

M A N I T O B A) Order No. 139/13
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THE PUBLIC UTILITIES Board ACT) November 21, 2013

BEFORE: Susan Proven, P.H.Ec, Acting Chair
 Marilyn Kapitany, B.Sc. (Hons.), M.Sc., Member

CITY OF MORDEN
WATER AND SEWER UTILITY
REVISED WATER AND SEWER RATES

Summary

The Public Utilities Board (Board) hereby varies the application made by the City of Morden (City) and approves revised rates for the Water and Sewer Utility effective January 1, 2014.

The current and revised water and sewer rates are noted below:

	Current	Approved January 1, 2014	Increase/ Decrease
Quarterly Service Charge	\$17.60	\$15.50	-12%
Water - \$/per 1,000 gallons First 100,000 gallons per quarter	\$7.25	\$11.61	60%
Water - \$/per 1,000 gallons Over 100,000 gallons per quarter	\$3.45	\$5.57	61%
Sewer - \$/per 1,000 gallons First 100,000 gallons per quarter	\$3.15	\$4.20	33%
Sewer - \$/per 1,000 gallons Over 100,000 gallons per quarter	\$0.95	\$1.70	79%
Minimum Quarterly - Water and Sewer**	\$48.80	\$62.93	29%
Minimum Quarterly - Water Only**	\$39.35	\$50.33	28%
Bulk Water* - \$/per 1,000 gallons	\$8.20	\$12.85	57%
Reconnection Fee	\$50.00	\$50.00	0%
Hydrant Rental (Annual)	\$120.00	\$150.00	25%

*Minimum Charge is \$0.25 for 17 gallons \$4.25

**Based on 3,000 gallons

Details of the rates may be found in the attached Schedule "A".

Background

The City provides water and sewer services to 2,883 customers and water-only services to 26 customers for a current customer base of 2,919. The City expects this customer base to grow to 3,176 by 2017, which is the base year used for rate determination.

Water supply and distribution

The City purchases 10% of its water requirements from the Pembina Valley Water Co-op. The remainder of its water supply is drawn from Lake Minnewasta and processed through its water treatment plant (WTP), which was constructed in 1999. The treatment process utilizes lime soda-ash softening, filtration, chlorination and fluoridation.

The City recently decommissioned one of its water storage towers with the remaining tower having been constructed in the 1980s. Combined with an existing underground reservoir storage, the WTP currently has a total storage capacity of 900,000 Imperial gallons.

The distribution system consists of 68 km of piping averaging 30 years of age and constructed of cement (53%), PVC pipe (45%) and ductile iron (2%). The non-PVC piping is over 25 years old and the City is concerned over the high number of pipe failures and water main breaks which have occurred in recent years. They are requesting an increase to contingency funding to accommodate needed repairs.

The treated water is currently compliant with most provincial regulatory water quality guidelines and has no significant color or taste issues. However, the system is unable to meet current trihalomethane regulations and may be faced with major costly process changes to become compliant. A process upgrade is contemplated and funding provisions have been included in this submission.

Unaccounted for water varies between 7 and 19% and is attributed to leaking pipes, meter inaccuracies and malfunctions, hydrant and sewer flushing, fire fighting and water main breaks.

Sewage system

The sewage system generally consists of gravity sewer lines with four lift stations that direct the wastewater to a stabilization pond.

The collection system consists of approximately 68 km of gravity sewers and force main piping. The original system was installed in 1948 and is prone to leaks. The City has included a funding provision for a sewer main relining program in the submission.

The wastewater is treated at a six cell stabilization pond. The City has joined the Morden-Stanley-Thompson-Winkler planning district to commission a wastewater management plan which is anticipated to identify future needs of the system.

The facility currently meets the effluent quality guidelines stipulated in its operating license.

Operator certification

The water system is classified as a class III facility. It has one class III certified operator with another operator having a conditional class III certification and a third operator with class II certification.

Application

The City of Morden filed an application for revised water and sewer rates on March 19, 2013. The application proposed a rate increase to be effective September 1, 2013.

