

M A N I T O B A) Order No. 69/14
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THE PUBLIC UTILITIES BOARD ACT) June 19, 2014

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

TOWN OF RUSSELL
REVISED WATER AND SEWER RATES
2014, 2015 and 2016

Summary

By this Order, the Public Utilities Board (Board) hereby varies revised water and sewer rates for the Town of Russell (Town) Water and Sewer Utility (Utility).

The new rates are effective July 1, 2014, and January 1, 2015 and 2016.

The current rates, as established under Order No.15/07, and revised rates are noted below:

	Current	July 1, 2014	Increase	January 1, 2015	Increase	January 1, 2016	Increase
Quarterly Service Charge	\$12.00	\$21.20	77%	\$22.00	4%	\$22.00	0%
Water \$/1,000 gallons	\$8.90	\$12.67	42.33%	\$12.96	2%	\$13.27	2%
Sewer \$/1,000 gallons	\$1.10	\$2.89	163%	\$2.89	0%	\$2.89	0%
Minimum Quarterly-Water and Sewer*	\$42.00	\$67.87	62%	\$69.56	2%	\$70.49	1%
Bulk Water ** \$/100 gallons	\$1.00	\$1.79	78.79%	\$1.79	0%	\$1.84	3%
Hydrant Rental (Annual)	\$125.00	\$125.00	0.00%	\$125.00	0%	\$125.00	0%
*Based on 3,000 gallons							
**\$4.00 Minimum for less than 300							

Details of the revised rates are attached to this Order as Schedule "A".

Introduction

The Town applied on June 27, 2013 for approval of revised water and sewer rates as set out in the Town's By-law No. 157/07/13, read for the first time on June 24, 2013.

Rates were last amended in 2007 by Board Order No. 15/07.

A Notice of Application was issued on September 5, 2013 affording stakeholders the opportunity to comment to both the Board and the Utility with respect to the proposed increases. There were three (3) responses received.

Background

The Town of Russell operates a water and sewer utility, which serves 796 water and sewer customers and two sewer only customers.

The Town obtains its water from two (2) groundwater wells; the wells were upgraded since 2007 and the Town has applied to Manitoba Water Services Board to add a third well. The raw water main was installed in 1984. The water treatment building was constructed in 1955 over the original reservoir, with an addition built in 1967. The water tower was built in 1956 and requires significant repairs to remain functional.

Since 1955, the sewer system has seen various upgrades and effluent is discharged into a small lake north of Highway 16, immediately east of the lagoon cells, pursuant to the Town's Environmental License. The Town completed an upgrade and expansion of the lagoon in 2008.

The Town's two operators are fully certified and one employee is enrolled in the program with the Town paying for this certification.

Unaccounted for water was at 37% at the time of filing, due to water main breaks. The Town has initiated a water main renewal program and a water meter replacement program and which has reduced the water loss percentage to 22% in 2013.

Future capital plans include a water treatment plant and water storage upgrade expansion in 2016.

Application

The Town filed its application on June 27, 2013, accompanied by a copy of By-law No.1573/07/13, which had first reading on June 24, 2013, and a rate study prepared by the Town's consultant.

The Board has at its disposal two alternative processes to deal with rate applications; it may determine that a public hearing is warranted or that a paper review process is sufficient.

In the case of the Town of Russell, three (3) stakeholder responses were received. The Board concluded that a paper review process, which saves the Utility the cost of a public hearing, was in the best interest of all concerned.

