

M A N I T O B A) Order No. 164/05
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THE PUBLIC UTILITIES BOARD ACT) December 14, 2005

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

THE RURAL MUNICIPALITY OF EAST ST. PAUL
WATER AND SEWER RATES
EFFECTIVE JANUARY 1, 2006

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1.0 Executive Summary

In this Order, the Public Utilities Board (Board) varies the Rural Municipality of East St. Paul's (Municipality) application for revised water and sewer service rates.

Herein, the Board establishes rates, charges and allocations of Residential Equivalent Units (REU - being an estimate of the volume of sewer discharge associated with a residential house), as of January 1, 2006:

1. Quarterly service charges - as proposed by the Municipality, \$6.71 (sewer) and \$12.39 (water);
2. Volumetric charges per cubic metre - \$0.95 for water (proposed, \$1.15), and \$1.07 for sewer (proposed, \$1.29);
3. Bulk water volumetric charge per cubic metre- \$1.15 (proposed, \$1.26);
4. REU allocations as per the appendix to this Order (the REU allocation proposed by the Municipality is declined, and the allocations for unmetered customers are continue at the levels set by the Board's preceding rate decision); and
5. Minimum quarterly charges, as per the appendix for:
 - a) Water customers, based on meter size: the combination of the water volume allowance, service charge and volumetric charge of \$0.95 cents per cubic metre results in a minimum quarterly charge ranging from \$36.14 to \$4,049.89;
 - b) Sewer customers, based on meter size and the REU allocation: the combination of the commodity charge

per REU of \$64.99 and the revised service charge results in a minimum quarterly charge ranging from \$71.70 to \$786.59; and

- c) Water and sewer customers, based on meter size: the combination of the water volumetric allowance and the service charges for both water and sewer results in a minimum quarterly charge ranging from \$69.60 to \$8,604.10.

Prior to this Order, the Municipality's Utility (Utility) levied the following charges and rates:

- a) flat quarterly sewer and water customer charges of \$6.19 and \$8.38 (by this Order the charges are revised to \$6.71 and \$12.39, representing increases of 8.4% and 49.6%, respectively);
- b) volumetric water charge of \$0.85 per cubic metre (by this Order the charge is revised to \$0.95, representing an increase of 11.8%);
- c) bulk water volumetric charge of \$0.98 per cubic meter (by this Order the charge is revised to \$1.15, representing an increase of 17.3%); and
- d) unmetered sewer rates per allocated REU, \$55.53 (by this Order the charge is revised to \$64.99, representing an increase of 17%).

As well, the Board:

- a) accepts the Municipality's proposal that customers connected to both the water and sewer systems receive a single bill, commencing January 2006;

- b) declines the Municipality's proposal to establish further increased rates as of January 1, 2007 and 2008;
- c) confirms the Municipality's ability to enter into agreements to provide Utility services with parties outside of the Municipality's borders, given the agreements provide revenue representative of rates in excess of those charged to customers located within the Municipality, and recover all connection costs;
- d) confirms that Utility accounts shall be billed quarterly, with a penalty equivalent to 1.25% per month for accounts in arrears;
- e) confirms that accounts in arrears may be disconnected, reconnection will require the payment of all arrears and penalties plus a reconnection charge of \$100;
- f) approves a \$100 inspection fee for any sewer and/or water connection; and
- g) approves an annual per hydrant rental fee of \$100 for hydrants connected to the Utility (in addition, the Municipality will pay the Utility for water used in fire-fighting, at the volumetric rate established herein).

The rates established by this Order are expected to generate a rate-related annual revenue growth for the Utility of 15%; the Municipality had proposed an average rate increase of 45% before taking into account proposed reduction to REU allocations for commercial and other large customers.

While considerably higher than the current annual rate of inflation, the Board notes that:

- a) rate increases were last approved in 2000 and 2002 (considerable general inflation has since occurred);
- b) significant changes to water and effluent quality standards have taken place since then; and
- c) Municipal population growth has continued. The magnitude of future rate increases will depend upon the circumstances of the time and the Municipality's rate applications.

The Board rejects the Municipality's proposal for average rate increases of 8.7% and 8% for 2007 and 2008, respectively. Ahead of receipt of reports requested from the Municipality and a subsequent hearing process, the Board is not prepared to increase rates and charges beyond 2006, or amend the assignment of REUs to commercial and other large customers.

That being said, the Board expects future rate increases will be required. The Board finds the Utility's reserves inadequate, and suggests that future changes to the standards for water and effluent quality, along with continued growth within the Municipality, will require large capital expenditures over the next ten years that will impact on rates.

A significant proportion of the Utility customer base relies on proprietary wells, and concerns have been expressed about adequate supply and quality, particularly given anticipated future population growth.

While up to 50% of a utility's capital expenditures may be eligible for grants from the Manitoba Water Services Board

(MWSB), significant future demands on ratepayers to fund a major share of the cost of further Utility expansion and renewal are likely.

