

Order No. 164/18

**RURAL MUNICIPALITY OF LAC DU BONNET
WATER AND WASTEWATER UTILITY
REVISED RATES FOR JANUARY 1, 2019, 2020, AND 2021**

December 13, 2018

**BEFORE: Marilyn Kapitany, BSC. (Hon), M.Sc., Panel Chair
Shawn M^cCutcheon, Panel Member**

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1.0 Executive Summary

By this Order, the Public Utilities Board (Board) varies the application made by the Rural Municipality of Lac du Bonnet (RM) Water and Wastewater Utility (Utility) and approves revised water and wastewater rates effective January 1, 2019, 2020, and 2021.

The approved rates are as follows:

	Current Rates	Proposed Year 1	Proposed Year 2	Proposed Year 3
Quarterly service charge	\$ 26.05	\$ 30.29	\$ 30.90	\$ 31.52
Water (per cubic meter)	\$ 2.08	\$ 4.13	\$ 4.21	\$ 4.29
Wastewater (per cubic meter)	\$ 1.46	\$ 1.91	\$ 2.02	\$ 2.13
Minimum Quarterly Charge - Water & Wastewater*	\$ 75.61	\$ 48.41	\$ 49.59	\$ 50.78
Tanco Annual Charge - Wastewater Only**	\$ 335.57	\$ 435.21	\$ 459.14	\$ 483.08
Reconnection Fee	\$ 25.00	\$ 50.00	\$ 50.00	\$ 50.00
Hydrant Rental (annual)	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00

*Based on 14 cubic meters.

**Tanco Only Customers – Based on 53 cubic meters at the wastewater rate, plus one-time annual service charge ($53\text{m}^3 \times \text{Wastewater Rate} \times 4 + 1 \text{ Service Charge}$).

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

Water rates are included in this order in the event that the Glenn Howard Inn re-opens or RM residents need to connect to the Town of Lac du Bonnet water system.

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

2.0 Background

The RM's Utility is a customer of the Town of Lac du Bonnet (Town) Water and Wastewater Utility. Services provided by the RM originate with the Town's distribution and collection systems. The Town bills the RM an annual commodity charge based on a flat rate, plus a service charge for wastewater customers. The RM is obligated to charge at least the same rates as the Town, as a pass-through to the RM customers. This does not include any mark-up for the maintenance or repair of RM owned infrastructure.

The Board set rates for the RM in Board Order No. 76/16 for the Glenn Howard Inn, which receives water and wastewater services provided by the Town, and for Tanco Crescent residents, who receive wastewater services from the Town and separate water services from the Tanco Crescent Water Co-op. Utility bills are mailed annually, separate from property tax bills and service is not extended outside the RM.

As of January 1, 2009, the Public Sector Accounting Board (PSAB) set new standards for public sector accounting. The Government of Manitoba adopted the new national PSAB standards and required all municipalities and their utilities to comply. PSAB standards have had significant implications with respect to annual financial reporting and utility ratemaking. The requirement for the amortization/depreciation of utility assets to be included as an expense in utility financial statements has increased the total expenses, which need to be recovered through rates. Board Order No. 93/09 outlines PSAB accounting/reporting requirements for municipalities and their utilities. The Board Order is available on the Board website.

Board Order No. 76/16 noted that the RM charges Town rates with no markup to cover its own operating costs including amortization. This practice is not in keeping with directives set out in Board's Guidelines or in Board Order No. 93/09. Therefore, the Board ordered the RM to prepare an application for revised rates, using Board recommended guidelines, be submitted on or before December 13, 2016.

Water Supply/Distribution

The RM receives its water from the Town. The Glenn Howard Inn is now closed and there are currently no water customers of the Town remaining in the RM. Water rates are included in this order in the event that the Glenn Howard Inn re-opens or RM residents need to connect to the Town of Lac du Bonnet water system. Tanco customers receive water from a private water co-op, the rates for which are not regulated by the Board.

Unaccounted for Water

The Glenn Howard Inn was the only water customer and water billings were based on readings from that water meter. There is no accounted for water as the Glenn Howard Inn is now closed.

Wastewater Collection/Treatment

Wastewater services are provided by the Town. The Town's wastewater system consists of a collection system and a single cell lagoon, owned and operated by the Town. The Town's wastewater collection system collects wastewater effluent from 21 residences on Tanco Crescent within the RM boundaries. While no formal agreement exists with the Town, the RM maintains the lines, pumps, and buildings related to the water and wastewater system within the RM boundaries.

