

Order No. 19/21

**ORDER RESPECTING
GRANDVIEW MUNICIPALITY
GRANDVIEW URBAN “G3” WATER AND WASTEWATER UTILITY
REQUEST TO REVIEW AND VARY BOARD ORDER NO. 138/18
2018 AND 2019 OPERATING DEFICITS**

JANUARY 28, 2021

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

1.0 Executive Summary

By this Order, the Public Utilities Board (Board) denies Grandview Municipality's (Municipality) request to review and vary Board Order No. 138/18 for the Grandview Urban "G3" Water and Wastewater Utility (Utility).

The Board approves the Municipality's request to withdraw its request to transfer 2018 sludge removal costs of \$65,433 and 2019 sludge removal costs of \$63,560, or two-year total costs of \$128,993 to the Municipality's General Fund.

The Board varies the Municipality's request for the recovery of a 2018 actual operating deficit of \$59,239 and a 2019 forecasted operating deficit of \$33,991 (or a two-year total deficit of \$93,230), to be recovered by a rate rider of \$4.18 per 1,000 gallons per customer per quarter, effective April 1, 2021, for a period of 20 months or until the deficit is fully recovered, whichever comes first.

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

2.0 Background

Please note, this Board Order is best read in conjunction with Board Order No. 118/18, Board Order No. 138/18, and Board Order No. 126/19.

In Board Order No. 138/18, issued October 10, 2018, the Board approved revised water and wastewater rates for the Utility. Rates were approved effective January 1, 2019, January 1, 2020, and January 1, 2021. The Board also approved annual hydrant rental rates of \$100.00 per year, annual lagoon tipping fees of \$250.00 per year and reconnection fees of \$30.00 effective January 1, 2019.

In Board Order No. 118/18, issued September 4, 2018, the Board approved a two-year rate rider of \$2.21 per 1,000 gallons per customer per quarter effective October 1, 2018, to recover a 2016 actual operating deficit of \$67,818. In Board Order No. 126/19, issued September 3, 2019, the Board also approved an 18-month rate rider of \$1.97 per 1,000 gallons per customer per quarter effective October 1, 2019, to recover a 2017 actual operating deficit of \$36,539.

The Public Utilities Board issued Board Order No. 151/08 on November 7, 2008 requiring all water and/or wastewater utilities to report an actual year-end deficit to the Board if the utility:

1. Had not received prior approval for the deficit from the Board and such deficit either exceeds \$10,000 or represents 5% of the utility's operating budget; or
2. Had received prior approval for the deficit from the Board and the actual deficit:
 - a. Exceeds the previously approved amount by either \$10,000 or 5% of the utility's operating budget; or
 - b. Is caused as a result that differs from that upon which said approval was granted.

3.0 Application

On May 22, 2020, the Board received an Application from the Municipality to recover a 2018 actual operating deficit \$33,981 and a 2019 forecasted operating deficit of \$98,000 (or a two-year total deficit of \$131,981) incurred by the Utility. The Municipality is requesting the deficits be recovered by a two-year extension of the existing rate riders of \$2.21 per 1,000 gallons per customer per quarter from Board Order No. 118/18 and \$1.97 per 1,000 gallons per customer per quarter from Board Order No. 126/19.

The Municipality is also requesting 2018 and 2019 total sludge removal costs of \$128,993 be transferred to the Municipality's General Fund, and Board Order No. 138/18 be reviewed and varied to include lagoon tipping fees, hydrant rental fees, and reconnection fees as follows:

	Year 1	Year 2	Year 3
Hydrant Rentals (annual)	\$200.00	\$300.00	\$400.00
Re-Connection Fees	\$40.00	\$50.00	\$60.00
Lagoon Tipping Fees:			
Wastewater per 1,000 gallons	\$0.21	\$0.26	\$0.36
1,200 Gallon Tank	\$252.00	\$312.00	\$432.00
2,100 Gallon Tank	\$441.00	\$564.00	\$756.00

Board staff conducted a review of the Municipality's application and submitted several information requests to the Municipality from June 11, 2020 to January 20, 2021.

