

M A N I T O B A) Order No. 129/15
) December 1, 2015
THE PUBLIC UTILITIES BOARD ACT)

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

MUNICIPALITY OF RUSSELL-BINSCARTH
BINSCARTH UTILITY
2012 and 2013 ACTUAL DEFICITS
FINAL WATER AND WASTEWATER RATES

Summary

By this Order, the Public Utilities Board (Board) varies the applications made by the former Village of Binscarth and the Municipality of Russell-Binscarth for the Binscarth water and wastewater utility (Utility) and approves revised water and wastewater rates effective February 1, 2016. The Board also confirms as final the interim water and wastewater rates for the Utility, located in the Municipality of Russell-Binscarth, approved on an interim *ex parte* basis in Board Order No. 69/13.

The Board approves the recovery of actual deficits of \$24,568 for 2012 and \$10,765 for 2013 to be recovered through an extension of a current rate rider, set in Board Order No. 69/13. The Board will allow the Utility to continue to collect this rate rider for an additional 18 months from August 1, 2016 to January 31, 2018, with the balance of the deficits to be recovered from the accumulated surplus.

The revised rates are shown below:

	Current 2014	Approved 2016	Increase/ Decrease	Approved 2017	Increase/ Decrease
Quarterly Service Charge	\$23.57	\$23.89	1.36%	\$24.64	3.14%
Water \$/1,000 gallons	\$13.36	\$16.50	23.50%	\$17.00	3.03%
Wastewater \$/1,000 gallons	\$4.75	\$3.38	-28.84%	\$3.38	0.00%
Minimum Quarterly-Water and Sewer*	\$77.79	\$83.53	7.38%	\$85.78	2.69%
Deficit rate rider- Quarterly**	\$23.42	\$23.42	0.00%	\$23.42	0.00%
Bulk Water \$/1,000 gallons***	\$10.00	\$17.25	72.50%	\$17.50	1.45%
Reconnection Fee	\$20.00	\$25.00	25.00%	\$25.00	0.00%
Hydrant Rental (Annual)	\$75.00	\$100.00	33.33%	\$125.00	25.00%
*Based on 3,000 gallons					
**Charge originally set in Order No. 69/13 effective until July 2016, extended to January 2018 by this Order					
***Bulk water previously charged \$1.00/100 gallons					
Water only customers pay the minimum quarterly, less the amount for sewer.					

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

Rationale for the Board's decisions may be found under "Board Findings".

Background

The Binscarth water and wastewater utility is located in the former Village of Binscarth, which amalgamated with the Town of Russell in January 2015 to form the Municipality of Russell-Binscarth. The Utility currently serves 218 customers; 215 are water and wastewater customers and three are water only customers.

Water and Wastewater System

The majority of the water and wastewater lines were originally installed in 1964, with various upgrades since. In 1980 a 700m³ reservoir was created and a new water treatment plant (WTP) was constructed in 1992. The WTP receives water from two production wells.

The water treatment process does not meet the Guidelines for Canadian Drinking Water Quality. The Utility retained Manitoba Water Services Board (MWSB) to prepare an upgrading study, which was completed in early 2014.

Council is reviewing the recommendations from MWSB for the installation of a reverse osmosis treatment unit at an estimated cost of \$800,000. Consideration is also being given to constructing a regional WTP.

The distribution system is composed of approximately 7,600 metres of water mains consisting of approximately 90% cast iron and 10% high density polyethylene pipe.

The Utility estimates water losses of 34% in 2012, and 31% in 2013. Some of these losses are attributable to backwashing and water main breaks. In 2013 there were five water main breaks and in the first few months of 2014, two. As well, the Utility donates unmetered water to the skating and curling rinks annually and until May 2014 one of the grain elevator terminals located south of Binscarth did not have a meter. The Utility estimates losses are much lower than the calculated 31%; however they are replacing old water lines as funding permits.

There are approximately 6,600 metres of wastewater lines. All lines are gravity fed into a lagoon located approximately 2 kms west of Binscarth. As per the environmental license and subsequent to required testing, discharges are made into the Silver Creek between June and September annually; Silver Creek drains southwesterly to the Assiniboine River. The Utility's utility operator holds the following qualifications: Class 1 Water Treatment, Class 1 Water Distribution, and Small System Wastewater Works.

Application

The former Village of Binscarth applied in September 2012 for revised water and wastewater rates. The application was accompanied by a rate study prepared by the Village, and rates had not been revised since 2003.