3.0 Application

On March 27, 2017, the RM applied for revised water and wastewater rates, to be effective January 1, 2018, January 1, 2019, and January 1, 2020, as set out in By-Law No. 4-17, having had first reading on February 28, 2017. The application was supported by a rate study prepared by the RM's consultant. Rates were last approved in 2016 in Board Order No. 76/16.

A Public Notice of Application was issued on May 17, 2017 allowing for any questions or comments with respect to the proposed rate increases to the Board and/or the RM on or before June 23, 2017.

When reviewing an application, the Board has at its disposal two approaches, either a paper or a public hearing review. After publication of the Notice of Application, the Board considers the application and stakeholder responses and determines which method of review is most appropriate. Whenever reasonable, the Board reviews the application using a paper review process, which saves the cost of a public hearing process.

The Board received six stakeholder responses, primarily citing concern with respect to the large increase in wastewater rates in Year 1 (approximately 39%) of the requested new rates (versus the general cost of inflation). Stakeholders were worried they would not be able to afford the cost increases in conjunction with other increases associated with the cost of living. The Board has chosen a paper review process to save the cost of a public hearing process, and has considered these concerns in the rates approved.

The rates were calculated based on the following revenue projections using an inflation rate of 2% in all calculations:

Schedule of Utility Rate Requirements – Lac du Bonnet Utility 2017 to 2020 Budget Forecasts (\$)				
	2017	2018	2019	2020
	Forecast			
General Expenses				
Administration	104	106	108	110
Quarterly Billing Customer	632	651	671	671
Service Charge From Town				
Total General Expenses	736	757	779	781
Revenue				
	-	-	-	-
Total General Revenues	-	-	-	-
Net Costs General	736	757	779	781
Expenses				
Water Purchases	1,541	1,587	1,633	1,633
Amortization	1,409	1,409	1,409	1,409
Total Water Expenses	2,950	2,996	3,042	3,042
Revenue				
Total Water Revenue	-	-	-	-
Net Costs – Water	2,950	2,996	3,041	3,042
Wastewater Expenses				
Collection System Costs	7,431	7,640	7,901	7,901
Amortization	2,299	2,299	2,299	2,299
Total Wastewater Expenses	9,730	9,939	10,200	10,200
Revenue				
Total Water Revenue	-	-	-	-
Net Costs - Wastewater	9,730	9,939	10,200	10,200
Water and Wastewater Billing Revenues				
Water Billings	9,025	14,599	14,884	15,169
Net Operating Surplus/(Deficit) with PUB	(4,391)	907	863	1,146
Adjustments				
Transfer from Town of Lac du Bonnet	25,000	-	-	-
Change in Utility Fund Balance After	20,609	907	863	1,146
Fund Surplus – Beginning of Year	137,137	157,746	158,653	159,516
Fund Surplus – End of Year	157,746	158,653	159,516	160,662

The proposed utility rate increases are required to provide funding for a nominal annual administration fee and amortization of the water and wastewater lines in the RM.

Board Order No. 93/09 outlines that utilities are required to establish amortization rates and record annual amortization as an expense of their utility. While the RM has now provided for amortization within its rate calculation, this was not done in prior years. As a result, there is a significant increase in rates for customers in Year 1 of the requested new rates, which include the amortization expense.

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/deficit is defined as the Utility fund balance, excluding any capital related items plus Utility reserves.

As per the RM's Rate Study, the working capital deficit at December 31, 2016 is:

	Actual		Forecasted	
	2015	2016	2017	2018
Fund Surplus/Deficit	\$72,717	\$137,137	\$157,746	\$158,653
Deduct Tangible Capital Assets	\$91,529	\$156,725	\$153,017	149,309
Add Long-Term Debt	-	-	-	-
Add Utility Reserves	-	-	-	-
Equals Working Capital (Deficit)	(-\$18,812)	(-\$19,587)	\$4,730	\$9,345
Operating Expenses	\$5,268	\$8,334	\$15,930	\$13,692
20% of Operating Expenses (Target)	\$1,054	\$1,667	\$3,186	\$2,738

There is a discrepancy between the RM's 2016 and 2017 Audited Financial Statements and the Rate Study. Tangible capital assets for the Tanco subdivision (\$68,479) and for transfers from the Town of Lac du Bonnet (\$25,000) have not been reported in the Audited Financial Statements. The RM advises that the financial information in the Rate Study is correct and the chart above correctly reflects these amounts. The chart also demonstrates the RM is forecasting a working capital surplus beginning in 2017 and beyond, which is above the 20% Board requirement.

Operating Deficits

By law, Manitoba utilities are not allowed to incur deficits. In the event that a deficit does occur, the Utility is required by *The Municipal Act* to obtain Board approval for both the deficit and the recovery methodology as soon as the deficit is known.

