

Order No. 32/18

**RURAL MUNICIPALITY OF VICTORIA BEACH
ALBERT BEACH WATER UTILITY
REVISED WATER RATES FOR 2018, 2019 and 2020
RECOVERY OF ACTUAL OPERATING DEFICIT FOR 2016
RECOVERY OF ANTICIPATED OPERATING DEFICIT FOR 2017**

March 2, 2018

**BEFORE: Shawn McCutcheon, Panel Chair
Susan Nemec, FCPA, FCA, Member**

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1.0 Executive Summary

By this Order, the Public Utilities Board (Board) hereby varies the application made by the Rural Municipality of Victoria Beach (RM) for the Albert Beach Water Utility (Utility) and approves water rates effective May 1, 2018, May 1, 2019 and May 1, 2020.

The approved rates are as follows:

Yearly Rates	Current By-law No. 1541	2018	2019	2020
Single Family Residence/Cottage Commodity Charge	\$112.06	\$144.74	\$155.32	\$160.39
Single Family Residence/Cottage Service Charge	\$17.00	\$19.51	\$19.51	\$19.51
Single Family Residence/Cottage Total Charge	\$129.06	\$164.25	\$174.83	\$179.90
Non-connected / Vacant Lots Commodity Charge	\$8.00	\$5.49	\$5.49	\$5.49
Non-connected / Vacant Lots Service Charge	\$17.00	\$19.51	\$19.51	\$19.51
Non-connected / Vacant Lots Total Charge	\$25.00	\$25.00	\$25.00	\$25.00

The Board also approves the 2016 operating deficit of \$2,159.00 and 2017 anticipated operating deficit estimated at \$3,278.51 to be recovered from the Utility's accumulated surplus account.

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

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

2.0 Background

The RM operates the Albert Beach Water Utility (Utility), a small water only utility servicing 82 customers, of which 2 customers are vacant/non-connected lots. The water system is seasonal only, operating late May to early October. The billing cycle is once a year sent to customers in May.

Water Supply/Distribution

The water system is a 178mm ID production well drilled in 1981 and is located within the Albert Beach pumphouse. The pumphouse draws raw water from the well into a cistern where it is disinfected using sodium hypochlorite (chlorine) before being distributed.

The pumphouse is reported to be in good condition and as per the 2016 rate study there are no capital projects planned for next five years. The Utility does not operate outside the border of Victoria Beach. There are no concerns with regards to colour or taste of the water and the Utility is compliant with drinking water standards and environmental licences.

3.0 Application

On July 26, 2016, the RM applied for revised water rates, to be effective June 1, 2017 as set out in By-law No. 1562, read for the first time on August 2, 2016. The application was supported by a 2016 rate study prepared by the RM. Rates were previously set in 2012 by Board Order No. 125/12 and varied the effective date in Board Order No. 144/12 making the rates effective for years 2012, 2013 and 2014.

A Public Notice of Application was issued on December 29, 2016 affording customers the opportunity to comment to both the Board and RM with respect to the proposed rate increases. No responses were received.

When reviewing an application, the Board has at its disposal two approaches, either a paper or a public hearing review. After the publication of the Notice of Application, the Board 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 their application and any concerns to the Board in person. The Board may also review the application using a paper review process, which saves the cost of a public hearing process.

Having received no expressions of concern from consumers, the Board decided to process this application with a paper-based review.

Contingency Allowance/Reserves

The Utility relies on the reserve fund for contingency because they are small. As stated in the rate study if a significant capital expenditure is required in the future, the project would be undertaken as a local improvement and funded by an issuance of a debenture. As of December 31, 2015, time of the rate study preparation, the reserve fund for the Utility was \$14,958. The proposed reserve allocation remains at \$500.00 per year.

The proposed rates were based on the following revenue projections:

