

M A N I T O B A) Order No. 142/15
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THE PUBLIC UTILITIES BOARD ACT) December 22, 2015

BEFORE: Susan Proven, P.H.Ec., Acting Chair
The Hon. Anita Neville, P.C., B.A. (Hons.), Member

**RURAL MUNICIPALITY OF WALLACE-WOODWORTH
WALLACE WATER UTILITY
INTERIM WATER RATES - JANUARY 1, 2016**

Executive summary

By this Order, the Public Utilities Board (Board) approves the application from the Rural Municipality of Wallace-Woodworth for revised water rates for the Wallace Water Utility effective January 1, 2016, on an interim ex parte basis.

Rates are as follows:

	Current By-law 2195	Approved January 1, 2016	Increase/ Decrease
Water \$/cubic meter	\$1.79	\$2.60	45%
Quarterly Service Charge	\$24.10	\$24.10	0%
Minimum Quarterly Charge*	\$48.03	\$58.86	23%
Bulk Filling Station \$/cubic meter	\$2.01	\$2.60	29%

*Based on 13.370 cubic meters

For the average consumer, using 75 cubic meters of water per quarter, the increase from current rates will be approximately \$20 per month.

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

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

Introduction

The Rural Municipality of Wallace-Woodworth applied for revised water rates for the Wallace Utility on June 29, 2015.

A Public Notice of Application was issued on September 2, 2015 affording customers the opportunity to comment to both the Board and Municipality with respect to the proposed increases.

Three stakeholder responses were received.

- One was from one household that objected to the high rate of increase.
- The two others were from high-volume users namely, HyLife (a hog production company) and the RM of Pipestone. Their common objection was to the Utility having a one rate system with no price breaks for high-volume users.

When reviewing an application, the Board has at its disposal two approaches, either a paper or a public hearing review. After the publication of the Notice of Application, the Board considers the application and stakeholder responses, and determines which method of review is most appropriate.

A public hearing process allows the Utility the opportunity to present their application and stakeholders to voice any concerns to the Board in person.

The Board may review the application using a paper review process, which saves the cost of a public hearing process. However, the objections raised by the two high-volume customers as well as the significance of the increase are sufficient cause for the Board to hold a public hearing to be arranged in the near future.

Background

The Utility services approximately 390 customers in the RM of Wallace-Woodworth, as well as the Village of Maryfield, Saskatchewan, which has 160 customers, and the RM of Pipestone, which currently has 160 customers and is expecting to service an additional 350 customers through an expansion of their distribution line to the northeast portion of the RM and the community of Reston. Both Maryfield and Pipestone receive their water through large distribution lines and have separate distribution systems to service their customers.

Water system

This is a rural water distribution system with 70% of the water used for agricultural purposes. The remaining 30% is used for residential and commercial. All customers are metered.

The initial phases of the Utility system were constructed in 2004/2005. Raw water is obtained from a well just north of the RM in the Rural Municipality of Miniota. The well water is influenced by ground water and surface water. Water is treated using a reverse osmosis and chlorination process.

Since 2012, the system has added a new supply well, a new control building placed on a new flood elevation earth mound, upgraded booster station pumps and motors and an upgrade to a supply well pump and motor.

In 2013, there was an upgrade of a concrete reservoir and building as well as improvements to the water treatment. In 2014 and 2015, three diesel backup generators and a natural gas backup generator were installed.

A mainline extension project is expected to be done from 2018 to 2020, but none of the potential financial implications have been reflected in the application.

Unaccounted for water was reported at 9%, within the 10% industry-standard. Any water losses are believed to be primarily from meter inaccuracies and system operation such as line flushing.

Application

The RM applied for revised water rates as set out in By-law No. 33-2015 (read the first time on June 23, 2015). The application was supported by a 2015 rate study dated prepared by the RM's consultant.

