

Order No. 93/16

**CITY OF FLIN FLON
WATER and WASTEWATER UTILITY
2014 ACTUAL DEFICIT
FINAL WATER AND WASTEWATER RATES**

July 21, 2016

BEFORE: The Hon. Anita Neville, P.C., B.A. (Hons.), Acting Chair
Marilyn Kapitany, B.Sc. (Hons.), M.Sc., Member
Regis Gosselin, B ès Arts, MBA, CGA, Chair

Summary

By this Order, the Public Utilities Board (Board) hereby confirms as final the interim water and wastewater rates for the City of Flin Flon (City) Water and Wastewater Utility (Utility) approved on an interim *ex parte* basis in Board Order No. 96/14. The Board considered and intended to approve rates for 2014, 2015, 2016 and 2017 in Order 96/14. Because this wasn't clearly set out in the Order, the City only implemented rate increases for 2014. This misunderstanding only came to light in May 2016. Therefore, the Board approves rates to be effective July 1, 2016 and January 1, 2017.

The Board approves the 2014 Utility deficit of \$939,234. The Board approves recovery of the deficit and working capital deficiency by way of a rate rider of \$10 per month for five years, effective July 1, 2016 to June 30, 2021.

The confirmed and approved rates are shown below:

Unmetered Customers-Flat Rate

Current	July 1, 2016	January 1, 2017
\$93.08/month	\$96.82/month	\$98.77/month
\$279.24/quarter	\$290.46/quarter	\$296.31/quarter

Metered Customers

Meter size	Group Capacity Ratio	Minimum Monthly Consumption (gallons)	Current Minimum Monthly Charge	July 1, 2016 Minimum Monthly Charge	Inc	January 1, 2017 Minimum Monthly Charge	Inc
5/8"	1	6,000	\$65.70	\$68.34	4%	\$69.72	2%
3/4"	2	7,000	\$76.65	\$79.73	4%	\$81.34	2%
1"	4	8,000	\$87.60	\$91.12	4%	\$92.96	2%
1 1/2"	10	20,000	\$219.00	\$227.80	4%	\$232.40	2%
2"	25	50,000	\$547.50	\$569.50	4%	\$581.00	2%
3"	45	90,000	\$985.50	\$1,025.10	4%	\$1,045.80	2%
4"	90	180,000	\$1,971.00	\$2,050.20	4%	\$2,091.60	2%

For all meter sizes, volumes in excess of the minimum monthly consumption will be charged at the following rates per 1,000 gallons:

Current	July 1, 2016	January 1, 2017
\$10.95	\$11.39	\$11.62

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

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

Background

The City of Flin Flon operates a water and wastewater utility which consists of 2,291 accounts. There are 315 metered accounts and 1,976 flat rate residential accounts.

The City of Flin Flon Utility System is a continuous double main re-circulating system that requires heating of the water from October to April of each year to prevent the freezing of the water lines. The City of Flin Flon has a wastewater treatment plant (WWTP) and a newly constructed water treatment plant (WTP).

The City's water is drawn from Cliff Lake, which is located approximately one kilometer north of Flin Flon.

The City reported that the utility meets the legislated certification requirement for all aspects of the water and wastewater systems.

The City estimates that its unaccounted for water is 25%.

Application

On January 17, 2014 the City requested an interim rate increase of 10%. This request was made without any supporting calculations or rate study, and the request was denied in Board Order No. 16/14.

The City submitted an application on June 13, 2014 for revised water and wastewater rates for the Utility. The application was accompanied by a rate study prepared by the City of Flin Flon and By-law No. 2014-11 which received 1st reading on June 3, 2014.

When reviewing an application, the Board has at its disposal several approaches. It can hold a public oral hearing at which the applicant can present its case and customers can present their concerns. In other cases, where it is deemed to be in the best interest of the Utility and its customers, the Board may review the application using a paper review process. In some cases, the Board can also establish interim *ex parte* rates, which are rates that are subject to review following a more complete process.

A Public Notice of Application was issued on June 9, 2014 affording customers the opportunity to comment to both the Board and City with respect to the proposed increases. No responses were received.