The Town asked the Board to approve the following rate:

	Current	Proposed Increase	Increase
Quarterly Service Charge	\$12.00	\$23.87	99%
Water \$/1,000 gallons	\$8.90	\$12.33	38.54%
Sewer \$/1,000 gallons	\$1.10	\$2.89	163%
Minimum Quarterly-Water and Sewer*	\$42.00	\$69.51	66%
Bulk Water ** \$/100 gallons	\$1.00	\$1.33	33.00%
Hydrant Rental (Annual)	\$125.00	\$125.00	0.00%
*Based on 3,000 gallons			
**\$4.00 Minimum for less than 300 gallons			

The rates proposed were based on the following budgeted revenue requirements:

	3.50%	2013	2014	2015	2016
Administration		72,287	74,817	77,436	77,436
Shared overhead		4,500	0	0	0
Total general expenses		76,787	74,817	77,436	77,436
Deficit Recovery 2012-\$49,765		12,441	12,441	12,441	12,441
Service Charges		5,000	5,000	5,000	5,000
Penalties		2,070	2,142	2,217	2,295
Total general revenue		7,070	7,142	7,217	7,295
Net revenue general		82,158	80,116	82,659	82,582
Staffing		61,280	65,425	67,715	70,085
Purification and treatment		215,915	223,472	231,294	239,389
Transmission and Distribution		53,135	54,995	56,920	58,912
Other Water Supply Costs		2,304	0	0	0
Amortization		75,993	77,604	77,604	77,604
Interest on long term debt		6,710	5,850	5,161	4,421
Reserves		50,000	50,000	50,000	50,000
Contingency		40,191	40,191	40,191	40,191
Sub-total- water expenses		505,528	517,536	528,884	540,600
Connection Revenue		12,500	12,500	12,500	12,500
Hydrant Rentals		11,125	11,250	11,375	11,500
Amortization of capital grants		981	981	981	981
Taxation revenues		17,906	15,027	15,028	15,027
Other revenue		5,175	5,356	5,544	5,544
Total non-rate revenue- water		47,687	45,114	45,428	45,552
Net rate revenue - water		457,841	472,422	483,456	495,049
Staffing		19,760	20,452	21,167	21,167
Sewage Collection System		18,630	19,282	19,957	19,957
Sewage Lift Station		20,183	20,889	21,620	21,620
Connection -net loss		0	0	0	0
Amortization/ depreciation		92,946	92,946	92,946	92,946
Interest on long term debt		61,652	57,924	54,204	50,259
Contingency		40,733	40,733	40,733	40,733
Total sewer expenses		253,904	252,226	250,628	246,683
Amortization of capital grants		25,300	25,300	25,300	25,300
Taxation revenues		123,132	120,253	120,254	120,253
Total non-rate revenue- sewer		148,432	145,553	145,554	145,553

Following a request from the Board, the Town of Russell submitted their 2012 audited financial statements on January 28, 2014. Schedule 9 of these statements show an operating deficit of \$26,042, rather than the \$76,045 estimated in Appendix "D" of the rate study. With the adjustment of \$26,281 in capital grants, this eliminates the 2012 deficit, when calculated for regulatory purposes.

When the deficit recovery was removed from the revenue requirements, the indicated rates were as follows:

	2014	2015	2016
Net costs - general	\$ 67,675	\$ 70,218	\$ 70,141
Net rate revenue - water	\$472,422	\$483,456	\$495,049
Net rate revenue - sewer	\$106,673	\$105,074	\$101,130
Customers	798	798	798
2011 water produced (in 1,000 gallons)	58,897	58,897	58,897
2011 metered water sales	37,296	37,296	37,296
Quarterly service charge	\$ 21.20	\$ 22.00	\$ 21.97
Water commodity	\$ 12.67	\$ 12.96	\$ 13.27
Sewer commodity (2 sewer only @ 15,800 gallons)	\$ 2.85	\$ 2.81	\$ 2.70

The Town submitted the 2013 unaudited financial statements to the Board on March 10, 2014, which included a copy of the PUB Schedule 9. The Town projected that 2013 will result in an operating deficit of \$63,857, when calculated for regulatory purposes.

The rate study indicated that tipping fees were being charged to septic haulers, despite the Town never having applied to the Board for approval of these fees. By-law No. 1573/07/13 and Board Order No. 15/07 make no mention of tipping fees.

