

M A N I T O B A) Order No. 1/16
) January 4, 2016
THE PUBLIC UTILITIES BOARD ACT)

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

RURAL MUNICIPALITY OF KELSEY
RURAL WATER UTILITY
2009, 2010, 2011, 2012 AND 2013 DEFICITS
WATER RATES – JANUARY 1, 2016

Summary

By this Order, the Public Utilities Board (Board) varies the application for revised rates for the Rural Municipality of Kelsey (RM) Rural Water Utility (Utility) and approves actual deficits for 2009 to 2013, to be recovered from the utility's accumulated surplus.

Revised water rates effective January 1, 2016, 2017 and 2018 are shown below:

	Current	January 1, 2016	Increase	January 1, 2017	Increase	January 1, 2018	Increase
Water \$/cubic meter	\$0.52	\$0.60	15.38%	\$0.61	2.00%	\$0.62	2.00%
Quarterly Service Charge	\$5.75	\$15.25	165.22%	\$15.56	2.00%	\$15.87	2.00%
Total Quarterly Minimum*	\$12.80	\$23.43	83.05%	\$23.90	2.01%	\$24.38	2.00%
Reconnection Fee	\$50.00	\$50.00	0.00%	\$50.00	0.00%	\$50.00	0.00%

*based on 13.638 cubic meters

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 Rural Water Utility is located in the Carrot Valley Area, in the Rural Municipality of Kelsey. The Utility currently serves 350 water only customers, all of whom are metered.

The RM of Kelsey water treatment plant was originally built in 2000. The plant was constructed above a 300m³ treated water storage reservoir which serves as the foundation for the process area floor. The plant consists of distribution pumps, underground water reservoir and chlorination system. Groundwater is chlorinated and pumped to the distribution system. In 2013 unaccounted for water was 0.53%, well below the acceptable limit of 10%.

The Utility currently has two large projects planned, the expansion of the water distribution system for Ralls Island and the reservoir expansion. The Ralls Island project is estimated at \$3.5M with \$1.96M being funded by the Province and Federal governments. The RM's share will be borrowed and repaid through the raising of local improvement taxes. The reservoir expansion is estimated at \$1.7M, with 50% being funded by the Province. The RM's share will be paid through the Rural Water Pipeline Reserves as well as the Gas Tax and Hydro Bi Pole III Reserves.

The Utility is in compliance with its Environmental License and has one operator with Class 3 Water Treatment and Class 2 Distribution certifications.

Application

The RM applied in May 2015 for revised water rates. The application was accompanied by a rate study prepared by the RM's consultant, and rates had not been revised since initial utility rates were set in 2001 by Board Order No. 139/01.

The application requested that the proposed rates be effective July 1, 2015. The Utility also proposed that the new customer service charges be phased in over the next three years starting July 1, 2015 with an increase of 55%, followed by an increase of 36% on January 1, 2016 and 26% on January 1, 2017.

A Notice of Application for revised water rates was issued July 17, 2015, affording customers the opportunity to comment to both the Board and the RM with respect to the proposed increases. There were no responses to the Notice of Application.

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. Having received no expressions of concern from consumers, the Board decided to process this application with a paper-based review.

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 discussions with Board staff prior to submitting the rate application, it was the understanding of the Board that the RM would include the deficit applications in the rate application. This was not done, and the RM did not provide any information indicating how they wished to address the recovery of the deficits.

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 2012 audited financial statements, received from the RM on November 25, 2015, the working capital surplus at December 31, 2012 was:

	2012
Fund surplus/deficit	3,045,197
Deduct tangible capital assets	3,483,614
Add long term debt	413,087
Add utility reserves	523,650
Equals Working Capital Surplus	498,320
Operating expenses	221,118
20% of operating expenses	44,224

Budgeted expenditures

	2%	2015	2016	2017
Administration		14,906	15,205	15,509
Legal, audit insurance		7,650	7,803	7,959
Expenses - general		22,556	23,008	23,468
Penalties		2,040	2,081	2,122
Revenue - general		2,040	2,081	2,122
Net rate revenue - general			20,927	21,346
Purification and treatment		4,080	4,162	4,245
Transmission and distribution		10,200	10,404	10,612
Labour cost-system		27,540	28,091	28,653
Transportation services		2,550	2,601	2,653
Utilities		8,976	9,156	9,339
Other water supply costs		15,572	15,883	16,201
Amortization		94,060	94,060	201,977
Reserves		0	0	50,000
Interest on long term debt		22,308	20,386	99,552
Expenses - water		185,286	184,742	423,231
Taxation revenue		53,048	53,048	171,048
Amortization of capital grants		63,180	64,430	138,991
Connection Charges		15,300	15,606	15,918
Revenue - water		131,528	133,084	325,957
Net rate revenue-water		53,758	51,658	97,274

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 rate application included a cost allocation methodology to replace the existing policy of charging a flat rate of \$20,000 per year. The new policy was based on the Utility operating expenditures as a percentage of general operating expenditures, stated as 4.6% for 2011. In addition to this percentage, public works staff time would be charged based on actual hours spent on utility.

