

M A N I T O B A) **Order No. 136/15**
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THE PUBLIC UTILITIES BOARD ACT) **December 10, 2015**

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

MUNICIPALITY OF CLANWILLIAM-ERICKSON
TOWN OF ERICKSON
WATER AND WASTEWATER UTILITY
DEFICITS APPROVAL – 2011 and 2012
and
WATER AND WASTEWATER RATES - JANUARY 1, 2016

Executive summary

By this Order, the Public Utilities Board (Board) varies the application made by the Municipality of Clanwilliam-Erickson and approves revised water and wastewater rates for the Town of Erickson effective January 1, 2016.

Rates are as follows:

	Current By-law (596-11)	Approved January 1, 2016 By-law No. 6/15	Increase/ Decrease
Quarterly Service Charge	\$18.35	\$28.60	55.86%
Water \$/ 1,000 gallons	\$8.70	\$7.25	-16.67%
Wastewater \$/ 1,000 gallons	\$2.78	\$3.95	42.09%
Minimum Quarterly*- Water and Wastewater	\$52.79	\$62.20	17.83%
Bulk Water** \$/ 1,000 gallons	\$10.61	\$17.05	60.70%
Reconnection Fee	\$30.00	\$30.00	0.00%
Hydrant Rental (Annual)	\$100.00	\$100.00	0.00%

*Based on 3,000 gallons

**Pro-rated for all quantities greater than 500 gallons

For the average consumer, reported to be using 5,200 gallons of water per quarter, the increase will be less than \$3.00 per month.

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

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

The Board also approves the deficits incurred for the years 2011 and 2012 to be recovered by the Utility's fund surplus.

Introduction

The Municipality of Clanwilliam-Erickson applied for revised water and wastewater rates for the Town of Erickson's Utility on March 5, 2015, said rates to be effective January 1, 2016.

Also on March 5, 2015, by separate letter, the Municipality applied for approval of deficits incurred in 2011 and 2012.

A Public Notice of Application was issued on April 7, 2015 affording customers the opportunity to comment to both the Board and Municipality with respect to the proposed increases.

The Board received one communication expressing concern over the proposed rate increases. Specifically, there was disappointment in the proposed water rate as the community had been advised that a new water treatment plant should in fact reduce their costs. The letter also referenced what the consumer perceived as generally unacceptably high increases.

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.

Whenever reasonable, the Board will review the application using a paper review process, which saves the cost of a public hearing process. The Board has chosen this option for this application.

Background

The Utility serves 251 customers.

Water system

The water treatment plant (WTP) was first put into use between 1962 and 1964, and upgraded in 1982/1983 to ion softening and greensand filtration and in 1997/98 with electrical and piping upgrades. In 2013 the old WTP was gutted and removed, with a new greensand filter installed and a 6-vessel reverse-osmosis (RO) skid installed, and 95% of electrical system changed out along with new piping.

The source of water is two groundwater wells: one on the north side of the WTP that is only 5-inch, and is only used as a backup for greensand treatment; and one on the south side of the WTP that is 8-inch, which provides water for RO and greensand. Both are approximately 130-154 feet deep.

Different treatment methodologies are used for greensand and for reverse osmosis as appropriate:

Distribution system:

There are two 7.5 HP Aquavar centrifugal pumps and controllers, plus a 35 HP Diesel backup for fire protection which feeds 6-inch AC pipe and 6-inch plastic pipe. Service lines coming off these pipes are ¾ inch copper.

Unaccounted for water is reported at 22%. The Town advises that, by replacing the existing meters, it hopes to address and resolve this issue.

The Utility meets drinking water standards.

Sewage system:

Erickson has one lift station with two 5 HP submersible pumps that service 35 homes. The rest of Town is gravity feed to the lagoon. The pipes are anywhere from 6-inch to 14-inch concrete pipe.

Lagoon:

There is a three pond system, with a primary cell where wastewater enters, and two secondary cells.

Treatment is aerobic which needs wind, agitation, sunlight, oxygen, and bacterial action and oxidation.

The Utility meets its environmental license requirements with relation to sewage.

Plant operators have the necessary certifications to operate the water and sewage plants. The utility is a Class 2 water treatment plant, and a Class 1 wastewater facility.

Application

Rates:

The Municipality applied for revised water and wastewater rates, to be effective January 1, 2016 as set out in By-law No. 6/15 (read the first time on February 25, 2015). The application was supported by a 2014 rate study prepared by the Municipality's consultant.

