

Order No. 15/20

**RURAL MUNICIPALITY OF CORNWALLIS
CHATER WATER UTILITY
APPLICATION FOR WHOLESALE WATER RATES**

January 27, 2020

**BEFORE: Carol Hainsworth, C.B.A., Panel Chair
Marilyn Kapitany, B.Sc. (Hon), MSc., Panel Member**

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1.0 Executive Summary

By this Order, the Manitoba Public Utilities Board (Board) approves the Rural Municipality of Cornwallis (RM), Chater Water Utility's (Utility) request for approval of a wholesale water rate. The approved water rates are below:

	January 1, 2020	January 1, 2021
Quarterly service charge	\$ 43.22	\$ 43.22
Water per cubic meter - domestic rate*	\$ 2.96	\$ 2.96
Water per cubic meter - wholesale rate**	\$ 1.63	\$ 1.66
Minimum quarterly charge***	\$ 84.66	\$ 84.66

*Domestic rate is charged on the first 450m³ per quarter

**Wholesale rate is charged on all sales over 450m³ per quarter

***Based on 14m³

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 Utility was established in 2014 after the dissolution of the Chater Water Co-operative. A single step water rate was set in Board Order No. 83/15, with current rates coming into effect January 1, 2016.

The Utility serves 48 customers, including the most recent customer Meadowbrook Village.

Water Supply/Distribution

The water treatment plant was constructed in 1990 and required numerous upgrades at the time ownership transferred to the RM. The supply well is licensed and owned by the RM and sits on the edge of the Assiniboine Delta Aquifer.

Unaccounted for Water

As per the Board's Guidelines, the acceptable percentage of unaccounted for water is 10%. The Utility indicated the 2017 unaccounted for water was 9% of water produced.

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. The Board has reviewed this application and has chosen a paper review process.

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.

Interim *ex parte* Approval

Interim *ex parte* rates are typically approved as applied for and are then subject to a standard Board review process, including a Public Notice of Application, before being confirmed as final by Board Order.

Since this process allows a municipality to obtain rates without the Board's review in full, it is reserved for instances where a municipality can show a compelling argument to allow it.

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 duty 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 Rural 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.

Guidelines

The Board provides a set of guidelines for use by utilities in preparing rate applications on its website. On the topic of decreasing block (step) rates, the Guidelines state (emphasis added):

*The Board and municipalities are bound by the tenets of The Sustainable Development Act. The concept of step rates (declining block rates), with lower unit charges applied to high volume users, works against the principles of conservation, encouraging, rather than discouraging consumption. **Therefore, declining block rates are discouraged.** Where they exist, the Board recommends that rate studies consider a plan for phasing them out, subject to special economic considerations as defined below.*

Special Economic Consideration: There will be circumstances where, in the interest of regional economic development, lower consumption rates have been provided to certain customers or groups of customers.

4.0 Application

On March 27, 2019 the Board received the RM's application to review and vary Board Order No. 83/15, asking that the Board consider revising the current water rate from a single step (domestic) rate to a two step rate. The two step rate consisted of the current domestic rate and a new wholesale water rate applicable to consumption over 450 cubic meters (m³) per quarter. The application was accompanied by a rate study completed by the RM, a Waterworks Extension Agreement (Agreement) made between the RM and 6843191 Manitoba Ltd (carrying on business as Meadowbrook Village) and By-law 1681/02/2019, read for the first time on December 18, 2018.

The RM's request to move from a single step rate to a two-step domestic and wholesale rate was in consideration of the addition of a new customer, Meadowbrook Village (Meadowbrook). Meadowbrook is a mobile home park with 165 mobile homes, located within Cornwallis boundaries and situated near the Utility's treatment facility.

In response to the Board's queries, the RM provided its rationale for requesting a wholesale rate. The RM advised the Utility's sustainability is limited without growth, and Meadowbrook currently purchases approximately 70% of the potable water produced by the Utility. The RM submitted the additional sales of potable water would keep rates at a sustainable level for existing ratepayers, as well as Meadowbrook. The RM's response also stated that Meadowbrook has plans for three additional expansion phases and this would contribute to the economic development of the community by meeting a demand for affordable housing, as well as providing additional residents in the community who would have a positive impact on the local economy.

The RM and the owners of Meadowbrook agreed to terms, and connected the park to a 2" line with the Utility providing service effective April 11, 2019. Prior to connecting to the Utility, Meadowbrook residents had been under a boil water advisory for many years. The Agreement included a provision that the RM would request wholesale rates from the Board with the understanding the RM did not have authority to guarantee these rates.

The RM submitted its request to the Board, including a request for interim *ex parte* approval of the wholesale water rate.

The Board issued a Public Notice of Application on April 26, 2019 affording customers the opportunity to comment to both the Board and the RM with respect to the proposed rate changes. The Board did not receive any responses to the Notice.

The RM's application did not request any change to the current domestic water rate of \$2.96 per m³, only the addition of a wholesale rate on water consumption greater than 450m³ per quarter.

Board Order No. 83/15 required the RM to file an application for revised rates, or a statement of rate adequacy if revised rates are unnecessary, on or before September 1, 2019. The RM's application included a request for the Board to extend the due date to July 2021.

