

Order No. 118/20

**TOWN OF VIRDEN
VIRDEN WATER AND WASTEWATER UTILITY
REVISED RATES FOR NOVEMBER 1, 2020, FEBRUARY 1, 2021, AND
FEBRUARY 1, 2022 AND 2009 – 2017 OPERATING DEFICITS**

SEPTEMBER 29, 2020

Revised October 19, 2020

**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 water and wastewater rates as applied for by the Town of Virden (Town), Virden Water and Wastewater Utility (Utility) and varies the effective dates to November 1, 2020, February 1, 2021, and February 1, 2022.

The approved rates are as follows:

	November 1, 2020	February 1, 2021	February 1, 2022
Quarterly Service Charge	\$24.18	\$24.94	\$25.74
Water (per 1,000 gallons) – First 100,000 gallons	\$6.33	\$6.50	\$7.92
Water (per 1,000 gallons) – Over 100,000 gallons	\$5.71	\$5.79	\$5.87
Wastewater (per 1,000 gallons)	\$4.45	\$4.54	\$4.62
Minimum Quarterly Charge*	\$56.52	\$58.06	\$63.36
Bulk Water (per 1,000 gallons) – First 500 gallons	\$6.00	\$6.00	\$6.00
Bulk Water (per 1,000 gallons) – Over 500 gallons	\$12.00	\$12.00	\$12.00
Hydrant Rentals	\$150.00	\$150.00	\$150.00
Reconnection – During Work Hours	\$50.00	\$50.00	\$50.00
Reconnection – Outside Work Hours	\$100.00	\$100.00	\$100.00
Meter Testing Deposit	\$100.00	\$100.00	\$100.00

*Based on 3,000 gallons

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

The Board also approves actual operating deficits as follows:

2009 - \$79,058
 2010 - \$51,994
 2011 - \$72,091
 2012 - \$198,534
 2013 - \$72,247
 2014 - \$98,485
 2015 - \$224,835
 2016 - \$94,611
 2017 - \$29,500
 Total - \$921,355

The above-noted accumulated deficits totalling \$921,355 are to be recovered by a rate rider of \$2.52 per 1,000 gallons for a period of five years beginning November 1, 2020 or until the total \$921,355 deficit is recovered, whichever comes first.

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

2.0 Background

The Town owns and operates the Utility serving 1,463 water and wastewater customers, which includes 5 water only and 14 wastewater only customers (wastewater only customers are not metered). The Utility also sells raw, untreated water to Albchem Industries Ltd. Rates were last approved for the Utility in 1998 in Board Order No. 84/98.

Water Supply/Distribution

The original infrastructure was constructed in the 1950's. Upgrades to the water treatment plant were completed in 2010, 2017, and 2019. Recently there have been extensions to serve new developments within the community. There are currently no ongoing issues with water line breaks or frozen lines. The water system has no issues in meeting the current and future demand.

Wastewater Collection/Treatment

A new wastewater treatment plant was completed in 2019. The wastewater system infrastructure was constructed in the 1950's and has eight lift stations. The majority of the system is comprised of gravity force mains, but some properties that were added to the Town during annexation in 1999 have low force sewer. The Town advises there are currently no ongoing issues with wastewater line breaks and the wastewater system has no issues in meeting the current and future demand

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 unaccounted for water in the rate study notes current unaccounted for water levels of 19.15% primarily resulting from water main breaks, bi-annual hydrant flushing, and water line flushing.

The Town advises it is considering purchasing a flow meter, to more accurately track the amount of water used in hydrant/line flushing, and implementing better monitoring and metering practices at Town-owned facilities.

3.0 Application

On December 19, 2019, the Town applied for revised water and wastewater rates, to be effective July 1, 2020, July 1, 2021, and July 1, 2022 as set out in By-Law No. 2776 having had first reading November 19, 2019. The application was supported by a rate study prepared by the Town's consultant.

A Public Notice of Application was issued on January 3, 2020 allowing for any questions or comments with respect to the proposed rate increases to the Board and/or the Town on or before February 2, 2020. No responses to the notice were received.

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 Town’s application.

