

Order No. 196/19

**MUNICIPALITY OF NORTH CYPRESS-LANGFORD
LANGFORD WATER UTILITY
REVISED RATES FOR JANUARY 1, 2020, JANUARY 1, 2021, AND JANUARY 1, 2022
AND ACTUAL OPERATING DEFICITS FOR 2013, 2015, 2016, AND 2017**

DECEMBER 23, 2019

BEFORE: Shawn McCutcheon, Panel Chair
Carol Hainsworth, C.B.A., Panel Member

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1.0 Executive Summary

By this Order, the Public Utilities Board (Board) approves the revised water and wastewater rates for the Municipality of North Cypress-Langford (Municipality), Langford Water Utility (Utility) effective January 1, 2020, January 1, 2021, and January 1, 2022.

The approved rates are as follows:

	Current By-Law 03/10	January 1, 2020	January 1, 2021	January 1, 2022
Quarterly Service Charge	\$17.00	\$16.71	\$16.42	\$16.14
Water (per cubic meter) - First 175	\$2.6459	\$3.50	\$4.35	\$5.21
Water (per cubic meter) - Over 175	\$2.0994	\$3.14	\$4.18	\$5.21
Minimum Quarterly Charge*	\$54.04	\$65.71	\$77.32	\$89.08

*Based on 14 cubic meters

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

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

2.0 Background

The Municipality operates the Utility, which purchases water from the Town of Neepawa and provides water services to 120 customers. Rates were last finalized for the Utility in 2011, effective October 1, 2010, January 1, 2011, and January 1, 2012.

The Utility previously had a three-step rate structure that was compressed into two steps in 2012.

Water Supply/Distribution

The water lines were installed in 1999 and some additional connections have occurred since that time.

Unaccounted for Water

The acceptable percentage of unaccounted for water is 10%, based on industry standards. If the percentage is above this amount, the applicant is to explain why and provide a plan to remedy.

The Municipality's rate study notes unaccounted for water in 2018 was 25%.

The Municipality's plan is to review quarterly billing volumes versus water purchase volumes to better track unaccounted for water on an ongoing basis. The Municipality will also request the Town of Neepawa to check the calibration of the mainline water meter used to calculate water purchases for the Utility to ensure its accuracy.

3.0 Application

On May 27, 2019, the Municipality applied for revised water rates, to be effective January 1, 2020, January 1, 2021, and January 1, 2022 as set out in By-Law No. 2/2019 having had first reading April 8, 2019. The application was supported by a rate study prepared by the Municipality's consultant.

A Public Notice of Application was issued on May 29, 2019 allowing for any questions or comments with respect to the proposed rate increases to the Board and/or the Municipality on or before June 28, 2019. No comments were received from ratepayers.

When reviewing an application the Board can either: hold a public hearing at which the applicant can present its case and customers can present their concerns; or where it is deemed to be in the best interests of a utility and its customers, the Board can review the application using a paper review process without holding a public hearing. The paper review process considers all written materials submitted by the Utility and the public, as well as any information requests and responses between the Board and the Utility. This process may reduce regulatory costs to the Utility.

A public hearing process allows the Utility and the public the opportunity to review the application and address any concerns with the Board present.

Whenever reasonable, the board will review the application using a paper review process, which saves the cost of a public hearing process.

The Board has chosen a paper review process for the Municipality's application.

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

Schedule of Utility Rate Requirements – Langford Water Utility 2020 to 2022 Budget Forecasts (\$)			
	2020	2021	2022
	Forecast		
General Expenses			
Administration	8,167	8,330	8,497
Total General Expenses	8,167	8,330	8,497
Revenue			
Penalties	748	748	748
Total General Revenues	748	748	748
Net Costs General	7,419	7,582	7,749
Water Expenses			
Purification and Treatment	3,125	3,188	3,252
Water Purchases	89,097	90,879	92,696
Transmission and Distribution	38,570	39,342	40,129
Amortization	30,205	30,205	30,205
Net Rate Costs Water	160,416	163,614	166,282
Net Operating Costs	167,835	171,196	174,031

Inadequate Utility rates have resulted in past and projected operating deficits. The proposed Utility rate increases are necessary to provide adequate income to recover all of the costs required to operate the Utility.

