REVISED APRIL 4, 2007

MANITOBA ) Order No. 38/07
) THE PUBLIC UTILITIES BOARD ACT ) April 2, 2007

BEFORE: Susan Proven, P.H.Ec., Acting Chair
Graham Lane, C.A., Chairman

THE TOWN OF GLADSTONE
REVISED WATER AND SEWER RATES
EFFECTIVE JANUARY 1, 2007
Executive Summary

By this Order the Public Utilities Board (Board) approves an application of the Town of Gladstone (Town) for revised water and sewer rates, effective January 1, 2007. Commodity rates on a joint basis for water and sewer increase to $11.95 from $6.35 (up 88%), minimum quarterly residential bills to $56.45 from $38.20 (48%), and bulk water charges to $14.00 from $5.10 per thousand gallons (175%).

The significant percentage increases are largely due to the Town’s conversion from well water to purchased water from the Yellowhead Regional Water Co-op Inc. (Yellowhead), of which the Town is a member. As well, the rate increases will fund a water-line replacement program.

The Town is to conduct more frequent future rate reviews; rates last changed in 1995. As well, the Town will file updates with the Board on the status of the line replacement program, unaccounted for water, and rate adequacy.

The increases are provided on a retroactive basis, and effective January 1, 2007; the Town has been incurring significantly higher Utility operating costs since entering the Yellowhead co-operative and abandoning its previous well/water treatment plant approach in 2006.
Application

On January 17, 2007, the Town applied for approval of revised utility rates. In support of its application, the Town filed a copy of By-law No. 1-2007, read for the first time January 16, 2007. The Board held a public hearing on March 21, 2007; despite advance notice to ratepayers, only representatives of the Town attended; no customer of its Utility opposed the application.

Board member Proven presided on a "hear and report" basis. Pursuant to The Public Utilities Board Act, one Board member may hear an application given the Board’s Chairman accepts the proposed outcome. Ms. Proven reported her findings to Mr. Lane and he concurred with her proposed decision, as indicated herein.

Existing and Town-proposed rates:

<table>
<thead>
<tr>
<th></th>
<th>Existing</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water per 1,000 gallons</td>
<td>$ 4.10</td>
<td>$ 9.70</td>
</tr>
<tr>
<td>Sewer per 1,000 gallons</td>
<td>$ 2.25</td>
<td>$ 2.25</td>
</tr>
<tr>
<td>Combined per 1,000 gallons</td>
<td>$ 6.35</td>
<td>$11.95</td>
</tr>
<tr>
<td>Residential Minimum Quarterly bill (5/8&quot; meter)</td>
<td>$38.20</td>
<td>$56.45</td>
</tr>
<tr>
<td>Bulk Water/1,000 gallons</td>
<td>$ 5.10</td>
<td>$14.00</td>
</tr>
<tr>
<td>Quarterly Administration Charge</td>
<td>$19.15</td>
<td>$20.70</td>
</tr>
</tbody>
</table>

While the Utility has managed to generate small annual surpluses since the last rate increase, the water purchase agreement and attention to necessary repairs and replacement of aging infrastructure required higher rates. Significant factors contributing to the Town’s proposal were:

1. The Utility had not had a rate change since 1995, with cost increases related to on-going inflation absorbed until the
application; rates require update to avoid future operating deficits.

2. In 2006, the Town joined Yellowhead, and began purchasing treated water at an initial cost of $7.50 per thousand gallons. The new arrangement was projected to increase the Utility’s annual operating costs by approximately $107,000, requiring revised rates.

3. The Utility’s water distribution system requires repair, with nine water main breaks repaired in 2006 at an average cost of $6,000.00. The Town plans a $275,000 water main replacement project and is seeking financial assistance from the Manitoba Water Services Board (MWSB). If assistance is not granted, the Town will rely on rates to fund the necessary repairs, and either another rate application will immediately follow or elements of the project deferred. Presently, the Town has no intention of borrowing to fund the project.

