

**Order No. 57/17**

**AN ORDER RESPECTING THE RURAL MUNICIPALITY OF HANOVER  
BLUMENORT WASTEWATER RATES  
July 1, 2017 and January 1, 2018**

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**June 6, 2017**

**BEFORE: The Hon. Anita Neville, P.C., B.A. (Hons.), Acting Chair  
Carol Hainsworth, C.B.A., Member  
Shawn McCutcheon, Member**

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## 1.0 Executive Summary

By this Order, the Manitoba Public Utilities Board (Board or PUB) approves revised wastewater rates for the Rural Municipality of Hanover (RM) - Blumenort Utility (Utility) as follows, effective July 1, 2017 and January 1, 2018.

	Current By-law No. 2071	<b>Jul 1, 2017</b>	Inc/ Dec	<b>Jan 1, 2018</b>	Inc/ Dec
Customer Service Charge	\$10.00	\$25.00	150%	\$40.00	60%
Residential Equivalency Unit	\$110.00	\$135.00	23%	\$160.00	19%
Reconnection Fee	\$0.00	\$50.00	New	\$50.00	0%

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

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

## **2.0 The Issues**

Three issues were identified by the Board:

**Issue 1 – The RM has requested revised wastewater rates.**

**Issue 2 – The RM has applied a deficit application for 2016.**

**Issue 3 – The RM has requested approval of the cost allocation methodology.**

### 3.0 Background

The RM owns and operates five utilities: Blumenort, Mitchell, New Bothwell, Kleefeld and Grunthal. The Blumenort Utility is a wastewater utility serving 452 customers (430 customers were used in the rate study).

The Utility is comprised of a combination of gravity and low pressure sewer lines. The lagoon is a 5 cell lagoon system with 3 of those cells aerated and 2 non-aerated treatment. Discharges from the lagoon flow into the Youville drain, consistent with the terms of the RM's environmental license. The Utility staff has the appropriate certifications.

The RM advises that the number of Residential Equivalency Units (REUs) assigned to the Blumenort Utility is 568 (555 was used in the rate study), with the exception of the large industrial users, primarily Granny's Poultry (Granny's) and Country Meat & Sausage Inc. with the industrial services agreements. Granny's is significantly larger than the other commercial businesses and represented 77% of the 2015 industrial user billings. The allocations for operating costs that are paid by Granny's are adjusted on an annual basis based on prior year actual hydraulic and organic values. The RM's engineer makes these determinations based on flow measurement and organic sample testing according to the terms of the ISA.

When reviewing an application, the PUB has at its disposal two approaches, either a paper or a public hearing review. After the publication of the Notice of Application, the PUB 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 the application and any concerns to the PUB in person. The PUB may review the application using a paper review process, which saves the cost of a public hearing process. The PUB has decided to process this application with a paper-based review.

## 4.0 Application

The Rural Municipality of Hanover has sought approval from the PUB for revised wastewater rates, as set out in By-law No. 2396-16. The application was prepared by the RM's consultant with a rate study dated April 2016 and submitted by May 16, 2016 and requested that the rates be effective January 1, 2017, 2018 and 2019.

A Public Notice of Application was issued on June 9, 2016 affording customers the opportunity to comment to both the Board and RM with respect to the proposed increases. The Board received two responses to the Notice, both of which concerned that the rate increases were too high. One respondent requested that the new rates be based on inflation rates and the other respondent also concerned the new reconnect fee.

The Board sent a round of information requests to the RM on March 29, 2017. The RM's responses were received on April 12, 2017. In this response, the RM indicated the Utility intends to absorb the anticipated deficits in 2016 and 2017 by accumulated surplus. The Utility stated, "the working capital surplus is able to absorb the effects of the 2016 and 2017 forecasted deficits and still significantly exceed the PUB minimum working capital requirements."

### Deficits

On May 15, 2017 the Board received the application from the RM for approval of utility operating deficits for 2016, in the amount of \$42,426. The RM also submitted Council Resolution No. FA 17-66 in support of the applications, which requested the deficits be recovered through a rate rider of \$74.69 per REU for all utility users.

The applications advised in the past three years deficits have been recovered by the accumulated surplus, this is not possible for 2017. The RM indicated the working capital surplus ratio has fallen dramatically in the past four years from \$515,345 in 2013 to \$116,066 in 2016. Rates were last set in Board Order No. 65/03 in 2003 and the RM

proposed revised rates effective January 1, 2017. The rate increase should mitigate future deficits.

