

Order No. 78/16

**MUNICIPALITY OF WESTLAKE-GLADSTONE
LANGRUTH WATER AND WASTEWATER UTILITY
JULY 1, 2016, JANUARY 1, 2017 and 2018 RATES**

June 15, 2016

**BEFORE: Régis Gosselin, B ès Arts, MBA, CPA, CGA, Chair
The Hon. Anita Neville, P.C., B.A. (Hons.), Member**

Summary

By this Order, the Public Utilities Board (Board) approves the revised water and wastewater rates effective July 1, 2016 and January 1, 2017 and 2018 for the Municipality of Westlake-Gladstone (Municipality) for the Langruth Water and Wastewater Utility (Utility) as follows:

	Current By-law 57-08	2015-11 July 1, 2016	Increase/ Decrease	2015-11 Jan 1, 2017	Increase/ Decrease	2015-11 Jan 1, 2018	Increase/ Decrease
Water \$/1,000 gallons	\$7.98	\$9.89	23.93%	\$12.26	23.96%	\$14.47	18.03%
Sewer \$/1,000 gallons	\$2.93	\$3.13	6.83%	\$3.35	7.03%	\$3.60	7.46%
Quarterly Service Charge	\$5.76	\$8.38	45.49%	\$12.19	45.47%	\$19.00	55.87%
Minimum Quarterly Charges*	\$38.49	\$47.44	23.25%	\$59.02	24.41%	\$73.21	24.04%
Bulk Sales Rate \$/1,000 gallons	\$11.17	\$13.87	24.17%	\$17.79	28.26%	\$22.54	26.70%
Reconnection Fee	\$20.00	\$50.00	150%	\$50.00	0.00%	\$50.00	0.00%
Hydrant Rental (Annual)	\$100.00	\$100.00	0%	\$100.00	0.00%	\$100.00	0.00%
*Based on 3,000 gallons							

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 Municipality owns a water and wastewater treatment plant that was upgraded in 2010 to a mainstream water and wastewater solutions ozone assisted biofiltration system. Since commissioning, the plant has had ongoing problems with high ambient ozone but this was scheduled to be addressed in 2015.

The Langruth sewage system is a low gravity system. The lagoon is a 2 cell system which discharges 1 mile straight East of the lagoon into a ditch (after all samples pass testing).

The Utility staff have appropriate certifications and is in compliance with its Environmental License.

The Utility reported an unaccounted for water of 1% which is significantly less than the acceptable limit of 10%.

Application

The Municipality of Westlake-Gladstone applied on October 26, 2015 for revised water and wastewater rates for the Langruth Utility. The application was accompanied by a rate study prepared by the Municipality's consultant and By-law No. 2015/11, having received 1st reading on October 20, 2015. Rates were last set in 2008.

The application requested that the proposed rates be effective January 1, 2016. The Utility also proposed to phase in the rates over the three rate years. The rationale provided for phase in, is that the existing working capital surplus (WCS) is sufficient to absorb the operating deficits caused by phasing in the rates. Amortization expense is relatively high for the size of utility, which lends itself to rebuilding the working capital surplus quickly. Projected WCS in 2018, with phased in rates, will be approximately \$80,000, and the

recommended WCS is \$20,000. This supports the Municipality's request to phase in the rates.

A Notice of Application for revised water and wastewater rates was issued November 12, 2015, affording customers the opportunity to comment to both the Board and the Municipality 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.

On October 8, 2015, the Municipality submitted deficit applications for years 2013 (\$6,906) and 2014 (\$38,168). These deficits were approved by Board Order No. 72/16.

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

	2014
Fund Surplus/Deficit	\$952,770
Deduct tangible capital assets	\$989,842
Add Long-Term Debt	\$ 67,470
Add Utility Reserves	\$ 23,006
Equals Working Capital Surplus	\$ 53,404
Operating costs	\$105,918
20% of operating costs	\$ 21,184

Budgeted expenditures

Rates were calculated using the following projected expenditures:

