

M A N I T O B A) Order No. 62/05
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THE PUBLIC UTILITIES BOARD ACT) May 2, 2005

BEFORE: Graham F. J. Lane, C.A., Chairman
 S. Proven, P.H.Ec., Member

THE CITY OF WINKLER
APPLICATION FOR REVISED WATER AND SEWER RATES
PURSUANT TO CITY BY-LAW NO. 1829-05

Introduction

The City of Winkler ("the City") applied to The Public Utilities Board ("the Board") for revised water and sewer rates expected to increase annual utility customer revenue by 25%. This was the first application by the City for increased water and sewer rates since 2000 when an overall 39% increase in revenue from revised rates was approved by the Board.

Proposed amendments to municipal water and sewer rates are submitted to the Board for approval, pursuant to provincial statute. The Board's filing requirements include provisions that rate proposals must be accompanied by a by-law that has received first reading and sets out the proposed rate schedule and rates. Generally, the applicant files a rate study and financial statements in support of the proposal, together with an indication that the water and sewer utility meets provincial safe drinking water standards and the environmental license. As well, the applicant must notify its customers of its proposal, and this is usually done by means of publication of the notice in the local paper and posting the notice in several locations in the area.

The City adequately discharged these requirements, leading to a public hearing held by the Board on April 22, 2005 in Winkler.

This Order sets out a summary of the City's application, provides the Board's findings, its reasons for its views, and reports the Board's decision.

Application

The City of Winkler ("the City") applied to The Public Utilities Board ("the Board") for revised water and sewer rates, as set out in the City's By-law No. 1829-05, which received first reading on February 22, 2005.

Pursuant to the Board's requirements, Notice of the City's Application was published in the local newspaper and posted in several prominent locations within the Community. As well, all of the City's utility customers were mailed a copy of the Notice of Application and notice of public hearing.

The Application was heard by the Board at a public hearing held on April 22, 2005 at the City of Winkler's Council Chambers.

Public Hearing

The following persons were in attendance:

The Public Utilities Board:

Mr. Graham F. J. Lane	Chairman
Ms. Susan Proven	Member
Mr. Gerry O. Barron	Executive Director

The City of Winkler

Mayor Neil Schmidt	
Mr. Vince Anderson	Chief Administrative Officer
Mr. Arnold Kuhl	Assistant Administrator
Mr. Bill Zacharias	Director of Works & Operations

Members of the public attended, but no objection was raised with respect to the City's Application though those present were asked if they had any comments or concerns.

Background

The City currently has 2,811 customers, and projects that within two years the number of customers will increase to 3,011. The City purchases 40% of its annual water supply from the Pembina Valley Water Co-op ("PVWC") , with the balance of its water supplied by wells. The current purchase cost for rate for PVWC water is \$4.90 per 1,000 gallons.

The water treatment plant uses a lime/soda ash softening, recarbonation, filtration, chlorination and fluoridation to reduce levels of hardness, iron and manganese to produce water that conforms to Canadian Drinking Quality Guidelines and the aesthetic requirements of the community. The quality of the water has been confirmed by Cochrane Engineering.

The system is continually monitored by qualified staff, and the quality of the water is monitored by Enviro-Test Labs.

The wastewater treatment and discharge generally complies with licence standards. The lack of hydraulic storage allows little post treatment storage should the inflow rate exceed the system design levels. Discharge quality is monitored by qualified staff and tested by Enviro-Test Labs, for conformance with standards prior to release of treated wastewater.

Water and Sewer Operating staff are certified as required by Provincial Regulations, and the City has established an Employee Training and Development policy to ensure the requisite skills are in place.

Prior to this Order, the Board had approved the existing rates in 2000. At that time, the commodity rates on a combined basis for water and sewer increased from \$5.10 per 1,000 gallons to \$7.10 (an increase of approximately 39%).

In this application, the City proposed to increase the commodity charge from \$7.10 to \$8.85, a further 25% increase. All minimum quarterly bills would change accordingly, and, for the 5/8" meter size for example, the bill would increase from \$17.60 to \$23.10, an increase of approximately 31%. The City also proposed to increase its customer service charge from \$10.50 to \$14.25.

The Application was supported by a recent rate study, which was filed with the Board. Highlights from the rate study and other supporting material are as follows:

1. As at the end of 2004, the utility had a reserve fund balance of \$892,113.00 and an accumulated surplus of \$67,964. (\$750,000 of the utility reserve balance is expected to be expended to complete a lagoon project as indicated elsewhere in this Order).
2. The City has provided a 1% contingency allowance, \$197,905, in its forecast 2005 revenue requirement.

