

Order No. 34/23

**RURAL MUNICIPALITY OF PRAIRIE LAKES
DUNREA WATER UTILITY
REVISED WATER RATES**

March 21, 2023

**BEFORE: Marilyn Kapitany, B.Sc. (Hon), M. Sc., Panel Chair
Shawn McCutcheon, Panel Member**

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1.0 Executive Summary

By this Order, the Manitoba Public Utilities Board (Board) grants approval of the Rural Municipality of Prairie Lakes (RM), Dunrea Water Utility's (Utility) application for revised water rates for May 30, 2023 and 2024. The Board denies the requested rate revision for Year 3 (2025).

The revised rates are below:

	May 30, 2023	May 30, 2024
Annual Service Charge	\$ 17.44	\$ 17.44
Water (per REU) Annual Flat Fee	\$ 719.24	\$ 737.36
Total Annual Bill*	\$ 736.68	\$ 754.80

*based on one Residential Equivalency Unit (REU)

Details of other rates can be found in Schedule A.

The reasons for the Board's decisions are under Board Findings.

2.0 Background

The RM owns and operates a water utility in Dunrea serving 44 customers representing 45 total Residential Equivalency Units (REUs). One REU is the estimate of the volume of wastewater produced by the average single-family residence. The Utility allocates units to non-residential customers based on estimated consumption, as compared with a residence. REUs are used in communities with unmetered distribution and collection systems, where information regarding actual consumption is unavailable.

Rates were last set in Board Order No. 101/19, with current rates coming into effect May 30, 2021.

Water Supply/Distribution

The water treatment plant was constructed in approximately 1970. The system was upgraded in 2009 and the facility's water is sourced from a well. Treatment consists of a main stream slow sand filtration system that includes ozone pre-oxidation, a roughing filter, two bio-sand filters and a bio carbon filter. Along with the disinfection process, the system has met the terms and conditions of its Operating License.

3.0 Board Methodology

Review Process

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

Where there is an urgent need for initial or revised rates and the Board determines it to be in the best interest of all parties, the Board may establish interim *ex parte* rates.

Contingency Allowance and Utility Reserves

The Board's Water and Wastewater Rate Application Guidelines recommend an annual contingency allowance equal to 10% of the variable operating costs.

Working Capital

Board Order No. 93/09 established utilities should maintain a minimum working capital surplus, in an amount equal to 20% of annual expenses. The working capital surplus is the Utility fund balance, excluding any capital-related items plus Utility reserves.

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 recovery methodology. The Board is therefore bound to approve reasonable rates based on reasonable expense projections.

Cost Allocation Methodology

The Board requires all municipalities to review the costs shared between the general operations of the municipality and the Utility, and to allocate appropriate and reasonable costs to the Utility, based on a policy known as a Cost Allocation Methodology. This policy must be submitted to the Board for approval and cannot be changed without approval by the Board. The Board's requirements regarding cost allocation methodologies can be found in Board Order No. 93/09.

Unaccounted for Water

Water losses may be caused by such events as distribution line losses, service leaks, water used for fire fighting or line flushing, and under-registration of water meters. The Board Guidelines require utilities to compare the volume of water produced or purchased against the volume of water sold, to determine the percentage of unaccounted for water. Unaccounted for water volumes of approximately 10% are considered industry standard.

The Board expects any utility experiencing a greater volume of unaccounted for water to provide an explanation and plan to address the water losses.

4.0 Application

On December 21, 2021 the Board received the RM's application to revise water rates as set out in By-Law No. 7-2021, having had first reading December 14, 2021. The application was supported by a rate study prepared by the RM's consultant and rates were last approved in 2019 in Board Order No. 101/19.

The Board issued a Public Notice of Application on February 16, 2022 affording customers the opportunity to comment to both the Board and the Municipality with respect to the proposed rate changes. The Board received one response to the Notice. The responding resident expressed concern over the RM's request to increase water that "we can't drink" for rates that are higher than rates in neighbouring communities. The Board followed up with the RM, and was advised the Utility is not currently under a boil water advisory, and that given the size of the Utility and the water source it is not economically feasible to provide the same water quality as larger municipalities.

The Board sent a list of information requests to the RM on November 30, 2022 and received the RM's response December 8, 2022. One of the questions involved the installation of meters for the Dunrea Utility. The RM stated it expects to complete the metering project in 2023.

The rates were calculated using the following revenue requirement projections:

	Rate Year 1	Rate Year 2	Rate Year 3
General Expenses			
Administration (building, office, staff, etc)	1,000	1,030	1,061
Total expenses general	1,000	1,030	1,061
Penalties	250	250	250
Total revenue general	250	250	250
Net revenue requirement - general	750	780	811
Water Expenses			
Purification and treatment	15,200	15,656	16,126
Transmission and distribution	9,500	9,785	10,079
Amortization	4,314	4,314	4,314
Reserves	5,435	5,435	5,435
Contingency	2,470	2,544	2,620
Total expenses water	36,919	37,734	38,574
Amortization of capital grants	1,017	1,017	1,017
Taxation revenues	3,436	3,436	0
Other revenue	100	100	100
Total revenue water	4,553	4,553	1,117
Net revenue requirement - water	32,366	33,181	37,457

Contingency Allowance and Utility Reserves

The RM has included in its projections a contingency allowance of 10% of water expenses, less amortization expenses and a provision for transfer to Utility Reserve in the amount of \$5,435 per year.

