

M A N I T O B A                    )     Order No. 92/05  
  )  
THE PUBLIC UTILITIES BOARD ACT    )     June 7, 2005

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

THE TOWN OF LAC DU BONNET  
          WATER AND SEWER RATES

Introduction

On May 19, 2005, The Public Utilities Board ("the Board") conducted a public hearing in the Town of Lac du Bonnet ("the Town") to consider the Town's application for increases to its water and sewer rates. The Town sought increases of 20% in water and sewer commodity rates, 14% to 30% to minimum residential and commercial quarterly bills, and 80% for the bulk water rate.

The following were in attendance and addressed the hearing:

Board

Mr. Graham F. J. Lane	Chairman
Ms. Susan Proven	Member
Mr. Gerald O. Barron	Secretary
Mr. Gerald Gaudreau	Advisor to the Board

Town of Lac du Bonnet

Mr. Paul Chapman	Mayor
Ms. Colleen L. Johnson	Chief Administrative Officer
Mr. Grant Plischke	Water Plant Operator
Mr. Tim Lasuik	J. R. Cousin Consultants Ltd.

Mr. Ted Mathers, a resident of the Town, made a presentation.

Previous to this Order, the last rate changed occurred in 1994; while the administration charge was amended in 2000.

This Order approves the Town's application except for the bulk water rate increase, which is varied and reduced, and directs the provision of follow-up reporting to the Board on the Town utility's financial stability and water main replacement program.

**Application and Review of Utility Operations**

The Town's utility has approximately 500 water and sewer customers; all service addresses are metered.

In support of its Application, the Town submitted a rate study prepared by J. R. Cousin Consultants Ltd. ("Cousin"), the engineering advisor to the Town's utility. At the hearing, Cousin advised it had a diversified client base, with the Town being but one of many customers. The Cousin rate study relied on the following operating and maintenance expense forecasts:

	Rate Study
Administration	\$ 23,700
Water Production Costs	98,300
Water Distribution Costs	38,800
Sewage Collection & Disposal	<u>33,200</u>
Total	\$194,000

Cousin based the rate proposal on the above indicated utility costs, including a contingency allowance of \$9,800 and a provision for reserves of \$26,700. He confirmed that no factor had been provided for general price inflation. The Town's unaudited financial statements for 2004 report utility operating costs of \$176,115.

The amount of water billed was less than the amount produced by approximately 11%. The level of water loss was attributed to deteriorating cast iron mains, hydrant usage by the Fire Department, sewer flushing, the Town use of water for shelter-belt maintenance, and the Town's "community in bloom" watering program.

At approximately 20,000 cubic metres, annual unaccounted for water represents a financial loss of approximately \$18,000. An unaccounted for water level of 11% places the Town in the mid-range of water and sewer utilities in Manitoba, many have water losses higher than 11%, many lower.

The existing and proposed rates are as follows:

Commodity Charges (per cubic metre)

	Existing			Proposed		
	Water	Sewer	Total	Water	Sewer	Total
First 455 cubic metres	\$0.75	\$0.23	\$0.98	\$0.90	\$0.28	\$1.18
Over 455 cubic metres	\$0.63	\$0.23	\$0.86	\$0.76	\$0.28	\$1.04

Minimum Quarterly Bill

	Existing	Proposed
5/8"	\$25.00	\$28.52
3/4"	\$38.72	\$45.04
1"	\$60.16	\$78.08
1 1/2"	\$148.48	\$177.20
2"	\$354.28	\$425.00

The Town also applied for a bulk water rate increase, from \$1.25 to \$2.00 per cubic meter, and an increase in the quarterly Customer Service Charge (\$11.28 to \$12.00).

The capital cost of the Town's water and sewer system was met by grants, a debenture and past levies on the Town's tax roll. The cost of servicing the debenture in 2004 was reported to be \$112,740, an amount recovered through taxes by assessment. The Town forecast debenture servicing costs in 2005 would increase to \$138,100.31, as the result of a 2004 Water Treatment Plant upgrade (in the rate study used by the Town to develop its rate applications, a forecast of \$150,000.for debenture servicing costs was used).

