

**Order No. 66/17**

**AN ORDER RESPECTING THE TOWN OF MELITA  
WATER AND WASTEWATER RATES  
JULY 1, 2017, JANUARY 1, 2018 AND 2019**

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**June 23, 2017**

**BEFORE: The Hon. Anita Neville, P.C., B.A. (Hons.), Acting Chair  
Carol Hainsworth, C.B.A., Member  
Shawn McCutcheon, Member**

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## 1.0 Executive Summary

By this Order, the Manitoba Public Utilities Board (Board or PUB) varies revised water and wastewater rates for the Town of Melita (Town) water and wastewater utility (Utility) as follows, effective July 1, 2017 and January 1, 2018 and 2019.

	Current By-law (1729)	By-law (2016-007) Jul 1, 2017	By-law (2016-007) Jan 1, 2018	By-law (2016-007) Jan 1, 2019
Water \$/1,000 gallons First 100,000 gallons	\$8.75	\$10.43	\$12.63	\$15.57
Water \$/1,000 gallons Over 100,000 gallons	\$5.10	\$6.72	\$8.86	\$11.75
Wastewater \$/1,000 gallons	\$4.60	\$4.60	\$4.60	\$4.60
Quarterly Service Charge	\$11.38	\$13.65	\$16.37	\$19.63
Minimum Quarterly Charges*	\$41.30	\$58.74	\$68.06	\$80.14
Bulk Water \$/ 1,000 gallons	\$12.00	\$12.00	\$14.00	\$17.00
Hydrant Rental (Annual)	\$100.00	\$100.00	\$100.00	\$100.00
Reconnection Fee	\$25.00	\$25.00	\$25.00	\$25.00

\*Based on 3,000 gallons

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

Rationale for the PUB’s decisions may be found under “Board Findings on the Issues”.

## **2.0 The Issues**

Three issues were identified by the Board:

**Issue 1 – The Town has requested revised water and wastewater rates.**

**Issue 2 – The Town has negative value for unaccounted for water percentage rate.**

**Issue 3 – The Town has requested approval of the cost allocation methodology.**

### 3.0 Background

The Town owns and operates a water and wastewater utility. The Utility is serving 572 water and wastewater customers and 18 water only customers. Rates were last set in Board Order No. 45/15 on an interim *ex parte* basis and the Board ordered the Town to file an application for revised water and wastewater rates by no later than January 1, 2016.

The Town purchases water from the Southwest Regional Water Cooperative (SRWC), which is managed by the Manitoba Water Services Board (MWSB). The SRWC provides safe potable drinking water to the Town. Treated water produced from the Water Treatment Plant (WTP) meets or exceeds all health and aesthetic objectives as stated in the *Guidelines for Canadian Drinking Water Quality*.

The Utility's lagoon has three cells with two being used and one not in use. Discharges from the lagoon flow into the Souris River, consistent with the terms of the Town's environmental license. The Town has made various upgrades to the wastewater system over the years. A new lagoon scheduled in 2017 will accommodate future development.

All water customers are metered and billed quarterly separate from the property tax bills.

The Town has one operator with both Class 2 water distribution and treatment certification and Class 2 sewer collection and treatment.

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

A public hearing process allows the Utility and stakeholders the opportunity to present the application and any concerns to the PUB in person. The PUB may review the application using a paper review process, which saves the cost of a public hearing process. The PUB has decided to process this application with a paper-based review.

## 4.0 Application

The Town of Melita has sought approval from the PUB for revised water and wastewater rates, as set out in By-law No. 2016-007. The application was prepared by the Town's consultant with a rate study dated March 2016 and submitted by April 15, 2016 and requested that the rates be effective January 1, 2017, 2018 and 2019.

A Public Notice of Application was issued on May 31, 2016 affording customers the opportunity to comment to both the Board and the Town with respect to the proposed increases. The Board received no responses to the Notice.

The Board sent a round of information requests to the Town on April 26, 2017. The Town's responses were received on May 30, 2017. In this response, Board finds several discrepancies that will be demonstrated in Board Findings on Issues section.

The Town uses a two step declining block system for water usage. The current Intermediate water rate (the water usage is over 100,000 gallons) of \$5.10 is 58% of the Domestic rate (the water usage is under 100,000 gallons) of \$8.75. In the rate application, by 2019 the Intermediate rate of \$11.75 is 75% of the Domestic rate of \$15.57. The Town decided to not to move any further toward a unitary rate at this time, due to the significant increase in rates, coupled with the significant drop in economic activity in the region which is caused by low oil prices.

## Deficits

The Town had a deficit of \$51,305 for 2013 and in Order 45/15 the Board has required the Town to file a deficit application for it. There was no deficit application filed by the Town.

