

M A N I T O B A                    )     Order No. 169/06  
  )  
THE PUBLIC UTILITIES BOARD ACT    )     December 19, 2006

BEFORE:  Graham F. J. Lane, C.A., Chairman  
          Monica Girouard, C.G.A., Member  
          Susan Proven, P.H.Ec., Member

THE RURAL MUNICIPALITY OF LORNE  
LOCAL IMPROVEMENT DISTRICT NO. 7 (SWAN LAKE)  
REVISED WATER AND SEWER RATES

**Executive Summary**

The Public Utilities Board (Board) approved increased rates effective January 1, 2007, 2008 and 2009 for the community of Swan Lake, pursuant to an Application filed by the Rural Municipality of Lorne (R.M.). The proposed rates were published and posted in the community in advance of the Board's decision; no persons responded.

Metered water and sewer commodity rates will rise from \$1.60 per cubic meter to \$2.00, \$2.41 and \$2.80 in each year respectively. The minimum quarterly bill for a residential customer will rise from \$27.40 to \$33.75, \$39.49 and \$44.95 in each year respectively.

**Application**

The R. M. applied to the Board for revised water and sewer rates as noted hereunder:

Commodity rates per cubic meter

	Water	Sewer	Water & Sewer
Existing	\$1.20	\$0.40	\$1.60
2007	\$1.47	\$0.53	\$2.00
2008	\$1.75	\$0.66	\$2.41
2009	\$2.00	\$0.80	\$2.80

As a result of the above change in commodity rates the minimum quarterly bill for all meter sizes will change and the residential minimum quarterly bill which includes 14 cubic meters will rise as noted below:

Existing	\$27.40	
2007	\$33.75	23%
2008	\$39.49	17%
2009	\$44.95	14%

A change to the quarterly service charge was also applied for increasing from \$5.00 to \$5.75. In support of its Application, the R.M. filed a copy of By-law No. 1697.

The last rate change occurred in 2005 and at that time the residential minimum quarterly bill rose by 43% from \$19.20 per quarter. The increase prior to 2005 occurred in 1982.

The R.M. advised that the rate increases are necessary to avoid the large deficits the utility has experienced in the last two years and to begin to operate the utility on a breakeven basis. The utility will continue to experience higher operating costs related to staff training and to the deterioration of the aging system.

In 2004 the utility incurred a \$53,000 deficit and in 2005 a \$16,780 both recovered from the General Fund (taxes).

The historical capital cost of the system is approximately \$2.5 Million and consistent with industry practice and the Board's Guidelines, the R.M. included a contingency allowance in its

rates. The amount of \$4,000.00 will allow for the recovery of unforeseen costs and is well below the industry average use of 1% of capital costs and sometimes higher for a system in need of repair. A 1% contingency allowance for Swan Lake would amount to \$25,000.

In 2005 the unaccounted for water was 35% which the R.M. advised was caused by a water main break in 2005. Historically, the level of unaccounted for water was in the range of 8% to 35% (8% in 2003, 16% in 2004 and 35% in 2005).

The utility has no reserve fund account.

The following is a breakdown of the operating costs used in the rate calculation:

Administration		\$ 3,820.00
Water		\$38,725.00
Sewer		\$15,000.00
Contingency	Water	\$ 2,000.00
	Sewer	\$ 2,000.00
Reserves	Water	\$ 5,000.00
	Sewer	\$ 1,000.00
Total		<u>\$67,545.00</u>

The rates required by the rate study to recover the above operating costs are being phased in over three years.

Pursuant to the Board's instructions details of this Application were published in the local newspaper and posted in several prominent locations in the area, no response was received.

**Background**

The utility has approximately 150 customers of which 16 are sewer only customers. All customers are metered as noted below:

142	5/8" meter
2	1" meter
6	1½" meter

Approximately 23,000 cubic meters are sold annually.

Although there are no specific capital projects that are proposed to be funded from the proposed rates, a major lagoon upgrade/replacement project at a cost of \$2.1 Million and sewer main replacement project are expected to be funded by Canada/Manitoba Infrastructure monies and taxation. Funding assistance has been obtained from \$1.44 Million of the lagoon project cost. The R.M. has applied for additional funding as the project at this stage remains unaffordable by the utility notwithstanding the prior approved amount. The utility currently has no debenture debt.

There are 27 hydrants in the system which the R.M. pays to the utility an annual amount of \$75.00 per hydrant.

The R.M. is experiencing significant infiltration into the gravity sewer system causing excessive loading on the lagoon. This is being addressed and will be evaluated in the design of the new lagoon.

Drinking water standards and discharges from the lagoon are

meeting Provincial standards.

The raw water source is a well located approximately 6 Km west of the community. The lagoon discharges into a creek leading to the Pembina River. At the moment nutrient removal is not contemplated and will be determined by the licensing process for the lagoon.

### **Board Findings**

While the increases are substantial particularly when considered with the size of the increase approved in 2005, they are necessary to ensure that the utility is capable of operating on a financially sustainable basis in the future. The rate increase approved in 2005 addressed the fact that the rates had not changed since 1982. This application begins the long road to financial recovery to meet the many challenges of the utility in the future.

The Board noted that the utility has received approval for a considerable portion of the \$2.1 Million cost for lagoon upgrading but without further assistance, the project is not affordable for the utility and the R.M. may not proceed. The Board noted that the R.M. is seeking further assistance in this regard. If it is not forthcoming in a timely manner, the R.M. will need to consider its options including the ability to fund its portion of the capital cost with carrying cost in rates. In this regard the Board noted that sewer rates are rising 100% over the three year period from 0.40 per cubic meter to 0.80.