The Board asked the Town to provide supporting calculations for the tipping fees being charged, and for details on when the Town began collecting these fees. The Town's response was received January 28, 2014. The Town began charging tipping fees after the lagoon upgrades were completed in 2008. The tipping fee is \$20 per 1,000 gallons of waste. The Town stated that the rate was determined based on the rate being charged by the neighboring facilities in the RM of Shellmouth-Boulton. The rationale behind this was to ensure there was no advantage in hauling material from the cottage developments around Lake of the Prairies to a facility other than the lagoon in the RM of Shellmouth-Boulton.

Working capital calculation

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.

The Town's Working Capital Surplus is compliant with Board requirements at December 31, 2012:

	2012	2011
Fund Surplus/Deficit	\$ 3,179,144.00	\$ 3,140,186.00
Deduct TCA	\$ 4,201,127.00	\$ 4,193,856.00
Add Long-Term Debt	\$ 1,140,326.00	\$ 1,208,692.00
Add Utility Reserves	\$ 61,456.00	\$ 125,581.00
Equals Working Capital Surplus	\$ 179,799.00	\$ 280,603.00
Annual operating costs	\$ 680,759.00	\$ 629,725.00
20% of annual operating costs	\$ 136,151.80	\$ 125,945.00

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 Town submitted the following methodology for Board approval:

<i>Direct Overhead Costs</i>				\$	%
Meter Reading	PW Staff	Quarterly billing	3 person days/quarter	2,515	1.0%
	PW Staff	Monthly adjustments	1 person day /month	2,515	1.0%
	Admin Staff	Quarterly billing prep	2 person days/quarter	1,500	1.3%
Billing	Admin Staff	Quarterly billing	5 person days/quarter	3,750	3.2%
	Admin Staff	Monthly adjustments	2 person days/month	4,500	3.8%
Receipting and Collection	Admin Staff		10 person days/quarter	7,500	6.4%
Bill Payment - Utility	Admin Staff		6 person days/month	11,250	9.6%
<i>Indirect Overhead Costs</i>					
General Admin Costs	CAO	Budget/Admin	Percent of total time	6,250	5.0%
	Council		Percent of total time	1,000	2.0%
Shared Office Costs	Audit and Legal		10% of total cost	1,500	10.0%
	Bank Charges & Interest		10% of total cost	150	10.0%
	Supplies		10% of total cost	4,250	10.0%
	Utilities		10% of total cost	1,350	10.0%
	Maintenance		10% of total cost	1,400	10.0%
<i>Shared Direct Operating Costs</i>					
Direct Equipment Costs	Public Works Buildings				
		Maintenance	10% of total cost	375	10.0%
		Utilities	10% of total cost	173	10.0%
	Vehicles & Equipment				
		Fuel	10% of total cost	2,625	10.0%
		Repairs	10% of total cost	2,601	10.0%
		Insurance	10% of total cost	385	10.0%
		Amortization	10% of total cost	3,947	10.0%
Direct Labor	Public Works Staff				
		Manager	% of total time	3,250	5.0%
		Crew	% of total time	9,500	5.0%
			Total	72,287	

Public Response

The Board received three (3) responses to the Notice of Application. The stakeholders expressed concerns that the increase being applied for is unreasonable.

Board Findings

The Board will vary the application made by the Town for revised water and sewer rates. The fact that the 2012 deficit did not materialize had a significant impact on the calculation of the rates. The rates approved by the Board will allow for small annual increases January 1, 2015 and 2016. These rates were based on the revenue requirements provided by the Town, less the 2012 deficit recovery. The sewer rates calculated show a slight decrease over the three year period; however, in the interest of rate stability, the Board will maintain the rate of \$2.89 per 1,000 gallons, rather than reducing the rate nominally for 2015 and 2016.

The Town's submission with regards to the 2013 unaudited financial statements is accepted as information. Once the 2013 audited financial statements are available, the Town is required to submit them to the Board. They should be accompanied by a properly completed deficit application, should the deficit meet the Board's standard for requiring approval.