The Board notes that the Municipality has been funding its share of major Utility capital expenditures by reliance on the municipal tax roll, as well as rates, grants and contributions from developers. With further system expansion and enhancement, the annual cost of servicing municipal debentures can be expected to increase sharply.

In developing the ten-year Utility strategic plan sought by the Board, the Municipality is urged to consider the financial and other implications of anticipated future sewer system and water supply demands. Also to be considered should be the increasing Provincial standards for effluent safety and quality; municipal growth potential; water supply; and the means by which future major Utility capital expenditures should best be funded.

Likely funding sources include utility rates (taking into account debenture servicing), MWSB grants, Utility reserve balances and developer contributions.

With many customers receiving either the water or the sewer service, but not both, and with service contemplated to areas outside the Municipality's boundaries, meeting capital expenditures through levies against the tax roll may not be the approach most likely to provide equity between customer groups.

As suggested above, the Board was not convinced that the Municipality's proposed reduction of REU allocations to unmetered commercial and other large customers is appropriate. The Board observes that the consultant's report supporting the Municipality's proposal was focused on connection charges, not volumetric usage. The Board also notes concerns raised at the public meeting questioning the validity of a "fixtures-based" methodology, and shares the concerns.

The Board suggests that commercial and large customers appeal to the Municipality if of the view that its REU allocation is unfair. If a REU allocation is to be amended, a formal review process will have to be in place, and the Board will have to agree. The installation of meters would represent the most effective way to resolve concerns while advancing conservation goals and ensuring rate equity.

The Board will also require the Municipality to:

- a) for future rate applications: determine and allocate a full and fair share of its general and administrative costs to the Utility; and
- b) discuss with the Province:
 - i) the adequacy of effluent treatment, from the perspective of increasing Provincial focus on the health of Lake Winnipeg;
 - ii) required actions to best ensure the safety of private wells, now relied upon by many of the Municipality's residents; and

iii) the implications for the water supply and safe effluent resting with future municipal growth.

The Board will require the Municipality to file reports by early summer 2006 updating the Board on financial and other matters, including:

1. updated Utility financial results and forecasts,
2. a ten-year Utility plan (or, at least evidence of progress towards the preparation of a plan), and
3. the outcome of discussions to be held with the Province and MSWB with respect to future water and sewer requirements.

After reviewing the information to be submitted, the Board will decide whether a new rate application is required and, if so, request a new application from the Municipality. A public hearing in the late fall of 2006 is possible.

2.0 Application

Pursuant to The Public Utilities Board Act, the Municipality applied to the Board for a revision in Utility water and sewer rates to be effective January 1, 2006. The Municipality's proposal was set out in By-law No. 2005-08, it having received first reading on June 15, 2005.

A Public Notice concerning the application was mailed to Utility customers, and posted in six prominent locations within the municipality. A public hearing followed, it was held on November 9, 2005 in the meeting room of the East St. Paul Arena.

The Board last approved sewer and water rates in 2000 and 2002, respectively.

The changes proposed by the Municipality were as follows:

The existing and proposed quarterly customer service charges were as follows:

Sewer	
2005 (Existing)	\$6.19
2006 (Proposed)	\$6.71
2007 "	\$6.71
2008 "	\$6.71

Water	
2005 (Existing)	\$ 8.38
2006 (Proposed)	\$12.39
2007 "	\$12.39
2008 "	\$12.39

Sewer-only customers (unmetered) - Quarterly Rates				
	2005 (Existing)	2006	2007	2008
Single family or small business	\$55.53	\$85.06	\$93.11	\$101.15
Fire Hall	\$104.86	-	-	-
Bus Garage	\$104.86	-	-	-
Ludwick Catering Ltd.	\$203.53	-	-	-
IGA Garden Market (Sobey's)	\$203.53	-	-	-
Bird's Hill Manor	\$252.87	\$202.59	\$222.71	\$242.81
3111 Bird's Hill Road	\$351.54	\$280.94	\$309.11	\$337.25
Bird's Hill School	\$351.54	-	-	-
Robert Andrew School	\$351.54	\$280.94	\$309.11	\$337.25
Dr. Hamilton School	\$351.54	\$280.94	\$309.11	\$337.25
Service Station & Car Wash (6 bays)	\$499.54	\$398.46	\$438.71	\$478.91
Bird's Hill Plaza	\$598.21	\$476.81	\$525.11	\$573.35

- Notes:
1. The "Existing" column represents the existing and proposed semi-annual billings, divided by two to produce quarterly charges, subject to rounding.
 2. REU allocations to the Fire Hall and Bus Garage were proposed to be reduced to 1, the same as residential customers. Ludwick, Sobey's and Bird's Hill School are now metered customers. REU allocations against other commercial and large customers were proposed to be reduced by half from existing levels.
 3. The comparison between existing and proposed quarterly charges against the scheduled customers is affected by the proposed increases in the charge per REU and the halving of the REUs allocated. In short, the rate increases would lead to increases in charges to each of the scheduled customers, excepting that by the proposed reduction in REU allocations the overall net impact are 2006 reduction, followed by increases in line with the proposed rate increases for 2007 and 2008.