The Board reviewed the supporting calculations, and there appears to be a mathematical error in the formula:

	2011
Actual total expenditures	3,955,313
Utility operating expenditures - Rural Water	190,044
Utility operating expenditures - %	4.80%

Board Findings

The Board approves the recovery of the 2009, 2010, 2011, 2012 and 2013 operating deficits from the Utility's accumulated surplus. Due to the strength of the Utility's accumulated surplus account, the RM's failure to apply for approval of these deficits in a timely fashion has not had a negative impact on ratepayers; however, the RM is still required to seek the approval of the Board for all operating deficits.

In response to a request from the Board, the RM indicated that there was insufficient information explaining the RM's reporting requirements, with regards to the Public Sector Accounting Board (PSAB) standards that were implemented in 2010.

The Board urges the RM to review *The Public Utilities Board Act* and general Board Order Nos. 151/08 and 93/09 to have a better understanding of their responsibilities in reporting to the Board. The Board expects that in future the RM will submit deficit applications as required by *The Municipal Act*. These resources are available on the Board's website. In addition to this information, several reference manuals were prepared in partnership between the Association of Manitoba Municipalities (AMM) and Manitoba Municipal Government (formerly Manitoba Intergovernmental Affairs), including the *Reference Manual: Financial Statement Presentation and Disclosure*. This manual can be accessed online through the AMM's website.

The Board is generally not a proponent of retroactive rate increases, but in this case the Board has determined that it is appropriate to approve the new rates effective January 1, 2016, in order to try and mitigate further utility deficits. The Board will require the RM to provide a Notice of this change with the next quarterly billing cycle.

The quarterly service charge applied for by the RM was adjusted to "phase-in" the increase and minimize rate shock. The calculations show that the rates applied for will not be sufficient to cover the budgeted expenditures until 2017, and therefore the Board

will vary the rate application and approve rates that are sufficient to cover the budgeted expenditures. The Board will also approve a 2% increase to be effective January 1 in each of 2017 and 2018.

The Board is sensitive to customer reaction to the magnitude of the rate increases, however, must consider the sustainability of the Utility when approving rates. The increases approved can be considered rate shock, something that is common where rate requirements are not addressed for significant periods of time. In the case of the rural water utility, it has been 14 years since the rates have been reviewed. Customers are generally more tolerant of regular, smaller increases. The RM needs to be more diligent in conducting regular reviews of its revenue requirements.

The Board realizes that the RM will likely experience a deficit for 2014 and 2015, given the effective date of the rates. The RM is to provide the Board with copies of all audited financial statements as they are available, and submit any necessary applications for operating deficits, as required by Board Order No. 151/08.

The Board will require the RM to submit a copy of a revised by-law reflecting the decisions in this Order, once it has received third and final reading.

The Board will deny the cost allocation methodology as submitted by the RM. The approach adopted by the RM, which calculated utility expenses as a percentage of total expenses, is imprecise and can result in a significant fluctuations from one year to the next, as demonstrated below.

	2010	2011	2012
Actual total expenditures	2,624,363	3,955,313	2,730,048
Utility Operating Expenditures - Rural water	193,202	190,044	221,118
Utility Operating Expenditures as a percent of total	7.36%	4.80%	8.10%

This methodology could materially over or understate the cost of running the Utility, and is too inconsistent to be used for rate setting purposes. Rather, the Board will direct the RM to continue charging the flat rate of \$20,000, plus the Public Works staff time that is tracked and billed back to the Utility. The Board will also direct the RM to reapply to the Board with an updated methodology on or before June 30, 2016. The Board recommends the use of Board Order No. 93/09, particularly "Appendix A" thereof, to develop a revised cost allocation methodology.

The RM of Kelsey provided their 2012 audited statements November 25, 2015 and has not given any indication of when the 2013 and 2014 statements will be made available. While the Board understands that the conversion to PSAB has resulted in delays in the preparation of audited financial statements for many municipalities in Manitoba, this change was effective in 2010. The RM should work with their auditor to get their audited financial statements current as quickly as possible.