The Board reviewed the application, and in Board Order No. 69/13 directed the Village to re-draft their rate study and application to meet the Minimum Filing Requirements and Board Guidelines. Order No. 69/13 also approved revised water and wastewater rates on an interim *ex parte* basis effective January 1, 2014, due to the urgent need to increase revenues to avoid further Utility deficits. This Order approved operating deficits for 2009, 2010 and 2011. The deficits were to be recovered by a rate rider of \$23.42 per quarter for a three year period beginning August 1, 2013. On December 9, 2013, the Board issued Order No. 148/13 revising the effective date of the revised rates to February 1, 2014 to accommodate the Utility's billing cycle; the rate rider remained in effect as of August 1, 2013.

On June 18, 2014, the former Village submitted a revised application to the Board for water and wastewater rates. On June 20, 2014, a Notice of Application was published and there were no responses.

Deficits

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.

In response to a request from the Board, the Municipality submitted a deficit application for the years 2012 and 2013 on September 21, 2015. The Municipality had calculated the deficits as \$24,568 (2012) and \$2,174 (2013), which included an offset for the amortization of capital grants in the amount of \$21,488 per year.

The collection of the rate rider approved in Order No. 69/13 was not included in the calculation, and increases the total of the deficit incurred in 2013.

The deficits, when calculated for regulatory purposes, are as follows:

	2013	2012
Deficit*	- 23,662	- 46,056
Deduct prior year's deficit recovery included in 2013 revenue	- 8,591	-
Deduct capital grant revenue current year	-	-
Add amortization of capital grants	21,488	21,488
Total deficit calculated for regulatory purposes	- 10,765	- 24,568
*per Schedule 9 of the audited financial statements		

The Municipality requested the deficits be recovered by extending the rate rider of \$23.42 per quarter approved in Board Order No. 69/13 for an additional 18 months until January 31, 2018.

Working capital surplus

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 2014 audited financial statements, received from the Municipality on November 5, 2015, the working capital surplus at December 31, 2014 was:

	2014
Fund surplus/deficit	568,079
Deduct tangible capital assets	601,258
Add long term debt	39,752
Add utility reserves	20,709
Equals Working Capital Surplus	27,282
Operating expenses	154,950
20% of operating expenses	30,990

Budgeted expenditures

	3%	2015	2016	2017
Administration		21,757	22,410	23,082
Expenses - general		21,757	22,410	23,082
Penalties		750	750	750
Other Income		800	824	849
Revenue - general		1,550	1,574	1,599
Net revenue required - general		20,207	20,836	21,483
Staffing		25,000	25,750	26,523
Purification and treatment		12,000	12,360	12,731
Transmission and Distribution		6,000	6,180	6,365
Service of Supply		9,500	9,785	10,079
Water purchases		0	0	0
other water supply costs		5,000	5,150	5,305
Amortization		30,846	30,631	29,301
Reserves		25,448	20,448	25,448
Hydrant/water meters		0	0	0
Public water system assessment		2,500	2,500	2,500
Contingency		5,000	5,000	5,000
Expenses - water		121,294	117,804	123,252
Bulk Water Sales		2,000	2,000	2,000
Hydrant Rentals		1,950	2,600	3,250
Amortization of capital grants-water		8,667	2,688	2,688
taxation revenue		0	0	0
Revenue - water		12,617	7,288	7,938
Net revenue required - water		108,677	110,516	115,314
Staffing		4,000	4,120	4,244
Sewage Flushing lines		4,000	4,120	4,244
Sewage Treatment and Disposal		7,500	7,725	7,957
Other sewage collection and disposal costs		0	0	0
Amortization		18,682	18,682	17,352
Interest on long term debt		2,137	1,096	0
Reserves		7,250	8,000	1,000
Contingency		500	500	500
Expenses - wastewater		44,069	44,243	35,297
Amortization of capital grants-sewer		12,820	12,820	12,820
Taxation revenues		21,493	21,493	0
Revenue - wastewater		34,313	34,313	12,820
Net revenue required - wastewater		9,756	9,930	22,477

Rates

	<u>Current</u>	<u>Proposed</u>	<u>Proposed</u>	<u>Indicated</u>	<u>Indicated</u>
		<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>
Quarterly service charge	23.57	23.87	23.87	23.89	24.64
Water commodity charge*	13.36	16.50	17.00	16.29	16.99
Wastewater commodity charge*	4.75	2.15	2.15	1.49	3.38
*per 1,000 gallons					

The rates shown above are: the rates currently being charged; the rates proposed by the Municipality’s rate application submitted June 2014; and the indicated rates are the rates when calculated using the final budgeted expenditures.

