

Order No. 87/22

**RURAL MUNICIPALITY OF ALEXANDER
GREAT FALLS WATER AND WASTEWATER UTILITY
REQUEST FOR REVISED RATES AND 2021 DEFICIT**

AUGUST 9, 2022

BEFORE: Shawn McCutcheon, Panel Chair
Irene Hamilton, Q.C., Panel Member

Table of Contents

1.0	Executive Summary.....	3
2.0	Background	3
	Water Supply/Distribution	3
	Wastewater Collection/Treatment.....	4
	Unaccounted for Water	5
3.0	Application.....	5
	Contingency Allowance and Utility Reserves.....	7
	Working Capital Surplus/Deficit	8
	Cost Allocation Methodology	8
	Deficits.....	10
4.0	Board Findings	10
5.0	IT IS HEREBY ORDERED THAT:.....	13

1.0 Executive Summary

By this Order, the Public Utilities Board (Board) denies the request for revised rates as applied for by the Rural Municipality of Alexander (RM) for the Great Falls Water and Wastewater Utility (Utility).

The Board approves a 2021 actual operating deficit of \$28,596, when calculated for regulatory purposes, incurred by the Utility to be recovered from the Utility's Accumulated Surplus Fund.

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

2.0 Background

Rates were last approved for the Utility in 2020 in Board Order No. 50/20. In the Order, the Board directed the RM to review the water and wastewater rates for the Utility for adequacy and file a report with the Board, as well as an application for revised rates if required, by no later than December 31, 2020.

Water Supply/Distribution

The RM owns and operates a water distribution system that provides service to 77 water and wastewater customers and 15 water only customers (or a total of 92 customers). A new water treatment plant was recently completed. Prior to completion of the new treatment plant, treated water was provided to customers by Manitoba Hydro at no cost.

The new water treatment plant was designed with the capacity to service approximately 100 existing Great Falls customers and 200 future customers in the surrounding region currently serviced by water co-ops. The RM advises the new plant is larger and more complicated than is necessary for the existing Great Falls customer base.

The new water treatment plant was commissioned in late 2019, replacing the water treatment plant owned and operated by Manitoba Hydro. The new plant uses fresh water from the Winnipeg River and operates both ultra-filtration and nano-filtration membrane systems, along with chlorine disinfectant to clean, disinfect, and store water for distribution. The plant is rated for production of up to 8 litres/second. The water distribution system consists of approximately 25 km of water mains delivering water to properties from Great Falls to Winnipeg River Drive. Approximately 50% of the water mains are made of high-density polyethylene (HDPE) and are approximately 30 years of age and in good condition. The remainder of the water mains are either cast iron or concrete. The water mains are approximately 50 years of age and in poor to good condition.

Manitoba Hydro plans to continue use of the old water plant pumping equipment, which supplies untreated water for fire hydrants in the community. Any costs associated with decommissioning the water treatment components of the plant will be borne by Manitoba Hydro.

Utility services are currently not extended beyond the boundaries of the Great Falls Local Improvement District (LID), however, the LID area extends approximately 2 km west from the village of Great Falls to include the White Mud Falls development. The new water treatment plant has been constructed with the intent to connect adjacent and existing residential areas currently being serviced by water co-ops as noted above.

Wastewater Collection/Treatment

The wastewater collection system operates on a gravity basis consisting of approximately 25 km of sewer mains and a lift station collection point. The lift station utilizes two 10 hp electric pumps to discharge wastewater to the town wastewater lagoon, approximately 3 km north of the town. Approximately 50% of the collection system is made of either polyvinyl chloride (PVC) or HDPE pipe and is about 30 years of age and in good condition. The remainder of the collection system is concrete asbestos pipe and is approximately 50 years of age and in poor to good condition.

The lagoon operates with a two-cell (primary & secondary) system and is discharged annually according to licence requirements. The RM advises the lagoon is functioning well at this time and is considered in good condition. The Town of Great Falls also operates about 5 km of storm sewer (land drainage) which is connected to the wastewater lift station.

