

**Order No. 108/16**

**RURAL MUNICIPALITY OF ROLAND  
2014 OPERATING DEFICIT  
WATER AND WASTEWATER RATES**

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**August 10, 2016**

BEFORE: The Hon. Anita Neville, P.C., B.A. (Hons.), Acting Chair  
Carol Hainsworth, C.B.A., Member  
Regis Gosselin, B ès Arts, MBA, CGA, Chair

## Summary

By this Order, the Public Utilities Board (Board) approves the 2014 deficit of \$118,444, to be recovered through the Utility's accumulated surplus fund.

The Board also approves revised water and wastewater rates to be effective October 1, 2016 for the Rural Municipality of Roland (RM) water and wastewater utility (Utility) as follows:

|                             | Current<br>By-law<br>(8-2011) | By-law (2-2016)<br>October 1, 2016 | Increase /<br>Decrease |
|-----------------------------|-------------------------------|------------------------------------|------------------------|
| Water \$/1,000 gallons      | \$8.67                        | \$12.24                            | 41%                    |
| Water \$/cubic meter        | \$1.91                        | \$2.73                             | 43%                    |
| Wastewater \$/1,000 gallons | \$3.00                        | \$4.25                             | 42%                    |
| Wastewater \$/cubic meter   | \$0.66                        | \$0.94                             | 42%                    |
| Customer Service Charge     | \$3.50                        | \$6.59                             | 88%                    |
| Minimum Quarterly Charges*  | \$38.50                       | \$56.06                            | 46%                    |
| Bulk Water /1,000 gallons   | \$8.67                        | \$16.05                            | 85%                    |
| Reconnection Fee            | \$0.00                        | \$15.00                            | new                    |
| Meter Accuracy Testing      | \$0.00                        | \$100.00                           | new                    |

\*Based on 14 cubic meters or 3,000 gallons

For a consumer using 3,000 gallons or less of water per quarter, the increase would be less than \$6 per month.

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

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

## **Background**

The RM owns and operates a water and wastewater utility serving 192 water and sewer customers and 171 water only customers, for a total of 363 customers.

The Board last revised water and wastewater rates for the RM in 2006 by Board Order No. 95/06; however the RM has amended its rates several times in the intervening years to reflect pass through water rates from the Pembina Valley Water Cooperative (PVWC). The RM is a member of and purchases water from PVWC, and the Board has authorized member utilities to implement pass through rate increases without making application to the Board in Board Order Nos. 124/09, 3/14 and 103/15. In addition to the pass through water costs, the RM must recover its own operating and amortization costs.

Water and wastewater installation took place in Roland in 1981 and 1982. Rural water connections took place between 1998 and 2006. There have been only a few connections since that time. The current needs of the ratepayers are reported as being met with some small room for capacity in the future. The rate application submission stated that for Roland to grow, major work will need to be considered with financing requirements as well.

## **Application**

The RM applied for revised water and wastewater rates to be effective July 1, 2016, as set out in By-law No. 2-2016 read the first time on February 9, 2016. The application was supported by a rate study prepared by the RM and submitted on February 17, 2016.

A Public Notice of Application was issued on April 28, 2016 affording customers the opportunity to comment to both the Board and RM with respect to the proposed increases.

When reviewing an application, the Board has at its disposal two approaches, either a paper or a public hearing review. After the publication of the Notice of Application, the Board will consider the application and stakeholder responses, and determine which method of review is most appropriate.

A public hearing process allows the Utility and stakeholders the opportunity to present their application and any concerns to the Board in person.

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

The Board received nine expressions of concern from ratepayers. The RM will contact those ratepayers to explain why the rates are needed by the utility and to answer their questions.

The rate increases have been adequately justified by the RM. Rates to supplement the pass through water revenues have not been increased since 2006. Current rates have resulted in a deficit which needs to be addressed promptly in order to maintain the future viability of 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 to obtain Board approval for a recovery methodology. The Board is therefore duty bound to approve reasonable rates based on reasonable expense projections.