A Public Notice of Application was issued in March 2013 affording customers the opportunity to comment to both the Board and the Utility with respect to the proposed increases. Three comments were received.

The Board has at its disposal two alternative processes to deal with rate applications. It may determine that an oral hearing is warranted or that a paper review process is sufficient. Based on customer response to the Public Notice, the Board concluded that a paper review process was in the best interest of all concerned.

The rates then proposed were based on expenditure projections to 2017, as follows:

	2013	2014	2015	2016	2017
Administration					
Administration (building, office, staff, etc.)	155,000	158,427	161,596	167,731	170,444
Studies	15,000	30,000	15,000	15,000	21,600
Legal	15,000	15,000	15,000	15,000	15,000
Total general expenses	185,000	203,427	191,596	197,731	207,044
<i>Revenue:</i>					
Surcharges	- 100	- 100	- 100	- 100	- 100
Penalties	10,000	10,000	10,000	10,000	10,000
Total general revenue	9,900	9,900	9,900	9,900	9,900
Net revenue general	175,100	193,527	181,696	187,831	197,144
Water					
<i>Expenses:</i>					
Transmission and Distribution	99,906	108,592	110,764	112,979	115,239
Connections - Net Loss	106,000	108,120	110,282	112,488	114,238
<i>Production/ purchase</i>					
Operator training	4000	4000	4000	4000	4000
Purification and treatment	630,000	638,668	651,441	664,470	677,760
Water purchases	100,000	100,000	100,000	100,000	100,000
Service of Supply	14,000	18,036	18,397	18,765	19,140
Other Water Supply Costs	22,000	26,783	25,786	23,793	23,963
Reserves	175,000	175,000	175,000	175,000	175,000
Water meter replacement	50,000	50,000	50,000	50,000	50,000
Water tower construction	251,681	251,681	251,681	251,681	251,681
Water main rehab	125,000	125,000	125,000	125,000	125,000
Tangible capital assets)	225,101	224,289	223,458	220,678	219,779
Contingency -distribution	25,000	25,000	25,000	25,000	25,000
Contingency – treatment	60,000	60,000	60,000	60,000	60,000
Sub-total	1,887,688	1,915,169	1,930,809	1,943,854	1,960,799
<i>Revenue:</i>					
Connection Revenue	1,000	1,005	1,025	1,046	1,067
Hydrant rentals	42,000	42,750	43,500	44,250	45,000
Other revenue- production	2,500	2,550	2,601	2,653	2,706
Total non-rate revenue - water	45,500	46,305	47,126	47,949	48,773
Net rate revenue requirement - water	1,842,188	1,868,864	1,883,683	1,895,905	1,912,026

Sewer					
Sewage Collection System	62,000	69,288	70,674	72,087	73,529
Sewage Lift Station	55,000	60,613	65,098	66,341	70,324
Sewage Treatment and Disposal	34,000	33,400	34,068	34,749	35,444
Other Sewage Collection & Disposal Costs	8,300	8,300	8,300	8,300	8,300
Other	10,000	45,000	10,000	10,000	10,000
Interest on long term debt	90,299	83,367	76,037	68,285	60,068
Reserves	175,000	175,000	175,000	175,000	175,000
Tangible capital assets ⁽⁵⁾	233,457	232,781	228,590	224,622	222,530
Contingency ⁽³⁾	110,000	110,000	110,000	110,000	110,000
Total sewer expenses	778,056	817,749	777,767	769,384	765,195
<i>Revenue</i>					
Amortization of capital grants	28,001	28,001	28,001	28,001	28,001
Taxation revenues ^(b)	210,848	210,848	210,848	210,848	210,848
Total non-rate revenue- sewer	238,849	238,849	238,849	238,849	238,849
Net rate revenue requirement - sewer	539,207	578,900	538,918	530,535	526,346

The financial projections included provision for an expected inflation rate of 2%.