Contingency Allowance and Utility Reserves

As per the Board's Water and Wastewater Rate Application Guidelines, a yearly allowance equal to 10% of the variable operating costs is recommended for a contingency allowance.

The RM has included a contingency allowance of \$13,608.

The Municipality advises there are no capital projects identified in the Utility's five-year capital plan therefore no transfer to the Utility reserve included in the Municipality's application.

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 2017 Audited Financial Statements, the most recent information available, the working capital surplus for the Utility at December 31, 2017 was:

	2017	2016
Utility Fund Surplus/Deficit	\$869,601	\$914,138
Deduct: Tangible Capital Assets	937,324	952,354
Add: Long-Term Debt	-	-
Add: Utility Reserves	162,327	159,013
Equals Working Capital Surplus (Deficit)	\$94,604	\$120,797
Operating Expenses	152,155	155,354
20% of Operating Expenses (Target)	\$30,431	\$31,071

The Utility currently exceeds the Board minimum working capital surplus of 20%.

Cost Allocation Methodology

The Board requires all municipal governments to review the costs shared between its general operations and the Utility, and to allocate appropriate and reasonable costs to the Utility, based on a policy known as a Cost Allocation Methodology. This allocation 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 administration cost allocation is proposed to be based on 2% of Financial Plan General "At Large" Government Services less assessment and grants expenses as follows:

Municipality of North Cypress-Langford – Langford Water Utility Allocation Plan for Non-Direct Shared Services (see Note 1) as at March, 2019			
Category	Sub-category	Options	
1.0 Administrative Staff			2.0% of general legislative expenses excluding assessment and grant expenses.
	1.1 Billing services – meter reading to receipting and collection.		Meter Reading – N/A Drive by reading done by public works staff-minimal time and no charge to Utility.
	1.2 Accounting/ auditing/ including bylaw making and enforcement.		2.0% of audit costs
	1.3 Common office space		8.0% of office costs, utilities
	1.4 Office overheads (telephone, photocopier, computer, etc.)		2.0% of printing, postage, and stationary.
2.0 Operating, construction and maintenance costs			
	2.1 Vehicle – fuel, maintenance, lease costs, capital costs		No charge to utility for public works vehicle.
	2.2 Labor – full time, part time, on call, sick time, vacation (see Note 2)		Utility operator is a local plumber who has certification and is hired on an hourly basis as needed.
	2.3 Public works building and property.		There is no charge to the Utility for the Public Works Building use.
	2.4 Road repairs and alike (see Note 3)	Based on actual costs	-
3.0 Major projects			
	Interest/ financing		N/A
	Labor	Based on actual costs	-
	External costs	Direct charge (dedicated consulting)	-

Note 1 – Allocation must be updated periodically to reflect impacts of inflation.

Note 2 – Including salaries and benefits.

Note 3 – If a project involves work benefitting both the Utility and general operations the costs may be shared (i.e. If reconstructing a road and replacing services at the same time, a portion of the roadwork costs may be allocated to the Utility.)

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 recovery methodology as soon as it is known.

On May 17, 2019 the Municipality submitted a Deficit Application requesting approval of Actual Operating Deficits of \$(81,319) for 2013, \$(88,365) for 2015, \$(4,037) for 2016, and \$(29,888) for 2017 [or a total four-year deficit of \$(203,609)] and forecasted deficits of \$(23,873) for 2018, \$(56,281) for 2019, \$(38,226) for 2020, and \$(12,387) for 2021 [or a total four-year deficit of \$(130,767)]. The Municipality is requesting the total \$(334,376) eight-year deficit be recovered from the Utility's Working Capital Surplus.