The RM submitted a deficit application for 2014 with its rate application. The deficit of \$118,444 was caused by amortization expenses of \$66,391, a line break costing approximately \$30,000 and connection costs of \$19,025. The connection costs are expected to be offset by fees collected in 2015. The RM proposes to recover the deficit from the accumulated surplus fund.

### Working Capital Surplus

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 is defined as the Utility fund balance, excluding any capital related items plus Utility reserves.

As per the 2014 audited financial statements, the most recent information available, the working capital surplus, which exceeds the required minimum, at December 31, 2014 was:

|   | 2014             | 2013              |
|---|------------------|-------------------|
| Fund surplus                                | \$2,060,649      | \$2,167,649       |
| Deduct tangible capital assets              | \$2,073,425      | \$2,139,816       |
| Add long term debt                          | \$ 68,995        | \$ 62,845         |
| Add utility reserves                        | \$ 21,891        | \$ 19,814         |
| <b>Equals Working Capital Surplus (WCS)</b> | <b>\$ 78,110</b> | <b>\$ 110,492</b> |
|   |                  |                   |
| Operating costs                             | \$ 340,000       |                   |
| <b>20% of operating costs (WCS target)</b>  | <b>\$ 68,000</b> |                   |

**Budgeted expenditures**

The rates were calculated based on projected 2018 expenses:

|                                       | 2% | 2016           | 2017           | 2018           |
|---------------------------------------|----|----------------|----------------|----------------|
| Administration                        |    | 10,000         | 10,000         | 10,000         |
| Billing and collection                |    | 1,000          | 1,000          | 1,200          |
| Working Capital Surcharge 1% yrly exp |    | 3,209          | 3,234          | 3,258          |
| <b>Total expenses general</b>         |    | <b>14,209</b>  | <b>14,234</b>  | <b>14,458</b>  |
| Penalties                             |    | 4,500          | 4,500          | 4,500          |
| <b>Total revenue general</b>          |    | <b>4,500</b>   | <b>4,500</b>   | <b>4,500</b>   |
| <b>Net costs general</b>              |    | <b>9,709</b>   | <b>9,734</b>   | <b>9,958</b>   |
| Staffing                              |    | 10,000         | 10,000         | 10,000         |
| Purification and treatment            |    | 2,000          | 2,000          | 2,000          |
| Water Purchases                       |    | 170,000        | 172,000        | 174,000        |
| Service of Supply                     |    | 12,000         | 12,000         | 12,000         |
| Transmission and Dist                 |    | 12,000         | 12,000         | 12,000         |
| Connections Costs                     |    | 4,000          | 4,000          | 4,000          |
| Amortization                          |    | 66,391         | 66,391         | 66,391         |
| Interest on long term debt            |    | 4,085          | 4,215          | 4,016          |
| Reserves                              |    | 2,500          | 2,500          | 2,500          |
| <b>Total expenses water</b>           |    | <b>282,976</b> | <b>285,106</b> | <b>286,907</b> |
| Connection revenue                    |    | 10,000         | 10,000         | 10,000         |
| Investment income                     |    | 4,500          | 4,500          | 4,500          |
| Taxation revenues-water debt          |    | 17,163         | 12,713         | 12,622         |
| Other revenue-bulk water fees         |    | 6,000          | 6,000          | 6,000          |
| <b>Total revenue water</b>            |    | <b>37,663</b>  | <b>33,213</b>  | <b>33,122</b>  |
| <b>Net costs water</b>                |    | <b>245,313</b> | <b>251,893</b> | <b>253,785</b> |
| Sewage collection system              |    | 1,000          | 1,020          | 1,040          |
| Lift station costs                    |    | 15,000         | 15,300         | 15,606         |
| Sewage treatment and disposal         |    | 4,000          | 4,080          | 4,162          |
| Reserves                              |    | 3,500          | 3,500          | 3,500          |
| <b>Total expenses sewer</b>           |    | <b>23,500</b>  | <b>23,900</b>  | <b>24,308</b>  |
| <b>Total revenue sewer</b>            |    | <b>0</b>       | <b>0</b>       | <b>0</b>       |
| <b>Net costs sewer</b>                |    | <b>23,500</b>  | <b>23,900</b>  | <b>24,308</b>  |
| <b>Net revenue requirement</b>        |    | <b>278,522</b> | <b>285,527</b> | <b>288,051</b> |

