

M A N I T O B A) Order No. 4/14
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THE PUBLIC UTILITIES Board ACT) January 14, 2014

BEFORE: Susan Proven, P.H.Ec, Acting Chair
 The Hon. Anita Neville, P.C., B.A. (Hons.), Member

RURAL MUNICIPALITY OF LORNE
SWAN LAKE UTILITY
REVISED WATER AND SEWER RATES

Summary

The Public Utilities Board (Board) hereby varies the application made by the Rural Municipality of Lorne (RM) and approves revised rates for the Swan Lake Water and Sewer Utility (Utility) effective April 1, 2014, with a further increase to take place on January 1, 2015.

The current and revised water and sewer rates are as noted below:

	Current	2014	Increase/ Decrease	2015	Increase/ Decrease
Quarterly Service Charge	\$5.75	\$9.04	57.22%	\$9.24	2.21%
Water - \$/cubic meter	\$2.00	\$3.94	97.00%	\$4.04	2.54%
Sewer - \$/cubic meter	\$0.80	\$0.50	(37.50%)	\$0.44	(12.00%)
Minimum Quarterly* Water and Sewer	\$44.95	\$69.60	54.84%	\$70.35	1.08%
Bulk Water Rate - \$ per cubic meter	\$2.00	\$4.26	113.00%	\$4.36	2.35%
Hydrant Rental (Annual)	\$75.00	\$100.00	33.33%	\$100.00	0.00%

*Based on 14m³

Details of the rates may be found in the attached Schedule "A".

Background

The Utility services 169 customers, 151 of which receive water and sewer services, with 18 customers receiving sewer only services.

Water supply and distribution

The Utility reports that there are no taste or color issues associated with their treated water, although the treated water has hardness levels above the recommended limits. An assessment was completed in 2010. A number of recommendations for improvements were included in that report. Nonetheless, the treated water meets the requirements for chlorine residual throughout the distribution system and provides a biologically safe water supply.

Water is pumped from a production well and transported to the water treatment plant. The water is filtered, chlorinated and discharged to the water storage reservoir. From there, it is pumped to the distribution piping network.

The Swan Lake Utility operates a 32-year-old water treatment plant; both the plant and reservoir were constructed in 1979.

The water distribution lines were installed in 1978 and are nearing the end of their expected useful life.

The average water loss is 27%, largely because of the age of the water distribution lines. A large portion of the water loss can be attributed to watermain breaks and pipe leakage, although the community reports that it does not experience frequent water main breaks. When they do occur repairs are done using PVC pipe. Unmetered water and uncalibrated water meters also account for a portion of the water loss. Unmetered water includes water used for firefighting and sewer and water main flushing.

Sewage system

The sewage system includes a four-year-old lagoon and lift station. The sewer mains are 47 years old, but the system was upgraded in 2008. It is expected that with the upgrade, the sewer system's life expectancy has been extended for another 30 years.

The Swan Lake pressure sewer lines were put into use in 1964. The lines were expected to have a useful life of 50 years, so the lines are nearing the end of their life span. The force main from the lift station to the lagoon was replaced in 2008 and has an expected useful life of 50 years.

Discharges are made into a tributary of the Pembina River. The Utility is in compliance with its Environmental License.

Operator certification

The plant operator is certified as a Class I Water Treatment, Class I Water Distribution, a small system Wastewater Treatment, and a small system Wastewater Collection Operator. A relief officer is currently in training. A yearly budget of \$2,000 has been included in the rate study for the continuing education of the operators.

Application

The Rural Municipality of Lorne filed an application for revised water and sewer rates on April 11, 2013. The last rate study was completed in 2006; the resulting Board approval included step increases until 2009.

A Public Notice of Application was issued in May 2013 affording stakeholders the opportunity to comment to both the Board and the Utility with respect to the proposed increases. No responses were received.

When reviewing an application, the Board has at its disposal several approaches. It may determine that an oral hearing is warranted or that a paper review process is sufficient.

In the case of the Swan Lake Utility, the Board determined a paper review process to be in the best interest of all concerned.

