

Order No. 105/18

**RURAL MUNICIPALITY OF WEST ST. PAUL
WEST ST. PAUL WATER UTILITY
INITIAL INTERIM *ex parte* WATER RATES and
DISSOLUTION OF RIVERCREST WATER UTILITY**

July 31, 2018

**BEFORE: Marilyn Kapitany, BSc. (Hon), M.Sc., Panel Chair
Carol Hainsworth, C.B.A., Member**

Table of Contents

1.0	Executive Summary.....	3
2.0	Background	4
3.0	Application.....	4
	Cost allocation methodology.....	5
4.0	Board Findings	8
5.0	IT IS THEREFORE ORDERED THAT:.....	10
	Schedule “A”	11

1.0 Executive Summary

By this Order, the Public Utilities Board (Board) approves the dissolution of the Rivercrest Water Utility as requested in Council Resolution # 2018-322.

By this Order, the Public Utilities Board also approves, on an interim *ex parte* basis, initial water rates as applied for by the Rural Municipality of West St. Paul (RM) for the new Rural Municipality West St. Paul Water Utility (Utility). The Utility began providing services in January 2018.

The new rates are effective retroactive to January 1, 2018, with increases effective January 1, 2019 and January 1, 2020.

The approved rates are shown below.

	By-Law 2018-02 Year One 2018	By-Law 2018-02 Year Two 2019	By-Law 2018-02 Year Three 2020
Water \$/Cubic Meter	\$ 2.58	\$ 2.63	\$ 2.67
Quarterly Service Charge	\$ 4.66	\$ 6.39	\$ 6.53
Minimum Quarterly Charge *	\$ 40.78	\$ 43.21	\$ 43.91
Bulk Water \$/Cubic Meter	\$ 2.65	\$ 2.73	\$ 2.78
Hydrant Rentals	\$ 100.00	\$ 100.00	\$ 100.00
* based on 14 cubic meters			

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

Rationale for the Board's decisions may be found under "Board Findings".

2.0 Background

The RM owns and operates a new water distribution utility that will serve 692 customers all of which will be metered. There are no customers serviced outside the boundaries of the RM. Customers are billed quarterly.

The RM previously received treated water from the RM's Rivercrest Water Utility. Due to the aging water treatment plant and technology, the plant no longer met Provincial Standards for drinking water.

The RM opted to construct new distribution lines and a reservoir, funded by both Federal and Provincial Governments and the Manitoba Water Services Board, and now purchases water from the Cartier Regional Water Cooperative (CRWC). The RM stated that this was the most cost effective option for the RM to deliver treated water to its customers, saving the costs of building and operating a new water treatment plant.

For the purposes of this Rate Application the RM of West St. Paul Water Utility started services in January 2018 with the Rivercrest Water Utility customers (64) being transitioned to the new Utility. The customer count of 692 is based on development agreements with developers creating single family and multi-family unit dwellings. Currently customers have not been charged, pending the approval of water rates from the Public Utilities Board, but water consumption has been recorded.

Currently developers are responsible for all connections and infrastructure installed to municipal construction standards.

3.0 Application

The Rural Municipality of West St. Paul applied on January 12, 2018 for initial interim water rates for the Utility. The application was accompanied by a rate study prepared by the RM's consultant and By-law No. 2018-02 having received first reading on January 30, 2018. The RM is requesting the rates be effective retroactive to January 1, 2018.

In addition, the dissolution of the Rivercrest Water Utility is part of this application as requested in Council Resolution # 2018-322. The Rivercrest Water Utility is no longer in use and the new Utility is providing water services in its place. The RM advised that the Rivercrest Water Utility may be demolished in the future but is currently being used for water sampling.

When reviewing an application, the Board has at its disposal several approaches. It can hold a public oral hearing at which the applicant can present its case and customers can present their concerns. In other cases, where it is deemed to be in the best interest of the Utility and its customers, the Board may review the application using a paper review process.

In some cases, the Board can also establish interim rates, which are rates that are subject to review following a more complete process. When setting initial rates for a new utility, the Board will often approve interim rates. These are then confirmed as final once there is sufficient historical information about the utility to provide accurate projections for rate setting purposes.

The Board has determined a paper review and establishing interim rates are appropriate in the case of the RM of West St. Paul Water Utility.

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. 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 RM submitted the following cost allocation methodology for the Board's approval:

- Direct costs of labour and materials are charged to the Utility based on activity.
- Billing is a flat rate costs based on volume of labour.
- The RM has proposed to not allocate time for the CAO and Council as the Utility is in its infancy. More indirect costs will be added in future rate applications as they are known.

