

M A N I T O B A) Order No.83/14
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THE PUBLIC UTILITIES BOARD ACT) July 17, 2014

BEFORE: Susan Proven, P.H.Ec, Acting Chair
Marilyn Kapitany, B.Sc. (Hons.), M.Sc., Member

VILLAGE OF BENITO
APPROVAL OF 2009, 2010 and 2011 OPERATING DEFICITS
REVISED WATER AND SEWER RATES
JANUARY 1, 2015

Summary

By this Order, the Public Utilities Board (Board) varies water and sewer rates for the Village of Benito (Village). The Board also approves the recovery of the 2009, 2010 and 2011 operating deficits from the utility's accumulated surplus.

The new rates are effective January 1, 2015.

The rates are shown below.

	Current	2015	Increase/ Decrease
Quarterly Service Charge	\$3.00	\$21.81	627%
Water \$/1,000 gallons	\$7.30	\$5.74	-21.37%
Sewer \$/1,000 gallons	\$1.30	\$6.06	366.15%
Minimum Quarterly-Water and Sewer*	\$28.80	\$57.23	99%
Minimum Quarterly-Water Only*	\$24.90	\$39.04	56.79%
Bulk Water \$/1,000 gallons	\$12.00	\$10.59	-11.75%
Reconnection Fee	n/a	\$50.00	n/a
Hydrant Rental (Annual)	n/a	\$150.00	n/a

*Based on 3,000 gallons

Background

The Board last approved utility rates for the Village in 1988. The Village's utility rates are based on a single step water and sewer rate structure. It has become apparent that the current rates are insufficient to properly sustain the Utility.

The Village owns and operates a complete system including two wells, a water treatment plant, reservoir, water lines, sewer lines, and sewage lagoon consisting of two cells.

There are 204 Utility customers and all connections are metered. All are water and sewer customers, with exception of one water only and one sewer only customer.

Water System

The Benito Water Treatment Plant (WTP) was constructed in 1965 and remains in fair condition. Raw water is pumped from a sand and water aquifer to the water treatment plant by cement pipeline. The WTP is a filtration plant with a single treatment train consisting of a contact tank, pressure filtration, chlorination and fluoridation before storage and distribution to the Village.

Sewer System

The Utility has a 2-cell lagoon system that flows into Lobstick Creek. There are no capacity issues with the lagoon. The system is in compliance with its Environmental License.

The Village has one staff member with the required Level 1 Certification who operates the Utility as well as a second staff member with conditional certification.

Application

The Village applied in April 2013 for revised rates for the water and sewer utility (Utility). The application was accompanied by a rate study prepared by the Village of Benito's consultant and By-law 02/13, read for the first time on March 12, 2013. Rates were last approved by the Board in 1988.

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.

A Notice of Application was issued on April 10, 2013. There were no responses and the Board determined a paper review process was in the best interest of all concerned.

During the review of this application, the Board contacted the Village on several occasions to attempt to resolve outstanding questions and concerns regarding the rate application, and the deficit applications for 2009, 2010 and 2011. The Board sent a letter to the Village in October 2013 requesting the information necessary to finalize the various applications. Despite several reminders from the Board, the responses to the questions posed in the letter were not received in full until April 1, 2014. The Village has stated that they experienced staffing issues during that time, which resulted in a delay in submitting their responses.

Deficits and working capital calculation

The audited financial statements provided to the Board show the following operating deficits:

2009	\$ 31,055
2010	\$ 29,852
2011	\$ 36,468

Board Order No. 93/09 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 Village's working capital surplus at December 31, 2012 is shown below. Even after absorbing the deficits from 2009, 2010 and 2011, the working capital surplus exceeds the Board's minimum requirement, calculated to be approximately \$21,000 for the Village.

	2012
Fund Surplus/Deficit	\$473,905.00
Deduct TCA	\$442,617.00
Add Long-Term Debt	\$ -
Add Utility Reserves	\$236,705.00
Working Capital Surplus	\$267,993.00

Cost allocation policy

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 rate application included a cost allocation methodology to replace the existing policy of charging a flat rate of \$9,500 per year. The new policy was based on the Utility operating expenditures as a percentage of general operating expenditures, stated as 25.9%. The Board requested supporting calculations, which were provided by the Village; however, when calculated using the figures provided, there appears to be a mathematical error in the formula.

<u>Cost Allocation Percentage Calculation</u>	
2011 actual General Operating Expenditures - PSAB	452,353
2011 Utility Operating Expenditures - PSAB	158,269
Utility Operating Expenditures as a percent of total	35%

Budgeted expenditures

The Village provided the following information regarding the revenue requirements for the Utility.

