

M A N I T O B A) **Order No. 112/15**
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THE PUBLIC UTILITIES BOARD ACT) **November 5, 2015**

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

RURAL MUNICIPALITY OF ELTON
WATER AND WASTEWATER RATES

Summary

By this Order, the Public Utilities Board (Board) approves the revised water and wastewater rates effective January 1, 2016 for the Forrest Utility (Utility), in the Rural Municipality of Elton (RM) as follows:

	Current	2016	Increase
Quarterly service charge	\$16.15	\$26.80	65.94%
Water \$/1,000 gallons	\$12.30	\$14.00	13.82%
Wastewater \$/1,000 gallons	\$1.85	\$4.10	121.62%
Minimum quarterly - water and wastewater*	\$58.60	\$81.10	38.40%
Minimum quarterly- wastewater only**	\$32.80	\$51.40	56.71%
Reconnection fee	\$25.00	\$25.00	0.00%
Hydrant rental (annual)	\$100.00	\$100.00	0.00%
*Based on 3,000 gallons			
**Previously based on 9,000 gallons, revised to 6,000			

The Board also confirms as final the rates previously approved on an interim basis in Board Order No. 66/12, dated May 25, 2012.

Details of the rates are attached as Schedule "A".

Background

The Forrest Utility supplies water and wastewater services to customers in the Village of Forrest, and water only services throughout the RM of Elton. The Utility purchases all their water from the Whitehead Elton Regional Water Co-operative Inc. (WERC), which is operated by the Manitoba Water Services Board. The WERC assets were installed in 2010, with small extensions in Elton installed in 2011 and 2013. The original Forrest distribution system was installed in 1979.

Current engineering assessments do not indicate any concerns with the system. All operations are in compliance with Office of Drinking Water and Environmental Licensing. The wastewater lagoon is operated and discharged under approval from Manitoba Conservation.

At the time of application, the RM had 115 customers, with a projected increase of 15 customers by the year 2016. All rural customers are water only, all wastewater customers are located in the Village of Forrest, and there is one wastewater only customer.

Application

On May 25, 2015 the Board issued Order No. 66/12 approving initial water and wastewater rates on an interim *ex parte* basis. The RM advised the Board in August 2013 that they would be submitting a full rate application, which was received in July 2014.

A Public Notice of Application was issued on August 13, 2014 affording customers the opportunity to comment to both the Board and the RM of Elton with respect to the proposed increases. Two responses to the Notice were received.

When reviewing an application, the Board has at its disposal two approaches, either a paper or a public hearing review. After the publication of the Notice of Application, the Board will consider the application and stakeholder responses, and determine which method of review is most appropriate.

A public hearing process allows the Utility and stakeholders the opportunity to present their application and any concerns to the Board in person. The Board may review the application using a paper review process, which saves the cost of a public hearing process.

In the case of the Forrest Utility, the Board determined it would proceed using a paper review process.

The Board sent a list of information requests to the RM of Elton, dated October 19, 2015. The RM provided responses to the information requests on October 21, 2015. One of these responses advised the Board that the RM expected the total number of connections to the water system to increase by 115 by the end of 2015. This represents a nearly 100% increase to the number of Utility customers.

Deficits

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net revenue before grant adjustment*	301,739	(50,153)	508,607
Deduct capital grants current year (Note 14)	53,363	-	170,292
Add amortization of capital grants (Note 14)	8,203	7,282	7,282
Net operating surplus	256,579	(42,871)	345,597
*2013 net revenue after transfers of a) \$285,000 to utility reserves and b) \$167,777 from the operating fund regarding the Forrest subdivision water/sewer infrastructure capital to Utility			

The 2012 audited financial statements for the RM of Elton showed a utility deficit of \$50,153 in the year 2012. The RM has advised the Board that \$34,259 of this deficit resulted from an accrual of a receivable from 2011 that was reversed in 2012. The RM had expected to recover these funds from the WERC for unspent funds on the regional water system installed in 2010. However, subsequent to the audited statements being prepared, the decision was made by the municipalities of Elton and Whitehead that the surplus funds were to be spent on capital assets for the regional water system. As such, the accrual was reversed in 2012.

The RM requested that the deficit be recovered from the Utility's accumulated surplus account.