Working Capital

As per the 2021 audited financial statements, the working capital surplus at December 31, 2021 was:

	2021
Accumulated Fund Surplus/Deficit	\$194,977
Deduct tangible capital assets	\$160,707
Add long term debt	\$0
Add utility reserves	\$20,664
Equals Working Capital Surplus	\$54,934
Operating costs	\$24,368
20% of operating costs (target)	\$4,874

Operating Deficits

The RM has advised the Utility has not experienced any operating deficits since 2016.

Cost Allocation Methodology

The Board approved the Utility's current Cost Allocation Methodology (CAM) in Board Order No. 79/16. The Municipality did not propose any changes to the existing CAM.

Unaccounted for Water

The Utility's water usage is currently not metered, there for the volume of unaccounted for water is unknown.

5.0 Board Findings

The Board has reviewed the applications and projections presented by the RM in its rate application and subsequent evidence filed in response to the Board's information requests and finds them to be reasonable. The Board will grant approval of the first two years of revised rates, effective May 30, 2023 and 2024.

Having considered the RM's filing and reviewed the response to the Notice of Application, the Board has chosen a paper review process.

The Board recommends all users of water have meters as a way to encourage conservation, and commends the RM on its metering project for the ratepayers of the Dunrea Water Utility.

The Utility must apply to the Board for approval of rates transitioning from REUs to those based on metered consumption. Ideally, this should be done in advance using reasonable estimates to allow the implementation of consumption based billing to start promptly upon completion of the project. The Board will direct the RM to file an application for commodity-based rates on or before September 30, 2023. The Utility should be mindful of the fact that the use of meters typically results in a significant reduction in consumption, and adjust its estimated volumes accordingly. The Board encourages the RM to consult with Board staff as required when preparing this application.

The Board encourages the RM to work closely with its auditor(s) to ensure the Public Utilities Board Note to the Consolidated Financial Statements is complete and accurate. If this note is omitted, incomplete, or incorrect, it limits the Board's ability to assess the Utility's financial position, and the RM's ability to set appropriate rates to sustain the Utility and its operations.

The Board reminds the RM regular reviews are important for a financially sound utility and encourages the RM to review Board Order Nos. 27/23 and 86/17 for future rate applications. The Order outlines the Simplified Rate Application Process for municipally

owned public utilities. If, after its rate review, the Municipality finds it meets the designated criteria for a simplified rate application, it should apply for future rates using the Simplified Rate Application Process.

6.0 IT IS THEREFORE ORDERED THAT:

1. The water rates for the Rural Municipality of Prairie Lakes – Dunrea Water Utility, BE AND ARE HEREBY APPROVED in accordance with the attached Schedule A, effective May 30, 2023 and 2024.
2. The water rates for the Rural Municipality of Prairie Lakes – Dunrea Water Utility, BE AND ARE HEREBY DENIED for the rates proposed for Year 3.
3. The Rural Municipality of Prairie Lakes – Dunrea Water Utility amend its Utility 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
4. The Rural Municipality of Prairie Lakes file a rate application for the Dunrea Water Utility for commodity-based rates on or before September 30, 2023.

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

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

"Jennifer Dubois, CPA, CMA"
Assistant Associate Secretary

Certified a true copy of Order No. 34/23
issued by The Public Utilities Board


Assistant Associate Secretary

Schedule “A”

The Rural Municipality of Prairie Lakes
Local Improvement District of Dunrea
Dunrea Water Utility
Water Utility Rates By-Law No. 7 of 2021
Schedule of Annual Rates

Schedule of Annual Rates – May 30, 2023

<u>REU</u>	<u>Customer</u>	<u>Annual Service Charge</u>	<u>Water Commodity Charge</u>	<u>Total Annual Bill</u>
1	Single Family residence Church	\$17.44	\$719.24	\$736.68
1.5	Small retail, with 1 Ste. and Beauty Shop; Small Retail Service Station Café – 30 to 50 seats	\$17.44	\$1,078.86	\$1,096.30

Schedule of Annual Rates – May 30, 2024

<u>REU</u>	<u>Customer</u>	<u>Annual Service Charge</u>	<u>Water Commodity Charge</u>	<u>Total Annual Bill</u>
1	Single Family residence Church	\$17.44	\$737.36	\$754.80
1.5	Small retail, with 1 Ste. and Beauty Shop; Small Retail Service Station Café – 30 to 50 seats	\$17.44	\$1,106.04	\$1,123.48

The following clauses take effect May 30, 2023:

Service to Customers Outside L.I.D. # 1 Limits

The council of the Rural Municipality of Prairie Lakes may sign agreements with customers for the provision of WATER services to property located outside the legal boundaries of the Local Improvement District of Dunrea.

Such agreements will provide for payment of the appropriate rates set forth in the tables above as well as any surcharge, set by Resolution of Council which will be equivalent to the frontage levy and general and special taxes for utility purposes in effect at the time or as may be in effect from time to time and would be levied on the property concerned if it were within these boundaries. In addition, all costs for connection to the utility's mains, installing and maintaining service connections will be paid by the customer.

Billing and Penalties

Accounts shall be billed on an annual basis by June 30th of each year and shall be due and payable on October 31st of each year.

A penalty of 1.25% of the amount of the bill shall be added if not paid by the due date. For every month after that, a further penalty of 1.25% of the outstanding amount of the bill shall be added.

Connection

That application to connect to the water system must be made to the Municipal Office, in accordance with the policies for installation and upon a fee of \$100.00 to be deposited; a connection fee for the remaining annual rate will be due upon installation.

Disconnection

"The Public Utilities Board, in its Board Order No. 39/09, has approved the Conditions Precedent to be followed by the [Rural] Municipality 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 [Rural] Municipality's office."

Reconnection

Any service disconnected, due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$100.00 have been paid.

Outstanding Bills

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