## 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 receiving approval from the Board. The Board's requirements regarding cost allocation methodologies can be found in Board Order No. 93/09.

The RM proposed the following cost allocation methodology:

*In a given year the Utility shall be responsible for 5% of the total costs of Clerk and Staff, office supplies, photocopier contract, website, office telephone, postage, computer, audit, Public Works Equipment Maintenance, Fuel, Insurance and public works yard, phone and tools expense from the previous year E.g.: 5% of the costs from 2014 will be used to determine the 2015 cost.*

The Board will approve the Cost Allocation Methodology, and reminds the RM that this methodology must consistently be used in the future, and requires prior Board approval should any further changes be considered.

## Board Findings

The Board has reviewed the application for rates and the projections presented by the RM in their rate study and have found them to be reasonable.

The ratepayer responses received by the Board were expressions of concern about the total percentage increase to the rates. The Board will direct the RM to send a notice to all ratepayers, to be included in the next billing cycle, advising them of the rationale for the increases.

While the Board acknowledges the magnitude of the rate increases, the Board must consider the sustainability of the Utility when approving rates.

Significant rate increases can result in rate shock. In the case of the RM of Roland's utility, it has been 10 years since rates were last reviewed, with the exception of the pass through water rate increases. In 2010, it became mandatory for municipalities to apply Public Sector Accounting Board standards when reporting their financial results. This required amortization expenses to be reported. As a result, rates needed to be increased to recover the increased expenses. The RM did not seek rate increases to address this material change to its financial results. The Utility has therefore experienced deficits and significant rate increases are now needed.

Ratepayers are generally more tolerant of regular, smaller rate increases. The RM needs to be much more rigorous in monitoring the financial health of the Utility and responding promptly in seeking approval from the PUB to address deficits and to revise rates.

The Board will approve the recovery of the 2014 deficit through the Utility's accumulated surplus fund. If the Utility experiences a deficit in 2015, which will likely be attributable to the same contributing factors that caused the 2014 deficit, the Board will direct the RM to file a timely application for approval of the deficit, and the method of deficit recovery.

*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.pub.gov.mb.ca](http://www.pub.gov.mb.ca).*



**IT IS HEREBY ORDERED THAT:**

1. Revised water and wastewater rates for the Rural Municipality of Roland Utility BE AND ARE HEREBY APPROVED in accordance with the attached Schedule "A", effective October 1, 2016.
2. The Rural Municipality of Roland Utility's 2014 deficit of \$118,444, when calculated for regulatory purposes, IS HEREBY APPROVED to be recovered through the accumulated surplus.
3. The Rural Municipality of Roland amend its water and wastewater rate By-law for the Roland Utility 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 Roland submit its 2015 audited financial statements, with a deficit application if required, as soon as the statements are available.
5. The Rural Municipality of Roland provide information to its ratepayers about the reasons for the increases approved in this Order in the next billing cycle, with a copy to the Public Utilities Board.
6. The Cost Allocation Methodology for shared services and equipment as submitted by the Rural Municipality of Roland BE AND IS HEREBY APPROVED.

7. The Rural Municipality of Roland 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 if required, by no later than June 30, 2018.

