed to the utility for administrative costs that are shared, but for equipment and labour costs these costs are allocated to the appropriate entity based on the activity.

The Municipality advises that septic haulers are assessed lagoon tipping fees when waste is dumped from outside the community. The Municipality advises that the current rate is \$0.50 per 100 gallons, and the hauler is to submit this fee quarterly.

The historical capital cost of the utility was \$2,757,318; with the un-depreciated capital cost of the water and sewer system being \$1,178,638.

As at December 31, 2009 the utility reserve fund held a balance of \$267,217. The utility incurred deficits in 2006 (\$54,039), 2008 (\$46,504) and again in 2009 (est. \$142,250), however, the final amount for 2009 is pending review by the municipal auditor.

Effective January 1, 2009, Public Sector Accounting Board (PSAB) accounting standards became applicable for municipalities, including utility operations. The implications include removing capital expenditures and principal debt payments from operating expenses; removing reserve transfers and transfers from the general operations of the municipality (except for amounts raised by taxes for utility debt servicing) - transfers would

not affect the net income or loss of the Utility; and, adding amortization expense increasing annual costs.

In addition to the required PSAB changes for financial reporting, there are implications for the development of rate proposals. The Board has determined that, contrary to PSAB, capital grants related to the utility are to be amortized at the same rate that the capital asset is amortized. In the Municipality's case they advise of some past grants, which are used to help offset the amortization expense.

The Municipality advised that as a result of the imposed accounting changes, 25% of the proposed increase is a result of PSAB, 13% the result of additional contributions to the utility reserve fund and 62% from increased operating and maintenance.

Future Capital Projects

The Municipality provided the following as the major capital projects to be completed in the next five years.

- In 2011, the Municipality plans to initiate Water Source Development at an estimated cost of \$2.5 million. The project is to receive 50% funding from MWSB, with the remainder to be borrowed.
- The water treatment plant upgrades are to begin in 2011 at an estimated cost of \$5.0 million. Again 50% is to be funded by MWSB, with the remainder to be borrowed.
- Lagoon upgrades are to begin in 2010 at a cost of \$500,000. The Municipality plans to fund this project from the Utility and Gas Tax reserve funds.

Based on the above information, the Municipality estimates annual borrowing costs of \$354,000 over 20 years to recover \$3.75 million, based on an annual interest rate of 7%.

As required, the Municipality published notice of the July 26, 2010 public hearing in the local paper, and posted it in six locations throughout the Town. None of the customers of the utility, other than representatives of the utility, attended the public hearing (and the Board received no correspondence with respect to the proposal submitted by the Municipality).

Board Findings

The Board commends the Municipality on its efforts to address rate inadequacy in a timely manner, particularly noting the increases in operating costs, the capital projects to be undertaken, and the implications of PSAB.

The Board will approve the Municipality's application for rates as submitted, and finds the projected costs to operate and maintain the utility reasonable.

The Board will require the Municipality to amend Schedule "A" of its rates bylaw to be consistent with this Order. Amendments to the schedule are to address the following:

- The disconnect clause is not consistent with Board requirements where disconnection of services may occur for non-payment of accounts.
- Minor typographical errors.

- Inclusion of lagoon tipping fee, to be set as noted by the Municipality.

With respect to the 2009 deficit, the Board will expect the Municipality to submit its 2009 audited financial statements, once completed, with an application to address any deficit by no later than November 30, 2010.

The Board will approve the Municipality's Shared Allocation policy which is based on flat rates for administrative costs and activity based for labour and equipment expenses. The Municipality is reminded that if these methods change, prior Board approval is required.

The Board will require the Municipality to review rates following one full year of operating the new water treatment plant. The Board asks the Municipality to file comments no later than May 31, 2013 as to the adequacy of rates.

If rates are deemed to be inadequate, the Municipality should file an application to revise rates as required. In its next application the Municipality should ensure to include:

- Consideration to move to a single rate.
- Details as to the calculation of lagoon tipping fees.
- Financial details of the Shared Cost Allocation Methodology and how the costs relate to the utility.
- Any future capital plans including plans to install meters for all services.