The Town's utility incurred operating deficits in 2003 and 2004 of \$29,232.00 and \$3,551, respectively, which were offset by a 2003 transfer from the General Operating Fund and a 2004 transfer from the utility reserve fund. Between January 1, 2000 and December 31, 2004, \$196,547 was transferred from reserves to subsidize the operation of the utility.

The Town and Cousin reported that the utility faces significant capital replacement requirements. The cast iron mains are deteriorating; the projected overall cost of replacing the mains approaches or exceeds \$2 million, and represents a long-term commitment as the funds are not available to complete the project in the short-term. The condition of the mains has required a reduction in operating pressure in the system from 60 to 45 psig.

Lift station repairs are expected to cost between \$150,000 and \$175,000. The Town plans to spend \$51,436.66 on lift station repairs in 2005.

The Town hopes to fund the water main replacement program through its annual utility budgets, and thus avoid having to issue an additional debenture. Whether this is possible depends on the rate of decline of the mains and other future developments.

As at December 31, 2004, the utility reserve fund balance was \$103,361.00, a modest amount given the magnitude of the capital project needs going-forward.

As all utility customers are connected to the water and sewer system, the forecast annual volume of water used for the calculation of water commodity rates (excluding bulk water use) could be expected to equal the volume of water used for the sewer rate calculation. However, the Town confirmed that this is not the case; the Town is investigating this discrepancy and considers it immaterial from an overall financial perspective.

Using the average metred volumes for 2001, 2002 and 2003 of 138,558; 142,232; and 132,223 cubic metres, respectively, to calculate forecast sewer revenue as compared to projected costs, rather than the numbers used for the rate study, would result in a sewer rate of \$0.24 per cubic metre versus \$0.28 or less than \$1.00 on a quarterly residential customer minimum bill of \$28.50.

Historically, bulk water users have consumed approximately 8% of annual water produced (12,100 cubic metres); the rate study projects this volume to grow to 15,500 cubic metres; it was this level of forecast consumption the rate study used.

Consistent with past practices adopted by the Board, Cousin calculated the proposed revised bulk water so as to include a share of the debenture debt cost of the utility. This places the bulk water user on par with the ratepayers in the Town, whom not only pay the water and sewer rates but also, by taxes, pay the debenture debt cost of the utility. Thus, as per the Board's Guidelines, the proposed bulk water rate includes the proposed increase in the commodity rate plus a share of the debenture debt cost. The proposed increase in the bulk water rate may be largely attributable to the rise in the debenture debt costs of the utility (from \$40,000 in 1994 to \$150,000 in 2005, as per the rate study), related to the treatment plant upgrade. As the 2005 estimate for debenture debt cost is \$138,100, as noted earlier, using this number rather than the previously forecasted \$150,000 would result in a lower bulk water rate, that being \$1.92 per cubic metre.

The Town obtains its raw water from the Winnipeg River. The 2002 agreement involving the Town and the Federal and Provincial Governments funded a 2004 \$2.8 million upgrade to the treatment plant.

The Water Services Board provided \$1.2 million, the Town matched that, and the Canada Manitoba Infrastructure Program provided the remaining \$400,000.

The Water Treatment Plant and the Town's sewage lagoon are currently operated at about 50% of capacity (at peak use, unused capacity is reduced). Drinking water standards are being met or exceeded, and discharges meet the requirements of The

Environmental Act. The Town indicated that its utility operators have the requisite training and certification to operate the systems.

The Town has yet to develop a formal water conservation plan. The reduced water pressure in the lines resulting from the deteriorating mains is not supportive of conservation efforts.

The Town provides service beyond its boundaries under agreement with the Rural Municipality of Lac du Bonnet ("the R.M."). The Town used to extend services to individual customers outside its boundaries, but, in 2003, it entered into an agreement with the R.M. whereby the R. M. subscribes to the services of the Town and re-bills R.M. residents for water and sewer utility services obtained from the Town.