In addition to the allowance for reserve contributions and the contingency provisions, the funding proposal included allowances for the water meter replacement program to address the faulty water meters, the water main rehabilitation program to deal with the increasing incidence of water main breaks and a provision to fund the anticipated debt servicing costs for a new water tower. The water tower is expected to be in service in 2014 and will cost \$3 million, of which \$2,750,000 will be funded by a debenture issue.

The Board requires all municipalities to review the costs shared between the general operations of the Municipality and the Utility, and to allocate appropriate and reasonable costs to the Utility, based on a policy known as a Cost Allocation Methodology. This policy must be submitted to the Board for approval and cannot be changed without receiving approval from the Board. The Board's requirements regarding cost allocation methodologies can be found in Board Order No. 93/09. The Cost allocation methodology proposed by the City was as follows:

Mayor And Council	flat rate
City Manager And Director Of Finance And Administration	25% of salary
Audit	flat rate
Insurance	flat rate
Director Of Works And Operations	35% of salary
Equipment Use	flat rate
Building Rental	flat rate

The water and sewer rates, based on the expenditure projections, were proposed to be as follows:

	Current	Proposed for September 2013	Increase/Decrease
Quarterly Service Charge	\$17.60	\$15.50	-12%
Water - \$/per 1,000 gallons 100,000 gallons per quarter	First \$7.25	\$13.15	81%
Water - \$/per 1,000 gallons 100,000 gallons per quarter	Over \$3.45	\$6.10	77%
Sewer - \$/per 1,000 gallons First 100,000 gallons per quarter	\$3.15	\$3.15	0%
Sewer - \$/per 1,000 gallons Over 100,000 gallons per quarter	\$0.95	\$1.65	74%
Minimum Quarterly - Water and Sewer**	\$48.80	\$64.40	32%

Minimum Quarterly - Water Only**	\$39.35	\$54.95	40%
Bulk Water*- \$/per 1,000 gallons	\$8.20	\$14.95	82%
Reconnection Fee	\$50.00	\$50.00	0%
Hydrant Rental (Annual)	\$120.00	\$150.00	25%

*Minimum Charge is \$0.25 for 17 gallons \$4.25

**Based on 3,000 gallons

In its application, the City highlighted the fact that it is maintaining a two-step rate structure. The City is aware that the Board has been encouraging the collapsing of declining block rates in order to encourage conservation. However, in its view, because of the nature of its large volume users, the two rate structure is fairer. The City promotes and encourages water conservation with mandatory low flow fixtures in all new developments, a quarterly newsletter to residents addressing the topic, news releases and radio interviews highlighting the importance of water conservation. The average consumption has been reduced from 289 liters per capita per day in 2006 to 228 liters in 2012.

Following correspondence between the Board and City, the expenditure projections were revised, mostly to take into account the expected revenue offsets, reducing the rate revenue requirement. As a result, the rate revenue requirements for water were reduced by \$119,542 and the rate revenue requirements for sewer were reduced by \$2,380. However, the applicant also discovered an error in the original calculation of the rate

revenue requirements for sewer, which has resulted in the sewer rates being somewhat higher than originally proposed.

The amended rate proposal is as follows:

	Current	Proposed for September 2013	Increase/ Decrease
Quarterly Service Charge	\$17.60	\$15.50	-12%
Water - \$/per 1,000 gallons First 100,000 gallons per quarter	\$7.25	\$12.30	70%
Water - \$/per 1,000 gallons Over 100,000 gallons per quarter	\$3.45	\$5.70	65%
Sewer - \$/per 1,000 gallons First 100,000 gallons per quarter	\$3.15	\$4.20	33%
Sewer - \$/per 1,000 gallons Over 100,000 gallons per quarter	\$0.95	\$1.70	79%
Minimum Quarterly - Water and Sewer**	\$48.80	\$65.00	33%
Minimum Quarterly - Water Only**	\$39.35	\$52.40	33%
Bulk Water*- \$/per 1,000 gallons	\$8.20	\$12.85	57%
Reconnection Fee	\$50.00	\$50.00	0%
Hydrant Rental (Annual)	\$120.00	\$150.00	25%

*Minimum Charge is \$0.25 for 17 gallons \$4.25

**Based on 3,000 gallons

Customer Response:

The Board received correspondence from three stakeholders, expressing concerns over the large increases over the rates set only 5 years ago, and about spending patterns. The Chief Administrative Officer provided a detailed response, addressing each of the points raised and explaining the need for each of the provisions in the rate proposal.