Budgeted expenditures

	2015	2016
Administration	13,729	14,210
Expenses - general	13,729	14,210
Penalties	264	273
Revenue - general	264	273
Net revenue requirement - general	13,465	13,937
Staffing	1,000	1,035
Rate study	1,790	1,790
Water purchases	47,517	48,965
Transmission and distribution	4,200	4,347
Amortization	31,673	31,673
Interest on long term debt	18,026	17,277
Reserves	6,000	6,000
Contingency	7,918	7,918
Expenses - water	118,124	119,005
Connection Revenue	0	0
Amortization of capital grants	8,497	8,497
Taxation revenues	33,901	33,901
Revenue - water	42,398	42,398
Net revenue requirement - water	75,726	76,607
Sewage collection system	750	1,000
Sewage treatment and disposal	2,550	2,550
Amortization	10,398	10,398
Contingency	2,600	2,600
Expenses - wastewater	16,298	16,548
Connection Revenue	0	0
Amortization of capital grants	5,266	5,266
Revenue - wastewater	5,266	5,266
Net revenue requirement - wastewater	11,032	11,282

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.

As per the 2013 audited financial statements, the most recent information available, the working capital surplus at December 31, 2013 was:

Fund Surplus/Deficit	\$ 1,979,449
Deduct TCA	\$ 1,873,501
Add Long-Term Debt	\$ 397,131
Add Utility Reserves	\$ 285,000
Equals Working Capital Surplus	\$ 788,079

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.

In Board Order No. 66/12 the RM was ordered to submit a cost allocation methodology on or before December 31, 2012. This was not received by the Board.

The RM submitted the following cost allocation methodology for approval with the new rate application:

Utility administrative costs	7.5%
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These costs relate to expenses incurred for Clerk & Staff, audit, office utilities and office/equipment materials & supplies.

Public response

The Board received two responses to the Notice. The content of the responses were identical and expressed concern over the magnitude of the increases proposed by the RM, the state of the wastewater collection system, and that the funds generated by the rate increase will be used to finance expansion in a new development. The writer went on to state that due to major flooding of the Assiniboine River, the waterline broke under the river and water had to be trucked in to the Village of Forrest for an extended period of time. The ratepayer felt that these costs should be borne by the Provincial Disaster Assistance and not the ratepayers.

While the RM did not respond directly to the ratepayers, they did provide responses to the Board with regards to the points raised in the letters. The RM confirmed that the increases in rates, in particular wastewater rates, were calculated using the Board's recommended guidelines. The proposed increase in rates does not finance the 2009 or 2013 subdivision utility systems in any way, as the cost for water and wastewater system installation was charged directly against the lot sale prices. Finally, the RM advised that the proposed water rate increase does not apply to and no costs were included for the waterline break under the river in 2014. An application was made to Disaster Financial Assistance for these costs and the RM has received verbal indication that they have been approved for recovery of these costs.

Board Findings

The Board approves revised water and wastewater rates to be effective January 1, 2016. The RM had requested that the rates be effective October 1, 2014. The Board is generally hesitant to approve retroactive rate changes and will not do so in the case of the Forrest Utility.

The Utility has only experienced one deficit since 2011, and two significant surpluses. The Utility exceeds the Board's minimum working capital surplus requirements. The Board feels that a January 1, 2016 effective date, which gives the Utility time to provide notice to its ratepayers of the decision, is most appropriate. The Board will require the Utility to provide a notice to its customers, including the Board's decisions found in this Order, in the next quarterly billing.

The Board will approve as final the rates set on an interim ex parte basis in Board Order 66/12 and the recovery of the 2012 deficit through the accumulated surplus account.

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

While the Board realizes that the increase in the number of customers from a projected 130 to 245 will have a material impact on the operations of the Utility, the impact to rates is mitigated by the fact that these customers will all be water only customers, and a large portion of the water commodity rate is derived from the cost of purchasing the water. The RM was aware of this significant increase in customers in November 2014 but did not file an amendment to the rate application, and only advised the Board of the change in response to a question.

In future, the Board will ask that the RM submit an amendment in the event of any change that would have a material impact on the application before the Board. Failure to advise the Board of items of this magnitude can result in delays in the processing of, or the Board denying, the rate application.

The Board is also aware that the RM plans to initiate a rate application process in January 2016, which will allow for any adjustments to the rates given the new customers. The Board will require the Municipality to return with an updated rate application on or before June 30, 2016.