	2%	2016	2017	2018
Administration		\$4,721.00	\$4,815.00	\$4,912.00
Total expenses general		\$4,721.00	\$4,815.00	\$4,912.00
Penalties		\$100.00	\$100.00	\$100.00
Other income		\$100.00	\$100.00	\$100.00
Total revenue general		\$200.00	\$200.00	\$200.00
Net costs general		\$4,521.00	\$4,615.00	\$4,712.00
Purification and treatment		\$23,000.00	\$23,460.00	\$23,929.00
Water purchases				
Service of Supply		\$25,092.00	\$25,594.00	\$25,594.00
Other water supply cost				
Amortization		\$32,774.00	\$32,774.00	\$32,774.00
Interest on long term debt		\$3,710.00	\$3,530.00	\$3,340.00
Total expenses water		\$84,576.00	\$85,358.00	\$85,637.00
Bulk water fees		\$18,175.00	\$23,312.00	\$29,549.00
Hydrant rentals		\$700.00	\$700.00	\$700.00
Total revenue water		\$18,875.00	\$24,012.00	\$30,249.00
Net costs water		\$65,701.00	\$61,346.00	\$55,388.00
Sewage collection system		\$1,530.00	\$1,561.00	\$1,592.00
Sewage treatment and disposal		\$306.00	\$312.00	\$318.00
Amortization		\$8,793.00	\$8,793.00	\$8,793.00
Total expenses sewer		\$10,629.00	\$10,666.00	\$10,703.00
Total revenue sewer		\$0.00	\$0.00	\$0.00
Net costs sewer		\$10,629.00	\$10,666.00	\$10,703.00
Water and sewer billings		\$38,371.00	\$46,552.00	\$55,112.00
Amortization of capital grants-water		\$14,783.00	\$14,783.00	\$14,783.00
Amortization of capital grants-sewer		\$2,584.00	\$2,584.00	\$2,584.00
Property taxes - transfer		\$6,834.00	\$6,834.00	\$6,834.00
Net revenue/(expenses)		-\$18,279.00	-\$5,874.00	\$8,510.00

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 Municipality's administrative and office costs are allocated based on a percentage of expenditures of each utility to total expenditures. Public works staff time is based on actual hours spent on the utility and recorded daily on time cards. The proposed cost allocation methodology is based on a 1% allocation of the Municipality's total budgeted expenditure.

Board Findings

The Board has reviewed the application and the projections presented by the Municipality in their rate study and the information provided subsequently in response to Board queries.

The revised rates applied for by the Municipality were adjusted to "phase-in" the increase and minimize rate shock. The phase in approach resulted in projected deficits for the rate years 2016 and 2017, with a surplus in 2018. While this varies from Board recommended methodology, the Municipality provided their rationale that the existing working capital surplus is sufficient to absorb the operating deficits caused by phasing in the rates. The Municipality also noted that the proposed rates rebuild the working capital surplus quickly, resulting in a projected surplus of approximately \$80,000 in 2018, which is above the recommended working capital surplus of \$20,000. The Board finds this rationale to be adequate and will approve the revised rates as applied for by the Municipality.

The methodology which the Municipality used to determine the bulk water rate is not consistent with the Board recommended methods. However, the Municipality provided a reasonable rationale to support its calculations. No adjustment is being made to the rate contained in the revised proposal.

With a July 1, 2016 effective date and the phase in approach for the new rates, it is anticipated that the utility will experience deficits for 2015, 2016 and 2017. These need to be approved by the Board, and if the actual working capital surplus does not align with the projections put forth with this rate application, the Board may find it appropriate to approve a rate rider to recover those deficits.

The Municipality is to provide the Board with copies of the 2015 audited financial statements, and submit any necessary applications for operating deficits, as required by Board Order No. 151/08.

The Board will require the Municipality 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 require the Municipality review the 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 June 30, 2019.

The Board will approve the cost allocation methodology as submitted by the RM; however 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.

This methodology could materially over or understate the cost of running the Utility. The Board will direct the RM to reapply to the Board with an updated methodology. The Board recommends the use of Board Order No. 93/09, particularly "Appendix A" thereof, to develop a revised cost allocation methodology.

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 Westlake-Gladstone, Langruth Utility BE AND ARE HEREBY APPROVED in accordance with the attached Schedule "A", effectively July 1, 2016 and January 1, 2017 and 2018.
2. The Municipality of Westlake-Gladstone amend its water and wastewater rate By-law for the Langruth Utility to reflect the decisions in this Order and submit a copy to the Board once it has received third and final reading.
3. The Municipality of Westlake-Gladstone 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 July 30, 2019.
4. The cost allocation methodology for shared services and equipment as submitted by the Municipality of Westlake-Gladstone BE AND IS HEREBY APPROVED.
5. The Municipality of Westlake-Gladstone review and submit a revised cost allocation methodology for shared services and equipment using the methodology in Board Order No. 93/09 with the next rate application.
6. The Municipality of Westlake-Gladstone provide copies of the 2015 audited financial statements, and any necessary deficit applications, as soon as they are available.