### 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 2015 audited financial statements, the most recent information available, the working capital surplus at December 31, 2015 was:

<b>Working Capital Surplus/Deficit</b>	<b>Blumenort</b>
	<b>2015</b>
Fund Surplus/Deficit	\$4,542,357
Deduct Tangible Capital Assets	\$4,597,392
Add Long-Term Debt	-
Add Utility Reserves	\$497,431
<b>Equals Working Capital Surplus</b>	<b>\$442,396</b>
Operating costs	\$356,398
<b>20% of operating costs</b>	<b>\$71,280</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 (CAM). 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's responses to the Board's information request stated that 2017 forecast has applied the new cost allocation methodology to replace the existing policy of charging a flat rate of \$2,500 per year. The new policy was based on the Utility operating expenditures as a percentage of general operating expenditures, stated as 3.1% for 2014. In addition, the actual CAO and staff, office, legal and audit expenses were used in the rate study to apply the new cost allocation methodology.



## 5.0 Board Findings on the Issues

### Issue 1 – The RM has requested revised wastewater rates.

The Board has reviewed the application and the projections presented by the RM in its rate application and the information provided subsequently in response to PUB queries.

The Board finds a significant change regarding the new capital project lift station. In the rate application, the RM projected a \$1.5 million new lift station to be constructed in 2016 and the amortization is recognized starting in 2017. The Board requested an update for this new lift station. The RM responded the actual cost of this lift station was \$1,081,683, a \$418,317 reduction from the projection in the rate application. Therefore, the projected amortization should be significant lower than in the rate study. For this reason, the Board did not find that the requested 2019 rate increase was required. The RM should file an application for revised rates should they be required.

There are discrepancies of customers and REUs between rate study and deficit application. The Board finds the rate calculation is immaterial by such discrepancies. The Board suggests the RM be consistent when applying rate application and deficit application.

Other than above two variances, the Board finds that the revenue estimates provided are acceptable and will approve the rates for 2017 and 2018 as requested and will deny the 2019 projected rate. The RM proposed the effective date be January 1, 2017 (Year One rates) and January 1, 2018 (Year Two rates).

The Board is generally not supportive of retroactive rate increases, and approves them only in circumstances where it is in the best interest of all parties.

With respect to the concerns of the two stakeholders that responded to the Notice, while appreciative of their comments, the Board finds the increases sought by the RM to be reasonable, particularly given the length of time since the last rate increase. The RM must act in the best interest of all its customers.

The increases required can be considered to be rate shock, something that is common where rate requirements are not addressed for significant periods of time. In the case of the Blumenort Utility, it has been fourteen years since a rate change has taken place. Consumers are generally more tolerant of regular, smaller increases. The RM needs to be more diligent in conducting regular reviews of its revenue requirements.

**Issue 2 – The RM has applied a deficit application for 2016.**

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 has reviewed the RM's 2016 deficit application and finds the calculation and analysis are reasonable. The Board will approve the 2016 deficit to be recovered through the rate rider of \$74.69 per REU for all utility users to be levied in 2017.

### **Issue 3 – The Town has requested approval of the cost allocation methodology**

The Board will deny the cost allocation methodology as submitted by the RM. The approach adopted by the RM, which calculated utility expenses as a percentage of total expenses, is imprecise and can result in a significant fluctuations from one year to the next.

This methodology could materially over or understate the cost of running the Utility. Rather, the Board will direct the RM to continue charging a flat rate of \$2,500 and reapply to the Board with an updated methodology. The Board recommends the use of Board Order No. 93/09, particularly “Appendix A” thereof, to develop a revised cost allocation methodology.

## 6.0 IT IS THEREFORE ORDERED THAT:

- 1) Revised wastewater rates for the Rural Municipality of Hanover-Blumenort Utility BE AND ARE HEREBY APPROVED in accordance with the attached Schedule "A", effective July 1, 2017 and January 1, 2018.
- 2) The Rural Municipality of Hanover is to provide a notice to its customers, including the decisions found in this Order, in the next billing with a copy provided to the Public Utilities Board.
- 3) The actual operating deficit, when calculated for regulatory purposes, for 2016 of \$42,426 incurred in the Rural Municipality of Hanover-Blumenort Utility is HEREBY APPROVED to be recovered by a rate rider of \$74.69 per REU, effective July 1, 2017.
- 4) The revised cost allocation methodology applied by the Rural Municipality of Hanover-Blumenort Utility BE AND IS HEREBY DENIED.
- 5) The Rural Municipality of Hanover submits a copy of its wastewater rate By-law to the Public Utilities Board once it has been revised to reflect the changes found in this Order, and received third and final reading.