3. Also, included in its forecast revenue requirement, and factored into the proposed rates, is the City's proposal to collect debenture debt costs (principle and interest) for a new lagoon storage project (\$169,400 per year for 10 years).
4. The City reported that it collects approximately \$121,725 per year in sewer charges.
5. With the approval of the Application, the City forecast a breakeven 2005 utility budget, with revenues and expenses projected to be \$2,356,109.00.
6. The City projects a \$100,000 annual transfer from operating revenue to the utility reserve account, and included that assumption in developing its rate proposal.

The City filed a ten-year 2005-2014 Capital Works Plan with the Board. The largest project was indicated to be \$2.95 million for a new Lagoon Storage Cell. The annual capital budgets filed range from forecasted a budget high of \$3.315 million for 2005 to a low of \$407,000 for 2014. The capital projects forecast were for the most part related to system upgrades.

To recover the \$2.523 projected cost (\$2.95 Million gross cost) of the Lagoon Storage Cell Project, net of upgrading work and GST rebate but not including financing costs, the City plans:

1.	Withdrawal from utility reserve	\$ 750,000	30%
2	Contribution by others, grants	405,900	16
3.	Contribution from 2005 budget	120,000	5
4.	Contribution from rates (over a 10 year period)	<u>\$1,246,800</u>	<u>49</u>
	Total	\$2,522,700	100%

Noting that the collection of debenture debt through utility rates is generally the exception in rate setting, the norm being assessing the tax base for capital costs, the Board sought further clarification from the City. The Board also invited commentary from other provincial agencies with a view on the topic, and from the perspective of what represents fairness.

In a letter dated January 11, 2005, Mayor Neil Schmidt commented that the City believes that including the capital cost of a portion of the Lagoon project in rates is consistent with the fair and equitable benefit that lagoon storage cells provides users.

From the City's perspective, it would be consistent with its self-sustaining concept to include not only operating costs but also capital costs in rates. The Mayor also noted that when capital projects are included in developing rates, the higher rates that result promote conservation.

The Mayor indicated that once the debenture is fully paid, a rate review would be conducted to determine if rates could be reduced.

In response to the Board's request for comment, Manitoba Water Services Board wrote on its and the behalf of Water Stewardship, indicating support for the City's proposal.

The Lagoon Storage Project was forecast by the City to result in an additional sewer charge of \$0.76 per 1,000 gallons. When combined with other cost pressures, the City proposed that the sewer charge increase from \$2.85 per 1,000 gallons to \$3.85.

Excluding the debenture debt cost, the City calculated that the average quarterly bill increase for a consumer using 10,000 gallons per quarter would be 17% as compared to the recommended increase of 26% with the debenture charge included in rates.

The City indicated that if the Board did not approve the City's plans to fund the lagoon project in rates, it would be funded through taxes, and taxes would increase \$39.15 per year as compared to the projected tax of \$30.40 if the cost is recovered through rates. The City advised that if the Board did not approve the City's funding the lagoon project by higher utility rates, it would apply to the Municipal Board to recover the cost by taxes.

The Mayor noted that the City had experienced rapid growth over the past ten years and with that growth expected the challenges of providing adequate facilities and services at reasonable and affordable cost to continue.

The Mayor indicated that the City Council would not expect any reduction in utility rates to occur once the debenture is paid off. Future capital projects will arise, and the Mayor suggested that if events proved that estimate incorrect, then the city would propose placing any surplus that may develop in the utility reserve fund, on a interim basis awaiting additional capital expenditure requirements.

The City provides service beyond its boundaries in the R. M. of Stanley, by agreement, and charges such users the standard City rates plus a surcharge in lieu of taxes for recovery of capital costs. For the Boundary Trails Health Centre and the Co-op truck stop, the surcharge will be discontinued as cash contributions have been made by the R. M. of Stanley.

Board Findings

The Board will approve the water and sewer rates applied for by the City of Winkler, which includes an amount to recover the debenture debt costs related to the Lagoon Storage Project.

The Board is pleased with the City's strategy to review rates on a more regular basis for adequacy, and notes that the City is attending to the capital needs of the utility in its plans for the future. As noted by Mayor Schmidt rapid growth brings challenges, and the Board is satisfied with the City's pledge to meet these challenges with planning.

The Board accepts the City's forecast of a breakeven position for 2005, but notes that should unforeseen expenditures not arise the contingency allowance collected in the approved rates will not be required to be expended and will allow for a start to rebuilding the utility's surplus and reserve.