In September of 2014, the Board, which had not yet had the opportunity to review the details in the submission, determined that an interim rate was in order. The Board made this decision due to the urgent need to increase revenues to avoid further Utility deficits. This interim approval was subject to variation upon completion of a more detailed review.

Deficits

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 Board is therefore duty bound to approve reasonable rates based on reasonable expense projections. The Board has reviewed the City's budgeted expenditures, and finds them to be reasonable.

The Public Utilities Board (Board) issued Order No. 151/08 on November 7, 2008 requiring all water and/or sewer utilities to report an actual year-end deficit to the Board if the utility:

1. had not received prior approval for the deficit from the Board and such deficit either exceeds \$10,000 or represents 5% of the utility's operating budget; or
2. had received prior approval for the deficit from the Board and the actual deficit:
 - a. exceeds the previously approved amount by either \$10,000 or 5% of the utility's operating budget; or
 - b. is caused as a result that differs from that upon which said approval was granted;

On July 21, 2015, the City submitted an application to the Board seeking approval of the 2014 Utility deficit, in the amount of \$1,064,328. This request was supported by Council Resolution No. 5 dated July 24 2015 requesting the deficit be recovered with a rate rider of \$10 per month for five years. The deficit did not include the amortization of capital grants for wastewater projects. As a result, the City confirmed that the deficit should have been reduced by \$125,094, for a revised deficit of \$939,234.

The City of Flin Flon reported that the 2014 deficit was due to the large number of breaks in the water and wastewater mains during the 2013/14 winter season. These breaks were a result of long periods of extreme cold with lower than normal snowfall. Furthermore, the operating costs of the new water treatment plant from April 2014, when the City took over operations were higher than expected.

Working Capital

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.

As per the 2014 audited financial statements, the most recent information available, the working capital deficiency at December 31, 2014 was:

	2014	2013	2012	2011
Surplus	\$ 20,319,204	\$ 21,311,211	\$ 19,963,342	\$ 14,320,354
Deduct tangible capital assets	\$ 37,014,189	\$ 36,072,618	\$ 33,768,791	\$ 25,059,926
Add long term debt	\$ 8,284,874	\$ 8,832,116	\$ 9,352,081	\$ 9,846,216
Add reserves	\$ 1,000,000	\$ 1,000,000	\$ 886,000	\$ -
Equals working capital deficiency	\$ (7,410,111)	\$ (4,929,291)	\$ (3,567,368)	\$ (893,356)
Operating costs	\$ 4,897,242	\$ 3,971,155	\$ 3,556,587	\$ 3,412,198
20% of operating costs	\$ 979,448	\$ 794,231	\$ 711,317	\$ 682,440

Budgeted expenditures

Rates were calculated using the following projected expenses:

			2015	2016	2017
<i>Expenses-General</i>					
Administration (building, office, staff, etc.)			\$298,760	\$301,020	\$303,320
Billing and collection-see Cost Allocation Section 10			\$186,000	\$186,000	\$186,000
Total general expenses			\$484,760	\$487,020	\$489,320
Equity surcharge (1% of annual expenses)			\$34,800	\$34,820	\$34,840
Deficit Recovery for the years					
<i>Revenue-General</i>					
Service charges			\$10,500	\$10,500	\$10,500
Penalties			\$25,740	\$25,740	\$25,740
Total general revenue			\$36,240	\$36,240	\$36,240
Net revenue general			\$483,320	\$485,600	\$487,920
<i>Expenses-Water:</i>					
Purification and treatment			\$449,785	\$449,790	\$449,790
Transmission and Distribution			\$885,625	\$885,630	\$885,630
Amortization/ depreciation			\$523,251	\$523,251	\$523,251
Interest on long term debt			\$0	\$0	\$0
Sub-total- water expenses			\$1,858,661	\$1,858,671	\$1,858,671
<i>Revenue-Water</i>					
Connection Revenue			\$0	\$0	\$0
Hydrant rentals-209 @ \$630/year			\$131,670	\$131,670	\$131,670
Investment Income					
Amortization of capital grants			\$180,746	\$180,746	\$180,746
Other revenue					
Total non-rate revenue -water			\$312,416	\$312,416	\$312,416
Net rate revenue - water			\$1,546,245	\$1,546,255	\$1,546,255
<i>Expenses-Sewer</i>					
Sewage Collection System			\$144,728	\$144,730	\$144,730
Sewage Lift Station			\$173,589	\$173,590	\$173,590
Sewage Treatment and Disposal			\$594,890	\$594,890	\$594,890
Amortization/ depreciation			\$223,263	\$223,263	\$223,263
Interest on long term debt			\$0	\$0	\$0
Total sewer expenses			\$1,136,470	\$1,136,473	\$1,136,473
<i>Revenue-Sewer</i>					
Connection Revenue			\$0	\$0	\$0
Amortization of capital grants			\$125,094	\$125,094	\$125,094
Total non-rate revenue-sewer			\$125,094	\$125,094	\$125,094
Net rate revenue - sewer			\$1,011,376	\$1,011,379	\$1,011,379