Previously, the rates charged for water and sewer were handled separately, even when customers received both services. The Municipality's proposal includes rate schedules incorporating both water and sewer rates for metered customers. And, for the first time, the Municipality proposes a volumetric charge for sewer customers connected to the metered water system.

Proposed sewer volumetric charges were as follows:

2006	\$1.29 per cubic meter
2007	\$1.42 per cubic meter
2008	\$1.56 per cubic meter

Previously, sewer charges were entirely determined on the basis of the REU methodology and allocations. For customers with water meters, the Municipality proposes to determine sewer volumes as being identical to water use, as measured by meters.

Existing and proposed water commodity charges were as follows:

2005 (Existing)	\$0.85 per cubic metre
2006 (Proposed)	\$1.15 per cubic metre
2007 "	\$1.25 per cubic metre
2008 "	\$1.35 per cubic metre

Proposed minimum quarterly bills for residential water and sewer customers are to be based on 25 cubic metres of consumption each quarter, i.e. 3,000 gallons.

2006	\$80.10
2007	\$85.65
2008	\$91.85

Proposed minimum quarterly bills for water only customers were as follows:

2005 (Existing)	\$19.00
2006 (Proposed)	\$41.14
2007 "	\$43.64
2008 "	\$46.14

Existing and proposed bulk water volumetric charges were as follows:

2005 (Existing)	\$0.98
2006 (Proposed)	\$1.26
2007 "	\$1.37
2008 "	\$1.48

The Municipality supported its proposed changes with:

- a) a rate study prepared by Energy Consultants International Inc. (ECI);
- b) a report on the REU methodology by Stantec Engineering;
- c) responses to the Board's pre-hearing questions;
- d) testimony by the Municipality's administration and ECI consultant;
- e) an indication of further population growth;
- e) previous water shortages to be addressed by infrastructure renewal; and
- f) concerns related to the planned Winnipeg floodway expansion, general inflation, recent Utility results and inadequate Utility reserves.

The Municipality proposed overall average rate increases of 45.3% in 2006, 8.7% in 2007 and 8.0% in 2008. The rate of increase proposed for 2006 was based on the proposed rate changes, but did not take into account the Municipality's

proposed commercial and other large customers' REU allocation reductions. Miscellaneous connection and re-connection fees and hydrant rental fees were to remain unchanged.

The Municipality engaged Stantec to review its connection fees, and the report which commented on the REU methodology was filed with the Board in support of the Municipality's application. For the purposes of calculating connection charges for industrial, institutional and commercial customers the consultant recommended an approach based on the number of fixtures to be installed.

An estimate of 40 fixtures was advanced as being representative of a "typical residential unit equivalent". Fixtures were defined to include sinks, toilets, laundry appliances, outside taps, etc. The review also concluded that the average residential wastewater flow had increased, and factored this into its fixture-based recommendations. The Municipality adopted the approach, not only for the determination of connection charges but also for the determination of REU allocations for 2006-2008.

Through the application of this approach, the Municipality determined that the REUs to be allocated to its commercial and larger customers should be reduced by one-half. The Municipality proposed the following changes in REU allocations:

	Current	Proposed
Fire Hall	2	1
Bus Garage	2	1
Ludwick Catering Ltd.	4	(note)
IGA Garden Market	4	(note)
Bird's Hill Manor	5	2.5
3111 Bird's Hill Road	7	3.5
Bird's Hill School	7	(note)
Robert Andrews School	7	3.5
Dr. Hamilton School	7	3.5
Service Station/Car Wash	10	5
Bird's Hill Plaza	12	6

Note: Ludwick Catering Ltd., IGA (Sobey's) and Bird's Hill School were reported to have become metered customers, so a REU allocation for these accounts is no longer applicable.

During the drought of 2003, the Utility experienced water shortages that were partially attributed to excessive lawn watering. The Municipality advised the Board that by combining the water and sewer rate structures, i.e. effluent discharge to be assumed to be identical to metered water use, an incentive would be created for metered customers to reduce water consumption. The Municipality has a by-law regulating lawn watering, and it plans to continue with a public conservation awareness program that involves in part the dissemination of material on water conservation.

Sewer operations in 2004 recorded \$484,082 in total operating costs, of which sewer treatment costs amounted to 67% or \$326,541. Water operations recorded expenditures of \$133,871 in total operating costs, of which 69% was related to purification and treatment. The Utility incurs annual costs for salaries and benefits, repairs, utility costs, training and continuing

education, and an allocation of general administration costs incurred by the Municipality's General Operating Fund.

All expense categories were reported to have risen since rates were last set (five and three years ago); and ongoing inflation, increasing attention to maintenance, increasing water and sewer standards and further customer growth have and are expected to continue to drive Utility costs up.

With the exception of administration services there are no services or equipment shared between the Municipality's General Operating Fund and its Utility.

