

M A N I T O B A) Order No. 91/14
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THE PUBLIC UTILITIES BOARD ACT) August 12, 2014

BEFORE: Susan Proven, P.H.Ec, Acting Chair
Marilyn Kapitany, B.Sc. (Hons.), M.Sc., Member

RURAL MUNICIPALITY OF WOODWORTH
LOCAL URBAN DISTRICT OF KENTON
WATER AND SEWER UTILITY RATES
2009, 2010, 2011 and 2012 ACTUAL DEFICITS

Summary

The Public Utilities Board (Board) hereby approves revised water rates for the Rural Municipality of Woodworth (RM), Kenton Water and Sewer Utility (Utility). The new rates are effective October 1, 2014, and January 1, 2015. Rates were last set by Board Order No. 44/03 in March 2003.

The Board also approves the recovery of the 2009, 2010, 2011 and 2012 operating deficits.

The current rates and revised rates are noted below:

	Current	2014	2015
Quarterly Service Charge	\$3.00	\$22.60	\$23.25
Water \$/1,000 gallons	\$13.75	\$14.75	\$14.80
Sewer \$/1,000 gallons	\$1.50	\$8.95	\$9.20
Minimum Quarterly*	\$48.75	\$94.60	\$95.25
Lagoon Tipping Fees per load (during regular hours)**	n/a	\$30.00	\$30.00
Bulk Water \$/1,000 gallons***	\$13.75	\$14.75	\$14.80
Hydrant Rental (Annual)	\$75.00	\$150.00	\$150.00
*Based on 3,000 gallons			
**After hours fee \$50 per load			
***For residents of the RM, non residents \$32/1,000 gallons			

Details of the revised rates are attached to this Order as Schedule "A".

Background

The Kenton Water and Sewer Utility (Utility) in the Rural Municipality of Woodworth serves 91 customers. All services are metered.

The Utility obtains its water from a shared water treatment facility with the Rural Water Pipeline Utility (RWP). An engineering assessment in March 2011 indicated that the existing water treatment plant was incapable of producing water in compliance with Provincial regulations and had inadequate reservoir capacity for meeting current demands. There are 12 fire hydrants, and the report also indicated concern that pumps may be insufficient for fire protection.

The RM invested in a new water treatment plant, which was completed in two parts. The first part was the replacement of the two wells at the same supply site, along with the installation of new supply lines from the supply well site into Kenton to the water treatment plant. The wells and the lines were installed in the spring of 2013.

The second part of the project began in August 2013 and included a new water treatment plant, building and reservoir. The former reservoir is tied in to the new one, more than doubling the storage capacity. This has resolved the concerns about fire protection.

The new water treatment plant began providing water March 5, 2014 and the project is expected to be completed by the end of 2014. The old water treatment plant is no longer in operation, and is

to be decommissioned in the future, with the building to be used for storage.

The Kenton Utility distribution system consists mainly of cast iron lines with some plastic. Although the system is said to be in good working order, it is nearing the end of its useful life. The cost to replace one block of lines is estimated at \$100,000. Unaccounted for water is 0.5%, well below the accepted industry average of 10%.

The Kenton Utility operates a truck-fill site. The RM also owns a non-potable truck-fill site supplied by its own well.

The Kenton Utility has a gravity flow sewer system and it is of the same age as the water distribution system. There is one lift station. There are no capacity issues to date. Lagoon discharges are made into a local creek. The RM indicated it is in compliance with its Environmental License for discharges from the lagoon.

Application

The RM submitted an application for revised water and sewer rates for Kenton on February 15, 2013. The RM also applied for revised water rates for the Rural Water Pipeline (RWP) at the same time; the RWP application will be addressed on Board Order No. 90/14. While they are two separate utilities, these Board Orders are best read in conjunction with one another as the two Utilities share ownership of a water treatment plant.

The application was accompanied by a copy of By-law No. 3/2013,

which had first reading on February 12, 2013, and a rate study prepared by the RM's consultant. In addition to the proposed changes to the water and sewer rates, the RM is seeking approval of the following:

- Water hydrant rental rate, increasing from \$75 per year to \$150
- Reconnection charges, increasing from \$25 to \$75
- Establishing a meter reading fee of \$100
- Including 50% of the water treatment plant debenture costs in the water rate
- Operating deficits for 2009, 2010, 2011 and 2012

A Public Notice of Application was issued on March 26, 2013 affording customers the opportunity to comment to both the Board and the Utility with respect to the proposed increases.

The Board has at its disposal two alternative processes to deal with rate applications; it may determine that a public hearing is warranted or that a paper review process is sufficient.