The Municipality proposed that the quarterly service charge be set at \$23.87 to be consistent with the Town of Russell’s proposed service charge for its utility, since it was the Municipality’s intention to administer both utilities through one office after amalgamation. The application also proposed that the wastewater rate be set as an average to avoid the significant calculated increase from 2016 to 2017. This increase is caused by the end of debenture revenues in 2016. This results in a reduction of \$21,493 in revenues going forward.

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 Utility submitted the following cost allocation methodology for approval:

Legislative	20%
CAO and staff	20%
Office	20%
Audit	20%

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

Board Findings

The Board notes that the June 2014 rate application was a significant improvement over the September 2012 submission, and commends the former Village and Municipality for their hard work. The Board is aware that amalgamation has increased resource constraints on the affected municipalities, and is very appreciative of the cooperation received in working through this application.

The Board asked several questions about the various expense accounts used in determining the revenue requirements, and several of the responses indicated that the audited financial statements contained classification and allocation errors within Schedule 9. The Board will expect that in the future the audited statements and the financial

projections that are used in the calculation of rates will align in a meaningful way to allow the Board to analyze the reasonableness of the projections without first reconciling the two statements.

The Board approves revised water and wastewater rates to be effective January 1, 2016. The Board makes two variances to the application, one concerning wastewater rates and one concerning the quarterly service charge.

With respect to the wastewater rate, the Municipality requested that the wastewater rate increase be implemented as an average to avoid the significant increase caused by the end of the debenture revenues. The Board is bound to set fair and reasonable rates which will allow utilities to operate without deficit, and the requested rate of \$2.15 per 1,000 gallons would not meet this requirement.

While the difference between the indicated rates for 2016 and 2017 would be considered rate shock, increasing from \$1.49 per 1,000 gallons to \$3.38 per 1,000 gallons, the Board notes that the current rate is \$4.75 per 1,000 gallons. Given that the Utility is below the recommended minimum working capital surplus, the Board will approve revised wastewater rates based on the 2017 indicated rates, which will support a utility operating surplus in 2016, while giving a rate decrease to ratepayers and also providing the rate stability desired by the Municipality.

The Municipality also requested that the quarterly customer service charge be set at a rate based on the Russell Utility. The indicated rate for the service charge is higher than the rate applied for; there is reason to believe that approving the rates applied for will not cover the expected expenses for the Binscarth Utility. Therefore, the Board will approve the revised rates as indicated, rather than as applied for.

The Board approves the recovery of actual deficits of \$24,568 for 2012 and \$10,765 for 2013 to be recovered through an extension of the current rate rider set in Board Order No. 69/13. This will result in an additional recovery of:

Quarterly rate rider	23.42
Total customers	220
18 months = 6 quarters	30,914

The Board will allow the Utility to continue to collect this rate rider for an additional 18 months from August 1, 2016 to January 31, 2018, with the balance of the deficits to be recovered from the accumulated surplus.

In an email from the Municipality received October 15, 2015, the Board was advised that the Binscarth and Russell utilities are working on submitting a joint application for the creation of a single water plant for both communities. The estimated date of implementation for this project is 2017 or 2018. The Board looks forward to receiving regular updates on this project.

The Board will expect to see an improvement in the amount of unaccounted for water by the next rate study, and recommends that the Municipality consider metering donated water to help determine if the distribution system is leaking.

The Board will require the Municipality review the Binscarth Utility's water and wastewater 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 December 31, 2017.

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 Municipality of Russell-Binscarth Binscarth Utility BE AND ARE HEREBY APPROVED in accordance with the attached Schedule "A", effective February 1, 2016.
2. The water and wastewater rates for the Municipality of Russell-Binscarth Binscarth Utility as approved on an interim basis in Board Order No. 69/13, BE AND ARE HEREBY CONFIRMED AS FINAL.
3. The Municipality of Russell-Binscarth amend its water and wastewater rate By-law for the Binscarth Utility to reflect the decisions in this Order and submit a copy to the Board once it has received third and final reading.
4. The actual deficits of \$24,568 for 2012 and \$10,765 for 2013 to be recovered by rate rider of \$23.42 per quarter for a period of 18 months, from August 1, 2016 to January 31, 2018, with the balance being recovered from the utility's accumulated surplus.
5. The Municipality of Russell-Binscarth review its water and wastewater 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 December 31, 2017.