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

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. 57/17 issued  
by The Public Utilities Board

\_\_\_\_\_  
Acting Secretary

**SCHEDULE A TO BY-LAW NO. 2396-16**

Schedule of sewer rates for properties within Local Improvement District No. 3 (Blumenort)

**1. Schedule of Residential Equivalency Units**

<u>Customer</u>	<u>Units</u>
<u>Residential:</u>	
Single family residence	1
Multi-family dwelling, per dwelling unit	1
Senior citizens housing, per dwelling unit	1
<u>Institutional</u>	
Churches	1
Church with Daycare/Preschool, per 40 daycare spaces	3
Schools, per classroom	1
<u>Commercial</u>	
Garages, no wash rack	1
Garages, with one wash rack	2
Garages, per wash rack after first	1
Laundromat, per washing machine	1
Offices, 1 to 40 full time staff	1
Offices, for every 40 full time staff after first 40 rounded up	1
Restaurants and cafes, per 20 seats rounded up	1
Retail or commercial without public washroom	1
Retail or commercial with public washroom	2
Strip mall, per unit without public washroom	1
Strip mall, per unit with public washroom	2

**2. SCHEDULE OF ANNUAL RATES**  
**July 1, 2017**

Residential Equivalency Units Charged	2017		
	Service Charge	Sewer Only	Total
1.0	\$25.00	\$135.00	\$160.00
2.0	\$25.00	\$270.00	\$295.00
3.0	\$25.00	\$405.00	\$430.00
4.0	\$25.00	\$540.00	\$565.00
5.0	\$25.00	\$675.00	\$700.00
6.0	\$25.00	\$810.00	\$835.00
7.0	\$25.00	\$945.00	\$970.00
8.0	\$25.00	\$1,080.00	\$1,105.00
9.0	\$25.00	\$1,215.00	\$1,240.00
10.0	\$25.00	\$1,350.00	\$1,375.00
11.0	\$25.00	\$1,485.00	\$1,510.00
12.0	\$25.00	\$1,620.00	\$1,645.00
13.0	\$25.00	\$1,755.00	\$1,780.00
14.0	\$25.00	\$1,890.00	\$1,915.00
15.0	\$25.00	\$2,025.00	\$2,050.00
16.0	\$25.00	\$2,160.00	\$2,185.00
17.0	\$25.00	\$2,295.00	\$2,320.00
30.0	\$25.00	\$4,050.00	\$4,075.00



**3. SCHEDULE OF ANNUAL RATES  
January 1, 2018**

Residential Equivalency Units Charged	2018		
	Service Charge	Sewer Only	Total
1.0	\$40.00	\$160.00	\$200.00
2.0	\$40.00	\$320.00	\$360.00
3.0	\$40.00	\$480.00	\$520.00
4.0	\$40.00	\$640.00	\$680.00
5.0	\$40.00	\$800.00	\$840.00
6.0	\$40.00	\$960.00	\$1,000.00
7.0	\$40.00	\$1,120.00	\$1,160.00
8.0	\$40.00	\$1,280.00	\$1,320.00
9.0	\$40.00	\$1,440.00	\$1,480.00
10.0	\$40.00	\$1,600.00	\$1,640.00
11.0	\$40.00	\$1,760.00	\$1,800.00
12.0	\$40.00	\$1,920.00	\$1,960.00
13.0	\$40.00	\$2,080.00	\$2,120.00
14.0	\$40.00	\$2,240.00	\$2,280.00
15.0	\$40.00	\$2,400.00	\$2,440.00
16.0	\$40.00	\$2,560.00	\$2,600.00
17.0	\$40.00	\$2,720.00	\$2,760.00
30.0	\$40.00	\$4,800.00	\$4,840.00

## **The following clauses take effect July 1, 2017:**

### **2. Service To Customers Outside L.I.D. of Blumenort Limits**

The Council of Rural Municipality of Hanover may sign Agreements with customers for the provision of sewer services to properties located outside the boundaries of the Local Improvement District of Blumenort. 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 the 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 L.I.D. of Blumenort boundaries. In addition, all costs of connecting to the Utility's mains, and installing and maintaining service connections, will be paid by the customer.

### **3. Disconnection**

The Public Utilities Board has approved the Conditions Precedent to be followed by the RM with respect to 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 RM's office.

### **4. Reconnection**

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$50.00 have been paid.