In the case of the RM of Woodworth, there was one stakeholder response received, which pertained to the Rural Water Pipeline.

The RM also advised the Board that a Public Information Meeting for the water treatment plant project was held on January 29, 2013. Included in the RM's presentation at that meeting was information on the new proposed rates for the RWP and Kenton utilities.

The Board concluded that a paper review process, which saves the Utility the cost of a public hearing, was in the best interest of all concerned.

During the review of the application, the Board submitted the first round of information requests to the RM on September 10, 2013. Despite several reminders from the Board, the responses to the questions posed in the letter were not received in full until March 20, 2014. The RM has stated that they experienced resource constraints relating to the amalgamation initiative during that time, which resulted in a delay in submitting their responses.

According to the rate study, legal ownership of the water treatment plant will be shared equally between the two Utilities. The application seeks to identify and isolate the expenses of the water treatment plant and use those estimated costs to calculate a "water production rate" rather than allocate the water treatment costs based on the ownership model of the plant.

The RM submitted the following calculations for the water production rate:

Purification and treatment	\$ 17,776
Other water supply costs	\$ 19,093
Debenture	\$ 45,000
Operating costs of new plant	\$ 50,000
Total estimated cost for water treatment plant	\$ 131,869
Average annual consumption* in gallons	20,875,150
Water production rate per 1,000 gallons (cost divided by consumption)	\$ 6.32

*source: Water Treatment Plant Upgrade Study

It is the opinion of the RM that dividing the costs of running the water treatment plant equally is unfair, since the Rural Water Pipeline consumes significantly more water than the Kenton Utility. In 2011, the RM's water treatment plant sold 23.26M gallons of water; Kenton Utility used 2.61M gallons (11%) and the Rural Water Pipeline Utility used 20.65M gallons (89%).

Revenue requirements submitted by the RM include an expense for "water purchases" based on estimated consumption for the Utility, charged at the water production rate (see above), rounded to \$6.35 per 1,000 gallons. Because the plant is jointly owned by the two utilities, "water purchase expense" will not be presented on the audited financial statements and a manual reconciliation between the audited results and the "water production rate" business model the RM wishes to use will be necessary.

Deficits

The RM also applied for Board approval for the following deficits for the Kenton Utility:

Year	Amount
2009	\$29,855
2010	\$36,625
2011	\$35,052
2012	\$52,681
Total	\$154,213

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 Utility is experiencing deficits as a result of outdated rates for water and sewer, rising operating expenses and Public Sector Accounting Board (PSAB) changes.

In the case of the Kenton Utility, it has been more than ten 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.

The RM applied to recover the deficits through the accumulated surplus.

Working capital calculation

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.

The Utility's working capital surplus, after absorbing the deficits, is below the Board requirement as of December 31, 2012.

	2012	2011	2010
Fund Surplus/Deficit	\$ 570,866	\$ 623,547	\$ 662,774
Deduct Tangible Capital Assets	\$ 558,169	\$ 579,303	\$ 600,155
Add Long-Term Debt	\$ -	\$ -	\$ -
Add Utility Reserves	\$ -	\$ -	\$ -
Equals Working Capital Surplus	\$ 12,697	\$ 44,244	\$ 62,619
Operating Costs	\$ 91,212		
20% of Operating Costs	\$ 18,242		

Budgeted expenditures

The rates proposed were based on the following budgeted revenue requirements:

	2014	2015
Administration	7,957	8,195
Billing and collection	265	273
Net revenue requirement general	8,222	8,469
Water purchases	16,580	16,580
Service of supply	3,380	3,482
Transmission and distribution	1,591	1,639
Connection costs	2,060	2,122
Amortization	475	475
Reserves	12,500	12,500
Contingency	5,000	5,000
Expenses water	41,587	41,798
Connection fees	1,000	1,000
Hydrant rentals	1,800	1,800
Investment income	350	350
Revenue water	3,150	3,150
Net revenue requirement water	38,437	38,648
Sewage collection system	530	546
Sewage lift station	6,365	6,556
Other sewage repairs and maintenance	12,996	13,386
Reserves	2,500	2,500
Contingency	1,000	1,000
Net revenue requirement sewer	23,392	23,989

The presentation of the budgeted expenditures does not include a provision for amortization of the new water treatment plant. The rate study includes an explanation for how the net amortization for this project was calculated. The rate study notes:

"Accordingly, for the calculation of a water production water rate, the amortization expense for the new WTP will be zero.

Further, as the principal part of the annual debenture payment increases over time and will continue to exceed the amortization expense." (pg 25)

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.

