

Order No. 122/19

**RURAL MUNICIPALITY OF STUARTBURN
VITA WASTEWATER UTILITY
WASTEWATER RATES
EFFECTIVE JANUARY 1, 2020**

August 27, 2019

**BEFORE: Shawn McCutcheon, Panel Chair
Irene Hamilton, Q.C., Panel Member**

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1.0 Executive Summary

By this Order, the Manitoba Public Utilities Board (Board) grants approval of revised wastewater rates for the Rural Municipality of Stuartburn (RM), Vita Wastewater Utility (Utility). The existing and approved rates are below:

	Current	2020
Annual Service Charge	\$1.76	\$2.88
Annual Wastewater Rate (per REU*)	\$138.24	\$226.41

*Residential equivalency unit

The Board also approves the 2018 operating deficit of \$14,065, to be recovered through a rate rider of \$45.19 per REU for a period of one year.

Details of other rates are in the attached Schedule "A".

The reasons for the Board's decisions are under "Board Findings".

2.0 Background

The RM owns and operates a wastewater only utility in the LID of Vita. The Utility currently provides service to 191 connections. The residents have water service from their own private wells.

Wastewater Collection and Treatment

The original low-pressure wastewater system was installed in 1979 and is composed mostly of PVC pipe and PE pipe. A lift station built in 2010 assists in pumping the collected sewage to the nearby lagoon.

The lagoon was constructed in 1978 and consists of a three-cell facultative pond. The primary cell is for treatment, the secondary cell is for storage and the tertiary cell is for emergency storage in the event the lagoon cannot be discharged in the spring.

The tertiary cell was not constructed with a suitable liner per Provincial guidelines, thus, it is not approved for storage of partially treated wastewater like a typical secondary cell. The RM was in the process of lining this cell with suitable clay to allow it to be used as another secondary cell for storage, and anticipated this project would be completed by the end of 2018.

The RM advises that the number of Residential Equivalency Units (REUs) assigned is 311.25, one REU being the volume of wastewater estimated to be produced by the average single family residence. Units allocated to other customers are based on estimated consumption, as compared with a residence. REUs are used in communities with unmetered distribution and collection systems, where information regarding actual consumption is unavailable.

The Utility advises it is in general compliance with environmental regulations.

3.0 Application

On December 8, 2018, the Board received an application for revised rates from the RM for the Vita Wastewater Utility. The application was accompanied by a rate study completed by the RM's consultant and By-law 150-2018 read for the first time on November 20, 2018. On July 10, 2019 the Board sent a round of information requests to the RM, which resulted in the RM submitting a slightly revised application on August 8, 2019. The change from the original request to the revised request was minimal and only affected the proposed annual wastewater rate.

Consistent with past practice, the RM intends to collect the annual wastewater charge through the annual property tax bill.

The RM last had a rate increase in September 2009, granted in Board Order No. 130/09.

When reviewing an application, the Board has at its disposal two approaches, a paper review process or a public hearing. After the publication of the Notice of Application, the Board considers the application and responses, if any, 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.

The Board has reviewed this application and has chosen a paper review process.

The RM used the following projections to calculate the requested rates:

	2019	2020	2021
Administration (building, office, staff, etc)	460	465	469
Billing and collection	80	81	82
Total expenses general	540	546	551
Penalties			
Total revenue general	0	0	0
Net revenue requirement - general	540	546	551
Wastewater Expenses			
Other sewage collection and disposal costs	42,305	42,728	43,155
Contingency	4,731	4,778	4,826
Amortization	38,889	38,889	38,889
Reserves	5,000	5,000	5,000
Minor capital upgrades	5,000	5,050	5,101
Total expenses wastewater	95,925	96,445	96,971
Amortization of capital grants	17,899	17,899	17,899
Lagoon tipping fees	8,600	8,600	8,600
Total revenue wastewater	26,499	26,499	26,499
Net revenue requirement - wastewater	69,426	69,946	70,472

Contingency Allowance and Utility Reserves

The Board's Wastewater Rate Application Guidelines recommend an annual contingency allowance equal to 10% of the variable operating costs.

The RM has included in the rates a contingency allowance of 10% of variable operating expenses. This equates to approximately \$4,800 built into wastewater rates annually. The rates also include an annual contribution of \$5,000 for utility reserves.

Working Capital Surplus

Board Order No. 93/09 established utilities should maintain a minimum working capital surplus, in an amount equal to 20% of annual expenses. The working capital surplus is the Utility fund balance, excluding any capital-related items plus Utility reserves.

As per the 2018 audited financial statements, the Utility had a working capital deficiency at December 31, 2018. The working capital surplus from 2010 (when rates were last set) is included for comparison purposes.

