

Order No. 60/16

**CITY OF BRANDON
WATER AND WASTEWATER RATES
July 1, 2016, 2017 and 2018**

April 29, 2016

BEFORE: Susan Proven, P.H.Ec, Acting Chair
The Hon. Anita Neville, P.C., B.A. (Hons.), Member
Régis Gosselin, B ès Arts, MBA, CPA, CGA, Chair

Summary

By this Order, the Public Utilities Board (Board) varies the water and wastewater rates effective July 1, 2016, 2017 and 2018 for the City of Brandon (City) water and wastewater utility (Utility) as follows:

	Current	July-01-16	July-01-17	July-01-18
Monthly Service Charge*	\$4.25	\$4.66	\$4.66	\$4.66
Quarterly Service Charge*	\$16.00	\$17.48	\$17.48	\$17.48
Water - first 150 cubic metres per quarter (domestic)	\$1.53	\$1.57	\$1.61	\$1.66
Water - net 2,850 cubic metres per quarter (intermediate)	\$1.31	\$1.42	\$1.53	\$1.66
Water - all over 3,000 cubic metres per quarter (wholesale)	\$1.21	\$1.35	\$1.50	\$1.66
Sewer - first 3,000 cubic metres per quarter (domestic & intermediate)	\$0.81	\$1.08	\$1.35	\$1.63
Sewer - all over 3,000 cubic metres per quarter (wholesale)	\$0.72	\$1.00	\$1.30	\$1.63
Bulk water sales/25 gallons**	\$0.25	\$0.25	\$0.25	\$0.25
Hydrant Fee -Connection/Disconnection	new	\$75.00	\$75.00	\$75.00
Hydrant Rental (Annual)	\$200.00	\$200.00	\$200.00	\$200.00
Water curb stop turn on/turn off during normal working hours***	new	\$75.00	\$75.00	\$75.00
*Charge per water meter				
**Previously charged on 35 gallons				
***Charge of \$350 if outside of normal working hours				

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

Rationale for the Board's decisions may be found under "Board Findings".

Background

The City owns and operates a water and wastewater utility serving 14,156 customers; of those, 112 are water only customers and two are sewer only customers.

The City of Brandon Utility has been providing clean water supply to the residents of Brandon since 1893. At its current location, the Brandon Water Treatment Facility is comprised of four plants that addressed the treatment of water over the years. They include: Plant No. 1 constructed between 1905 and 1946, Plant No. 2 constructed in 1958, Plant No. 3 constructed in 1975, and the Sludge Dewatering Facility constructed in 1997. The combined Facility produces an average of 26 million litres of potable water daily.

The water treatment personnel monitor the water treatment process at the facility and collect and analyze water distribution samples to ensure safe drinking water. The operators are trained and certified in order to meet provincial requirements. The water supply system is regulated by the Office of Drinking Water under the Manitoba Water Conservation and Water Stewardship Department.

Unaccounted for water is reported at 13.8%.

The Water Reclamation Facility (WRF), located in the east end of Brandon, is the largest wastewater treatment facility in Canada utilizing membrane technology. Upgraded in 2014, the facility centralized what were once two wastewater treatment facilities in Brandon; the Municipal Wastewater Treatment Plant and the Industrial Wastewater Treatment Plant, the latter of which was associated with the Maple Leaf hog processing facility.

The WRF treats approximately 27 million litres of wastewater daily to a standard that is one of the most stringent in Manitoba. The City of Brandon was one of the first communities in Manitoba to become compliant with Manitoba's Nutrient Management

Strategy. The effluent produced is suitable as industrial reuse water and is marketed as such to prospective industries. The WRF operates under an Environment Act License as issued by Manitoba Conservation. The facility is designated a Class 5 wastewater treatment facility and is staffed with the appropriately certified operators.

Application

The City's initial application for revised water and wastewater rates was received on September 8, 2015 and was accompanied by a rate study prepared by the City's consultant, a letter requesting that the application be reviewed by way of a Public Hearing and By-law No. 7123, read the first time on August 17, 2015.

When reviewing an application, the Board has at its disposal two approaches, either a paper or a public hearing review. Normally, after the publication of the Notice of Application, the Board will consider the application and stakeholder responses, and determine which method of review is most appropriate. In this instance, since the City requested a public hearing, the Board issued a Notice of Public Hearing on December 9, 2015, advising that a hearing would take place at City Hall in Brandon on January 19, 2016.

