

M A N I T O B A) Order No. 9/14
)
THE PUBLIC UTILITIES Board ACT) January 21, 2014

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

RURAL MUNICIPALITY OF LORNE
ST. LEON WATER AND SEWER 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 St. Leon 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	April 1, 2014	Increase/ Decrease	Jan. 1, 2015	Increase/ Decrease
Quarterly Service Charge	\$3.50	\$6.34	81.1%	\$6.50	2.5%
Water - \$/1,000 gallons	\$4.00	\$16.00	300.0%	\$16.23	1.4%
Sewer - \$/1,000 gallons	n/a***	\$9.55	n/a	\$9.55	0.0%
Minimum Quarterly* Water and Sewer	\$23.50	\$83.00	253.1%	\$83.84	1.0%
Water Only -Quarterly	\$15.50	\$54.34	250.6%	\$55.19	1.6%
Sewer Only -Quarterly**	\$6.25	\$69.37	1009.9%	\$69.53	0.2%
Hydrant Rental (Annual)	\$50.00	\$100.00	100.0%	\$100.00	0.0%

*Based on 3,000 gallons

**Based on average residential water consumption of 6,600 gallons per quarter

***Sewer Rate was charged as a Flat Rate at \$6.25

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

Background

The Utility services 61 customers; 48 receiving water and sewer services, nine receiving water-only services and four receiving sewer-only services.

Water supply and distribution

The Utility operates a 39 year old water treatment plant. Water mains vary in age from 4 years to 37 years old. Due to its age, the water system will require future upgrading, although no provision for this is included in this rate application.

The RM reports no taste or color issues associated with the treated water although the treated water has manganese, sodium, chloride and total dissolved solvent levels above recommended limits.

An assessment of the system was completed in March 2010. It was determined that the water system source, treatment and distribution are effective in providing a safe drinking water in accordance with the *Public Health Act* and the *Drinking Water Safety Act*. The assessment identified approximately 20 areas of improvement, but there is no reported plan with respect to following up on these recommendations. The RM is currently working on a compliance plan to be submitted to Manitoba Water Stewardship.

The average water loss is 9.7%, within the industry standard of 10%, and is attributed to water main breaks and uncalibrated water meters.

Sewage system

The sewage system includes 14-year-old lagoon and gravity sewer mains.

Operator certification

The plant operator is certified as a Class I Water Treatment, Class I Water Distribution, Class I Wastewater Treatment, and a Class I Wastewater Collection Operator. The other operator is certified as a Small Water Works and Small Wastewater Works operator.

Application

The Rural Municipality of Lorne filed an application for revised water and sewer rates on November 28, 2012. The previous sewer rate By-law was passed in 1998 and the last water rate By-law in 2004.

A Public Notice of Application was issued in February 2013 affording customers the opportunity to comment to both the Board and the RM with respect to the proposed increases. There were no responses 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 St. Leon 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, as follows:

	2013	2014	2015
General			
Administration	1,086	1,119	1,152
Equity Surcharge 1%	418	428	433
Less: Penalties	150	150	150
Net revenue requirement general	1,354	1,397	1,436
Water			
Purification and treatment	8,500	8,755	9,018
Education and training	1,000	1,030	1,061
Service of supply	4,000	4,120	4,244
Amortization/ depreciation	7,579	7,579	7,579
Contingency	4,602	4,602	4,602
Sub-total- water expenses	25,681	26,086	26,503
Hydrant Rentals	600	618	637
Total non-rate revenue - water	600	618	637
Net rate revenue requirements - water	25,081	25,468	25,866
Sewer			
Sewage Collection System	200	206	212
Sewage Treatment and Disposal	1,164	1,199	1,235
Education and Training	1,000	1,030	1,061
Amortization/ depreciation	9,792	9,792	9,792
Contingency	3,915	3,915	3,915
Total sewer expenses	16,071	16,142	16,215
<i>Revenue</i>	-	-	-
Unmetered Sewer Revenue	1,003	1,008	1,008
Total non-rate revenue- sewer	1,003	1,008	1,008
Net rate revenue requirement - Sewer	15,068	15,134	15,207

The financial projections include provision for an expected inflation rate of 3%.

