

Order No. 110/19 - revised

**RURAL MUNICIPALITY OF WALLACE-WOODWORTH
ELKHORN WASTEWATER UTILITY
REVISED RATES FOR OCTOBER 1, 2019 AND JULY 1, 2020
ACTUAL OPERATING DEFICIT RECOVERY FOR 2017**

JULY 30, 2019

**BEFORE: Shawn McCutcheon, Panel Chair
Marilyn Kapitany, B. Sc. (Hons), M. Sc., Panel Member**

Table of Contents

1.0	Executive Summary.....	3
2.0	Background	3
	Wastewater Collection/Treatment.....	3
3.0	Application.....	4
	Contingency Allowance and Utility Reserves.....	5
	Working Capital Surplus/Deficit	6
	Cost Allocation Methodology	7
4.0	Board Findings	9
5.0	IT IS HEREBY ORDERED THAT:.....	11
	SCHEDULE A.....	13

1.0 Executive Summary

By this Order, the Public Utilities Board (Board) approves the revised wastewater rates for the Rural Municipality of Wallace-Woodworth (RM), Elkhorn Wastewater Utility (Utility), and varies the effective dates to be October 1, 2019 and July 1, 2020.

The approved rates are as follows:

	Current By-Law 2-2009	October 1, 2019	July 1, 2020
Quarterly Service Charge	\$8.40	\$7.89	\$7.38
Wastewater (per REU*)	\$16.09	\$24.06	\$32.02
Minimum Quarterly Charge	\$24.49	\$31.95	\$39.40

*REU – Residential Equivalency Unit

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

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

2.0 Background

The lagoon was constructed in 1965, 0.7 km south of the Village of Elkhorn with one primary cell and one storage cell. The Utility services 257 customers representing 296 REUs. One REU is calculated as the volume of water estimated to be used by the average single-family residence. REUs are used in communities with unmetered distribution and/or collection systems, where information regarding actual consumption is unavailable.

Wastewater Collection/Treatment

Customers are serviced with both a gravity wastewater collection system and a pressure wastewater system, which feed the lagoon primary cell. The lagoon is surrounded by agriculture land, utilized by cattle pasture.

3.0 Application

On September 18, 2018, the RM applied for revised wastewater rates, to be effective July 1, 2019 and July 1, 2020 as set out in By-Law No. 05-2018 having had first reading September 11, 2018. The application was supported by a rate study prepared by the RM's consultant.

A Public Notice of Application was issued on October 30, 2018 allowing for any questions or comments with respect to the proposed rate increases to the Board and/or the RM on or before November 29, 2018. No complaints were received from ratepayers.

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 considers the application and stakeholder responses, and determines which method of review is most appropriate. Whenever reasonable, the Board can review the application using a paper review process, which saves the cost of a public hearing process. Given the Board was not advised of any complaints, the Board has chosen a paper review process for this application.

The rates were calculated based on the following projections using an annual inflation rate of 2% in all calculations:

Schedule of Utility Rate Requirements – Elkhorn Wastewater Utility 2019 to 2021 Budget Forecasts (\$)			
	2019	2020 Forecast	2021
General Expenses			
Administration	7,533	7,684	7,837
Total General Expenses	7,533	7,684	7,837
Revenue			
Penalties	250	250	250
Total General Revenues	250	250	250
Net Costs General	7,283	7,434	7,587
Wastewater Expenses			
Collection System Costs	16,782	17,118	17,460
Lift Station Costs	13,981	14,261	14,546
Amortization	3,662	3,662	3,662
Total Wastewater Expenses	34,425	35,041	35,668
Net Operating Costs	41,708	42,475	43,255

The proposed Utility rate increases are required to provide for increased wastewater expenses and to raise rates to an appropriate level to provide for Utility expenses given rates were last increased in 2013.

Contingency Allowance and Utility Reserves

As per the Board's Water and Wastewater Rate Application Guidelines, a yearly allowance equal to 10% of the variable operating costs is recommended for a contingency allowance.

The RM has included \$3,201 in the proposed rates as a contingency allowance.

The RM advises the Utility's Working Capital Surplus is forecast to be sufficient up to and including 2021, therefore no transfer to the Utility reserve included in the RM's application.

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/deficit is defined as the Utility fund balance, excluding any capital related items plus Utility reserves.

As per the 2017 audited financial statements, the most recent information available, the working capital surplus for the Utility at December 31, 2017 was:

	2017
Utility Fund Surplus/Deficit	\$127,235
Deduct: Tangible Capital Assets	95,623
Add: Long-Term Debt	-
Add: Utility Reserves	35,342
Equals Working Capital Surplus (Deficit)	\$66,954
Operating Expenses	40,783
20% of Operating Expenses (Target)	\$8,157

The Utility currently exceeds the Board minimum working capital surplus of 20%.

Operating 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 as soon as it is known.

On June 13, 2019, the RM applied for approval of an actual operating deficit of \$11,815 in 2017, for recovery from the Utility's accumulated surplus. The RM advises the deficit is due to increased costs and insufficient revenues to cover costs.