	2014	2015
Administration	14,920	15,218
Utility (telephone, electricity, etc)	3,570	3,641
Total general expenses	18,490	18,859
Penalties	312	318
Other income	728	743
Total general revenues	1,040	1,061
Net rate revenue general	17,449	17,798
Purification and treatment	25,214	25,719
Transmission and distribution	13,260	13,525
Other water supply costs	2,040	2,081
Amortization	9,413	9,072
Total water expenses	49,927	50,397
Bulk water Fees	7,804	7,804
Hydrant Rentals	4,650	4,650
Total non-rate revenue - water	12,454	12,454
Net rate revenue - water	37,473	37,943
Collection system costs	12,444	12,693
Treatment and disposal cost	12,393	12,641
Lift station costs	5,100	5,202
Amortization	4,802	4,802
Total sewer expenses	34,739	35,338
Total non-rate revenue - sewer	0	0
Net rate revenue - sewer	34,739	35,338

Rates

The application by the Village asked for an effective date of October 1, 2013 and 2014. The rates applied for were designed to mitigate rate shock by phasing in the increase over a two year period, rather than charging the indicated rates, which are shown below:

	2014	2015
Net costs general	17,449	17,798
Net rate revenue - water	37,473	37,943
Net rate revenue - sewer	34,739	35,338
Customers	204	
Volume of water sold in 2011	6,608,207	
Volume of water, less bulk and water only	5,826,890	
Quarterly service charge	\$ 21.38	\$ 21.81
Water commodity charge per 1,000 gallons	\$ 5.67	\$ 5.74
Sewer commodity charge per 1,000 gallons	\$ 5.96	\$ 6.06

The increases approved 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 Village of Benito, it has been 25 years since a rate change was last applied for. Consumers are generally more tolerant of regular, smaller increases. The Village needs to be more diligent in conducting regular reviews of its revenue requirements.

Board Findings

The Board approves the recovery of the 2009, 2010 and 2011 operating deficits from the utility's accumulated surplus.

The Board also approves revised water and sewer rates for the Village of Benito. The new rates are effective January 1, 2015.

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

By law, Manitoba utilities are not allowed to incur deficits. In the event that a deficit does occur, the Utility is required to obtain Board approval for a recovery methodology. The Board is therefore duty bound to approve reasonable rates based on reasonable expense projections. The Board has reviewed the Village's budgeted expenditures, and finds them to be reasonable.

The Board realizes that the Village may experience a deficit for 2013 and 2014. The Village is to submit an application for approval for all outstanding deficits, as required by Board Order No. 151/08.

As of the most recent audited financial statements, December 31, 2012, the Village has a working capital surplus far in excess of the levels recommended by the Board. Given the recent operating deficits and length of time since the last rate increase, this indicates that the Utility was experiencing significant

surpluses in the past. The rate application included a five year capital plan that included \$600,000 in projects for 2013 and 2014. The Board determined it would be appropriate at this time to increase rates, in light of the pending capital expenditures, which should reduce the working capital surplus to a more reasonable level. The Board will require the Village to provide an update on the projects discussed in the rate application, along with any other capital or operating expenditures which would require use of the funds from the working capital surplus. The Board has long been a proponent of the user-pay principle, and expects to see the Village use the surplus funds collected to improve the Utility in the next five years. Future rate increases for the Village will be highly dependent on the working capital surplus balance.

The Board will require the Village to notify its customers of the rate increase with the October 2014 quarterly billing, with a copy provided to the Board.

The Village submitted deficit applications in advance of the rate application; the Board asked a number of questions requiring separate submission from the Village with regards to these applications and the rate application. The Board had to resubmit these requests a number of times prior to receiving the information required to process the applications.

While the Board sympathizes with the resource constraints experienced by the Village, it is imperative that responses are received in a timely fashion, or that the Village files for an extension. The Village's actions have resulted in the

utilization of Board resources best spent elsewhere and in a lengthy delay in the preparation of this Order and approval of revised rates. The Board urges the Village and Council to review its internal processes to determine how to ensure that future requests from the Board are dealt with in a timely and cooperative manner.

The Board will require the Village to submit a copy of a revised By-law reflecting the decisions in this Order.

The Board will deny the cost allocation methodology as submitted by the Village. The approach adopted by the Village, which calculated utility expenses as a percentage of total expenses, is imprecise and the submission contained a mathematical error, so it was unclear if the Village should charge 25% or 35%. This methodology could materially over or understate the cost of running the Utility. Rather, the Board will direct the Village to continue charging the flat rate of \$9,500 and reapply to the Board with an updated methodology. The Board recommends the use of Board Order No. 93/09, particularly "Appendix A" thereof, to develop a revised cost allocation methodology.

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.