The rates then proposed were based on expenditure projections to 2015 with an expected inflation rate of 3%, as follows:

	2013	2014	2015
General			
Administration	4,071.00	4,193.13	4,318.92
Equity Surcharge 1%	1,814.38	1,914.60	1,923.55
Billing and collection	0.00	0.00	0.00
Net revenue requirement-general	5,885.38	6,107.73	6,242.47
Water			
Staffing	31,372.00	32,313.16	33,282.55
Purification and treatment	14,000.00	14,420.00	14,852.60
Service of Supply	5,000.00	5,150.00	5,304.50
Transmission and Distribution	4,500.00	4,635.00	4,774.05
Other water supply costs	3,198.00	3,293.94	3,392.76
Education and Training	1,000.00	1,030.00	1,060.90
Amortization	14,485.18	14,485.18	14,485.18
Contingency	4,204.00	4,204.00	4,204.00
Sub-total- water expenses	77,759.18	79,531.28	81,356.54
Less: Hydrant Rentals	2,100.00	2,100.00	2,100.00
Net rate revenue requirement - water	75,659.18	77,431.28	79,256.54
Sewer			
Staffing	2,728.00	2,809.84	2,894.14
Sewage Collection System	1,000.00	1,030.00	1,060.90
Sewage Lift Station	2,000.00	2,060.00	2,121.80
Sewage Treatment and Disposal	3,000.00	3,090.00	3,182.70
Education and Training	1,000.00	1,030.00	1,060.90
Amortization	63,937.23	63,937.23	63,937.23
Interest on long term debt	30,919.36	29,627.28	28,269.71
Contingency	5,046.00	5,046.00	5,046.00
Total sewer expenses	109,630.59	108,630.35	107,573.38
Amortization of capital grants	42,973.33	42,973.33	42,973.33
Taxation revenues	55,987.83	55,987.83	55,987.83
Total non-rate revenue- sewer	98,961.16	98,961.16	98,961.16
Net rate revenue requirement - Sewer	10,669.43	9,669.19	8,612.22

A contingency is included to provide operating funds for replacement of major components, unusual maintenance, or other unforeseen costs.

No allowance is made for a reserve and there is currently no reserve established for the Utility.

Working capital surplus

In Board Order No. 93/09, the Board established that utilities should maintain a minimum Working Capital Surplus, in an amount equal to 20% of annual expenses. The Working Capital Surplus is defined as the Utility Fund balance, excluding any capital related items plus Utility Reserves.

A provision is included to address the Utility's Working Capital deficiency:

	2010	2011
Fund Surplus	\$1,353,507	\$1,519,196
Less: Tangible Capital Assets	2,208,986	2,153,316
Plus: Long Term Debt	853,967	609,557
Working Capital Deficiency	1,512	24,563

Cost allocation methodology

The Board requires all municipalities to review the costs shared between the general operations of the Municipality and the Utility, and to allocate appropriate and reasonable costs to the Utility, based on a policy known as a Cost Allocation Methodology. This policy must be submitted to the Board for approval and cannot be changed without receiving approval from the Board. The Board's requirements regarding Cost Allocation Methodologies can be found in Board Order No. 93/09.

The Cost Allocation Methodology used by the RM for this application consisted of the estimated time (15 minutes) to prepare each Utility bill and process payment, plus mailing and material cost.

Rates

The rates, based on the expenditure projections, were proposed to be as follows:

	Current	2013	Increase/ Decrease	2014	Increase/ Decrease	2015	Increase/ Decrease
Quarterly Service Charge	\$5.75	\$8.71	51.48%	\$9.04	3.79%	\$9.24	2.21%
Water - \$/cubic meter	\$2.00	\$3.85	92.50%	\$3.94	2.34%	\$4.04	2.54%
Sewer - \$/cubic meter	\$0.80	\$0.55	(31.25%)	\$0.50	(9.09%)	\$0.44	(12.00%)
Minimum Quarterly* Water and Sewer	\$44.95	\$68.73	52.90%	\$69.60	1.27%	\$70.35	1.08%
Bulk Water Rate - \$ per cubic meter	\$2.00	\$3.85	92.50%	\$3.94	2.34%	\$4.04	2.54%
Hydrant Rental (Annual)	\$75.00	\$75.00	0.00%	\$75.00	0.00%	\$75.00	0.00%

*based on 14m³

The new rates are intended to keep up with the rate of inflation and to continue upgrading old and decaying water and sewer piping.