Unaccounted for Water

The acceptable percentage of unaccounted for water is 10%, based on industry standards. If the percentage is above this amount, the applicant is to explain why and provide a plan to remedy.

The unaccounted for water noted in the RM's rate study is 45%. The rate study noted water meters are planned to be replaced in 2022, but did not identify any additional plans to address water loss.

3.0 Application

On June 1, 2022, the RM applied for revised water rates on an interim *ex parte* basis due to operating deficits incurred by the Utility in 2019, 2020, and 2021 and a Utility working capital deficit. The application for interim rates was supported by Council Resolution #2022 072 and By-Law No. 02/22.

On June 6, 2022, Board staff confirmed with the RM deficits did not materialize for the Utility for 2019 and 2020. Board staff also confirmed with the RM the Utility's working capital was in a surplus position of \$193,987 as per the RM's 2020 Audited Financial Statements.

On June 13, 2022, Board staff sent an information request letter to the RM to clarify elements of the RM's rate study. On June 21, 2022, the RM responded to the information request letter.

On June 28, 2022, given 2019 and 2020 deficits did not materialize and the Utility was in a working capital surplus position, the RM submitted Council Resolution #2022 298 cancelling its request for interim rates

On June 29, 2022, the RM applied for a 2021 actual operating deficit in the amount of \$28,596, when calculated for regulatory purposes, to be recovered from the Utility's Accumulated Surplus Fund.

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 any concerns with the Board present.

Whenever reasonable, the Board will review the application using a paper review process, which saves the cost of a public hearing process. The Board has chosen a paper review process for the RM's application.

The rates were calculated based on the following projections using an annual inflation rate of 3.0% in all calculations:

Schedule of Utility Rate Requirements Rural Municipality of Alexander – Great Falls Water and Wastewater Utility 2022 to 2024 Budget Forecasts (\$)			
	2022	2023	2024
	Forecast		
General Expenses			
Administration	6,147	6,147	6,147
Total General Expenses	6,147	6,147	6,147
Revenue			
Penalties	627	627	627
Total General Revenues	627	627	627
Net Costs General	5,520	5,520	5,520

Water Expenses				
	Purification and Treatment	76,000	78,280	80,628
	Other Water Supply Costs	4,012	4,132	4,256
	Transmission and Distribution	407	419	432
	Sandpipe	950	978	1,007
	Amortization	146,950	146,950	146,950
	Adjustment to Amortization Expense*	(20,926)	(20,926)	(20,926)
	Interest on Long-Term Debt	13,117	12,373	11,603
	Contingency	8,002	8,002	8,002
	Total Water Expenses	148,093	147,377	146,636
Revenue				
	Hydrant Rentals	800	800	800
	Bulk Water Fees	5,500	5,500	5,500
	Taxation Revenue	34,700	34,700	34,700
	Total Water Revenue	41,000	41,000	41,000
	Net Water Costs	107,093	106,377	105,636
Wastewater Expenses				
	Collection System	1,760	1,813	1,867
	Treatment and Disposal	789	812	837
	Lift Station	4,035	4,156	4,281
	Other Disposal Costs	1,997	2,056	2,118
	Amortization	9,056	9,056	9,056
	Contingency	910	910	910
	Total Wastewater Expenses	18,547	18,803	19,069
	Net Wastewater Costs	18,547	18,803	19,069
	Net Operating Costs	131,160	130,700	130,225

*Note – The RM is proposing 67% of the net amortization expense be excluded from the water rate calculation.

The proposed Utility rate increases are primarily required to provide for water and wastewater operating cost increases and a 10% contingency built into rates.

Contingency Allowance and Utility Reserves

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

The RM has included a contingency allowance of \$8,002 for water and \$910 for wastewater or a total contingency allowance of \$8,912.

The RM has not included a reserve allowance in its application.