Fees payable upon this Order - \$500.00

THE PUBLIC UTILITIES BOARD

"RÉGIS GOSSELIN, B ès Arts, MBA, CPA, CGA"
Chair

"JENNIFER DUBOIS, CPA, CMA"
Acting Secretary

Certified a true copy of Order No. 78/16
issued by The Public Utilities Board

Acting Secretary

SCHEDULE "A"
THE MUNICIPALITY OF WESTLAKE-GLADSTONE
LANGRUTH UTILITY
WATER AND WASTEWATER RATES

SCHEDULE OF RATES

July 1, 2016

1. <u>Rates per thousand gallons</u>			Total Water	Customer
	Water	Sewer	& Sewer	Service Charge
Per Quarter	\$9.89	\$3.13	\$13.02	8.38

2. **(a) Water & Sewer Customers**

Meter Size	Group Capacity Ratio	Water Included in gallons	Customer Service Charge	Water Commodity Charge	Sewer Commodity Charge	Water & Sewer Total Quarterly Minimum	Water Only Quarterly Minimum
5/8 inch	1	3,000	8.38	29.67	9.39	47.44	38.05
3/4 inch	2	6,000	8.38	59.34	18.78	86.50	67.72
1 inch	4	12,000	8.38	118.68	37.56	164.62	127.06
1.5 inch	10	30,000	8.38	296.70	93.90	398.98	305.08
2 inch	25	75,000	8.38	741.75	234.75	984.88	750.13
2.5 inch	35	105,000	8.38	1,038.45	328.65	1,375.48	1,046.83
3 inch	45	135,000	8.38	1,335.15	422.55	1,766.08	1,343.53
4 inch	90	270,000	8.38	2,670.30	845.10	3,523.78	2,678.68

SCHEDULE OF RATES

Jan 1, 2017

1. <u>Rates per thousand gallons</u>			Total Water	Customer
	Water	Sewer	& Sewer	Service Charge
Per Quarter	\$12.26	\$3.35	\$15.61	12.19

2. **(a) Water & Sewer Customers**

Meter Size	Group Capacity Ratio	Water Included in gallons	Customer Service Charge	Water Commodity Charge	Sewer Commodity Charge	Water & Sewer Total Quarterly Minimum	Water Only Quarterly Minimum
5/8 inch	1	3,000	12.19	36.78	10.05	59.02	48.97
3/4 inch	2	6,000	12.19	73.56	20.10	105.85	85.75
1 inch	4	12,000	12.19	147.12	40.20	199.51	159.31
1.5 inch	10	30,000	12.19	367.80	100.50	480.49	379.99
2 inch	25	75,000	12.19	919.50	251.25	1,182.94	931.69
2.5 inch	35	105,000	12.19	1,287.30	351.75	1,651.24	1,299.49
3 inch	45	135,000	12.19	1,655.10	452.25	2,119.54	1,667.29
4 inch	90	270,000	12.19	3,310.20	904.50	4,226.89	3,322.39

SCHEDULE OF RATES

Jan 1, 2018

1. <u>Rates per thousand gallons</u>		Total Water	Customer	
		& Sewer	Service Charge	
Per Quarter	\$14.47	\$3.60	\$18.07	19.00

2. **(a) Water & Sewer Customers**

Meter Size	Group Capacity Ratio	Water Included in gallons	Customer Service Charge	Water Commodity Charge	Sewer Commodity Charge	Water & Sewer Total Quarterly Minimum	Water Only Quarterly Minimum
5/8 inch	1	3,000	19.00	43.41	10.80	73.21	62.41
3/4 inch	2	6,000	19.00	86.82	21.60	127.42	105.82
1 inch	4	12,000	19.00	173.64	43.20	235.84	192.64
1.5 inch	10	30,000	19.00	434.10	108.00	561.10	453.10
2 inch	25	75,000	19.00	1,085.25	270.00	1,374.25	1,104.25
2.5 inch	35	105,000	19.00	1,519.35	378.00	1,916.35	1,538.35
3 inch	45	135,000	19.00	1,953.45	486.00	2,458.45	1,972.45
4 inch	90	270,000	19.00	3,906.90	972.00	4,897.90	3,925.90

(b) Water Only Customers

Minimum charge will be the same for each meter size as shown, above, but the Sewer Commodity Charge will be excluded.

3. Bulk Sales Rate

All water sold in bulk by The Langruth Local Improvement Area shall be charged for at the following rate per 1,000 gallons:

2016: \$13.87

2017: \$17.79

2018: \$22.54

The following clauses are effective July 1, 2016:

4. Service to Customers outside L.I.D., limits

The Council of The Municipality of Westlake-Gladstone may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Langruth Local Improvement Area. 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 1.25% per month 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 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. Copies of the Conditions Precedent are available for inspection at the RM 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 \$20.00 have been paid.

8. Outstanding Bills

Pursuant to Section 252(2) of The Municipal Act, the amount of all outstanding charges for water and 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 collectibles and with like remedies.

9. Hydrant Rentals

The Municipality of Westlake-Gladstone will pay to the utility an annual rental of \$100.00 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 changed.

11. 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 waste.