4.0 Board Findings

The Board has reviewed the application and the projections presented by the Municipality in its rate application and notes the calculations used to formulate the Utility's rates are not consistent with Public Utilities Board Guidelines, but instead have been designed to phase-in rates to mitigate rate-shock and high year-over-year rate increases. The Board also notes, this methodology for calculating the rates requested are forecast to result in forecasted deficits of \$(23,873) for 2018, \$(56,281) for 2019, \$(38,226) for 2020, and \$(12,387) for 2021 or a total four-year deficit of \$(130,767).

The Board notes the Utility has sufficient working capital surplus to provide for the forecasted 2018 through 2021 deficits and therefore finds this methodology acceptable and approves the water rates as applied for by the Municipality. The Board notes, however use of this rate setting methodology requires diligent year-over-year monitoring of the Utility's budget.

The Board varies the Municipality's Deficit Application and approves the four-year actual operating deficits of \$(81,319) for 2013, \$(88,365) for 2015, \$(4,037) for 2016 and \$(29,888) for 2017 or a total four-year deficit of \$(203,609) to be recovered from the Utility's accumulated surplus. The Board directs the Municipality to file Deficit Applications and recovery methodology with the Board accordingly for any and all future year deficits as soon as they are known.

The Board notes the Utility has experienced several operating deficits since 2013 and has depleted its working capital surplus to absorb these deficits. The Board is concerned by these deficits and the Municipality's lack of urgency in correcting the financial course of the Utility. The continued use of the working capital surplus to absorb further, future year deficits does not provide relief to ratepayers, it simply defers the financial consequences of inadequate rate setting and diminishes the effectiveness of the user pay principle.

The Board approves the revised cost allocation methodology and reminds the Municipality this methodology must be used consistently; any changes to the new, revised cost allocation methodology require Board approval.

The Board requires the Municipality to review its water and wastewater rates for the Utility for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates (if required) on or before December 31, 2022.

The Board commends the Municipality on its plan to compress the two-step rate schedule to a single rate by 2022.

It has been eight years since the Municipality has submitted a rate application to the Board, which has resulted in multi-year deficits. In the Board's view the period between rate reviews is too long. Regular rate reviews submitted every three years, as per the Board's Guidelines, protect the financial position of the Utility and may reduce the need for substantial rate increases in one year. In some cases, the additional cost of a rate rider becomes necessary to recover utility deficits.

It is the Utility's responsibility to review the rates and ensure rates are adequate to recover the cost of service being provided to ratepayers. Ratepayers are generally more tolerant of regular, smaller increases. The Municipality needs to be much more diligent in conducting regular rate reviews of its revenue requirements.

The Board has not received the Municipality's Audited Financial Statements and reminds the Municipality Audited Financial Statements are to be reported no later than June 30 of the following year. The Board also reminds the Utility up-to-date Audited Financial Statements are required for both the Municipality to accurately forecast Utility rate requirements and for the Board to analyse Rate Applications. Failure to provide up-to-date Audited Financial Statements with future Rate and/or Deficit Applications may result in the Application being rejected by the Board. The Board directs the Municipality to submit its 2018 Audited Financial Statements as soon as they are available.

The Board is concerned with the high percentage of water loss (25% in 2018). The Board commends the Municipality on developing a plan to remedy unaccounted for water and strongly encourages the Municipality to continue to implement solutions accordingly to bring the level closer to the acceptable percentage of 10%.

Pass Through Rate Approval Request

The Board grants approval of the Municipality's request to allow for pass through rate increases resulting from any increases in the wholesale rate set by the Neepawa Water and Wastewater Utility. Pass through rate increases are typically used when a Board regulated utility purchases water from another Board regulated utility.

The Board will require the Utility to follow the requirements for pass through rate increases as established in section 3.10 of Board Order No. 124/09, with the addition of a 90-day notice period for ratepayers. The process to be followed is as follows:

Step 1. The Municipality shall consider the implication of any increase in wholesale water rates approved by the MWSB for the Utility, and determine whether or not the increase needs to be passed on to its ratepayers to maintain the adequacy of rates.