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 2020 and 2021 Audited Financial Statements, the most recent information available, the working capital surplus for the Utility at December 31, 2021 was:

	2021	2020
Utility Fund Surplus/(Deficit)	\$5,383,100	\$5,386,177
Deduct: Tangible Capital Assets	5,646,453	5,655,510
Add: Long-Term Debt	380,217	401,080
Add: Utility Reserves	63,589	63,240
Equals Working Capital Surplus (Deficit)	\$180,453	\$194,987
Operating Expenses	249,403	127,142
20% of Operating Expenses (Target)	49,881	\$25,428

The Utility meets the Board minimum 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's allocation plan for shared costs is as follows:

Rural Municipality of Alexander Great Falls Water and Wastewater Utility Allocation Plan for Non-Direct Shared Services (see Note 1) as at February, 2022			
Category	Sub-category	Options	
1.0 Administrative Staff			\$6,147 annual cost allocation, to maintain the quarterly service charge at \$15.00.
	1.1 Billing services – meter reading to receipting and collection.		Meter reading – N/A; receipting and collection part of admin. staff allocation.
	1.2 Accounting/ auditing/ including bylaw making and enforcement.		
	1.3 Common office space		
	1.4 Office overheads (telephone, photocopier, computer, etc.)		
2.0 Operating, construction and maintenance costs			
	2.1 Vehicle – fuel, maintenance, lease costs, capital costs		RM provides vehicle. There are no charges to Utility for vehicle.
	2.2 Labor – full time, part time, on call, sick time, vacation (see Note 2)		The Utility operator's time is tracked on timesheets and charged directly to the Utility.
	2.3 Public works building and property.		There is no charge to the Utility for the Public Works Building use.
	2.4 Road repairs and alike (see Note 3)	Based on actual costs	-
3.0 Major projects			
	Interest/ financing		N/A
	Labor	Based on actual costs	-
	External costs	Direct charge (dedicated consulting)	-

Note 1 – Allocation must be updated periodically to reflect impacts of inflation.

Note 2 – Including salaries and benefits.

Note 3 – If a project involves work benefitting both the Utility and general operations the costs may be shared (i.e. If reconstructing a road and replacing services at the same time, a portion of the roadwork costs may be allocated to 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 by *The Municipal Act* to obtain Board approval for both the deficit and recovery methodology as soon as it is known.

The RM submitted an application to recover a 2021 actual operating deficit of \$28,596 from the Utility working capital surplus.

4.0 Board Findings

Rates

The Board has reviewed the application and the projections for rates presented by the RM and the RM's responses to information requests. The Board notes, the RM is requesting to exclude 67% of the Utility's net amortization expense from the water rate calculation to offset the increased amortization and interest expenses required for the construction of the new water treatment plant with surplus capacity until such time as surrounding regions are serviced by the new plant to bring the plant to full capacity.

Board Guidelines state, rates must provide sufficient revenue to recover all maintenance and operating costs and maintain the financial health of the Utility, unless evidence that variation is reasonable. The Board notes, in the RM's responses to Board staff information requests, the RM advised the municipal auditor does not agree with reporting the reduced net amortization expense figure in its Audited Financial Statements and amortization expenses should be reported "as is" and no reduction based on the number of customers or the new water treatment plant with surplus capacity should be reported.

The Board finds the RM's request to exclude 67% of the Utility's net amortization expense from the water rate calculation is not in keeping with Board Guidelines and based on the responses to Board staff information requests the RM has not provided reasonable evidence to substantiate the request to vary board rate setting requirements.

Generally Accepted Accounting Principles (GAAP) state: consistent procedures are to be used in the preparation of all financial reports (Performance of Methods); all aspects of an organization's performance, whether positive or negative, are fully reported with no prospect of debt compensation (Non-Compensation); speculation does not influence the reporting of financial data (Prudence); and financial reports fully disclose the organizations monetary situation (Materiality).

The Board notes: failure to consider all amortization expenses reported in the Audited Financial Statements for the purposes of calculating utility rates is not consistent with the Performance Methods Principal of GAAP; failure to consider all amortization expenses for the purposes of avoiding a utility operating deficit is not consistent with the Non-Compensation Principle of GAAP; the RM does not have agreements in place to supply water and wastewater utility service to surrounding regions and therefore the RM's request is not consistent with the Prudence Principle of GAAP; and excluding any portion of the Utility's amortization expenses does not fully disclose the Utility's monetary situation and therefore is not consistent with the Materiality Principle of GAAP.

