

M A N I T O B A                    )     Order No. 166/07  
  )  
THE PUBLIC UTILITIES BOARD ACT   )     December 28, 2007

BEFORE:   Susan Proven, P.H.Ec., Acting Chair  
           Alain Molgat, B.Comm, CMA, Member

**THE TOWN OF NIVERVILLE  
REVISED WATER RATES**

**Executive Summary**

By this Order, the Public Utilities Board (Board) approves revised water rates for the Town of Niverville (Town) for the Fifth Avenue Estates property and amends the Town's application to recover one-third of the \$10,000 contingency provision in rates effective April 1, 2008, two-thirds effective January 1, 2009 and the balance on January 01, 2010. In all other respects the Town's application was approved.

The Town is required to amend its By-law to be consistent with this Order. The water commodity rate will rise from \$3.25 to \$6.77 effective April 1, 2008, to \$7.12 effective January 1, 2009 and \$7.50 as proposed, effective January 1, 2010.

The Board also deferred the implementation of the new rates for three months to coincide with the new plant when it is expected to be operational.

The Town's average customer uses 12,500 gallons per quarter and accordingly, their quarterly bill will rise from approximately \$49.60 to \$93.60 rather than \$102.75 proposed to be effective immediately.

Finally, the Board approves a \$100.00 hydrant charge, to be included in the By-law, which charge will be payable by the General Fund to the utility once the hydrants become operational.

**Application**

On October 5, 2007 the Town applied to the Board for revised water rates for the development area known as Fifth Avenue Estates as set out in By-law No. 652-07 read the first time on October 2, 2007. The existing rates were initial rates for the utility and were approved in 2002.

The existing and proposed rates are noted below:

	Existing	Proposed	%
Commodity (\$/1,000 gallons)	\$3.25	\$7.50	131
Service Charge	\$9.00	\$9.00	0
Minimum Quarterly Bill (5/8" meter)	\$18.75	\$31.50	68

Notice of the Town's application was mailed to each customer and posted in several prominent areas in the Town.

In the first instance, the Town's application was handled using a paper hearing process and in response to the ratepayers request, a public hearing was held on December 18, 2007 in the Council Chambers of the Town.

The Town was represented by its Mayor and several Councillors, the Town's Chief Administrative Officer and consultant who prepared the rate study.

The Town advised that the initial rates were based on "best estimates" at the time, recognizing that the utility was new and therefore there was no history to rely on to accurately forecast revenues and expenses. Up until 2006, many of the operating

costs were being subsidized by the Town's General Fund. In 2006, full costs were allocated to the utility and as a result and not surprisingly, a deficit occurred in 2006 in the amount of \$4,210.00. This deficit was approved by the Board and the Town was permitted to recover \$3,011 from accumulated surpluses in the utility and the balance from future operating surpluses.

The current pumphouse is inadequate and the Town is currently building a new pumphouse to meet current and future demand, and will enable the Town to provide fire protection to the area. Once again, as this plant is new, the future operating costs of the utility needed to be estimated. The Town's consultant examined the operating costs of a nearby community using an identical plant and adjusted the level of expenditures to reflect the specific operating conditions of the Town's new plant.

While there have been many unexpected delays with the construction of the new plant, the Town is hopeful the plant will start-up in the near future.

There are no debenture debt costs related to this utility shown on the 2006 financial statements of the utility, however, the Town collects \$10,635 annually by taxes to cover the Town's share of the original capital cost of the utility system. With the approval of The Municipal Board, the Town collects an annual lot fee of \$64.07 and will collect this amount until 2017. Customers had the option of paying an upfront fee. The balance of costs were paid for by the developer.

In 2006, the total operating cost of the utility was \$19,253 and

in 2006 rates generated approximately only \$15,000 in revenue. Hence, the operating deficit.