Allocation Plan for Shared Costs				
Shared Overhead: Includes all direct and indirect costs related to the administration of the utility			Activity Based	Flat Rate
Sub-Category	Activity	Expenses (object)		
Direct Overhead Costs	Meter reading	Salaries and wages	X	X
	Billing	Benefits		
	Receipting and Collection			
Indirect Overhead Costs	General administrative costs	Audit and legal		X
		Interest cost on office space		
	Shared office costs	Lease costs		
	Utilities (telephone, heat etc.)			
		Photocopying		
Shared Direct Operating Costs: Includes all costs directly attributable to the maintenance and repair of the utility. Public works employees repair and maintain both transportation and utility infrastructure. A portion of the costs for the public works department should be allocated to the utility			Activity Based	Flat Rate
Sub-Category	Activity	Expenses (object)		
Direct Equipment Costs	Public Works buildings	Maintenance	X	
		Fuel		
	Vehicles	Insurance		
	Machinery and equipment	Amortization		
	Road construction and maintenance equipment	Interest Cost on equipment		
		Lease costs		

Direct Labour	Labour costs directly attributable to the maintenance and repair of utility TCA	Salaries and wages Benefits	X	
<p>Shared Capital Costs: These shared costs <u>should not</u> be directly charged to the utility operations. Capital costs should be capitalized as a Tangible Capital Asset (TCA) and amortized to the utility operations over its useful life. Includes all costs directly attributable to the development and construction of a TCA for a utility. Public Works projects often construct transportation and utility assets at the same time. In these cases a portion of the road work should be allocated to the utility TCA based on the relative fair market value of the assets. The cost of the TCA can include interest costs on debt directly attributable to the development and construction of a TCA. Only interest owed to external parties such as banks or debenture holders. Capitalization of interest cost must end when there is no construction or when the asset is put into use.</p>			Activity Based	Flat Rate
Sub-Category	Activity	Expenses (object)		
Direct overhead costs	Administrative	Legal fees Survey costs Design and engineering fees Interests on debt	X	
Direct equipment costs	Operating costs for: Vehicles Machinery and equipment Road construction and maintenance Equipment	Maintenance Fuel Insurance Amortization Interest cost on equipment Lease costs	X	
Direct labour	Labour costs directly attributable to the development and construction of a utility TCA	Salaries and wages Benefits	X	

4.0 Board Findings

The Board approves the dissolution of the Rivercrest Water Utility. The RM is reminded that any funds held in reserves from this utility must be used for the intended Local Improvement District from which it was collected.

The Board approves on an interim *ex parte* basis, initial water rates as applied for by the RM to be effective retroactive to January 1, 2018, with increases effective January 1, 2019 and January 1, 2020 as set out in Schedule "A" to this order. No final rates will be approved until audited financial statements are available to the Board. These statements should be provided as soon as they are available, but no later than September 30th of each year.

The Board is disappointed the RM did not apply for initial water rates sooner, and in advance of providing services to ratepayers. The Board does not generally approve retroactive rate increases; however, the Board has determined that it is necessary in this case so that the Utility can recover its costs. The RM has informed the Board that the customers were provided notice that the rates would be effective from the date of connection and billing would commence once the RM had received approval from the Board.

The Board is sensitive to customer reaction but must also consider the sustainability of the Utility. As two billing periods have elapsed, the Board requires the RM to submit a payment schedule prior to billing customer, for Board review so as not to cause undue hardship on the customers. The Board requires that a Notice of Application, informing stakeholders of the rates and/or increases approved on an interim *ex parte* basis, be published in accordance with the Board's Rule of Practice and Procedure. The Board also requires that the Utility advise customers in advance of the amounts owing for which they will be billed.

The Board also approves the minimized Cost Allocation Methodology as applied for, and will order the RM to present a new shared cost allocation method in its next rate

application. The RM is reminded that this methodology must be used consistently, and requires Board approval should any changes be considered.

The Board will direct the RM to monitor the Utility's performance and to file a report on rate adequacy with the Board, as well as an application for revised rates if required, on or before June 1, 2021. If the RM becomes aware that the rates approved in this Order are inadequate to cover the operations of the Utility, the Board directs the Utility to submit a revised rate application as soon as possible.

