

Order No. 134/16

**RURAL MUNICIPALITY OF STE ROSE
LOCAL IMPROVEMENT DISTRICT No. 1 of LAURIER
UTILITY RATES
JANUARY 1, 2017 and 2018**

October 21, 2016

**BEFORE: The Hon. Anita Neville, P.C., B.A. (Hons.), Acting Chair
Carol Hainsworth, C.B.A., Member**

Summary

By this Order, the Public Utilities Board (Board) varies the application by the Rural Municipality of Ste. Rose (RM) Laurier and approves revised water and wastewater utility (Utility) effective January 1, 2017 and 2018 as follows:

	Current	2017	Increase/ Decrease	2018	Increase/ Decrease
Quarterly Service Charge	\$4.95	\$5.00	1%	\$5.00	0%
Water & wastewater \$/cubic meter (first 125m ³)	\$2.13	\$4.50	111%	\$4.50	0%
Water & wastewater \$/cubic meter (over 125m ³)	\$1.82	\$4.50	147%	\$4.50	0%
Minimum Quarterly-Water and wastewater*	\$34.77	\$68.00	96%	\$68.00	0%
Bulk Water \$/cubic meter	\$2.75	\$4.75	73%	\$3.10	-35%
Reconnection Fee	\$40.00	\$50.00	25%	\$50.00	0%
Hydrant Rental (Annual)	\$0.00	\$50.00	new	\$50.00	0%

*Based on 14m³

Details of other rates may be found in the attached Schedule "A", calculations of the indicated rates are in the attached Schedule "B".

The rationale for the Board's decision is found under "Board Findings".

Background

The RM owns and operates a water and wastewater utility serving 86 customers.

Water- Supply/Distribution

The Town owns and operates a water treatment plant and the water distribution system. The public system was built between 1983 and 1984. Raw water is supplied by two wells installed in 1982 and 1992.

The distribution system consists of 86 connections serving a population of approximately 174 people. There are four (4) fire hydrants in Laurier as well as two (2) flush out valves and a coin operated truck-fill at the water treatment plant (using a bulk water rate).

The water treatment plant is a class I facility and the water distribution system is considered a small system. Laurier collection and wastewater treatment system are also considered small systems. Utility staff has the appropriate certifications.

Drinking water does not meet all standards but are considered to be aesthetic in nature and pose no compliance issues.

Unaccounted for water is reported at 11 to 14% over 2011, 2012 and 2013.

Wastewater- Collection/Treatment

Customers are connected to a low pressure wastewater system which consists of customers having holding tanks which pump liquid waste to a lagoon. Utility customers are responsible to have the tanks emptied once a year followed by flushing water through the system. Historically, there has been no wastewater surcharge applied.

Application

On July 10, 2014 the RM applied for revised utility rates, as set out in By-law No.04-14 (read the first time on June 26, 2014). The application was supported by a rate study dated May 2014 prepared by the RM's consultant.

A Public Notice of Application was issued on August 12, 2014 affording customers the opportunity to comment to both the Board and RM with respect to the proposed increases. The Board received no comments.

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 using 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.

Board Order No. 37/14 approved utility deficits for 2009 to 2012, inclusive. The Board approved recovery through the accumulated surplus fund as well as \$26,270 to be recovered by a quarterly rate rider of \$25 for a period of three years. Audited financial statements indicate that the RM began this recovery in January 2014.

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.

The working capital surplus at December 31, 2014 was:

Working capital surplus	
	2014
Fund Surplus/Deficit	\$ 183,560
Deduct tangible capital assets	\$ 184,883
Add Long-Term Debt	\$ -
Add Utility Reserves	\$ 14,666
Equals Working Capital Surplus	\$ 13,343
Target = 20% of operating costs	\$ 8,451

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 RM submitted the following "Allocation Plan for Shared Costs" as its Cost Allocation Methodology (Appendix B to its rate application):

	% charged to Utility	Flat rate	Activity based
Shared overhead:			
Billing-Admin		\$1,700.00	
Meter reading-wages		\$400.00	
Utilities			\$3,527.00
Shared direct operating costs			
Maintenance			\$4,440.00
Fuel			\$395.00
Insurance			\$1,254.00
Amortization			\$11,885.00
Salaries and wages			\$8,400.00
Training and education			\$2,355.00

Board Findings

The Board has reviewed the application and the projections presented by the RM in their rate study and application. During the review of the application, the Board sent the RM a number of information requests. The responses sent by the RM were cause for concern with the Board. The RM advised that the individual who worked most closely with the consultant to prepare the rate study was no longer employed with the RM, and not available to answer any follow up questions.

