

M A N I T O B A                    )     Order No. 31/11  
  )  
THE PUBLIC UTILITIES BOARD ACT   )     March 2, 2011

BEFORE:   Graham Lane, CA, Chairman  
           Monica Girouard, CGA, Member

**TOWN OF MINNEDOSA**  
**WATER AND SEWER RATES**

## **Executive Summary**

By this Order, the Public Utilities Board (Board) confirms as final interim water and sewer rates and charges for the Town of Minnedosa (Town), (rates were established on an interim basis by Orders 36/10 and 93/07).

As well, the Board approves a quarterly service charge of \$17.75, approximately a 10% increase.

While the Board will not accept the Town's proposal for rates and charges for the years 2011 through to and including 2013, it directs the Town to re-file its proposal based on projected Utility revenues and expenses (accepted as reasonable, herein).

Rates are to include a domestic and a wholesale water rate, but only one sewer rate. Bulk water and unmetered customer rates are also to be recalculated. The revised proposal should be calculated consistent with the Board's guidelines (available on the Board's website).

The Board also approves recovery of the Town Utility's 2009 deficit of \$252,450, that to occur through an increased wholesale rate over three years.

## **Introduction**

The Board held a public hearing in Minnedosa on September 20, 2010; rates had been previously reviewed and set, on an interim basis, in 2007(Order 93/07). In early 2009, it became apparent that rates were insufficient to maintain break-even operations for the Town's utility, with operating deficits experienced in 2007 (\$157,181) and

2008 (\$304,101).

In 2009, the Town applied for recovery of a projected \$304,043 deficit by way of increased rates. The Town advised that a large portion of the deficit is due to its largest customer (Husky Oil), which consumed lower than anticipated volumes. Accordingly, the Town proposed to recover the deficit through an increased wholesale rate.

In 2007, the rates were based on estimates, including an estimate of the final construction costs of upgrades to Water Treatment Plant #2 (WTP #2) and projected water sales to Husky. Also, the utility had experienced an unforeseen failure with respect to Water Treatment Plant #1's (WTP #1) supply wells, and a major failure of the sewage forcemain to the lagoon.

At that time, the Town projected that Husky's annual water demand would be in the range of 903,375 m<sup>3</sup> (75% of Husky's estimated 1,204,500 m<sup>3</sup> usage). Actual metered consumption was less than 600,000 m<sup>3</sup>, and this major shortfall had a significant impact on utility revenues.

In an effort to minimize further deficits, in April 2010 the Board approved an approximately 25% increase to water and sewer rates, on an interim *ex parte* basis (Order 36/10).

### **Application**

The Town applied to the Board for revised rates, per By-law No. 2507, read for a first time May 25, 2010. The application was supported by a rate study prepared in April 2010, updated in September 2010.

The following is a summary of the application, and includes updates to information initially provided to the Board. What follows differs from the information presented at the August 2010 public hearing.

Ratepayers are encouraged to refer to the two interim orders (36/10 and 93/07), available on the Board's website (for additional details as to the Town's utility).

The rates proposed by the Town took into account the expectation of a series of capital upgrades, new maintenance expenses (both described in more detail further on) and adjustments to estimated water sales volumes. The Town proposed to reduce the current four step rate system to a two-step system, this an effort to simplify the schedule while demonstrating the value of water to customers, and, hence, stimulate conservation.

The application included a wholesale rate for the Husky plant, which is expected to consume nearly 65% of the water produced by the Town, of which an estimated 75% would be consumed in processing (and not returned to the sewer system).

Due to the increased expenses and the reduction in water sales to Husky, the Town proposed to stage the increases over four years. It projected that by 2013 rates would be sufficient to cover operating costs and the proposed work programs and capital projects.

The Town noted, though, that the current projections may not match actual consumption, with consumption volumes strongly affected by changes in Husky's consumption.