The Municipality advised that the Utility has not been assessed a full appropriate share of general administrative costs. A detailed analysis of shared administrative costs concluded that the Utility should be assessed \$41,603, annually. Yet, a modest allocation of \$17,500 was made against the Utility in 2004 (sewer- \$15,000, and water- \$2,500). The Municipality proposed to recover from utility rates \$40,000 in 2006, with the division between sewer and water operations to be 75:25.

The annual debenture debt servicing cost incurred by sewer operations was \$337,427, and, with respect to water operations, \$18,376. A portion of "water" debenture servicing costs is recovered from bulk water users through rates.

Under the Municipality's proposal, annual contingency allowances and reserve provisions would increase. In 2008, sewer and water

expenses were projected at \$880,571 and \$246,776, respectively, including contingencies and reserve development of \$490,536 (sewer), and \$105,770 (water).

The Municipality plans to commission a Master Water Plan Study in 2006, to best project its future water requirements to the year 2025. The projected cost of the study is \$25,000. As well, the Municipality anticipates expending \$250,000 on securing additional water supply, and enhancing its treatment facilities and transmission lines. The Municipality's rate proposal accounts for these plans.

Sewer and water operations recorded 2004 deficits of \$40,896 and \$154,369, respectively. A balanced Utility budget was adopted for 2005, though in advance of the proposed rate increases, provision was made neither for contingencies nor for a contribution to Utility reserves.

The 2004 sewer deficit was attributed to labour cost overruns related to new provincial standards and an overstatement of an expected transfer from the General Operating Fund to the utility. It was to be recovered through property taxes. The 2004 water deficit was attributed to the previously mentioned water shortage, including efforts to secure alternate supplies to meet supply demand. The Municipality advised of plans to recover the 2004 water deficit by taxes over the 2005-2007 period.

The Municipality assesses developers \$4,000 and \$3,600 per lot for sewer and water connections, respectively. These fees are applied as capital contributions towards the capital cost of water treatment, reservoirs, wells, sewage treatment, and trunk sewage pipelines assets. The levies have increased substantially in recent years, as a result of an increasing recognition of the initial and future cost associated with system expansion.

The Municipality submitted a five-year capital expenditure program, comprising the following provisions:

Sewer	
Treatment Plant	\$ 9,500,000
Additional Wheels	\$ 400,000
Terrance Sewer -	\$ 300,000
Stage 2	
Line Expansion	\$ 1,450,000
Vehicles	\$ 50,000
Lift Stations	\$ 40,000
	<u>\$11,740,000</u>
Water	
Reservoir Expansion	\$ 750,000
Silverfox	\$ 700,000
Line Upgrades	\$1,612,000
Hydrant installations	\$ 140,000
	<u>\$3,202,000</u>
Total Utility Capital Forecast	<u><u>\$14,042,000</u></u>

Previously, the Municipality's approach was to transfer Utility operating surpluses to the Utility reserve at year-end. However recent operating deficits have prevented transfers to reserves, and, as previously indicated, operating deficits have been met by the General Operating Fund. Such subsidies are contrary to

the intent of legislation requiring Utility operations to be funded by water and sewer customers.

The Municipality advised that approval of its three-year rate proposal by the Board would allow for the following contingency provisions and transfers to Utility reserves in 2006, 2007 and 2008.

	<u>Reserves</u>		<u>Contingency Allowances</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
2006	\$ 75,000	\$ 17,500	\$265,536	\$ 53,270	\$ 411,306
2007	\$150,000	\$ 35,000	\$265,536	\$ 53,270	\$ 503,806
2008	<u>\$225,000</u>	<u>\$ 52,500</u>	<u>\$265,536</u>	<u>\$ 53,270</u>	<u>\$ 596,306</u>
Total	<u>\$450,000</u>	<u>\$105,000</u>	<u>\$796,608</u>	<u>\$159,810</u>	<u>\$1,511,418</u>

Annual contingency allowances as forecast above were indicated to be representative of 1% of the \$26.5 million capital cost of the water and sewer system (historical capital costs are not reflective of replacement costs, most of the capital base was acquired many years ago). The 1% annual contingency allowance would be in accordance with the Board's Guidelines for the provision of adequate contingency allowances.

As of December 31, 2004, balances in the nominal surplus and reserve accounts of the Utility aggregated only 3.7% of capital assets, being as follows:

	<u>Description</u>	<u>Balance</u>
Nominal Surplus	Water	\$(74,220)
	Sewer	\$143,346
Reserves	Water	\$139,106
	Sewer	\$116,989
	Sewer Treatment Plant	<u>\$632,062</u>
Aggregate surplus and reserves		<u><u>\$957,283</u></u>

Based on the Municipality's proposed rates, and given reserve contributions (\$500,000) and capital expenditures (\$14 million) occurred as forecast, overall reserves would only be maintained at 3.7% over the next five years, and that assumes capital expenditures were funded to 50% by the MWSB and other contributions.

In summary, the Municipality advised that its three-year rate proposal was based on forecast expenditures through 2008, and that it anticipated such rates would be adequate for at least two years, at which point a determination would be made with respect to making a new rate application.