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 City's allocation of shared costs is calculated as follows:

Allocation for shared costs		
Shared overhead -Includes direct and indirect costs related to the administration of the Utility		
Sub -category	Activity/Expenses (object)	% of Expenses allocated to Utility
Direct Overhead Costs	Billing and Collection	40%
	Receipting	40%
	Payroll	10%
Indirect Costs	CAO Salaries and Benefits	5%
	Treasurer and Accountant	10%
	Admin Assistant	20%
	Dir. Of Works and Operations	40%
	Works and Operations Foreman	40%

Board Findings

The Board confirms as final the interim rates approved on an *ex parte* basis in Board Order No. 96/14. The rates are for the following periods:

- as of July 1, 2014;
- as of July 1, 2016; and
- as of July 1, 2017.

With regards to the estimated 25% unaccounted for water, the Board notes that the City has implemented a leak detection program to try and reduce the amount of water being lost in the system.

Not all customers are metered; therefore the City must use an estimate and can't calculate the true amount of water lost. Reviewing the City's rate study, the estimate appears to be based on unmetered customers using the same amount as metered customers; In the Board's experience, unmetered customers use more water than metered customers. . Unless the City decides to put meters in for all customers, they won't know how much water is actually being lost in the distribution system.

Volumes included in the minimum charges do not align with the Board's recommended guidelines. The Board varied these volumes in Board Order No. 172/06 "to address an equity differential between metered and unmetered customers favouring metered customers, recognizing the Utility's largely fixed cost nature." This decision was made with the expectation that the City would continue its metering project and amend its billing approach once all of the ratepayers were metered. The City has now indicated that it is no longer seriously considering completing the metering project.

The methodology which the applicant used to determine the combined commodity charge for both water and wastewater is not consistent with Board recommended methods. This is also true for the calculation of rates for metered and unmetered customers. Use of the guidelines and workbooks provided on the Board's website are not compulsory, but these are based on best practices and should be adhered to unless there is a strong rationale for adjustment.

The Board encourages the City staff to confer with Board staff whenever they are uncertain about the Board's recommended methodology and, where a variation to the methodology is proposed, that the variation be clearly substantiated in the application.

Unless the City has a strong rationale to justify a variance, the Board recommends that the City of Flin Flon establish a customer service charge, a water rate and a wastewater rate, rather than a combined charge, using the workbooks provided. The differentiation sends a clearer pricing signal to customers. The use of a different methodology complicates the analysis of the rate application and leads to unnecessary delays in processing.

The Board's review of the City's audited financial statements found that the City reported \$74,462 in bulk water revenue for 2013. The City's By-law and rate application did not include a bulk water rate for Board approval. In response to the Board's information request, the City advised the reported "Bulk water revenue" is generated from water deliveries to Channing, a City subdivision. These residents are taxpayers but are not on the connected system. The City arranges contracts for delivery of water and pump outs for Channing residents who are then charged a quarterly rate based on existing contracts.

The balance of expenses (reported in the 2014 audited financial statements as "Water Purchases" and "Delivery sewer" after the offsetting revenue (in 2014=85,975+68,088-71,353=82,710 deficit) is then collected through "at large" taxes calculated on the mill rate against all of the City's taxpayers. There is a significant discrepancy between what residents are paying and what it costs to provide their services; therefore, those residents are being subsidized by all the other taxpayers of the City of Flin Flon.

