

MANITOBA) Order No. 90/14
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THE PUBLIC UTILITIES BOARD ACT) August 12, 2014

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

RURAL MUNICIPALITY OF WOODWORTH
RURAL PIPELINE WATER UTILITY RATES
2011 ACTUAL DEFICIT

Summary

The Public Utilities Board (Board) hereby approves revised water rates for the Rural Municipality of Woodworth (RM) Rural Pipeline Water Utility (RWP). The new rates are effective October 1, 2014, and January 1, 2015. Rates were last set by the RM in 2006, and were not approved by the Board.

The Board also approves the recovery of the 2011 deficit.

The current rates and revised rates are noted below:

	Current
Water/1,000 gallons (first 3,000 gallons)	\$10.00
Water/1,000 gallons (over 3,000 gallons)	\$4.00
Water Service Charge	\$2.00
Quarterly Minimum*	\$32.00

	2014	2015
Water/1,000 gallons (first 50,000 gallons)	\$7.95	\$8.15
Water/1,000 gallons (over 50,000 gallons)	\$6.35	\$6.35
Quarterly Minimum water charge*	\$23.85	\$24.45
Quarterly Flat Charge	\$125.00	\$125.00
Total	\$148.85	\$149.45

*based on 3,000 gallons

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

Background

The Rural Water Pipeline (RWP) Utility in the Rural Municipality of Woodworth serves 82 customers. Service is provided to 75 yard sites, two feedlots, three businesses and two nonprofit organizations. The RM also serves 12 customers in the RM of Daly and one in the RM of Hamiota. The users in Daly are supplied through a single meter and the RM of Daly distributes and bills these customers directly. All services are metered.

The RWP serves primarily the agricultural rural community and water is used mostly for agricultural purposes. There are some large farm use customers. These customers often do not have a choice of supply due to poor water quality and some have no water at all. The RWP utility was designed to serve these needs. The RM has considered the merits of a single-step rate, and determined that the continuation of a two-step rate was still appropriate. The two-step rate was designed to not penalize the large use customers.

The RM obtains its water from a shared water treatment facility with the Kenton Water and Sewer Utility (Kenton). An engineering assessment in March 2011 indicated that the existing water treatment plant was incapable of producing water in compliance with Provincial regulations and had inadequate reservoir capacity for meeting current demands. There are 12 fire hydrants, and the report also indicated concern that pumps may be insufficient for fire protection in Kenton. There are no hydrants on the RWP system.

The application also stated that there has been considerable interest in expanding the RWP to the western parts of the Municipality and into the RM of Daly, however any expansion plans could only take place after the new water treatment plant was operational.

The RM invested in a new water treatment plant, which was completed in two parts. The first part was the replacement of the two wells at the same supply site, along with the installation of new supply lines from the supply well site into Kenton to the water treatment plant. The wells and the lines were installed in the spring of 2013.

The second part of the project began in August 2013 and included a new water treatment plant, building and reservoir. The former reservoir is tied in to the new one, more than doubling the storage capacity. This has resolved the concerns about fire protection in Kenton.

The new water treatment plant began providing water March 5, 2014 and the project is expected to be completed by the end of 2014. The old water treatment plant is no longer in operation, and is to be decommissioned in the future, with the building to be used for storage.

The RWP distribution system consists of polyvinyl chloride piping and high-density poly tubing. These lines are in very good condition. The distribution lines are flushed annually. Water is pumped to the distribution systems using two separate pumps.

The RWP includes two booster stations, a pressure reducing chamber and the water lines.

Unaccounted for water is 0.5%, well below the accepted industry average of 10%.

The Kenton Utility operates a truck-fill site. The RM also owns a non-potable truck-fill site supplied by its own well.

Application

The RM submitted an application for revised water rates for RWP on February 15, 2013. The current rates for the RWP were set in 2006, and were not approved by the Board at that time. This was a result of the RM believing that such rural distribution systems were exempt from Board regulation. This is only the case with those distribution systems operated by the Manitoba Water Services Board (MWSB).