With respect to sharing the capital costs of the utility, customers in the Town pay approximately 4.77 mills on their tax assessment for the debenture debt of the utility. The R.M. pays the Town 50% of the mill rate of rate able properties in the R.M. serviced by the system, an approach that, in the Town's opinion, reflects a reasonable contribution to capital costs. The Town projects the utility would break-even in 2005 and 2006, with no further transfers from reserves, assuming the Board approved the Town's revised rate proposal.

**Presenter**

Mr. Ted Mathers, a community resident, criticized the Town's application and management of the water and sewer utility. Much

of his comments concerned the major upgrade to the Water Treatment Plant. Mr. Mathers suggested the capacity of the upgraded plant was too high, and the Town should have made the replacement of the water mains its first priority rather than the plant.

He also opined that, while he was not advocating for a rate increase, there were discrepancies in the Town's application for revised rates raising a concern that the Town's proposed rates may be inadequate.

In addition to his overall concern as to the reliability of the Town's application, Mr. Mathers reported the following opinions and concerns:

1. In Mr. Mathers' opinion, the contribution from the R.M. towards the water and sewer system's capital costs is insufficient and inequitable;
2. From his perspective, to promote conservation the step rate and minimum bill approach should be eliminated; and
3. A 1% contingency allowance should be provided in rates towards the significant capital upgrade requirements of the water and sewer system. (Cousin's rate study calculated an annual 1% contingency provision would be \$28,250 as compared to \$9,800 provided for in the Town's proposed rates.)

Mr. Mathers filed copies of documents related to the Town's water and sewer system with the Board, in response to the Board's invitation.

The Board thanks Mr. Mathers for his contribution to the Board's deliberations, though it finds much of the information filed not germane to the specific matter before it, that being the Town's proposal for higher water and sewer rates. As to the Town's choice to proceed with the Treatment Plant upgrade ahead of the water main replacement project, the Board does not take issue with the Town's decision and notes that the Town obtained external funding to facilitate the project. The Board particularly appreciates the Town's understanding that water quality is the highest priority, and understands that competing needs require priority setting that does not always agree with the perspective of everyone.

On the other hand, the Board shares Mr. Mathers concerns with respect to the adequacy of the proposed rates, particularly given the repair and replacement requirements.

### **Board Findings**

The Town's past practice of transferring monies from general and utility reserve funds to subsidize the operations of the utility, without first obtaining the Board's approval for what otherwise would have been an operating deficit, was improper. The Board accepts that the Town's oversight was inadvertent.

In the future, utility deficits are not to be met by reserve transfers or subsidies from the General Fund without the prior express approval of the Board.

The Board acknowledges that its recommended annual 1% contingency allowance funded from rates is only an suggested guideline, and that the actual allowance should be determined based on the utility's actual operating experience and requirements. However, when a deterioration of mains and lift stations exists, as is the case with the Town's utility, there is a strong argument for an increased contingency allowance.

The Board notes the Town's extensive plans to replace the cast iron mains, and that it projects undertaking this project over a long period of time. Given the water pressure restriction due to the condition of the mains, and the acknowledged state of the mains, the Town's plan to fund the work over a long period of time and out of the utility budget may not be feasible or in the best interest of the community. Time and future events will tell.

Certainly, an annual contingency allowance of less than \$10,000 funded through rates is inadequate for the demonstrated need. Such an allowance is too low, particularly considering the cost of the main replacement project and the Town's desire to fund replacement and repairs without a debenture.

The Board appreciates that increasing the contingency allowance would have a further rate impact, and that the Town's proposed 20% increase in commodity rates is already steep.

Increases of and in excess of 20% clearly constitute "rate shock", and should be avoided. However, water quality and effluent safety standards have been increased and general price

inflation in the economy has been substantial since the last general rate increase implemented by the Town, in 1994.

A 20%-30% average increase eleven years after the last general rate increase is far from surprising. The Board has noted much sharper increases with some other municipal water and sewer systems when rates had been frozen for similar lengths of time.

Recognizing the Town's capital plan and repair requirements, and recognizing that no inflationary increases have been built into the proposed rates, the Board expects that further rate increases will be required in future years.