The RM has advised the Board that they do not anticipate an operating deficit for the year 2014; however, the transfer of an additional \$45,000 to reserves may result in the audited statements showing a deficit. The 2014 results include approximately \$49,000 in connection revenue.

The working capital surplus of the RM far exceeds the minimum requirements set out by the Board; however, much of this surplus can be directly related to the connection fees charged on the new developments. In the upcoming rate application, the Board will expect the RM to submit information about how this money will be spent and when.

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 wastewater rates for the Rural Municipality of Elton, Forrest Utility BE AND ARE HEREBY APPROVED in accordance with the attached Schedule "A", effective January 1, 2016.
2. The Rural Municipality of Elton amend its water and wastewater rate By-law for the Forrest Utility to reflect the decisions in this Order and submit a copy to the Board once it has received third and final reading.
3. The water and wastewater rates for the Rural Municipality of Elton, as approved on an interim basis in Board Order No. 66/12, BE AND ARE HEREBY CONFIRMED AS FINAL.
4. The 2012 actual operating deficit, when calculated for regulatory purposes, of \$42,871 is HEREBY APPROVED to be recovered through the Accumulated Surplus Fund.
5. The Rural Municipality of Elton is to provide a notice to its customers, including the decisions found in this Order, in the next quarterly billing.
6. The cost allocation methodology for shared services and equipment as submitted by the Rural Municipality of Elton BE AND IS HEREBY APPROVED.
7. The Rural Municipality of Elton provide a copy of the audited financial statements for 2014 as soon as they are available.

8. The Rural Municipality of Elton review its water and wastewater rates for adequacy and file an application for revised rates with the Public Utilities Board, 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, CPA, CMA”

Acting Secretary

Certified a true copy of Order No.
112/15 issued by The Public Utilities
Board

Acting Secretary

BY-LAW NO. 1501
SCHEDULE "A"

ELTON WATER & SEWER UTILITY
WATER AND SEWER RATES

SCHEDULE OF QUARTERLY RATES:

1. Commodity rates per M.G.

		<u>Water</u>	<u>Sewer</u>	<u>Water & Sewer</u>
All water consumption	2016	\$14.00	\$4.10	\$18.10

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:

2016

Water & Sewer Customers

Meter Size	Group Capacity Ratio	Water Included, Gallons	Customer Service Charge	Commodity Charges		Total Quarterly Minimum
				Water	Sewer	
5/8"	1	3,000	26.80	42.00	12.30	81.10
¾"	2	6,000	26.80	84.00	24.60	135.40
1"	4	12,000	26.80	168.00	49.20	244.00
1 ½ "	10	30,000	26.80	420.00	123.00	569.80
2"	25	75,000	26.80	1,050.00	307.50	1,384.30

Water only Customers

Minimum Charges will be the same for each meter size as shown above, but the Sewer Commodity Charge will be excluded.

Sewer Only Customers

The Elton Water and Sewer Utility do charge the owners or occupants of land serviced with sewer but no water the sum of \$51.40 per quarter (based on ¾" meter).

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

The Council of the Rural Municipality of Elton may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Rural Municipality of Elton. Such agreements shall provide for payment of the appropriate rates as set forth in paragraphs 1 and 2 of this 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 as may be in effect from time to time, and 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.

4. 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.

5. Reconnection Fee

A customer who has had his service disconnected for any reason shall not be reconnected until all regulations have been complied with, and all arrears paid, as well as any penalties and a reconnection fee of \$25.00.

6. Billing & Penalties

Accounts shall be billed quarterly, on or about the last day of the period for which the bill is calculated, and shall be due and payable twenty-one (21) days after the mailing of the bills. Quarterly billings shall be issued for each quarter ended March 31, June 30, September 30, and December 31. A late payment charge of 1¼% shall be charged on the dollar amount owing after the billing due date and shall compound quarterly.

7. Hydrant Rentals

The Rural Municipality of Elton will pay to the Elton Water and Sewer Utility an annual rental of \$100.00 for each hydrant connected to the system.

8. Outstanding Bills

Elton Municipal Customers:

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.

Non-Elton Municipal Customers:

Pursuant to an agreement entered into between the Rural Municipality of Elton and the Rural Municipality of Daly, the amount of all outstanding charges for water service for non-Elton municipal customers shall be billed to the Rural Municipality of Daly under the provisions of the agreement, a copy of which is attached to the By-law as Schedule "B".

9. 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.