Revenue Requirements

The following expenses, as provided to the Board in September 2010, summarize the minimum revenue requirements for the utility:

	2011	2012	2013
<b>General</b>			
Expenses	\$76,200	\$76,860	\$77,527
Less Revenues	1,632	1,632	1,632
<b>Net Revenue Requirements - General</b>	<b>\$74,568</b>	<b>\$75,228</b>	<b>\$75,895</b>
<b>Water</b>			
Expenses	\$583,608	\$589,444	\$595,339
Amortization	215,886	219,886	219,886
Debenture Debt Payment	195,138	195,138	195,138
Interest on Long Term Debt	6,658	90	47
Major Capital Projects	100,000	100,000	100,000
Minor Capital Projects	5,000	80,000	80,000
Contingency	10,000	10,000	10,000
2009 Deficit	50,000	100,000	155,000
Less Revenues			
Grant Amortization	-60,000	-60,000	-60,000
Hydrant Rentals	-26,750	-26,750	-26,750
Taxation	-99,758	-630	-630
Other	-10,200	-10,200	-10,200
<b>Net Revenue Requirements - Water</b>	<b>969,582</b>	<b>1,196,978</b>	<b>1,257,830</b>
<b>Sewer</b>			
Expenses	\$178,960	\$180,650	\$182,356
Amortization	3,819	3,819	3,819
Interest on Long Term Debt	1,316	90	47
Major Capital Projects	100,000	100,000	100,000
Minor Capital Projects	15,000	15,000	40,000
Contingency	10,000	10,000	10,000
Less Revenues	-15,281	-630	-630
<b>Net Revenue Requirements - Sewer</b>	<b>293,544</b>	<b>308,929</b>	<b>335,592</b>

In calculating the proposed rates, the Town included in the wholesale water rate, costs related to treatment and purification, 66% of staffing costs, the annual debenture payment (\$195,138), treatment contingency costs, 70% of the 2009 deficit (estimated at

the time of application at \$305,000) -- less annual amortization of senior government grants. For 2011, net estimated costs reflected in the proposed wholesale rate total \$697,428.

The domestic water rate was then calculated using the remaining costs, including amortization, less any offsetting revenues, which is then added to the wholesale rate. These expenses amount to \$272,154 for 2011.

The wholesale sewer rate is calculated using 50% of staffing costs, 100% treatment and disposal, lift station and contingency less debenture debt revenues. The domestic sewer rate is calculated using the remaining costs. Of the total sewer expenses \$143,421 was included in the wholesale rate calculation and \$150,393 in the domestic rate.

The Town estimated water losses in 2008 at 22.1%, attributing the significant loss to longer than normal water main leaks and reconciliation of water meter readings from one year to the next. There are approximately 60 bleeder taps used throughout the winter months to prevent shallow pipes from freezing, which the Town suggests may be left on throughout the year.

The Town does provide public notice each spring advising residents to turn off these taps.

The Town accepts septage into its lagoon from customers located outside its limits, however the Town is unaware of volumes, and does not require regular reporting from septic haulers.

While the lagoon site has not been properly secured from the public,

the Town is planning to improve the gates, install locks and issue keys to licensed septic haulers only.

The Town will then require the haulers to report volumes and from where discharges originated. There is currently no tipping fee assessed to access the Town's lagoon.

The Town recently filed its 2009 audited financial statements. As at December 31, 2009, the audited statements show the utility reserve fund held a balance of \$169,537. According to the Board's requirements (Order 93/09), the working capital surplus of the utility approximates \$260,081 (including the utility reserve fund).

The actual operating deficit (reported in the 2009 audited financial statements) is \$292,150. For rate setting purposes, capital grants may be amortized, with the annual amortization to be \$39,700 ( $\$992,500/25$ ) - reducing the costs required to be recovered in rates to \$252,450.

As noted herein the Town now proposes to recover 70% of the actual 2009 deficit through the wholesale rate and 30% through the domestic rate. Its rationale for this split is based on Husky consuming 70% of the water sold.

