

M A N I T O B A) Order No. 175/05
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THE PUBLIC UTILITIES BOARD ACT) December 23, 2005

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

THE TOWN OF MORDEN
WATER AND SEWER RATES
BY-LAW NO. 17-2005

1.0 Executive Summary

By this Order and subsequent to a public hearing in Morden held on December 14, 2005, The Public Utilities Board (Board) approves revised water and sewer rates for the Town of Morden (Town), effective with the first billing in 2006.

With the new rates, the average family residence consuming 14,000 gallons each quarter will experience an approximate \$100 increase in annual water and sewer bills (a 25.8% increase over 2005).

The Board accepts the Town's rate proposal for the following reasons:

- a) ongoing inflation since rates were last revised in 2002;
- b) Utility operating costs have increased as a result of amendments to provincial water and sewer quality standards;
- c) the Town is committed to sewer main re-lining (\$200,000 per year for five to ten years), replacement of aging water lines (as required), and lagoon aeration (\$35,000 per year);
- d) rates should reflect an annual allowance for contingencies; and
- e) Utility reserve balances are inadequate (a \$2.5 million lagoon expansion and outlet improvement project intended for 2006 is expected to be funded by government grants and local property taxes, not rates).

The Town is of the view that the revised rates will prove adequate through to 2010, but the Board, noting in particular the age of the Town's Utility plant and increasing standards for

water quality and effluent discharges, is not confident of this. Accordingly, the Board will require an update of the Utility's financial and operating situation by June 30, 2007, including:

- a) 2006 and 2007 Utility financial statements;
- b) the Utility operating budget for 2007 and 2008;
- c) a report on the outcome of its efforts to secure government funding for the lagoon project and sewer relining, and the Town's updated intentions with respect to financing these initiatives;
- d) an updated Utility five-year capital renewal and expenditure program and budget, with an indication of future capital requirements;
- e) a report on discussions to be held with the Province and other municipal governments with respect to prospects of nutrient removal from effluent;
- f) a thorough review of the four-step declining block rate approach schedule - with a view to ensure the approach reflects customer rate equity and conservation objectives; and
- g) an updated Town view with respect to the adequacy of rates.

The Board, in discussion with the Town, will then reassess rate adequacy taking into account the Town's filings and Utility reserve balances.

2.0 Application

The Town applied for water and sewer rate increases to be applied to water consumed and effluent discharged from December 1, 2005. With billings on a quarterly basis, the first bills with the new rates will be issued as of the end of February 2006.

Notice of the Town's application was provided by a Town News Release of October 25, 2005. A Notice of Public Hearing followed, providing summary details of the Town's application; the Notice was published in the local newspaper on December 2 and 9, 2005, and posted in five prominent locations in the community. The Town's proposal is reflected in By-law No. 17-2005, read for the first time on October 24, 2005.

Subsequently, on December 14, 2005 a public hearing was held in the Town office at which the Town's Application was reviewed and discussed. As previously indicated, the Town applied for water and sewer rate increases as follows:

Four-Step System	COMMODITY RATES						
	Proposed Water	Proposed Sewer	Total	Current Water	Current Sewer	Total	% Increase
Domestic – First 20,000 IGAL per Qtr.	\$5.35	\$2.05	\$7.40	\$4.55	\$1.20	\$5.75	+28%
Intermediate – Next 80,000 IGAL per Qtr.	\$4.65	\$2.05	\$6.70	\$3.95	\$1.20	\$5.15	+30%
Wholesale – Next 400,000 IGAL per Qtr.	\$3.90	\$0.75	\$4.65	\$3.65	\$0.40	\$4.05	+15%
Special – Over 500,000 IGAL per Qtr.	\$2.25	\$0.75	\$3.00	\$2.20	\$0.40	\$2.60	+15%
Service Charge per Qtr.	\$ 17.70			\$15.90			+11%
Bulk Sales per 1,000 IGAL.	\$ 6.40			\$ 5.20			+23%
Hydrant Rental Charge	\$100.00			\$90.00			+11%

The Town's utility rates were last amended in 2002.

Consistent with prior applications, the Town proposed the continuation of its existing four-step declining block rate structure. The approach provides reduced rates for higher volumes of consumption. As noted in the above table, the "Special" rate is \$2.25 per thousand gallons which is a 58% reduction from the "Domestic" rate of \$5.35/thousand gallons, the level at which all residential customers purchase their water. The Town advised it had modeled a different approach reducing the discount for higher volumes, but after noting the forecast effect for high volume users, continued with the existing approach.