Fees payable upon this Order - \$500.00

THE PUBLIC UTILITIES BOARD

"The Hon. ANITA NEVILLE, P.C., B.A. (Hons.)"  
Acting Chair

"JENNIFER DUBOIS, CPA, CMA"  
Acting Secretary

Certified a true copy of Order No. 108/16  
issued by The Public Utilities Board

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Acting Secretary

**SCHEDULE "A"**  
**RURAL MUNICIPALITY OF ROLAND**  
**WATER AND SEWER RATES EFFECTIVE OCTOBER 1, 2016**  
**BY-LAW NO. 2-2016**

1. Commodity rates per M.G.

|                                    | <u>Water</u> | <u>Sewer</u> | <u>Water &amp; Sewer</u> |
|------------------------------------|--------------|--------------|--------------------------|
| All water consumption per 1000 gal | \$12.24      | \$4.25       | \$16.49                  |
| per cubic meter                    | \$2.73       | 0.94         | 3.67                     |

2. Minimum Charges, Quarterly

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 Sewer Customers

| <b>Meter<br/>Size</b> | Group    | Water          | Customer      | Commodity | Charges  | Total      |
|-----------------------|----------|----------------|---------------|-----------|----------|------------|
|                       | Capacity | Included       | Service       |           |          | Quarterly  |
|                       | Ratio    | Gallons(cu.m.) | <b>Charge</b> | Water     | Sewer    | Minimum    |
| 5/8"                  | 1        | 3,000 (14)     | \$6.59        | \$36.72   | \$12.75  | \$56.06    |
| 3/4"                  | 2        | 6,000 (28)     | \$6.59        | \$73.44   | \$25.50  | \$105.53   |
| 1"                    | 4        | 12,000 (56)    | \$6.59        | \$146.88  | \$51.00  | \$204.47   |
| 1 1/2"                | 10       | 30,000 (140)   | \$6.59        | \$367.20  | \$127.50 | \$501.29   |
| 2"                    | 25       | 75,000 (350)   | \$6.59        | \$918.00  | \$318.75 | \$1,243.34 |

(b) Water only customers

Minimum charge will be the same for each meter size as shown above, but the sewer commodity charge will be excluded.

3. Bulk Sales Rate

All water sold in bulk by the Rural Municipality of Roland shall be charged for at the rate of \$16.05 per 1,000 gallons.

4. Service to Customers Outside Municipality

The Council of the Rural Municipality of Roland may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Municipality. Such agreements shall provide for payment of the appropriate rates set out in the 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 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

Accounts shall be billed quarterly. A late payment charge of 1.25% per month shall be charged on the dollar amount owing after billing due date. The due date will be at least fourteen days after the mailing of the bills.

6. Disconnection

All utilities subject to *The Public Utilities Board Act* shall comply with the Conditions Precedent for water and/or sewer service disconnection, as attached hereto and marked as Schedule "B".

7. Reconnection

Any service disconnected for any reason shall not be reconnected until all regulations have been complied with, and all arrears, penalties and a reconnection fee of \$15.00 have been paid.

8. Outstanding Bills

Pursuant to Section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water and sewer services, including fines and penalties, are a lien and 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. Water Allowance Due to Line Freezing or Sewer Issues

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 or the sewer lines in the sewer system from plugging, the charge to the 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.

10. Meter Accuracy Testing

That any customer may request that his/her water meter be tested for accuracy and before having the same tested by the municipality, he/she shall deposit with the Chief Administrative Officer the sum of One Hundred (\$100.00) Dollars, which shall be retained and if the meter shall be found to be accurate, the said sum of One Hundred (\$100.00) Dollars shall be retained by the municipality and if the meter is found to be inaccurate, the said sum of One Hundred (\$100.00) Dollars will be returned to the customer.

11. Sewage Surcharges

(a) There may be levied annually, in addition to rates set forth above, a special surcharge on sewage having a Biochemical Oxygen demand in excess of 300 parts per million, to be set by resolution of Council.

(b) 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.