Board Findings

The Board will approve revised rates for the Swan Lake Water and Sewer Utility, however, the application has been varied as follows.

The rate increase requested for 2013 will not be approved. As a rule, the Board does not support retroactive rate increases. The Board will approve the new rates, as requested, effective on April 1, 2014, with a further change to be effective January 1, 2015.

The Board has made two minor adjustments to the rate proposal:

- Bulk Water rates have been amended upwards (from the \$3.94 per cubic meter to \$4.36 per cubic meter). This change was determined using Board recommended formulae.
- Hydrant Rental, payable by the RM to the Utility, has been increased from \$75 per year to \$100 per year; while still lower than many, this brings the hydrant rentals rates more in line with other Manitoba municipalities.

All else being equal, these two changes should moderately increase the projected net revenue for the Utility, helping to address the working capital deficiency identified in the application.

The Board will approve the Cost Allocation Methodology used in determining revenue requirements in this application. The Board does note, however, that this Allocation does not consider time spent on Utility affairs by other municipal staff outside of the billing area, for example administrative staff and Council time. Therefore, the Board will direct that the RM review the allocation for completeness and formally submit a Council Resolution recommending a methodology to the Board for approval.

The Board is always concerned about unaccounted-for water losses in excess of the 10% industry-standard and was disappointed to learn that there was no specific plan in place to remedy the 27% water loss.

Therefore, the Board will require that the RM investigate ways and means to reduce the water loss and report back to the Board with respect to actions being taken in this regard.

The Board further notes the recommendations for improvements for compliance of the water system and will direct that the Utility file a progress report with the Board related to those recommendations.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website at www.pub.gov.mb.ca.

IT IS THEREFORE ORDERED THAT:

1. The water and sewer rates for the Rural Municipality of Lorne's Swan Lake Water and Sewer Utility, as set out in Schedule "A" to this Order, BE AND ARE HEREBY APPROVED.
2. The Rural Municipality of Lorne revise its water and sewer rate By-law for the Swan Lake Utility to be consistent with the attached Schedule and submit a copy to the Board once it has received third and final reading.
3. The Rural Municipality of Lorne is to file a progress report with the Board on or before April 1, 2014, related to the recommendations for improvement identified in the 2010 water system assessment.
4. The Rural Municipality of Lorne is to investigate ways and means to address unaccounted for water losses and file a report with the Board on or before July 1, 2014, advising of actions being taken to remedy the water loss situation.

5. The Rural Municipality of Lorne review and formalize its Cost Allocation Methodology and submit same, along with a Council Resolution, to the Board for approval.

Fees payable upon this Order - \$500.00

THE PUBLIC UTILITIES BOARD

"SUSAN PROVEN, P.H.Ec."
Acting Chair

"JENNIFER DUBOIS, CMA"
Acting Secretary

SCHEDULE "A"
THE RURAL MUNICIPALITY OF LORNE
SWAN LAKE WATER AND SEWER UTILITY RATES

YEAR 2014-effective April 1, 2014

1.0 – SCHEDULE OF QUARTERLY RATES

A schedule of rates per quarter

Commodity Rates	<u>Water</u>	<u>Sewer</u>	<u>Water & Sewer</u>
Domestic per m ³	\$3.94	\$0.50	\$4.44

2.0 – MINIMUM QUARTERLY CHARGES

Notwithstanding the Commodity Rates set forth in paragraph 1.0 hereof, all customers will pay the applicable minimum charges set out below, which will include water allowances indicated:

a) Water & Sewer Customers

Meter Size	Group Capacity Ratio	Water Included m ³	Water Included Gallons	Customer Service Charge	Commodity Charge	Total Quarterly Minimum
5/8"	1	13.64	3,000	\$9.04	\$60.56	\$69.60
¾"	2	27.28	6,000	\$9.04	\$121.12	\$130.16
1"	4	54.55	12,000	\$9.04	\$242.20	\$251.24
1 ½"	10	136.38	30,000	\$9.04	\$605.53	\$614.57
2"	25	340.96	75,000	\$9.04	\$1,513.86	\$1,522.90

b) Water Only Customers;

Total Quarterly Minimum charges will be the same as shown above for each meter size; however, the sewer commodity charge will be excluded.

c) Sewer Only Customers:

The quarterly commodity charge, based on the average residential water consumption, plus the service charge, shall be \$25.04.

