

Order No. 48/20

**RURAL MUNICIPALITY OF WEST INTERLAKE
ERIKSDALE WASTEWATER UTILITY
REQUEST FOR REVISED RATES**

April 1, 2020

BEFORE: Shawn McCutcheon, Panel Chair
Mike Watson, Panel Member

Table of Contents

1.0	Executive Summary.....	3
2.0	Background	3
	Wastewater Collection/Treatment.....	3
	Application	3
	Contingency Allowance and Utility Reserves.....	5
	Working Capital Surplus/Deficit	6
	Cost Allocation Methodology	6
3.0	Board Findings	7
	Application Deficiencies	7
4.0	IT IS HEREBY ORDERED THAT:.....	9

1.0 Executive Summary

By this Order, the Public Utilities Board (Board) denies the request by the Rural Municipality of West Interlake (RM) for revised wastewater rates for the Eriksdale Wastewater Utility (Utility).

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

2.0 Background

The RM owns and operates the Utility and provides service to 138 customers (as at 2017). Rates were last approved in Board Order No. 25/06 on February 20, 2006.

Wastewater Collection/Treatment

The RM owns and operates a two-cell facultative lagoon. The wastewater is conveyed via gravity and two lift stations to the lagoon.

The lagoon was constructed in the 1970's and the RM's consultant advises it is reported to be adequately sized for the community by its operators.

Application

On August 8, 2019, the RM applied for revised water and wastewater rates for the Utility. The application was accompanied by a rate study prepared by the RM's consultant in 2016 and By-Law No. 8-2019 having had first reading April 9, 2019.

A Public Notice of Application was issued on September 10, 2019 allowing for any questions or comments with respect to the proposed rate increases to the Board and/or the RM before October 10, 2019. No responses were received.

When reviewing an application the Board can either: hold a public hearing at which the applicant can present its case and customers can present their concerns; or where it is deemed to be in the best interests of a utility and its customers, the Board can review the application using a paper review process without holding a public hearing. The paper review process considers all written materials submitted by the Utility and the public, as well as any information requests and responses between the Board and the Utility. This process may reduce regulatory costs to the Utility.

A public hearing process allows the Utility and the public the opportunity to review the application and address concerns with the Board present.

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. The use of interim rates is typically reserved for instances where a utility can show there is need for an immediate implementation of new or revised rates. This may include cases where a utility is experiencing consecutive operating deficits and will continue to do so if revised rates are not approved in an expedited manner.

The Board has chosen a paper review process for the RM's application.

The Rates were calculated based on the following projections:

Schedule of Utility Rate Requirements – Eriksdale Wastewater Utility 2017 to 2019 Budget Forecasts (\$)			
	2017	2018 Forecast	2019
General Expenses			
Administration	1,000	1,020	1,040
Billing and Collection	500	510	520
Total General Expenses	1,500	1,530	1,560
Revenue			
N/A	-	-	-
Total General Revenues	-	-	-
Net Costs General	1,500	1,530	1,560
Wastewater Expenses			
Staffing	3,000	3,060	3,121
Wastewater Collection System	1,000	1,020	1,040
Lift Station	3,162	3,225	3,290
Treatment and Disposal	13,000	13,260	13,525
Other Collection and Disposal	1,000	1,020	1,040
Contingency	2,216	2,261	2,306
Connection – Net Loss	500	510	520
(Plug to Equal Rate Study)	(100)	(122)	(103)
Total Wastewater Expenses	23,778	24,254	24,739
Net Costs Wastewater	23,778	24,254	24,739
Net Operating Costs	25,278	25,784	26,299

Contingency Allowance and Utility Reserves

As per the Board's Water and Wastewater Application Guidelines, a yearly allowance equal to 10% of the variable operating costs I recommended for a contingency allowance.

The RM has included a contingency allowance of \$2,216 for year one, \$2,261 for year two, and \$2,306 for year three of the requested wastewater rates.

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

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

	2018
Utility Fund Surplus/Deficit	\$71,894
Deduct: Tangible Capital Assets	(20,620)
Add: Long-Term Debt	-
Add: Utility Reserves	28,434
Equals Working Capital Surplus (Deficit)	\$79,708
Operating Expenses	29,882
20% of Operating Expenses (Target)	\$5,976

The Utility meets the Board minimum target working capital surplus of 20%.