When calculated for regulatory purpose in the rate study, the Town is expecting to have utility deficits from 2015 to 2017 even with proposed rate increase. The application projected working capital deficits from year 2015 to 2019. The accumulated working capital will not be able to absorb any 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. The Board will require the Town to file deficit applications for any outstanding years, as required by Board Order 45/15.

## Working Capital Surplus

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 surplus at December 31, 2014 was:

<b>Working Capital Surplus/Deficit</b>	<b>Town of Melita 2014</b>
Fund Surplus/Deficit	\$1,938,261
Deduct Tangible Capital Assets	\$2,689,436
Add Long-Term Debt	\$734,854
Add Utility Reserves	\$124,980
<b>Equals Working Capital Surplus</b>	<b>\$108,659</b>
Operating costs	\$375,318
<b>20% of operating costs</b>	<b>\$75,064</b>

## **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 (CAM).

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 Town's responses to the Board's information request stated that this rate study has applied the new cost allocation methodology to replace the existing method of charging a flat rate of \$24,000 per year. The new policy was based on the Utility operating expenditures as a percentage of general operating expenditures, stated as 12.5% for 2013. In addition, the actual CAO and staff, office, legal and audit expenses were used in the rate study to apply the new cost allocation methodology.



## 5.0 Board Findings on the Issues

### Issue 1 – The Town has requested revised water and wastewater rates.

The Board has reviewed the application and the projections presented by the Town in its rate application and the information provided subsequently in response to PUB queries.

The Board requested an explanation for the proposed annual transfer of \$82,000 to the Utility Reserve from 2017 to 2019. The Town responded this transfer is in effect the additional surcharge of \$3.00 per 1,000 gallons that the MWSB is charging on water sales to the Town. This account, shown as an receivable from the MWSB, is being used to pay for the Town's portion of 70% of the water main renewals in the Town.

The Board finds the bulk water revenues fluctuate from year to year. The Board had requested the explanation of variance for bulk water revenue between 2014 and 2015. The Town responded "obtaining information from past accounting records was challenging and ascertaining the reasons for fluctuations in bulk water sales was not possible." The Board is not satisfied with this response.

Based on the 2013 bulk water volume sold of 1,778,000 gallons at the rate of \$12 per 1,000 gallons, this should translate into revenue of \$21,331. However, the actual bulk water sales revenue recorded in the 2013 audited financial statements was \$11,740. The Town was unclear what caused this discrepancy. The projected bulk water rate in 2019 is \$17 per 1,000 gallons. If using the same water volume from 2013, it estimates the bulk water revenue would be \$30,219 in 2019. The Town projected \$9,000 of bulk water revenue for 2019 in the rate application and explained it was due to the significant fluctuations in bulk water sales revenues and the volume and actual revenues were not corresponding.

The Board is concerned with this discrepancy in bulk water revenue. The Board recommends the Town investigate the reasons that caused such discrepancy and correct this issue in next rate application.

For wastewater rates, the Town has requested a 7% decrease for 2017 and an 8% decrease for 2018 and 2019. Based on the Town's projected operating deficits and accumulated working capital deficits in the rate application, Board will deny the Town's proposed rates and keep the existing wastewater rate. The Board believes maintaining the current wastewater rates can mitigate future wastewater rate increases and also improves the Town's financial position.

Other than the above discrepancies, the Board finds that the revenue estimates provided are acceptable and will approve the rates for 2017 and 2018 and 2019. The Town proposed the effective date be January 1, 2017 (Year One rates) and January 1, 2018 (Year Two rates) and January 1, 2019 (Year Three rates).

The Board is generally not supportive of retroactive rate increases, and approves them only in circumstances where it is in the best interest of all parties. For this reason, the Board will vary the effective date for the Year One rates to July 1, 2017.

As of the date of this Order, the Town's 2015 audited financial statements are still not available for review.

**Issue 2 – The Town has negative value for unaccounted for water percentage rate.**

The Town has calculated a negative value of -1.08% unaccounted for water percentage rate for 2013. The Town explained the negative value was due to the installation and errors which occurred in the setup of the new meters on the billing system. The Board has requested the Town provide updated unaccounted for water rates for 2014, 2015 and 2016. The Town did not provide actual unaccounted for water percentage rates for these years, but stated that the Town would takes steps in future to ensure that the issue with negative sales volumes in the billing summaries are corrected.

It has been four years since the new meters were installed. The new meters should measure the consumption more precisely and customers should be billed for actual levels of consumption now. The Board recommends the Utility investigate ways and means of correcting this issue.

**Issue 3 – The Town has requested approval of the cost allocation methodology.**

The Board will deny the cost allocation methodology as submitted by the Town. The approach adopted by the Town, which calculated utility expenses as a percentage of total expenses, is imprecise and can result in a significant fluctuations from one year to the next.