The RM notes the Utility is forecasted to continue to experience operating deficits up to and including 2020 of \$22,383 for 2018, \$8,612 for 2019, and \$472 for 2020. The Utility's Working Capital Surplus as at December 31, 2017 (noted above) is sufficient to provide for these deficits.

Cost Allocation Methodology

The Board requires all municipal governments to review the costs shared between its general operations and the Utility, and to allocate appropriate and reasonable costs to the Utility, based on a policy known as a Cost Allocation Methodology. This allocation 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.

Based on time spent on the Utility by office staff the RM proposes 0.5% of office staff salaries and benefits, office costs, and audit and legal costs be charged to the Utility as follows:

Rural Municipality of Wallace-Woodworth – Elkhorn Wastewater Utility Allocation Plan for Non-Direct Shared Services (see Note 1) as at July, 2018			
Category	Sub-category	Options	
1.0	Administrative Staff		0.5% of general legislative expenses excluding assessment, taxation, and grant expenses.
	1.1 Billing services – meter reading to receipting and collection.		Meter Reading – N/A Receipting and collection are part of the Administrative Staff allocation.
	1.2 Accounting/ auditing/ including bylaw making and enforcement.		0.5% of audit costs
	1.3 Common office space		0.5% of office costs, utilities
	1.4 Office overheads (telephone, photocopier, computer, etc.)		0.5% of printing, postage, and stationary.
2.0	Operating, construction and maintenance costs		
	2.1 Vehicle – fuel, maintenance, lease costs, capital costs	Costs that could be charged to the Utility are minimal and nothing is currently allocated to the Utility.	-
	2.2 Labor – full time, part time, on call, sick time, vacation (see Note 2)		Utility Operator's time is charged to the Utility based on time worked.
	2.3 Public works building and property.	Costs that could be charged to the Utility are minimal and nothing is currently allocated to the Utility.	-
	2.4 Road repairs and alike (see Note 3)	Based on actual costs	-
3.0	Major projects		
	Interest/ financing		-
	Labor	Based on actual costs	-
	External costs	Direct charge (dedicated consulting)	-

Note 1 – Allocation must be updated periodically to reflect impacts of inflation.

Note 2 – Including salaries and benefits.

Note 3 – If a project involves work benefitting both the Utility and general operations the costs may be shared (i.e. If reconstructing a road and replacing services at the same time, a portion of the roadwork costs may be allocated to the Utility.)

4.0 Board Findings

The Board has reviewed the application and the projections presented by the RM in its rate application and notes the calculations used to formulate the Utility's rates are not consistent with Public Utilities Board Guidelines, but instead have been designed to phase-in rates to mitigate rate-shock and high year-over-year rate increases. The Board also notes, this methodology for calculating the rates requested are forecast to result in deficits of \$(8,612) in 2019 and \$(472) in 2020.

The Board notes the Utility has sufficient working capital surplus to provide for the forecasted 2019 and 2020 deficits and therefore finds this methodology acceptable and approves the wastewater rates as applied for, but varies the effective dates to October 1, 2019 and July 1, 2020 to coincide with the Utility's quarterly billing periods. The Board notes, however, use of this rate-setting methodology requires diligent year-over-year monitoring of the Utility's budget and directs the RM to file Deficit Applications and recovery methodology with the Board accordingly for any and all deficits as soon as they are known.

The Board approves the revised cost allocation methodology and reminds the RM this methodology must be used consistently; any changes to the new, revised cost allocation methodology require Board approval.

The Board notes the RM has not included any transfers to the Utility Reserve in its application, but the RM has advised it is in the process of designing an upgraded lagoon to accommodate customer growth and to mitigate excessive precipitation and infiltration into the wastewater collection system. Given the costs of upgrading the lagoon are likely to be capital in nature, the Board recommends any surplus funding generated from the contingency allowances be transferred into the Utility Reserve to provide for the potential future costs of the lagoon upgrade project.

The Board requires the RM to review its wastewater rates for the Utility for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates (if required) on or before December 31, 2020.

It has been eight years since the RM has submitted a rate application to the Board. In the Board's view, this is too long a time-period between rate reviews. The Board reminds the RM regular reviews of the utility's rates are required to ensure rates are adequate to recover the costs of service being provided to its customers. Should rates be reviewed, either by a consultant or by RM staff, and deemed adequate to fully provide for the costs of Utility operations a Statement of Adequacy Letter (advising the Board the Utility rates are adequate) should be filed with the Board annually in lieu of a rate study/request until one is required.

The Board approves the 2017 actual operating deficit of \$11,815, to be recovered from the Utility's accumulated surplus.

The Board notes the RM has forecast operating deficits for the years 2018, 2019, and 2020. The Board therefore directs the RM to file a deficit application and recovery plan for these and any other deficits as soon as the amounts are known.

The Board has not received the RM's 2018 Audited Financial Statements and reminds the RM audited financial statements are to be reported to the Board no later than June 30 of the following year.