The Board is sensitive to customer reaction to the size of the rate increase, however, must consider the sustainability of the Utility when approving rates.

The increases required can be considered to be rate shock, something that is common where rate requirements are not addressed for significant periods of time. In the case of the Town of Russell, rates were last set in 2007. Consumers are generally more tolerant of regular, smaller increases.

The Town needs to be more diligent in conducting regular reviews

of its revenue requirements.

The bulk water rate was not calculated using Board recommended methodology; therefore the Board has varied the rate. The Board does encourage applicants to confer with Board staff where there is uncertainty about Board recommended methodology and, where variation is proposed, that the applicant provide supporting calculations, and any variation be clearly substantiated in the application.

The Board regulates rates charged by municipally owned water and sewer Utilities in the Province, outside of the City of Winnipeg. This includes lagoon tipping fees. The Board urges the Town to review the Public Utilities Board Act and general Board Order Nos. 151/08 and 93/09 to have a better understanding of their responsibilities in reporting to the Board.

The Board will require the Town to file a submission which quantitatively supports the tipping fees charged. In the interest of rate stability, the Board will allow the Town to continue charging the current rate of \$20 per 1,000 gallons on an interim *ex parte* basis, provided the Town submits an application on or before August 31, 2014.

The Board will approve the submitted Cost Allocation Methodology, and reminds the Town that this methodology must be used consistently in the future, and requires Board approval should any further changes be considered.

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. Revised water and sewer rates for The Town of Russell BE AND ARE HEREBY APPROVED in accordance with the attached Schedule "A", effective July 1, 2014, January 1, 2015 and 2016.
2. The Town of Russell shall submit a certified copy of its water and sewer By-law No. 1573/07/13 once it has been revised to reflect the decision in this Order and received third and final reading.
3. The Cost Allocation Methodology proposed by the Town of Russell BE AND IS HEREBY APPROVED.
4. The Town of Russell shall submit an application for approval of tipping fees by no later than August 31, 2014.
5. The Town of Russell submit the 2013 audited financial statements to the Board as soon as they are available, including an application for approval of a deficit, if required.

6. The Town of Russell review its water and sewer rates for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates if required, by no later than June 30, 2016.

Fees payable upon this Order - \$500.00

THE PUBLIC UTILITIES BOARD

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

"JENNIFER DUBOIS, CMA"
Acting Secretary

TOWN OF RUSSELL
 WATER AND SEWER RATES
 BY-LAW No. 1573/07/13
 Schedule "A"

SCHEDULE OF QUARTERLY RATES:

1. Commodity Rates per M.G.

	<u>Water</u>	<u>Sewer</u>	<u>Water & Sewer</u>
Effective July 1, 2014	\$12.67	\$2.89	\$15.56
Effective January 1, 2015	\$12.96	\$2.89	\$15.85
Effective January 1, 2016	\$13.27	\$2.89	\$16.16

2. Minimum Charges, Quarterly

Notwithstanding the commodity rates set forth in paragraph 1 hereof, all customers will pay the applicable minimum charges set out below, which will include water allowances indicated:

(a) Water and Sewer Customers

Effective July 1, 2014

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption	Customer Service Charge	Water	Sewer	Quarterly Minimum Charge (Water & Sewer)
5/8"	1	3,000	\$21.20	\$38.01	\$8.67	\$67.88
3/4"	2	6,000	\$21.20	\$76.02	\$17.34	\$114.56
1"	4	12,000	\$21.20	\$152.04	\$34.68	\$207.92
1 1/2"	10	30,000	\$21.20	\$380.10	\$86.70	\$488.00
2"	25	75,000	\$21.20	\$950.25	\$216.75	\$1,188.20
3"	45	135,000	\$21.20	\$1,710.45	\$390.15	\$2,121.80
4"	90	270,000	\$21.20	\$3,420.90	\$780.30	\$4,222.40

(b) Sewer Only for Residential Customers

All customers connected to the sewer system but not to the water system, shall pay a flat rate for sewer service of \$45.66 (based on 15, 800 gallons) plus the service charge of \$21.20 for a total of \$66.86.