Following the Public Hearing, the City submitted an amended rate application and By-law No. 7139, read for the first time March 7, 2016, for the Board to consider. This was received on March 23, 2016 and contained material changes.

The original submission called for the existing two and three step rates to be collapsed to a single rate in the first year, and requested revised rates effective through to 2020. The amended submission contained proposed rates through to 2018, and narrowed the gap between the rates over that period, but did not collapse the rates entirely during the application period.

The amended submission included revised expenditure projections summarized as follows:

	Sep-15	Mar-16	Change	Sep-15	Mar-16	Change	Sep-15	Mar-16	Change
Net revenue requirements	2016	2016		2017	2017		2018	2018	
General	538,061	513,613	-5%	548,823	523,885	-5%	559,798	534,363	-5%
Water	9,242,006	9,835,463	6%	9,471,324	10,236,076	8%	9,671,122	10,458,036	8%
Wastewater	9,739,785	8,582,301	-12%	9,839,832	8,911,630	-9%	9,920,541	8,976,856	-10%

Deficits and working capital surplus

By law, Manitoba utilities are not allowed to incur deficits. In the event that a deficit does occur, the Board has an application form available online that all municipalities are required to submit to the Board to obtain approval for the deficit and recovery methodology. The City of Brandon's original rate application submitted September 2015 referred to the fact that the City utility had experienced a deficit in 2013, indicated the deficit was being reviewed and that the City would be making an application to the Board for approval of the deficit. The amended rate application received March 2016 asked that the 2013 deficit of \$1,233,719 and the 2014 deficit of \$2,382,515 be approved and absorbed through future Utility working capital surplus.

The amended rate calculations included a provision of 1% of 2018 operating expenses to rebuild the working capital position of the Utility.

Board Order No. 93/09 established that utilities should maintain a minimum working capital surplus, in an amount equal to 20% of annual expenses. The working capital surplus is defined as the Utility fund balance, excluding any capital related items plus Utility reserves.

As per the 2014 audited financial statements, the most recent information available, the working capital deficiency at December 31, 2014 was:

Fund surplus	\$122,536,339
Deduct tangible capital assets	\$184,068,228
Add long term debt	\$ 2,957,109
Deduct current portion of long term debt	\$ 278,917
Add reserves:	
Water distribution reserve	\$ 19,859,134
Wastewater distribution reserve	\$ 25,719,929
Industrial wastewater treatment facility reserve	\$ 318,935
Equals Working Capital Deficiency	-\$ 12,955,699

The March 2016 amendment included the following projected expenditures for 2018:

	2018
Administration	486,996
Training costs	142,876
Total expenses general	629,872
Penalties	95,509
Total revenue general	95,509
Total revenue required - general	534,363
Purification and treatment	6,544,638
Transmission and distribution	837,086
Service of Supply	536,574
Maintenance of mains	366,117
Amortization	2,323,660
Interest on long term debt	150,761
Total expenses water	10,758,836
Bulk water fees	50,000
Hydrant rentals	250,800
Total revenue water	300,800
Total revenue required - water	10,458,036
Sewage collection system	367,895
Sewage treatment and disposal	6,751,447
Lift station costs	53,060
Amortization	3,814,152
Interest on long term debt	390,813
Total expenses sewer	11,377,367
Other income-industrial charges	2,243,120
Sewage lagoon -op rev from industry	111,491
Receiving station-sewage tipping fees	45,900
Total revenue sewer	2,400,511
Total revenue required - sewer	8,976,856

Cost allocation methodology

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 City submitted the following cost allocation methodology for approval.

Administration				
CAO	5%			
Assistant Administrator	25%			
Municipal Clerk	65%			
Billing services	Actual costs			
Audit	\$ 1,000.00			
Office space	\$ 6,500.00			
PP&S and delegate travel	Actual costs			
Operations				
Vehicle	Tracked and billed			
Labour	Tracked and billed			
Road repairs	Tracked and billed			
Major projects				
Interest/financing	Debenture debt and reserves			
Labour	Tracked and billed			
External costs	Direct charge (dedicated consulting)			

Public response and hearing

At the Public Hearing, the City was represented by the Mayor, Mr. Rick Chrest; Mr. Dean Hammond, the Treasurer and GM of Corporate Service for the City of Brandon; and the consultant who prepared the rate study. There were approximately 36 stakeholders in attendance.

The City's consultant made the presentation to those in attendance on behalf of the City. Rates were last set in 2007 by Board Order No. 169/07, prior to the implementation of Public Sector Accounting Board Standards (PSAB), which require municipalities to record amortization expense for tangible capital assets. The City advised amortization expense accounts for 107% of the applied-for increase in rates.

