

Order No. 79/16

**RURAL MUNICIPALITY OF PRAIRIE LAKES
LOCAL IMPROVEMENT DISTRICT No. 1 of DUNREA
WATER UTILITY RATES
July 1, 2016**

June 15, 2016

**BEFORE: Régis Gosselin, B ès Arts, MBA, CPA, CGA, Chair
The Hon. Anita Neville, P.C., B.A. (Hons.), Member**

Summary

By this Order, the Public Utilities Board (Board) approves the revised water rates effective July 1, 2016 for the Rural Municipality of Prairie Lakes (RM), Local Improvement District No. 1 of Dunrea Water Utility (Utility) as follows:

	Current (5 of 2011)	Proposed (20 of 2015)	Inc / Dec
Quarterly Service Charge	\$10.00	\$10.50	5.00%
Water \$/yearly flat fee*	\$445.50	\$462.00	3.70%
Annual Bill*	\$455.50	\$472.50	3.73%
Reconnection Fee	\$20.00	\$100.00	400.00%

*Based on 1 Residential Equivalency Unit (REU)

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

In 2015, the former Rural Municipality of Strathcona and the Rural Municipality of Riverside were amalgamated to form the Rural Municipality of Prairie Lakes (RM). The RM of Prairie Lakes owns and operates the water distribution system serving 44 customers in the community of Dunrea. Wastewater collection service is not provided.

The number of customers has declined in the last five (5) years. The rate application stated that many seniors in the community have moved to larger urban centres. This has created seasonal residences owned by family members living in the city.

The RM advises that the number of residential equivalency units (REUs) assigned is 45, one REU being the volume of water estimated to be used by the average single family residence. Units allocated to other customers are based on estimated water they will use, as compared with a residence. REUs are used in communities with unmetered distribution and collection systems, where information regarding actual consumption is unavailable. There are 42 customers billed one (1) REU and two customers billed one and a half (1.5) REUs.

Water - Supply/Distribution

The water treatment plant was built 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 (2) 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.

The water treatment facility is classified as Class 1 and the distribution system is classified as a Small Water Distribution Facility. The facility operator is classified as Class 1 operator.

Unaccounted for water

Unaccounted for water is calculated at 12%, within a manageable range to the 10% level which is considered acceptable for the industry.

Application

Originally, the RM of Riverside applied for rates on May 23, 2014. This application was denied in Board Order No. 112/14 due to deficiencies in the application. The Board ordered that a revised Notice of Application be issued when a revised application was submitted.

The RM of Riverside was also granted two additional rate increases of up to 10% effective January 1, 2010 and 2011; the increases were to be implemented at the discretion of the RM of Riverside. This last increase was established in By-law No. 5 of 2011 and effective January 1, 2012.

The RM applied for revised water rates as set out in By-law No. 20 of 2015 (read the first time on January 14, 2015). The application was supported by a rate study prepared by the RM and received by the Board on February 3, 2015.

A Public Notice of Application was issued on March 5, 2015 affording customers the opportunity to comment to both the Board and RM with respect to the proposed increases. The Board received no comments.

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.

The Board may review the application using a paper review process, which saves the cost of a public hearing process. Having received no expressions of concern from consumers, the Board decided to process this application with a paper-based review.

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 Board has reviewed the RM's budgeted expenditures, and finds them to be reasonable.

Though minimal, the RM has maintained a net operating surplus from 2011 to 2014.

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

As per the 2013 audited financial statements, the most recent information available, the working capital surplus at December 31, 2013 was:

	2013	2012
Fund Surplus/Deficit	\$ 147,515	\$ 146,331
Deduct tangible capital assets	\$ 138,305	\$ 144,657
Add Long-Term Debt	\$ 17,187	\$ 21,222
Add Utility Reserves	\$ 2,877	\$ 2,842
Equals Working Capital Surplus	\$ 29,274	\$ 25,738
Operating costs	\$ 25,500	
20% of operating costs	\$ 5,100	

Budgeted Expenditure

The rates were calculated based on projected 2017 expenses:

3%	2013	2014	2015	2016	2017
Administration	1,700	0	1,000	1,030	1,061
Net expenses general	1,700	0	1,000	1,030	1,061
Penalties	0	0	68	65	65
Net revenue general	0	0	68	65	65
Net costs general	1,700	0	932	965	996
Staffing	7,746	8,084	7,905	8,142	8,386
Purification and treatment	2,719	5,367	2,985	3,075	3,167
Utilities	0	0	2,867	2,953	3,042
Service of Supply	0		1,706	1,757	1,810
Transmission and distribution	6,209	5,427	800	824	849
Other water supply costs	0	496	0	0	0
Amortization	6,352	6,351	5,311	5,311	5,311
Interest on long term debt	796	644	487	324	155
Reseves	0	0	2,000	2,000	2,000
Minor cap upgrades/contingencies	0	0	5,132	5,286	5,445
Sub-total-water expenses	23,822	26,369	29,193	29,672	30,164
Water fee revenue	18,655	19,111	21,368	22,009	22,669
Amortization of cap grants	1,017	1,017	1,017	1,017	1,017
Taxation revenues	4,831	4,831	4,831	4,831	4,831
Other revenue	3,220	3,460	0	0	0
Total revenue	27,723	28,419	27,216	27,857	28,517
Net rate revenue-water	-3,901	-2,050	1,977	1,815	1,647

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.

