

Order No. 69/17

**AN ORDER RESPECTING THE MUNICIPALITY OF NORTH NORFOLK
RURAL WATER UTILITY WATER RATES
JULY 1, 2017 and JANUARY 1, 2018, 2019 and 2020**

June 29, 2017

BEFORE: Shawn McCutcheon, Acting Chair
Allan Morin, B.A., ICD.D, Member
Susan Nemec, FCPA, FCA, Member

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1.0 Executive Summary

By this Order, the Manitoba Public Utilities Board (Board or PUB) approves revised water rates for the Municipality of North Norfolk (Municipality) – Rural Water Utility (Utility) as follows, effective July 1, 2017 and January 1, 2018, 2019 and 2020.

	Current By-law 761-2008	By-law (18-2016) Jul 1, 2017	By-law (18-2016) Jan 1, 2018	By-law (18-2016) Jan 1, 2019	By-law (18-2016) Jan 1, 2020
Water \$/1,000 gallons	\$8.50	\$9.74	\$10.98	\$12.22	\$13.44
Quarterly Service Charge	\$15.00	\$17.63	\$20.26	\$22.89	\$25.51
Minimum Quarterly*	\$40.50	\$46.85	\$53.20	\$59.55	\$65.83
Meter Testing	\$40.00	\$50.00	\$50.00	\$50.00	\$50.00

*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

Two issues were identified by the Board:

Issue 1 – The Municipality has requested revised water rates.

Issue 2 – The Municipality has requested approval of the cost allocation methodology.

3.0 Background

The Municipality owns and operates three utilities: Rural, Austin and MacGregor. The Rural Water Utility, originally called the Regional Pipeline Water Utility, was initially installed in 2006/2007 with 100 customers and now is serving 210 customers.

The Utility obtains treated water from the Yellowhead Regional Water Co-op (YRWC) which has complied with *The Drinking Water Safety Act*. All water utility customers are metered and billed quarterly.

As the Utility's water system is relatively new, there is no Utility Reserve projected in the rate study.

Among these three utilities, the Municipality has two operators, one in MacGregor and one in Austin, with Class 1 water and wastewater treatment and Class 1 water distribution and wastewater collection.

The unaccounted for water in 2015 was 4%, below the industry average of 10%.

The Municipality applied to the Board on May 9, 2007 for approval of initial water rates for consumers connected to the rural water distribution system. The Board approved the rates effective January 1, 2007 in Board Order No. 90/07. The Municipality has not filed a rate application since then.

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 Municipality of North Norfolk has sought approval from the PUB for revised water rates, as set out in By-law No. 18-2016. The application was prepared by the Municipality's consultant with a rate study dated April 2016 and submitted by July 21, 2016 and requested that the rates be effective January 1, 2017, 2018, 2019 and 2020.

A Public Notice of Application was issued on November 9, 2016 affording customers the opportunity to comment to both the Board and the Municipality with respect to the proposed rate increases. The Board received no responses to the Notice.

The Board sent a round of information requests to the Municipality on May 4, 2017. The Municipality's responses were received on May 12, 2017. In this response, Board finds several discrepancies that will be demonstrated in Board Findings on Issues section.

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 Utility has operating surplus for 2013, 2014 and 2015 with PUB adjustments based on audited financial statements. The rate study shows projected operating surplus for 2016 to 2020 with the proposed rate implementation when calculating for regulatory purposes.

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 2015 audited financial statements, the most recent information available, the working capital surplus at December 31, 2015 was:

Working Capital Surplus/Deficit	Rural Water Utility 2015
Fund Surplus/Deficit	\$3,356,110
Deduct Tangible Capital Assets	\$4,018,116
Add Long-Term Debt	\$320,206
Add Utility Reserves	\$26,793
Equals Working Capital Deficit	\$(315,007)
Operating costs	\$329,371
20% of operating costs	\$65,874

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 Municipality's rate application has applied the new cost allocation methodology starting in 2016. The new policy was based on the Utility operating expenditures as a percentage of general operating expenditures, stated as 5.0% for 2015. 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 Municipality has requested revised water rates.