The RM also applied for revised water rates for the Kenton Utility at the same time; the Kenton application will be addressed on Board Order No. 91/14. While they are two separate utilities, these Board Orders are best read in conjunction with one another as the two Utilities share ownership of a water treatment plant.

The application was accompanied by a copy of By-law No. 4/2013, which had first reading on February 12, 2013, and a rate study prepared by the RM's consultant. The rate study developed two sets of rates. One set followed the rating principles adopted by the Board, referred to as the "conventional approach". This approach required a significant increase in the water commodity rate. At this higher rate, the RM is concerned about customers dropping off the system or reducing consumption drastically, both causing hardship on the balance of customers as a result of lower throughput and/or increasing the risk of utility viability.

The second set of rates, referred to as the "preferred approach" offered the following changes to standard practices:

- The recovery of 50% of the annual debenture debt costs in the water production rate, with the balance to be recovered by taxes.
- The introduction of a \$500 annual charge to be collected quarterly from all customers, recognizing the value of having a treated water supply running up to the owner's property. The charge will recover the costs of administering the utility as well as part of the distribution costs. The balance of distribution costs will be recovered in the first-step commodity charge.
- Increasing the break point for the step rates from 3,000 to 50,000 gallons. This allows the larger volume users to pay more of the distribution costs and the very large consumer to take advantage of the second-step, at rates commensurate with the cost of water production. This change aligns with

the Board's recommended practice and represents a change from the RWP's current practice.

- Increasing the volume of water included in the minimum bill from 3,000 gallons to 5,000 gallons. This is a rural water distribution system with larger lines than typically found for residential services, where the 3,000 minimum makes sense. These large lines offer high capacity and therefore the increase to 5,000 gallons is not unreasonable.

In addition to the proposed changes to the water rates, the RM is seeking approval of the following:

- Establishing reconnection charges of \$75
- Establishing a meter reading fee of \$100
- Including 50% of the water treatment plant debenture costs in the water rate
- Operating deficit for 2011

A Public Notice of Application was issued on March 26, 2013 affording customers the opportunity to comment to both the Board and the Utility with respect to the proposed increases.

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 RM of Woodworth, there was one stakeholder response received, which pertained to the Rural Water Pipeline. The stakeholder presented concerns about the historical cost of joining the rural pipeline, fire protection in the Town of

Kenton, concerns of the impact of depopulation on future rates, and the increase in the quarterly minimum volume from 3,000 gallons to 5,000 gallons.

The RM also advised the Board that a Public Information Meeting for the water treatment plant project was held on January 29, 2013. Included in the RM's presentation at that meeting was information on the new proposed rates for the RWP and Kenton utilities.

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.

During the review of the application, the Board submitted the first round of information requests to the RM on September 10, 2013. Despite several reminders from the Board, the responses to the questions posed in the letter were not received in full until March 20, 2014. The RM has stated that they experienced resource constraints relating to the amalgamation initiative during that time, which resulted in a delay in submitting their responses.

According to the rate study, legal ownership of the water treatment plant will be shared equally between the two Utilities. The application seeks to identify and isolate the expenses of the water treatment plant and use those estimated costs to calculate a "water production rate" rather than allocate the water treatment costs based on the ownership model of the plant.

The RM submitted the following calculations for the water production rate:

Purification and treatment	\$ 17,776
Other water supply costs	\$ 19,093
Debenture	\$ 45,000
Operating costs of new plant	\$ 50,000
Total estimated cost for water treatment plant	\$ 131,869
Average annual consumption* in gallons	20,875,150
Water production rate per 1,000 gallons (cost divided by consumption)	\$ 6.32
*source: Water Treatment Plant Upgrade Study	

It is the opinion of the RM that dividing the costs of running the water treatment plant equally is unfair, since the Rural Water Pipeline consumes significantly more water than the Kenton Utility. In 2011, the RM's water treatment plant sold 23.26M gallons of water; Kenton Utility used 2.61M gallons (11%) and the Rural Water Pipeline Utility used 20.65M gallons (89%).