This methodology could materially over or understate the cost of running the Utility. Rather, the Board will direct the Town to continue charging a flat rate of \$24,000 and reapply to the Board with an updated methodology. The Board recommends the use of Board Order No. 93/09, particularly “Appendix A” thereof, to develop a revised cost allocation methodology.

## **6.0 IT IS THEREFORE ORDERED THAT:**

- 1) Revised water and wastewater rates for the Town of Melita-Water and Wastewater Utility BE AND ARE HEREBY APPROVED in accordance with the attached Schedule "A", effective July 1, 2017 and January 1, 2018 and January 1, 2019.
- 2) The Town of Melita is to provide a notice to its customers, including the decisions found in this Order, in the next quarterly billing with a copy provided to the Public Utilities Board.
- 3) The Town of Melita is to submit deficit applications for all outstanding years, as required by Board Order 45/15, on or before September 30, 2017.
- 4) The revised cost allocation methodology applied by the Town of Melita-Water and Wastewater Utility BE AND IS HEREBY DENIED.
- 5) The Town of Melita submits a copy of its water and wastewater rate By-law to the Public Utilities Board once it has been revised to reflect the changes found in this Order, and received third and final reading.

Fees payable upon this Order - \$500.00

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. The Board's Rules may be viewed on the Board's website at [www.pubmanitoba.ca](http://www.pubmanitoba.ca).

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. 66/17 issued  
by The Public Utilities Board

\_\_\_\_\_  
Acting Secretary

**TOWN OF MELITA**  
**WATER & SEWER UTILITY RATES BY-LAW NO.2016-007**  
**SCHEDULE "A"**

1. Schedule of Commodity Rates & Quarterly Service Charge

**July 1, 2017**

Rates per 1,000 Gallons	<u>1,000 Gallons per quarter</u>		
	Water	Sewer	Water & Sewer
First 100,000 gallons	\$10.43	\$4.60	\$15.03
Over 100,000 gallons	\$6.72	\$4.60	\$11.32
Quarterly Service Charge	\$13.65		

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges per quarter set out below, which includes the water allowance as listed.

**a. Water & Sewer Customers**

Meter Size	Group Capacity Ratio	Water Included Gallons	Customer Service Charge	Water Commodity Charge	Sewer Commodity Charge	Water & Sewer Total Monthly Minimum
5/8 inch	1	3,000	\$13.65	\$31.29	\$13.80	\$58.74
3/4 inch	2	6,000	\$13.65	\$62.58	\$27.60	\$103.83
1 inch	4	12,000	\$13.65	\$125.16	\$55.20	\$194.01
1 ½ inch	10	30,000	\$13.65	\$312.90	\$138.00	\$464.55
2 inch	25	75,000	\$13.65	\$782.25	\$345.00	\$1,140.90

**b. Water Only Customers**

The minimum charge will be the same for each meter size as shown above but the Sewer Commodity Charge will be excluded.

**c. Bulk Water Sales Rate**

All water sold in bulk by the Town of Melita shall be charged for at the rate of \$12.00 per 1,000 gallons on a pro-rated basis for all quantities greater than 500 gallons. For any quantity of 500 gallons or less the minimum charge will be \$7.00.

1. Schedule of Commodity Rates & Quarterly Service Charge

**January 1, 2018**

Rates per 1,000 Gallons	<u>1,000 Gallons per quarter</u>		
	Water	Sewer	Water & Sewer
First 100,000 gallons	\$12.63	\$4.60	\$17.23
Over 100,000 gallons	\$8.86	\$4.60	\$13.46
Quarterly Service Charge	\$16.37		

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges per quarter set out below, which includes the water allowance as listed.

**a. Water & Sewer Customers**

Meter Size	Group Capacity Ratio	Water Included Gallons	Customer Service Charge	Water Commodity Charge	Sewer Commodity Charge	Water & Sewer Total Monthly Minimum
5/8 inch	1	3,000	\$16.37	\$37.89	\$13.80	\$68.06
3/4 inch	2	6,000	\$16.37	\$75.78	\$27.60	\$119.75
1 inch	4	12,000	\$16.37	\$151.56	\$55.20	\$223.13
1 ½ inch	10	30,000	\$16.37	\$378.90	\$138.00	\$533.27
2 inch	25	75,000	\$16.37	\$947.25	\$345.00	\$1,308.62

**b. Water Only Customers**

The minimum charge will be the same for each meter size as shown above but the Sewer Commodity Charge will be excluded.

**c. Bulk Water Sales Rate**

All water sold in bulk by the Town of Melita shall be charged for at the rate of \$14.00 per 1,000 gallons on a pro-rated basis for all quantities greater than 500 gallons. For any quantity of 500 gallons or less the minimum charge will be \$8.00



1. Schedule of Commodity Rates & Quarterly Service Charge

**January 1, 2019**

Rates per 1,000 Gallons	<u>1,000 Gallons per quarter</u>		
	Water	Sewer	Water & Sewer
First 100,000 gallons	\$15.57	\$4.60	\$20.17
Over 100,000 gallons	\$11.75	\$4.60	\$16.35
Quarterly Service Charge	\$19.63		

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges per quarter set out below, which includes the water allowance as listed.