There were several presenters from different commercial, industrial and high volume users, such as Maple Leaf, Saputo, Pavilion Holdings, Blue Truck Wash, The Keystone Centre, Heritage Cooperative, The Manitoba Hotel Association, the owners of the Shoppers Mall, as well as several landlords and trailer park owners.

Many of the presenters expressed concern over the immediate collapsing of the rates, rather than phasing in the collapse, which they said did not allow them time to incorporate these changes into their financial plans.

The issue of the Board requiring the change from step rates to a single rate methodology was raised. The Board advised that the Board does not necessarily require that the change be made in one year. The City, in its closing statement made by the Mayor, stated that this information was a potential "game changer" and proposed that Council make an additional review of the rate application and submit an amendment to the Board.

None of the participants challenged the costs that were presented in support of the rate change. There were no residential customers who made any comments at the hearing.

Board Findings

The Board will approve the Cost Allocation Methodology as submitted, and reminds the City that this methodology must be used consistently in the future, and requires Board approval should any further changes be considered.

The Board will approve the 2013 and 2014 actual operating deficits. These deficits were \$1,233,719 and \$2,382,515, when calculated for regulatory purposes. The City's March 2016 rate application included a request that these deficits be recovered through future surpluses, and included a 1% provision to rebuild the working capital equity for the Utility. The Board found the 1% to be inadequate, and adjusted it to 2% when calculating the rates approved by this Order. The result is \$455,502 in revenue annually to rebuild the deficiency. This amount represents the minimum surplus that the Utility should experience; any surplus less than this represents a deficit and the Board should be advised as required.

Single step rates are not mandatory. However, based on the Board's responsibility to approve just and reasonable rates, users must pay the actual costs of services. Unless evidence is available that costs of providing services to a user class or a major user are different than those of other user classes, they are not approved by the Board. The City did not provide any evidence that would justify different rates for certain users.

There exists an accepted regulatory principle acknowledging that a sudden increase in rates can lead to rate shock. At the hearing, many presenters made it clear that the collapsing of step rates in a single year would be detrimental to their business operations. The Board concluded that the City's plan for an immediate increase would result in rate shock. The Board decided that it would be more appropriate to gradually collapse the rates by 2018 and have varied the rates accordingly.

Some presenters spoke eloquently about the economic impact of their businesses suggesting that this should be a consideration in rate setting. It is open to the City of

Brandon to provide that support, but it may not do so via utility rates. The City's rates must be subjected to the just and reasonable test set out in the *Public Utilities Board Act* of Manitoba. However, the *Municipal Act* does grant the authority to municipalities to allocate funds for grants or for economic development. If the City decides to support an industry, it can provide financial support through taxation or other revenue sources, but not through utility rates.

The Board does not support the use of volume discounts simply because water is sold in large volumes. A decreasing block rate structure can be used if it offers a mechanism to fairly and equitably recover cost differences based on a class water use and demand characteristics.

If it can be shown that providing services to certain users costs more or less than those of other users, the City can apply for rates that discriminate amongst users, but the application must provide evidence that utility costs vary amongst class of users.

The Board used the same methodology as the City in calculating the approved rates. The projected revenue requirement for 2018 was calculated. The difference between the current rate and the 2018 projected rate was increased in three equal steps over the three rate-year period approved by this Order. No growth rate was factored in; the assumption was that any possible growth would be offset by a reduction in consumption caused by the increase in rates.

The differences between the domestic, intermediate and wholesale rates were also calculated and eliminated equally over the three rate-year period, with provision for a single rate by July 1, 2018.

While the Board acknowledges the impact of these increases on the operations of high volume users, describing the changes as unexpected is inaccurate. The change from a multi step rate to a single step rate has been anticipated since the 2007 rate application and Board Order No. 169/07. At that time, the City publicly announced that it intended to fully collapse the rates by 2013. The proposal submitted to the Board in September 2015 was first tabled by Council in August 2015. Thus, the approval of a single step rate will have been preceded by a three year transition period starting in August 2015.