The Board will direct the Town to:

- a) reassess the adequacy of its rates annually; and
- b) provide the Board with its actual utility results and projects, following both the utility's 2005 and 2006 year-ends, with these reports to be filed no later than March 31 of 2006 and 2007, respectively.

While the Board is not satisfied that the proposed rates will be sufficient to recover the operating expenses of the utility and provide for a faster pace with respect to needed repairs, it is mindful of rate shock and understands the Town's reluctance to impose an even higher immediate increase.

The Board respectfully suggests that while high rates are discomfoting, ensuring adequate water is more important to the community than holding rates down.

The Board appreciates the current need to hold system-operating pressure 25% below the norm to control leakage. However, the Board suggests that the Town seek external grant assistance to move ahead the lift station and main replacement projects more quickly. The Board notes that the Town was successful in gaining external grant assistance with the treatment plant upgrade, and encourages the Town to seek assistance for the water main project.

With respect to Mr. Mathers' suggested elimination of the step rate to enhance conservation, the Board notes that there is some merit to the idea, and that some communities are taking such measures. Notwithstanding the value of conservation in itself, and without indicating any opposition to measures taken in that regard, the Board notes that these actions are generally found where water is either not plentiful or costly to treat.

The Board accepts that the high quality and abundance of the Town's water supply, and the high capacity of the treatment plant, could be perceived as evidence of a reduced need for conservation. Nonetheless, to the extent customers are able to take advantage of low flow water devices, and can undertake reasonable conservation measures, the Town should encourage these actions. The Board encourages the Town to consider Mr. Mathers' suggestion in the future.

The Board reviewed the charges made by the Town against the R.M. for the provision of service beyond its boundaries, and understands that Town residents pay a mill rate assessment to

recover the debenture debt of the utility. The Board notes that this same charge has been assessed against five or six property owners that subscribed for services prior to the agreement with the R.M. The Board also understands that the R.M. will be surcharged for properties served outside the Town in compensation for system capital costs. In the Board's view, this is reasonable.

In summary, excepting the bulk water rate, the Board will approve the rates proposed by the Town, while recognizing that this increase may have to be followed in time with further increases. As to the bulk water rate, the Board will accept a bulk water rate of \$1.92, rather than \$2.00. However, as the Board is concerned with the rate shock that would be associated with a direct increase to \$1.92, it will approve the increase in the bulk water rate in two stages.

Effective with the next billing, the Board will approve a bulk water rate of \$1.60 per cubic metre, and, effective July 1, 2006, the bulk water rate will reach \$1.92 per cubic metre.

In establishing the decrease from \$2.00 and the two-year step to \$1.92, the Board recognizes that the annual revenue to the utility will be reduced by \$6,200. However, the Board notes that the projections of a contingency allowance of \$7,800 and a contribution to reserves of \$20,200 should be unaffected.

The net result of the change is the bulk water rate will increase by 28% in 2005, this increase in percentage terms will

approximate the higher percentage increases being approved for the minimum bill to be met by customers residing in the Town.

And, due to the Board's concern that the revised rates may not be sufficient to move ahead needed repairs and replacements quickly enough, the Board will direct that reports be filed with the Board on rate adequacy following the utility's 2005 and 2006 year-ends. At that time, the Town is to advise the Board of the status on its water main replacement program. As well, the Town is to comply with the statute requirement that plans to meet any future annual utility deficit be filed with the Board prior to being implemented.

The Board greatly appreciates the cooperation of the Town and its witness Mr. Lasuik before, during and following the hearing. The Board also recognizes the time and effort expended by Mr. Mathers with respect to his attendance at the hearing. It is evident that all parties have the Town's interests at heart.

While the Board will vary the Town's application, the Notice clearly indicated that the application could be varied by the Board:

"It is possible that the rates applied for will not produce sufficient revenue to cover the utility's operating and maintenance expenses. Furthermore certain of the rates proposed by the Town may be deemed by the Board to be inequitable. Accordingly in considering this application the Board may find it necessary to determine rates which, in some cases may be higher or otherwise different than those applied for by the Town of Lac du Bonnet."