The RM's Audited Financial Statements indicate that it has incurred deficits of \$2,832 in 2015, \$1,726 in 2014, \$1,322 in 2013, \$1,138 in 2012, and \$963 in 2011 (or a total of \$7,981). To date, the RM has not applied to the Board to recover these deficits. According to the RM's 2018 forecast, there is sufficient working capital to provide for these deficits, subject to the accuracy of the forecasts, but full recovery of this amount would result in the Working Capital Surplus falling below the 20% Board requirement.

Cost Allocation Methodology

The RM has included administration costs of \$757 in Year 1 of the proposed new rates (and in each year going forward) within the calculation of the Customer Service Charge, to provide for the RM's administration costs for the Utility. Prior to this rate request, the RM had not included any administrative charge for these incurred costs. The RM states, this likely contributed to the deficits noted above and should therefore mitigate the likelihood of future deficits.

Contingency Allowance and Utility Reserves

As per the Board's Guidelines, an annual allowance equal to 10% of the variable operating costs is recommended for a contingency allowance. The RM has included a contingency allowance of \$764 in Year 1 within the calculation of the Wastewater Rate and \$159 in the Water Rate, to provide for any unforeseen costs incurred during the year.

4.0 Board Findings

The Board has reviewed the application and the projections presented by the RM in its rate application, and finds them to be reasonable. The Board acknowledges the RM's proper

inclusion of amortization costs, administration costs, and a contingency allowance in this rate application. The Board has considered customers concerns with respect to the significant increase in wastewater rates requested for Year 1, and is sensitive to customer reaction to the magnitude of the rate increases. The Board notes, however, that the increase in rates is largely the result of the inclusion of amortization as an expense, as required by the PSAB standards.

Board Order No. 93/09 outlines utilities' requirement to convert to PSAB standards. The Utility had not included amortization costs in its rate calculation prior to this rate application.

The Board notes that with the closure of the Glenn Howard Inn, Tanco Crescent residents are the only customers of the Utility.

The Board varies the wastewater rates by reducing the Utility's forecasted contingency from \$764 to \$0 in Year 1 and to \$400 in Year 2 to gradually phase-in rate increases resulting from contingency costs. The Board also varies the effective dates to January 1, 2019, January 1, 2020 and January 1, 2021 to align with the start of the year.

The Board approves the revised cost allocation methodology and reminds the RM that this methodology must be used consistently. Any changes to the new, revised cost allocation methodology require Board approval.

The Board finds that the RM has incurred deficits of \$2,832 in 2015, \$1,726 in 2014, \$1,322 in 2013, \$1,138 in 2012, and \$963 in 2011 (or a total of \$7,981) and has not applied to the Board to recover for these deficits.

The Board encourages the RM to review its Audited Financial Statements going forward to ensure all tangible capital assets are properly reported and accounted for in its future years' statements.

5.0 IT IS HEREBY ORDERED THAT:

1. The revised water and wastewater rates for the Rural Municipality of Lac du Bonnet Water and Wastewater Utility BE AND ARE HEREBY APPROVED in accordance with the attached Schedule “A”, effective January 1, 2019, January 1, 2020, and January 1, 2021.
2. The cost allocation methodology as submitted by the Rural Municipality of Lac du Bonnet BE AND IS HEREBY APPROVED.
3. The Rural Municipality of Lac du Bonnet amend its water and wastewater rate By-law to reflect the decisions found in this Order and submit a copy to the Board once it has received third and final reading.
4. The Rural Municipality of Lac du Bonnet is to provide notice of the decisions found in this Order to its customers as soon as possible, with a copy provided to the Public Utilities Board.
5. The Rural Municipality of Lac du Bonnet file a deficit application for each of the years the Utility is in deficit, by no later than February 28, 2019.
6. The Rural Municipality of Lac du Bonnet ensure all tangible capital assets are properly included and accounted for in all future Audited Financial Statements.
7. The Rural Municipality of Lac du Bonnet 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, by no later than December 31, 2021.