4. The Utility reserve has an inadequate balance. While the rate application reflects a projected annual contribution through rates to the Utility reserves of $45,000, given the current balance of the reserve was only approximately $125,000 as of December 31, 2006, the reserve is inadequate to fund the water main replacement project. As considerably more repair work is required, the Town plans to meet some of the expected costs through accessing the reserve balance.

5. The contingency allowance of $2,512.00 reflected in the projected rates is inadequate. The provision is well below the average cost of repairing a single water main break.
Though the provision is inadequate, the Town was not prepared to propose a higher allowance due to the affect on the proposed increases, already representing rate shock.

The below table reflects 2006 utility operating costs, compared to projections for 2007:

<table>
<thead>
<tr>
<th></th>
<th>2006 (unaudited)</th>
<th>Rate Study - 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>$29,500</td>
<td>$33,000</td>
</tr>
<tr>
<td>Water</td>
<td>$59,063</td>
<td>$168,777(1)</td>
</tr>
<tr>
<td>Sewer</td>
<td>$25,728</td>
<td>$39,300(2)</td>
</tr>
<tr>
<td>Reserve Transfer</td>
<td>$20,000</td>
<td>$ -</td>
</tr>
<tr>
<td></td>
<td>$134,291</td>
<td>$241,077</td>
</tr>
</tbody>
</table>

(1) Includes $1,512 for contingency and $20,000 for reserves.
(2) Includes $1,300 for contingency and $25,000 for reserves.

The Utility projects $3,900.00 of annual revenue will be drawn from the Town’s General Operating Fund for use of the Town’s 54 hydrants (representing $72.00 per hydrant). Hydrant charges are made against the General Operating Fund in recognition that the hydrants are primarily in place to provide fire protection.

The Town reviewed with the Board its future capital plans, which as noted above, includes the water-line replacement program. As previously indicated, the Town will review rate adequacy on a more frequent basis in the future, to ensure sufficient revenue to meet Utility operating costs.

As to its sewer system, the Town advised that sewer related costs are relatively stable, requiring no increase in sewer rates. Annually, $25,000 is projected to be collected through sewer rates to build reserves.
Bulk water users will also experience a significant increase in rates, for the same reason as connected customers. As well, bulk rates are intended to reflect some contribution to the capital costs of the system, which are largely met by the Town’s ratepayers through tax roll assessments. Approximately 5% of the Town’s water sales are bulk water sales. With the large increase in the bulk water rate, the Town expects some current users may connect to the Town’s system in the future.

The Town sought approval of new rates effective January 1, 2007, noting that it was already paying the higher cost for Yellowhead water. The Town advised the Board that Town residents were aware of the proposed higher rates, and that the primary cause was the change from a well/treatment plant system to water delivered by Yellowhead, a decision made for water quality and adequacy reasons.

**Background**

The Town joined and began purchasing water from Yellowhead in order to improve water quality and security of supply. The Town has discontinued the operation of its water treatment plant, though it monitors chlorine levels in the water, and adds chlorine as required.

The Co-op’s members are municipalities, and Yellowhead purchases its water from the City of Portage a Prairie. The Co-op, with advice from the MWSB, determines the rate its member municipalities are to be charged for water, and that rate reflects the cost of water from Portage and Yellowhead’s own costs.
Water losses are being experienced partially due to the operating pressure of the line from Yellowhead (it being higher than the Town’s previous line pressure from its treatment plant) and that Yellowhead’s water flows in the opposite direction from the Town’s old system. Together with the age of the mains, these factors likely explain recent incidences of breaks; the existing old water-lines may be unable to withstand the higher pressure without leaks and losses occurring.

The Town is in the process of replacing its older water lines, and the initiative to-date has already managed to reduce water losses from the 30% peak of 1997 to a projected 13% in 2007. The Town advised more work is required to further reduce losses and breaks.

With respect to the Town’s sewer system, the Town uses a three-cell lagoon. Sewer operating costs have been approximately $14,300.00 annually. The Town reported that it meets provincial requirements for discharges into the Whitemud River, and that some work has been recently done to clean out the intakes to the lagoon.