Regardless of any change in staff, the RM is responsible for the content of its rate application and must be able to provide supporting rationale and quantification to the Board, as needed. The RM is also responsible for understanding the reporting requirements and procedures used for rate setting purposes. The Board recommends that the RM review *The Public Utilities Board Act* and the PUB website (www.pub.gov.mb.ca) and become familiar with these requirements.

The Board's information requests included a request for updated audited financial statements. The RM provided the Board with the statements for 2013 and 2014, both of which indicate an operating deficit in the Laurier Utility. The RM did not provide applications for Board approval of these deficits or method of recovery, as required by *The Municipal Act*.

The Board also asked the RM to provide a description of the operations of the Ste Rose South Water Cooperative. The RM advised this Cooperative was dissolved March 4, 2011; however, the RM's audited financial statements for 2013 and 2014 have a Schedule of Utility Operations (Schedule 9) for this Utility. No explanation for this discrepancy was provided.

The Board asked the RM for clarification on the proposed Cost Allocation Methodology (CAM); the proposal indicated approximately \$5,600 in shared overhead costs, but the rate study listed total administrative costs of less than \$2,200 per year. The RM's response to the Board was, "...part of this amount should have gone to direct costs, not shared overhead." This was not accompanied by any additional information, supporting calculations or amendment to the original information supplied; therefore the Board must deny the proposed Cost Allocation Methodology.

The Board will approve the recovery of \$1,700 per year in administration expenses, and reminds the Municipality that this methodology must be used consistently in the future, until Board approval is received for any changes. The Board encourages the RM to revisit their Cost Allocation Methodology and submit an application to amend it, if necessary. An application to revise the CAM can be submitted to the Board by itself, the RM need not wait until the next full rate application. It is the recommendation of the Board that Utilities use a percentage, rather than a dollar amount, when applying for approval of a Cost Allocation Methodology. This allows the Municipality to adjust the costs assigned to the Utility without applying to the Board for approval.

The Board asked the RM to provide supporting rationale for not using Board guidelines when calculating rates; specifically as it relates to the RM calculating a single utility rate rather than separate rates for water and wastewater. The Board does encourage applicants to confer with Board staff where there is uncertainty about Board recommended methodology and, where variation is proposed, that the variation be clearly substantiated in the application.

The rate study advised the Board that, "The RM considers the water utility distinctly different from the lagoon, as such financial statement Schedule 9 reports solely expenses related to amortization and interest relating to the sewer system with no associated operating or maintenance costs." The inclusion of some wastewater costs in the water expenses, rather than separating these costs as prescribed in the Board's guidelines, results in a cross subsidization if the Utility has any water only customers.

The Board's attempts to gain clarity on the customer base of the Utility through information requests were unsuccessful. The RM has indicated that all 86 customers are water only; if accurate, this would indicate that these customers are all paying for amortization on a collection system that they aren't connected to, and that those customers who are connected to it aren't ratepayers of this Utility. The Board does not believe this to be the case, however.

The rate calculation in the application indicates the utility customers are actually all water and wastewater customers, as only bulk water is shown as not being returned to the sewer. Board questions relating to wastewater collection system and lagoon costs were responded to; however the Board is not satisfied with the information provided.

The issues detailed above, among others, result in the Board having misgivings over the reliability of the information provided in the rate application and subsequent responses to information requests made by the Board. The Board is not convinced that the RM has an adequate understanding of the Board's rate setting principles and procedures.

Under other circumstances, the Board would deny the application and direct the RM to return with a new rate application. In the case of the Laurier Utility, the Utility has experienced deficits on an ongoing basis since 2009; the utility rates need to be revised for the financial health and sustainability of the Utility. The Board has therefore taken the unusual step of recalculating the rates with the information provided, in the interest of mitigating future deficits.

These rates will be effective January 1, 2017 and 2018, and the Board will direct the RM to provide notice to its customers of the Board's decision.