Cost Allocation Methodology

The Board requires all municipal governments to review the costs shared between its general operations and the Utility, and to allocate appropriate and reasonable costs to the Utility, based on a policy known as a Cost Allocation Methodology. This allocation 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 did not provide a fully completed template for a proposed Cost Allocation Methodology.

3.0 Board Findings

The Board has reviewed the application and the projections presented by the RM in its rate application and finds them to be deficient. The Board therefore denies the RM's request for revised wastewater rates.

Application Deficiencies

Audited Financial Statements

Public Utilities Board Guidelines states financial projections, working capital surplus, and forecasted rate requirements should be calculated using the RM's latest Audited Financial Statements. Section 4.4.2 (Working Capital Surplus) states the consultant used the 2014 Audited Financial Statements, as the most recent Audited Financial Statements, for its calculations.

As the rate study was submitted August 2019, the RM should be using the 2018 Audited Financial Statements as the basis for its financial and financial forecasting data.

Use of current financial data ensures utility rates are being forecasted based on the most current actual operating expense trends and the requested rates are sufficient to provide for the costs to operate the Utility.

Cost Allocation Methodology

Public Utilities Board Guidelines states when a utility is introducing a new or revised Cost Allocation Methodology, Board approval is required. Rate applications seeking such approval must provide clear details of the proposed Cost Allocation Methodology clearly demonstrating how that allocation is determined. The Board's requirements regarding Cost Allocation Methodologies can be found in Board Order No. 93/09.

In the Board's view, the Form for the Allocation Plan for Shared Costs included in Appendix A of the rate study is incomplete.

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 as soon as it is known.

The Board notes, based on the RM's Audited Financial Statements, the RM has incurred an actual operating deficit in 2018. The Board therefore directs the Utility to return to the Board no later than June 1, 2020 with a deficit application and recovery methodology for all deficits incurred by the Utility.

The RM advises the 2018 actual operating deficit is a result of one-time, non-recurring expenditures. The Board therefore finds the deficit is not due to insufficient rates.

The Board has reviewed the application and the projections presented by the RM in its rate study and finds them to be out-of-date.

The RM has advised the Board there are numerous upgrade projects planned for the Utility that were not included in the RM's rate study. The Board therefore finds a new rate study is required and directs the RM to review the wastewater rates for the Utility and file a report with the Public Utilities Board, as well as a full and complete application for revised rates or a letter of rate adequacy on or before December 31, 2020.

Prior to the RM's application on August 8, 2019, it had been 13 years since the RM had submitted a rate application or statement of rate adequacy to the Board. In the Board's view, the period between rate reviews is too long. Regular rate review submitted every three years, as per the Board's Guidelines, protect the financial position of the Utility and may reduce the need for substantial rate increases in one year. In some cases, the additional cost of a rate rider becomes necessary to recovery utility deficits.

It is the Utility's responsibility to review the rates and ensure rates are adequate to recover the cost of service being provided to ratepayers. Ratepayers are generally more tolerant of regular, smaller increases. The RM needs to be much more diligent in conducting regular rate reviews of its revenue requirements.

4.0 IT IS HEREBY ORDERED THAT:

1. The revised wastewater rates for the Rural Municipality of West Interlake, Eriksdale Wastewater Utility, BE AND IS HEREBY DENIED.
2. The Cost Allocation Methodology for shared services as submitted by the Rural Municipality West Interlake BE AND IS HEREBY DENIED.
3. The Rural Municipality of West Interlake review its wastewater rates for the Eriksdale Wastewater Utility for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates or a letter of rate adequacy by no later than December 31, 2020.
4. The Rural Municipality of West Interlake submit a Utility Operating Deficit Application for all deficits incurred by the Eriksdale Wastewater Utility by no later than June 1, 2020.

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.pubmanitoba.ca.

Fees payable upon this Order - \$500.00

THE PUBLIC UTILITIES BOARD

"Shawn McCutcheon"
Panel Chair

"Frederick Mykytyshyn"
Assistant Associate Secretary

Certified a true copy of Order No. 48/20
issued by The Public Utilities Board


Assistant Associate Secretary