	2015 3% (Actual)	2016 (Budget)	2017 (Proposed)	2018 (Proposed)	2019 (Proposed)
REVENUE:					
Annual Customer Rates	\$10,375.00	\$10,370.00	\$13,090.00	\$13,186.00	\$13,342.00
Late Payment Penalties	\$70.00	\$50.00	\$50.00	\$50.00	\$50.00
Connections	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Transfer from Victoria Beach Utility Reserve	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total	\$10,445.00	\$10,420.00	\$13,140.00	\$13,236.00	\$13,392.00
EXPENDITURE:					
Administration	\$1,500.00	\$1,500.00	\$1,600.00	\$1,600.00	\$1,600.00
Employee Salaries	\$4,611.00	\$4,750.00	\$4,900.00	\$5,000.00	\$5,150.00
Employee Training/ Certification	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Hydro	\$1,291.00	\$1,300.00	\$1,320.00	\$1,340.00	\$1,350.00
Purification & Treatment	\$486.00	\$500.00	\$510.00	\$520.00	\$520.00
Transmission & Distribution	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Service of Supply	1,553.00	\$1,420.00	\$1,400.00	\$1,400.00	\$1,400.00
Other Supply Costs	\$0.00	\$30.00	\$100.00	\$100.00	\$100.00
Engineer Assessment	\$0.00	\$0.00	2,350.00	\$2,350.00	\$2,350.00
Other Costs (Workers Comp/Ins)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Transfer to Capital - Infrastructure	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Amortization	\$420.00	\$420.00	\$420.00	\$420.00	\$420.00
Transfer to Reserve	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00
Total	\$10,361.00	\$10,420.00	\$13,100.00	\$13,230.00	\$13,390.00
Operating Surplus/(Deficit)	\$84.00	\$0.00	\$40.00	\$6.00	\$2.00
	\$10,445.00	\$10,420.00	\$13,140.00	\$13,236.00	\$13,392.00

An inflation rate of 3% was used in all calculations.

Working Capital Surplus/Deficit

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 2016 audited financial statements, the most recent information available, the working capital surplus at December 31, 2016 was:

	2016	2015
Fund Surplus (Deficit)	\$ 9,886	\$ 12,546
Deduct Tangible Capital Assets	\$ 18,178	\$18,723
Add Long-Term Debt	-	-
Add Utility Reserves	\$ 15,564	\$14,958
Equals Working Capital Surplus (Deficit)	\$ 7,272	\$ 8,781
Last year's operating costs	\$ 12,618	\$ 9,861
20% of last year's operating costs - Target	\$ 2,524	\$ 1,972

Actual and Anticipated Operating Deficits:

On April 12, 2017, the Board received an application from the RM for the recovery 2016 actual operating deficit in the amount of \$2,159.00. As stated in the application, the reason for the 2016 deficit is the Utility is in need of a rate increase which is pending Board approval.

Further to this, on December 20, 2017 the Board also received an application to recover a 2017 anticipated deficit from the RM in the amount of \$3,278.51. The application stated the reason for the deficit is again that a rate increase is required.

For both deficits, the RM's proposed method of recovery is through the Utility Fund Surplus or the Reserve. As at December 31, 2016, the accumulated surplus is \$9,886.00 and the reserve is \$15,564.00.

4.0 Board Findings

The Board has reviewed the application and the projections presented by the RM in this revised rate application.

The Board received no stakeholder responses to the notice issued on December 29, 2016, indicating that ratepayers understand that the proposed rates and believes them to be reasonable.

The Board finds that the revenue projections provided are acceptable; however, the Board will vary the transfer to reserve expenditure requirement as follows:

	Excerpt of Financial Projections Table		
	2018	2019	2020
Expenditures			
Transfer to Reserve	\$ 500.00	\$ 1,250.00	\$ 1,500.00

The Board acknowledges that the RM is trying to keep the rates stable but the sustainability of the Utility is also important. A number of deficit recoveries have depleted the Utility's surplus.

The Board is of the opinion that the rates as presented in the rate application are not adequate to rebuild the accumulated surplus and reserve. Given the age of the system, the Board is concerned if any issues should arise, maintenance or otherwise, that the Utility would incur more deficits.

The Board is sensitive to customer reaction to the magnitude of the rate increases, however, must consider the sustainability of the Utility when approving rates. In the case of the Albert Beach Water Utility, the Board will increase the contributions made to the reserve but postpone them until the second and third year of approved rates. Consumers are generally more tolerant of regular, smaller increases.

The Board therefore approves the varied water rates, factoring in the adjustment to the transfer to reserves, effective for May 1, 2018, May 1, 2019 and May 1, 2020 as follows:

Yearly Rates	Current By-law No. 1541	2018	2019	2020
Single Family Residence/Cottage Commodity Charge	\$112.06	\$144.74	\$155.32	\$160.39
Single Family Residence/Cottage Service Charge	\$17.00	\$19.51	\$19.51	\$19.51
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Non-connected / Vacant Lots Total Charge	\$25.00	\$25.00	\$25.00	\$25.00

By law, Manitoba utilities are not allowed to incur deficits. In the event that a deficit does occur, a Utility is required to obtain Board approval for a recovery methodology.