Board Findings

The Board will approve revised rates for the Morden Water and Sewer Utility, however, the application has been varied as follows.

The rate increase, originally requested for September 1, 2013, will only be effective on January 1, 2014.

The Board has made a further adjustment to the revised rate proposal for water. It has removed from the revenue requirement the estimated annual debt servicing costs of \$251,681 for the new water tower and replaced it with the annual interest and amortization expenses. This adjustment is made in accordance with Board stated policies; rates are to be determined based on generally accepted accounting principles (adjusted for amortization of capital grants). The interest expense for the new water tower is estimated at \$101,000 for 2017. The City has advised that the water tower has a life expectancy of 75 years; based on a \$3 million construction cost, the annual amortization expense is estimated at \$40,000.

The methodology which the applicant used to determine the bulk water rate is not consistent with Board recommended methods. However, the resulting rate is not substantially different from that which would have resulted by applying Board formulae. No adjustment is being made to the rate contained in the revised proposal. The Board does encourage applicants to confer with Board staff where there is uncertainty about Board recommended methodology and, where variation is proposed, that the variation be clearly substantiated in the application.

The Board has taken note of the substantial reserve, contingency and special provisions included in the rate submission. While these requirements are significant, the need has been clearly documented and substantiated. Except for the adjustments to the provision for the water tower construction as noted above, the Board will allow the other provisions as submitted in the rate requirements.

It is usual practice for the Board to determine annual rates based on the revenue requirements for each of the years in question. The City has requested that one rate be established going forward, and that rate has been based on projected revenue requirements for the year 2017. After analysis, the Board has determined that the revenue requirements will not vary substantially between 2014 and 2017, and will therefore concur with the City's proposal to establish the rate based on the revised 2017 projected revenue requirements.

The Board will however direct that the City return with a revised rate proposal for the year 2018, requiring a submission to be filed on or before June 30, 2017.

The Board will approve the cost allocation methodology included in the application.

The Board accepts the City's proposal to continue a step rate structure in this application, but encourages the City to consider narrowing the gap between the two rates in future. The City is commended for its water conservation initiatives and the declining average daily consumption.

The Board is always concerned about unaccounted for water losses in excess of the 10% industry standard and is pleased to see that the City has put in place a plan to address one of the main contributors, namely the faulty water mains.

The Board commends the City for taking the time to provide a detailed response to the concerns expressed by its customers. The response was thorough and clearly explained the requirements as seen by the City. Such communication is encouraged to ensure a common understanding of the issues.

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.

IT IS THEREFORE ORDERED THAT:

1. The water and sewer rates for the City of Morden Water and Sewer Utility, as set out in Schedule "A" to this Order, BE AND ARE HEREBY APPROVED.
2. The Cost Allocation Methodology as submitted BE AND IS HEREBY APPROVED.
3. The City of Morden revise its water and sewer rate By-law to be consistent with the attached Schedule and submit a copy to the Board once it has received third and final reading.
4. The City of Morden review its water and sewer rates for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates if required, by no later than June 30, 2017.

Fees payable upon this Order - \$500.00

THE PUBLIC UTILITIES BOARD

"SUSAN PROVEN, P.H.Ec."
Acting Chair

"JENNIFER DUBOIS, CMA"
Acting Secretary

Certified a true copy of
Order No. 139/13 issued by
The Public Utilities Board

Acting Secretary

SCHEDULE "A"
CITY OF MORDEN
WATER & SEWER UTILITY

1. COMMODITY RATES - Effective January 1, 2014

		Rates per thousand gallons		
<i>Two-Step Rate Structure</i>		Water	Sewer	Water & Sewer
First	100,000 gallons per quarter	\$11.61	\$4.20	\$15.81
Over	100,000 gallons per quarter	\$5.57	\$1.70	\$7.27