Rates:

The requested rates were as follows:

	Current By-law 2195	Proposed By-law (33-2015)	Increase/Decrease
Water \$/cubic meter	\$1.79	\$2.60	45%
Quarterly Service Charge	\$24.10	\$24.10	0%
Minimum Quarterly Charge*	\$48.03	\$58.86	23%
Bulk Filling Station \$/cubic meter	\$2.01	\$2.60	29%

*Based on 13,370 cubic meters

The proposed rates were based on the following projected annual expenses:

	2015	2016	2017	2018
Administration	33,300	34,299	35,328	36,388
Penalties	3,000	3,000	3,000	3,000
Net costs general	30,300	31,299	32,328	33,388
Purification and treatment	891,900	661,433	681,275	701,714
Transmission and distribution		257,224	264,941	272,889
Amortization	412,528	412,528	412,528	412,528
Interest on long term debt	191,708	180,903	176,768	176,768
Reserves	50,000	50,000	50,000	50,000
Working capital surcharge	0	8,700	8,700	8,700
Contingency	0	45,000	45,000	45,000
Sub-total-water expenses	1,546,136	1,615,788	1,639,212	1,667,599
Revenues:				
Installation service	56,500	56,500	56,500	56,500
Amortization of cap grants	225,790	225,790	225,790	225,790
Taxation revenues	384,732	384,732	384,732	384,732
Bulk water sales and other revenue	10,700	10,700	10,700	10,700
Total revenue	677,722	677,722	677,722	677,722
Net rate revenue-water	868,414	938,066	961,490	989,877

The administrative charge is not being addressed in this application; it is proposed to remain as is. The rate study indicated that the real cost may be as high as \$55,000, which would indicate a quarterly service charge (QSC) of \$34.38. However, because of the unavailability of audited results to confirm this projection, the RM proposes to leave the current QSC in place.

The working capital surcharge, calculated at 1% of 2015 operating expenses, was requested to address working capital shortfall as follows:

	2012	
Fund surplus	\$	13,683,841
Deduct TCA	\$	18,271,340
Add Long-Term Debt	\$	4,287,839
Add Utility Reserves	\$	50,490
Equals Working Capital Deficit	-\$	249,170

The contingency provision requirement in the rate study was calculated to be \$180,000, being 1% of the capital cost of the plant. However, the amount requested is reduced to \$45,000 for the purposes of this application.

The reserve provision is intended to build a fund for future replacement of assets.

Deficits:

The Utility indicated that it expects to submit applications to the Public Utilities Board for approvals of deficits incurred in 2012, 2013 and 2014 once audited results are available, this is expected to be sometime in 2016.

Cost allocation methodology:

The cost allocation methodology as approved in Board Order No. 2/12 was applied in determining the administrative expenses. The RM indicated that this policy will be reviewed in 2016.

Customer responses:

The RM of Pipestone and HyLife both raise concerns about the proposed single step rate and note that the cost of servicing small and large customers justifies multiple step rates.

In response, the Municipality stated:

"(the RM) understands this argument and considered such a change to the existing step rate structure. The Municipality was guided by the PUB rate setting methodologies, which allow for such step rates and also, considered other PUB comments recommending movement a single step rate to promote conservation and to have rates that reflect appropriate price signals to customers. As a matter of public policy to promote conservation of a limited resource which is becoming increasingly costly to provide, the Municipality determined it would not change from the existing single step rate notwithstanding an economic justification could be made to do so. The Municipality is hopeful that with applied for rates all customers will see rate stability going forward. Accordingly no change to the step single step rate is being proposed."

An individual customer raised concern over the quality of the water service being provided and the significant cost increase, and questioned whether or not the Utility was being sufficiently attentive to cost control and appropriate management practices.

Board Findings

The Board will provide an interim rate approval on an ex parte basis, pending a public hearing to be scheduled in the near future, in order to minimize recurring deficits being experienced by the Utility. This rate is subject to change following the public hearing.

The Board has considered the objections raised by the high-volume users as well as the response provided by the RM and finds that there is sufficient cause to hold a public hearing in order to better understand the issues. This will give the RM a forum to explain their application. Customers, and especially objectors, will be afforded the opportunity to state their case and question the applicant.

The Board is concerned with the RM's application of the Board's statements with respect to one-step rates. While a one-step rate does encourage conservation, one must first address whether rates are fair and reasonable, to ensure that customers are being required to pay their fair share of costs.

The Board notes the expected mainline extension project to be done from 2018 to 2020. Since this will likely have an impact on revenue requirements, the Board will require that the Utility return with a rate application in 2018 incorporating the financial impacts of the extension.

The Board has also noted that the proposed quarterly service charge has not been based on confirmed administrative expenses, pending receipt and review of audited financial statements. It is the Board's expectation that these statements will be available before the public hearing so that administrative expenses are properly reflected in rates.

The Board will also expect deficit applications to be submitted as soon as audited results are obtained.

