

M A N I T O B A) Order No. 130/01
)
THE PUBLIC UTILITIES BOARD ACT) August 28, 2001

BEFORE: S. Proven, Acting Chair
M. Girouard, Member

**THE CITY OF DAUPHIN
WATER AND SEWER RATES
BY-LAW NO. 22/2001**

The City of Dauphin (the City) applied to The Public Utilities Board (the Board) for approval of revised water and sewer rates as set out in By-law No. 22/2001 which was filed with the Board and was certified as to having been read the first time on May 14, 2001 (the Application). Notice of the Application and public hearing was published and posted pursuant to the Board's instructions.

A public hearing was held at the Parkland Recreational Complex in Dauphin on August 15, 2001 at 7:00 p.m. The following persons were in attendance:

City Representatives:

Mayor W. H. Nicholson

Mr. James Puffalt, Chief Administrative Officer

Mr. Ray Storozinski, City Engineer

City Resident:

Mr. Walter J. McKechnie

Eclipse Water Co-op Representatives:

Mr. Robert Scrase

Mr. Walter Peirson

Mr. Lorne Day

Mr. Will Kachurowski

Lockville Water Co-op Representative:

Mr. Barry Edwards

The following information was obtained from the City's Application and the hearing:

1. The City's utility system was established 90 years ago, and the need for a Water Treatment Plant (WTP) was an ongoing issue since the 1950's.
2. In 1996, the City was under a Boil Water Order due to the presence of giardia and cryptosporidium

cysts. With Provincial and Federal assistance, the City was able to construct a new Water Treatment Plant which was commissioned in 1998.

3. The City is meeting the safe drinking water guidelines although, because of an aging cast iron distribution system, scale and rust can be found in the water. Approximately, 40% of the distribution system is cast iron. The soil in Dauphin is quite corrosive causing leaks in the system.

The City does receive complaints about the clarity of the water due to rust and also, about chlorine levels. The City advised high chlorine levels are necessary to ensure that appropriate chlorine levels exist at the extremities of the system. The City is not aware of any complaints regarding iron bacteria.

4. With the commissioning of the WTP, the City trained its personnel, and will proceed to mandatory certification once the program becomes available.
5. The City acknowledges it has a large amount of unaccountable water which reflects a cost to the utility and its customers. While some effort has been made to detect and control the unaccounted for water, the City indicated the problem is indicative of an aging system.

6. The WTP and reservoir was designed to produce 2 million gallons of water per day and currently is running at 50% capacity. Part of the City's water production capacity is reserved for rural use. It was designed to serve 10,000 customers in the City and 1,000 customers in the rural area.

The distribution system is meeting flow requirements, but is short in the area of fire flows. In 1999, a budget of \$3 million was determined necessary to ensure proper fire flow capacity is available to the hospital, schools and some residential areas.

7. The waste water collection and disposal system is also problematic for the City. The old clay tile collection system suffers from high water infiltration and high water flows from weeping tiles. It was estimated that 98% of homes in the City have weeping tiles connected to the sewage collection system. The City's current by-law prohibits new building connections.

The City's lagoon has never been cleaned out and it was estimated that sludge is consuming 20% of the hydraulic capacity of the lagoon. The City is reviewing this matter currently with Governments. The City discharges into the Vermillon River and currently, the City has no environmental order against it.

The City suspects that the lagoon is leaking and that, if a repair were made, the system may become overloaded jeopardizing its current discharge level.

The City's lagoon consists of 6 - 7 cells, one of which is aerated.

8. The City has no industry producing higher strength sewage, and accordingly, the use of sewer surcharges are not required.
9. The City filed excerpts from a report of Reid Crowther estimating the lagoon upgrading cost at \$5.6 million, excluding Engineering and City administration costs.

The City also filed an excerpt from a report indicating project costs of \$3.3 million for water main renewal and upgrading without the Jackson Street Reservoir, and Pump station.

10. While the City regrets the need for rate increases, it advised the Application is consistent with the City's Development Plan, which is to build a backbone for the City, to maintain a good quality of life, and ensure adequate infrastructure.

The City also advised that its Application is consistent with statements made at the last rate hearing of the Board in 1997, wherein the City stated:

"A further estimated 25% increase will be required some time in the year 2000 to meet the operating costs of the Water Treatment Facility as well as to speed the correction of the water distribution loss problem to the estimated National Average of 20% from the current 45%."