The rates were calculated based on the following projections using an annual inflation rate of 3% in all calculations:

Schedule of Utility Rate Requirements Town of Virden Water and Wastewater Utility 2020 to 2022 Budget Forecasts (\$)			
	2020	2021	2022
	Forecast		
General Expenses			
Administration	145,347	149,708	154,199
Working Capital Surcharge	1,133	1,211	1,399
Total General Expenses	146,480	150,919	155,598
Revenue			
Penalties	5,000	5,000	5,000
Total General Revenues	5,000	5,000	5,000
Net Costs General	141,480	145,919	150,598
Water Expenses			
Purification and Treatment	420,525	433,141	446,135
Transmission and Distribution	100,354	103,365	106,466
Connections – Net Loss	1,049	1,080	1,112
Amortization	127,165	127,165	127,165
Interest on Long-Term Debt	34,392	27,286	19,857
Minor Capital Upgrades	50,000	50,000	50,000
Reserves	40,000	50,000	50,000
Contingency	52,193	53,758	55,372
Total Water Expenses	825,678	845,795	856,107
Revenue			
Hydrant Rentals (184 @ \$150)	27,600	27,600	27,600
Investment Income	20,000	20,000	20,000

	Amortization of Capital Grants	62,279	62,279	62,279
	Taxation Revenues	225,597	225,085	129,887
	Other Revenue	30,000	30,000	30,000
	Total Water Revenue	365,476	364,964	269,766
	Net Water Costs	460,202	480,831	586,341
Wastewater Expenses				
	Collection System	31,129	32,063	33,025
	Lift Station	50,726	52,248	53,816
	Treatment and Disposal	94,299	97,128	100,041
	Other Collection and Disposal	144,038	148,359	152,809
	Amortization	74,186	74,186	74,186
	Contingency	32,019	32,980	33,969
	Total Wastewater Expenses	426,397	436,963	447,846
Revenue				
	Amortization of Capital Grants	151,149	151,149	151,149
	Total Wastewater Revenue	151,149	151,149	151,149
	Net Wastewater Costs	275,248	285,814	296,697
	Net Operating Costs	876,930	912,564	1,033,636

The proposed Utility rate increases are requested to properly align rates with the operating costs of the Utility. Rates were last set in 1998 and have resulted in year-over-year deficits as noted above.

Please note the above calculations are based on the 2016 Audited Financial Statements, which the Town's consultant has advised were the most recent available Audited Financial Statements available at the time the rate study was conducted.

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 Town has included a contingency allowance of \$52,193 for 2020, \$53,758 for 2021, and \$55,372 for water and \$32,019 for 2020, \$32,980 for 2021, and \$33,969 for 2022 for wastewater.

The Town has included a reserve allowance of \$100,000 to provide for repairs, maintenance, and future capital plans. The Utility five-year capital plan includes a new well hook-up and installation of remote meter readers.

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 2018 Audited Financial Statements, the most recent information available, the working capital surplus/deficit for the Utility at December 31, 2018 was:

	2018
Utility Fund Surplus/Deficit	\$12,004,727
Deduct: Tangible Capital Assets	(21,259,442)
Add: Long-Term Debt	1,019,137
Add: Utility Reserves	322,780
Equals Working Capital Surplus (Deficit)	\$(7,912,798)
Operating Expenses	1,399,901
20% of Operating Expenses (Target)	\$279,980

The working capital does not meet the Board requirement. The Town has included a working capital surcharge of \$1,133 for 2020, \$1,211 for 2021, and \$1,399 for 2022, which represents 1% of total annual operating expenses to reduce the above-noted working capital deficit.

As per the Board Guidelines, the Board requires a provision equal to 1% of annual operating expenses to be added to rates until the working capital balance meets the Board required target of 20% of annual operating expenses. The Town advises the minimum provision has been chosen due to the magnitude of the revised rates requested and the rate riders requested to address operating deficits incurred from 2009 up to and including 2017.

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 Town allocates 20% of the Chief Administrative Officer's (CAO's) salary and 20% of the Office Manager's salary to the Utility. The Town also charges the Utility Operator's salary expenses directly 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 December 19, 2019 the Town submitted Deficit Applications requesting approval of Actual Operating Deficits of \$79,058 for 2009, \$51,994 for 2010, \$72,091 for 2011, \$198,534 for 2012, \$72,247 for 2013, \$98,485 for 2014, \$224,835 for 2015, \$94,611 for 2016, and \$29,500 for 2017 (or a total nine-year deficit of \$921,355). The Town is requesting the total \$921,355 nine-year deficit be recovered by a rate rider of \$1.26 per 1,000 gallons, for a period of 10 years beginning July 1, 2020.

4.0 Board Findings

The Board is alarmed by the length of time between rate applications for the Utility. It has been over 20 years since the Town has submitted a Rate Application to the Board, which has resulted in nine deficits totalling \$921,355. In the Board's view, the period between rate reviews is unacceptable. 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 cases, such as this one, 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 Town needs to be much more diligent in conducting regular rate reviews of its revenue requirements.

The Board has reviewed the Town's application and projections presented by the Town in its rate study and finds them to be reasonable. The Board notes, however, projections presented by the Town were based on the 2016 Audited Financial Statements. The Board reminds the Town, as per the Board's Guidelines, prior year's Utility financial statements are required to be used to accurately project rate requirements.