To determine reasonable rates to support the current costs and the future costs of operating the new treatment plant and utility generally, the Town developed rates to recover the following expenditures:

Projected Costs:	
Administration	\$ 6,200
Billings and Collection	500
Total Administration Costs:	<u>\$ 6,700</u>
Plant Operator Salaries	14,000
Purification and Treatment	12,000
Transmission and Distribution	4,000
Hydro	8,000
Telephone	600
Computer Monitoring	1,500
Water Testing and Lab Fees	1,600
Insurance	300
Training and Education	3,000
Maintenance and Repairs	3,000
Miscellaneous and Other Costs	3,000
Total Projected Operating Costs:	<u>\$51,000</u>

The above expenditures did not include an additional amount of \$10,000 for contingencies and \$10,000 for reserves which together make up nearly 30% of total operating costs of the utility ( $\$20,000/\$71,700 \times 100$ ).

The Town advised that the contingency allowance was based on the Board's Guidelines that suggest 1% of capital costs ought to be collected in rates for unexpected expenditures. The 1% included in the rates was based on the expected \$1.0 million capital cost

of the new treatment plant only. No provision was included for unexpected repairs to the water lines.

With respect to reserves, the Town noted that sound management practices today, suggest that the utility ought to set aside reserve monies for future capital replacement projects which would otherwise need to be recovered by taxes.

The Town's consultant reported that based upon his review, it was determined that the administrative costs of the utility were also being subsidized and through the current rate proposal this subsidization was being discontinued.

It was recognized that the Town had not developed a five year capital plan and yet monies on this new system are still being requested to be set aside at this early stage. The Town advised that it had commissioned a comprehensive water supply review and the report is expected early in 2008. Based on this report the Town hopes to set out a supply strategy to meet the needs of the entire Town and not only the recently newly developed areas.

The Town reported water losses of 26% and explained that the losses are likely attributable to line flushing, which is an unmetered use is. This level of unaccounted for water is approximately 2½ times industry average.

The Provincial safe drinking water requirements are being met although ratepayers who attended the hearing noted that the water is extremely hard.

## **Background**

The Town has been described as the fastest growing community in all of Western Canada. This capital growth was not reflected in the rate study performed in 2002 which resulted in the existing rates.

There are currently 164 customers being served and the Town used 190 customers for the calculation of revised rates. This was a projection used for the end of 2007.

The water supply to the new pumphouse will be treated with chlorine only. Water is supplied from two wells and a third well is available in the future. The new pumphouse will serve another 174 lot expansion in the development.

The Fifth Avenue Estates development, together with all other customers in the Town, is serviced by a single sewer system. The sewer system has been declared a public utility and rates have been approved on a flat rate system by the Board notwithstanding customers in the new development area have metered water supplies. The Town advised it is considering converting the all flat rate system for sewer to a hybrid - partly metered and partly flat rated. The lagoon was expanded in 2007 and will become operational in 2008 and will be able to serve up to 5,000 persons. Current discharges from the lagoon are in compliance with Clean Environment regulations.

The consultant reported that the average consumption per customer was about 12,500 gallons per quarter.

There are no bulk water sales and fire hydrant service is planned for the future.

Some residents supported a phase-in of the rate increase recognizing that the new plant is not yet operational and further, to avoid excessive rate shock.

Some concern was expressed with respect to water quality and more specifically the hardness of the water. The Town explained that hardness is related to its source and an option for customers is to provide homeowner supplied water softeners. To add softening service in the utility would only increase the operating costs of the utility for all customers. This was not being considered.

A ratepayer questioned the Town's management practices with respect to water safety, i.e. testing, training and monitoring, noting that there are a number of hog barns in the area. The Town responded it was meeting the drinking water regulations in this regard but also noted that the Provincial Department of Water Stewardship was studying the whole question of the safety of the aquifers serving the area.

Water supplies are currently tested every two weeks at the source and in the lines, and chlorine levels are tested daily.

**Ratepayer Comments**

The ratepayers expressed significant concern about the size of the rate increase noting the financial hardship it will have on young families and families on fixed income.

They questioned the need for the significant levels of contingencies and reserves recognizing that the existing system is relatively new as is the water treatment plant. They also asked if, in developing the rates, the Town had fully reflected the future revenue growth in the rates related to expansion.

The residents were concerned with the level of water loss, noting that if the loss was reduced to zero in 2006 a deficit would have been avoided. They felt more should be done in this regard.

The Town confirmed that the plant serving the Fifth Avenue Estates development will not be shared with other areas of the Town and the costs projected are related to this utility only.

