

Public Utilities Board

In the Matter of The RM of St. Andrews Wastewater Rate Application (Application)

Presentation from Kim VanKosh

16 Young's Crescent
St. Andrews, MB

April 19, 2021

My name is Kim VanKosh and I reside at 16 Young’s Crescent in St. Andrews. I am an interested party in this application as my property will be connected to the RM’s wastewater utility.

I have experience with rate applications in Alberta, primary reviewing electricity applications but I have also been involved in water applications.

I sent information requests to the RM on April 5, 2021 and received a response on April 19, 2021. My IRs and the responses to the IRs were also sent to Jennifer Dubois at the PUB.

I intend to address five areas with regards to the application put forward by the RM of St. Andrews on the wastewater application. These areas include

1. Cost of long-term debt
2. Amortization of Construction costs
3. Connection Fees
4. Winnipeg Participation Fee
5. Sewage Lift Station Expenses

ISSUE 1: COST OF LONG-TERM DEBT

Table 1: Interest Rate in Application

| | Expense | Rate Application Amount | Calculated amount |
|----------|--|--------------------------------|--------------------------|
| A | Interest on Long-term debt | \$409,198 | |
| B | Total Estimated Construction Costs | \$35,622,124 | |
| C | Infrastructure funding | (\$20,466,631) | |
| D | Net Construction Costs before prepayments | \$15,155,493 | |
| E | Estimate 40% of owners will prepay | (\$6,062,197) | |
| F | Net Construction Costs | \$9,093,296 | |
| G | Interest Rate in Application (A/F*100) Also from IR response #1. | | 4.5% |
| | | | |
| H | Construction costs per property owner | \$7,264.37* | |
| I | Yearly payment over 20 years | \$504* | |
| J | Interest rate charged on construction costs | 3.375%* | |
| | | | |
| L | Proposed Interest on Long-term Debt (F * J) | | \$306,899 |

* Source is correspondence from the RM of St. Andrews. The file is attached to this evidence

ISSUE 1: Recommendation

As shown on Row F of Table 1, the outstanding long-term debt carried by the RM of St. Andrews is \$9,093,296. The interest rate used by the RM in the Application is 4.5%.

I recommend that the interest rate used in the application should be equal to the interest rate of 3.375% charged to the customers that are paying for the construction costs over 20 years.

As a result, the interest on long-term debt included in the revenue requirement should be \$306,899 as shown on Row L of Table 1 not \$409,198.

While the interest will appear in the revenue requirement, it should be fully offset by the annual debenture debt payments from the property owners that did not pay their share of the construction costs upfront.

The overall result in the revenue requirement should be a net interest expense of \$0 for long-term debt in the utility rates.

ISSUE 2: AMORTIZATION OF CONSTRUCTION COSTS

An information request was sent to the RM of St. Andrews asking for clarification on the amortization/depreciation of construction costs.

Please note that the RM provided me with updated construction and capital funding costs which are reflected on Table 2. Columns A-E of Table 2 were provided in response to IR #8. Column F is calculated.

Table 2: Updated Amortization of Construction Costs as provided in response to IR #8.

| Amortization Expense | A | B | C | D | E | F |
|---|-------------------|----------|----------------------------|----------------------------|--|--------------------------------------|
| | | | Amortization Period | Annual Amortization | Capital Grant Amortization Based on % | Net Annual Amortization (D-E) |
| Lift Station and Odour Control | 9,275,893 | 29% | 40 | 231,897 | 122,593 | 109,304 |
| PVC lines | 22,433,231 | 71% | 75 | 299,110 | 158,125 | 140,985 |
| Local Improvement project cost | 31,709,124 | | | 531,007 | 280,719 | |
| Water Meters | 245,014 | | 20 | 12,251 | 6,125 | 6,126 |
| Sewer trunk main in West St. Paul; net cost | 2,300,000 | | 75 | 30,667 | | 30,667 |
| Total | 34,254,138 | | | 573,924 | 286,844 | 287,080 |

In response to IR #6e, the RM provided updated funding information as shown in Table 3.

Table 3: Updated Funding for Project as provided in response to IR #6e

| | Updated Amounts | Grant Funding |
|----------|---|---------------------|
| A | Canada/MB Infrastructure Funding | (8,500,000) |
| B | MB Water Services Board Funding | (8,263,129) |
| C | MB Water Services Board Funding - water meters | (122,507) |
| D | St. Andrews Funding - water meters | (122,507) |
| E | St. Andrews Gas Tax Reserve Funding | (794,999) |
| F | St. Andrews Gas Tax Reserve Funding - Main St. Sewer main | (2,300,000) |
| | TOTAL FUNDING | (20,103,142) |

In response to IR #7a, which asked how Column E of Table 2 was calculated, the RM responded:

“Capital grants were apportioned to the capital assets based on the percentage each asset category was of the total cost. For example, \$9,210,784 for Lift station and odour control was 28% of the total L.I. cost. 28% of capital grants were assigned to this asset category and amortized at 40 years.”