The Municipality's determination of when a new rate application is required would consider inflationary pressures, success achieved with ongoing efforts to improve efficiency, customer growth and volumes, and other factors.

Presenters -

Presentations by residents and Utility customers were made at the public rate application hearing, and are summarized below:

1. Several presenters opposed the Municipality's proposed revised REU allocations, opining that commercial and other large accounts should not be receiving the allocation reductions proposed, and suggesting that large customers use much more water than residential customers.
2. Several presenters suggested that water operations should not be subsidized by sewer rates, and that existing customers should not subsidize new customers.
3. Most presenters advanced the argument that the Municipality's rate and dollar increases were excessive, and should be reduced.
4. Some long-time residents noted the history of sewer system expansion, and opined that the system had been prematurely replaced on several occasions, and that better planning would have reduced costs since borne by residents, which have been unduly affected by the ongoing growth of the community.
5. One presenter suggested that developer fees are and have been inadequate, and represent a major factor in the rate requirements now being proposed for all customers.

6. One presenter suggested it would be premature to assess large rate increases to build Utility reserves ahead of the completion of the planned Master Water Plan.
7. Other presenters suggested:
 - a) the Municipality avoid system obsolescence and future higher maintenance costs by connecting the system to the City of Winnipeg sewer treatment plant (it was suggested that since the City of Winnipeg already accepts sludge from the Municipality for treatment, it might be willing to take full responsibility for effluent treatment);
 - b) employing the counting of "fixtures" to determine amendments to the REU methodology is inappropriate, as the number of fixtures does not necessarily mean higher usage; and
 - c) the sustainability of the Utility, in light of the current speed of expansion, is a concern.

The Board comments on the application and the positions advanced by Presenters below, in Board Findings.

3.0 Background

The Municipality) operates a \$26.5 million, at cost, water and sewer Utility serving:

- a) 2,300 customers on the sewer system; and

b) 726 customers on the water system, a significant number of residents rely on proprietary wells for their water supply.

Some customers are connected to the water and sewer system, others to one or the other. On a combined basis the total number of customers has grown from 2,602 in 2002 to 3,026 in 2005, a 16.5% increase over three years. A further increase of over 4% (or 130 customers) was projected for 2006.

The Utility's existing Wastewater Treatment Plant was designed to service the volumetric equivalent of 2,512 REUs. Based on the number of current connections, the Plant has a 93% utilization rate, this suggesting that use of the existing plant may be over its capacity in three years.

The existing water production and distribution system includes approximately 20 kilometers of water mains, with wells, reservoirs and pumping facilities. The wastewater collection and treatment system comprises approximately 47 kilometers of sewer mains, along with five lift stations and a sewage treatment facility.

Future residential subdivisions are expected to pre-fund Utility system costs through developer lot fees. The fees are intended to cover costs incurred in the development of increased water supply, reservoir capacity and an enhanced sewer system.

The Municipality foresees constant population growth in its future, and, in particular, anticipates a need for increased

wastewater treatment capacity. As in the past, the intention is to fund expanded capacity through draws on Utility reserves, local improvement and developer levies, debentures, rate amendments and MWSB grants.

Absent meters, the charge for sewer only customers is based on REU allocations, only three sewer customers have meters to measure effluent discharge. For water-service customers, water meters are used to bill for both water and sewer services.

The Utility's accounts are maintained separate from the Municipality's General Operating Fund, and the Utility incurs both direct and indirect expenditures. The Municipality's Council and/or Administration provide administrative policy decisions, direction for, and oversight of the Utility.

4.0 Board Findings

The Board has a public interest mandate. The Board interprets its mandate to include attention to the following goals:

- a) fair and reasonable rates and charges for Utility customers;
- b) a financially healthy Utility (able to meet its responsibilities);
- c) the fairness of transactions between the Utility and the Municipality's General Operating Fund; and,

d) most importantly, the provision of adequate and safe, from both a health and environmental perspective, water and wastewater services.

The Board brings both a short and long-term perspective to its deliberations, and seeks as secondary objective to assist in the level of understanding of Utility requirements held by Utility customers.

The Board finds that the Municipality's rate proposals are premature with respect to proposed 2007 and 2008 rate increases, and excessive with respect to 2006 (the proposed increases are too high ahead of required additional information, particularly a long-term plan).

The Board finds itself unable to support the Municipality's proposal to amend the REU allocations to commercial and large customers. The Board is not comfortable with the "fixtures-based" methodology advanced by Stantec, and looks for further research before being willing to consider reductions. The Board's preference is for metering, which ends the reliance on estimates and best ensures a level "playing field" between customers and customer groups.

The Board finds that the Municipality should proceed to develop a long-term strategic plan for its Utility, and that the plan should concern itself with both water and sewer services. With respect to water services, the plan, and its sponsor, the Municipality, should address the water and wastewater situations

of all its customers, whether served by the Municipality's water service or through proprietary wells.

