

M A N I T O B A) Order No. 87/07
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THE PUBLIC UTILITIES BOARD ACT) July 4, 2007

BEFORE: Susan Proven, P.H.Ec., Member
 Graham Lane, C.A., Chairman

THE TOWN OF MELITA
REVISED WATER AND SEWER RATES
EFFECTIVE SEPTEMBER 1, 2007

Executive Summary

By this Order, the Public Utilities Board (Board) establishes revised water and sewer rates for the Town of Melita (Melita or Town) for all water billed from September 1, 2007), as follows:

	Approved as of September 1, 2007			Existing			Increase %
	Water	Sewer	Total	Water	Sewer	Total	
(Gallons)							
First 100,000	\$6.74	\$ 2.57	\$9.31	\$4.37	\$ 1.30	\$5.67	64%
Next 100,000	\$3.10	\$ 2.57	\$5.67	\$1.18	\$ 1.30	\$2.48	129%
5/8" Minimum bill		\$39.31			\$25.03		57%
Customer Service Charge		\$11.38			\$ 8.02		42%
Bulk Water		\$ 9.12			\$ 7.16		27%

As well, the Board provides Melita:

- a) two discretionary rate increases of up to 5% each, to be effective on being exercised by the Town as of April 1, 2008 and 2009, respectively. The conditional increases are subject to the Town having filed with the Board a 5-year utility capital plan, 2007 and 2008 utility financial statements, and an analysis of the adequacy of rates (for each discretionary increase to be exercised);
- b) approval to offset a 2006 utility operating deficit from a transfer from utility accumulated surplus; and
- c) direction to amend the hydrant charge to \$100 rather than the \$75 charge proposed.

The Order follows a public hearing in Melita on June 14, 2007.

The previous utility rate change occurred in 1999.

Application

On April 19, 2007, Melita applied to the Board for revised water and sewer rates (as set out in their By-law No. 1660). Existing and proposed rates were:

(Gallons)	Proposed			Existing			Increase
	Water	Sewer	Total	Water	Sewer	Total	
First 100,000	\$6.74	\$ 2.57	\$9.31	\$4.37	\$ 1.30	\$5.67	64%
Next 100,000	\$3.10	\$ 2.57	\$5.67	\$1.18	\$ 1.30	\$2.48	129%
5/8" Minimum bill		\$39.31			\$25.03		57%
Customer Service Charge		\$11.38			\$ 8.02		42%
Bulk Water		\$ 9.12			\$ 7.16		27%

Melita also applied for approval to meet a 2006 utility operating deficit of \$11,872.45 by a transfer from accumulated utility surplus.

A public hearing was held by Board member Proven in Melita on June 14, 2007. Despite Notice of Public Hearing, only Melita's representatives were in attendance. The hearing was held by Ms. Proven on 'a hear and report' basis; the necessary quorum was obtained through a report to the Board Chairman, who concurs in the determinations indicated herein.

Melita supported its application by indicating that the existing rates were inadequate and unable to either support the current cost of operations or allow for the establishment of funds to meet future and necessary utility renewal projects.

Melita advised that utility rates should have been amended earlier, as over the last five years the utility incurred three operating deficits. Melita indicated that only the deferral of work projects due to inclement weather provided that deficits not incurred in the other two years.

Melita reported that, if its rate proposals had not been so high, it would have sought even higher rates to allow for a provision to build an adequate Utility reserve. The Town suggested that the building of reserves be deferred to a future further rate increase proceeding.

Melita reported that its water treatment plant required replacement. Recent improvements to the system included a new well (2000) and iron removal (2002). The Town advised that the plant's operating costs were extremely high due to poor water quality, and that the water tower provides inadequate water pressure, resulting in problems related to both adequate supply and fire protection.

The Town reported that a new water supply system, including a new water source, was to be developed in 2007 at an estimated cost of \$3 million, and that the Manitoba Water Service Board (MWSB) had agreed to fund one half of the project. Melita advised that the Municipal Board had approved the Town funding its share by debenture debt.

