

M A N I T O B A) Order No.131/08
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THE PUBLIC UTILITIES BOARD ACT) September 10, 2008

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

**THE VILLAGE OF WINNIPEGOSIS
REVISED WATER AND SEWER RATES**

Executive Summary

By this Order, the Public Utilities Board (Board) approves revised water and sewer rates for the Village of Winnipegosis (Village), as noted below:

Commodity Rates (\$/1000 gallons)	Existing	Revised	Increase
Water			
First 100,000 gallons	\$10.55	\$13.55	28.4%
Over 100,000 gallons	\$ 8.70	\$13.55	55.7%
Sewer	\$ 1.25	\$ 3.65	192.0%
Service charge	\$ 2.30	\$12.07	424.8%
Bulk Water	\$11.50	\$16.12	40.2%
Sewer only (flat charge)/quarterly	\$ 9.80	\$23.02	134.9%
Minimum Quarterly Bill (5/8" meter)¹	\$37.70	\$63.67	68.9%

¹ Includes 3000 gallons

The previous rate change occurred in 1993.

The Village is considering the transfer of ownership of the water treatment plant (WTP) from the Manitoba Water Services Board (MWSB) to the Village. The transfer brings uncertainty regarding the adequacy of the now-approved revised rates. Consequently, if the WTP is transferred, the Board will require the Village to provide a report on the adequacy of these rates.

To meet the contingency that the WTP is not transferred, and noting that the purchase price of water would continue to increase and the Utility faces very significant challenges, the Board will also approve two 5%

discretionary rate increases (to be effective January 1, 2010 and 2011), that may be implemented by the Village following a review of the financial needs of its Utility. If the discretionary increases are proceeded with, the Board is to be advised and customers notified.

A public hearing was held on August 19, 2008 in the Curling Rink in the Village of Winnipegosis. As noted herein, several residents spoke to the application.

1.0 Application

The Village applied to the Board for revised water and sewer rates, as set out in its By-law No. 3/2008 read the first time on June 5, 2008. The rates were last revised in 1993.

The existing and proposed rates are as follows:

Commodity Rates (\$/1000 gallons)	Existing	Proposed	Increase
Water			
First 100,000 gallons	\$10.55	\$12.42	17.7%
Over 100,000 gallons	\$ 8.70	\$12.42	42.8%
Sewer	\$ 1.25	\$ 2.51	100.8%
Service charge	\$ 2.30	\$12.07	424.8%
Bulk Water	\$11.50	\$14.78	28.5%
Sewer only (flat charge)/quarterly	\$ 9.80	\$19.60	100.0%
Minimum Quarterly Bill (5/8" meter)¹	\$37.70	\$56.86	50.8%

¹ Includes 3000 gallons

A public hearing was held on August 19, 2008 and the Mayor, Councillors and senior staff of the Village were in attendance to support the Application.

Several ratepayers attended seeking clarification for the increase and others expressed concern about the rate impact. Some ratepayers supported the Application.

The Village advised that the Utility is in an extremely weak financial position and existing rates are unable to either support the current cost of operation or enable the Utility to meet the significant challenges that lie ahead.

The Village incurred operating deficits in 2007 of \$6,629 and in 2006 of \$5,686. The 2007 operating deficit was recovered from the accumulated cash surplus account of the Utility that, as at December 31, 2007, had a balance of approximately \$40,000 (after the withdrawal for the operating deficit). The Utility's reserve fund had a balance of \$13,129.

The Village noted that rates have not changed since 1993 and in hindsight, determined such a policy of not changing rates for 15 years may not have been prudent especially in light of the mounting needs of the Utility. The accumulated inflationary increase alone since 1993 has been substantial.

The Village advised that the sewage collection system is in a serious state of disrepair as noted later in this Order.

The WTP is owned by the MWSB and due to the poor financial strength of the Utility, the RM, through an arrangement with the MWSB, deferred the scheduled transfer of ownership one year. This allowed the cost to replace membranes at the WTP, \$50,000, to be financed through the MWSB.

The poor financial position of the Utility and the uncertainty regarding the cost of operating a WTP is a major concern for the Village. If ownership is transferred and a major breakdown occurs, the rate implication for a Utility with 257 customers could be quite significant, particularly for the many residents that are on fixed incomes.

The Village is considering requesting the MWSB to continue to maintain ownership until the financial position of the Utility improves. Subsequently, the MWSB advised the Board it is possible to delay this transfer.

Since 2001, the purchase price of water from the MWSB has increased from \$7.00 to \$8.55 per thousand gallons which equates to an approximate \$11,000 increase in operating costs and with no increase in rates, the financial health of the Utility eroded.

If the WTP is transferred, the Village would no longer pay the MWSB approximately \$75,000 annually for water. However, with this reduction, the Village would assume full responsibility for the operation of the WTP. The MWSB advised the Village that they should plan for an annual operating cost of \$55,000 to \$60,000 plus an additional

\$10,000 to be added to reserves to cover the cost of membrane replacement every five years and other repairs as required. Based on water sales of 9.0 million gallons the MWSB suggested the water rate may be in the \$7.25 to \$7.75 per thousand gallon range, a reduction from \$8.53.