Effective January 1, 2015

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption	Customer Service Charge	Water	Sewer	Quarterly Minimum Charge (Water & Sewer)
5/8"	1	3,000	\$22.00	\$38.88	\$8.67	\$69.55
3/4"	2	6,000	\$22.00	\$77.76	\$17.34	\$117.10
1"	4	12,000	\$22.00	\$155.52	\$34.68	\$212.20
1 1/2"	10	30,000	\$22.00	\$388.80	\$86.70	\$497.50
2"	25	75,000	\$22.00	\$972.00	\$216.75	\$1,210.75
3"	45	135,000	\$22.00	\$1,749.60	\$390.15	\$2,161.75
4"	90	270,000	\$22.00	\$3,499.20	\$780.30	\$4,301.50

(b) Sewer Only for Residential Customers

All customers connected to the sewer system but not to the water system, shall pay a flat rate for sewer service of \$45.66 (based on 15, 800 gallons) plus the service charge of \$22.00 for a total of \$67.66.

Effective January 1, 2016

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption	Customer Service Charge	Water	Sewer	Quarterly Minimum Charge (Water & Sewer)
5/8"	1	3,000	\$22.00	\$39.81	\$8.67	\$70.48
3/4"	2	6,000	\$22.00	\$79.62	\$17.34	\$118.96
1"	4	12,000	\$22.00	\$159.24	\$34.68	\$215.92
1 1/2"	10	30,000	\$22.00	\$398.10	\$86.70	\$506.80
2"	25	75,000	\$22.00	\$995.25	\$216.75	\$1,234.00
3"	45	135,000	\$22.00	\$1,791.45	\$390.15	\$2,203.60
4"	90	270,000	\$22.00	\$3,582.90	\$780.30	\$4,385.20

(b) Sewer Only for Residential Customers

All customers connected to the sewer system but not to the water system, shall pay a flat rate for sewer service of \$45.66 (based on 15, 800 gallons) plus the service charge of \$22.00 for a total of \$67.66.

3. Bulk Sales Rate

Effective July 1, 2014.

All water sold in bulk by the Town of Russell shall be charged for at the rate of \$1.79 per 100 gallons on a pro-rated basis for all quantities greater than 300 gallons. For any quantity of 300 gallons or less the minimum charge will be \$4.00.

Effective January 1, 2015.

All water sold in bulk by the Town of Russell shall be charged for at the rate of \$1.79 per 100 gallons on a pro-rated basis for all quantities greater than 300 gallons. For any quantity of 300 gallons or less the minimum charge will be \$4.00.

Effective January 1, 2016.

All water sold in bulk by the Town of Russell shall be charged for at the rate of \$1.84 per 100 gallons on a pro-rated basis for all quantities greater than 300 gallons. For any quantity of 300 gallons or less the minimum charge will be \$4.00.

4. Service to Customers outside Municipality, Town, or L.I.D., limits

The Council of the Town of Russell may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Town of Russell. 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.

5. Billings and Penalties

Accounts shall be billed quarterly, and shall be due and payable 20 days after date of billing. A late payment charge of 1 ¼% shall be charged on the dollar amount owing after the billing due date. The late payment charge will compound monthly, and will appear on the customer's next quarterly bill if unpaid.

6. Disconnection

With regard to disconnection of water and sewer services for non-payment, the Town of Russell uses the revised Conditions Precedent established by Public Utilities Board Order No. 39/09.

7. Outstanding Bills

Pursuant to Section 252(2) of The Municipal Act, the amount of all outstanding charges for water and sewer 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.

8. Hydrant Rentals

The Town of Russell will pay to the utility an annual rental of \$125.00 for each hydrant connected to the system.