Fees payable upon this Order - \$500.00

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.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Marilyn Kapitany BSC. (Hon), M.Sc."
Panel Chair

"Frederick Mykytyshyn"
Assistant Associate Secretary

Certified a true copy of Order No.164/18 issue by
The Public Utilities Board


Assistant Associate Secretary

SCHEDULE A

RURAL MUNICIPALITY OF LAC DU BONNET WATER AND WASTEWATER UTILITY WATER & WASTEWATER UTILITY RATES BY-LAW NO. 4/17 SCHEDULE OF QUARTERLY RATES

1. Schedule of Commodity Rates & Quarterly Service Charge

January 1, 2019

Rates per Cubic Meter

Cubic Meters per quarter

Water	Wastewater	Water & Wastewater
\$4.13	\$1.91	\$6.18

Quarterly Service Charge \$30.29

2. Minimum Charges per Quarter

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

a. Water and Wastewater Customers

Group Capacity	Water Included	Customer Service Charge	Water Commodity Charge	Wastewater Commodity Charge	Water & Wastewater Total Quarterly Minimum
Meter Size	Ratio	Cubic Meters	Charge	Charge	Charge
5/8 inch	1	14	\$30.29	\$57.82	\$26.74
¾ inch	2	28	\$30.29	\$115.64	\$53.48
1 inch	4	56	\$30.29	\$231.28	\$106.96
1 ½ inch	10	140	\$30.29	\$578.20	\$267.40
2 inch	25	350	\$30.29	\$1,445.50	\$668.50

b. Water Only Customers

Total quarterly minimum charges will be the same for each meter size as shown above but the Wastewater Commodity Charge will be excluded.

c. Wastewater Only Customers (unmetered):

Total quarterly minimum charges will be based on the average residential water consumption of 53 cubic meters plus the service charge, however, the Water Commodity Charge will be excluded.

d. Tanco Crescent – Wastewater Only Customers (unmetered)

The annual commodity charge, based on the average quarterly residential water consumption of 53 cubic meters, plus the service charge (which shall be charged one time only), shall be:

$$\$30.29 + (53 \text{ C.M.} \times 4 \times \$1.91) = \$435.21$$

1. Schedule of Commodity Rates & Quarterly Service Charge

January 1, 2020

Rates per Cubic Meter

Cubic Meters per quarter

Water	Wastewater	Water & Wastewater
\$4.21	\$2.02	\$6.30

Quarterly Service Charge \$30.90

2. Minimum Charges per Quarter

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

a. Water and Wastewater Customers

Meter Size	Group Capacity Ratio	Water Included Cubic Meters	Customer Service Charge	Water Commodity Charge	Wastewater Commodity Charge	Water & Wastewater Total Quarterly Minimum
5/8 inch	1	14	\$30.90	\$58.94	\$28.28	\$118.12
¾ inch	2	28	\$30.90	\$117.88	\$56.56	\$205.34
1 inch	4	56	\$30.90	\$235.76	\$113.12	\$379.78
1 ½ inch	10	140	\$30.90	\$589.40	\$282.80	\$903.10
2 inch	25	350	\$30.90	\$1,473.50	\$707.00	\$2,211.40

b. Water Only Customers

Total quarterly minimum charges will be the same for each meter size as shown above but the Wastewater Commodity Charge will be excluded.

c. Wastewater Only Customers (unmetered):

Total quarterly minimum charges will be based on the average residential water consumption of 53 cubic meters plus the service charge, however, the Water Commodity Charge will be excluded.

d. Tanco Crescent – Wastewater Only Customers (unmetered)

The annual commodity charge, based on the average quarterly residential water consumption of 53 cubic meters, plus the service charge (which shall be charged one time only), shall be:

$$\$30.90 + (53 \text{ C.M.} \times 4 \times \$2.02) = 459.14$$

1. Schedule of Commodity Rates & Quarterly Service Charge

January 1, 2021

Rates per Cubic Meter

Cubic Meters per quarter

	Water	Wastewater	Water & Wastewater
	\$4.29	\$2.13	\$6.42

Quarterly Service Charge \$31.52

2. Minimum Charges per Quarter

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

a) Water and Wastewater Customers

Meter Size	Group Capacity Ratio	Water Included Cubic Meters	Customer Service Charge	Water Commodity Charge	Wastewater Commodity Charge	Water & Wastewater Total Quarterly Minimum
5/8 inch	1	14	\$31.52	\$60.06	\$29.82	\$121.40
¾ inch	2	28	\$31.52	\$120.12	\$59.64	\$211.28
1 inch	4	56	\$31.52	\$240.24	\$119.28	\$391.04
1 ½ inch	10	140	\$31.52	\$600.60	\$298.20	\$930.32
2 inch	25	350	\$31.52	\$1,501.50	\$745.50	\$2,278.52

b) Water Only Customers

Total quarterly minimum charges will be the same for each meter size as shown above but the Wastewater Commodity Charge will be excluded.

c) Wastewater Only Customers (unmetered):

Total quarterly minimum charges will be based on the average residential water consumption of 53 cubic meters plus the service charge, however, the Water Commodity Charge will be excluded.

d) Tanco Crescent – Wastewater Only Customers (unmetered)