Subsequent to the Municipality's application and the information requests from Board staff, the Municipality revised its request as follows:

- Recovery of a 2018 actual operating deficit of \$59,239 and a 2019 forecasted deficit of \$33,991, or a total two-year deficit of \$93,230, to be recovered through a two-year extension of the rate riders of \$2.21 per 1,000 gallons per customer per quarter from Board Order No. 118/18 and \$1.97 per 1,000 gallons per customer per quarter from Board Order No. 126/19.
- Board Order No. 138/18 be reviewed and varied to include lagoon tipping fees, hydrant rental fees, and re-connection fees as follows:

	January 1, 2021	January 1, 2022	January 1, 2023
Hydrant Rentals (annual)	\$175.00	\$250.00	\$325.00
Re-Connection Fees	\$40.00	\$50.00	\$60.00
Lagoon Tipping Fees:			
1,200 Gallon Tank	\$252.00	\$312.00	\$432.00
2,100 Gallon Tank	\$441.00	\$564.00	\$756.00

On January 21, 2021, the Municipality's Chief Administrative Officer advised the Board, the municipal auditor(s) would not allow the requested transfer of sludge removal costs to the Municipality's General Fund. The Municipality therefore withdrew its request.

4.0 Board Findings

Request to Review and Vary Board Order No. 138/18

The Board has reviewed the Municipality's request to review and vary Board Order No. 138/18 and finds it cannot properly review the Municipality's request for revised hydrant rental rates, lagoon tipping fees, and re-connection fees outside the context of a full rate study. Revisions to lagoon tipping fees, hydrant rental fees, and re-connection fees change utility revenues, which directly influence utility rates to customers. The Board therefore denies the Municipality's request to review and vary hydrant rental rates, lagoon tipping fees, and re-connection fees for January 1, 2021, January 1, 2022, and January 1, 2023.

The Board notes, Board Order No. 138/18 ordered the Municipality to review its water and wastewater rates for adequacy and to file a report with the Board, as well as an application for revised rates by December 31, 2021. The Municipality may apply for rate revisions for hydrant rental rates, lagoon tipping fees, and re-connection fees for 2022 and beyond in its next rate study. The Board reminds the Municipality, requests for revised rates must be substantiated with supporting financial data, projections, and justification so customers and the Board may fully understand the rationale for the proposed increases as well as substantiate their requirement.

Transfer of Sludge Removal Costs to the General Fund

The Board has reviewed the Municipality's request to transfer 2018 sludge removal costs of \$65,433 and 2019 sludge removal costs of \$63,560, or two-year total sludge removal costs of \$128,993, to the Municipality's General Fund. The Board approves the Municipality's request to withdraw its application and reminds the Municipality such transfers are an incorrect accounting practice. Utility expenses cannot be transferred to the Municipality's General Fund. The Board notes, the Municipality's General Fund is not to be used to subsidize utility expenses, such as sludge removal.

The Board is concerned by the Municipality's failure to co-ordinate its request between Municipal Council, Utility staff, and the Municipality's auditor(s). Had the Municipality or Utility staff consulted with its auditor prior to filing its request with the Board, the Municipality's auditor(s) would have either advised the Municipality earlier to not file with the Board and/or advised Municipal Council and Utility staff of other, proper methodologies for the accounting treatment of Utility expenses.

The Board directs the Municipality to co-ordinate all future requests and applications with Utility Staff, Municipal Council, and its Municipal auditor(s) to ensure they are accurate and feasible, prior to filing them with the Board.

The Board is concerned by the Municipality's failure to plan/forecast for these large, required utility expenses (sludge removal) in its utility rates in prior year's rate studies and the resulting utility operating deficits that have been incurred in 2018 and 2019.

The Board notes, the Municipality's auditor(s) has confirmed the total costs for sludge removal as noted above and has advised the Municipality these lagoon maintenance (sludge removal) costs are not considered a betterment to the capital asset under Public Sector Accounting Standards (PSAS) and therefore may not be capitalized.