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 of the Board
No. 129/15 issued by The Public Utilities
Board

Acting Secretary

Binscarth Utility
SCHEDULE "A"
WATER & SEWER RATES
BY-LAW NO. 644-14

1. COMMODITY RATES – WATER & SEWER – PER 1,000 GALLONS

All Water Consumption	<u>Water</u>	<u>Sewer</u>	<u>Water & Sewer</u>
a) February 1 st , 2016	\$16.50	\$3.38	\$19.88
b) February 1 st , 2017	\$17.00	\$3.38	\$20.38
c) 54 month rate rider of \$23.42 to recover deficits from 2009 to 2013, in addition to the Minimum Quarterly charge (effective August 1, 2013 to January 31, 2018)			

2. MINIMUM CHARGES PER QUARTER – WATER & SEWER

February 1, 2016

Meter Size	Water Included Gallons	Service Charge	Water	Sewer	Total Minimum Quarterly
1/2 - 5/8"	3,000	\$23.89	\$49.50	\$10.14	\$83.53
3/4"	6,000	\$23.89	\$99.00	\$20.28	\$143.17
1"	12,000	\$23.89	\$198.00	\$40.56	\$262.45
1.5"	30,000	\$23.89	\$495.00	\$101.40	\$620.29
2"	75,000	\$23.89	\$1,237.50	\$253.50	\$1,514.89

February 1, 2017

Meter Size	Water Included Gallons	Service Charge	Water	Sewer	Total Minimum Quarterly
1/2 - 5/8"	3,000	\$24.64	\$51.00	\$10.14	\$85.78
3/4"	6,000	\$24.64	\$102.00	\$20.28	\$146.92
1"	12,000	\$24.64	\$204.00	\$40.56	\$269.20
1.5"	30,000	\$24.64	\$510.00	\$101.40	\$636.04
2"	75,000	\$24.64	\$1,275.00	\$253.50	\$1,553.14

3. WATER ONLY CUSTOMERS

Under all sections of the above referred to in clauses 1 and 2, a consumer having only water service shall pay a minimum charge made up of the service charge plus the water commodity charge.

4. SEWER ONLY CUSTOMERS

There are no sewer only customers connected to the Binscarth utility.

5. BULK SALE OF WATER

Bulk sales of water at the treatment plant shall be charge at a rate of:

2016 - \$17.25 per 1,000 gallons

2017 - \$17.50 per 1,000 gallons

6. HYDRANT RENTALS

Utility hydrant rentals shall be set per hydrant, per annum at:

\$100.00 in 2016

\$125.00 in 2017

The annual rental charge includes water for firefighting purposes.

7. SALE OF WATER AND SEWER TO CUSTOMERS OUTSIDE TOWN BOUNDARIES

(a) The Council may enter into agreements with municipalities, corporations and individuals outside the legal boundaries of the Municipality of Russell-Binscarth for the purpose of supplying water and sewer service to such municipalities, corporations and individuals.

(b) The rates to be charged to such outside users shall be the same rates charged to consumers in the Municipality of Russell-Binscarth for comparable service. Such outside users shall also pay a surcharge which shall be equivalent to the frontage levy, general taxes and special taxes for utility purposes in effect at the time, or which may be in effect from time to time, and which would be levied on the property concerned as if within municipal boundaries. In addition, all costs of connecting to the utility mains and installing, maintaining, and repairing service connections will be paid by the customer.

8. 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 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 that last two previous quarters to the same customers, or to the same premises if the occupant has changed.

9. BILLINGS AND PENALTIES

Accounts shall be billed quarterly, and shall be due and payable 20 days after the date of billing. A late payment charge of 1 ¼% per month shall be charged on the dollar amount owing after the billing due date and shall compound monthly.

10. DISCONNECTING FOR NON-PAYMENT

(a) 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.

(b) In the event that services are disconnected in accordance with the above noted Conditions Precedent, there shall be a termination fee of \$25.00 charged to the consumers account.

(c) Prior to services being reconnected, payment of all arrears, penalties, disconnection charges, etc. as well as a reconnection fee of \$25.00 must be paid in full or suitable payment arrangements made.

11. OTHER CHARGES AND FEES

That the Utility, in response to a formal written application, shall provide and install, connect, disconnect and/or remove a water meter from a premises using water supplied by the Utility. The following fees for such service shall be charged:

Meter Installation or Removal	\$25.00
Meter Disconnection or Reconnection	\$25.00

12. SEASONAL DISCONNECTION CHARGE

That the Utility, in response to a formal written application by the property owner or occupant, will shut off water services to the property described in the application for any length of time as specified in writing. These customers will be charged a \$25.00 disconnection fee, a \$25.00 reconnection fee as well as any rate rider, or additional charge as may be imposed by order of the Public Utilities Board.

13. OUTSTANDING UTILITY CHARGES

Any account that remains outstanding for more than 30 days may be added to the property taxes in accordance with ss 252(2) of *The Municipal Act*. Because water and sewer services may be provided and billed to a tenant, information about accounts outstanding may be shared with the property owner.