Working Capital

As per the 2018 audited financial statements, the working capital surplus at December 31, 2018 was:

	2018	2017	2016	2015
Accumulated Fund Surplus/Deficit	\$210,138	\$200,345	\$189,419	\$169,131
Deduct tangible capital assets	\$322,520	\$318,370	\$323,095	\$318,531
Add long term debt	\$46,901	\$62,037	\$76,931	\$0
Add utility reserves	\$31,075	\$30,538	\$30,000	\$30,000
Equals Working Capital Surplus/Deficit	(\$34,406)	(\$25,450)	(\$26,745)	(\$119,400)
Operating costs	\$42,931			
20% of operating costs (target)	\$8,586			

Operating Deficits

The RM has advised the Utility has not experienced any operating deficits in its years of operation.

Cost Allocation Methodology

The Board approved the Utility's current Cost Allocation Methodology (CAM) in Board Order No. 83/15. The RM did not propose any changes to the existing CAM.

5.0 Board Findings

The Board considered the RM's request for interim *ex parte* approval of wholesale rates, found no evidence of an urgent need and denied the request. The application took its place in the queue for standard review; this Order is the result of that review.

The Board finds the application adequately addresses the requirement in Board Order No. 83/15 to provide a statement of rate adequacy.

The Board has reviewed the application and revenue projections presented by the RM and finds the projections to be reasonable.

The RM's response to the Board's queries suggested the wholesale rate would be in the interest of regional economic development. The Board is somewhat reluctant to implement wholesale rates where none currently exist; this rate setting methodology does not align with the Board's views on encouraging conservation or the user-pay principle.

Having said that, step rates are permitted and currently in use by several other utilities in Manitoba. The Board does not wish to impede future development in the community, and limit its positive impact on all residents. The Board has seen a shift towards the development of regional water systems, a strategy endorsed by the Manitoba Water Services Board. The partnering communities can take advantage of economies of scale and experience benefits over having separate water treatment plants.

The Board has carefully considered the possible consequences of approving or denying the RM's request for a wholesale rate. The Board makes the decision to allow the Utility to introduce a wholesale rate for several reasons. The Board wants to encourage the growth of the Utility, and supports the Utility planning on a regional basis. Even with the

introduction of a wholesale rate, the Board expects the increase in volume of water produced to have a significant positive impact on the water rates for all customers as fixed operating costs are spread out over a much larger volume of water produced. In addition, there were no responses to the Notice of Application, which the Board considers an indicator that ratepayers are supportive of the proposal. Finally, the RM and Council have first-hand knowledge of the Utility and ratepayers, and the Board recognizes its expertise.

The Board recommends all users of water have meters as a way to encourage conservation.

The Board will require the RM to review the financial position of the Utility no later than June 30, 2022 and apply to the Board for revised rates when those cost savings are realized. If the RM does not find the revenue requirements reduced, the Board will expect an explanation, and possibly a proposal to phase out the step rate and return to a single domestic rate.

The Board strongly 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.

This note appears to have been incorrectly prepared. The 2016 audited financial statements include a total of \$137,691 in capital grant revenue received 2016 and 2015, but this does not appear on any subsequent statements in the Public Utilities Board Note.

The Board reminds the RM regular reviews are important for a financially sound utility and encourages the RM to review Board Order No. 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 RM 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 wholesale water rate for the Rural Municipality of Cornwallis – Chater Water Utility, BE AND IS HEREBY APPROVED in accordance with the attached Schedule A, effective January 1, 2020 and January 1, 2021.
2. The Rural Municipality of Cornwallis review the Cornwallis Water Utility water rates for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates (if applicable), on or before June 30, 2022.

Fees payable upon this Order - \$150.00

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

"Carol Hainsworth, C.B.A."

Panel Chair

"Jennifer Dubois, CPA, CMA"

Assistant Associate Secretary

Certified a true copy of Order No. 15/20
issued by The Public Utilities Board


Assistant Associate Secretary

SCHEDULE "A"**THE RUAL MUNICIPALITY OF CORNWALLIS****LOCAL IMPROVEMENT DISTRICT WITHIN THE VILLAGE OF CHATER****WATER RATES BY-LAW NO. 1681/02/2019****To Amend Schedule "A" to By-Law No. 1650/04/2014****SCHEDULE OF QUARTERLY RATES:**1. Commodity rates per Cubic Meter

All Water Consumption	January 1, 2020	First 450 cubic meters	\$2.96
		Over 450 cubic meters	\$1.63
	January 1, 2021	First 450 cubic meters	\$2.96
		Over 450 cubic meters	\$1.66

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:

Water Only Customers**January 1, 2020**

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption	Customer Service Charge	Water	Quarterly Minimum Charge
5/8"	1	14	\$43.22	\$41.44	\$84.66
3/4"	2	27	\$43.22	\$79.92	\$123.14
1 "	4	55	\$43.22	\$162.80	\$206.02
2"	25	341	\$43.22	\$1,009.36	\$1,052.58

January 1, 2021

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption	Customer Service Charge	Water	Quarterly Minimum Charge
5/8"	1	14	\$43.22	\$41.44	\$84.66
3/4"	2	27	\$43.22	\$79.92	\$123.14
1 "	4	55	\$43.22	\$162.80	\$206.02
2"	25	341	\$43.22	\$1,009.36	\$1,052.58

3. Service to Customers Outside the Local Improvement District within the Village of Chater

The Council of the Rural Municipality of Cornwallis may sign agreements with customers for the provision of water services to properties located outside the legal boundaries of the Local Improvement District within the Village of Chater. 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.

4. Billings and Penalties

A late payment charge of 1% shall be charged on the dollar amount owing after the billing due date. The due date will be at least fourteen days after the mailing of the bills.

5. Disconnection

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

6. 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.

7. 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 collectible, and with like remedies.

8. Water Allowance Due to Line Freezing

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, the charge to that 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.