In support of its application, the Town filed a 2005 Utility Rate Study performed by the Town's engineering consultants. The Town projected that the proposed 11% increase in the quarterly service charge, if accepted by the Board, would result in service charge revenue sufficient to fully recover the Town's administrative expense allocation to its Utility. The Town further advised that the allocation was appropriate and represented a subsidy of neither the General Operating Fund nor the Utility.

Factors driving the Town's rate proposal included:

- a) rising operating costs - due to inflation and increasing provincial water and sewer standards and requirements;
- b) \$200,000 per year for a five to ten year sewer main re-lining program, and an additional \$36,000 in annual operating cost related to lagoon de-odorizing; and
- c) inadequate Utility reserve balances.

The proposed rate increases were projected to realize an approximate 25% increase in overall annual Utility operating revenues (an additional \$250,000).

Approximately 92% of the Town's Utility revenue is derived from rates charged. The balance is derived from other Utility related revenue including hydrant rental charges of approximately \$22,000 paid by the Town's General Operating Fund to its Utility for fire protection.

By law, commodity rates are to ensure that municipal utilities are self-sufficient. The Town confirmed that higher revenues associated with the rate increases were forecast to generate sufficient funds to meet operating costs and provide for contributions to Utility reserves and contingency allowances, in accordance with the Board's guidelines.

Projected contributions to reserves and contingencies associated with the proposed rate increases are as follows:

	<u>Reserves</u>	<u>Contingencies</u>
Water Production (Variable)	\$ nil	\$ 22,500
Water Production	\$ 25,000	\$ 22,500
Water Distribution	\$ 50,000	\$ 10,000
Water Distribution	\$ 25,000	\$ 10,000
Sewer Wholesale	\$ 62,500	\$ 25,000
Sewer Domestic	\$ 87,500	\$ 25,000
	<u>\$250,000</u>	<u>\$115,000</u>

The Town has an outstanding Utility debenture that will expire by early 2008; the debenture has an annual interest and principal servicing cost of \$242,000, which is recovered by

property taxes transferred to the Utility account to meet the debenture cost.

As at December 31, 2004, the Town had \$374,973 in Utility reserves and a further \$551,088 in Utility surplus, of which \$508,204 was comprised of a receivable from the General Operating Fund (interest is not paid by the Operating Fund to the Utility). A net Utility operating surplus of \$25,459 was realized in 2004, and is included in the Utility's surplus balance.

The sewer main relining program has a total estimated cost of approximately \$2 Million, and, once completed, is expected to extend the service life of the mains by a further fifty years. The Town advised it had applied for a grant from the Canada/Manitoba Infrastructure Fund, but did not expect success and would fund therefore the project through rates. Acquiring grants involves establishing priorities, and the Town has set a greater priority for its lagoon expansion and upgrading project, as described below.

The Town may yet apply for funding for the sewer relining project to the Manitoba Water Services Board (MWSB); if successful, this would provide for strengthening of the Utility reserve balances.

The Town is gradually replacing its asbestos-fibre cement water pipes, 30% of the existing pipe dates back to the 1950's. Replacement of cement piping was indicated to continue on "as required basis"; the Town assured the Board that the pipe represented no health risk.

As previously indicated, the Town also advised of a planned required 2006 investment of \$2.5 Million to expand the lagoon and upgrade the lagoon outfall, at an expected additional cost of \$450,000. The outfall into Dead Horse Creek is currently under-sized.

While lagoon discharges were reported as meeting current environmental licensing requirements, the Town advised that, during wet years, the hydraulic loading on the lagoon has been a concern. The lagoon expansion project is expected to relieve these concerns, and the relining program will eliminate the infiltration of ground water.

A Canada/Manitoba Infrastructure grant was reported as having been approved for the outfall upgrade, however the Town advised that the Department of the Conservation plans to review this project in conjunction with consideration of funding the lagoon expansion.

The Town indicated that these projects were mandated by the Department of Conservation, and would go ahead through a combination of debentures and grant funding. The grant would be through either the Canada/Manitoba Infrastructure Program, as previously indicated, or through the MWSB.