A 39% increase in 2000 followed five years later with a further 25% increase represents rate shock, particularly for low and fixed income customers. The Board suggests that the City plan to review rate sufficiency on an annual basis, and apply for rate adjustments on a regular basis to avoid double-digit increases in the future. Utilities have an obligation to operate prudently, and this includes operating on a breakeven basis.

The Board is pleased that the City is active in the conservation area, and suggests that this interest continue and that the City should determine if particular help should be provided to low income customers with respect to consumption restraint.

The Board will expect the City to bring another application forward prior to the full recovery through rates of the debenture debt related to the Lagoon Storage Project.

IT IS THEREFORE ORDERED THAT:

1. By-law No.1829-05 of The City of Winkler BE AND IS
HEREBY APPROVED;

2. The water and sewer rates set forth in Schedule "A"
hereto shall apply to all customers of the utility
effective on the next billing in the normal course
after the date of this Order;

Fees payable upon this Order - \$1,622.12

THE PUBLIC UTILITIES BOARD

"GRAHAM F. J. LANE, C.A."
Chairman

"G. O. BARRON"
Secretary

Certified a true copy of
Order No. 62/05 issued by The
Public Utilities Board

Secretary

SCHEDULE "A"

TO BOARD ORDER NO. 62/05

THE CITY OF WINKLER

WATER AND SEWER RATES

BY-LAW NO. 1829-05

1. Commodity Rates per 1,000 Gallons

<u>Quantity per quarter</u>	<u>Water</u>	<u>Sewer</u>	<u>Water & Sewer</u>
All water consumption	\$6.00	\$2.85	\$8.85

2. Minimum Charges, Quarterly

Notwithstanding Section 1 hereof, the minimum rates according to Column V of this Section shall be charged per quarter for which the occupant shall be entitled to receive up to the quantity of water according to Column I of this section per quarter and included therein shall be a quarterly service charge as shown in Column II of this section.

METER SIZE	GROUP CAPACITY RATIO	I	II	III	IV	V
		WATER INCLUDED GALLONS	CUSTOMER SERVICE CHARGE	COMMODITY WATER	CHARGES SEWER	NEW
5/8"	1	1,000	14.25	6.00	2.85	23.10
3/4"	2	6,000	14.25	36.00	17.10	67.35
1"	4	12,000	14.25	72.00	34.20	120.45
1 1/4"	7	21,000	14.25	126.00	59.85	200.10
1 1/2"	10	30,000	14.25	180.00	85.50	279.75
2"	25	75,000	14.25	450.00	213.75	678.00
3"	45	135,000	14.25	810.00	384.75	1,209.00
4"	90	270,000	14.25	1,620.00	769.50	2,403.75
6"	170	510,000	14.25	3,060.00	1,453.50	4,527.75

Although the customer is responsible for the supply of water meters of 3/4" and larger, the City assumes the responsibility of servicing and repairing the same.

3. Water Only Customers

Minimum charge will be the same for each meter size as shown above but the Sewer Commodity Charge will be excluded.

4. Sewer Only Customers

Since these customers are all single family residences without meters, and the average quarterly consumption of water by residential customers was 10,000, the Flat Rate Charge per Quarter for these customers will be \$42.75 quarter including customer accounting charge.

5. Bulk Water Sales

The rate to be charged for Bulk Water Sales shall be set at \$8.00 per 1,000 gallons.

6. Sewer Service to outside the boundaries of the City of Winkler

The sewer rate to be charged to customers outside the boundaries of the City of Winkler shall be as set in this Schedule "A" plus a surcharge as calculated and set from time to time by separate agreement.

7. Hydrant Rentals

The City of Winkler shall pay an annual rental of \$50.00 for each hydrant connected to the system to the utility.

8. Billings and Penalties

Accounts shall be billed quarterly. A late payment charge of 1¼% per month shall be charged on the dollar amount owing after the billing due date, and compounded monthly. The due date shall be at least 14 days after the mailing of the bills.

9. That in the event that a water account, a sewer account, or a water and sewer account is not paid before the 30th day of the month following the end of the quarter, the City may use one or both of the following methods:

a) The supply of water to the property in which respect an account is unpaid, may be turned off by the waterworks department of the City, and shall not be restored until the account is paid in full, in addition to a penalty of \$25.00.

- b) The account may be added to taxes of the property in respect of which the water account is unpaid, by the Chief Administrative Officer of the City, to be collected as ordinary taxes.