Step 2. If the cost increase is to be reflected in the rates of the Utility, and with the one exception that changes in the rate of water losses in the system may also be included, the Municipality need only inform its ratepayers/customers and the Board of the pass through rate change, with a minimum of 90 days notice. This Notice must include information for ratepayers on their ability to respond to the Board regarding the increase.

Step 3. If rates are to change for any other reason or in any amount other than the exact wholesale increase, the Municipality must make application to the Board, which may decide to proceed to hear the application by way of a paper-based process or by way of an oral public hearing.

Step 4. For such pass through rate changes, the Municipality shall file an amended rate By-Law with the Board, along with a copy of the Notice provided to ratepayers.

5.0 IT IS HEREBY ORDERED THAT:

1. The revised water and wastewater rates for the Municipality of North Cypress-Langford, Langford Water, BE AND ARE HEREBY APPROVED in accordance with the attached Schedule A, effective January 1, 2020, January 1, 2021, and January 1, 2022.
2. The request to pass through wholesale water price increases from the Neepawa Water Utility, using the steps as outlined in this Board Order, for the Langford Water Utility, BE AND ARE HEREBY APPROVED.
3. The cost allocation methodology for shared services as submitted by the Municipality of North Cypress-Langford BE AND IS HEREBY APPROVED.

4. The Municipality of North Cypress-Langford is to provide a 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 Municipality of North Cypress-Langford amend its water and wastewater rate By-Law to reflect the decisions in this Order and submit a copy to the Board once it has received third and final reading.
6. The Municipality of North Cypress-Langford review its water and wastewater rates for the Langford Water Utility 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 December 31, 2022.
7. The Deficit Application by the Municipality of North Cypress-Langford BE AND IS HEREBY VARIED.
8. The 2013 actual operating deficit of \$(81,319), 2015 actual operating deficit of \$(88,365), 2016 Actual Operating Deficit of \$(4,037), and 2017 actual operating deficit of \$(29,888) when calculated for regulatory purposes, incurred in the Municipality of North Cypress-Langford, Langford Water Utility, is HEREBY APPROVED to be recovered from the Utility's Accumulated Surplus Account, effective the date of this Order.
9. The Municipality of North Cypress-Langford file a Deficit Application and recovery methodology for any and all future year deficits as soon as they are known.
10. The Municipality of North Cypress-Langford provide a copy of the Audited Financial Statements for 2018 as soon as they are available.

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.


Fees payable upon this Order - \$650.00

THE PUBLIC UTILITIES BOARD

"Shawn McCutcheon"
Panel Chair

"Frederick Mykytyshyn"
Assistant Associate Secretary

Certified a true copy of Order No. 196/19
issued by The Public Utilities Board


Assistant Associate Secretary

SCHEDULE A

**MUNICIPALITY OF NORTH CYPRESS-LANGFORD
LANGFORD WATER UTILITY
WATER UTILITY RATES BY-LAW NO. 2/2019
SCHEDULE OF QUARTERLY RATES**

1. Schedule of Commodity Rates &
Quarterly Service Charge

January 1, 2020

All Water Consumption

Cubic Meters per quarter

First 175 Cubic Meters per quarter

\$3.50

Over 175 Cubic Meters per quarter

\$3.14

Quarterly Service Charge

\$16.71

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 Customers**

<u>Meter Size</u>	<u>Water Included (C.M.)</u>	<u>Customer Service Charge</u>	<u>Water Commodity Charge</u>	<u>Water Total Quarterly Minimum</u>
5/8 inch	14	\$16.71	\$49.00	\$65.71
¾ inch	28	\$16.71	\$98.00	\$114.71
1 inch	56	\$16.71	\$196.00	\$212.71
1 ½ inch	140	\$16.71	\$490.00	\$506.71
2 inch	350	\$16.71	\$1,162.00	\$1,178.71