Revenue requirements submitted by the RM include an expense for "water purchases" based on estimated consumption for the Utility, charged at the water production rate (see above), rounded to \$6.35 per 1,000 gallons. Because the plant is jointly owned by the two utilities, "water purchase expense" will not be presented on the audited financial statements and a manual reconciliation between the audited results and the "water production rate" business model the RM wishes to use will be necessary.

Deficits

The RM also applied for Board approval of a deficit of \$11,807 from 2011.

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 Utility's deficit was a result of outdated rates for water, rising operating expenses and Public Sector Accounting Board (PSAB) changes.

In the case of the Rural Water Pipeline, it has been more than eight years since a rate change has taken place. Consumers are generally more tolerant of regular, smaller increases. The RM needs to be more diligent in conducting regular reviews of its revenue requirements.

The RM applied to recover the deficits through the accumulated surplus.

Working capital calculation

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 Utility's working capital surplus, after absorbing the 2011 deficit, still meets the Board requirement as of December 31, 2012.

	2012	2011	2010
Fund Surplus/Deficit	\$200,545	\$195,715	\$196,425
Deduct Tangible Capital Assets	\$ 76,426	\$ 80,002	\$ 71,444
Add Long-Term Debt	\$ -	\$ -	\$ -
Add Utility Reserves	\$ -	\$ -	\$ -
Equals Working Capital Surplus	\$124,119	\$115,713	\$124,981
Operating Costs	\$ 87,566		
20% of Operating Costs	\$ 17,513		

Budgeted expenditures

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

	2014	2015
Administration	10,609	10,927
Billing and collection	0	0
Expenses general	10,609	10,927
Water purchases	131,128	131,128
Service of supply	26,743	27,546
Transmission and distribution	14,852	15,298
Connection Costs	10,300	10,609
Amortization	3,803	3,803
Contingency	2,000	2,000
Expenses water	57,698	59,256
Connection Fees	10,300	10,609
Other income	1,236	1,273
Revenue water	11,536	11,882
Net revenue requirement water	46,162	47,374

The presentation of the budgeted expenditures does not include a provision for amortization of the new water treatment plant. The rate study includes an explanation for how the net amortization for this project was calculated. The rate study notes:

"Accordingly, for the calculation of a water production water rate, the amortization expense for the new WTP will be zero. Further, as the principal part of the annual debenture payment increases over time and will continue to exceed the amortization expense." (pg 25)

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 RM submitted the following Cost Allocation methodology:

1. Tangible capital assets for the shared water treatment plant are allocated 50/50 to each utility. This approach will change for rate making when a water production rate is developed. In effect, all costs will reside with the water treatment plant and allocated based upon volumes consumed.

2. In 2007, by resolution, the Municipality approved a \$40 per hook-up fee to cover the costs of administering the utilities. Council determined a detail tracking of administration costs was too costly and hence developed the flat fee. The fee recovers office cost including wages. Details were last kept in 2006.

Board Findings

The Board will approve the application made by the RM for revised water rates for the Rural Water Pipeline for 2014 and 2015.

The Board commends the RM on changing the break point for second step rates from 3,000 gallons to 50,000 gallons, to better align with Board recommended methodology.

The Board will not approve the increase in the quarterly minimum volume from 3,000 gallons to 5,000 gallons. The use of 3,000 gallons is a standard used throughout North America and is considered a best practice. The RM has supported its request by explaining that the system has larger lines than typically seen on a residential distribution system. The rate study advises that "...these customers have 1-1½ services which are larger than typical 5/8" service lines servicing single family dwellings." (page 37) If customers have larger than 5/8" lines, they should be charged a higher quarterly minimum based on the group capacity ratio (see Schedule "A" to this Order). If the Utility has been charging customers with a higher group capacity ratio the minimum charge for a 5/8" line, they can correct this error and charge for the proper connection without Board approval. However, the

Board would recommend to the RM that they provide notice to those customers to prepare them for the impact of that increase.

