

**Order No. 138/22**

**PEMBINA VALLEY WATER COOPERTIVE INC. (PVWC)  
WHOLESALE/BULK WATER UTILITY  
REVISED WATER RATES EFFECTIVE JANUARY 1, 2023**

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December 22, 2022

BEFORE: Shawn McCutcheon, Chair  
Irene Hamilton, K.C., Panel Member

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## 1.0 Executive Summary

By this Order, the Public Utilities Board (Board) varies the revised water rates for the PVWC, with effective dates as requested of January 1, 2023, January 1, 2024, January 1, 2025, January 1, 2026, and January 1, 2027.

The approved rates are as follows:

Year	Rate*
Current - 2022	\$9.53
2023	\$9.91
2024	\$11.08
2025	\$11.37
2026	\$11.68
2027	\$12.01

\*per 1,000 gallons

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

## 2.0 Background

PVWC provides water services to 18 customers who are metered and billed monthly based on consumption. Current PVWC customers are as follows:

Altona Rural Water Coop	Blumegart Colony
City of Morden	City of Winkler
Halbstadt Marais Water Coop	Municipality of Emerson-Franklin
Municipality of Rhineland	Roseau River First Nation
Rural Municipality of Dufferin	Rural Municipality of Grey
Rural Municipality of Montcalm	Rural Municipality of Morris
Rural Municipality of Roland	Rural Municipality of Stanley
Rural Municipality of Thompson	Town of Altona
Town of Carman	Town of Morris

Rates were last approved for PVWC in 2018 in Board Order No. 172/18, with the last increase occurring January 1, 2022. Rates have also been approved for 2023 as a discretionary increase of 0 to 2% which may be increased by the PVWC Board of Director without filing and application with the Board.

## Water Supply/Distribution

PVWC owns and operates water plants in Letellier, Stephenfield, and Morris.

The Red River Regional Water Treatment Plant (located in Letellier) was constructed in 1986 and upgraded in 1998. Water is supplied from the Red River and treated using a lime softening process.

The Morris Regional Water Treatment plant (located in the Town of Morris) was constructed in 1998 as a conventional lime treatment plant. The plant was changed/upgraded to a dual membrane treatment plant in 2009/2010, with additional membrane skids added to increase total water output in 2021. Water for the plant is supplied by the Red River.

The Stephenfield Regional Water Treatment Plant (located in Stephenfield) was constructed in 1999 and upgraded in 2017 and 2021. Water is supplied from Stephenfield Lake and treated using a dual membrane process.

PVWC also owns and operates the Roland Reservoir Pumping Station and thirteen booster stations to assist in maintaining consistent pressure and transporting an adequate flow of water. Booster stations include: Altona; Dufferin; Graysville; Kane; Lowe Farm; Morden; Morden – Boundary Trails Health Centre (BTHC); Rhineland; Rosebank; St. Mary's; Stanley; Winkler North; and Winkler South. Two new booster stations are planned for 2022/2023 (Lowe Farm West and Myrtle).

The distribution system was initially composed of plastic pipe and all extensions and upgrades are made up of either polyvinyl chloride (PVC) or high density poly ethylene HDPE pipe. At the locations where the Towns/Municipalities connect to the distribution system there are meter chambers or meters that record the volume of water taken by the customers. After the meter chambers, the distribution networks that bring the water to the end user are not owned or maintained by PVWC as these systems are owned and operated by the respective Towns and Municipalities. As demand increases, PVWC expands and upgrades the network to facilitate growth accordingly.

## 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.

As at 2021, unaccounted water for the Utility is 3.0%. PVWC notes in its application the low level of unaccounted for water is primarily due to the use of new materials (such as plastic pipe) used to make up the distribution network and fast responses to system repair requirements. Leaks are actively monitored through metering data to allow for fast location detection.

### 3.0 Application

On August 30, 2022, PVWC applied for revised water rates for the Utility. The application was accompanied by a rate study prepared by PVWC staff and a PVWC Board Resolution approving the requested water rate increases.

A Public Notice of Application was issued on September 1, 2022 allowing for any questions or comments with respect to the proposed rate increases to the Board and/or the Town on or before October 1, 2022. One response to the Notice was received pertaining to the magnitude of the requested rate increases.

On October 21, 2022, PVWC submitted a letter requesting PVWC's application be expedited to avoid potential deficits, provide relief for rising production costs, and better alignment with current, increased inflation rates.