11. The City believes that the utility should be self-sufficient and that cost recovery pricing to customers, in the City's boundaries, and beyond, will help minimize property tax increases, and long term borrowing.
12. The City advised its Application will also help to ensure the long-term business strategy continues to be successful. It requires that:
 - Operating costs are covered.
 - Upgrading of the system continues to ensure water quality complaints are minimized.
 - Approximately \$200,000.00 will be raised from water and sewer service billings to pay for capital construction projects.
 - The need to borrow yearly for capital construction projects is minimized.

- There will be an increased contribution to the Utility Savings Account to pay for future large capital projects.
- The Utility is self-sufficient without the need to borrow.
- The Utility long-term debt is minimized.

13. The City, as of December 31, 2000, had a zero balance in its cash surplus account, and \$4,295.00 in reserve.

14. The proposed rates include a 1% contingency allowance, and an annual reserve fund contribution of \$50,000 reflecting the following:

Water Production	\$110,000
Water Distribution	62,000
Sewage Collection & Disposal	<u>51,751</u>
Total	<u>\$223,751</u>

The City believes the contribution to the reserve fund is not adequate to meet its capital requirements but expects to have 10 to 12 years to build the reserve fund before a significant capital expenditure is required. They plan to do some upgrading within the annual budget. Because of rate impact concerns, the City is not proposing a larger contribution.

15. The City proposed multiple year rate increases as noted below:

July 1, 2001	14%
January 1, 2002	12%
January 1, 2003	11%

The City anticipated further increases will be required in 2005 and 2006 to meet the costs of inflation.

The increase in bulk water rates was not being phased-in.

16. The City indicated that its expenditure forecast included inflationary increases, and other unexpected higher costs in operating the WTP, all of which are included in the following costs for 2002:

Administration	\$ 375,000
Water Production	545,094
Water Distribution	383,800
Sewage Treatment/Disposal	232,600
Total	<u>\$1,536,494</u>

17. Noting that the Administrative Cost component amounted to approximately 25% of total utility costs, which is higher than usual for a utility, the City advised that some of those costs included maintenance costs.

18. By Agreement, the City provides water beyond its boundaries, and the rates charged are reflected in the Agreement. The City confirmed the rate Application, if approved, will result in changes in the rates charged to these customers.

Comments of Mr. Walter J. McKechnie

Mr. McKechnie expressed concerns about the water quality, and advised the Board that he and his wife are now forced to purchase bottled water because of illness they attributed to water quality. He indicated he made some enquiry of his neighbours, and the local supplier of bottled water, who all indicated that the use of bottle water was quite prevalent.

The City responded by assuring Mr. McKechnie that the City's water supply is meeting fully the safe drinking water standards. Having been advised by health authorities to further his investigation through his physician, Mr. McKechnie has not pursued the matter.

Mr. McKechnie reminded the Board the increases proposed were substantial, and while the rates are being staged, all rate increases will take effect over an 18 month period. He requested the Board consider this together with the rate impact on citizens with fixed incomes.

Comments of the Co-ops

Representatives of the Co-ops indicated they were quite pleased with the service provided by the City to their members, who are all living outside the City limits.

They indicated that, based on the operating experience now gained under the Agreements with the City, they now believe the rates charged by the City are excessive recognizing the Co-ops, following the receipt of the water, have to deliver and maintain their own distribution systems to their members.

The Co-ops indicated that the Agreements between the City and the Co-ops provide for the following charges:

"(a) Supply: (payable quarterly)

- (i) a charge of \$2.30 per 100 cubic feet (Bulk Rate) for the first 1500 cubic feet of water supplied multiplied by the number of customers connected to the Co-op system.
- (ii) a charge of \$1.45 per 100 cubic feet (Domestic rate) supplied in excess of 1500 cubic feet up to a maximum of 135,480 cubic feet of water in each quarterly period. Any volumes drawn in excess of 361,260 cubic feet shall be charged at a penalty rate of 120.0% of the Domestic Rate.

The aforesaid figures of \$2.30 and \$1.45 are the present Bulk and Domestic Rates respectively, for water supplied in the Town of Dauphin, and shall be changed as said Bulk and Domestic Rates are changed from time to time and approved by the Public Utilities Board.