The Board, however, notes PSAS states:

- The costs of betterments to a capital asset are considered to be capital asset additions to the related asset. Betterments are recorded as separate asset additions and amortized over their useful life.
- Definition of a Betterment – Betterments increase the service potential (i.e. capacity), reduce the operating cost, or extend the life of a Tangible Capital Asset (TCA).

In the Board's view sludge removal both increases the service potential/capacity and extends the useful life of a lagoon and therefore would be classified as a betterment. The Board is also concerned for the financial wellbeing of the Utility, given the magnitude of recurring sludge removal costs (\$128,933) and their impact on utility rates. The Board notes, had these costs been classified as a TCA and capitalized/amortized accordingly, the utility would not have incurred deficits in 2018 and 2019. The Board also notes, the Municipality should have planned for and budgeted for these expense requirements accordingly. The Board therefore recommends the Municipality review PSAS with its auditor(s) and discuss the treatment of these expenses in the future.

The Board directs the Municipality to include all applicable engineering assessments, sludge removal cost quotes, and sludge removal expenses in all future rate studies and rate applications. The Board also directs the Municipality to file a copy of the most recent engineering assessment, including the details of sludge removal requirements and costs, with the Board with the Municipality's 2020 Audited Financial Statements by September 1, 2021.

Deficit Application

The Board has reviewed the Municipality's deficit application and finds the application incomplete. The Board finds the application failed to include supporting calculations for the proposed deficit recovery rate rider amount and recovery period. The Board notes, failure to include supporting calculations results in an inability for the Board to fully understand the Municipality's request and further, an inability to substantiate these new costs to utility customers and stakeholders.

The Board finds the rate rider of \$2.21 per 1,000 gallons per customer per quarter from Board Order No. 118/18 expired September 30, 2020 and therefore cannot be extended. The Board also finds that based on the Municipality's volume of water sales of 13,625,985 gallons in 2018 and 13,282,966 gallons in 2019, or a two-year average sales of 13,454,476 gallons, a two-year rate rider of \$4.18 per 1,000 gallons per customer per quarter (\$2.21 from Board Order No. 118/18 + \$1.97 from Board Order No. 126/19) would result in revenues of approximately \$112,500 (two-year average of water sold 13,454,476 x \$4.18 per 1,000 x two –years), which exceeds the applied for total two-year deficit of \$93,268.

The Board therefore varies the Municipality's deficit application and approves the recovery of a 2018 actual operating deficit of \$59,239 and a 2019 forecasted operating deficit of \$33,991, or a two-year total deficit of \$93,230, to be recovered by a rate rider of \$4.18 per 1,000 gallons per customer per quarter, effective April 1, 2021 for a period of 20 months or until the deficit is fully recovered. Please see the Appendix to this Order for the Board's calculation of the approved rate rider.

The Board notes the Utility has advised Board staff that the Utility has collected \$73,519 to date for the 2016 actual operating deficit of \$67,818 as outlined in Board Order No. 118/18. The Board also notes the Utility has been continuing to bill customers a rate rider of \$2.21 per 1,000 gallons per customer despite the Board's Order as follows:

“The actual utility operating deficit, when calculated for regulatory purposes, of \$67,818 in 2016 incurred in the Municipality of Grandview, G3 Water and Wastewater Utility, is HEREBY APPROVED to be recovered through a rate rider of \$2.21 per 1,000 gallons per customer per quarter, over two (2) years or until the total deficit amount of \$67,818 has been reached, whichever comes first.”

