

Order No. 71/17

**AN ORDER RESPECTING THE MUNICIPALITY OF NORTH NORFOLK
L.U.D. OF AUSTIN WATER AND WASTEWATER RATES
JULY 1, 2017 and JANUARY 1, 2018, 2019 and 2020**

July 4, 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) varies revised water and wastewater rates for the Municipality of North Norfolk (Municipality) – Local Urban District of Austin Utility (Utility) as follows, effective July 1, 2017 and January 1, 2018, 2019 and 2020.

	Current By-law (760-2008)	By-law (19-2016) Jul 1, 2017	By-law (19-2016) Jan 1, 2018	By-law (19-2016) Jan 1, 2019	By-law (19-2016) Jan 1, 2020
Water \$/cubic meter	\$2.00	\$3.17	\$3.40	\$3.63	\$3.86
Wastewater \$/cubic meter	\$0.95	\$0.69	\$0.70	\$0.71	\$0.72
Quarterly Service Charge	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00
Minimum Quarterly*	\$56.30	\$69.04	\$72.40	\$75.76	\$79.12
Bulk water**	\$9.20	\$16.00	\$17.15	\$17.15	\$17.15
Sewer Only***	\$48.60	\$38.46	\$38.80	\$39.14	\$39.48
Reconnection Fee	\$0.00	\$50.00	\$50.00	\$50.00	\$50.00
Hydrant Rental (Annual)	\$165.00	\$165.00	\$165.00	\$165.00	\$165.00

*Based on 14 cubic meters

**Bulk Water is priced per 1,000 gallons

***based on 34 cubic meters (average residential water consumption), previously based on 8,246 gallons or 31 cubic meters.

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 Municipality has requested revised water and wastewater rates.

Issue 2 – The Municipality has applied a deficit application for 2015.

Issue 3 – 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 Austin Utility is a water and wastewater utility serving 206 customers.

The Utility purchases treated water from the Yellowhead Regional Water Co-op (YRWC). The water distribution was initially installed in 1974 and has had various upgrades since then. All water utility customers are metered and billed quarterly.

Both the wastewater collection system and lagoon were also constructed in 1974 and there are two lift stations. The Utility's lagoon is a two cell conventional facultative lagoon, consisting of a single primary cell and a single secondary cell. The Utility uses a central location as the main station for pumping into the lagoon. The discharge is into a ditch adjacent to the lagoon, consistent with terms of the Municipality's environmental license.

The Utility has one operator who has Class 1 water and wastewater treatment and Class 1 water distribution and wastewater collection.

The unaccounted for water in 2015 was 6%, below the industry average of 10%. The current unaccounted for water percentage rate has improved from 16.4% in the 2008 rate study.

There are ten properties and a seasonal trailer park beyond the LUD of Austin that are connected to the water and wastewater utility system. These customers are responsible for their own service connections and are required to pay the annual local improvement levies relating to the utility that are imposed on the properties inside the LUD.

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 and wastewater rates, as set out in By-law No. 19-2016. The application was prepared by the Municipality's consultant with a rate study dated April 2016 and submitted July 21, 2016. The Municipality requested that the rates be effective January 1, 2017, 2018, 2019 and 2020.

A Public Notice of Application was issued on January 17, 2017 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 10, 2017. The Municipality's responses were received on May 26, 2017. In this response, Board found several discrepancies that will be demonstrated in Board Findings on Issues section.

Deficits

On September 29, 2016, the Board received the application from the Municipality for approval of Utility's operating deficit for 2015, in the amount of \$30,012. The Municipality also submitted Council Resolution No. 206/2016 in support of the application, which requested the deficit be recovered through a rate rider of \$0.35 per cubic meter for all Utility customers over a three year period.