However, as MWSB's contribution will not be available until 2008, Melita reported it was considering constructing new water lines from the proposed new well site to the Town (a distance of approximately 20 kilometres) in 2007, awaiting MWSB's financial

contribution to complete the full project. The Town noted that deferring part of the project was likely to increase the overall cost of the project.

Melita anticipates that with a new water treatment plant and higher rates to fund operating costs, its utility would be "on the road" to financial stability. Yet, the Town also suggested that more frequent rate changes will be required in the future to ensure the capital renewal and operating cost requirements of its utility are met.

Melita reported that much of its water distribution system is cast iron and over fifty years old, and that the Town has patched the system as needed. Often when a line break occurs, the repair requires the Town to replace a much larger portion of the line.

Melita reported it has reflected in its rate proposal a \$32,493 annual contingency allowance, as noted below:

Water Production	\$ 6,237
Water Distribution	\$19,037
Sewer	\$ 7,219
	<u>\$32,493⁽¹⁾</u>

Note⁽¹⁾ This represents 2% of the original capital cost of the system, reflecting the age of the system and the state of repair.

The Town advised that the estimated cost of replacing one block of water main was \$29,000, though the contingency provision committed to water distribution projects would be only \$19,037. Similarly, as the sewer mains are also in need of upgrading, the Town would direct \$7,219 of contingency budget to the sewer system, and had

reflected it in proposed sewer rates. The balance of the contingency provision, \$6,237, was earmarked for the water production facility.

Operating and maintenance expenses for the utility were forecast as follows:

	Rate Study	2006	
Administration	\$ 27,652	\$ 27,652	
Water	\$121,694	\$121,694	
Sewer	\$ 53,031	\$ 53,030	
Sub-Total	\$202,377	\$202,376	
Contingency	\$ 32,493	_____	
	\$234,870	\$202,376	

The projected operating expenses employed to develop the proposed rates were reported not to include any provision for inflation, and the contingency allowance would also be used to cover inflation. Melita noted that while its rate proposal was insufficient, it was the maximum that could be requested under the circumstances.

The proposed rates also did not reflect any provision for rebuilding the reserve fund, now with a balance of approximately \$98,912. The Town noted that the reserve had been reduced to nominal status due to rising costs and other unforeseen expenditures.

The Town indicated a 5-year capital expenditure program would be developed in the near future; its current priority was constructing the new water treatment plant. The Town expressed the view that the new water treatment plant would reduce operating costs, and that once operational, the plant will allow for costs to be more

accurately forecast.

As to Melita's rate schedule, it has two steps - the second step with decreased rates applying to higher consumption. A discount of approximately 50% was proposed for water consumed in the second step rate, down from the 70% discount currently provided to customers using more than 100,000 gallons per quarter. Melita reported that approximately 19% of total water sold was sold at the discounted step rate.

Melita indicated an interest in narrowing the differential between the two steps of the schedule; while the proposed percentage increase in quarterly minimum bills for a 5/8" meter size (residential) would be 57%, the proposed increase for larger meter sizes would range from 60 to 63%.

Consistent with Board Guidelines, the Town proposed a bulk water rate that reflected not only a commodity cost of water at the same rates to be charged to Town residents, but also a surcharge to recover a portion of the capital cost of the system from bulk users. The intent is to provide basic fairness between Town and bulk customers.

Melita reported that its utility has three staff persons, and that their work schedules are shared between the utility and general operations. Each month, the utility operation is charged a portion of the Town's overall administration and labour costs - the utility's portion being approximately one-third of the overall utility operating budget. Melita indicated that while operating staff track time spent on utility operations, the Town continues to

rely on its allocation approach. Melita reported it would change to a more accurate allocation system in the future.

Background

The Town obtains its water supply from four wells located near the Souris River. The Town uses a water tower with a capacity of 80,000 gallons, and water is treated using green sand filters. Approximately 10 million gallons of water per annum are required for system backwashing; the proposed new water treatment process will include reverse osmosis.