The Board similarly notes the Utility has collected \$39,561 to date for the 2017 actual operating deficit of \$36,539 as outlined in Board Order No. 126/19 and has been continuing to bill customers a rate rider of \$1.97 per 1,000 gallons per customer despite the Board’s Order as follows:

“The 2017 actual operating deficit, when calculated for regulatory purposes, of \$36,539 incurred in the Grandview Municipality, Grandview Urban “G3” Water and Wastewater Utility, is HEREBY APPROVED to be recovered through a rate rider of \$1.97 per 1,000 gallons, per customer for one and a half (1.5) years or until the deficit is recovered in full, whichever comes first. The rate rider is effective October 1, 2019. “

The Board therefore directs the Utility to advise its customers that surplus revenues collected of \$8,723 (\$5,701 + \$3,022) has been kept in the Utility’s General Operating Fund to stabilize utility rates. The Board also directs the Utility to cease collection of the \$2.21 per 1,000 gallons per customer rate rider and the \$1.97 per 1,000 gallons per customer rate rider immediately.

2022 Rate Application

The Board notes, Board Order No. 138/18 ordered the Municipality to review its water and wastewater rates for adequacy and file a report with the Board, as well as an application for revised rates, by no later than December 31, 2021. The Board advises the Municipality its application must be based on the Utility's most recent Audited Financial Statements and must include all supporting forecasts and calculations, the most recent engineering assessment (including forecasts and costs pertaining to sludge removal), a completed cost allocation methodology, etc.

The Board finds the Municipality's applications to be unacceptable. The Board advises the Municipality that all future, incomplete applications will either be returned to the Municipality or denied by the Board if they do not contain accurate information and follow Board Guidelines accordingly. Please refer to the Board's website below for more information:

<http://www.pubmanitoba.ca/v1/regulated-utilities/w-ww/ratepayer/ratestudy.html>

5.0 IT IS THEREFORE ORDERED THAT:

1. The request by the Grandview Municipality, Urban G3 Water and Wastewater Utility, to vary Board Order No. 138/18 BE AND IS HEREBY DENIED.
2. The Grandview Municipality's request to withdraw its application to transfer 2018 sludge removal costs of \$65,433 and 2019 sludge removal costs of \$63,560 for the Urban G3 Water and Wastewater Utility to the Municipality's General Fund BE AND IS HEREBY APPROVED.
3. The Grandview Municipality, Urban G3 Water and Wastewater Utility provide notice of the surplus rate rider revenues to its customers.
4. The request by the Grandview Municipality to recover a 2018 actual operating deficit, when calculated for regulatory purposes, of \$59,239 and a 2019 forecasted operating deficit, when calculated for regulatory purposes, of \$33,991 BE AND IS HEREBY VARIED and is to be recovered by a rate rider of \$4.18 per 1,000 gallons per customer per quarter, effective April 1, 2021, for a period of 20 months or until the total deficit of \$93,230 is fully recovered, whichever comes first.
5. The Grandview Municipality 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. The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Shawn McCutcheon"

Panel Chair

"Frederick Mykytyshyn"

Assistant Associate Secretary

Certified a true copy of Order No. 19/21 issued
by The Public Utilities Board



Assistant Associate Secretary

APPENDIX

The Board calculates the Municipality's 2018 and 2019 utility deficit recovery requirement as follows:

2018 Utility Operating Deficit	\$59,239*
Add: 2019 Utility Operating Deficit	<u>\$33,991*</u>
Two-Year Total Operating Deficit	<u>\$93,230*</u>

*When calculated for regulatory purposes.

Volume of Water Sold in 2018 (gallons)	13,625,985
Add: Volume of Water Sold in 2019 (gallons)	<u>13,282,966</u>
Two-Year Total Volume of Water Sold	26,908,951
Divided By: 2	<u>2</u>
Two-Year Average Water Sold (gallons)	<u>13,454,476</u>

Average Water Sold (gallons)	13,454,476
Divided By: 12 months	<u>12</u>
Average Volume of Water Sold per Month	<u>1,121,167</u>

Average Volume of Water Sold per Month	1,121,167
Multiplied By: Proposed Rate Rider per 1,000 gallons	<u>\$4.18</u>
Monthly Forecasted Deficit Recovery Revenue	<u>\$4,686.49</u>

Two-Year Total Operating Deficit	\$93,230
Divided By: Monthly Forecasted Deficit Recovery Revenue	<u>\$4,686</u>
Deficit Recovery Duration Requirement (months)	<u>19.90</u>