The proposed rates were as follows:

	Current By-law (596-11)	Proposed By-law (6/15) Year 1	Increase/ Decrease	Proposed By-law (6/15) Year 2	Increase/ Decrease	Proposed By-law (6/15) Year 3	Increase/ Decrease
Quarterly Service Charge	\$18.35	\$26.70	45.50%	\$27.65	3.56%	\$28.60	3.44%
Water \$/per 1,000 gallons	\$8.70	\$7.40	-14.94%	\$8.30	12.16%	\$8.45	1.81%
Wastewater \$/per 1,000 gallons	\$2.78	\$4.75	70.86%	\$4.80	1.05%	\$4.85	1.04%
Minimum Quarterly- Water and Wastewater*	\$52.79	\$63.15	19.62%	\$66.95	6.02%	\$68.50	2.32%
Bulk Water** \$/per 1,000 gallons	\$10.61	\$11.15	5.09%	\$11.35	1.79%	\$11.65	2.64%
Reconnection Fee	\$30.00	\$30.00	0.00%	\$30.00	0.00%	\$30.00	0.00%
Hydrant Rental (Annual)	\$100.00	\$100.00	0.00%	\$100.00	0.00%	\$100.00	0.00%

*Based on 3,000 gallons

**Pro-rated for all quantities greater than 500 gallons

Subsequent to the initial application, the Municipality confirmed that it was seeking to implement the year 3 rate in 2016.

The proposed rates were expected to generate sufficient annual revenue to cover the following projected annual expenses:

	2014	2015	2016
General			
Administration	27,500	28,463	29,459
Penalties	700	725	750
Net costs general	26,800	27,738	28,709
Purification and treatment	20,000	20,700	21,425
Wages & Benefits	74,760	77,377	80,085
Transmission and distribution	8,500	8,798	9,105
Service of Supply	8,000	8,280	8,570
Other Water Supply Costs	8,000	8,280	8,570
Amortization	25,856	25,856	25,856
Reserves	3,500	3,500	3,500
Contingency	11,459	11,459	11,459
Interest on long term debt	4,294	9,181	8,311
Sub-total-water expenses	164,369	173,430	176,880
Connection fees	180	186	193
Amortization of Capital Grants	11,635	11,635	11,635
Hydrant rentals	2,400	2,400	2,400
Tax revenue	31,320	31,320	31,320
Other Revenue *	65,300	67,586	69,951
Bulk water fees	0	0	0
Total revenue	110,835	113,127	115,499
Net rate revenue-requirement water	53,534	60,303	61,381
Sewage collection system	4,500	4,658	4,821
Sewage treatment and disposal	500	518	536
Lift station costs	6,000	6,210	6,427
Other Collection & disposal	2,000	2,070	2,142
Amortization	21,848	21,848	21,848
Contingency	8,130	8,130	8,130
Total wastewater expenses	42,978	43,433	43,904
Amortization of capital grants-wastewater	8,660	8,660	8,660
Net rate revenue requirement-wastewater	34,318	34,773	35,244

* Reimbursement from RM of Harrison for water treatment plant operator services

Deficits:

The Municipality applied for approval of their 2011 and 2012 deficits by separate letter received by the Board on March 5, 2015, requesting that those deficits be absorbed by the Utility's fund surplus. The deficits for the two years are as follows:

2011	\$29,701
2012	\$46,456

They indicated that the primary reason for these deficits was due to cost overruns related to repairs to the Water Treatment Plant.

Cost allocation methodology:

While there is no proposal to change the current cost allocation methodology, approved by the Board in 2011, reference is made to this being reviewed in the near future.

Board Findings

The Board wishes to thank the area family for their considered response to the Notice of Application. Noting that one of the concerns expressed was in relation to the water rates, whereby there had been an expectation of reduced costs due to the WTP plant upgrade, the Board is pleased to be able to advise that the water rate proposed by the Municipality is being reduced in this Order from the requested \$8.45 per 1000 gallons to \$7.25 (less than the current rate of \$8.70).

Similarly, the commodity rate requested for sewage has been reduced from \$4.85 per 1,000 gallons to \$3.95.

The Board's challenge in rate setting is to determine a fair and equitable rate that ensures fair rates for the consumer as well as the continued sustainability of the utility. Thus, it is not always able to respond favorably to customer concerns. However, the Board was able to reduce proposed rates while still respecting the financial needs of the utility.

Rates

The Board noted that the rate study used an outdated methodology in determining contingency requirements for both water and sewage. The Board's new guidelines, which are posted on its website, recommend a contingency provision of 10% calculated on the basis of the variable costs. The rate study had proposed a contingency of 1% of the capital cost of the physical plant, a methodology no longer recommended by the Board. Consequently, the Board has adjusted the contingency requirements for both water and sewage using its more recent guidelines. While this had a marginal effect on water rates, it had a more significant effect on the approved sewage rates.