The Town's sewage treatment process includes a three cell lagoon discharging into the Souris River as specified by Provincial regulations. One cell is currently not in use. The sewage collection system was reported to be in good repair; historically costs have been incurred to repair a cell wall and pumps.

The utility has approximately 607 customers, and the original capital cost of the utility was \$1.6 Million. The capital cost of the system is being recovered by tax levies, as is typically the case for municipal water and sewer utilities. The current annual debenture debt servicing cost is \$83,266.

The Town has 54 hydrants, and the Utility charges the Town \$75.00 per hydrant to provide fire protection service.

Since the last rate increase occurred in 1999, operating deficits have been incurred: 2002, \$17,476 recovered from the Utility reserve; 2005, \$30,635 recovered from accumulated utility surplus;

and, 2006, \$11,872.45 recovered from the accumulated utility surplus.

After providing for the 2006 utility deficit, the remaining balance in the accumulated utility surplus, as of December 31, 2006, would be \$49,783.28. The current Utility reserve fund balance was approximately \$98,912 as of December 31, 2006.

Board Findings

The Board will approve Melita's application; though vary it to provide two discretionary rate increases and amend the hydrant charge sought by the Town. The Board will also approve the application of accumulated utility surplus to offset the 2006 operating deficit.

An arithmetic error was noted in the By-law with respect to the calculation of the minimum quarterly bill for the 2" meter. The charge should have been \$709.53, rather than \$698.25.

The Board accepts that the rate increases are very high and represent rate shock, a situation that should best be avoided. However, under the circumstances, the increases are required and represent the minimum increases available to allow for balanced results in the immediate future.

While there is considerable uncertainty with respect to the future operating costs of the utility ahead of the completion of the new water treatment plant, it is clear that additional revenue is required if further capital projects are to be undertaken, and this

will require further rate increases.

And, as the Town included in its proposed rates only sufficient funds for a contingency provision, it is unlikely the Town will be able to contribute to the Utility reserve. Finally, if unexpected problems arise, further increases will be required ahead of those contemplated through the discretionary increases now granted.

During the hearing, the Board reviewed with the Town the potential for discretionary rate increases to allow the Town to increase the utility's revenue if needed, and upon filing reports with the Board. With conditional approval of further increases, another application and public hearing may be avoided for at least three years. That said, future circumstances might be such as to require further rate attention.

Melita's utility requires sufficient rates to allow for operational needs to be met, and continued operational deficits are not in the public interest.

While the Board is pleased the Town proposed to increase the 2nd step rate at a rate increase higher than that of the first step, the reduction in the differential is too small. The Board expects that future rate applications will propose major reductions in the differential between the two steps. Ideally, a single step rate structure would be put in place, as it would best reflect the true value of water and encourage conservation.

The Board considered the Town's proposal to increase the fire hydrant charge by \$5.00 per hydrant to \$75.00. In the Board's

view, \$75.00 is too low; the Board will approve a per hydrant charge of \$100.00.

IT IS THEREFORE ORDERED THAT:

1. By-law No. 1660 BE AND IS HEREBY APPROVED, subject to:
 - i) correction of the minimum quarterly bill for the 2" meter size, from \$698.25 to \$709.63; and
 - ii) amending the fire hydrant charge to \$100.00 per hydrant per year.

2. The Town be provided two discretionary rate increases in the commodity rates in both steps of up to 5% each, to be effective April 1, 2008 and 2009 subject to the Town filing with the Board:
 - i) a 5-year capital plan, for the utility;
 - ii) financial statements for the utility for 2007 and 2008 prior to March 1, 2008 and 2009, respectively; and
 - iii) a review of rate adequacy.

3. The 2006 revenue deficit IS HEREBY APPROVED, subject to its recovery from utility accumulated surplus.

4. For its next application, the Town of Melita allocate shared administration and labour expenses between the Town and its utility based upon actual time spent.

Fees payable upon this Order - \$500.00.

July 4, 2007
Order No. 87/07
Page 12 of 12

THE PUBLIC UTILITIES BOARD

Chairman

Acting Secretary