Table 4 was created using the explanation provided in the response to IR #7a to calculate the amortization for the capital grants.

Table 4: Amortization of Capital Grant – Recommended Calculation

| Amortization Expense | A | B | C* | D | E |
|---|---|-----|--|----------------------------|--|
| | Construction Costs Prior to Infrastructure Funding | | Capital Grant funding apportioned to asset category based on response to IR #7a | Amortization Period | Capital Grant Amortization Based on percentages |
| Lift Station and Odour Control | 9,275,893 | 29% | (5,091,857)** | 40 | 127,296 |
| PVC lines | 22,433,231 | 71% | (12,466,271)*** | 75 | 166,217 |
| Local Improvement project cost | 31,709,124 | | (17,558,128) | | |
| Water Meters | 245,014 | | (254,014)**** | 20 | 12,251 |
| Sewer trunk main in West St. Paul; net cost | 2,300,000 | | (2,300,000) | 75 | 30,667 |
| Total | 34,254,138 | | | | 336,431 |

* Calculations based on percentages of funding as shown on Table 3

** (Infrastructure Funding) *29% = (8,500,000+8,263,129+794,999)*0.29

*** (Infrastructure Funding) *71% = (8,500,000+8,263,129+794,999)*0.71

**** (Infrastructure Funding) *100% = (122,507+122,507)*100

ISSUE 2: Summary and Recommendation

While the RM answered IRs with regards to the amortization expenses included in the Application. The amounts included in the revenue requirement to develop the rates is unclear.

Column D of Table 2 indicates that the total amortization of all construction costs is \$573,924. Column E of Table 2 indicates that the amortization of the capital grants is \$286,844. However, using the response from IR #7a, I calculated the amortization of the capital grants to be \$336,431.

NOTE: That these amortization amounts do not include the upfront capital costs paid by property owners of which the RM estimated to be 40% which is shown in Row E of Table 1.

I submit that the amortization expense should be offset by the capital grant funding as shown in Table 4. Further and not calculated here, the upfront funding paid for by property owners must also be taken into account.

ISSUE 3: WINNIPEG CONNECTION FEE

The RM of St. Andrews has not provided justification or the purpose for the Winnipeg Connection Fee. It is unclear whether City of Winnipeg rate payers pay this fee. In response to IR #5 asking for additional detail on this fee, the RM stated:

“The RM of St. Andrews does not have any information on the City of Winnipeg charges to property owners in Winnipeg for utility services.”

ISSUE 3: Recommendation

It is unacceptable that the RM of St. Andrews does not have information on the connection fee for City of Winnipeg rate payers. How does the RM know whether the amount being charged to rate payers in the RM of St. Andrews is reasonable.

I submit that the rate payers in St. Andrews should pay the same connection fee as City of Winnipeg rate payers. The City of Winnipeg should not be able to earn a profit off of providing this service to the RM of St. Andrews rate payers. Nor should the rate payers in the RM of St. Andrews be subsidizing rate payers in the City of Winnipeg.

ISSUE 4: WINNIPEG PARTICIPATION FEE

In a response to IR #3, regarding the Winnipeg Participation Fee, the RM stated:

“The Winnipeg Participation fee is a charge the City of Winnipeg set as a charge for municipalities that choose to enter into wastewater servicing agreements.”

They further stated that it is the same fee paid in West St. Paul. Regardless of whether the fee is the same as West St. Paul, the RM of St. Andrews has not provided justification or the purpose for the Winnipeg Participation Fee. It is unclear whether City of Winnipeg rate payers pay this fee.

ISSUE 4: Recommendation

I submit that the rate payers in St. Andrews should pay a similar participation fee as City of Winnipeg rate payers. The City of Winnipeg should not be able to earn a profit from providing this service to the RM of St. Andrews rate payers. Nor should the rate payers in the RM of St. Andrews be subsidizing rate payers in the City of Winnipeg.

ISSUE 5: SEWAGE LIFT STATION EXPENSES

According to PUB Order 74-18-r, the West St. Paul expenses for the Sewage Lift Station is \$32,480 for 2021. The estimated lift station costs for the St. Andrews Wastewater utility are:

| | |
|---|----------------|
| Lift Station: West St. Paul staffing contract | \$103,480 |
| Lift Station: Odor Control | \$5,200 |
| Lift Station: Corrosion Control | \$39,520 |
| Lift Station grounds maintenance | <u>\$2,600</u> |
| Total | \$150,800 |

ISSUE 5: Recommendation

In a response to IR #4, the RM noted that the contract is with the City of Selkirk not West St. Paul as stated in Application. The contract with the City of Selkirk was not provided.

Regardless, of the different type of system used in West St. Paul, the RM of St. Andrews has not provided sufficient justification for the sewage lift station expenses being about 4.5 times greater than West St. Paul. Further the RM of St. Andrews has not provided the contract of justification for the City of Selkirk to be providing these contracting services.