IT IS THEREFORE ORDERED THAT:

1. The deficits for the years 2009, 2010 and 2011 are HEREBY APPROVED to be recovered from the Village of Benito Utility accumulated surplus.
2. The water and sewer rates for the Village of Benito, as shown on Schedule "A" of this Order, BE AND ARE HEREBY APPROVED effective January 1, 2015.
3. The revised cost allocation methodology is HEREBY DENIED.
4. The Village of Benito file with the Public Utilities Board on or before September 30, 2014 an updated five year capital plan, an update on the 2013 and 2014 capital projects outlined in the rate application, and details of any other expenditures which required the use of the accumulated working capital surplus.
5. The Village of Benito file with the Public Utilities Board a copy of the revised By-law reflecting the decisions in this Order, once it has received third and final reading.
6. The Village of Benito provide written notice of the rate increases with the October 1, 2014 quarterly billing to its customers, with a copy to the Public Utilities Board.
7. The Village of Benito submit an application for approval for all outstanding deficits, as required by Board Order No. 151/08.

8. The Village of Benito provide the Public Utilities Board with audited financial statements for 2013, as soon as they are available.
9. The Village of Benito 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

Certified a true copy of
Order No. 83/14 issued by
The Public Utilities Board

Acting Secretary

VILLAGE OF BENITO
 WATER & SEWER RATES BY-LAW
 SCHEDULE "A"

SCHEDULE OF QUARTERLY RATES

January 1, 2015

1. Rates per 1,000 gallons

1,000 gallons per quarter

Water	Sewer	Total Water & Sewer
\$5.74	\$6.06	\$11.80

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges set out below, which includes the water allowance as listed.

a. Water & Sewer Customers

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption	Customer Service Charge	Water	Sewer	Quarterly Minimum Charge (Water & Sewer)	Quarterly Minimum Charge (Water Only)
5/8"	1	3,000	\$21.81	\$17.23	\$18.19	\$57.23	\$39.04
3/4"	2	6,000	\$21.81	\$34.45	\$36.39	\$92.65	\$56.26
1"	4	12,000	\$21.81	\$68.90	\$72.78	\$163.49	\$90.71
1 1/2"	10	30,000	\$21.81	\$172.25	\$181.94	\$376.00	\$194.06
2"	25	75,000	\$21.81	\$430.63	\$454.84	\$907.29	\$452.44

b. Metered Water Only Customers

Quarterly minimum charge is the same for each meter size as shown in table above, except that the Sewer Commodity charge is excluded.

c. Sewer Only Customer

The quarterly commodity charge, shall be based on an estimated use of water, plus quarterly service charge.

3. Bulk Water sales

Rates per

a. Thousand Gallons
 January 1, 2015

\$10.59

Clauses 4 to 14 are Effective January 1, 2015

4. **Service to Customers outside Village of Benito limits**
The Council of the Village of Benito may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Village. 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 connection 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 based on water used. A late payment penalty charge of 1 ¼% compounded monthly shall be charged on the dollar amount owing after the billing due date. The due date will be at least twenty (20) days after the mailing of the bills.

6. **Disconnections**
The Public Utilities Board has approved the Conditions Precedent to be followed by the Village 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 are available for inspection at the Village office.

7. **Reconnection**
Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$50.00 have been paid.

8. **Outstanding Bills**
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. Where charges and penalties pursuant to this by-law are not paid within sixty (60) days from the date when they were incurred, said charges and penalties shall be added to the taxes on the property and collected in the same manner as other taxes.

9. Hydrant Rentals

The Village will pay to the Utility an annual rental of \$150.00 for each hydrant connected to the system which includes the cost of water for fire fighting.

10. Sewage Surcharges

(a) There may be levied annually, in addition to rates set forth above, a special surcharge on sewage having a Biochemical Oxygen Demand in excess of 300 parts per million, to be set by resolution of Council.

(b) A special surcharge for substances requiring special treatment shall be charged based on the actual costs of treatment required for the particular sewage or industrial wastes.

11. Meter Testing

Any customer wishing to have a meter tested for accuracy will pay in advance a fee of \$50, plus any applicable meter testing costs. In the event the meter tests prove that the meter is recording water flows in excess of actual flows, the meter testing fee and associated costs will be refunded to the customer and the customer's account will be reviewed and adjusted accordingly.

12. Meter Tampering

Where there is evidence of meter tampering a minimum charge of \$500 will be applied to the customer's account in addition to an amount calculated to adjust for the tampering based on historical usage.

13. Cross Connections

No person shall make any connection or communication of an independent water supply with a pipe or main which is part of or connected to the waterworks system.

14. Change of Water or Water & Sewer

That a charge for change of water or water and sewer to recover the cost of completing the change of user or service, for a service that has changed users or service shall be:

- a) during normal working hours - \$35.00
- b) outside of normal working hours - \$80.00