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.

A provision is included to address the Utility's working capital deficiency:

	2011	2010
Fund Surplus/Deficit	\$349,027	\$356,042
Deduct TCA	\$336,466	\$353,837
Add Long-Term Debt	n/a	\$0
Add Utility Reserves	n/a	\$0
Working Capital Surplus	\$12,561	\$2,205

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. It should be noted that at the time the rate study was prepared and submitted to the Board, 2011 results were not yet known; these only became available in December of 2013.

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 the Cost Allocation Methodology policy.

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 study states:

Administration and wage costs on the financial statements are already allocated between the water and sewer Utility. There are no shared services or equipment between the Utility and general operations.

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	\$3.50	\$6.16	76.0%	\$6.34	2.9%	\$6.50	2.5%
Water - \$/1,000 gallons	\$4.00	\$15.77	294.3%	\$16.00	1.5%	\$16.23	1.4%
Sewer - \$/1,000 gallons	n/a***	\$9.50	n/a***	\$9.55	0.5%	\$9.55	0.0%
Minimum Quarterly* and as you and Water and Sewer	\$23.50	\$81.97	248.8%	\$82.99	1.2%	\$83.84	1.0%
Water Only -Quarterly	\$15.50	\$53.47	245.0%	\$54.34	1.6%	\$55.19	1.6%
Sewer Only –Quarterly**	\$6.25	\$68.86	1001.8%	\$69.34	0.7%	\$69.50	0.2%
Hydrant Rental (Annual)	\$50.00	\$50.00	0.00%	\$51.50	3.0%	\$53.50	3.9%

*Based on 3,000 gallons

**Based on average residential water consumption of 6,600 gallons per quarter

***Sewer Rate was charged as a Flat Rate at \$6.25

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 St. Leon 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 one minor adjustment to the rate proposal. The annual rate for Hydrant Rentals, payable by the RM to the Utility, has been increased from \$50 per year to \$100 per year; while still lower than many other jurisdictions, this brings the hydrant rentals rates more in line with other Manitoba municipalities.

The Board notes that, based on the audited financial statements for 2011, the Working Capital Surplus meets Board recommended levels. Nonetheless, because the Utility does not have a Reserve, and because the Cost Allocation Methodology used does not appear to be complete, the Board has left in place the equity surcharge proposed in the revenue requirements.

The Board will accept 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, 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 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 St. Leon 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 St. Leon 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 improvements identified in the 2010 Water System Assessment.
4. 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.
5. The Rural Municipality of Lorne 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, 2015.

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
ST. LEON 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 (MG)	\$3.52 (\$16.00)	\$2.10 (\$9.55)	\$5.62 (\$25.55)

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	\$6.34	\$76.66	\$83.00
¾"	2	27.28	6,000	\$6.34	\$153.31	\$159.65
1"	4	54.55	12,000	\$6.34	\$306.57	\$312.91
1 ½"	10	136.38	30,000	\$6.34	\$766.46	\$772.90
2"	25	340.96	75,000	\$6.34	\$1,916.20	\$1,922.54

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 (6,600 gallons per quarter), plus the service charge, shall be \$69.37.

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	\$3.57 (\$16.23)	\$2.10 (\$9.55)	\$5.67(\$25.78)

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	\$6.50	\$77.34	\$83.84
3/4"	2	27.28	6,000	\$6.50	\$154.68	\$161.18
1"	4	54.55	12,000	\$6.50	\$309.30	\$315.80
1 1/2"	10	136.38	30,000	\$6.50	\$773.27	\$779.77
2"	25	340.96	75,000	\$6.50	\$1933.24	\$1939.74

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 \$69.53.

Clauses 3 through 11 are effective April 1, 2014

3.0 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.

4.0 - 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.

5.0- 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.

6.0 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.

7.0 - 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.

8.0 - 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.

9.0 - METER READING

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

10.0 - HOOK UP FEES

A charge of \$300.00 per customer will be charged for a new hookup for water and a flat fee of \$1100.00 for a sewer hookup.

11.0 – 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/or sewer services to properties located outside of the legal boundaries of the Local Urban District. 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, 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.