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

The Board finds the net general administration cost is much higher in the rate projection than previous years. It mainly due to two variances: the revised cost allocation methodology and the lower other general revenue. The revised CAM will be explained in Issue 2. The Board has requested an explanation for the lower other general revenue. The Municipality explained there should be zero for other general revenue as the \$4,200 paid by YRWC to the Municipality for accounting services is not to the Utility, instead it is for office staff administration paid by the General Operating Fund. The rate application used \$2,500 annually for other general revenue in the projection. If using zero for other general revenue, the customer service charge would be higher. The Municipality advised that the anticipated surplus is well able to absorb the impact of such revenue reduction. The Board will approve the requested customer service charge.

The Board has requested an explanation for variance in amortization between 2015 financial plan and 2015 audited financial statements. The Municipality explained that \$672,147 in Asset Under Construction (AUC) was estimated to commence in use for 2015. However, the borrowing was not completed until 2016 and amortization did not commence until 2016. The timing difference does not affect the rate calculations in 2020.

Other than above two variances, the Board finds that the revenue estimates provided are acceptable and will approve the rates for 2017, 2018, 2019 and 2020. The Municipality 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) and January 1, 2020 (Year Four 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.

The increases required can be considered to be rate shock, something that is common where rate requirements are not addressed for significant periods of time. In the case of the Rural Water Utility, it has been ten years since a rate change has taken place. Consumers are generally more tolerant of regular, smaller increases. The Municipality needs to be more diligent in conducting regular reviews of its revenue requirements.

The Board will approve the four years of rate increases applied for, but reminds the Municipality that it is responsible for monitoring the financial health of the Utility and applying for revised rates as necessary. There is no requirement to wait until after the January 2020 rates come into effect.

Issue 2 – The Municipality has requested approval of the cost allocation methodology

In the rate application, the Utility has applied for 5.0% of shared cost allocation based on Rural Water Utility budget in the 2015 Financial Plan to the total Municipality of North Norfolk Financial Plan budget. If using such methodology, the Board calculated 9.4% based on 2015 audited financial statements, 9.0% based on 2014 audited financial statements and 12.1% based on 2013 audited financial statements.

Since 5.0% is a reasonable assumption in this rate study, the Board will approve this as the cost allocation methodology. The approach adopted by the Municipality is imprecise and can result in significant fluctuations from one year to the next.

This methodology could materially over or understate the cost of running the Utility. The Board recommends the use of Board Order No. 93/09, particularly “Appendix A” thereof, to develop a revised cost allocation methodology, to be submitted with the next rate application.

6.0 IT IS THEREFORE ORDERED THAT:

- 1) Revised water rates for the Municipality of North Norfolk-Rural Water Utility BE AND ARE HEREBY APPROVED in accordance with the attached Schedule “A”, effective July 1, 2017 and January 1, 2018, 2019 and 2020.

- 2) The Municipality of North Norfolk 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 cost allocation methodology 5.0% of shared costs to the total general operating expenditures applied by the Municipality of North Norfolk-Rural Water Utility BE AND IS HEREBY APPROVED. The Municipality should reapply a revised cost allocation methodology in the next rate application.

- 4) The Municipality of North Norfolk submits a copy of its water 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.

THE PUBLIC UTILITIES BOARD

"Shawn McCutcheon"
Acting Chair

"Jennifer Dubois, CPA, CMA"
Acting Secretary

Certified a true copy of Order No. 69/17 issued
by The Public Utilities Board

Acting Secretary

MUNICIPALITY OF NORTH NORFOLK
RURAL WATER UTILITY RATES BY-LAW NO.18-2016
SCHEDULE "A"

1. Schedule of Commodity Rates **July 1, 2017**

Rates per 1,000 gallons Water
\$9.74

Quarterly Service Charge \$17.63

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

Meter Size	Group Capacity Ratio	Water Included 1,000 gallons	Customer Service Charge	Water Commodity Charge	Total Quarterly Minimum
5/8 inch	1	3,000	\$17.63	\$29.22	\$46.85
3/4 inch	2	6,000	\$17.63	\$58.44	\$76.07
1 inch	4	12,000	\$17.63	\$116.88	\$134.51
1 ½ inch	10	30,000	\$17.63	\$292.20	\$309.83
2 inch	25	75,000	\$17.63	\$730.50	\$748.13