The Town serves a few customers beyond its boundaries, charging the 6 to 8 customers the same commodity rate that is charged to Town customers plus a surcharge. The surcharge provides a contribution to the capital costs of the system; Town ratepayers service debenture debt taken on to construct the system through their taxes.

Three staff members currently operate the Utility; one certified, one deemed equivalent to certification, and the other in training.
The Town appreciates the need to provide continuing education for its Utility operators.

The Town employs a single-step rate structure, an approach that is considered consistent with the promotion of water conservation. The Town also provides water conservation information, recently having distributed a Manitoba Housing and Rehabilitation Corporation booklet titled "Household Guide to Water Efficiency"; customers experiencing high water bills are encouraged to check for water leaks in their homes.

The Town advised that some of the components of its abandoned water treatment plant are fairly new and salvageable; the Town is seeking a buyer.

**Board Findings**

After reviewing the application and supporting evidence, the Board will approve the Town’s application. While the magnitude of the rate increases are significant, and represents rate shock, the new rates are required to reflect the changed circumstances, with the Town now drawing water from Yellowhead.

The Town’s Utility requires the higher rates to generate the minimum revenue required to meet projected and considerably higher operating costs, which reflect the new water purchase agreement and a much needed expanded repair program.

Further, as MWSB grants to assist with the capital repair work
cannot be assured, Utility reserves would best be increased to avoid a necessity to borrow.

Notwithstanding the dramatic rate increases, the Board is pleased that the Town is replacing its aging system and that through prudent action the Town expects to reduce water losses from 30% to 13% in 2007, 13% being more in line with industry averages. Reduced water losses should result in reduced water purchases and lower rates, than would otherwise be required.

With respect to the Town’s provision for contingencies as reflected in its 2007 utility budget and the revised rates, the provision is too low for the condition of utility infrastructure. However, the Board accepts the Town’s decision to defer even higher rate increases at this time, though future rate reviews should reconsider and reset the contingency provision.

By law, Manitoba municipal utilities are to breakeven on annual operations. And if a deficit is incurred, there is an obligation to bring forth a plan to recover the deficit. Deficit funding is neither lawful nor desirable, and the provision of water and safe effluent removal are essential services.

The Board will review future Town updates on its progress with its water line replacement program, and will require the Town to file its year end financial statements for 2007 and 2008 by no later than March 31, of 2008 and 2009, respectively. Commentary is to be attached reporting on the status of the water line replacement program and the level of unaccounted-for water. If necessary, the Board will consider further increases.
With respect to sewer rates, the Board notes that the Town allocates the annual sewer reserve contribution raised through rates to the overall Utility Reserve. While the Board will not direct a change to this practice at this time, once the water replacement projects are complete the Town should consider either reducing the provision or segregating the annual contribution within a specific sewer reserve.

After the passing of the requisite by-law to put into effect this Order, the Town is to file a copy with the Board.
IT IS THEREFORE ORDERED THAT:

1. By-law No. 1-2007 and the schedule of rates will be approved, effective January 1, 2007 subject to the following amendments.
   i) For the 5/8” meter size the water commodity charge will be $29.10 and the total quarterly minimum will be $56.55.
   ii) For the 3/4” meter size the water commodity charge will be $58.00.
   iii) The following clause is to be added:
       “The Town of Gladstone will pay to the utility an annual rental of $72.22 for each hydrant connected to the system.”

2. The Town of Gladstone file with The Public Utilities Board a copy of By-law No. 1-2007 as amended after passing.

3. The Town of Gladstone file its financial statements for the years ending December 31, 2007 and 2008 by March 31 of the following year, along with commentary providing an update on the Town’s capital projects, unaccounted-for water level and rate adequacy.
Fees payable upon this Order - $350.00

THE PUBLIC UTILITIES BOARD

“GRAHAM LANE, C.A.”
Chairman

“G. O. BARRON”
Acting Secretary

Certified a true copy of Order No. 38/07 issued by The Public Utilities Board

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Acting Secretary