Capital Assets, Future Works and Debt

The Tangible Capital Assets continuity schedules record the historical cost of the water and sewer infrastructure at \$7,163,241, with an annual amortization expense of \$228,971 (\$218,828 for water assets and \$10,143 for sewer).

The Town reported the following outstanding debentures related to the utility:

Description	Annual Payment	Balance outstanding	Matures
W&S Extension	\$19,194	\$47,733	2011
W&S Extension	\$1,259	\$5,029	2013
WTP #1	\$84,477	\$222,712	2011
W&S Extension - Beach	\$17,270	\$16,028	2009
W&S Extension - Beach	\$10,109	\$26,712	2011
WTP #2 - Upgrade	\$195,138	\$2,114,862	2025

Of the annual \$327,449 debenture payment, \$132,309 is raised through property taxes, and the remaining \$195,138 recovered through water sales to Husky.

The Town originally reported it received grants of \$1.5 Million towards the costs of its WTP #2; the Town now confirms the total amount received for this project from both the Federal and Provincial Governments was \$992,500.

The Town has included in rates a provision of \$100,000 in each the water and sewer for major capital projects. The following major capital projects, with costs, planned construction dates and proposed funding are set out below.

Major Project	Budget Cost	Construction Year	Recovery Method
New Forcemain to Lagoon	\$500,000	2010	Debenture/Reserves
Lagoon Upgrades	\$500,000	2011	Debenture/Reserves
Main Lift Station Upgrades	\$200,000	2012	Reserves
Miscellaneous lift station upgrades	\$50,000	2012-2017	Utility Rates
WTP #1 Upgrades	\$1,000,000	2015+	Debenture
Sewer and Water	\$100,000/year	Ongoing	Utility Rates

Line Upgrades			
Water Meter Replacement	\$50,000/year	2012-2018	Utility Rates

These are preliminary estimates and following a full assessment more detailed costs would be available in mid 2010. The Town recently advised that the assessment is 90% complete, with its engineer currently preparing the report.

Also included in the proposed rates are annual maintenance items, with costs to be associated as noted:

Maintenance	Cost	Frequency	Recovery Method
Water Main Renewals	\$ 25,000	Annual	Water Rates
Hydrant Maintenance	\$ 5,000	Annual	Water Rates
Lift Station Upgrades	\$ 15,000	Annual	Sewer Rates
Sewer Main Renewals	\$ 25,000	Annual	Sewer Rates
Sewer Main Flushing	\$ 10,000	Annual	Sewer Rates

Service to customers outside the Town

The Town provides water services to customers in the neighbouring R.M.'s of Odanah and Minto.

The Town's current agreement with Odanah provides the Town charges a rate of \$0.79/m<sup>3</sup> (which increased to \$0.99/m<sup>3</sup> as approved by the Public Utilities Board) plus a surcharge of \$0.19/m<sup>3</sup>.

The surcharge is fixed for the term of the agreement and is intended to be allocated to a Reserve Fund for future capital improvements. The Town provided no details as to how the surcharge was determined. The Town advised that allocations to this Reserve Fund in 2008 to 2010 total \$28,367 (2008 - \$7,110, 2009 - \$10,607, 2010 - \$10,650).

Odanah is billed monthly based on actual meter readings obtained from a meter located at the point of delivery and is assessed the quarterly service charge of \$16.20 monthly.

There is no agreement with the Minto, and these customers are provided water at the domestic user rate that is approved by the Board.

Shared Cost Allocation Policy

The Town submitted a plan for costs shared between the general operations of the Town and that of the utility. An annual flat rate for salaries, benefits, audit, legal and office overhead costs of \$66,000 would be allocated to the utility for 2011.

For public works costs in 2011, the Town again submitted a flat rate for building, vehicle, equipment and labour costs totaling \$22,000 annually to the utility, and an additional \$20,000 for shared costs related to capital projects. Capital projects may include legal fees, survey costs and design and engineering fees.