The RM submitted the following Cost Allocation methodology:

1. Tangible capital assets for the shared water treatment plant are allocated 50/50 to each utility. This approach will change for rate making when a water production rate is developed. In effect, all costs will reside with the water treatment plant and allocated based upon volumes consumed.
2. In 2007, by resolution, the Municipality approved a \$40 per hook-up fee to cover the costs of administering the utilities. Council determined a detail tracking of administration costs was too costly and hence developed the flat fee. The fee recovers office cost including wages. Details were last kept in 2006.

Board Findings

The Board will approve the application made by the RM for revised water and sewer rates for the Kenton Utility for 2014 and 2015.

The Board does have reservations regarding the methodology adopted by the RM in determining how to share the costs of the water treatment plant between the Kenton and Rural Water Pipeline Utilities. While this is a very equitable methodology, it could possibly lead to significant increases in administration time.

The revenue requirements submitted by the RM include an expense for "water purchases" from the water treatment plant; since the plant is jointly owned by the two utilities, no such expense will be presented on the audited financial statements. The rate study states that the RM will be allocating tangible capital assets equally between the two Utilities (page 28). If this is the case, then the Kenton Utility will show 50% of amortization expense, and possibly the operating costs of the water treatment plant, while only recovering 11% of the costs of producing the water.

It stands to reason that using this methodology for rate setting will show, on the audited financial statements, a deficit for the Kenton Utility and a surplus for the Rural Water Pipeline. The audited results will need to be manually calculated for regulatory purposes on an annual basis, to determine whether or not the Utilities have experienced an actual deficit. The RM will need to consider capital grants, the manual adjustment in amortization between the two utilities, donated assets, and any

other variables that are different between the audited results and the rate setting methodology.

While this reconciliation is possible, it will be complicated, particularly if the RM experiences any change in management in future. Given the difficulty experienced by the RM in responding to the rate study questions, the Board has misgivings that the RM has the resources to prepare this information on a timely basis. The methodology proposed is complex enough that the administration of it could cause significant challenges; however the Board recognizes that it is an appropriate and fair methodology and will therefore support the RM's decision to adopt it.

The Board recommends that the RM reflect on the long term implications of employing this methodology and consider the following alternatives, which may simplify the administration of the utility going forward:

- Establish the water treatment plant as an independent, third utility; this would simplify the administration and reconciliation, because the audited financial statements would align with the rate setting methodology. However, this could increase some costs.
- Merge the two Utilities into one; the Board understands the RM's reasoning for keeping the two Utilities separate. However, the issue of capital upgrades for the older distribution and collection systems can be dealt with by recovering through taxation and using a

Local Improvement District. Merging the Utilities requires Board approval.

- Transfer full ownership of the water treatment plant to one of the Utilities, which would then charge the other Utility a wholesale rate for water purchases; since the plant was subsidized by capital grants, this may not be a feasible option.

The effect of setting rates using the net amortization of zero will create an additional layer of complexity to the reconciliation, as the audited financial statements will show both amortization expense and the offsetting taxation revenues, which are not included in the budgeted revenue requirements used to calculate the rates.

The use of the zero net amortization may provide the same results as would the Board recommended methodology, but it decreases the transparency of the rate setting methodology and increases the likelihood of error in the reconciliation process.

The Board recommends that going forward the RM use the template provided by the Public Utilities Board, which provides for detailed information regarding amortization expense, taxation revenues, as well as adjustments for capital grant funds and donated assets. Use of Board recommended templates can assist in the Board's review of the application as well as ratepayers understanding of the application made by their utility.

The Board will approve the Cost Allocation Methodology of charging a flat rate fee of \$40 annually per customer. The Board

recommends the RM review Board Order No. 93/09, particularly "Appendix A" thereof, to determine if the RM would be better served by a revised cost allocation methodology. The Board also reminds the RM that this methodology must be used consistently in the future, and requires Board approval should any changes be considered.

Although the new meter reading fee of \$100 is high, the actual costs of sending out staff to physically read the meter do support the charge. This charge is entirely avoidable if customers submit their quarterly meter readings as required, therefore the Board will approve it. The RM is to enclose a note in the next quarterly billing drawing particular attention to the information surrounding the meter reading charge to all customers.

The Board will also approve the recovery of the 2009, 2010, 2011 and 2012 deficits totaling \$154,213.00 through the accumulated surplus of the Kenton Water and Sewer Utility. Although this will deplete the working capital surplus to below the recommended level of 20% of operating costs, the Board will approve it to help mitigate the rate shock from the rate increases approved on this Order.

The Board is aware that given the timing of this Order, the Utility is likely to report operating deficits for 2013 and 2014. The Board will require that the Rural Municipality of Woodworth submit the 2013 and 2014 audited financial statements to the Board as soon as they are available. These submissions should be accompanied by a properly completed deficit application, if

necessary.