- Any leak detection programs undertaken or to be undertaken.
- Any efforts taken to promote water conservation.

The Board thanks the Municipal Council and staff for its cooperation in submitting all the necessary information to the Board as requested.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with section 36 of the Board's Rules of Practice and Procedure. The Board's Rules may be viewed on the Board's website at www.pub.gov.mb.ca.

IT IS THEREFORE ORDERED THAT:

1. The Municipality of Killarney - Turtle Mountain amend By-law No. 3-2010 prior to second reading, this to be consistent with the provisions of this order and the attached Schedule "A".
2. The Municipality of Killarney - Turtle Mountain file a certified copy of By-law No. 3-2010 once it has received third and final reading.
3. The Shared Cost Allocation Policy as submitted by the Municipality of Killarney - Turtle Mountain, for costs associated with the utility, stands.
4. The Municipality of Killarney - Turtle Mountain submit a copy of its 2009 audited financial statements as well as an application, if required, to address any utility deficit by no later than November 30, 2010.

SCHEDULE "A"

TO BOARD ORDER NO. 100/10

**THE MUNICIPALITY OF KILLARNEY - TURTLE MOUNTAIN
 WATER AND SEWER RATES
 BY-LAW NO. 3-2010**

1. Commodity Rates per 1000 gallons/ October 1, 2010

	<u>Water</u>	<u>Sewer</u>	<u>Water & Sewer</u>
First 20,000 gal/qtr	\$10.10	\$2.84	\$12.94
Over 20,000 gal/qtr	\$9.15	\$2.84	\$11.99

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.

3. Water and Sewer Customers

Metre Size	Group Capacity Ratio	Minimum Quarterly Consumption	Service Charge	Commodity rates		Minimum Quarterly Charges
				Water	Sewer	
5/8	1	3000	\$11.92	\$30.30	\$8.52	\$50.74
¾	2	6000	\$11.92	\$60.60	\$17.04	\$89.56
1	4	12000	\$11.92	\$121.20	\$34.08	\$167.20
1 ¼	10	20000	\$11.92	\$202.00	\$56.80	\$270.72
1 ½	10	30000	\$11.92	\$303.00	\$85.20	\$400.12
2	25	75000	\$11.92	\$757.50	\$213.00	\$982.42
4	90	270000	\$11.92	\$2,546.50	\$766.80	\$3,325.22

4. Water Only Customers

Customers with water only services shall be charged the minimum quarterly rate applicable to the customer's meter size less the sewer charge. Unmetered seasonal customers will be charged a flat rate of \$203.00 per season including the service charge.

5. Sewer Only for Residential Customers

Customers with sewer only services shall be charged \$46.00 per quarter.

6. Sewer Only for Commercial customers with a Private Water Supply

Larger customers connected to sewer services only and with a private water supply will meter this water at their own expense, and shall pay quarterly the service charge plus the sewer commodity rate set forth in Paragraph 1 hereof on the number of gallons of water registered by the meter on their private water supply, which will be read by the Town.

7. Bulk Sales

All water sold in bulk by the Municipality of Killarney - Turtle Mountain shall be charged for at the rate of \$0.25 per 16 gallons or \$16.00 per 1000 gallons.

8. Service to Customers outside the Urban Ward Limits

The Council of the Municipality of Killarney - Turtle Mountain may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the town. 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 the utility purposes in effect at the time, and which would be levied on the property concerned if it were within these boundaries. In addition, the customer will pay all cost of connecting to the utility's mains and installing and maintaining service connections.

9. Billings and Penalties

Accounts shall be billed quarterly, and shall be due and payable 20 days after the date of billing. A penalty of one and one quarter (1 ¼) percent of the amount of the bill shall be added monthly if not paid by the due date.

10. Disconnection and Reconnection

The Public Utilities Board has approved the Conditions Precedent to be followed by the municipality with respect to the disconnection of service for non-payment including, such matters, as notice and the right to appeal such action to the Public Utilities Board. A copy of the Conditions Precedent is available for inspection at the Municipality's office.

Any service, disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$20.00 have been paid.