Order No. 112/09, required that the Utility file its methodology for allocation of expenses for shared services and equipment to the utility the next time a rate application is made or if any change is made to the nominal amount provided for in this Order.

The application stated that the shared costs methodology remained unchanged. In the interrogatories posed to the RM, the Board requested the RM provide this methodology.

The RM's response is as follows:

- All the operating costs like water laboratory sampling fees, hydro, insurance, PUB fees, hypochlorite supplies, repairs, and contractor costs are charged directly to the utility. The utility's operator is also a contractor and his costs are charged directly to the utility. Interest on the Utility's debt is charged directly to the utility. Any major repairs are contracted out and then billed directly to the utility.
- The administrative work is done by the RM's staff. It is estimated that the office time and office supplies required for the annual billing and collection of accounts is valued at approximately \$1000.00.

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

Board Findings

The Board has reviewed the application and the projections presented by the RM in their rate study and the information provided subsequently in response to Board queries. The Board will approve the revised water rates as applied for by the RM.

The problems associated with declining population, including fewer customers to pay for utility operations, are not new to the Board. Depopulation is a significant problem faced by some other utilities in Manitoba. Notwithstanding these circumstances and the pressure placed on ratepayers, there remains a duty of care for the RM to operate the utility in a safe manner, so as to further the health, welfare and economic development of the RM.

The Board will require the RM to submit a copy of a revised by-law reflecting the decisions in this Order, once it has received third and final reading.

The RM is to provide the Board with copies of the 2014 and 2015 audited statements and submit any necessary deficit applications, as required.

The Board will require that the RM review its rates for adequacy and file a rate application should one be required on or by no later than June 30, 2018.

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.

IT IS THEREFORE ORDERED THAT:

1. Revised water rates for the Rural Municipality of Prairie Lakes – Local Improvement District No. 1 Dunrea Water Utility BE AND ARE HEREBY APPROVED in accordance with the attached Schedule “A”, effective July 1, 2016.
2. The Rural Municipality of Prairie Lakes amend its water rate By-law for the Local Improvement District No. 1 Dunrea Water Utility to reflect the decisions in this Order and submit a copy to the Board once it has received third and final reading.
3. The cost allocation methodology for shared services and equipment as submitted by the Rural Municipality of Prairie Lakes – Local Improvement District No. 1 Dunrea Water Utility BE AND IS HEREBY APPROVED.
4. The Rural Municipality of Prairie Lakes provide a copy of the audited financial statements for 2014, 2015 and all subsequent years as soon as they are available.
5. The Rural Municipality of Prairie Lakes 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 June 30, 2018.

Fees payable upon this Order - \$500.00

THE PUBLIC UTILITIES BOARD

“RÉGIS GOSSELIN, B ès Arts, MBA, CPA, CGA”
Chair

“JENNIFER DUBOIS, CPA, CMA”
Acting Secretary

Certified a true copy of Order No. 79/16
issued by The Public Utilities Board

Acting Secretary

Schedule "A"
The Rural Municipality of Prairie Lakes - L.I.D. of Dunrea
Water Rates By-Law No. 20 of 2015

Schedule of Annual Rates:

Unit	Customer Service Charge	Commodity Rate	Annual Bill
1	Single family residence	\$10.50	\$462.00
	Church		\$472.50
1.5	Small retail, with 1 Ste.	\$10.50	\$693.00
	And Beauty Shop; Small Retail Service Station Café, 30-50 seats		\$703.50

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 properties located outside the legal boundaries of Local Improvement District of Dunrea.

Such agreements will provide for payment of the appropriate rates as set forth in the table above as well as 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 in 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 15% of the amount of the bill shall be added at the rate of 1.25 per month for every month outstanding, if not paid by October 31st.

Connection

That application to connect to the sewer 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

Service may be disconnected and discontinued immediately and without further notice in the event of non-payment of the account within 90 days after due date. The Public Utilities Board has approved the Conditions Precedent to be followed by the municipality with respect to the disconnection 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 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 the land serviced, and shall be collected in the same manner in which ordinary taxes upon the land are collectable, and with like remedies.