As noted earlier, the sewer lines in the Village are in a state of disrepair, such that groundwater infiltration is causing hydraulic issues for the lagoon. This has resulted in early discharges into Lake Winnipegosis. Residents want the local beach, which is overrun with cattails, to be cleaned up. However, the Village attributes the overgrowth to lagoon discharges and feels the sewer lines ought to be repaired first.

On May 4, 2007, the Village received an Order from Manitoba Conservation requiring the Village to undertake an investigation of the Wastewater Treatment Facility and related infrastructures, this to determine the ability of the existing system to meet the hydraulic handling capacity of the community. A remedial plan was required to be filed by July 30, 2007.

The Village advised that the investigation was completed and the required work determined. However, no work has been undertaken pending financial assistance. The Village is awaiting decisions from its funding partners.

The Village's projected capital plan is as follows:

2008	Replace pumps in main lift station	\$252,000
2009	Sleeve lining in sewer pipes	\$126,000
2010	Sleeve lining in sewer pipes	\$126,000
2011	Water Line replacement (3 rd Street)	\$138,000

The Village anticipates that 50% of the costs of completing the plan will be funded from its share of the Gas Tax Fund and the balance from provincial and/or federal grants.

In 2006, the Village spent \$18,366 to televise sewer lines and in 2007, spent \$17,500 to conduct the study required under the Order. These costly expenditures included no remedial work.

In approximately 5 years, the membranes in the WTP will require replacement once again, and the Village has provided no capacity in the proposed rates to rebuild the reserve funds for this eventuality.

The Village noted there are higher costs related to training and certification of its operators and also noted, that revenues are declining due to reducing water sales. Sales volumes declined by approximately 10% since 2002.

The Village has only one certified operator and must provide for another person to be certified for back-up purposes.

The Village proposes to collapse its 2 step rate structure to a single step. The 2-step rate provides a discount to large volume users. This accounts for the large percentage

increase proposed in the second step. The users most affected are the institutions.

The Village's unaccounted for water is approximately 8%, just below the industry norm of 10%. However, they note more could be done if funds allowed for a planned water line and meter replacement program.

The Village hopes to conduct an engineering assessment of their entire system as required by regulation in 2008 with financial assistance from the MWSB.

While Clause 12 of the Village's proposed By-law could be interpreted as seeking approval for 10% increases annually to 2015, the Village clarified that was not their intention.

The operating expenses used to develop the proposed rates are as follows:

Administration	\$ 12,745
Water	\$114,402
Sewer	<u>\$ 21,816</u>
Total	\$148,963

These expenses included contingency of \$3,011 but as noted earlier there is no provision for building reserves.

Ratepayers Response

Having heard about the physical and financial condition of the Utility, one ratepayer noted that the Village cannot afford the required upgrading program without assistance,

particularly given that many ratepayers are on fixed incomes. The Village agreed that the cost of upgrading is significant and reported that, consequently, the Village is seeking financial assistance - that being the reason the projects have been delayed.

Several customers questioned various utility expenditures, enquiring as to whether non-recurring expenses have been deleted from the expenditures used to develop the rates, a question the Village responded in the affirmative.

Two ratepayers agreed with the Village's proposal opining that past decisions of Council to freeze rates had been inappropriate.

Board Comments

The Board agrees with ratepayers suggesting that the past policy of freezing rates over a period of rising costs (which included the rising wholesale cost of water) and declining sales volumes was not prudent. The existing rates are clearly inadequate to meet the future requirements of the Utility.

The decision to delay the transfer of ownership of the WTP from the MWSB to the Village certainly proved advantageous. However, a further delay should be carefully considered.

While the MWSB has provided some indication of the expected operating costs of the WTP following a transfer, the Village remains apprehensive. The Board takes no position with respect to the timing of the transfer but agrees with

the Village that with the current condition of the system and the challenges faced by future budgets, the decision must be carefully weighed in light of the financial strength of the Utility.

Of more immediate concern is compliance with the Order of the Department of the Environment and the cost of repairing sewer lines to prevent infiltration and lagoon overloading. The Village has an aggressive capital plan to address this problem. In light of the current financial position of the Utility the funds for such projects will need to be either borrowed or provided through grants. If such funding is not available, the projects can only proceed with very significant rate increases.

While the rate increases proposed by the Village are high, the Board believes they are still insufficient and ought to be higher if the Village is to have any chance of addressing the issues that must be faced. The Village's proposed 17.7% increase in the water commodity rate and a 50.8% increase in the minimum quarterly bill are not the highest the Board has seen or approved, this reflecting the significant infrastructure deficit the Board has witnessed.

In the Board's view it is inappropriate to approve revised rates under these circumstances without a provision to build the reserve fund.

Accordingly, as the cost pressures are currently related to the sewer system and future membrane replacement, the Board will increase the rates proposed to include \$10,000

annually for membrane replacement in the water rates and an equal amount for sewer line replacement in the sewer rate. Such monies are to be placed in the Utility reserve fund.