The annual interest and principal payments required on an anticipated 15 year debenture is projected to be in the range of the current \$242,000 annual cost of the debenture maturing by early 2008. The annual cost of the maturing debenture would be replaced by the servicing costs of a new debenture to fund the

lagoon project, resulting in no additional demand on property taxes.

While the Town's effluent discharges meet current standards, the Town advised that nutrient removal may be required in the future. The Town reported awareness of recent nutrient removal consideration for Winnipeg and Portage la Prairie. The Town has had early discussions with Winkler towards a joint future nutrient removal initiative, so as to gain economies of scale.

The Town indicated an expectation that nutrient removal will be mandatory within ten years. Nutrient removal requires a major capital investment and ongoing additional operating costs.

Not all water processed through the treatment plant is billed. The Town has an unaccounted for water level of 8 - 12%, a level indicated to be typical of the experience of similar communities and within the range normally found acceptable. Unaccounted for water is usually the result of system flushing, fire department usage and pipeline leaks. Unaccounted for water has a cost, and with the water main upgrades it is expected that current levels will decline.

3.0 Background

Morden's water and sewer system is approximately 55 years old. The Town's primary water source is Lake Minnewasta, an artificial lake located south west of Morden. The Town has an agreement with the Pembina Valley Water Co-op to purchase water and currently expends approximately \$130,000 annually on

purchased water. Effluent from the sewage lagoon is discharged into the Dead Horse Creek, which eventually drains into the Red River and Lake Winnipeg.

The historical capital cost of the utility system is approximately \$10.5 Million and, consistent with municipal accounting, the Town does not provide for depreciation in its accounting statements. This, together with the fact that current replacement costs are much higher, makes the provision for reserves and reserve balances important. Capital replacement and enhancement projects generally always require a contribution from the Town, and the Town has only two sources of funds - Utility rates and property taxes. Adequate Utility reserves reduce rate pressure on future generations.

The Town currently has 2,336 Utility customers, and the customer base is projected to grow by 1.5% a year to 2,480 by 2010. Approximately 95% of the customers are residential and small commercial customers. The largest volume users of water are the Research Station, Dunston Trailer Park, 3M Canada, Tabor Home, Farm King and Sun Valley RV, each of which consume in excess of 500,000 gallons per quarter.

The Town has projected that annual growth in water volume will coincide with forecast population growth. By policy, the Town has chosen not to provide incentives to attract wet food processing industry for fear that large plants requiring high volumes of water would overtax the existing infrastructure and water supply. Lake Minnewasta provides the Town a finite water volume, and in the 1980's this supply was tested by a drought; future droughts can be expected.

The Town's Utility provides water to some residents in outlying areas within the Rural Municipality of Stanley, at a charge of \$6.00 per thousand gallons. The charge includes the cost of the water and a contribution to the servicing of the existing Water Plant Debenture.

4.0 Board Findings

The Board evaluates municipal water and sewer rate proposals against the following criteria:

1. rate equity by customer class,
2. financial Stability of the Utility,
3. adequacy of Utility reserves,
4. rate affordability, stability and predictability,
5. customer acceptance,
6. shared services and allocation of shared service costs,
7. administrative simplicity,
8. environmental/conservation principles and objectives, and
8. overall reasonableness of the proposal.

The Board's major findings are:

- a) the Town's Utility reserves are inadequate for the size, complexity, importance and future requirements of its water and sewer system;
- b) water and sewer rates should be increased;
- c) more information will be required by the Board in the future, to allow for an updated assessment of rate adequacy far ahead of 2010;

- d) the Town's consideration of future nutrient removal from effluent is commendable; and
- e) Morden's four-step declining block rate design should be reviewed for adherence to the principles of customer class equity and conservation.

The Board accepts that the effective date for the revised rates should be the first billing of 2006, and apply to water consumed or discharged from December 1, 2005. While the Board is reluctant to establish retroactive rates, it is satisfied that the Town has adequately provided notice to its customers, and notes that no objections were filed.

During the hearing there was considerable discussion about the level of the rate increase, the widely held view that double-digit rate increases represent rate shock and that, to the extent possible, rate shock should be avoided. The Board noted that there can be extenuating circumstances which may necessitate such a general principle be set aside.