The annual commodity charge, based on the average quarterly residential water consumption of 53 cubic meters, plus the service charge (which shall be charged one time only), shall be:

$$\$31.52 + (53 \text{ C.M.} \times 4 \times \$2.13) = \$483.08$$

The following clauses take effect January 1, 2019:**3. Water and Wastewater Connections**

- a. Each customer or developer, as the case may be, applying for a new water connection to the mainline shall be assessed a water connection inspection fee in the amount of \$750. The assessed amount shall be paid as a lump sum fee.
- b. Each customer or developer, as the case may be, applying for a new wastewater connection to the mainline shall be assessed a wastewater connection inspection fee in the amount of \$350. The assessed amount shall be paid as a lump sum fee.
- c. Each customer or developer, as the case may be, installing a new water service connection to the water mainline shall be responsible for installing and connecting the water service line to the water main and to pay all charges. Conditions on Town property to be returned to its original state as before water line installations.
- d. Each customer or developer, as the case may be, installing a new wastewater service connection to the wastewater mainline shall be responsible for installing and connecting the wastewater service line to the wastewater main and to pay all charges. Conditions on Town property to be returned to its original state as before water line installations.

- e. Each consumer applying for water turn on or turn off of service during any quarter, shall pay the proportionate part of the current minimum quarterly charge provided that in computing same, a broken half month shall be considered as a full month. In all cases any excess water used will be charged at the rates set forth under Commodity Rates.
- f. All costs for new connections and maintenance thereafter shall be paid by the users, customer or developer, as the case may be, and such connections are to be approved by the Council of the Town of Lac du Bonnet.
- g. A service charge of Twenty-Five (\$25) Dollars shall be paid before any water is turned on and shall be the responsibility of the owner.

4. Hydrant Charges

The RM of Lac du Bonnet, or any other hydrant owner, will pay to the Utility an annual fee of \$100.00 for each hydrant connected to the system which shall include the cost of water used for firefighting.

5. Service To Customers Located Outside the Limits of the Town of Lac du Bonnet

- a. Customers located outside the Town of Lac du Bonnet shall be required to sign agreements with the Town which sets out the rights and obligations of each party. Such agreements shall include that the consumer shall pay:
 - i. An appropriate rate as set out in paragraph 1 and 2 hereof, based on the units allotted to the services;
 - ii. All costs of constructing and maintaining all connection pipes and other items required to allow service to be used;
 - iii. A surcharge to cover all tax amounts for utility purposes, which they would be required to pay if located in the Town from the date of construction.
- b. The Rural Municipality of Lac du Bonnet shall pay, to the Town of Lac du Bonnet to cover services provided to residences in the Tanco Crescent Subdivision.
 - i. The Utility rates set forth in paragraph 1 and 2 hereof;
 - ii. Any additional surcharge sufficient to cover all taxes for the sewage lagoon which it would be required to pay if such residences were located in the Town.
- c. The above levies are due and payable July 1st of the year in which they are levies.

6. Billings And Penalties

Accounts shall be billed quarterly and the due date shall be at least 14 days after the mailing of the bills. A late payment charge of 1.25% per month shall be charged on the dollar amount owing after the billing due date.

7. Disconnection

The Public Utilities Board has approved the Conditions Precedent to be followed by the Rural Municipality with respect to 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 Rural Municipality's office.

8. Reconnection

Any service disconnected, whether due to non-payment of account or for any other reason(s) mutually agreed to by the customer and the Rural Municipality (i.e. repairs necessitated by negligence of the customer, changes in tenant, vacancy for an extended period of time, etc.) shall not be reconnected until a reconnection fee of \$50.00 and all arrears and penalties, if any, have been paid.

9. Outstanding Bills

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

10. Meter Testing

That in any case where a utility customer requests that a meter be tested for accuracy, the customer will provide the Rural Municipality with a deposit of \$100. The Rural Municipality will then remove the subject meter and send it to an independent lab for testing. If the meter is found to be faulty, all costs associated with the testing process will be borne by the Rural Municipality and the deposit will be refunded to the customer. If the meter is found to be in proper working order, all costs associated with the testing

process will be borne by the customer and the customer will be billed or refunded any balance owing.

11. Authorization For Officer To Enter Upon Premises

The Public Works Manager, or other employee authorized by the Rural Municipality in the absence of the Public Works Manager, shall be authorized to enter upon any premise for the purpose of:

Affixing to any pipe, wire or apparatus connected with any such utility, a meter or any other measuring or testing device; or taking readings from, repairing, inspecting or removing any meter or apparatus belonging to the Rural Municipality.

12. Wastewater Surcharges

a) There may be levied annually, in addition to the 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.

13. 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.