Also while examining the application, the Board noted that the rate study failed to account for bulk water revenues in offsetting the net rate revenue requirement for metered water. Furthermore, the standard rate setting methodology for establishing a bulk water rate had not

been used. When questioned, the Municipality indicated that initially, because the plant was not providing high quality water, it was hesitant to increase the bulk rates. With the new water plant, the quality issue is no longer of concern.

The Board has therefore applied its standard rate setting methodology for bulk water rates as follows:

Administrative revenue requirement	(A)	\$28,709
Net rate revenue requirement - water	(B)	\$52,529
Taxation revenues-water debt	(C)	\$31,320
Subtotal	(E)=(A+B+C)	\$123,558
Bulk water ratio	(F)=(E÷B)	2.35
Gross water rate	(G)	\$7.25
Bulk water rate	(G x F)	\$17.05

Applying this bulk water rate to the 647,100 gallons of bulk sales as estimated in the rate study, the Board determined that the Municipality should generate \$11,000 in bulk sales revenue. Using this projected revenue to decrease the metered water revenue requirement, the Board has now determined that the water rate per 1,000 gallons for metered sales could be reduced to \$7.25.

Unaccounted for water

The reported level of unaccounted for water, being 22%, is well in excess of the industry standard of 10%. Wasted water effectively adds a cost factor driving higher than necessary rates. While the industry accepts that some water loss will occur due to items such as line flushing and other maintenance, the levels being experienced by this Town are well outside the norm and need attention.

The Municipality advised the Board that it is replacing nearly every water meter and anticipates that this will go some distance in addressing the water loss issue.

This provisional solution assumes that the unaccounted-for water is due to faulty meters and not to faulty lines. In the Board's experience, the meters themselves have rarely been the

primary cause of water loss. It will therefore direct that the Municipality provide an update on the progress to ensure that this is an effective solution.

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 Board notes the Municipality's intent to review Cost Allocation Methodology, and reminds the Municipality that this methodology requires Board approval should any changes be considered.

Deficits

By law, Manitoba utilities are not allowed to incur deficits. In the event that a deficit does occur, a Utility is required to obtain Board approval for a recovery methodology.

The Board notes deficits in two successive years, namely 2011 and 2012, and also notes that, but for a capital grant received in 2013, the Utility would have experienced an operating deficit in that year as well.

However, even with recurring deficits, the utility maintains a fund surplus of \$934,563 and a working capital surplus of \$160,374 as at December 31, 2013. It will therefore accept the Municipality's proposal to have the fund surplus cover the deficits for 2011 and 2012.

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 wastewater rates for the Town of Erickson in the Municipality of Clanwilliam-Erickson, as set out in Schedule "A" to this Order, BE AND ARE HEREBY APPROVED with revised rates to be effective January 1, 2016.
2. The Municipality Clanwilliam-Erickson submit a revised water and wastewater rate by-law reflecting this Order for the Town of Erickson's Utility once it has received third and final reading.
3. The Municipality of Clanwilliam-Erickson report to the Board on the impact of new water meters on unaccounted-for water losses for the Utility on or before December 31, 2016.
4. The operating deficits for 2011 and 2012 BE AND ARE HEREBY APPROVED, to be recovered by the Utility's Fund Surplus.

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. 136/15 issued
by The Public Utilities Board

Acting Secretary

SCHEDULE "A"
 MUNICIPALITY OF CLANWILLIAM-ERICKSON
 WATER AND WASTEWATER RATES

SCHEDULE OF QUARTERLY RATES:

Effective **January 1, 2016**

1. Commodity Rates per 1,000 gallons

Water	Wastewater	Total Water &
\$7.25	Wastewater \$3.95	\$11.20

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 include water allowances indicated;

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption	Customer Service Charge	Water	Wastewater	Quarterly Minimum Charge (Water & Wastewater)
5/8"	1	3,000	\$28.60	\$21.75	\$11.85	\$62.20
3/4"	2	6,000	\$28.60	\$43.50	\$23.70	\$95.80
1"	4	12,000	\$28.60	\$87.00	\$47.40	\$163.00
1 1/2"	10	30,000	\$28.60	\$217.50	\$118.50	\$364.60
2"	25	75,000	\$28.60	\$543.75	\$296.25	\$868.60

2. Bulk Water Rate

All water sold in bulk by the Municipality of Clanwilliam-Erickson shall be charged \$17.05 per 1,000 gallons on a pro-rated basis for all quantities of water greater than 500 gallons.

3. 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.

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 Town of Erickson's office.

5. Reconnection

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$30.00 have been paid.

6. Outstanding Bills

Pursuant to Section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water and wastewater 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.

7. Hydrant Rentals

The Municipality of Clanwilliam-Erickson will pay to the utility an annual rental of \$100.00 for each hydrant connected to the system which will include all water usage through hydrants.

8. Water Allowance Due to Line Freezing

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 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.

9. 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.