It is axiomatic to say that the delivery of a safe and adequate supply of water and the proper handling of sewage are vital services on which the health and economic well being of residents and the Municipality rest.

Some other Manitoba communities are confronting depopulation and aging Utility systems, requiring major rate increases and difficult other decisions. Others similar to the Rural Municipality of East St. Paul face tremendous growth and a need to carefully plan for the level of future services required, so that investments made are cost effective.

Clearly, the floodway expansion and the recent drought have presented new challenges and concerns for the Municipality.

The scope of the initially intended Master Water Plan to be undertaken by the Municipality should be expanded to incorporate a wide range of issues, including wastewater matters. The plan should entail a critical review of the current and future needs of the Utility. The Board applauds the Municipality for its intentions and urges it to proceed.

Utility reserves are clearly inadequate, as are present rates as evidenced by recent deficits. To plan for future expansion and to meet current requirements for a system with original capital costs of \$26.5 million requires annual contingency allowances,

appropriations to reserves and rate adjustments to meet current challenges and provide for ongoing general inflation.

And, to rely on property taxation to recover Utility operating deficits, as has been the practice, is to distort ratepayer equity and contravene the principles of fairness with respect to the operative user-pay criteria.

While the Board is supportive of long range planning and the building of reserve funds to help fund new or replacement projects, initiatives need to be balanced with rate impacts. At a minimum, while needed planning ensues, the Utility must be able to finance its ongoing costs of operation.

A major component of the Municipality's rationale for proposing large rate increases for 2006 relates to its recognition of the need to develop appropriate contingency provisions and build the Utility reserves. The Board finds the recognition of unduly low reserves appropriate, but ahead of a full plan, will not approve the rate of increases being sought at this time.

Increases of the magnitude sought by the Municipality represent "rate shock" by any measurement. Until the long-term plan is ready and more information is placed before the Board, the Board will limit the rate increases, deny the change to the REU allocations and defer consideration of 2007 and 2008 rates.

That said, given the age of the Utility system, increased standards for water quality and effluent safety, increased cost

pressures now being faced by the Utility for maintenance, and ongoing growth pressures, rate pressure will remain.

In making an application for rates for 2007 and beyond, the Municipality will be required to file its operating results for 2005 as well as year to date results and an updated forecast for 2006, by the summer of 2006. To better assist the Board in the determination of future rates, the Board will require that the Municipality prepare and file a ten-year year strategic plan for its Utility.

The Board anticipates that the Municipality will file an application for 2007 rates, and perhaps 2008, by the fall of 2006. A new hearing could take place in November 2006.

A new application should include:

1. rate schedule proposals,
2. Utility results for 2005,
3. Utility result forecasts for 2006, 2007, 2008 and 2009,
4. current year and projected five-year capital expenditure plans,
5. projected surplus and reserve balances out five years,
6. actual and projected number of customers by service category, and
7. a ten-year Utility strategic plan.

In preparing the ten-year plan, the Board would appreciate attention being paid to the possibility of a connection between the Municipality's sewer collection system and the City of

Winnipeg's treatment plant. The Board notes that a part of the Municipality's jurisdiction is within the Perimeter Highway, and that its sewer system and the City's are in close proximity of one another.

And, while it may be that the residents of the Municipality do not desire connection to the City of Winnipeg water system, and prefer continued reliance on wells and bottled water, the Board believes it would be prudent to review all options.

It is evident that, to meet the Municipality's current five-year Utility capital expenditure budget, the Municipality will need to rely on conventional funding means, including debentures and MWSB grants.

The Board was pleased to note the Municipality's indication that it exercises proper cost control over Utility expenditures, and that shared services are employed where deemed effective. The Board expects that a reasonable full allocation of shared administrative costs with the Municipality will be assessed to the Utility and funded by water and sewer customers, not property ratepayers.

The Utility depends on the REU methodology, one put in place decades ago before concerns over expansion, conservation objectives, environmental concerns and finances took center-stage. The Board accepts that the REU methodology provides an approximation of usage only, yet notes that the existing allocation of REUs to commercial and large accounts meets the

requirements of the Board's Guidelines (which were based on a thorough engineering assessment conducted some time ago).

In the Board's view, the Guidelines remain relevant and reflect the current practice throughout Manitoba where no meters exist.

As a guiding principle, sound rate making methodology results in rates readily understandable and accepted by ratepayers. The proposed reduction of REU allocations to commercial and large customers does not meet these tests, and was a subject of controversy at the hearing. As previously indicated, the Board will not adopt the proposed changes to REU assessment at this time. However, if circumstances have changed with respect to the usage volumes of commercial accounts relative to residential use, a reassessment would be appropriate. The Board will require that the Municipality report back to the Board with a formal process for amending REU allocations, prior to acting.

The Board notes that the Municipality has developed a volumetric charge for sewer. If commercial accounts wish to have their water usage metered at their expense, the Municipality should encourage the development and make such the metered rate schedule available.

While the application concentrated on utility rates, financial sustainability, enhancing rate equity amongst customers and conservation through metering, there are other important aspects of the Utility, namely the quality of its water and the safety of its effluent.