(b) Future Capital Improvements (payable annually)

This annual levy shall be calculated by multiplying the Town's annual Local Improvement mill rate associated with the annual debenture debt of the water supply and distribution portion of utility times the current total portioned taxable and exempt assessment of each quarter section, plot, parcel, acreage, holdings or lot within the Lockville district serviced with water from the Town of Dauphin. The Co-op shall annually provide a list of its members, the legal descriptions of their lands, and the total portioned taxable and exempt assessment of each member's lands as such information is recorded at the Municipal Assessment Branch of the Province of Manitoba.

(c) Recovery of Deficit Levy (to be paid annually if applicable)

The Co-op will pay its portion of any annual deficit in the water utility budget commencing from the time of actual receipt of water purchased and will not take responsibility of prior years deficit incurred by the utility. The Co-op's portion of such deficit will be calculated and assessed to The Co-op on the basis of its users' Local Improvement assessments in the same fashion as water users in The Town of Dauphin"

The Co-ops questioned who qualifies as a wholesale customer, and were advised there is no such customer class, but rather a wholesale rate which is available to all customers depending on their water consumption.

The City indicated when considering their Application, no discussion of a staged rate increase to the Co-ops took place. The City indicated it was prepared to consider this, and

all matters related to the charges set out in the agreements. It was observed that the Co-ops pay bulk water rates as per the Agreements which have been grossed-up for taxes and also, an additional amount for "Future Capital Improvements" which is paid in lieu of taxes.

The City advised it was prepared to discuss the Agreements with the Co-ops based on the foregoing, and to advise the Board as to the outcome of those discussions. The Board advised parties it would proceed with its consideration of the Application, and looks forward to the report as soon as possible.

Board Finding

The Board is pleased to note that the WTP, which was the main topic of discussion at the 1997 public hearing, is fully operational and is producing water that fully meets safe drinking water standards. The Board understands that there can be start-up issues associated with such commissioning, and that with experience such costs have now stabilized, and are reflected in the City's Application. The Board is also pleased that the City will be providing further training to its staff together with operator certification once the program becomes available. The Board noted the concerns about water quality and the wide use of bottled water by residents, but suspects that the use of bottled water is more reflective of current lifestyles and past experiences, both in Dauphin and more recently, elsewhere.

The Board is also pleased to note that the City fully appreciates the importance of its infrastructure for economic development in the community as reflected in its Development Plan. The City must weigh carefully, the importance of this infrastructure with its apparent aversion to raise capital for necessary upgrading through debentures and tax. It is apparent more work needs to be done and this work is of a high priority. Water clarity, high chlorine levels, and water losses are all addressed in the City's capital requirements. However, to defer such important work for the building of the reserve fund which will take 10 to 12 years may not be the most desirable option. These are matters to be considered by Council.

Having considered all the evidence and presentations provided at the hearing, the Board is satisfied the City requires an increase in rates to ensure the utility is self-sufficient, and meeting the needs of its customers. The Board accepts the City's assessment as to the rate impact associated with increased contribution to the reserve fund, and therefore, will not authorize higher rates for this purpose.

However, the Board reviewed the Administrative Costs as included with the City's budget for the utility and confirmed the comments made at the hearing. Some of the costs included do not directly relate to administration and more appropriately should be included in the commodity rates consistent with the Board's guidelines. The Board's guidelines state the administration charges should be based on meter readings, customer billing, and collection costs, and some office salaries and expenses of a similar nature. Therefore, the Board will

require the City review this charge considering the deletion of the salary costs, related to the engineer, surveyor and draftsmen, and related employee benefits from the calculation of the quarterly service charge. These costs are to be included in the calculation of commodity rates. The City will be required to refile the revised rates for the Board's approval.

In so doing, the Board notes that the utility bill for fixed and low income customers will decline accordingly allowing for each customer to pay only their fair share of such costs.

The Board understands that such rates will flow through to the City's customers served beyond its boundaries by Agreements, and further that the City will meet with these customers to discuss the rating principles set out in the Agreements. The Board will require a report from the City by no later than September 30, 2001.

IT IS THEREFORE ORDERED THAT:

1. The City of Dauphin revise the quarterly service charge consistent with this Order.
2. The City of Dauphin resubmit revised commodity rates consistent with this Order.
3. The City of Dauphin file a report with the Board by no later than September 30, 2001, following a meeting with its customers served beyond the City of Dauphin boundaries.

Fees payable upon this Order - \$553.14

THE PUBLIC UTILITIES BOARD

"S. PROVEN"
Acting Chair

"G. O. BARRON"
Secretary

Certified a true copy of
Order No. 130/01 issued by
The Public Utilities Board

Secretary