The Board will require the RM review the Utility's water 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, 2018.

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 HEREBY ORDERED THAT:

1. Revised water rates for the Rural Municipality of Kelsey Rural Water Utility ARE HEREBY APPROVED in accordance with the attached Schedule "A", effective January 1, 2016 and January 1, 2017.
2. The Rural Municipality of Kelsey provide Notice to its customers, including the decision found in this Order, in the next quarterly billing, with a copy to the Public Utilities Board.
3. The proposed revised cost allocation methodology is HEREBY DENIED.
4. The Rural Municipality of Kelsey Rural Water Utility cost allocation methodology consisting of a flat rate of \$20,000 per year plus Public Works staff time based on actual hours is HEREBY APPROVED.
5. The Rural Municipality of Kelsey will submit to the Public Utilities Board for approval a proposal for a revised cost allocation methodology on or before June 30, 2016.
6. The Rural Municipality of Kelsey amend its water rate By-law for the Rural Water Utility to reflect the decisions in this Order and submit a copy to the Board once it has received third and final reading.
7. The actual deficits for 2009, 2010, 2011, 2012 and 2013 ARE HEREBY APPROVED, to be recovered from the utility's accumulated surplus.
8. The Rural Municipality of Kelsey will provide audited financial statements to the Public Utilities Board as they are available, including any deficit applications as required.

9. The Rural Municipality of Kelsey review its 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, 2018.

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. 1/16
issued by The Public Utilities Board

Acting Secretary

**RM of Kelsey Rural
 WATER & SEWER RATES BY-LAW NO.**

SCHEDULE A

**SCHEDULE OF QUARTERLY
 RATES**

January 1, 2016

1. <u>Rates per cubic meter</u>	cubic meters per quarter	Water
		\$0.60

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges set out below, which includes the water allowance as listed.

Meter Size	Group Capacity Ratio	Water Included Cubic Meters	Customer Service Charge	Water Commodity Charge	Total Quarterly Minimum
5/8 inch	1	13.638	15.25	8.18	23.43
3/4 inch	2	27.276	15.25	16.37	31.62
1 inch	4	54.552	15.25	32.73	47.98
1 1/2 inch	10	136.380	15.25	81.83	97.08
2 inch	25	340.950	15.25	204.57	219.82

**SCHEDULE OF QUARTERLY
 RATES**

January 1, 2017

1. <u>Rates per cubic meter</u>	cubic meters per quarter	Water
		\$0.61

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges set out below, which includes the water allowance as listed.

Meter Size	Group Capacity Ratio	Water Included Cubic Meters	Customer Service Charge	Water Commodity Charge	Total Quarterly Minimum
5/8 inch	1	13.638	15.56	8.32	23.88
3/4 inch	2	27.276	15.56	16.64	32.20
1 inch	4	54.552	15.56	33.28	48.84
1 1/2 inch	10	136.380	15.56	83.19	98.75
2 inch	25	340.950	15.56	207.97	223.54

SCHEDULE OF QUARTERLY RATES

January 1, 2018

1. <u>Rates per cubic meter</u>	cubic meters per quarter	Water
		\$0.62

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges set out below, which includes the water allowance as listed.

Meter Size	Group Capacity Ratio	Water Included Cubic Meters	Customer Service Charge	Water Commodity Charge	Total Quarterly Minimum
5/8 inch	1	13.638	15.87	8.46	24.33
3/4 inch	2	27.276	15.87	16.91	32.78
1 inch	4	54.552	15.87	33.82	49.69
1 1/2 inch	10	136.380	15.87	84.56	100.43
2 inch	25	340.950	15.87	211.39	227.26

Clauses 3 to 7 are effective January 1, 2016

3 Billings and Penalties

Accounts shall be billed quarterly, and shall be due and payable at least fourteen days after the date of mailing. A late payment penalty charge of 1 1/4% compounded monthly shall be charged.

4 Disconnections

The Public Utilities Board has approved the Conditions Precedent to be followed by the RM 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 are available for inspection at the RM 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 \$50.00 have been paid.

6 Outstanding Bills

Pursuant to Section 252 (2) of the Municipal Act, the amount of all outstanding charges for water and sewer services, including fines and penalties, 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. Where charges and penalties pursuant to this by-law are not paid within sixty (60) days from the date when they were incurred, said charges and penalties shall be added to the taxes on the property and collected in the same manner as other taxes.

7 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 the 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.