1. Schedule of Commodity Rates & Quarterly Service Charge

January 1, 2021

All Water Consumption

Cubic Meters per quarter

First 175 Cubic Meters per quarter

\$4.35

Over 175 Cubic Meters per quarter

\$4.18

Quarterly Service Charge

\$16.42

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 Customers**

<u>Meter Size</u>	<u>Water Included (C.M.)</u>	<u>Customer Service Charge</u>	<u>Water Commodity Charge</u>	<u>Water Total Quarterly Minimum</u>
5/8 inch	14	\$16.42	\$60.90	\$77.32
¾ inch	28	\$16.42	\$121.80	\$138.22
1 inch	56	\$16.42	\$243.60	\$260.02
1 ½ inch	140	\$16.42	\$609.00	\$625.42
2 inch	350	\$16.42	\$1,492.75	\$1,509.17

1. Schedule of Commodity Rates & Quarterly Service Charge

January 1, 2022

All Water Consumption

Cubic Meters per quarter

All Water Consumed

\$5.21

Quarterly Service Charge

\$16.14

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 Customers

Meter Size	Water Included (C.M.)	Customer Service Charge	Water Commodity Charge	Water Total Quarterly Minimum
5/8 inch	14	\$16.14	\$72.94	\$89.08
¾ inch	28	\$16.14	\$145.88	\$162.02
1 inch	56	\$16.14	\$291.76	\$307.90
1 ½ inch	140	\$16.14	\$729.40	\$745.54
2 inch	350	\$16.14	\$1,823.50	\$1,839.64

The following clauses take effect January 1, 2020:**3. Service to Customers Outside Utility's Limits**

The Council of the Municipality of North Cypress-Langford may sign Agreements with customers for the provision of water services to properties located outside the boundaries of Langford Water Utility. Such Agreements shall provide for payment of the appropriate rates set out in this 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 Langford Water Utility boundaries. In addition, all costs of connecting to the Utility's mains, and installing and maintaining service connections, will be paid by the customer.

4. Billings And Penalties

Accounts shall be billed quarterly based on water used. A late payment penalty charge of 1.25% compounded monthly shall be charged on the dollar amount owing after the billing due date. The due date will be at least fourteen (14) days after the mailing of the bills.

5. Disconnection and Reconnection

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

There shall be an activation and termination fee of \$50.00 charged to the consumer for each occurrence when municipal staff or a municipal contractor must attend to the service. 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. New Water Connections

All requests for new water service connections are subject to availability of water supply and negotiating of an easement agreement with the Municipality.

The standard water service from the water main in the street boundary shall be a 19mm standardized pipe, a 19mm curb stop and a curb stop box.

7. Liability for Charges

Pursuant to Section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water services, including fines and penalties, are a lien and charge upon the land serviced, and may be collected in the same manner in which ordinary taxes upon the land are collectible, and with like remedies.

8. Water Allowance Due to Line Freezing

That in any case where, at the request of 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.

9. Water Meters

Water meters are owned by the Municipality, but are the responsibility of the utility customer to maintain. If the water meter is broken, frozen, etc., the utility customer will be billed for a new meter at the current cost of replacement.

10. Meter Testing

That in any case where a utility customer requests that a meter be tested for accuracy, the customer will provide the Municipality with a deposit of \$100. The 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 Municipality and the deposit will be refunded to the customer and the customer's account will be adjusted for the preceding four (4) months. 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. Cross Connections

No customer or person shall connect, cause to be connected or allow to remain connected any piping, fixture, fitting, container or appliance in a manner which under any circumstances may allow water, wastewater or any harmful liquid or substance to enter the Municipality's water system.

If a condition is found to exist which, in the opinion of the Municipality, is contrary to the aforesaid, the Municipality may either:

Shut off the service or services; or

Give notice to the customer to correct the fault at his or her own expenses within a specified time period.

12. Conditions of Disrepair

In the event that there are conditions of disrepair in the water works on a property that detrimentally affects the system as a whole and, upon the failure of the owner of the property to correct the condition within a reasonable time, the Municipality, or its agents, may enter the property, effect repairs and charge the cost thereof against the subject property as ordinary taxes.

13. Authorization for Officer to Enter Upon Premises

The Public Works Supervisor, or other employee authorized by the Municipality in the absence of the Public Works Supervisor, 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 Municipality.