The Board notes two items in the rate study that it wishes to bring to the RM's attention, albeit that they will have no impacts on the interim rates being set herein:

1. The contingency provision in the rate study was determined on the basis of 1% of the capital cost of the Utility. This methodology is no longer recommended by the Board, which now suggests that an estimate of 10% of variable operating costs is a more appropriate provision. However, given that the RM is proposing a lesser amount than either methodology, it will not impact the current application.

2. Bulk rates are being proposed to be the same as water rates. This is a change from previous rates as set out in RM by-laws, where bulk rates were set marginally higher than water rates, this to reflect that bulk water purchasers do not necessarily pay taxes to the Municipality, as well as to incorporate administrative expenses, which are not imbedded in water rates. The RM has indicated that the majority of bulk water purchasers are tax-paying municipal residents and thus no differentiation is being made for rate setting purposes. This matter will be considered as part of the review following the public hearing.

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 Board notes the RM's intent to review its methodology in 2016 and reminds the RM that methodology changes require Board approval.

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. The water rates for the Wallace Water Utility for the Rural Municipality of Wallace-Woodworth as set out in Schedule "A" to this Order, BE AND ARE HEREBY APPROVED on an interim ex parte basis with revised rates to be effective January 1, 2016.
2. The Rural Municipality of Wallace-Woodworth submit a revised water rate by-law reflecting this Order for the Wallace Water Utility once it has received third and final reading.
3. The Rural Municipality of Wallace-Woodworth submit an application for revised water rates incorporating the effect of the mainline extension project on financial requirements by no later than June 30, 2018.
4. The Rural Municipality of Wallace-Woodworth submit its applications for approval of deficits immediately upon receipt of audited financial statements.

Fees payable upon this Order - \$150.00

THE PUBLIC UTILITIES BOARD

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

"JENNIFER DUBOIS, CPA, CMA"
Acting Secretary

Certified a true copy of Order No. 142/15 issued
by The Public Utilities Board

Acting Secretary

SCHEDULE "A"
RURAL MUNICIPALITY OF WALLACE-WOODWORTH
WALLACE WATER UTILITY
WATER RATES

Schedule of Quarterly Rates:

1. Commodity rates per m³:

All water consumption	<u>Water</u> \$2.60/m ³
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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:

Meter Size mm (in.)	Group Capacity Ratio	Water Included m ³	Customer Service Charge	Water Commodity Charges	Total Quarterly Minimum
16 mm (5/8")	1	13.370	24.10	34.76	58.86
19 mm (3/4")	2	26.739	24.10	69.52	93.62
25 mm (1")	4	53.478	24.10	139.04	163.14
38 mm (1 1/2")	10	133.696	24.10	347.61	371.71
50 mm (2")	50	334.239	24.10	869.02	893.12

3. Bulk Filling Station Rate

All treated water sold in bulk by the Rural Municipality of Wallace-Woodworth shall be charged for at the rate of \$2.60 per cubic meter (\$11.80 per 1,000 Imperial Gallons).

All untreated water sold in bulk by the Rural Municipality of Wallace-Woodworth shall be charged for at the rate of \$1.44 per cubic meter (\$6.50 per 1,000 Imperial Gallons).

4. Service to Customers outside Municipality

The Council of the Rural Municipality of Wallace-Woodworth may sign agreements with customers for the provision of water services to properties located outside the legal boundaries of the Rural Municipality of Wallace-Woodworth. Such agreements may provide for payment of the appropriate rates as set out in this 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 that time, or as 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.

5. Billings and Penalties

Accounts shall be billed quarterly, and shall be due payable 30 days after date of billing. A penalty of 1.25% per month of the amount of the bill shall be added if not paid by the due date. (Note: Due date may be set as Council sees fit to do.)

6. Disconnection and Reconnection

Water services may be discontinued if the water account has not been paid within 45 days of the last billing date. Before service is reconnected, payment shall be made of all arrears and penalties, plus a reconnection charge of \$75.00 during working hours. If reconnection is required after normal working hours, a charge of \$150.00 must be paid prior to reconnection.

The Public Utilities Board has approved 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 Municipal office.

7. Request for Meter Testing

Any customer may request that the water meter be tested. Upon receipt of a \$45.00 deposit, the R.M. of Wallace-Woodworth will submit the meter for testing to an independent testing company. Should the meter be found to be reading in excess of actual flows, the said deposit of \$45.00 shall be returned to the customer. Should the meter be found to be accurate, or reading below the actual flows, the customer shall forfeit the deposit to cover the cost of testing.

8. Outstanding Bills

Pursuant to Section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water services are a lien and charged 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.