In considering rate proposals, the Board pays particular attention to the viability of the Utility, and obtaining assurance that:

- a) sufficient financial resources are available to ensure break-even operations; and
- b) proper attention is provided as to the provision of safe and adequate water and the safe discharge of effluent.

The Town's application meets the Board's criteria, and the Board will approve the proposed rates. The pressures on the Utility related to sewer operations are significant and, given the

inadequate level of existing Utility reserves, the Town was correct in applying for rate increases now to offset expected future costs.

The Town's application was driven by its desire to have adequate revenue through Utility rates to meet known future obligations and operating costs, with a reasonable provision for contingencies.

The Board was pleased to note the Town considered the appropriateness of its declining block four-step rate structure. While the Town chose not to propose any changes at this time, the Board believes this is a matter requiring more intense examination, an examination that should proceed with two objectives in mind: customer class rate equity and conservation.

Accordingly, the Board will require the Town to file a report providing a detailed examination of the rate structure; such a review should be pragmatic as well as conceptual in nature, recognizing that both conservation and economic development are important considerations. Conservation is important for many reasons, including the reality that reduced water consumption will reduce the hydraulic load on the lagoon system.

While the Town plans to collect \$250,000 from increased rates for reserves on an annual basis, all of those funds will be withdrawn annually for the sewer main relining project and other renovation requirements.

While the Board will not at this time require a larger net transfer to reserves, it is concerned that Utility reserves will

remain inadequate, with the level of inadequacy increasing as the system ages, and as provincial standards increase, and ongoing general inflation continues. The Board will expect the Town to review this matter at its next rate review. Further Utility rate increases are inevitable.

While the Town hopes the rate increases will provide sufficient revenues for the Utility through to 2010, the Board, not being of that view, will request that the Town provide a report following the close of the 2007 operating year. The report is to include:

- 1) operating results from 2005, 2006 and 2007 with an explanation for any significant variation in reserves or expenses,
- 2) Utility operating budget for 2008,
- 2) details of its 5 year capital plans for 2008 - 2012,
- 3) an update on its maintenance projects, including consideration of nutrient removal,
- 3) update on funding commitments from the MWSB and/or the Canada/Manitoba Infrastructure Program,
- 4) update on debenture plans and commitments,
- 5) a report on the review of the declining rate step structure, and
- 6) commentary on rate adequacy, including a review of Utility reserve and surplus balances.

While the application concentrated on Utility rates and financial sustainability of the Town's Utility, there are other important aspects of Utility operation, namely the quality and quantity of water and the safety and environmental status of 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.

The Town of Morden falls within this number, possessing both quality water and safe effluent removal systems. That said, perception, requirements and standards change. Increasingly, the negative effects of the effluent of one community on 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.

As cited in the Government of Manitoba's recent response to the Auditor General's audit report on water quality, the level of government attention to water issues 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 Town should discuss with the Province and MWSB, with a report to the Board to follow.

5.0 IT IS THEREFORE ORDERED THAT:

1. By-law No. 17-2005 of The Town of Morden BE AND 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 for all water consumed and on all minimum bills effective as of December 1, 2005.

3. The Town file the following reports with the Board by June 30, 2008:
 - a) 2006 and 2007 Utility financial statements,
 - b) the Utility operating budget for 2007 and 2008,
 - c) a report on the outcome of its efforts to secure government funding for the lagoon project and sewer relining, and its updated intentions with respect to financing these initiatives,
 - d) an updated Utility five-year capital renewal and expenditure program and budget,
 - e) a report on consultations with the Province and other municipal governments with respect to nutrient removal,
 - f) a review of the four-step declining block rate approach schedule- the purpose of the review is to ensure the approach reflects customer rate equity and conservation objectives, and
 - g) an updated view on Utility rate adequacy.