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	LUD of Austin Utility 2015
Fund Surplus/Deficit	\$52,089
Deduct Tangible Capital Assets	\$247,847
Add Long-Term Debt	-
Add Utility Reserves	\$39,334
Equals Working Capital Deficit	\$(156,424)
Operating costs	\$144,629
20% of operating costs	\$28,926

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 2017. The new policy was based on the Utility operating expenditures as a percentage of general operating expenditures, stated as 3.0% 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 and wastewater 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 an annual \$10,000 transfer to the Utility Reserve from 2017 to 2020 in the rate application. The Municipality explained that the Five-Year Capital Plan includes \$50,000 for land purchase for lagoon expansion with funding from the Utility Reserve and the Reserve needs to be built up to be used for this lagoon expansion and other utility capital costs in future. Currently the Municipality is in the inception stages of investigating lagoon expansion.

The Board also finds the projection in transmission and distribution is higher in the rate application than previous years and has requested an explanation for this variance. The Municipality explained the transmission and distribution costs can vary significantly from year to year, depending on line breaks and general maintenance requirements. The Municipality also said, “the estimate used for 2016 is on the high end of the estimate, but still within reason. There will be no change to the projection in the rate application.”

The Board finds there is no connection charge revenue projected in the rate application and has requested the Municipality to explain the reason. The Municipality explained the connection charge revenue collected in prior years was because of some large lots being subdivided. Development seems to have slowed and there are fewer lots available. The Municipality is uncertain if there will be any more requests for water connections.

The Board finds there is a variance for amortization between rate application and 2015 audited financial statements. In the rate application, the total amortization for 2015 was \$13,905 (water \$8,293 and wastewater \$5,612). The 2015 audited financial statements showed the total amortization of \$17,252. The Municipality explained the difference is due to the purchase of a generator at a cost of \$36,463 with annual amortization of \$3,646, which along with another minor change accounts for the discrepancy in

amortization. The projected amortization should be higher in the rate application, but the difference is immaterial.

For the customer service charge, the Municipality has requested a 7% decrease for 2017 and a 2% annual increase for 2018, 2019 and 2020. Based on the Municipality's projected operating deficit and accumulated working capital deficits in the rate application, Board will deny the Municipality's proposed rates and keep the existing customer service charge. The Board believes maintaining the current customer service charge can mitigate future customer service charge rate increases and also improves the Municipality's financial position.

Other than above 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 nine 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 applied a deficit application for 2015.

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 has reviewed the Municipality's 2015 deficit application and finds the calculation and analysis are reasonable. The Board will approve the 2015 deficit to be recovered through the rate rider of \$0.35 per cubic meter for all Utility customers over a three year period.

Issue 3 – The Municipality has requested approval of the cost allocation methodology

In the rate application, the Utility has applied for 3.0% of shared cost allocation based on Austin Utility budget in the 2015 Financial Plan to the total Municipality of North Norfolk Financial Plan budget. Since 3.0% 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-The Austin 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 actual operating deficit, when calculated for regulatory purposes, for 2015 of \$30,012 incurred in the Municipality of North Norfolk-Austin Utility is HEREBY APPROVED to be recovered by a rate rider of \$0.35 per cubic meter of consumption beginning July 1, 2017, for a period of 12 billing cycles (3 years) or until the revenue for the rate rider has reached \$30,012, whichever comes first.
- 4) The cost allocation methodology 3.0% of shared costs to the total general operating expenditures applied by the Municipality of North Norfolk-The Austin Utility BE AND IS HEREBY APPROVED. The Municipality should reapply a revised cost allocation methodology in the next rate application.
- 5) 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. 71/17 issued
by The Public Utilities Board

Acting Secretary

**MUNICIPALITY OF NORTH NORFOLK
AUSTIN WATER & SEWER UTILITY RATES BY-LAW NO. 19-2016
SCHEDULE "A"**

1. Schedule of Commodity Rates

July 1, 2017

Rates per Cubic Meter	Water	Sewer	Water & Sewer
	\$3.17	\$.69	\$3.86
 Quarterly Service Charge	 \$15.00		

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 Cubic Meters	Customer Service Charge	Water Commodity Charge	Sewer Commodity Charge	Water & Sewer Total Quarterly Minimum
5/8 inch	1	14	\$15.00	\$44.38	\$9.66	\$69.04
3/4 inch	2	28	\$15.00	\$88.76	\$19.32	\$123.08
1 inch	4	56	\$15.00	\$177.52	\$38.64	\$231.16
1 ½ inch	10	140	\$15.00	\$443.80	\$96.60	\$555.40
2 inch	25	350	\$15.00	\$1,109.50	\$241.50	\$1,366.00

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. Sewer Only Customers

The quarterly commodity charge, based on the average residential water consumption in the community of 34 C.M. shall be \$38.46

3. Bulk Sales

All water sold in bulk in each year shall be charged at a rate of \$16.00 per 1,000 gallons.