The Board approves the Utility rates requested by the Town, but varies the effective dates to November 1, 2020, February 1, 2021, and February 1, 2022 to correspond with the Utility's most current billing cycle.

The Board approves the Town's Cost Allocation Methodology and reminds the Town this methodology must be used consistently, any changes to the Cost Allocation Methodology require Board approval.

The Board requires the Town 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 has reviewed the Town's Deficit Applications and is concerned with respect to the duration and magnitude of the deficits incurred by the Utility. The Board finds that had the Utility applied for regular rate increases, the deficit amounts would have been mitigated and/or avoided. While the Board is sensitive to the utility rate increases customers are incurring, the Board also finds the ten-year duration of the recovery period requested by the Town is too long and creates significant issues of fairness for new customers who were not a party to the deficits incurred.

The Board approves the Town's Deficit Applications for the actual operating deficits of \$79,058 for 2009, \$51,994 for 2010, \$72,091 for 2011, \$198,534 for 2012, \$72,247 for 2013, \$98,485 for 2014, \$224,835 for 2015, \$94,611 for 2016, and \$29,500 for 2017 or a total nine-year deficit of \$921,355. The Board, however, varies the recovery rate rider to \$2.52 per 1,000 gallons and the duration of the recovery period to 5 years in consideration of the cessation of tax revenues noted below. The Board also varies the effective date to November 1, 2020 (to coincide with the Utility's next billing date) or until the total deficit is recovered, whichever comes first .

The Board has not received the Town's 2019 Audited Financial Statements and reminds the Town, 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 Town to accurately forecast Utility rate requirements and for the Board to analyze 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 Town to submit its 2019 Audited Financial Statements as soon as they are available.

The Board is concerned with the high percentage of water loss (19.15%). The Board commends the Town on analyzing plans to remedy unaccounted for water and strongly encourages the Town to continue to implement solutions accordingly to bring the level closer to the acceptable percentage of 10%.

The Board notes, the Utility has an Agreement with Albchem Industries Ltd. (Albchem) for the sale of raw water. The Town is in the process of potentially obtaining a new water source to supply water for the Agreement in 2021, which may result in a new Agreement with Albchem. The Board also notes, revenues received from the Agreement are recorded as Utility revenue to offset operating costs.

The Board notes, the Utility has expiring taxation revenues of \$57,433 in 2023, \$49,895 in 2026, and \$25,093 in 2027 and directs the Town to account for this loss of revenue to the Utility in future rate studies/applications to prevent future large, all-at-once rate increases to customers.

5.0 IT IS HEREBY ORDERED THAT:

1. The revised water and wastewater rates for the Town of Virden, Virden Water and Wastewater Utility, BE AND ARE HEREBY VARIED in accordance with the attached Schedule A, effective November 1, 2020, February 1, 2021, and February 1, 2022.
2. The Shared Cost Allocation Methodology for the Town of Virden BE AND IS HEREBY APPROVED.
3. The Town of Virden 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.
4. The Town of Virden 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.
5. The Town of Virden review its water and wastewater rates for the Virden Water and Wastewater 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.

6. The actual operating deficits, when calculated for regulatory purposes, of \$79,058 for 2009, \$51,994 for 2010, \$72,091 for 2011, \$198,534 for 2012, \$72,247 for 2013, \$98,485 for 2014, \$224,835 for 2015, \$94,611 for 2016, and \$29,500 for 2017 or total nine-year deficit of \$921,355 incurred in the Town of Virden, Virden Water and Wastewater Utility, is HEREBY VARIED to be recovered through a rate rider of \$2.52 per 1,000 gallons, per customer per quarter over five years effective November 1, 2020, or until the deficit is fully recovered, whichever comes first.
7. The Town of Virden submit its 2019 Audited Financial Statements as soon as possible.

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. 118/20
issued by The Public Utilities Board



Assistant Associate Secretary

SCHEDULE A**TOWN OF VIRDEN
VIRDEN WATER AND WASTEWATER UTILITY
WATER AND WASTEWATER UTILITY RATES BY-LAW NO. 2776****SCHEDULE OF QUARTERLY RATES:****1. COMMODITY RATES PER 1,000 GALLONS**

	Water	Wastewater	Water & Wastewater
Effective November 1, 2020			
First 100,000 gallons per quarter	\$6.33	\$4.45	\$10.78
All over 100,000 gallons per quarter	\$5.71	\$4.45	\$10.16
Effective February 1, 2021			
First 100,000 gallons per quarter	\$6.50	\$4.54	\$11.04
All over 100,000 gallons per quarter	\$5.79	\$4.54	\$10.33
Effective February 1, 2022			
First 100,000 gallons per quarter	\$7.92	\$4.62	\$12.54
All over 100,000 gallons per quarter	\$5.87	\$4.62	\$10.49