SCHEDULE "A"
TO BOARD ORDER NO. 175/05
THE TOWN OF MORDEN
WATER AND SEWER RATES
BY-LAW NO. 17-2005

1. COMMODITY RATES

	Rates per thousand gallons		
	Water	Sewer	Water & Sewer
First 20,000 gallons per quarter	\$5.35	\$2.05	\$7.40
Next 80,000 gallons per quarter	\$4.65	\$2.05	\$6.70
Next 400,000 gallons per quarter	\$3.90	\$0.75	\$4.65
Over 500,000 gallons per quarter	\$2.25	\$0.75	\$3.00

2. MINIMUM CHARGES PER QUARTER

2.1. Water and Sewer Customer

Notwithstanding the commodity rates set forth in Section 1 hereof, all customers with water and sewer service shall pay the applicable minimum charge set out below, which will include water allowances indicated:

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption (gal)	Service Charge (\$)	Commodity Rates		Minimum Quarterly Charges (\$)
				Water (\$)	Sewer (\$)	
5/8"	1	3,000	17.70	16.05	6.15	39.90
¾"	2	6,000	17.70	32.10	12.30	62.10
1"	4	12,000	17.70	64.20	24.60	106.50
1 ¼"	7	21,000	17.70	111.65	43.05	172.40
1 ½"	10	30,000	17.70	153.50	61.50	232.70
2"	25	75,000	17.70	362.75	153.75	534.20
3"	90	270,000	17.70	1,142.00	332.50	1,492.20
4"	170	510,000	17.70	2,061.50	512.50	2,591.70

2.2. Water Only Customers

For customers with water service only, quarterly minimums shown in Section 2.1 hereof are reduced by the Sewer Commodity Charge shown for the customer's meter size.

2.3. Commodity Rates And Minimum Charge For Customers With Significant Volume Of Water Not Returned To Sewers

Notwithstanding Commodity Rates and Minimum Charges set forth in Section 2 hereof, Morden Research Station shall be charged the following rates:

Commodity Rates -	at the water and sewer rate set forth in the Commodity Rates for the first 1,000,000 gallons per quarter and at the applicable water rate only for all consumption in excess thereof.
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3. BULK SALES

Water sold in bulk by the utility shall be charged for at the rate of Six Dollars and Forty Cents (\$6.40) per 1,000 gallons with a minimum charge of \$0.25 for 39 Gallons.

4. SERVICE TO CUSTOMERS OUTSIDE TOWN LIMITS

The Council of the Town may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Town. Such agreement shall provide for payment of the appropriate rates set out in Commodity Rates of this schedule, as well as a surcharge set by resolution of Council, which shall be equivalent to the frontage levy, general taxes and special taxes for utility purposes in effect at the time, or may be in effect from time to time, and which would be levied on

the property concerned if it were within these boundaries. In addition, all costs of connecting to the utility's mains, and installing and maintaining service connections will be paid by the customer.

5. **PENALTY FOR LATE PAYMENT**

A late payment charge of 1¼% compounded monthly shall be charged on the dollar amount owing after the billing due date. The due date will be at least fourteen (14) days after the mailing of the bills.

6. **DISCONNECTION**

Service may be disconnected and discontinued immediately and without further notice in the event of non-payment of the account within 30 days after due date.

7. **RECONNECTION FEE**

Where any service is disconnected under the provisions of this By-law, it shall not be reconnected until all arrears, penalties and a reconnection fee of \$50.00 have been paid.

8. **OUTSTANDING ACCOUNTS**

Pursuant to Section 252(2) of The Municipal Act, the amount of all outstanding charges for water and sewer services, including fines and penalties, are a lien and charge upon the land serviced, and shall be collected in the same manner in which ordinary taxes upon the land are collectible, and with like remedies.

9. **HYDRANT RENTALS**

The Town of Morden shall pay to the utility an annual rental of \$100.00 for each hydrant connected to the system.

10. **METER ACCURACY TESTING**

That any customer may request that his/her water meter be tested for accuracy and before having the same tested by the Town, he/she shall deposit with the Director of Finance & Administration the sum of Twenty (\$20.00) Dollars, which shall be retained and if the meter shall be found to be accurate, the said sum of Twenty (\$20.00) Dollars shall be retained by the Town and if the meter is found to be inaccurate, the said sum of Twenty (\$20.00) Dollars will be returned to the customer.

11. **SEWER SURCHARGES**

- (a) Every person who contravenes any provision of By-law 10-00 is guilty of an offence and on conviction is liable to a fine of not more than Five Hundred (\$500.00) Dollars for every day or part thereof upon which such offence occurs or continues.
- (b) Every person who contravenes any provision of By-law 10-00 and as a result of which contravention damage or injury is or may be caused to the Sewage System or any part thereof is liable to the Town for the full costs of such damage or injury including any fine or penalty imposed on the Town in relation to said contravention.