The responsibility of the Town was to place before the Board, and in clear terms, their rate proposal. Having done so, and a public hearing having been held at which the particulars of the Town's proposal was reviewed and examined, the Board was in a position to reach the conclusion it reached

With respect to the authority of the Board, the following sections of The Public Utilities Board Act provide guidance:

**"When orders effective**

50(1) Every order of the board comes into effect at the time prescribed by the order, and its operation is not suspended by an appeal to The Court of Appeal for which provision is hereinafter made, unless otherwise ordered by the judge granting leave to appeal or by the court on hearing of the appeal; but the board itself may suspend the operation of the order from which appeal is made until the decision of The Court of Appeal is rendered."

**"Effective date of order against utilities**

96(2) Every other order made under this Part is effective upon the date specified therein, which shall be at least 20 days after the date of the order, unless the board, for good reason, specially provides for an earlier date."

Therefore, the Board finds that the legal responsibilities for Notice were fully and adequately discharged, and the public had an opportunity to participate in the hearing and make any contrary views known.

**IT IS THEREFORE ORDERED THAT:**

1. By-law No. 43/04 of the Town of Lac du Bonnet BE AND THE SAME IS HEREBY APPROVED subject to an amendment to agree with this Order;

2. The water and sewer rates set forth in Schedule "A" hereto shall apply to all customers of the utility effective on all water consumed and on all minimum bills effective on the next billing in the normal course after the date of this Order.
3. The Town of Lac du Bonnet file the year-end financial statements of the utility for the year ended December 31, 2005 and 2006 by no later than March 31, 2006 and 2007 respectively, together with commentary on the adequacy of water and sewer rates going-forward and a report on the status of the water main replacement program.
4. This Order is subject to moneys being expended from the utility reserve fund only to support existing infrastructure, unless the Board has authorized the expenditure pursuant to Section 168 of The Municipal and Various Acts Amendment Act, c. 58.

Fees payable upon this Order - \$1,430.86.

THE PUBLIC UTILITIES BOARD

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

"G. O. BARRON"  
Secretary

Certified a true copy of Order No.  
92/05 issued by The Public  
Utilities Board

\_\_\_\_\_  
Secretary

**SCHEDULE "A"**

**TO BOARD ORDER NO. 92/05**

**THE TOWN OF LAC DU BONNET**

**WATER AND SEWER RATES**

**BY-LAW 43/04**

1.0 SCHEDULE OF QUARTERLY RATES

A schedule of rates per cubic metre per quarter

Commodity Rates	<u>Water</u>	<u>Sewer</u>	<u>Water &amp; Sewer</u>
Domestic	\$0.90	\$0.28	\$1.18
Intermediate - Over 455 cubic metres	\$0.76	\$0.28	\$1.04

2.0 MINIMUM QUARTERLY CHARGES

Notwithstanding the Commodity Rates set forth in paragraph 1.0 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>	Group Capacity <u>Ratio</u>	Water Included <u>cu.m.</u>	Customer Service <u>Charge</u>	<u>Commodity Charges</u>		Total Quarterly <u>Minimum</u>
				<u>Water</u>	<u>Sewer</u>	
5/8"	1	14	\$12.00	\$ 12.60	\$ 3.92	\$ 28.52
3/4"	2	28	\$12.00	\$ 25.20	\$ 7.84	\$ 45.04
1"	4	56	\$12.00	\$ 50.40	\$15.68	\$ 78.08
1 1/2"	10	140	\$12.00	\$126.00	\$39.20	\$177.20
2"	25	350	\$12.00	\$315.00	\$98.00	\$425.00

3.0 WATER AND SEWER CONNECTIONS

- i) Each consumer applying for water turn on or turn off of service during any quarter, shall pay the proportionate part of the current minimum quarterly charge provided that in computing same a broken half month shall be considered as a full month. In all cases any excess water used will be charged at the rates set forth under Commodity Rates.
- ii) All costs for new connections and maintenance thereafter, shall be paid by the customer or developer, as the case may be, and such connections are to be approved by the Council of the Town of Lac du Bonnet.
- iii) A service charge of Twenty Five (\$25.00) Dollars shall be paid before any water is turned on, shall be the responsibility of the owner.