Calculation of rates

The 2018 rates were calculated as follows:

Customer service charge	2018
Net costs General - as per Schedule D of rate application	\$ 534,363
Working capital contribution = 2% of 2018 expenses	\$ 455,502
General rate revenue requirement	\$ 989,865
Divided by the number of customers	14,156
Quarterly customer service charge	\$ 17.48
Water	
Net costs Water - as per Schedule D of rate application	\$ 10,458,036
Amortization of capital grants	\$ 20,000
Amortization of contributed TCA @50%	\$ 125,758
Contingency allowance	\$ 399,181
Water rate revenue requirement for 2018	\$ 10,711,459
Divided by the water sales volume for 2014 (in cubic meters)	6,471,722
July 1, 2018 final water rate - fully collapsed to a single rate	\$ 1.66
Wastewater	
Net costs Sewer - as per Schedule D of rate application	\$ 8,976,856
Amortization of capital grants	\$ 972,284
Amortization of contributed TCA @50%	\$ 125,758
Contingency allowance	\$ 238,595
Sewer rate revenue requirement for 2018	\$ 8,117,409
Divided by the sewer sales volume for 2014 (in cubic meters)	4,989,429
July 1, 2018 final wastewater rate - fully collapsed to a single rate	\$ 1.63

The Board understands that the transitional approach will impact the financial results of the utility and will result in higher utility rates in the future, some of which will be borne by residential customers. No residential customers appeared before the Board, though the Board acknowledges the rate increases set out in the Notice of Public Hearing and original application from the City would have had minimal impact on residential customers.

The original rate application requested that five rate-years be approved, and the amendment was revised to propose rates for three rate-years. This Board has concluded that the City recognizes utility rates needs to be dealt with on a timely basis and calculated on financial results that are timely.

The Board expected a rate application from the City in 2013. The City was reminded on multiple occasions by the Board that an application was expected. The Board is well acquainted with the resource constraints of municipal governments. However, the Board expects that, in future, the City will make it a priority to monitor the financial condition of its utility operations and will be timely in applying for deficit approvals and revised rates.

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 (Rules). The Board's Rules may be viewed on the Board's website at www.pub.gov.mb.ca.

IT IS HEREBY ORDERED THAT:

1. Revised water and wastewater rates for the City of Brandon BE AND ARE HEREBY APPROVED in accordance with the attached Schedule "A", effective July 1, 2016, 2017 and 2018.
2. The 2013 and 2014 actual operating deficits for the City of Brandon Utility of \$1,233,719 and \$2,382,515, when calculated for regulatory purposes, are HEREBY APPROVED to be recovered through future utility surpluses.
3. The cost allocation methodology for shared services and equipment as submitted by the City of Brandon BE AND IS HEREBY APPROVED.
4. The City of Brandon amend its water and wastewater rate By-law for the Utility to reflect the decisions in this Order and submit a copy to the Board once it has received third and final reading.
5. The City of Brandon review its water and wastewater 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, 2018.

Fees payable upon this Order - \$1,500.00

THE PUBLIC UTILITIES BOARD

"SUSAN PROVEN, P.H.Ec."

Acting Chair

"JENNIFER DUBOIS, CPA, CMA"

Acting Secretary

Certified a true copy of Order No. 60/16
issued by The Public Utilities Board

Acting Secretary

CITY OF BRANDON
WATER & SEWER RATES BY-LAW NO. 7139
SCHEDULE "A"

1. SCHEDULE OF COMMODITY RATES

<u>Quarterly Commodity Rates per Cubic Meter</u>	July 1, <u>2016</u>	July 1, <u>2017</u>	July 1, <u>2018</u>
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Water

First 150 C.M. per quarter (Domestic Rate)	\$1.57	\$1.61	\$1.66
Next 2,850 C.M. per quarter (Intermediate Rate)	\$1.42	\$1.53	\$1.66
All over 3,000 C.M. per quarter (Wholesale Rate)	\$1.35	\$1.50	\$1.66

Sewer

First 3,000 C.M. per quarter (Domestic & Intermediate Rate)	\$1.08	\$1.35	\$1.63
All over 3,000 C.M. per quarter (Wholesale Rate)	\$1.00	\$1.30	\$1.63

Water & Sewer

First 150 C.M. per quarter (Domestic Rate)	\$2.65	\$2.96	\$3.29
Next 2,850 C.M. per quarter (Intermediate Rate)	\$2.50	\$2.88	\$3.29
All over 3,000 C.M. per quarter (Wholesale Rate)	\$2.35	\$2.80	\$3.29

Service Charge

Quarterly Service Charge (per water meter)	\$17.48	\$17.48	\$17.48
Monthly Service Charge (per water meter)	\$4.66	\$4.66	\$4.66

The following clauses are Effective July 1, 2016

2. Minimum Refund for Inactive Accounts

Inactive accounts, for water and/or sewer customers who do not have any other active utility account, with balances less than \$5.00 will not be refunded by the City.