1. Schedule of Commodity Rates

January 1, 2018

Rates per Cubic Meter	Water	Sewer	Water & Sewer
	\$3.40	\$.70	\$4.10
 Quarterly Service Charge	 \$15.00		

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 Cubic Meters</u>	<u>Customer Service Charge</u>	<u>Water Commodity Charge</u>	<u>Sewer Commodity Charge</u>	<u>Water & Sewer Total Quarterly Minimum</u>
5/8 inch	1	14	\$15.00	\$47.60	\$9.80	\$72.40
3/4 inch	2	28	\$15.00	\$95.20	\$19.60	\$129.80
1 inch	4	56	\$15.00	\$190.40	\$39.20	\$244.60
1 ½ inch	10	140	\$15.00	\$476.00	\$98.00	\$589.00
2 inch	25	350	\$15.00	\$1,190.00	\$245.00	\$1,450.00

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. Sewer Only Customers

The quarterly commodity charge, based on the average residential water consumption in the community of 34 C.M. shall be \$38.80

3. Bulk Sales

All water sold in bulk in each year shall be charged at a rate of \$17.15 per 1,000 gallons.

1. Schedule of Commodity Rates

January 1, 2019

Rates per Cubic Meter	Water	Sewer	Water & Sewer
	\$3.63	\$.71	\$4.34

Quarterly Service Charge \$15.00

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 Cubic Meters</u>	<u>Customer Service Charge</u>	<u>Water Commodity Charge</u>	<u>Sewer Commodity Charge</u>	<u>Water & Sewer Total Quarterly Minimum</u>
5/8 inch	1	14	\$15.00	\$50.82	\$9.94	\$75.76
3/4 inch	2	28	\$15.00	\$101.64	\$19.88	\$136.52
1 inch	4	56	\$15.00	\$203.28	\$39.76	\$258.04
1 ½ inch	10	140	\$15.00	\$508.20	\$99.40	\$622.60
2 inch	25	350	\$15.00	\$1,270.50	\$248.50	\$1,534.00

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. Sewer Only Customers

The quarterly commodity charge, based on the average residential water consumption in the community of 34 C.M. shall be \$39.14

3. Bulk Sales

All water sold in bulk in each year shall be charged at a rate of \$17.15 per 1,000 gallons.

1. Schedule of Commodity Rates

January 1, 2020

Rates per Cubic Meter	Water	Sewer	Water & Sewer
	\$3.86	\$.72	\$4.58
 Quarterly Service Charge	 \$15.00		

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 Cubic Meters</u>	<u>Customer Service Charge</u>	<u>Water Commodity Charge</u>	<u>Sewer Commodity Charge</u>	<u>Water & Sewer Total Quarterly Minimum</u>
5/8 inch	1	14	\$15.00	\$54.04	\$10.08	\$79.12
3/4 inch	2	28	\$15.00	\$108.08	\$20.16	\$143.24
1 inch	4	56	\$15.00	\$216.16	\$40.32	\$271.48
1 ½ inch	10	140	\$15.00	\$540.40	\$100.80	\$656.20
2 inch	25	350	\$15.00	\$1,351.00	\$252.00	\$1,618.00

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. Sewer Only Customers

The quarterly commodity charge, based on the average residential water consumption in the community of 34 C.M. shall be \$39.48

3. Bulk Sales

All water sold in bulk in each year shall be charged at a rate of \$17.15 per 1,000 gallons.

The following clauses take effect July 1, 2017:**4. 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.

5. 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.

6. 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.

7. Change of Water or Water & Sewer

That a charge for change of water or water and sewer 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"

8. 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."

9. 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.

10. 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.

11. Service To Customers Outside LUD of Austin 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 LUD of Austin. 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.

12. 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.

13. 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.

14. 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.