1. Schedule of Commodity Rates

January 1, 2018

Rates per 1,000 gallons

Water

\$10.98

Quarterly Service Charge

\$20.26

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 1,000 gallons</u>	<u>Customer Service Charge</u>	<u>Water Commodity Charge</u>	<u>Total Quarterly Minimum</u>
5/8 inch	1	3,000	\$20.26	\$32.94	\$53.20
3/4 inch	2	6,000	\$20.26	\$65.88	\$86.14
1 inch	4	12,000	\$20.26	\$131.76	\$152.02
1 ½ inch	10	30,000	\$20.26	\$329.40	\$349.66
2 inch	25	75,000	\$20.26	\$823.50	\$843.76

1. Schedule of Commodity Rates

January 1, 2019

Rates per 1,000 gallons

Water

\$12.22

Quarterly Service Charge

\$22.89

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 1,000 gallons</u>	<u>Customer Service Charge</u>	<u>Water Commodity Charge</u>	<u>Total Quarterly Minimum</u>
5/8 inch	1	3,000	\$22.89	\$36.66	\$59.55
3/4 inch	2	6,000	\$22.89	\$73.32	\$96.21
1 inch	4	12,000	\$22.89	\$146.64	\$169.53
1 ½ inch	10	30,000	\$22.89	\$366.60	\$389.49
2 inch	25	75,000	\$22.89	\$916.50	\$939.39

1. Schedule of Commodity Rates **January 1, 2020**

Rates per 1,000 gallons Water
\$13.44

Quarterly Service Charge \$25.51

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>Ratio</u>	<u>Water Capacity Included 1,000 gallons</u>	<u>Customer Service Charge</u>	<u>Water Commodity Charge</u>	<u>Total Quarterly Minimum</u>
5/8 inch	1	3,000	\$25.51	\$40.32	\$65.83
3/4 inch	2	6,000	\$25.51	\$80.64	\$106.15
1 inch	4	12,000	\$25.51	\$161.28	\$186.79
1 ½ inch	10	30,000	\$25.51	\$403.20	\$428.71
2 inch	25	75,000	\$25.51	\$1,008.00	\$1,033.51

The following clauses take effect July 1, 2017:**3. Billings And Penalties**

All connected customers shall be billed quarterly and payment shall be due and payable at least 20 days after the mailing of the water and sewer billing. A late payment charge of 1.25% (1 ¼%) per month shall be charged on the dollar amount owing after the billing due date and a notice to this effect shall be clearly printed on all bills sent to the customers.

4. Hydrant Charges

The Municipality of North Norfolk shall pay to the Utility an annual hydrant charge of \$165.00 for each hydrant connected to the System which includes the cost of water for fire fighting.

5. Disconnection

The Public Utilities Board has approved the Conditions Precedent to be followed by the Municipality 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 Municipality's office.

6. Change of Water

That a charge for change of water to recover the cost of completing the change of user or service, for a service that has changed users or service shall be:

- a) during normal working hours - \$35.00
- b) outside of normal working hours - \$80.00"

7. Reconnection

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$50.00 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. Meter Testing

Any customer wishing to have a meter tested for accuracy will pay in advance a fee of \$50, plus any applicable meter testing costs. In the event the meter tests prove that the meter is recording water flows in excess of actual flows, the meter testing fee and associated costs will be refunded to the customer and the customer's account will be reviewed and adjusted accordingly.

10. Service To Customers Outside Municipality Limits

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

11. 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 Municipality's water system.

If a condition is found to exist which, in the opinion of the Municipality, is contrary to the aforesaid, the Municipality 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.

12. Authorization For Officer To Enter Upon Premises

The Public Works Manager, or other employee authorized by the Municipality 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 Municipality.