The Board finds the RM's request to exclude 67% of the net amortization expense from the water rate calculation is not consistent with GAAP.

The Board notes, Public Sector Accounting Board Standards (PSAB) states the following under Section PS 3150 – Tangible Capital Assets – Amortization: Amortization must be recognized in a rational and systemic manner appropriate to the nature of the tangible capital asset and its use by Government; amortization is recognized as an expense in the Statement of Operations; and a government must review the amortization method and estimate the useful life for the remaining unamortized portion of a tangible capital asset on a regular basis and revise it when it can clearly demonstrate the appropriateness of a change.

The Board notes, in the RM's responses to information requests the RM states the useful life of the new water treatment plant is based on General Accounting Practices for a bricks and mortar building. The municipal auditor has been consulted and advises the amortization

expense should be reported in full and no reduction based on number of customers or (over)size of the plant should be considered.

The Board notes, the municipal auditor has advised the RM the existing, reported amortization (as per the Audited Financial Statements) is correct and the RM has not demonstrated the appropriateness of a change to the reported amount. The Board therefore finds the RM's request to exclude 67% of the net amortization expense from the water rate calculation is not consistent with PSAB.

As per the above, the RM's application for revised rates is not consistent with Board Guidelines, GAAP, and PSAB and therefore the Board denies the RM's request for revised Utility rates. The Board directs the RM to revise its application for revised rates to ensure it is consistent with Board Guidelines, GAAP, and PSAB and submit a revised application to the Board by no later than October 31, 2022.

Deficits

The Board has reviewed the RM's 2021 Deficit Application and the corresponding year's Audited Financial Statements. The Board notes, as per Schedule 9 of the 2021 Audit, the Utility incurred a deficit of \$63,296. The Board also notes, however, Note 8 to the 2021 Audited Financial Statements reports a Utility Fund debenture payable annually (including interest) of \$34,700. The Board finds, the Audit did not properly record the corresponding property tax revenue of \$34,700 for that year, which if correctly reported would reduce the deficit to \$28,596, as requested in the RM's Deficit Application.

The Board approves the 2021 actual operating deficit of \$28,596, when calculated for regulatory purposes, to be recovered from the Utility's Accumulated Fund Surplus.

The Board is concerned regarding the inaccurate reporting of property tax revenue in the RM's 2021 Audited Financial Statements and directs the RM to work with its auditor(s) to ensure all Utility financial data is reported completely and correctly in future audits.

Unaccounted for Water

The Board is concerned about the high levels of unaccounted for water at 45%. The Board directs the RM to provide an update on meter replacement and its impact on unaccounted for water in its revised application. If meter replacement does not reduce current high levels of unaccounted for water to an acceptable percentage, the Board also directs the RM to include a more detailed plan to address unaccounted for water levels in its revised application.

5.0 IT IS HEREBY ORDERED THAT:

1. The application for revised water rates for the Rural Municipality of Alexander, Great Falls Water and Wastewater Utility, BE AND IS HEREBY DENIED.
2. The Rural Municipality of Alexander revise its water and wastewater rate application to be consistent with Board Guidelines, Generally Accepted Accounting Principles, and Public Sector Accounting Board Standards and submit a revised Application to the Board by no later than October 31, 2022.
3. The actual operating deficit of \$28,596 for 2021 for the Great Falls Water and Wastewater Utility is HEREBY APPROVED to be recovered from the Utility Accumulated Surplus Fund.
4. The Rural Municipality of Alexander provide an update on meter replacement and/or a more detailed plan to address unaccounted for water levels in its revised application.

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 - \$150.00

THE PUBLIC UTILITIES BOARD

"Shawn McCutcheon"
Panel Chair

"Frederick Mykytyshyn"
Assistant Associate Secretary

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Assistant Associate Secretary