**Schedule of Utility Rate Requirements  
Pembina Valley Water Cooperative – Bulk Water Utility  
2023 to 2027 Budget Forecasts (\$)**

	2023	2024	2025	2026	2027
	Forecast				
<b>Water Expenses</b>					
Advertising	5,000	5,300	5,618	5,955	6,312
Auditing Fees	22,000	23,320	24,719	26,202	27,774
Bank Charges	2,000	2,120	2,247	2,382	2,525
Board Expenses	6,000	6,360	6,742	7,146	7,575
Computer	45,000	47,700	50,562	53,596	56,811
Consulting Costs	300,000	318,000	337,080	357,305	378,743
Equipment Rental	33,000	34,980	37,079	39,304	41,662
Freight/Postage	10,000	10,600	11,236	11,910	12,625
Hydro	503,000	533,180	565,171	599,081	635,026
Insurance	65,000	68,900	73,034	77,416	82,061
Leasing Costs	1,200	1,272	1,348	1,429	1,515
Legal Costs	3,000	3,180	3,371	3,573	3,787
Maintenance – Distribution	200,000	212,000	224,720	238,203	252,495
Maintenance – Office	20,000	21,200	22,472	23,820	25,250
Maintenance – Plant	700,000	742,000	786,520	833,711	883,734
Meetings	6,000	6,360	6,742	7,146	7,575
Memberships	6,000	6,360	6,742	7,146	7,575
Miscellaneous	20,000	21,200	22,472	23,820	25,250
Natural Gas	92,000	97,520	103,371	109,573	116,148
Office Supplies	17,000	18,020	19,101	20,247	21,462
Payroll – Plant	1,130,52	1,198,36	1,270,26	1,346,477	1,427,26
Payroll – Office	1,352,24	1,433,37	1,519,38	1,610,543	1,707,17
Plant Chemicals	680,000	720,800	764,048	809,891	858,484
Property Taxes	35,000	37,100	39,326	41,686	44,187
RRBC Membership	21,000	22,260	23,596	25,011	26,512
Safety Regulatory	25,000	26,500	28,090	29,775	31,562
Security	6,000	6,360	6,742	7,146	7,575
Telephone/Network	45,000	47,700	50,562	53,596	56,811
Training	25,000	26,500	28,090	29,775	31,562
Travel	10,000	10,600	11,236	11,910	12,625
Uniform Rental	16,000	16,960	17,978	19,056	20,200
Vehicles	75,000	79,500	84,270	89,326	94,686
Water Regulatory	33,000	34,980	37,079	39,304	41,662
Amortization	1,885,00	2,435,00	2,435,00	2,435,000	2,435,00
Current Loan Interest –	545,000	545,000	545,000	545,000	545,000
Current Loan Interest –	180,000	180,000	180,000	180,000	180,000

New Loan Interest	300,000	500,000	500,000	500,000	500,000
Total Water Expenses	8,419,97	9,500,57	9,851,00	10,222,46	10,616,2

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 PVWC's application.

The rates were calculated based on the following projections using an annual inflation rate of 6% in all calculations:

The proposed Utility rate increases are primarily required to provide for continual infrastructure upgrades, inflation, and general cost increases.

### **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.

PVWC did not include a contingency allowance in its rate calculations.

PVWC notes in its application it does not direct any revenues to reserves. PVWC advises, year-end surplus funds are used to reduce borrowing costs for that year's borrowing cost requirements.

## 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 PVWC's 2021 Audited Financial Statements, the most recent information available, PVWC's working capital surplus at December 31, 2021 was:

	2021	2020
Utility Fund Surplus/Deficit	\$23,738,497	\$22,325,146
Deduct: Tangible Capital Assets	(42,055,700)	(37,620,234)
Add: Long-Term Debt	18,772,265	16,468,383
Add: Utility Reserves	-	-
<b>Equals Working Capital Surplus (Deficit)</b>	<b>\$455,062</b>	<b>\$1,173,295</b>
Operating Expenses	7,443,042	5,917,194
<b>20% of Operating Expenses (Target)</b>	<b>\$1,488,608</b>	<b>\$1,183,439</b>

The Utility does not meet the Board minimum working capital surplus of 20%.

## Future Capital Work

PVWC anticipates continued, significant capital expenditures of approximately \$41.0 million over the next five years as outlined in the list of known, major capital works and forecasted costs below:



Project	Forecasted Cost	Planned Construction Year
Letellier Water Treatment Plant – Phase 1 – Reservoir, Lime Plant, Pumps	\$10,000,000	2022/23
Morris to Roland Booster Stations	\$2,000,000	2022/23
Letellier Water Treatment Plant – Phase 2 – Membrane Plant and Intake System	\$20,000,000	2024/25
Letellier Water Treatment Plant – Raw Water Storage Pond	\$9,000,000	2025/26
<b>Total</b>	<b>\$41,000,000</b>	

PVWC has applied for federal funding for these projects. The intent is to fund these projects, whether it be the full costs or partial costs with funding, through bank loans. Loan repayments are recovered through the water rates.