**a. Water & Sewer Customers**

<u>Meter Size</u>	<u>Group Capacity Ratio</u>	<u>Water Included Gallons</u>	<u>Customer Service Charge</u>	<u>Water Commodity Charge</u>	<u>Sewer Commodity Charge</u>	<u>Water &amp; Sewer Total Monthly Minimum</u>
5/8 inch	1	3,000	\$19.63	\$46.71	\$13.80	\$80.14
3/4 inch	2	6,000	\$19.63	\$93.42	\$27.60	\$140.65
1 inch	4	12,000	\$19.63	\$186.84	\$55.20	\$261.67
1 ½ inch	10	30,000	\$19.63	\$467.10	\$138.00	\$624.73
2 inch	25	75,000	\$19.63	\$1,167.75	\$345.00	\$1,532.38

**b. Water Only Customers**

The minimum charge will be the same for each meter size as shown above but the Sewer Commodity Charge will be excluded.

**c. Bulk Water Sales Rate**

All water sold in bulk by the Town of Melita shall be charged for at the rate of \$17.00 per 1,000 gallons on a pro-rated basis for all quantities greater than 500 gallons. For any quantity of 500 gallons or less the minimum charge will be \$10.00

**The following clauses take effect July 1, 2017:**

3. Service To Customers Outside Town Limits

The Council of Town of Melita may sign Agreements with customers for the provision of water and sewer services to properties located outside the boundaries of the Town. 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 the 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 Town boundaries. In addition, all costs of connecting to the Utility's mains, and installing and maintaining service connections, will be paid by the customer.

4. Billings And Penalties

Accounts shall be billed quarterly and the due date shall be due and payable at least 15 days after the mailing of the bills.

A late payment charge of 1.25% per month shall be charged on the dollar amount owing after the billing due date.

5. NSF Charge

A charge of \$20.00 shall be added to the account when payment made by cheque or pre-authorized payment is returned due to insufficient funds or inability to trace the chequing account.

6. Disconnection

The Public Utilities Board has approved the Conditions Precedent to be followed by the Town with respect to 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 Town office.

7. Reconnection

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties, and a reconnection fee of \$25.00 have been paid.

8. Outstanding Bills

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

9. Hydrant Charges

The Town of Melita will pay to the Utility an annual amount of \$100.00 per hydrant per year for each hydrant connected to the Utility System.

10. Water Allowance Due To Line Freezing

Where, at the request of CAO, a customer is allowed to run water 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 billings for the last two quarters for the same customer, or the same premises if the occupant has changed.

11. Sewer Surcharges

a) There may be levied annually, in addition to the rates set forth above, a special surcharge on sewage having a Biochemical Oxygen Demand in excess of 300 parts per million, to be set by Resolution of Council.

b) A special surcharge for substances requiring special treatment shall be charged based on the actual costs of treatment required for the particular sewage or industrial waste.

12. Meter Testing

That in any case where a utility customer requests that a meter be tested for accuracy, the customer will provide the Town with a deposit of \$200. The Town will then remove the subject meter and send it to an independent lab for testing. If the meter is found to be faulty, all costs associated with the testing process will be borne by the Town and the deposit will be refunded to the customer. If the meter is found to

be in proper working order, all costs associated with the testing process will be borne by the customer and the customer will be billed or refunded any balance owing.

### 13. Cross Connections

No customer or person shall connect, cause to be connected or allow to remain connected any piping, fixture, fitting, container or appliance in a manner which under any circumstances may allow water, wastewater or any harmful liquid or substance to enter the Town's water system.

If a condition is found to exist which, in the opinion of the Town, is contrary to the aforesaid, the Town may either:

- Shut off the service or services; or
- Give notice to the customer to correct the fault at his or her own expense within a specified time period.

### 14. Conditions of Disrepair

In the event that there are conditions of disrepair in the sewer and water works on a property that detrimentally affects the system as a whole and, upon the failure of the owner of the property to correct the condition within a reasonable time, the Municipality, or its agents, may enter the property, effect repairs and charge the cost thereof against the subject property as ordinary taxes.

### 15. Authorization For Officer To Enter Upon Premises

The Public Works Manager, or other employee authorized by the Town in the absence of the Public Works Manager, shall be authorized to enter upon any premise for the purpose of:

Affixing to any pipe, wire or apparatus connected with any such utility, a meter or any other measuring or testing device; or taking readings from, repairing, inspecting or removing any meter or apparatus belonging to the Town.