3. Meter Resealing Fee

When damages or meter tampering or both are reported all costs to restore or replace the meter, as determined by the Director of Engineering Services & Water Resources, plus payment for the estimated quantity of unmetered water and related wastewater commodity charge, plus a charge of \$75.00 for resealing the meter shall be charged unless prior written authorization for breaking the seal was issued by the Director of Engineering Services & Water Resources.

4. Water Curb Stop Turn On/Turn Off

The fee to turn on or turn off the water service at the curb stop shall be:

- a) During normal working hours - \$75
- b) Outside of normal working hours - \$350

5. Hydrant Connection/Disconnection Fee

A customer who requires either a temporary hydrant connection or disconnection shall be charged a fee of \$75.00 per connection or disconnection.

6. Water Service Disconnection for Non-payment

The Public Utilities Board has approved the Conditions Precedent, attached to this by-law as Schedule "B", to be followed by the City 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.

7. Bulk Water sales

All water sold in bulk by the City of Brandon shall be charged for at the rate of \$.25 per 25 gallons.

8. Hydrant Fees

The City of Brandon or any other hydrant owner will pay to the Utility an annual fee of \$200.00 for each hydrant connected to the system which shall include the cost of annual inspection by the City and water used for firefighting.

9. Wastewater Surcharges

There may be levied annually, in addition to rates set forth above, a special surcharge on sewage based on the strength of various parameters above average domestic strength sewage as established from time to time by the City.

10. Additional Meters

Where deemed expedient:

- a. the City may elect to install auxiliary meters to separately record the amount of wastewater or water for billing purposes; or
- b. upon application to the Director of Engineering Services & Water Resources, by an owner or operator of a premise where a wastewater service is installed, the City shall install an auxiliary meter at the expense of the applicant, for such purpose.
- c. the City may enter into written agreements with large volume wastewater customers that provides for the customer to install a City approved wastewater meter at the customer's expense with wastewater volumes for billing purposes then determined by the wastewater meter. The agreement must provide that the wastewater meter is calibrated at the customer's cost on a schedule recommended by the meter manufacturer or if no schedule is available, then annually, with proof of calibration supplied to the City.

11. Estimated Wastewater Quantity

Where there is a private water supply and no wastewater meter is installed, the cost for wastewater shall be based upon the average consumption of water for that type of user as established from time to time by the City.

12. Billings and Penalties

Accounts shall be billed monthly or quarterly, at the discretion of the City, based on water used. A late payment penalty charge of 1 ¼% monthly shall be charged on the dollar amount owing after the billing due date. The due date will be a minimum of fourteen (14) days after the mailing of the bills.

13. Outstanding Bills

Pursuant to Section 252(2) of the Municipal Act, the amount of all outstanding charges for water and sewer services, including meter testing, 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. Where charges and penalties pursuant to this by-law are not paid within sixty (60) days from the date when they were incurred, the Director of Finance may add said charges and penalties to the taxes on the property and collect them in the same manner as other taxes.

14. Meter Testing

If any owner or customer wishes to have the water meter in their premises tested, the Director of Engineering Services & Water Resources shall have such meter tested. If the said meter, upon such test, is found to be accurate, a charge of \$150.00 for any size meter up to 2" shall be made for the said test. Meters sized in excess of 2" will be assessed a fee equal to the actual cost of testing plus 20%. Said fees shall be added to the utility account and collected along with the next scheduled billing.

15. Meter Replacement

Where the meter requires replacement due to damage or freezing, the cost of the meter plus 20% and a labour fee of \$75.00, shall be added to the utility account and collected along with the next scheduled billing.

16. Water Allowance due to Line Freezing

That in any case where at the request of the Director of Engineering Services & Water Resources or his/her delegate, 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 four previous quarters to the same customer, or the same premises if the occupant has changed.

17. Temporary Water Service

That in any case where at the request of the Director of Engineering Services & Water Resources or his/her delegate, a customer is provided with a temporary water service from another utility customer, the charge to both customers for the current quarter shall be the average of the billings for the last four previous quarters to each customer, or the same premises if the occupant has changed.

18. Change of Customer Subsequent to Quarterly Billing

Split water and sewer billings for a change of customer may only occur prior to each quarterly billing. Quarterly water and sewer billings are payable by the customer of record at the time of the billing.