The Town estimates some costs will increase by only 1% per year.

Rates

Interim rates set in 2007 and 2010 are as follows:

	2007			2010		
	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>
First 100 m <sup>3</sup>	0.79	0.46	\$1.25	0.99	0.58	\$1.57
Next 350 m <sup>3</sup>	0.65	0.46	\$1.11	0.81	0.58	\$1.39
Next 1,800 m <sup>3</sup>	0.51	0.20	\$0.71	0.64	0.26	\$0.90

> 2,275 m <sup>3</sup>	0.42	0.20	\$0.62	0.53	0.25	\$0.78
Quarterly Service Charge			\$16.20			\$16.20
Minimum Quarterly (Residential includes 13.64 m <sup>3</sup> )			\$33.25			\$37.61
Bulk Water per m <sup>3</sup>			\$1.15			\$1.44
Quarterly flat rate (based on 86.4 m <sup>3</sup> )			\$108.00			\$151.85

Proposed rates are set out below:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Water First 500 m <sup>3</sup>	1.92	1.85	2.63	2.77
Sewer First 500 m <sup>3</sup>	<u>0.44</u>	<u>0.93</u>	<u>1.01</u>	<u>1.10</u>
Domestic Combined	\$2.36	\$2.78	\$3.64	\$3.87
Water Over 500 m <sup>3</sup>	0.53	0.81	0.86	0.89
Sewer Over 500 m <sup>3</sup>	<u>0.34</u>	<u>0.35</u>	<u>0.32</u>	<u>0.32</u>
Wholesale Combined	\$0.87	\$1.16	\$1.18	\$1.21

**Other Charges**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Minimum Quarterly*	\$ 50.90	\$ 60.17	\$ 68.22	\$ 69.58
Bulk Water per m <sup>3</sup>		← \$3.00 →		
Service Charge		← \$17.75 →		
Quarterly Flat Rate**	\$214.74	\$273.49	\$325.33	\$346.07

\*For service with a 5/8" meter and includes 13.64 m<sup>3</sup>

\*\*Based on an average of 86.4 m<sup>3</sup> per quarter

The Town also proposed to increase the hydrant rental fee from the current \$85 per year to \$250, due to the increasing costs of water. There are 115 hydrants.

The Town indicated that with the domestic water cost increasing by almost 300%, the hydrant rental charge should increase at about the same rate. The Town also indicated the going rate to service a hydrant to be \$5,000 to \$8,000, and more to replace.

For the average home using 34 m<sup>3</sup> per quarter, based on the above

proposed rates the quarterly bill would increase from \$69.58 to \$97.99. By 2013, the average quarterly bill would be \$149.33.

**Board Findings**

The Board, after reviewing the Town's application (and information subsequently provided by the Town) will approve the proposed quarterly service charge and other rates and charges as proposed by the Town, except as noted below.

Water rates are to be recalculated with calculations based on approved expenses/revenues and distribution of those expenses to the wholesale and/or domestic rate. The bulk water rate and the unmetered quarterly rate will require recalculating as well.

One sewer rate is to be calculated for all consumption and the Town is to apply the one rate to 75% of the actual water meter reading of Husky.

Below, are the approved net revenue requirements for the water and sewer the Town is to use in its calculations:

	2011	2012	2013
<b>Water</b>			
2009 Deficit	\$ 50,000	\$100,000	\$102,450
Expenses	583,608	589,444	595,339
Amortization	218,828	220,828	220,828
Debenture Debt Payment	195,138	195,138	195,138
Interest on Long Term Debt	6,658	90	47
Major Capital Projects	100,000	100,000	100,000
Minor Capital Projects	5,000	80,000	80,000
Contingency	10,000	10,000	10,000
Less Revenues			
Grant Amortization	-39,700	-39,700	-39,700
Hydrant Rentals	-17,250	-17,250	-17,250
Taxation	-99,758	-630	-630

