

**Order No. 114/16**

**RURAL MUNICIPALITY OF ALEXANDER  
PINE GROVE UTILITY WATER RATES  
2017, 2018 and 2019**

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**September 1, 2016**

**BEFORE: The Hon. Anita Neville, P.C., B.A. (Hons.), Acting Chair  
Marilyn Kapitany, B.Sc. (Hons.), M.Sc., Member  
Allan Morin, B.A., ICD.D, Member**

## Summary

By this Order, the Public Utilities Board (PUB) varies the water rates effective January 1, 2017, 2018 and 2019 for the Pine Grove water utility (Utility), located in the Rural Municipality of Alexander (RM) as follows:

Annual rates	Current	2017	Increase	2018	Increase	2019	Decrease
Customer Service Charge	\$34.91	\$142.00	307%	\$149.00	5%	\$104.00	-30%
Unmetered Services Flat Rate Per Customer	\$510.00	\$734.00	44%	\$754.00	3%	\$723.00	-4%
Total Annual Charge	\$544.91	\$876.00	61%	\$903.00	3%	\$827.00	-8%
2014 Deficit recovery*	\$46.61 annually	\$46.61 annually		-		-	

\*Approved in Board Order No. 21/15

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

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

## Background

The Rural Municipality of Alexander owns and operates the Pine Grove water treatment and distribution utility. The Utility provides only water services, and has 60 residential customers, many of which are seasonal. Services are unmetered and customers are charged a flat rate annually.

The system was constructed in 1980 and consists of raw water being obtained from four wells. The treatment consists of chlorination being metered directly into the water. Water is reported as meeting the quality guidelines. There are four pump houses that each serve 15 customers. The system is unmetered and unaccounted for water cannot be calculated.

The subdivision was constructed in the late 1970's and is made up of four circles. As a part of the subdivision, the existing water system was installed. It consists of four wells (one for each circle) with pump houses and a looped water line. Until recently, it was operated as a privately owned utility, with local residents of the cottage association looking after the system. After

changes to provincial licensing requirements, the RM was asked to take over operations of the utility, which Council voted to do in 2010/11.

### **Application**

Board Order No. 21/15 approved the 2014 operating deficit and method of recovery for the Utility. This Order included a directive that the RM must submit a statement of rate adequacy, and application for revised rates if required, on or before September 30, 2015.

The RM applied for revised water rates as set out in By-law No. 06/15, read the first time on September 22, 2015. The application was supported by a 2015 rate study prepared by the RM.

A Notice of Application was issued on November 27, 2015 affording customers the opportunity to comment to both the PUB and RM with respect to the proposed increases.

The PUB received several responses from stakeholders.

When reviewing an application, the PUB has at its disposal two approaches, either a paper or a public hearing review. After the publication of the Notice of Application, the PUB 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 PUB in person. In the case of the Pine Grove Utility, the PUB determined that a public hearing was most appropriate.

A Notice of Public Hearing was issued on May 12, 2016 and the Hearing was held at the Walter Whyte School Gymnasium in Grand Marais, Manitoba on June 9, 2016. There were 25 names on the sign-in sheet.

Opening comments were made by the PUB's Acting Chair, followed by the RM's presentation made by the Chief Administrative Officer. Of note was that the proposed rates are for the next three years but should the engineering assessment identify work that must be addressed immediately, an earlier review of the rates may be necessary.

The RM indicated the rate increase is largely a result of the operating costs to comply with provincial requirements. While the PUB has no direct responsibilities with potable water quality,

compliance with the regulatory standards regarding water quality affect the cost of operations, and thus the setting of rates.

Ratepayers at the hearing voiced concerns with the RM operating the Utility and inquired as to the possibility of changing the ownership of the Utility and or dissolving the Utility. The PUB's approval is required for a transfer of ownership or dissolution of a utility. There are many privately owned utilities in Manitoba, and this may or may not be a viable option for Pine Grove.

#### *Working Capital Surplus/Deficit*

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, the most recent information available, the working capital deficiency at December 31, 2014 was:

Fund Surplus	\$24,768
Deduct Tangible Capital Assets	\$52,652
Add long-term debt	-
Add Reserves	-
Working Capital deficiency	<b>-\$27,884</b>

The RM will monitor the results annually to ensure the proposed rates are adequate and will file an application with the PUB if amended rates are necessary ahead of the planned rate review in 2018.

*Cost allocation methodology*

The PUB 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 PUB for approval and cannot be changed without receiving approval from the PUB. The PUB's requirements regarding cost allocation methodologies can be found in Board Order No. 93/09.

With respect to administration costs, administrative staff members reviewed and estimated the time spent on the utility. This averaged 0.82%. The RM proposes to use this percentage and apply it to general administration expenses that are related to the utility.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Legislative	\$165,195	\$170,151	\$175,255	\$180,513
Office Staff	429,000	441,870	455,126	468,780
Office	121,230	124,867	128,613	132,471
Audit	15,000	15,450	15,914	16,391
TOTAL	\$732,440	\$754,354	\$776,925	\$800,173
	<b>0.82%</b>	<b>\$6,006</b>	<b>\$6,186</b>	<b>\$6,371</b>

The RM provided the following projected expenses:

	2016	2017	2018
Administration (building, office, staff, etc.)	6,186	6,371	6,561
Working capital surcharge (5% of yrly exp)	1,766	2,463	2,653
<b>Total general expenses</b>	<b>7,952</b>	<b>8,834</b>	<b>9,215</b>
Service charges	-	-	-
Penalties	300	300	300
<b>Total general revenue</b>	<b>300</b>	<b>300</b>	<b>300</b>
<b>Net rate revenue requirement - general</b>	<b>7,652</b>	<b>8,534</b>	<b>8,915</b>
Contracted Services	19,000	19,000	19,570
Purification and treatment	1,400	1,442	1,485
Transmission and Distribution	6,000	6,180	6,365
Other Water Supply Costs	5,500	5,665	5,835
Amortization/ depreciation	1,868	1,868	1,868
Reserves	500	3,000	3,000
Minor capital upgrades	3,500	3,500	3,605
Contingency	3,540	3,579	1,843
<b>Total water expenses</b>	<b>41,308</b>	<b>44,234</b>	<b>43,572</b>
Connection Revenue	200	200	200
<b>Total water revenue</b>	<b>200</b>	<b>200</b>	<b>200</b>
<b>Net rate revenue requirement - water</b>	<b>41,108</b>	<b>44,034</b>	<b>43,372</b>

The projections for 2016 to 2018 were submitted by the RM in the rate study. The PUB further projected into 2019 to establish a rate which would reflect the RM's assertions that the working capital surcharge and 50% of the projected contingency expense would no longer be necessary.

## Board Findings

The PUB is sensitive to customer reaction to the magnitude of the rate increases. However, PUB must balance reasonable rates to customers with the sustainability of the Utility when approving rates. The need for the increases at this time is likely a reflection of artificially low rates since the RM took over operation of the Utility. The RM is following the provincial licensing requirements, which provides customers of the Utility with safer water and protection from liability. This comes at a price, particularly when a utility is as small as Pine Grove.

Many of the responses received by the PUB made reference to the disparity between the proposed rates and those being charged by the City of Winnipeg. Having only 60 customers does not afford the Utility the same level of economies of scale that a city the size of Winnipeg would experience in managing their utility.

The rates and methodology proposed by the RM incorporates a “phasing in” of the rate increases to mitigate rate shock, in that they have chosen to rebuild their working capital deficiency through the rates over a longer period of time, rather than requesting that the PUB approve a separate deficit recovery. This is a standard practice and would likely have resulted in higher increases over a shorter period of time for rate payers in Pine Grove.

The RM's projections were based on receiving approval to increase the rates effective January 1, 2016, approximately three months after the submission was made to the PUB. The PUB is generally not a proponent of retroactive rate increases and does not find there to be any compelling evidence to impose one in this case.

The PUB will approve the increases to be effective January 1, 2017, 2018 and 2019 and will require the RM to file for approval of operating deficits for 2015 and 2016, should they materialize.

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

The PUB would encourage the Administration, Council and residents to work together to improve lines of communication. It was apparent through the discussions that took place during the public hearing that homeowners felt they weren't communicated with. The PUB also heard

from members of Council present that they were unaware of complaints from the residents prior to applying for the rate increase, despite several residents coming forward with water quality concerns at the hearing.

In the RM's original rate application, they requested that the PUB move forward with the rate approval through a paper based review. In future filings, if the RM would prefer that to avoid a PUB public hearing, it's recommended that they consider holding their own public hearing in advance of filing their application. Often, providing additional information and an opportunity for residents to be heard by Administration and Council can increase the community's acceptance of the need for utility rate increases.

*PUB 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 PUB's Rules of Practice and Procedure (Rules). The PUB's Rules may be viewed on the PUB's website at [www.pub.gov.mb.ca](http://www.pub.gov.mb.ca).*



**IT IS HEREBY ORDERED THAT:**

1. Revised water rates for the Rural Municipality of Alexander Pine Grove Utility BE AND ARE HEREBY APPROVED in accordance with the attached Schedule "A", effective January 1, 2017, 2018 and 2019.
2. The Rural Municipality of Alexander amend its water rate By-law for the Pine Grove Utility to reflect the decisions in this Order and submit a copy to the Public Utilities Board once it has received third and final reading.
3. The cost allocation methodology for shared services and equipment as submitted by the RM of Alexander BE AND IS HEREBY APPROVED.
4. The Rural Municipality of Alexander 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 March 31, 2019.

Fees payable upon this Order - \$1,500.00

THE PUBLIC UTILITIES BOARD

"THE HON. ANITA NEVILLE, P.C., B.A. (Hons.)"  
Acting Chair

"JENNIFER DUBOIS, CPA, CMA"  
Acting Secretary

Certified a true copy of Order No. 114/16  
issued by The Public Utilities Board

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Acting Secretary

THE RURAL MUNICIPALITY OF ALEXANDER  
SCHEDULE "A" to BY-LAW NO. 06/15  
WATER RATES

**1. ANNUAL RATES**

<b>Pine Grove Utility Annual Rates</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Customer Service Charge	\$142	\$149	\$104
Unmetered Services Flat Rate Per Customer	\$734	\$754	\$723
Total Annual Charge	\$876	\$903	\$827

**2. BILLINGS AND PENALTIES**

Accounts shall be billed annually no later than May 31st each year, and shall be due and payable August 31st of the same year the bill is issued. A late payment charge of one and a quarter percent (1¼%) per month shall be charged on the dollar amount owing after the billing due date.

**3. DISCONNECTION**

- (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 \$50.00 charged to the consumers account.
- (c) Service may be disconnected upon request of the property owner following a payment of \$50.00 for said disconnection service.

**4. RECONNECTION**

Any service disconnected due to non-payment of account or as a result of a request from the property owner shall not be reconnected until all arrears, penalties and a reconnection fee of \$50.00 have been paid.

**5. 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.

**6. SERVICE TO CUSTOMERS OUTSIDE THE MUNICIPALITY OR L.I.D. LIMITS**

The Council of the R.M. of Alexander may sign agreements with customers for the provision of water services to properties located outside the legal boundaries of the Pine Grove Subdivision. 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.