Other than the City of Winnipeg and some northern communities, where water has to be heated in winter to transport it through the distribution pipeline to consumers, it can arguably be advanced that Manitobans are fortunate to enjoy relatively low cost water and sewer systems.

And, for the vast majority of Manitobans municipal water supply and effluent treatment and removal systems provide plentiful and high quality drinking water and safe and reasonably effective effluent removal systems.

East St. Paul falls within this number, possessing both quality water and safe effluent removal systems. That said, perception, requirements and standards change. Increasingly, the negative effects, arising from the effluent of one community for the waterways and lakes enjoyed by all, are becoming known.

With respect to the Municipality's sewer treatment and discharge system, attention needs to be given to the impact that effluent discharges are having on Lake Winnipeg.

In the Manitoba Clean Environment Commission's August 2003 report entitled *Better Treatment: Taking Action to Improve Water Quality*, the Commission observed:

- "Environment Canada ... concludes that nitrogen and phosphorous loading from human activity have accelerated eutrophication of certain lakes and rivers resulting in

loss of habitat, changes in biodiversity loss of recreational potential"

- "... municipal sewage is the largest point source of nitrogen and phosphorous in Canada ... discharges of nitrogen and phosphorous on Lake Winnipeg is of particular concern;" and
- "Fisheries and Oceans (Canada) ... speak about the linkage between Lake Winnipeg water quality (or lack thereof) and phosphorous loading and predicted that if the phosphorous input to Lake Winnipeg is not reduced, the condition of the lake would continue to deteriorate."

- The Commission concluded, in part:
- "... treated municipal wastewaters ... are adversely impacting the aquatic environments of ... Lake Winnipeg. ... (and the City of) Winnipeg is not the only contributor of pollutants"; and
- "(Utilities, in this case, Winnipeg) should be directed to plan for the removal of nitrogen and phosphorous from its municipal wastewaters, and to take immediate steps in support of ... nutrient reduction ... for Lake Winnipeg."

More recently, a federal-provincial study called for urgent action with respect to Lake Winnipeg, citing giant algae blooms rife with toxins contaminating Lake Winnipeg in the summer, risking the health of communities and affecting the fishing and recreation industries.

Further illustrating the attention now being paid to water and effluent quality, and linking health and economics to water, the

Auditor General of Manitoba issued a report on the environmental audit of well water quality in Manitoba.

As cited in the Government of Manitoba's response to the Auditor General's audit report, the level of government attention to water quality has been very high in recent years, as evidenced by:

- the establishment of the Department of Water Stewardship,
- the establishment of the Water Protection Act,
- the establishment of the Office of Drinking Water,
- new regulations, certification and training programs for all water and wastewater treatment operators,
- strengthening of on-site sewage and waste-disposal regulations,
- the establishment of the Lake Winnipeg Stewardship Board,
- implementation of the Lake Winnipeg Action Plan,
- the investment of \$80 million in water and sewer, infrastructure, and
- initiation of water quality management zones.

These are matters that the Municipality should discuss with the Province and MWSB, with a report to the Board and reference to the discussions in the strategic plan.

With respect to the development of a long-term plan, the Board will make its staff available to the Municipality for consultation.

5.0 IT IS THEREFORE ORDERED THAT:

1. By-law number 2005-08 R. M. of East St. Paul BE AND IS HEREBY APPROVED SUBJECT TO amending Schedule "A" to agree
2. with Appendix "A" attached hereto and receiving final reading.
3. The water and Sewer rates set forth in Appendix "A" hereto shall apply to all charges of the utility effective on or after January 1, 2006.
4. This Order is subject to expenditures from the Utility Reserve Fund being limited to support existing Utility infrastructure, unless the Board has authorized or does authorize the expenditure pursuant to Section 168 of the Municipal and Various Amendment Act, c. 58.
5. The proposed reduction of REU's assigned to non-residential customers is denied.
6. A formal process be developed governing amendment of REU allocations. Such a process requires Board approval prior to implementation, and any changes to the REU allocations that may arise out of such a process also require the approval of the Board prior to being effected.
7. From 2007, a full and fair share of the Municipality's general and administrative costs be allocated to the Utility.
8. The Municipality discuss with the Province:
 - a) the adequacy of its treatment of effluent from the perspective of the increasing Provincial focus on the health of Lake Winnipeg; and

- b) actions that may be required to better ensure the safety of private wells, now relied upon by many of the Municipality's residents.
9. The Municipality file the following reports with the Board by early summer 2006, these to update the Board on financial and other matters:
- a) updated financial results and forecasts,
 - b) a ten-year Utility plan, inclusive of all matters of current and projected future concern, and
 - c) the outcome of discussions with the Province and the Manitoba Water Services Board with respect to future requirements with respect to the water and sewer systems.