The Board would ask that the RM provide a copy of the agreement with the RM of Daly, and provide updates after each biannual review takes place. Any significant expansion of the RWP would have a material impact on the Utility's finances, and the RM should review their revenue requirements if such an expansion takes place.

The Board will approve the \$500 annual charge requested by the RM, though it does not align with Board recommended methodology. The Board finds that the RM's rationale for charging it is sound, and that the fact that there was no stakeholder objection to it supports the RM's assertion that there is public support for the charge.

The Board does have reservations regarding the methodology adopted by the RM in determining how to share the costs of the water treatment plant between the Kenton and Rural Water Pipeline Utilities. While this is a very equitable methodology, it could possibly lead to significant increases in administration time.

The revenue requirements submitted by the RM include an expense for "water purchases" from the water treatment plant; since the plant is jointly owned by the two utilities, no such expense will be presented on the audited financial statements. The rate study states that the RM will be allocating tangible capital assets equally between the two Utilities (page 28). If this is the case, then the Rural Water Pipeline Utility will show 50% of

amortization expense, and possibly the operating costs of the water treatment plant, while recovering 89% of the costs of producing the water.

It stands to reason that using this methodology for rate setting will show, on the audited financial statements, a deficit for the Kenton Utility and a surplus for the Rural Water Pipeline. The audited results will need to be manually calculated for regulatory purposes on an annual basis, to determine whether or not the Utilities have experienced an actual deficit. The RM will need to consider capital grants, the manual adjustment in amortization between the two utilities, donated assets, and any other variables that are different between the audited results and the rate setting methodology.

While this reconciliation is possible, it will be complicated, particularly if the RM experiences any change in management in future. Given the difficulty experienced by the RM in responding to the rate study questions, the Board has misgivings that the RM has the resources to prepare this information on a timely basis. The methodology proposed is complex enough that the administration of it could cause significant challenges; however the Board recognizes that it is an appropriate and fair methodology and will therefore support the RM's decision to adopt it.

The Board recommends that the RM reflect on the long term implications of employing this methodology and consider the following alternatives, which may simplify the administration of the utility going forward:

- Establish the water treatment plant as an independent, third utility; this would simplify the administration and reconciliation, because the audited financial statements would align with the rate setting methodology. However, this could increase some costs.
- Merge the two Utilities into one; the Board understands the RM's reasoning for keeping the two Utilities separate. However, the issue of capital upgrades for the older distribution and collection systems can be dealt with by recovering through taxation and using a Local Improvement District. Merging the Utilities requires Board approval.
- Transfer full ownership of the water treatment plant to one of the Utilities, which would then charge the other Utility a wholesale rate for water purchases; since the plant was subsidized by capital grants, this may not be a feasible option.

The effect of setting rates using the net amortization of zero will create an additional layer of complexity to the reconciliation, as the audited financial statements will show both amortization expense and the offsetting taxation revenues, which are not included in the budgeted revenue requirements used to calculate the rates.

The use of the zero net amortization may provide the same results as would the Board recommended methodology, but it decreases the transparency of the rate setting methodology and increases the likelihood of error in the reconciliation process.

The Board recommends that going forward the RM use the template provided by the Public Utilities Board, which provides for detailed information regarding amortization expense, taxation revenues, as well as adjustments for capital grant funds and donated assets. Use of Board recommended templates can assist in the Board's review of the application as well as ratepayers understanding of the application made by their utility.

The Board will approve the Cost Allocation Methodology of charging a flat rate fee of \$40 annually per customer. The Board recommends the RM review Board Order No. 93/09, particularly "Appendix A" thereof, to determine if the RM would be better served by a revised cost allocation methodology. The Board also reminds the RM that this methodology must be used consistently in the future, and requires Board approval should any changes be considered.