The Town invited the customer concerned about water safety to meet with the Town's utility operator who can review in detail the steps taken by the Town to ensure safe drinking water.

The Town advised it has three fully trained utility operators and they undergo continuous training in the handling of safe drinking water.

It was noted that the Crow Wing development will have iron removal in the plant serving that area.

## **Board Findings**

The Board was very pleased with the attendance at this hearing. Clearly ratepayers have concerns and Council was in attendance to hear their concerns and explain the Town's application.

While the percentage increase is significant, the Board noted that with the increase proposed for a customer using 10,000 gallons per quarter would be charged \$84.00 quarterly - a 102% increase.

The Board agrees with many of the ratepayers that because the system is in some cases relatively new and in other cases brand new, the \$10,000 contingency at this stage may be excessive and therefore, will approve rates that will increase gradually over three years allowing for the full recovery of the contingency allowance in the third year. In this regard, the Board is hopeful that the balance of the 2006 revenue deficit to be collected from future rates will be recovered through these increases.

However, with respect to the \$10,000 reserve provision, the Board feels that the pre-collection of funds for replacement work is prudent and a deferral of an increase associated with the Town's plans in this regard would not be appropriate.

The Board also heard the concerns about the Town's desire to pre-collect future costs for a plant not yet operating and in this regard will approve new rates to take effect April 1, 2008.

The Board expects the plant will be up and running prior to this date.

In all other respects, the Board accepted the Company's forecast of operating costs for the utility and believes the cost comparisons with an identical plant in a neighbouring community was reasonable.

Unfortunately, the Town was caught by forecasted operating costs which could not have anticipated the dramatic growth in the Town. Further, the Town's plan to subsidize the utility from general operations ought not to have occurred. As a result a significant increase in the rates was required to allow the operation of the utility to remain sustainable.

Customers ought to be aware that a municipality has an obligation to recover all operating costs of the utility and any costs not recovered from rates, need to be recovered from the utility's surplus, reserve or taxes. Utility's should be self sustaining and the rates will assist in this regard.

Water quality is an important issue but again, the level of treatment provided dictates the rates charged. The decision to provide a certain level of water quality is a decision to be made by the Town and not the Board. Also, a decision to improve the quality of water through further capital improvements rests with the Town. The Board would only note that throughout Manitoba, levels of water quality vary and while in all cases water is potable, on occasion it will not be treated to

eliminate odour or colour. These are matters to be addressed by each jurisdiction.

Although the Board is keenly interested in the quality of water being provided, drinking water is now being carefully monitored by Water Stewardship. To the extent plant modifications are required having rate implications, the Board would expect the Town to address rate changes in a timely manner.

Concerning the issue of sewer rates, the Board would expect the Town will address the need for a combined metered and flat rate system in a timely way. The use of meters is the most equitable way to share in the costs of providing water and sewer service and where available, meters ought to be used.

The level of unaccounted for water is a concern and the Board will expect the Town to do further investigation into this matter and report to the Board by the middle of 2008.

Concerning water hydrant rental charges, once hydrants are operational the cost of operating the hydrants, shall be a recoverable cost to the utility through a \$100.00 per hydrant transfer from General Funds to the utility. This is in keeping with the principle that fire protection costs should not be borne by utility customers only and therefore such costs are better recovered by taxation, which takes into account assessment values.

**IT IS THEREFORE ORDERED THAT:**

1. By-law No. 652-07 BE AND IS HEREBY APPROVED subject to rates being amended to:
  - a) recover one third of the contingency allowance of \$10,000 in rates effective April 1, 2008, two-thirds effective January 1, 2009 and the balance on January 1, 2010; and
  - b) add a \$100.00 per hydrant charge to be recovered from the General Fund once they are operational.
  
2. The Town of Niverville should investigate the level of unaccounted for water and report to the Board by August 1, 2008.

Fees payable upon this Order - \$750.00

THE PUBLIC UTILITIES BOARD

"SUSAN PROVEN, P.H.Ec."

Acting Chair

"GERRY BARRON, FCGA"

Acting Secretary

Certified a true copy of  
Order No. 166/07 issued by  
The Public Utilities Board

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Acting Secretary