Service may be installed, disconnected, removed or reconnected upon receipt of a written request and payment of the applicable rate as set in the following:

Meter	Installation	Disconnection	Removal	Reconnection
5/8	\$20.00	\$7.00	\$12.50	\$20.00
¾	\$20.00	\$7.00	\$12.50	\$20.00
1	\$30.00	\$7.00	\$12.50	\$20.00
1 ¼	\$35.00	\$7.00	\$12.50	\$20.00
1 ½	\$65.00	\$7.00	\$12.50	\$20.00
2	\$150.00	\$7.00	\$12.50	\$20.00
4	\$500.00	\$7.00	\$12.50	\$20.00

Note: Fee of \$7.50 shall be charged to all customers for each turn-on and each turn off. The reconnection fee does not include a re-installation fee. A check valve shall be installed, at cost to the customer, with all new installations and with all renewals.

11. 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.

12. Hydrant Rentals

The Municipality of Killarney - Turtle Mountain will pay to the Utility an annual rental of \$150.00 for each hydrant connected to the system which includes the cost of water for fire fighting.

13. Sewer Surcharges

- a) There may be levied annually, in addition to the 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 waste.

1. Commodity Rates/ October 1, 2011

	<u>Water</u>	<u>Sewer</u>	<u>Water & Sewer</u>
First 20,000 gal/qtr	\$10.38	\$3.41	\$13.79
Over 80,000 gal/qtr	\$9.39	\$3.41	\$12.80

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:

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Metre Size	Group Capacity Ratio	Minimum Quarterly Consumption	Service Charge	Commodity rates		Minimum Quarterly Charges
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5/8	1	3000	\$11.92	\$31.14	\$10.23	\$53.29
¾	2	6000	\$11.92	\$62.28	\$20.46	\$94.66
1	4	12000	\$11.92	\$124.56	\$40.92	\$177.40
1 ¼	10	20000	\$11.92	\$207.60	\$68.20	\$287.72
1 ½	10	30000	\$11.92	\$311.40	\$102.30	\$425.62
2	25	75000	\$11.92	\$778.50	\$255.75	\$1,046.17
4	90	270000	\$11.92	\$2,614.50	\$920.70	\$3,547.12

4. Water Only Customers

Customers with water only services shall be charged the minimum quarterly rate applicable to the customer's meter size less the sewer charge. Unmetered seasonal customers will be charged a flat rate of \$203.00 per season including the service charge.

5. Sewer Only for Residential Customers

Customers with sewer only services shall be charged \$46.00 per quarter.

6. Sewer Only for Commercial customers with a Private Water Supply

Larger customers connected to sewer services only and with a private water supply will meter this water at their own expense, and shall pay quarterly the service charge plus the sewer commodity rate set forth in Paragraph 1 hereof on the number of gallons of water registered by the meter on their private water supply, which will be read by the Town.

7. Bulk Sales

All water sold in bulk by the Municipality of Killarney - Turtle Mountain shall be charged for at the rate of \$0.25 per 16 gallons or \$16.00 per 1000 gallons.

8. Service to Customers outside the Town Limits

The Council of the Municipality of Killarney - Turtle Mountain may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the town. 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 the utility purposes in effect at the time, and which would be levied on the property concerned if it were within these boundaries. In addition, the customer will pay all cost of connecting to the utility's mains and installing and maintaining service connections.

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1 ¼	\$35.00	\$7.00	\$12.50	\$20.00
1 ½	\$65.00	\$7.00	\$12.50	\$20.00
2	\$150.00	\$7.00	\$12.50	\$20.00
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Note: Fee of \$7.50 shall be charged to all customers for each turn-on and each turn off. The reconnection fee does not include a re-installation fee. A check valve shall be installed, at cost to the customer, with all new installations and with all renewals.

11. 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.

12. Hydrant Rentals

The Municipality of Killarney - Turtle Mountain will pay to the Utility an annual rental of \$150.00 for each hydrant connected to the system which includes the cost of water for fire fighting.

13. Sewer Surcharges

- c) There may be levied annually, in addition to the 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.
- d) 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 waste.