Fees payable upon this Order - \$2000.00

THE PUBLIC UTILITIES BOARD

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

"G. O. BARRON"
Acting Secretary

Certified a true copy of
Order No. 164/05 issued by
The Public Utilities Board

Acting Secretary

APPENDIX "A"

TO BOARD ORDER NO. 164/05

THE RURAL MUNICIPALITY OF EAST ST. PAUL

WATER AND SEWER RATES, 2006

BY-LAW NO. 2005-08

1. 2006 Quarterly sewer rates-

Customer Service Charge	\$ 6.71
Volumetric Charge per c.m.	\$ 1.07
Residential Equivalent Unit	\$64.99

2. 2006 Minimum quarterly sewer charges - sewer service only

Quarterly rates for customers connected to the sewer utility only will be as follows:

Customer	Residential Equivalent Units	Service Charge	Commodity Charge	Quarterly Charge
Single family or small business	1	\$6.71	\$64.99	\$71.70
Buildings with more than 1 residence or business:				
2 residences or businesses	2	\$6.71	\$129.98	\$136.69
3 residences or businesses	3	\$6.71	\$194.97	\$201.68
Bird's Hill Manor	5	\$6.71	\$324.95	\$331.66
3111 Bird's Hill Road	7	\$6.71	\$454.93	\$461.64
Robert Andrews School	7	\$6.71	\$454.93	\$461.64
Dr. Hamilton School	7	\$6.71	\$454.93	\$461.64
Service Station/Car Wash	10	\$6.71	\$649.90	\$656.61
Bird's Hill Plaza	12	\$6.71	\$779.88	\$786.59

3. **2006 Quarterly water commodity rates**

Customer Service Charge	\$12.39
Volumetric Charge per c.m.	\$ 0.95
Bulk Volumetric Charge c.m.	\$ 1.15

4. **2006 Minimum quarterly charges - water service only**

A minimum charge is to be paid by all customers connected to the water distribution system only so all customers will make a fair minimum contribution to the cost of operating the water production and distribution system.

Meter Size	Water Incl. (c.m.)	Service Charge	Water Charge	Quarterly Minimum
15 mm	25	\$12.39	\$23.75	\$ 36.14
19 mm	50	\$12.39	\$47.50	\$ 59.89
25 mm	100	\$12.39	\$95.00	\$ 107.39
38 mm	250	\$12.39	\$237.50	\$ 249.89
50 mm	625	\$12.39	\$593.75	\$ 606.14
75 mm	1125	\$12.39	\$1068.75	\$1081.14
100 mm	2250	\$12.39	\$2137.50	\$2149.59
150 mm	4250	\$12.39	\$4037.50	\$4049.89

5. **2006 Minimum Quarterly Charges - Sewer and Water Service**

A minimum charge is to be paid by all customers connected to the sewer and water systems so all customers will make a fair minimum contribution to the cost of operating the water production and distribution system.

Meter Size	Water Incl. (c.m.)	Water Service Charge	Water Charge	Sewer Service Charge	Sewer Charge	Quarterly Minimum Bill
15 mm	25	\$12.39	\$23.75	\$6.71	\$26.75	\$69.60
19 mm	50	\$12.39	\$47.50	\$6.71	\$53.50	\$120.10
25 mm	100	\$12.39	\$95.00	\$6.71	\$107.00	\$221.10
38 mm	250	\$12.39	\$237.50	\$6.71	\$267.50	\$524.10
50 mm	625	\$12.39	\$593.75	\$6.71	\$668.75	\$1281.60
75 mm	1125	\$12.39	\$1068.75	\$6.71	\$1203.75	\$2291.60
100 mm	2250	\$12.39	\$2137.50	\$6.71	\$2407.50	\$4564.10
150 mm	4250	\$12.39	\$4037.50	\$6.71	\$4547.50	\$8604.10

6. **Service to Customers outside Municipality**

The Council of the Rural Municipality of East St. Paul may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Rural Municipality of East St. Paul. 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.

7. **Billing, Due Date and Penalties**

All sewer and water utility accounts shall be billed quarterly and all bills shall be due and payable 30 days after the billing date. A penalty of 1 ¼% per month will be charged if not paid by the due date.

8. **Disconnection and Reconnection of Service for Non-Payment**

Services may be disconnected without further notice if that account has not been paid within 30 days of the due date. Prior to reconnection, payment shall be made of all arrears and penalties plus a reconnection charge of \$100.00.

9. **Outstanding Utility Charges are a Lien on the Land**

Pursuant to Section 252(2) of The Municipal Act, the amount of all outstanding charges for water or sewer service are a lien upon that land and shall be collected in the same manner in which ordinary taxes upon the land are collectable and like remedies. Where a tenant is in arrears the property owner should be notified in all cases.

10. **Inspection Rates**

A \$100.00 inspection fee shall be levied on any sewer or water connections made to the wastewater collection and water distribution systems, to ensure the connections are constructed in accordance with applicable codes.

11. **Hydrant Rentals**

The Rural Municipality of East St. Paul will pay to the utility an annual rental of \$100.00 for each hydrant connected to the system. In addition, the Rural Municipality of East St. Paul will pay for water used for fire-fighting.