Other	-10,200	-10,200	-10,200
<b>Net Revenue Requirements - Water</b>	<b>\$1,002,324</b>	<b>\$1,227,720</b>	<b>\$1,236,022</b>
<b>Sewer</b>			
Expenses	\$178,960	\$180,650	\$182,356
Amortization	10,143	10,143	10,143
Debenture Debt Payment			
Interest on Long Term Debt	1,316	90	47
Major Capital Projects	100,000	100,000	100,000
Minor Capital Projects	15,000	15,000	40,000
Contingency	10,000	10,000	10,000
Less Revenues	-15,281	-630	-630
<b>Net Revenue Requirements - Sewer</b>	<b>\$299,868</b>	<b>\$315,253</b>	<b>\$341,916</b>

The domestic rate is to include the following expenses, less revenues:

- 34% of staff costs
- 100% transmission and distribution
- 100% other water supply costs
- Amortization expense less amount for Water Treatment Plant #2
- Long term interest
- Major capital projects
- Minor capital upgrades
- 100% contingency - distribution

Less

- Hydrant Rentals
- Debenture Debt Revenues (taxation)
- Other Revenue

The wholesale rate is to include the following expenses, less revenues:

- 66% of staffing costs
- 100% of 2009 deficit over the next three years, as noted
- 100% water treatment and purification
- 100% contingency - treatment
- 100% amortization expense for Water Treatment Plant #2

Less

- 100% of the amortized Water Treatment Plant #2 capital grant

100% of debenture cost related Bylaw #2496 is to be calculated separately and applied only to the Husky ethanol plant (as a rate rider).

In calculating the rate for Husky, the Town is to separate the debenture debt payment from the general wholesale calculation and determine a 'rate rider' to be assessed only to Husky. If Husky's consumption is materially reduced, the Town should return to the Board towards recalculating a new 'rate rider'. The rider represents a debt payment and is not to affect any other user of the system, as the Town advises that the recovery of this debt was made through an agreement with Husky.

Only one sewer rate is to be calculated based on the approved expenses/revenues as noted herein. The Town's utility rates by-law will need to be amended to include a clause that the one sewer rate is to be applied quarterly to 25% of the actual water consumption of the Husky plant.

The Board approves the recovery of the 2009 net operating deficit of \$252,450 entirely through the wholesale rate over a three year period, with \$50,000 recovered in 2011, \$100,000 in 2012 and the remaining \$102,450 in 2013.

The Board expects that following 2013, the rates will again need to be reviewed for adequacy when this deficit has been fully recovered. As the cause of the deficit was not broken down clearly and in detail, by including recovery in the wholesale rate, all water customers will contribute to the recovery.

The Board will not approve the proposed increase to the hydrant

rental charge from \$85 to \$250. The Board will approve an increase to \$150 to reflect the increase to water costs and to bring it more in line with what other municipal utilities charge.

The Board will ask the Town to review the matter in more detail and provide supporting rationale for the \$250 charge, consistent with the guidelines which suggest the annual rate should be sufficient to cover the cost of maintaining and replacing hydrants connected to the system. Further, the cost of any water used for firefighting services is not a utility responsibility and should be recovered by the Town through the general operations.

The Board notes that the Town has initiated a hydrant maintenance program with the inclusion of \$5,000 in rates. As the Town recalculates the rates, it may wish to re-think this expense in rates as opposed to a contribution from the general operation to be raised by taxation (for reasons as noted above).

The Board encourages the Town to address the matter of access to the lagoon. It is the residents of the Town that pay for the capital costs and ongoing maintenance expenses, and those costs should be shared by all users, including residents from outside the Town. The Board recommends that the Town install a gate as soon as possible, and return to the Board with an application to assess lagoon tipping fees.