5.0 IT IS THEREFORE ORDERED THAT:

1. Initial interim water rates on an *ex parte* basis for the Rural Municipality of West St. Paul Water Utility BE AND ARE HEREBY APPROVED in accordance with the attached Schedule “A”, effective January 1, 2018, January 1, 2019 and January 1, 2020.
2. The Rural Municipality of West St. Paul submit a copy of its water By-law for the Rural Municipality of West St. Paul Water Utility to the Public Utilities Board, once it has received third and final reading.
3. The Rural Municipality of West St. Paul provide notice to its ratepayers of the rates approved on an initial interim *ex parte* basis.
4. The Rural Municipality of West St. Paul prepare a Schedule of retroactive billing to the Public Utilities Board prior to billing customers and provide advance notices for customers.
5. The Rural Municipality of West St. Paul provide a copy of the audited financial statements annually, including any necessary deficit applications, as soon as they are available, but no later than September 30 of each year.
6. The application by the Rural Municipality of West St. Paul for the dissolution of the Rivercrest Water Utility as requested by Council Resolution # 2018-322 BE AND IS HEREBY APPROVED.
7. The Rural Municipality of West St. Paul review its water rates for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates with Cost Allocation Methodology, by no later than June 1, 2021.

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.

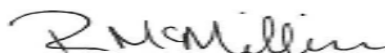
Fees payable upon this Order – \$500.00

THE PUBLIC UTILITIES BOARD

“Marilyn Kapitany, B.Sc. (Hon), M. Sc.”
Panel Chair

“Rachel McMillin, B.Sc.”
Acting Secretary

Certified a true copy of Order No. 105/18 issued
by The Public Utilities Board



Acting Secretary

Schedule "A"**RURAL MUNICIPALITY OF WEST ST. PAUL
BY-LAW NO. 2018-02****Schedule of Quarterly Rates - January 1, 2018**

1. Water Rates per Cubic Meter \$2.58

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges set out below in paragraph 2a.

a. Water Customers

Meter Size (Inches)	Group Capacity Ratio	Minimum Quarterly Consumption	Service Charge	Water	Minimum Quarterly Charges
5/8	1	14	\$4.66	\$36.12	\$40.78
3/4	2	27	\$4.66	\$69.66	\$74.32
1	4	55	\$4.66	\$141.90	\$146.56
1 1/4	10	140	\$4.66	\$361.20	\$365.86
2	25	341	\$4.66	\$879.78	\$884.44
3	45	614	\$4.66	\$1,584.12	\$1,588.78
4	90	1,227	\$4.66	\$3,165.66	\$3,170.32
6	170	2,319	\$4.66	\$5,983.02	\$5,987.68

b. Quarterly minimum charge will be different for each meter size as shown in the table above. The water shall be metered at the customer's cost. The charge will be based upon consumption as shown above with the water charge excluded.

c. Bulk Water Sales - \$2.65 per Cubic Meter

Schedule of Quarterly Rates - January 1, 2019

1. Water Rates per Cubic Meter \$2.63

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges set out below in paragraph 2a.

a. Water Customers

Meter Size (Inches)	Group Capacity Ratio	Minimum Quarterly Consumption	Service Charge	Water	Minimum Quarterly Charges
5/8	1	14	\$6.39	\$36.82	\$43.21
3/4	2	27	\$6.39	\$71.01	\$77.40
1	4	55	\$6.39	\$144.65	\$151.04
1 1/4	10	140	\$6.39	\$368.20	\$374.59
2	25	341	\$6.39	\$896.83	\$903.22
3	45	614	\$6.39	\$1,614.82	\$1,621.21
4	90	1,227	\$6.39	\$3,227.01	\$3,233.40
6	170	2,319	\$6.39	\$6,098.97	\$6,105.36

b. Quarterly minimum charge will be different for each meter size as shown in the table above. The water shall be metered at the customer's cost. The charge will be based upon consumption as shown above with the water charge excluded.

c. Bulk Water Sales - \$2.73 per Cubic Meter

Schedule of Quarterly Rates - January 1, 2020

1. Water Rates per Cubic Meter \$2.67

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges set out below in paragraph 2a.

a. Water Customers

Meter Size (Inches)	Group Capacity Ratio	Minimum Quarterly Consumption	Service Charge	Water	Minimum Quarterly Charges
5/8	1	14	\$6.53	\$37.38	\$43.91
3/4	2	27	\$6.53	\$72.09	\$78.62
1	4	55	\$6.53	\$146.85	\$153.38
1 1/4	10	140	\$6.53	\$373.80	\$380.33
2	25	341	\$6.53	\$910.47	\$917.00
3	45	614	\$6.53	\$1,639.38	\$1,645.91
4	90	1,227	\$6.53	\$3,276.09	\$3,282.62
6	170	2,319	\$6.53	\$6,191.73	\$6,198.26

- b. Quarterly minimum charge will be different for each meter size as shown in the table above. The water shall be metered at the customer's cost. The charge will be based upon consumption as shown above with the water charge excluded.

- c. Bulk Water Sales - \$2.78 per cubic meter