Quarterly service charge

The rate application calculated the quarterly service charge using total revenue requirement – general of \$4,480 (2018). This amount included a working capital surcharge and an expense line labelled “Deficit recovery for the year”. The working capital surcharge is only applicable when a utility is non-compliant with the Board’s guidelines for a minimum working capital surplus. As of December 31, 2014, the most recent statements available to the Board, the Utility is compliant. The “Deficit recovery for the year (\$25/connection)”, was calculated at \$25 per year per connection over a five year period from 2014 to 2018. In response to the Board’s inquiry, the RM advised that this item refers to the deficit recovery approved by the Board in Order No. 37/14. Order No. 37/14 directed the RM to recover the deficits for 2011 and 2012, totalling \$26,270, over a three year period at a rate of \$25 per quarter, per ratepayer. The 2014 audited statements show “Rate rider” revenue of \$8,363 for the year, which indicates that the RM was recovering the rate rider as directed by Board Order No. 37/14, beginning January 1, 2014. The recovery should be discontinued after December 31, 2016, and should not be included in the quarterly service charge calculation, as it is a rate rider over and above the regular utility rates.

The revised quarterly service charge was calculated by dividing the total revenue requirement – general by the number of customers and then by dividing that figure by four quarters. (Schedule “B”)

Water and wastewater rate

The revised water and wastewater commodity charge was calculated by taking the audited 2014 results, then using the information in the rate study, applying an inflationary rate of 2%, including a provision for reserves of \$5,000 per year and contingency of 10% of variable operating costs. The rates approved by the Board are not materially different than those applied for by the RM.

The Board did not have adequate information to set separate rates for water and wastewater services, but will direct the RM to do so in the next rate application. The RM should work closely with their auditor to ensure that the audited financial statements Schedule 9 properly allocate expenses between the two services. This is standard reporting and should not present an issue for the RM. In addition, the RM's rate application indicated that lagoon operations are not included in the Schedule of Utility Operations at all, that only the amortization of the collection system is accounted for. This is not the appropriate treatment of the asset or related operating costs, and if this is accurate, means that taxpayers are cross subsidizing the Utility by paying the lagoon costs through the general operations of the RM.

Bulk water rate

It appears that the bulk water customers are the only water-only customers of the Utility. The bulk water rate was calculated by adding the revenue requirements for general and water and wastewater, deducting the wastewater amortization expense and adding in the charges for the rate rider from Board Order No. 37/14.

The calculations and projections used in determining the revised rates can be found in Schedule "B" to this Order.

The commodity rates requested in the original application were inconsistent, going up in 2016 then down in 2017 and back up in 2018. The Board has found that ratepayers are usually in favour of consistent rates or small increases, rather than irregular utility rates. In determining the revised rates, the Board calculated indicated rates based on the best information available, and approved a consistent rate where the difference was immaterial.

The Board will direct the RM to review their operations and prepare a rate application for submission to the Board on or before January 1, 2018. This rate application is to be prepared using Board recommended guidelines (available on the Board website), and where the RM finds it appropriate to vary from those guidelines, supporting rationale will

be provided. The Board works with the Manitoba Municipal Administrators' Association to provide training in the preparation of rate applications using the Board's guidelines, and the RM is strongly urged to take advantage of that resource.

The Board supports the principle of user-pay utility rates. It is only when rates are set on a user pay basis that they send the correct price signal to ratepayers and allows ratepayers to make decisions about their use of the services.

Appropriate rates allow for the full appreciation of the true value of services being provided and will enable an owner to better meet the objectives of *The Sustainable Development Act*.

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 utility rates for the Rural Municipality of Ste. Rose, Laurier Utility BE AND ARE HEREBY APPROVED in accordance with the attached Schedule “A”, effective January 1, 2017 and 2018.
2. The Cost Allocation Methodology applied for by the Rural Municipality of Ste. Rose BE AND IS HEREBY DENIED.
3. The Rural Municipality of Ste. Rose amend its utility rate By-law for the Laurier 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 Rural Municipality of Ste. Rose provides notice to its ratepayers advising them of the decisions in this Order, with a copy to the Public Utilities Board, in the next quarterly billing.
5. The Cost Allocation Methodology applied for by the Rural Municipality of Ste. Rose BE AND IS HEREBY DENIED.
6. The Rural Municipality of Ste. Rose submit the 2015 audited financial statements as soon as the statements are finalized.
7. The Rural Municipality of Ste. Rose submit deficit applications for 2013, 2014 and 2015, if required, on or before November 30, 2016.

8. The Rural Municipality of Ste. Rose file an application for revised rates with the Public Utilities Board, by no later than June 30, 2018.