The Board will approve contributions through rates towards the costs of capital upgrades to the water and sewer infrastructure, for the projects now identified, and the plans currently in place by the Town. The Board will require to Town to review its plans,

anticipated funding, and to ensure its current plans are consistent with the Engineering report that should be available shortly.

The Board expects that once the Town has opportunity to review the report, prioritize the recommendations in the report and discuss funding options, the Town will file a five year capital plan with the Board.

The plan should include a copy of the report, explaining how the Town plans to address the deficiencies, funding options (reserves, borrowing, etc.), and advising as to implications for rates.

The Town provides services to customers outside of its boundaries, in two different municipalities, Odanah and Minto. Both are customers located outside the Town's limits and therefore should be treated fairly, and similarly.

While Odanah customers are paying a surcharge, the Town should document the calculation arriving at the charge. These customers are also paying a quarterly service charge monthly. Yet, Minto customers do not pay any surcharge and are billed quarterly. The Board recommends these two groups of customers be treated similarly.

The Board requires municipal by-laws to include a clause to address the provision of water and/or sewer services to customers located outside the boundaries. The clause includes a provision for the appropriate rate charge, which rates include a contribution to reserves or capital upgrades, and a surcharge.

The Board will require the Town to amend Clause 5 (of Schedule "A") to include the following clause and to be applied similarly to all

customers outside its boundaries:

"5. The Town of Minnedosa may enter into agreements with municipalities, corporations and individuals outside the Town of Minnedosa to connect to the water and/or sewer system. The agreement shall provide for payment of the appropriate domestic rates set out in this Schedule, plus a surcharge, set by resolution of Council, which shall be the equivalent to the frontage levy, general taxes, and special taxes for utility purposes in effect at the time, or which 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."

From hereon in, the Town will apply the quarterly service charge as it was intended: on a quarterly basis. If the Town wishes to bill customers on a monthly basis, then one-third of the approved quarterly service charge is to be applied. If the Town wishes to develop a monthly service charge, they are to submit an application to the Board.

The Town is required to review its agreements with neighbouring municipalities and outside customers to ensure consistency with this order.

The Board will approve the Shared Cost Allocation methodology as submitted by the Town and based on an annual flat rate. The Board reminds the Town that if the now approved methodology is to change, prior Board approval is required.

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](http://www.pub.gov.mb.ca).

**IT IS THEREFORE ORDERED THAT:**

1. The Town of Minnedosa file a revised Schedule 'A' by March 11, 2011, that includes:

- proposed water and sewer rates that reflect revenue requirements as follows and calculated as noted within this Order:

	2011	2012	2013
Net Revenue Requirements - Water	\$1,002,324	\$1,227,721	\$1,236,022
Net Revenue Requirements - Sewer	\$300,138	\$315,253	\$341,916

- An amendment to Clause 5, as noted herein, for Service to Customers located outside of the Town's Boundaries.
- Approved hydrant rental charge of \$150 per hydrant.
- Approved quarterly service charge of \$17.75.

2. The Public Utilities Board approves the recovery of the 2009 net operating deficit of \$252,450, through the wholesale rate over the next three years (in the amounts noted).

3. The Town of Minnedosa follow through on plans to limit access to the lagoon, and establish lagoon tipping fees with a proposal to be filed with the Public Utilities Board by October 31, 2011.

4. The Town of Minnedosa file a five-year capital plan with the Public Utilities Board not later than October 31, 2011.

5. The Public Utilities Board approves the Shared Cost Allocation Policy as submitted by the Town of Minnedosa, that policy based on a flat rate allocated to the utility for a portion of shared services of the Town's operations

6. The Town of Minnedosa file a copy of its 2012 audited financial statement, preliminary 2013 utility operating results and a rate review with the Public Utilities Board not later than April 1, 2014.

Fees payable upon this Order - \$2,500.00.

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"

Chairman

"KRISTINE SHIELDS"

Acting Secretary

Certified a true copy of Order No.  
31/11 issued by the Public Utilities  
Board

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Acting Secretary