PVWC also attempts to maintain some financial flexibility to be able to apply for and receive last minute government grant funding that would otherwise lapse or expire due to lack of qualified applicants. This provides capital project cost savings, improved opportunities for expansion and/or utility maintenance/repair, and financial relief to customers through lower expenses that result in reduced rate requirements.

## 4.0 Board Findings

The Board has reviewed the application and the projections for utility rates presented by PVWC in its rate study.

The Board finds the methodology the applicant used to determine the bulk water rate is not consistent with Board recommended methods. The rates requested result in forecasted deficits of \$(322,781) for 2024 and \$(122,291) for 2025 and forecasted surpluses of \$158,930 for 2023, \$93,524 for 2026, and \$315,498 for 2027. The Board varies the rates to align with PVWC's forecasted expenditure rate requirements as follows:

	2023	2024	2025	2026	2027
Forecasted Annual Expenditures (\$)*	8,419,971	9,500,569	9,851,003	10,222,464	10,616,211
Forecasted Water Sales	849,245	857,738	866,315	874,978	883,727
Water Rate Requirement**	\$9.91	\$11.08	\$11.37	\$11.68	\$12.01

\*As per PVWC's Rate Study

\*\*per 1,000 gallons

The Board varies the rates applied for by PVWC to align with the annual expenditure requirements of the Utility, effective January 1, 2023, January 1, 2024, and January 1, 2025, January 1, 2026, and January 1, 2027. The Board notes, rates approved in Board Order No. 172/18 for 2023 as a discretionary increase of 0 to 2% are no longer applicable and may not be applied to the \$9.91 per 1,000 gallons water rate approved in this Order.

The Board requires PVWC to review its water rate for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates (if required) on or before January 31, 2027.

The Board commends PVWC on its low levels of unaccounted for water and its efforts to maintain the low levels through continual monitoring and maintenance of the system.

The Board notes the application process for rate reviews involves a utility filing a Rate Application with the Board; a 30-day public notification of the proposed rate changes; the

Board's review of the Application through a public hearing or paper review process; and the issuance of a Board Order which outlines the Board's decision on the Rate Application and the rates to be charged.

Applications are reviewed in the order in which they are received to ensure all applications are processed fairly. Since 2018, the Application queue has been reduced from a two-year lead time to a one-year lead time. Board staff no longer accept incomplete Applications prior to Board review. The Board has also created a Simplified Application to reduce wait times for utilities in good financial standing.

In general, the Board does not favour requests for expedited rates unless there is an urgent need that can be clearly demonstrated by the utility or unforeseen, extenuating circumstances that can/could not be avoided. The Board has granted a one-time approval for an expedited application process for PVWC for this rate application, however, the Board expects that PVWC plan its next application accordingly to accommodate the Board rate review process and lead times.

The Board also notes and is concerned PVWC has not included a contingency allowance in its rate application. The Board recommends a contingency allowance be included in rate applications equal to 10% of the variable operating costs. A contingency allowance protects the utility, and its customers, from fluctuations in costs of goods and services, forecasting errors to mitigate the potential for utility deficits, and any other unforeseen annual utility expenses. The Board recommends PVWC consider including a contingency, even if it is an amount less than 10%, in its next rate application.

## **5.0 IT IS HEREBY ORDERED THAT:**

1. The revised water rates for the Pembina Valley Water Cooperative Inc. ARE HEREBY VARIED, effective January 1, 2023, January 1, 2024, January 1, 2025, January 1, 2026, and January 1, 2027.

2. Pembina Valley Water Cooperative Inc. is to provide a notice of the decisions found in this Order to its member municipalities as soon as possible, with a copy provided to the Public Utilities Board.
3. Pembina Valley Water Cooperative Inc. is to advise member municipalities that they must advise their customers/ratepayers of the of the decisions found in this Order as soon as possible, with a copy provided to the Public Utilities Board.
4. Pembina Valley Water Cooperative Inc. review its water rates for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates if required, by no later than January 31, 2027.

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](http://www.pubmanitoba.ca).

Fees payable upon this Order - \$500.00

THE PUBLIC UTILITIES BOARD

"Shawn McCutcheon"

Panel Chair

"Frederick Mykytyshyn"

Assistant Associate Secretary

Certified a true copy of Order No. 138/22  
Issued by The Public Utilities Board



Assistant Associate Secretary