Under *the Public Utilities Board Act*, customers do not have to be connected to a collection or distribution systems to be considered part of a Utility.

The Public Utilities Board Act (Act) states, in part:

"public utility" means, subject to subsections 2(2) and 2(3), any system, works, plant, pipe line, equipment or service

(c) for the production, transmission, delivery, or furnishing of gas, whether natural or manufactured, oil or other fluid petroleum products, water, heat, light, or power;

Board may declare sewage system a public utility

2(6) The board may declare any system of sewage collection or disposal, including all works, plants, sewage lines and equipment pertaining thereto, to be a public utility; and thereupon that system is a public utility under this Act.

The Board has long been a proponent of the user-pay principle and does not support the City providing these services to the residents of Channing at the expense of the rest of the City's taxpayers.

The Board will require the City to submit an application for rates for the Channing customers which is based on the costs of providing Utility services to these customers. The requested rates should not include any subsidization by the City. Once the application is received, the City will be required to give Notice to the affected residents.

The Board approves the recovery of the 2014 Utility deficit of \$939,234 and the working capital deficiency by a rate rider of \$10 per month for five years, effective July 1, 2016 to June 30, 2021.

The Board will approve the Cost Allocation Methodology, and reminds the City that this methodology must be used consistently in the future, and requires Board approval should any changes be considered. The proposed methodology from the City included dollar amounts; however the Board will approve the percentages only. This allows the City the flexibility to make adjustments when costs increase without making a new application to the Board.

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 City of Flin Flon water and wastewater rates for July 1, 2016 and January 1, 2017, as shown on Schedule "A" attached to this Order, BE AND ARE HEREBY APPROVED.
2. The City of Flin Flon water and wastewater rates, as approved on an interim *ex parte* basis in Board Order No. 96/14, BE AND ARE CONFIRMED AS FINAL.
3. The City of Flin Flon's 2014 Utility deficit of \$939,234, when calculated for regulatory purposes, IS HEREBY APPROVED to be recovered by a rate rider of \$10 per month for five years, effective July 1, 2016 to June 30, 2021.
4. The City of Flin Flon file a copy of its water and wastewater By-law, once it has been updated to reflect the decisions in this Order and received third and final reading.
5. The City of Flin Flon provide the Board with audited financial statements for 2015 as soon as they are finalized, including a deficit application if necessary.
6. The cost allocation methodology for shared services and equipment as submitted by the City of Flin Flon BE AND IS HEREBY APPROVED.
7. The City of Flin Flon file an application for rates to provide services to the customers known as "Channing" on or before December 31, 2016.

8. The City of Flin Flon review its water and wastewater 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, 2018.

Fees payable upon this Order - \$500.00

THE PUBLIC UTILITIES BOARD

"The Hon. ANITA NEVILLE, P.C.,B.A. (Hons.)"
Acting Chair

"JENNIFER DUBOIS, CPA, CMA"
Acting Secretary

Certified a true copy of Order No. 93/16
issued by The Public Utilities Board

Acting Secretary

THE CITY OF FLIN FLON

BY-LAW NO.

The Council of The City of Flin Flon, in open session assembled, hereby enacts as follows:

DEFINITION

Under this By-Law, the following definitions shall apply:

- a) **HOUSEKEEPING UNIT** shall mean two or more habitable rooms designed as, or used as, a unit for dwelling purposes.
- b) **SERVICE** shall mean the supplying of water and the attendant collection of sewage by the water and wastewater utility of The City of Flin Flon to:
 - (i) a premises receiving water from the water mains via a water metering device
 - (ii) a housekeeping unit which receives water from the water mains, without the use of a water metering device.

1. The following rates shall apply to all "Services" included in the water and wastewater utility of The City of Flin Flon:

CLASS A – July 1, 2016

All unmetered services \$96.82 per month billed \$290.46 quarterly per service, and a late payment charge of 1¼% shall be charged on the dollar amount owing on the first day of each month following the month in which bills are rendered.

CLASS B - Commodity Rates Per 1,000 Gallons - All Metered Services – July 1, 2016

All consumptions shall be at a Combined Commodity Charge of \$11.39 per 1,000 gallons.

