

**Order No. 98/17**

**RURAL MUNICIPALITY OF HANOVER COST ALLOCATION METHODOLOGY –  
MITCHELL WASTEWATER UTILITY, NEW BOTHWELL WASTEWATER UTILITY,  
BLUMENORT WASTEWATER UTILITY, KLEEFELD WATER/WASTEWATER  
UTILITY & GRUNTHAL WATER/WASTEWATER UTILITY**

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**September 14, 2017**

BEFORE: Carol Hainsworth, C.B.A, Member, Acting Chair  
Allan Morin, B.A., (Econ), ICD.D, Member  
Susan Nemec, FCPA, FCA, Member

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## 1.0 Executive Summary

By this Order, the Public Utilities Board (Board) approves the application made by the Rural Municipality of Hanover (RM) for the approval of the Cost Allocation Methodology applicable to the following five utilities: Mitchell Wastewater Utility, New Bothwell Wastewater Utility, Blumenort Wastewater Utility, Kleefeld Water/Wastewater Utility and Grunthal Water/Wastewater Utility (Utilities).

## 2.0 Application

### Background

The Board has previously approved cost allocation methodology for each utility in the RM:

1. Mitchell Wastewater Utility (approved by Board Order No. 75/16)
2. New Bothwell Wastewater Utility (approved by Board Order No. 122/16)
3. Blumenort Wastewater Utility (approved by Board Order No. 65/03)
4. Kleefeld Water/Wastewater Utility (approved by Board Order No. 31/14)
5. Grunthal Water/Wastewater Utility (approved by Board Order No. 32/14)

On May 16, 2016, the RM applied for approval of the cost allocation methodology for the Blumenort Wastewater Utility. The Board denied this cost allocation methodology which calculated utility expenses as a percentage of total expenses in Board Order No. 57/17. The Board denied this request stating that the calculations would be imprecise and can result in a significant fluctuation from one year to the next.

In an application sent to the Board, dated July 21, 2017, the RM states that the same methodology used for Blumenort utility is used for the four other utilities in the RM. To correct this issue and address the outstanding allocation methodology from Board order No. 57/17, the RM submitted new cost allocation methodology for shared costs for all five utilities and a certified copy of the RM's resolution.

Resolution No: FA 17-109:

*“WHEREAS the Public Utilities Board of Manitoba Order No. 93/09 requires that municipalities adopt an appropriate plan for shared costs;*

*AND WHEREAS the municipality has prepared such a plan to include shared costs for Mitchell Wastewater Utility, the New Bothwell Wastewater Utility, the Blumenort Wastewater Utility, Kleefeld Water/Wastewater Utility and Grunthal Water/Wastewater Utility;*

*BE IT RESOLVED THAT the Finance Committee recommends that the Council of the Rural Municipality of Hanover approve the Allocation Plan for Shared Costs and directs administration to forward the plan to the Public Utilities Board for approval.”*

Cost allocation for shared direct expenses for these utilities is done through monthly billing to each utility from the RM for all shared direct costs. These shared costs include two full time class 2 operators, machine time from Works and Operations Department, provision shared capital costs (such as vehicles used by utilities) which is included in the application rate assigned to each hour of direct labour. Utility operators and Works and Operations staff track their time each day and assign it to a specific utility. The RM states that because of this there is no need to allocate shared direct operating costs or shared capital costs.

## **RM of Hanover Utilities Cost Allocation Methodology**

The RM is using the three year rolling average numbers for the calculation of both the total shared overhead and proportional allocation for each utility to help lessen the impact of temporary annual fluctuations and addresses the Board's concern in Order 57/17.

The allocation expense for each utility is calculated each year based on the proposed methodology and incorporated into the annual planning and budgeting process. The RM states "This plan has the advantages of being equitable, not overly sensitive to temporary expense fluctuations, easy to administer, and a good approximation of the 'true' cost of providing shared services to utilities". This plan also applies a consistent approach to all five utilities which is also important to the Council.

The RM explains in the application that there are eight categories of shared direct overhead costs that were considered for the shared cost allocation. In addition, there are shared engineering/utility administration expenses and shared expenses for the Works and Operations office facility located in Kleefeld which are also reflected in the cost allocation.

All of the costs were assigned an allocation percentage based on information the RM gathered by an employee survey and direct discussions. The allocation is proposed as a proportion of the actual activity attributable to utility functions. The percentages have been applied to the average annual cost (three year rolling average) for each of the eight categories to arrive at an amount to be allocated to utility overhead.

## Allocation Plan of Shared Costs for All Utilities:

<b>Shared Overhead Expenses</b>	<b>Allocation % based on Activity</b>
Legislative	1.50%
Administrative Employee	4.25%
Office Overhead	4.25%
Legal	4.25%
Audit	4.25%
Insurance	4.25%
Engineering/Utility Administration Employee	25.0%
Workshop Overhead	5.0%

The utility overhead is applied to the five utilities based on relative proportional percentage of size represented by the three year average rolling expenses for each utility (Schedule 9) divided by the total expenses for all utilities (Schedule 9 – Consolidated).

<b>Utility</b>	<b>Proportional Share per Utility (%)</b>
Grunthal Water Wastewater Utility	36%
Kleefeld Water Wastewater Utility	15%
Blumenort Wastewater Utility	21%
Mitchell Wastewater Utility	22%
New Bothwell Wastewater Utility	6%

The RM states it should be noted that these costs will be found in the pre-consolidation annual year-end financial statements prepared by municipal staff not the PSAB consolidated audited financial statements for two reasons:

1. The consolidated audited financial statements contain administrative costs not attributable to utility operations including those of six additional government reporting entities controlled by the RM. This would result in unfair distribution of administrative, legal, audit and insurance costs.
2. The consolidated audited financial statements are generally not published until long after the annual utility budgeting process must be completed. Resulting in untimely budget allocations if relied on.

### 3.0 Board Findings

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 Board will approve the revised Cost Allocation Methodology, and reminds the RM that this methodology must be used consistently in the future, and requires Board approval should any further changes be considered to any one of the utilities.

The Board will ask the RM to continue its monitoring of the adequacy of current rates for all five utilities.

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.pubmanitoba.ca](http://www.pubmanitoba.ca).



#### 4.0 IT IS THEREFORE ORDERED THAT:

1. The cost allocation methodology for shared services and equipment as submitted by the Rural Municipality of Hanover for the Mitchell Wastewater Utility, New Bothwell Wastewater Utility, Blumenort Wastewater Utility, Kleefeld Water/Wastewater Utility and Grunthal Water/Wastewater Utility BE AND IS HEREBY APPROVED.

Fees payable upon this Order – \$150.00

THE PUBLIC UTILITIES BOARD

“Carol Hainsworth”

Acting Chair

“Jennifer Dubois, CPA, CMA”

Acting Secretary

Certified a true copy of Order 95/17  
issued by the Public Utilities Board

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Acting Secretary