5.0 IT IS HEREBY ORDERED THAT:

1. The revised wastewater rates for the Rural Municipality of Wallace-Woodworth, Elkhorn Wastewater Utility, BE AND ARE HEREBY APPROVED in accordance with the attached Schedule A, effective October 1, 2019 and July 1, 2020.
2. The cost allocation methodology for shared services as submitted by the Rural Municipality of Wallace-Woodworth BE AND IS HEREBY APPROVED.
3. The actual operating deficit, when calculated for regulatory purposes, of \$11,815 in 2017 incurred in the Rural Municipality of Wallace-Woodworth, Elkhorn Wastewater Utility, is HEREBY APPROVED to be recovered through a transfer from the Utility's Accumulated Surplus Account, effective the date of this Order.
4. The Rural Municipality of Wallace-Woodworth is to provide a notice of the decisions found in this Order to its customers as soon as possible, with a copy provided to the Public Utilities Board.
5. The Rural Municipality of Wallace-Woodworth amend its wastewater rate By-Law to reflect the decisions in this Order and submit a copy to the Board once it has received third and final reading.
6. The Rural Municipality of Wallace-Woodworth review wastewater rates for the Elkhorn Wastewater Utility for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates if required, by no later than December 31, 2020.
7. The Rural Municipality of Wallace-Woodworth submit its 2018 audited financial statements by no later than September 30, 2019.

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.

Fees payable upon this Order - \$650.00

THE PUBLIC UTILITIES BOARD

"Shawn McCutcheon"
Panel Chair

"Frederick Mykytyshyn"
Assistant Associate Secretary

Certified a true copy of Order No. 110/19 - revised
issued by The Public Utilities Board


Assistant Associate Secretary

SCHEDULE A**RURAL MUNICIPALITY OF WALLACE-WOODWORTH
ELKHORN WASTEWATER UTILITY
WASTEWATER UTILITY RATES BY-LAW NO. 05-2018****SCHEDULE OF QUARTERLY RATES
OCTOBER 1, 2019****1. Customer Service Charge**

The quarterly customer service charge shall be \$7.89.

2. Commodity Rates

The commodity rate for all wastewater usage shall be based on one residential equivalency unit and pro-rated in accordance with the schedule of Minimum Quarterly Charges as detailed in Clause 3 hereafter. The quarterly wastewater usage rate for one residential equivalent unit shall be \$24.06.

3. Schedule of Minimum Quarterly Charges

<u>Customer</u>	<u>Residential Equivalency Units</u>	<u>Customer Service Charge</u>	<u>Wastewater Commodity Charge</u>	<u>Minimum Quarterly Charge</u>
Residential	1	\$7.89	\$24.06	\$31.95
Garage/Rink/Cafe	2	\$7.89	\$48.12	\$56.01
Motel	5	\$7.89	\$120.30	\$128.19
Senior Citizens Home	9	\$7.89	\$216.54	\$224.43
Collegiate	12	\$7.89	\$288.72	\$296.61
Hospital	15	\$7.89	\$360.90	\$368.79

**SCHEDULE OF QUARTERLY RATES
JULY 1, 2020****1. Customer Service Charge**

The quarterly customer service charge shall be \$7.38.

2. Commodity Rates

The commodity rate for all wastewater usage shall be based on one residential equivalency unit and pro-rated in accordance with the schedule of Minimum Quarterly Charges as detailed in Clause 3 hereafter. The quarterly wastewater usage rate for one residential equivalent unit shall be \$32.02.

3. Schedule of Minimum Quarterly Charges

<u>Customer</u>	<u>Residential Equivalency Units</u>	<u>Customer Service Charge</u>	<u>Wastewater Commodity Charge</u>	<u>Minimum Quarterly Charge</u>
Residential	1	\$7.38	\$32.02	\$39.40
Garage/Rink/Cafe	2	\$7.38	\$64.04	\$71.42
Motel	5	\$7.38	\$160.10	\$167.48
Senior Citizens Home	9	\$7.38	\$288.18	\$295.56
Collegiate	12	\$7.38	\$384.24	\$391.62
Hospital	15	\$7.38	\$480.30	\$487.68

The Following Clauses Take Effect October 1, 2019:

1. Separate Charge for Each Business

That should one or more businesses be carried on in a building, then a separate charge will be made for each business.

2. Quarterly Billing

Accounts shall be billed quarterly.

A late payment charge of 1.25% compounded monthly shall be charged on the dollar amount owing after the billing due date. The due date will be at least fourteen days after the mailing of the bills.

3. Billings and Penalties

The Council of Rural Municipality of Wallace-Woodworth may sign Agreements with customers for the provision of wastewater services to properties located outside the boundaries of the Elkhorn Wastewater Utility. 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 Elkhorn Wastewater Utility boundaries. In addition, all costs of connecting to the Utility's mains, and installing and maintaining service connections, will be paid by the customer.

4. Disconnection

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

5. Reconnection

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties, and a reconnection fee of \$100.00 have been paid.

6. Outstanding Bills

Pursuant to Section 252(2) of *The Municipal Act*, the amount of all outstanding charges for wastewater 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.

7. Wastewater Surcharges

- a) There may be levied annually, in addition to rates set forth above, a special surcharge on wastewater 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 wastewater or industrial wastes.