The Board is satisfied that the RM has adequate working capital surplus and reserves at this time and will approve the recovery of the 2016 actual operating deficit in the amount of \$2,159.00 by transfer from the Utility's accumulated surplus account. The Board also approves the recovery of the 2017 anticipated operating deficit in the amount of \$3,278.51 by transfer from the Utility's accumulated surplus account.

The current Cost Allocation Policy was approved in Board Order No. 125/12 and remains in effect. The Board reminds the RM that this methodology should be reviewed every year for adequacy and used consistently. Should any changes be considered Board approval is required.

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.

5.0 IT IS HEREBY ORDERED THAT:

1. The revised water rates for the Rural Municipality of Victoria Beach – Albert Beach Water Utility BE AND ARE HEREBY APPROVED in accordance with the attached Schedule “A” to this order, effective for years 2018, 2019 and 2020.
2. The actual operating deficit, when calculated for regulatory purposes, for 2016 of \$2,159.00, incurred in the Rural Municipality of Victoria Beach – Albert Beach Water Utility is HEREBY APPROVED to be recovered from the Utility`s accumulated surplus.
3. The anticipated operating deficit, when calculated for regulatory purposes, for 2017 of \$3,278.51, incurred in the Rural Municipality of Victoria Beach – Albert Beach Water Utility is HEREBY APPROVED to be recovered from the Utility`s accumulated surplus.
4. The Rural Municipality of Victoria Beach amend its water rate By-law for the Albert Beach Water Utility to reflect the decisions in this Order and submit a copy to the Board once it has received third and final reading.
5. The Rural Municipality of Victoria Beach is to provide a notice to its customers, including the decisions found in this Order.
6. The Rural Municipality of Victoria Beach review its water rates for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates if required, on or before June 30, 2021.

Fees payable upon this Order - \$500.00.

THE PUBLIC UTILITIES BOARD

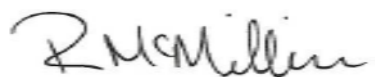
"Shawn McCutcheon"

Panel Chair

"Rachel McMillin, B.Sc."

Acting Secretary

Certified a true copy of Order No. 32/18 issued
by The Public Utilities Board



Acting Secretary

THE RURAL MUNICIPALITY OF VICTORIA BEACH
BY-LAW NO. 1562
ALBERT BEACH LOCAL IMPROVEMENT DISTRICT - ALBERT BEACH UTILITY

SCHEDULE "A"

1. Water rate covering seasonal service to customers connected to the water system shall be levied annually as follows:

2018: Single Family Residence/Cottage	
Service Charge	\$ 19.51
Commodity Charge	<u>144.74</u>
Total	\$ 164.25

2019: Single Family Residence/Cottage	
Service Charge	\$ 19.51
Commodity Charge	<u>155.32</u>
Total	\$ 174.83

2020: Single Family Residence/Cottage	
Service Charge	\$ 19.51
Commodity Charge	<u>160.39</u>
Total	\$ 179.90

2. Water rate covering seasonal service to customers not directly connected to the water system, shall be levied annually as follows:

2018: Non-Connected Property	
Service Charge	\$ 19.51
Commodity Charge	<u>5.49</u>
Total	\$ 25.00

2019: Non-Connected Property	
Service Charge	\$ 19.51
Commodity Charge	<u>5.49</u>
Total	\$ 25.00

2020: Non-Connected Property	
Service Charge	\$ 19.51
Commodity Charge	<u>5.49</u>
Total	\$ 25.00

3. The rates set forth in paragraphs 1 and 2 hereof shall be billed to each customer on a separate utility invoice and shall be payable on or before July 31st of each year. A late payment charge of 1.25% shall be charged on the dollar amount owing after the billing due date and shall be calculated on the first day of each month, until paid in full. The due date will be at least fourteen days after the mailing of the bills.
4. The Public Utilities Board has approved the *Conditions Precedent* to be followed by the Municipality with respect to the 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.
5. Any residents requesting to have water lines relocated on their own property or damaging waterlines on or near their property will be charged a fee to cover any time spent on relocating and repairing water lines by Municipal Employees:

Any Customer	\$ 25.00 per hour, per employee, plus costs of any equipment and materials used.
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