Consequently, the Board will direct an increase in the water commodity rate to \$13.55, with the sewer rate to increase to \$3.65 per thousand gallons (an increase of 28% for water in the first step, and 192% for sewer). The minimum quarterly bill will rise to \$63.67 from \$37.70 or 69%. The bulk water rate accordingly will rise to \$16.12 from \$11.50 or 40%.

If the Village assumes ownership of the WTP, the Village will be required to re-assess the adequacy of these rates and provide a report to the Board.

The Board understands that the decision to acquire or defer acquisition of the WTP will be made in 2009. If the WTP is not transferred the Village will be allowed to implement two 5% discretionary rate increases to be effective January 1, 2010 and January 1, 2011, such increases to keep abreast of inflation and meet the other challenges faced by the Utility. Such discretionary rate increases ought to be considered based on the financial needs of the utility and, if proceeded with, the Board is to be advised and, as well, appropriate notice is to be provided to customers.

The Board is pleased to see the existing 2-step rate schedule is being eliminated by this Application and will approve same.

The engineering assessment on the system will also be complete soon and the impact of those findings will also need to be taken into account.

The Board notes that the disconnection clause no longer represent the Board's requirements for reasonable notice to be provided to customers and appeals to the Board, and directs the clause be amended.

IT IS THEREFORE ORDERED THAT:

1. By-law No. 3/2008 BE AND IS HEREBY APPROVED subject to amendment to agree with Schedule "A" to this Order.
2. The Village of Winnipegosis file a report with the Public Utilities Board regarding the transfer of ownership of the water treatment plant together with a report on rate adequacy should the transfer proceed.
3. The Village of Winnipegosis be provided two 5% discretionary rate increases effective January 1, 2010 and January 1, 2011 such discretion to be exercised following an assessment of the financial needs of the Utility and notice to the Public Utilities Board and to customers if ownership of the water treatment plant is deferred.

Fees payable upon this Order - \$350.00

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"G.O. BARRON, FCGA"

Acting Secretary

Certified a true copy of
Order No. 131/08 issued by
The Public Utilities Board

Acting Secretary

SCHEDULE "A"

TO BOARD ORDER NO. 131/08

THE VILLAGE OF WINNIPEGOSIS

WATER AND SEWER RATES

BY-LAW NO. 3/2008

SCHEDULE OF QUARTERLY RATES:

1. Commodity rates per M.G.

	<u>Water</u>	<u>Sewer</u>	<u>Water & Sewer</u>
All water consumption	13.55	3.65	17.20

2. Minimum Charges, Quarterly

Notwithstanding the Commodity rates set forth in paragraph 1 hereof, all customers will pay the applicable minimum charges set out below, which will include water allowances indicated:

(a) Water and Sewer Customers

<u>Meter Size</u>	<u>Group Capacity Ratio</u>	<u>Water Included Gallons</u>	<u>Customer Service Charge</u>	<u>Commodity Charges</u>		<u>Total Quarterly Minimum</u>
				<u>Water</u>	<u>Sewer</u>	
5/8	1	3,000	12.07	40.65	10.95	63.67
3/4	2	6,000	12.07	81.30	21.90	115.27
1	4	12,000	12.07	162.60	43.80	218.47
1 1/2	10	30,000	12.07	406.50	109.50	528.07
2	25	75,000	12.07	1,016.25	273.75	1,302.07
3	45	135,000	12.07	1,829.25	492.75	2,334.07

(b) Water Only Customers

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

(c) Sewer Only for Residential Customers

The Village of Winnipegosis does charge the owners or occupants of land serviced with sewer but no water the sum of \$23.02 per quarter.

3. Bulk Sales Rate

All water sold in bulk by the Village of Winnipegosis shall be charged for at the rate of \$ 16.12 per 1,000 gallons on a pro-rated basis for all quantities.

4. Service to Customers outside Municipality, Town, or L.I.D., limits

The Council of the Village of Winnipegosis may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Village of Winnipegosis. Such agreements shall provide for payment of the appropriate rates set out in the 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. Billings and Penalties

A late payment charge of 1¼% shall be charged on the dollar amount owing after the billing due date. The due date will be at least fourteen days after the mailing of the bills.

6. Disconnection

The Public Utilities Board has approved the Conditions Precedent to be followed by the municipality 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. A copy of the Conditions Precedent is available for inspection at the Municipality's office.

7. Reconnection

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$ 50.00 have been paid.

8. Outstanding Bills

Pursuant to Section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water and sewer service 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 Village of Winnipegosis will pay to the utility an annual rental of \$ 150.00 for each hydrant connected to the system, which includes a charge for the water used.

10. Water Allowance Due to Line Freezing

That in any case where, at the request of the Council, 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 two previous quarters to the same customer, or to the same premises if the occupant has changed.

11. Sewage Surcharges

- (a) There may be levied annually, in addition to rates set forth above, a special surcharge on sewage having a Biochemical Oxygen demand in excess of 300 parts per million, to be set by resolution of Council.
- (b) A special surcharge for substances requiring special treatment shall be charged based on the actual costs of treatment required for the particular sewage or industrial wastes.