3.0 - BULK WATER

Bulk water sales will be charged at the net rate of \$4.26 per cubic meter and prorated accordingly with a minimum charge of \$1.00.

YEAR 2015 -effective January 1, 2015

1.0 – SCHEDULE OF QUARTERLY RATES

A schedule of rates per quarter

Commodity Rates	<u>Water</u>	<u>Sewer</u>	<u>Water & Sewer</u>
Domestic per m ³	\$4.04	\$0.44	\$4.48

2.0 – MINIMUM QUARTERLY CHARGES

Notwithstanding the Commodity Rates set forth in paragraph 1.0 hereof, all customers will pay the applicable minimum charges set out below, which will include water allowances indicated:

a) Water & Sewer Customers

Meter Size	Group Capacity Ratio	Water Included m ³	Water Included Gallons	Customer Service Charge	Commodity Charge	Total Quarterly Minimum
5/8"	1	13.64	3,000	\$9.24	\$61.11	\$70.35
3/4"	2	27.28	6,000	\$9.24	\$122.21	\$131.45
1"	4	54.55	12,000	\$9.24	\$244.38	\$253.62
1 1/2"	10	136.38	30,000	\$9.24	\$610.98	\$620.22
2"	25	340.96	75,000	\$9.24	\$1,527.50	\$1,536.74

b) Water Only Customers:

Total Quarterly Minimum charges will be the same as shown above for each meter size, however, the sewer commodity charge will be excluded.

c) Sewer Only Customers:

The quarterly commodity charge, based on the average residential water consumption, plus the service charge, shall be \$23.32.

3.0 - BULK WATER

Bulk water sales will be charged at the net rate of \$4.36 per cubic meter and prorated accordingly with a minimum charge of \$1.00.

Clauses 4 through 12 are effective April 1, 2014

4.0 METERS

That the Municipality shall provide at the expense of the owner of the premises, a water meter in all premises connected to the water system and the said meter shall remain the property of the Municipality.

5.0 - BILLINGS AND PENALTIES

A late payment charge of 1.25% per month shall be charged on the dollar amount owing after the billing due date. The due date will be at least fourteen days after the mailing of the bills.

6.0- DISCONNECTION & RECONNECTION

The Public Utilities Board has approved the Conditions Precedent to be followed by the municipality with respect to the disconnection of service for non-payment including, such matters, as notice and the right to appeal such action to the Public Utilities Board. A copy of the Conditions Precedent is available for inspection at the Municipal office.

7.0 OUTSTANDING BILLS

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

8.0 - HYDRANT RENTALS

The Rural Municipality of Lorne will pay to the Utility an annual rental of \$100.00 per year for each hydrant connected to the system.

9.0 - WATER ALLOWANCE DUE TO LINE FREEZING

That in any case where, at the request of Council, a customer allows water to run continuously for any period of time to prevent the water lines in the water system from freezing, the charge to that customer for the current quarter shall be average of the billings for the last two previous quarters to the same customer, or to the same premises if the occupant has changed.

10.0 - METER READING

A charge of \$25.00 will be charged to customers who fail to read and submit their water meter readings.

11.0 - HOOK UP FEES

All new connections are at the customer's own expense and require approval by the Rural Municipality of Lorne.

12.0 – SERVICE TO CUSTOMERS OUTSIDE OF THE L.U.D.

The Council of the Rural Municipality of Lorne may sign agreements with customers for the provision of water and sewer services to properties located outside of the legal boundaries of the Local Urban District. Such agreement 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, and which would be levied on the property concerned if it were within these boundaries. In addition, all cost of connections to the Utility mains and installing and maintaining service connections will be paid to the customer.