2. MINIMUM CHARGES PER QUARTER - Effective January 1, 2014

2.1. Water and Sewer Customer

Notwithstanding the commodity rates set forth in Section 1 hereof, all customers with water and sewer service shall pay the applicable minimum charge set out below, which will include water allowance indicated:

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption	Service Charge	Commodity Charges		Quarterly Minimum Charges
				Water	Sewer	
5/8"	1	3,000	\$15.50	\$34.83	\$12.60	\$62.93
3/4"	2	6,001	\$15.50	\$69.67	\$25.20	\$110.38
1"	4	12,002	\$15.50	\$139.34	\$50.41	\$205.25
1 1/2"	10	30,004	\$15.50	\$348.35	\$126.02	\$489.86
2"	25	75,009	\$15.50	\$870.85	\$315.04	\$1,201.39
3"	90	135,017	\$15.50	\$1,356.04	\$479.53	\$1,851.07
4"	170	270,034	\$15.50	\$2,108.09	\$709.06	\$2,832.65

2.2. Water Only Customers

For customers with water service only, quarterly minimums shown in Section 2.1 hereof are reduced by the Sewer Commodity Charge shown for the customer's meter size.

2.3. Commodity Rates and Minimum Charge for customers with significant volume of water not returned to sewers

Notwithstanding Commodity Rates and Minimum Charges set forth in Section 2 hereof, Morden Research Station shall be charged the following rates:

Commodity Rates -	at the water and sewer rate set forth in the Commodity Rates for the first 1,000,000 gallons per quarter and at the applicable <u>water rate</u> only for all consumption in excess thereof.
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3. BULK SALES

Water sold in bulk by the Utility shall be charged for at the rate of Twelve Dollars and Eighty Five cents (\$12.85) per 1,000 gallons with a minimum charge of \$0.25 for 17 Gallons.

4. SERVICE TO CUSTOMERS OUTSIDE CITY LIMITS

The Council of the City may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the City. Such agreement shall provide for payment of the appropriate rates set out in Commodity Rates of this 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. PENALTY FOR LATE PAYMENT

A late payment charge of 1 ¼% compounded monthly shall be charged on the dollar amount owing after the billing due date. The due date will be at least fourteen (14) days after the mailing of the bills

6. DISCONNECTION

All utilities subject to *The Public Utilities Board Act* shall comply with the Conditions Precedent for water and/or sewer service disconnection, as attached hereto and marked as Schedule "B".

7. RECONNECTION FEE

Where any service is disconnected under the provisions of this By-law, it shall not be reconnected until all arrears, penalties and a reconnection fee of \$50.00 have been paid.

8. OUTSTANDING ACCOUNTS

Pursuant to **Section 252(2)** of The Municipal Act, the amount of all outstanding charges for water and sewer services, including fines and penalties, 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 City of Morden shall pay to the Utility an annual rental of \$150.00 for each hydrant connected to the system.

10. METER ACCURACY TESTING

Any customer may request that his/her water meter be tested for accuracy and before having the same tested by the City, he/she shall deposit with the Director of Finance & Administration the sum of One Hundred (\$100.00) Dollars, which shall be retained and if the meter shall be found to be accurate, the said sum of One Hundred (\$100.00) Dollars shall be retained by the City and if the meter is found to be inaccurate, the said sum of One Hundred (\$100.00) Dollars will be returned to the customer.

11. SEWER SURCHARGES

- (a) Every person who contravenes any provision of By-law 10-00 is guilty of an offence and on conviction is liable to a fine of not more than Five Hundred (\$500.00) Dollars for every day or part thereof upon which such offence occurs or continues.
- (b) Every person who contravenes any provision of By-law 10-00 and as a result of which contravention damage or injury is or may be caused to the Sewage System or any part thereof is liable to the City for the full costs of such damage or injury including any fine or penalty imposed on the City in relation to said contravention.