To fund the capital costs shortfall without consideration of the

carrying costs of \$660,000 over a 25 year period would add \$26,400 to the utility's annual sewer cost of \$15,000. Rates would need to increase by another 200% to meet this cost in rates. This will need to be considered carefully by the R.M.

The Board is pleased that the unaccountable water is being reviewed. This is a controllable cost which can be reduced to a minimum level with due diligence. The Board noted that historically the levels of unaccounted for water were in line with industry norm.

The R.M. will need to manage its utility budget carefully in the next three years and only with favourable operating results will future deficits be avoided. The rate deferral program proposed defers the needed rate level at a risk of short term deficits.

The Board will direct that the R.M. file a copy of each year's operating results by no later than March 31 of 2008, 2009 and 2010.

The Board will also request the R.M. to keep it informed on its additional funding request for the lagoon project.

The Board is satisfied that the rates have been prepared following its guidelines and are just and reasonable. It is regrettable such increases are required but at this stage are unavoidable for this utility to begin to recover revenues consistent with the need to be sustainable.

**IT IS THEREFORE ORDERED THAT:**

1. By-law No. 1697 of The Rural Municipality of Lorne serving Local Improvement District No. 7 (Swan Lake) BE AND THE SAME IS HEREBY APPROVED subject to amendment on second reading to agree with Schedule "A" attached hereto.
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 Board directs the Rural Municipality to file its December 31, 2007, 2008 and 2009 financial statements with the Board by no later than March 31, 2008, 2009 and 2010 with some commentary with respect to the adequacy of the rates.
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 - \$300.00

THE PUBLIC UTILITIES BOARD

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

"G. O. BARRON"  
Acting Secretary

Certified a true copy of  
Order No. 169/06 issued by  
The Public Utilities Board

\_\_\_\_\_  
Acting Secretary

**SCHEDULE "A"**  
**TO BOARD ORDER NO. 169/06**  
**THE RURAL MUNICIPALITY OF LORNE**  
**LOCAL IMPROVEMENT DISTRICT NO. 7 (SWAN LAKE)**  
**WATER AND SEWER RATES**  
**BY-LAW NO. 1697**

1. Schedule for Quarterly Rates

A schedule of rates per cubic meter.

		Water	Sewer	W & S
Commodity rates per cubic meter	(2007)	1.47	.53	2.00
	(2008)	1.75	.66	2.41
	(2009)	2.00	.80	2.80

2. Minimum Quarterly Charges

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) meters – for metered customers minimum charges based on consumption shall be based on the following meter sizes
- i) water & sewer customers

Meter Size	Group Capacity Ratio	Water Included (cubic meters)	Customer Service Charge	Quarterly Commodity Charges		Total Per Quarter
				Water	Sewer	
<b>(2007)</b>						
5/8"	1	14	5.75	20.58	7.42	33.75
1"	4	56	5.75	82.32	29.68	117.75
1½"	10	140	5.75	205.80	74.20	285.75
<b>(2008)</b>						
5/8"	1	14	5.75	24.50	9.24	39.49
1"	4	56	5.75	98.00	36.96	140.71
1½"	10	140	5.75	245.00	92.40	343.15

**(2009)**

5/8"	1	14	5.75	28.00	11.20	44.95
1"	4	56	5.75	112.00	44.80	162.55
1½"	10	140	5.75	280.00	112.00	397.75

ii) Water Only Customers

All customers connected to the water distribution system but not to the sewer system, shall pay the quarterly bill, which includes service and water charges for the appropriate meter size.

iii) Sewer Only Customers

All customers connected to the sewer distribution system but not to the water system, shall pay the quarterly bill, which includes service and sewer charges for the appropriate meter size.

3. Bulk Water Sales

Bulk water sales will be charged at the net rate of \$2.00 per cubic meter and prorated accordingly with a minimum charge of \$1.00.

4. Service for Connecting Customers Outside the Lorne Properties Region

The Council of the R.M. of Lorne may sign agreements with customers for the provision of water and sewer properties located outside the legal boundaries of the Community of Swan Lake. Such agreements shall provide for payment of the appropriate rates set out in this Schedule, as well as 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.

5. Billings and Penalties

Accounts shall be billed quarterly and shall be due and payable 15 days after date of billing or as stated on the billing. A penalty of 1¼% per month shall be added if not paid by the due date.

6. Disconnection and Reconnection

Service may be disconnected and discontinued immediately and without further notice in the event of non-payment of the account within the time referred to above. Any service disconnected due to non-payment shall not be reconnected until all arrears, penalties and a reconnection fee of \$200.00 have been paid.

7. 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 are collectable, and with like remedies.

8. Hydrant Rentals

The R.M. of Lorne will pay to the utility an annual rental of \$75.00 per year for each hydrant connected to the system.

9. Sewer Surcharge

- a) There may be levied annually, in addition to the rates set forth above, a special surcharge on sewage having a Biochemical Oxygen Demand in excess of 300 mg/L, 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 waste.

10. Water Meters

All new residential customers for sewer and water shall be metered at customer cost. Ownership, inspection and maintenance of meters will remain the responsibility of the utility system. Commercial meter maintenance will be the responsibility of the utility system but will be billed to the commercial user.

11. Water Allowance Due to Freezing

That in any case where, at the request of the R.M. of Lorne, 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 billings for the last two previous quarters to the same customer, or to the same premises if the occupant has changed.