Fees payable upon this Order - \$750.00

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. 134/16
issued by The Public Utilities Board

Acting Secretary

SCHEDULE "A"
THE RM OF STE. ROSE
WATER AND WASTEWATER
RATES BY-LAW NO. 04-14

SCHEDULE OF QUARTERLY RATES:

1. <u>Commodity rates per cubic metre</u>	<u>Water</u>	<u>Wastewater</u>	<u>Service Charge</u>
All water consumption 2017	\$4.50	\$0.00	\$5.00
All water consumption 2018	\$4.50	\$0.00	\$5.00
2. <u>Minimum Charges, Quarterly</u>			

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:

(a) Water and Wastewater Customers

2017 & 2018

5/8"	1	14	\$5.00	\$63.00	\$0.00	\$68.00
3/4"	2	27	\$5.00	\$121.50	\$0.00	\$126.50
1"	4	55	\$5.00	\$247.50	\$0.00	\$252.50
1 1/2"	10	140	\$5.00	\$630.00	\$0.00	\$635.00
2"	25	341	\$5.00	\$1,534.50	\$0.00	\$1,539.50
3"	45	614	\$5.00	\$2,763.00	\$0.00	\$2,768.00
4"	90	1,227	\$5.00	\$5,521.50	\$0.00	\$5,526.50
6"	170	2,319	\$5.00	\$10,435.50	\$0.00	\$10,440.50

3. Bulk Sales Rate

All water sold in bulk by the Rural Municipality of Ste. Rose shall be charged for at the rate of \$4.75 (2017) and \$3.10 (2018) per 1,000 litres on a pro-rated basis for all quantities greater than 500 litres.

4. Service to Customers Outside Municipality, Town, or L.I.D., Limits

The Council of the Rural Municipality of Ste. Rose may sign agreements with customers for the provision of water and wastewater services to properties located outside the legal boundaries of the LID #1 - Laurier. 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.

5. 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.

6. 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.

7. 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.

8. 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.

9. Hydrant Rentals

The LID #1 – Laurier will pay to the utility an annual rental of \$50 for each hydrant connected to the system.

10. 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 change.

Schedule "B"

Calculations of revised utility rates
RM of Ste Rose – Laurier Utility

Cost projections

2% inflationary increase

	Audit 2014	2015	Rate year 1 2016	Rate year 2 2017	Rate year 3 2018
<i>General</i>					
Administration (building, office, staff, etc.)	1,700	1,700	1,700	1,700	1,700
Revenue requirement - general (A)			1,700	1,700	1,700
<i>Water and wastewater Expenses</i>					
Purification and treatment	12,656	12,909	13,167	13,431	13,699
Transmission and Distribution	15,889	16,207	16,531	16,862	17,199
Amortization (water and sewer assets)	12,011	12,011	12,011	7,354	7,354
Reserves	-	-	5,000	5,000	5,000
Contingency (10% of variable operating costs)	-	-	2,970	3,029	3,090
Sub-total- water expenses	40,556	41,127	49,679	45,675	46,342
<i>Non-rate revenue</i>					
Hydrant rentals	200	200	200	200	200
Other revenue - bulk water fees	1,064	1,300	1,300	1,300	1,300
Total non-rate revenue - water and wastewater	1,264	1,500	1,500	1,500	1,500
Revenue requirement - water and wastewater (B)			48,178	45,008	45,675

Rate calculations

	Rate year 1 2016	Rate year 2 2017	Rate year 3 2018
Number of customers (C)	85	84	84
Water sold in cubic meters (D)	10,698	10,639	10,581
Quarterly service charge = A/C/4 quarters	\$ 5.00	\$ 5.06	\$ 5.06
Utility commodity charge = B/D	\$ 4.50	\$ 4.23	\$ 4.32
Bulk water:			
Add: Revenue requirement - general (A)	\$ 1,700	\$ 1,700	\$ 1,700
Add: Revenue requirement - water and wastewater (B)	\$ 48,178	\$ 45,008	\$ 45,675
Add: Taxation revenues - water debt	\$ -	\$ -	\$ -
Less: Sewer amortization (source 2014 audited statements)	\$ 7,354.00	\$ 7,354.00	\$ 7,354.00
Add: Other bulk water costs (rate rider per Order No. 37/14)	\$ 8,756.66	\$ 8,756.66	
Subtotal: (E)	\$ 51,280.70	\$ 48,111.06	\$ 40,020.83
Bulk water ratio (F) = E/B	1.06	1.07	0.88
Gross water volume sales (G)	11,462	11,401	11,348
Gross water rate (H) = E/G	\$ 4.47	\$ 4.22	\$ 3.53
Bulk water rate = HxF	\$ 4.76	\$ 4.51	\$ 3.09