All billings under Class "A" and "B" shall be rendered to consumers on the 1st day of the month following the quarter or month for which charges accrue.

Minimum Charges Monthly

Notwithstanding the Commodity Rates set forth above, all metered customers will pay the applicable minimum charges set out below, which will include water allowances indicated:

Meter Size	Meter Capacity Ratio	Minimum Monthly Consumption	Monthly Commodity Charge	Monthly Minimum
5/8	1	6,000	\$11.39	\$68.34
3/4	2	7,000	\$11.39	\$79.73
1	4	8,000	\$11.39	\$91.12
1½	10	20,000	\$11.39	\$227.80
2	25	50,000	\$11.39	\$569.50
3	45	90,000	\$11.39	\$1,025.10
4	90	180,000	\$11.39	\$2,050.20

For all meter sizes, volumes in excess of the minimum monthly consumption will be charged at the rate of \$11.39 per 1,000 gallons.

Late payment charge of 1¼% shall be charged on the dollar amount owing under Class "B" rates on the first day of each month following the month in which bills are rendered.

CLASS C - July 1, 2016

The water delivery system operated by The City of Flin Flon for services provided to those properties within the City boundaries that are not served by the utility connected system shall be charged for water as follows:

\$11.39 per 1,000 gallons based on an annual usage by the system of 2.7 million gallons.

CLASS A – January 1, 2017

All unmetered services \$98.77 per month billed \$296.31 quarterly per service, and a late payment charge of 1¼% shall be charged on the dollar amount owing on the first day of each month following the month in which bills are rendered.

CLASS B - Commodity Rates Per 1,000 Gallons - All Metered Services – January 1, 2017

All consumptions shall be at a Combined Commodity Charge of \$11.62 per 1,000 gallons.

All billings under Class "A" and "B" shall be rendered to consumers on the 1st day of the month following the quarter or month for which charges accrue.

Minimum Charges Monthly

Notwithstanding the Commodity Rates set forth above, all metered customers will pay the applicable minimum charges set out below, which will include water allowances indicated:

Meter Size	Meter Capacity Ratio	Minimum Monthly Consumption	Monthly Commodity Charge	Monthly Minimum
5/8	1	6,000	\$11.62	\$69.72
3/4	2	7,000	\$11.62	\$81.34
1	4	8,000	\$11.62	\$92.96
1½	10	20,000	\$11.62	\$232.40
2	25	50,000	\$11.62	\$581.00
3	45	90,000	\$11.62	\$1,045.80
4	90	180,000	\$11.62	\$2,091.60

For all meter sizes, volumes in excess of the minimum monthly consumption will be charged at the rate of \$11.62 per 1,000 gallons.

Late payment charge of 1¼% shall be charged on the dollar amount owing under Class "B" rates on the first day of each month following the month in which bills are rendered.

CLASS C - January 1, 2017

The water delivery system operated by The City of Flin Flon for services provided to those properties within the City boundaries that are not served by the utility connected system shall be charged for water as follows:

\$11.62 per 1,000 gallons based on an annual usage by the system of 2.7 million gallons.

2. The City will pay to the utility an annual rental of \$630.00 for each hydrant connected to the system.
3. Residential accounts may apply for a discontinuance of service for any period in excess of one month for an administration fee of \$93.08. Temporary discontinuances of service are not available for rental property nor for metered accounts.
4. Service may be discontinued and disconnected immediately, and without further notice, in the event of non-payment of the account on the first day of each month following the month in which bills are rendered.
5. Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties, and a reconnection fee of the greater of \$100.00 or actual costs have been paid.
6. Pursuant to Section 252 (2) of The Municipal Act, the amount of all outstanding charges for water and wastewater 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.
7. The Council of The City of Flin Flon may sign agreements with customers for the provision of water and wastewater services to properties located outside the legal boundaries of the City. 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 the equivalent to the frontage levy, general taxes, and specialty 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.
8. That in any case where, at the request of 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.
9. By-Law No. 2006-13 will be repealed and this By-Law shall come into full force and effect upon:
 - a) Approval by the Public Utilities Board of the Province of Manitoba.
 - b) Final passage on second and third readings by the Council of The City of Flin Flon.