Although the new meter reading fee of \$100 is high, the actual costs of sending out staff to physically read the meter do support the charge. This charge is entirely avoidable if customers submit their quarterly meter readings as required, therefore the Board will approve it. The RM is to enclose a note in the next quarterly billing drawing particular attention to the information surrounding the meter reading charge to all customers.

The Board will also approve recovery of the 2011 deficit of \$11,807 through the accumulated surplus fund of the Rural Water Pipeline Utility.

The Board is aware that given the timing of this Order, the Utility may report operating deficits for 2013 and 2014. The Board will require that the Rural Municipality of Woodworth submit the 2013 and 2014 audited financial statements to the Board as soon as they are available. These submissions should be accompanied by a properly completed deficit application, if necessary.

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 rates for the Rural Water Pipeline Utility located in the Rural Municipality of Woodworth BE AND ARE HEREBY APPROVED in accordance with the attached Schedule "A", effective October 1, 2014, and January 1 2015.
2. The Rural Municipality of Woodworth file with the Board a revised water By-law to reflect the decisions in this Order, once it has received third and final reading.
3. The Cost Allocation Methodology proposed by the Rural Municipality of Woodworth BE AND IS HEREBY APPROVED.
4. The Rural Municipality of Woodworth is to enclose a note in the next quarterly billing regarding the meter reading charge, and provide a copy to the Public Utilities Board.
5. The 2011 deficit of \$11,807 BE AND IS HEREBY APPROVED to be recovered through the accumulated surplus fund of the Rural

Pipeline Water Utility.

6. The Rural Municipality of Woodworth submit a copy of the agreement with the Rural Municipality of Daly, and keep the Board apprised of any changes to the agreement.
7. The Rural Municipality of Woodworth submit a copy of its 2013 and 2014 audited financial statements to the Board as soon as they are available.
8. The Rural Municipality of Woodworth review the Rural Water Pipeline's water 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 - \$750.00

THE PUBLIC UTILITIES BOARD

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

"JENNIFER DUBOIS, CMA"
Acting Secretary

Certified a true copy of Order No.
90/14 issued by The Public
Utilities Board

Acting Secretary

SCHEDULE "A"
Rural Municipality of Woodworth (Rural Pipeline Utility)
WATER RATES
BY-LAW NO. 4/2013

SCHEDULE OF QUARTERLY RATES:

1. Water Commodity rates (per 1,000 gallons):

	2014	2015
First 50,000	\$7.95	\$8.15
Over 50,000	\$6.35	\$6.35

2. Minimum Charges, Quarterly

Notwithstanding the Commodity rates set forth in paragraph 1 hereof, all customers shall pay a quarterly flat charge of \$125.00 and the minimum bill (based on 3,000 gallons) shall be as follows:

	Water Charges	Quarterly Flat Charge	Total
2014	\$23.85	\$125.00	\$148.85
2015	\$24.45	\$125.00	\$149.45

Water consumed over the 3,000 gallon minimum shall be charged rates as set out in paragraph 1;

3. Campground Rate:

The Campground shall be charged a flat quarterly rate equal to the Minimum Charges set out in Paragraph 2 for two quarters of each year, commencing April and July.

4. Meter Reading Fees:

Customers shall provide the Municipality quarterly meter readings at times to be determined by the Municipality and if the Municipality must arrange to obtain a meter reading by dispatching a meter reader the Municipality may charge the customer a meter reading fee of \$100.00 per occurrence. The Municipality will obtain an annual meter reading at no charge.

5. Service to Customers outside Municipality limits:

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

6. Billings and Penalties

A late payment charge of 1¼% 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.

7. Disconnection

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 Municipality's office.

8. Reconnection

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$75.00 have been paid.

9. 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 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.

9. Connection Charges for New Customers

New customers shall be charged a one-time connection fee equal to a minimum of \$10,000 or the actual costs of connection if higher. Such fees to cover the cost of connecting to the main line including labor and equipment costs.

10. Water Allowance Due to Line Freezing

That in any case where, at the request of the 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 the average of the billings for the last two previous quarters to the same customer, or to the same premises if the occupant has changed.