2. MINIMUM CHARGES PER QUARTER

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

November 1, 2020

Meter Size	Group Capacity Ratio	Water Included Gallons	Customer Service Charge	<u>Commodity Charges</u>		Total Quarterly Minimum
				Water	Wastewater	
5/8"	1	3,000	\$24.18	\$18.99	\$13.35	\$56.52
3/4"	2	6,000	\$24.18	\$37.98	\$26.70	\$88.86
1"	4	12,000	\$24.18	\$75.96	\$53.40	\$153.54
1 1/4"	10	30,000	\$24.18	\$189.90	\$133.50	\$347.58
2"	25	75,000	\$24.18	\$474.75	\$333.75	\$832.68
3"	45	135,000	\$24.18	\$832.85	\$600.75	\$1,457.78
4"	90	270,000	\$24.18	\$1,603.70	\$1,201.50	\$2,829.38

February 1, 2021

Meter Size	Group Capacity Ratio	Water Included Gallons	Customer Service Charge	<u>Commodity Charges</u>		Total Quarterly Minimum
				Water	Wastewater	
5/8"	1	3,000	\$24.94	\$19.50	\$13.62	\$58.06
3/4"	2	6,000	\$24.94	\$39.00	\$27.24	\$91.18
1"	4	12,000	\$24.94	\$78.00	\$54.48	\$157.42
1 1/4"	10	30,000	\$24.94	\$195.00	\$136.20	\$356.14
2"	25	75,000	\$24.94	\$487.50	\$340.50	\$852.94
3"	45	135,000	\$24.94	\$852.65	\$612.90	\$1,490.49
4"	90	270,000	\$24.94	\$1,634.30	\$1,225.80	\$2,885.04

February 1, 2022

Meter Size	Group Capacity Ratio	Water Included Gallons	Customer Service Charge	<u>Commodity Charges</u>		Total Quarterly Minimum
				Water	Wastewater	
5/8"	1	3,000	\$25.74	\$23.76	\$13.86	\$63.36
3/4"	2	6,000	\$25.74	\$47.52	\$27.72	\$100.98
1"	4	12,000	\$25.74	\$95.04	\$55.44	\$176.22
1 1/4"	10	30,000	\$25.74	\$237.60	\$138.60	\$401.94
2"	25	75,000	\$25.74	\$594.00	\$346.50	\$966.24
3"	45	135,000	\$25.74	\$997.45	\$623.70	\$1,646.89
4"	90	270,000	\$25.74	\$1,789.90	\$1,247.40	\$3,063.04

(b) Water Only Customers

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

(c) Wastewater Only Customers

Minimum Charge will be the same fore each meter size as shown, above, but the Water Commodity Charge will be excluded. The customer shall make provision to have a meter installed to record the water and wastewater that is disposed into the Town of Virden sanitary wastewater system. The commodity rates for wastewater service listed in Section 1 hereof will apply.

(d) Private Water Systems

Customers that meet a portion of their water supply requirements with private water systems shall make provision to have a meter installed to record the volume of wastewater that is disposed into the Town of Virden sanitary wastewater system. The commodity rats for wastewater service listed in Section 1 hereof will apply.

The following clauses take effect November 1, 2020:

3. BULK SALE RATES

All water sold in bulk by the Town of Virden shall be charged for at the rate of \$12.00 per 1,000 gallons on a pro-rated basis for all quantities greater than 500 gallons. For any quantity of 500 gallons or less the minimum charge will be \$6.00.

4. SERVICE TO CUSTOMERS OUTSIDE TOWN BOUNDARIES

The Council of the Town of Virden may sign agreements with customers for provision of water and wastewater services to properties located outside the legal boundaries of the Town of Virden. Such agreements shall provide for payment of the appropriate rates set out in the above schedules, as well as a surcharge, set by resolution of Council, which shall be equivalent to the frontage or per parcel 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% 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 Town 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 Town'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 (\$100.00 if reconnection is to occur after normal working hours) 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 an 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 Town of Virden will pay the Utility an annual rental of \$150.00 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 special surcharge for substances requiring special treatment shall be charged based on the actual costs of treatment required for the particular sewage or industrial wastes.

12. REQUEST FOR METER TESTING

Any customer may request that their water meter be tested. Upon receipt of a one hundred dollar (\$100.00) deposit, the Town of Virden will submit the meter for testing to an independent testing company. Should the meter be found to be reading in excess of actual flows, the said deposit of \$100.00 shall be returned to the customer. Should the meter be found to be accurate or reading below the actual flows, the customer shall forfeit the deposit to cover the cost of testing.