4.0 HYDRANT RENTALS

The annual charge for hydrant rentals shall be Eighty Five (\$85.00) Dollars to the Town of Lac du Bonnet.

5.0 RATES TO CUSTOMERS LOCATED OUTSIDE THE LIMITS OF THE TOWN OF LAC DU BONNET

- a) Customers located outside the Town of Lac du Bonnet shall be required to sign agreements with the Town which sets out the rights and obligations of each party. Such agreements shall provide that the consumer shall pay;
  - i) The appropriate rate as set out in paragraph 1.0 and 2.0 hereof, based on the units allotted to the services;
  - ii) All costs of constructing and maintaining all connection pipes and other items required to allow service to be used;

- iii) And in addition, a surcharge to cover all taxes for utility purposes which they would be required to pay if located in the Town.
  
- b) The Rural Municipality of Lac du Bonnet shall pay, to cover service provided to residences on the properties in the Tanco subdivision.
  - i) The utility rates set forth in paragraph 1.0 and 2.0 hereof;
  
  - ii) Any additional surcharge sufficient to cover all taxes for the sewage lagoon which it would be required to pay if such residences were located in the town.
  
- c) That the above levies are due and payable July 1<sup>st</sup> of the year in which they are levied.

6.0 BILLING AND PAYMENTS

- i) All accounts shall be billed after the end of each quarter. Bills will be due and payable as per due date as stated on the bills presented. A penalty of one and one quarter percent per month of the bills shall be charged if not paid by the due date.  
  
Unpaid Accounts May be Added to Taxes on Land.
  
- ii) Pursuant to section 252 of the Municipal Act L.R.M. 1996, c. 58, the amount of all outstanding charges, including penalties, for water and sewer service are a lien and charge upon that land, and shall be collected in the same manner in which ordinary taxes on the land are collectable, and with like remedies.
  
- iii) If any account is not paid within three (3) months after the due date, the service may be disconnected without further notice. Any service so disconnected shall not be reconnected until all arrears, penalties and a reconnection fee of Thirty Five (\$35.00) Dollars has been paid.

## 7.0 COMPLAINTS AND ADJUSTMENTS

If a consumer believes that his/her meter reading is in error, he/she may present his/her claim in writing to the Corporation's Office before the bill becomes delinquent, 30 days from the billing date.

Such claim, if made after the bill has come delinquent, shall not be effective in preventing discontinuance of service. The consumer may pay such bill under protest and said payment shall not prejudice his/her claim.

## 8.0 METERS

- i) That all water connections be metered. The meter to be supplied by and to remain the property of the Utility. The cost of the meter shall be paid by the customer.

### Meter Repairs

- ii) Where a Town of Lac du Bonnet water meter is damaged as a result of negligence of a user, such user shall pay the cost of repairing the damaged meter and the said amount will immediately become a debt due and owing to the Town of Lac du Bonnet within ten (10) days of the demand of same, the water service of the said user may be disconnected. The fee of Ten (\$10.00) dollars shall be charged for a re-connection of the service disconnected under this paragraph.

### Meter Testing

- iii) Any consumer who desires and requests that his/her water meter be tested for accuracy, shall deposit with the Town of Lac du Bonnet, the sum of Ten (\$10.00) dollars and if the meter when tested shall be found to register in excess of the allowable limits, the deposit shall be refunded and the consumer's account adjusted for the preceding four month's use.

9.0 BULK SALES

That a said rate of \$1.60 per cubic metre be charged for treated water effective consistent with the balance of the increases provided in the By-law, the rate to be increased to \$1.92 effective July 1, 2006.

10.0 BILLINGS

All accounts for minimum quarterly charges for metered services as set forth in this Schedule of Quarterly rates shall be billed at the end of each quarter together with any excess charges for metered water and sewer services supplied to them at the rates and terms set out in this Schedule.