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 Kenton Water and Sewer Utility located in the Rural Municipality of Woodworth BE AND ARE HEREBY APPROVED in accordance with the attached Schedule "A", effective October 1, 2014, and January 1 2015.
2. The Rural Municipality of Woodworth file with the Board a revised water and sewer By-law to reflect the decisions in this Order, once it has received third and final reading.
3. The Cost Allocation Methodology proposed by the Rural Municipality of Woodworth BE AND IS HEREBY APPROVED.
4. The Rural Municipality of Woodworth is to enclose a note in the next quarterly billing regarding the meter reading charge, and provide a copy to the Public Utilities Board.
5. The 2009, 2010, 2011 and 2012 deficits totaling \$154,213 BE AND ARE HEREBY APPROVED to be recovered through the accumulated surplus fund of the Kenton Water and Sewer Utility.
6. The Rural Municipality of Woodworth submit a copy of its 2013 and 2014 audited financial statements to the Board as soon as they are available.

7. The Rural Municipality of Woodworth 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, 2015.

Fees payable upon this Order - \$750.00

THE PUBLIC UTILITIES BOARD

"SUSAN PROVEN, P.H.Ec."
Acting Chair

"JENNIFER DUBOIS, CMA"

Acting Secretary

Certified a true copy of Order No.
91/14 issued by The Public
Utilities Board

Acting Secretary

SCHEDULE "A"
Rural Municipality of Woodworth (Kenton Utility)
WATER RATES
BY-LAW NO. 3/2013

SCHEDULE OF QUARTERLY RATES:

1. Commodity rates (per 1,000 gallons):

All water consumption:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
2014	\$14.75	\$8.95	\$23.70
2015	\$14.80	\$9.20	\$24.00

2. Minimum Charges, Quarterly

Notwithstanding the Commodity rates set forth in Paragraph 1 hereof, all customers shall pay the applicable minimum charges set out below, which will include water allowances indicated:

a) Water and Sewer Customers:

October 1, 2014:

Meter Size (Inches)	Group Capacity Ratios	Water Included - Gallons	Customer Service Charge	Commodity Water	Sewer	Total Quarterly Minimum
5/8	1	3,000	\$22.60	\$ 44.25	\$ 26.85	\$ 94.60
¾	2	6,000	\$22.60	\$ 88.50	\$ 53.70	\$ 164.80
1	4	12,000	\$22.60	\$ 177.00	\$107.40	\$ 307.00
1 ½	10	30,000	\$22.60	\$ 442.50	\$268.50	\$ 733.60
2	25	75,000	\$22.60	\$1,106.25	\$671.25	\$1,800.10

January 1, 2015:

Meter Size (Inches)	Group Capacity Ratios	Water Included - Gallons	Customer Service Charge	Commodity Water	Sewer	Total Quarterly Minimum
5/8	1	3,000	\$23.25	\$ 44.40	\$27.60	\$ 95.25
¾	2	6,000	\$23.25	\$ 88.80	\$55.20	\$ 167.25
1	4	12,000	\$23.25	\$ 177.60	\$110.40	\$ 311.25
1 ½	10	30,000	\$23.25	\$ 444.00	\$276.00	\$ 743.25
2	25	75,000	\$23.25	\$1,110.00	\$690.00	\$1,823.25

b) Water Only Customers:

Minimum charge will be the same for each meter size shown above, but the Sewer Charge will be excluded.

3. Bulk Sales Rate:

All water sold in bulk shall be charged for at the water commodity rate as set out in Paragraph 1. (If tax portion covered at large and if not \$32.00 per 1,000 gallons)

4. Meter Reading Fees:

Customers shall provide the Municipality quarterly meter readings at times to be determined by the Municipality and if the Municipality must arrange to obtain a meter reading by dispatching a meter reader the Municipality may charge the customer a meter reading fee of \$100.00 per occurrence. The Municipality will obtain an annual meter reading at no charge.

5. Service to Customers outside Municipality limits:

The Council of the Municipality may sign agreements with customers for the provision of water services to properties located outside the legal boundaries of the Municipality. 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.

6. Lagoon Tipping Fees:

Persons hauling septic to the lagoon from properties located in the Municipality shall be charged \$30.00 per load during regular hours of operation and \$50.00 per load after hours.

7. Hydrant Charges:

The Municipality shall pay to the Utility \$150.00 annually per fire hydrant.

8. Billings and Penalties

A late payment charge of 1¼% 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.

9. 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.

10. Reconnection

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$75.00 have been paid.

11. **Outstanding Bills**

Pursuant to Section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water and sewer 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.

12. **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.