	2018	2010
Accumulated Fund Surplus	\$ 733,132	\$ 637,482
Deduct tangible capital assets	\$ 780,743	\$ 453,010
Add long term debt	\$ -	\$ -
Add utility reserves	\$ 40,051	\$ 31,459
Equals Working Capital Surplus	(\$7,560)	\$215,931
Operating costs	\$ 71,625	
20% of operating costs (target)	\$ 14,325	

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. The Board is therefore duty bound to approve reasonable rates based on reasonable expense projections.

The RM previously applied to the Board for approval of the 2016 and 2017 operating deficits, requesting recovery from the accumulated surplus account. The Board approved these deficits on Board Order No. 52/18.

The Board received an application from the RM for approval of the 2018 deficit on February 14, 2019. The application requested recovery of the deficit from the accumulated surplus account.

Cost Allocation Methodology

The Board requires all municipal governments to review the costs shared between 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 (CAM). 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.

The RM has requested that the Board approve the following CAM:

Sub-Category		Activity/Expenses (object)	% of Expenses allocated to Utility
Direct Overhead Costs			
		Billing Receipting and Collection	50% - \$80.22 to Utility
Indirect Overhead Costs- General		CAO salaries and benefits	2 hours @ \$17.69 per hour - \$35.38 to Utility
		Audit and legal	2% - \$424.00 to Utility

4.0 Board Findings

The Board has reviewed the application and revenue projections presented by the RM. The submission from the RM indicated that “Other sewage collection and disposal costs” would decrease from the actual costs presented in the 2018 audited financial statements. Actual costs were \$55,035 in 2018 and \$67,433 in 2017. The RM’s submission is projecting these costs to be \$42,305 for 2019, increasing 1% for 2020 and 2021. The Board asked the RM to explain the projected decrease and the RM responded that the high expenses “...were due to notable sewer line breaks and repairs in those years. It is not anticipated that these high repair costs are to be a regular occurrence going forward.”

The Board does have some concern granting approval for rates that would not adequately meet the costs associated with the most recent audited financial statements. Having asked and received assurances from the RM, the Board will place its confidence in the RM as the authority. However, the Board recommends the RM carefully monitor its expenses on an ongoing basis, rather than waiting for the audited results to recognize the Utility rates are insufficient. The Board encourages the RM to file a rate application or a request to review and vary this decision should the rates prove to be inadequate. Board staff are available to assist in determining the most appropriate way to make that request.

The RM last filed for revised rates in 2009, approved in Board Order No. 130/09. At that time, the Board made a point of noting in the Order that the RM had failed to include amortization expense in the rates, which would become part of the Utility expenses with the implementation of Public Sector Accounting Board (PSAB) standards in 2010.

At that time, the expected amortization expense was \$13,749 per year. The Board accepted the RM’s assertion that there was no need to increase rates to recover the full annual amortization expense immediately, but cautioned the RM that the Utility would begin experiencing operating deficits which would impact the surplus and reserve fund balances. The Board asked the RM to consider applying for multi-year increases, which would “phase in” recovery of amortization expense, while preserving the financial strength of the Utility.

The RM has not requested revised rates to include amortization expense until now, and has experienced operating deficits since 2012. This has depleted the working capital surplus, as predicted in Board Order No. 130/09.

The RM's inattention to the Utility rates has resulted in a significant deterioration of the financial state of the Utility. The RM's failure to take action to implement rates sufficient to cover operating expenses has now resulted in ratepayer's being subject to increases that certainly would be considered rate shock.

It has been over ten years since the Utility has submitted a rate application to the Board. In The Board's view, this is too long a time-period between rate reviews. Regular rate reviews submitted on a timelier three-year period, as per the Board's Guidelines, protect the financial position of the Utility and may mitigate the need for substantial rate increases. In some cases, the additional cost of a rate rider becomes necessary to recover utility deficits.

It is the Utility's responsibility to review the rates and ensure rates are adequate to recover the cost of service being provided to its customers. Customers are generally more tolerant of regular, smaller increases. The RM needs to be much more diligent in conducting regular reviews of its revenue requirements.

The RM filed for Board approval of operating deficits for the years 2012, 2014, 2016, 2017 and 2018. Approval for the 2012 and 2014 deficits was granted in Board Order No. 70/15 and approval for 2016 and 2017 was granted in Board Order No. 52/18, which also required the RM to file an application for revised rates on or before December 31, 2018.

The Board approves the 2018 deficit of \$14,065 applied for February 14, 2019, but will vary the recovery method. The RM requested the deficit be recovered from the surplus, however the Board finds the working capital surplus to be insufficient to absorb the deficit, and will direct the RM to recover the deficit through a rate rider over a period of one year.

The rate rider is \$45.19 per REU, calculated as \$14,065/311.25 total assigned REUs.

The Board will approve the Cost Allocation Methodology (CAM) as applied for, is concerned that the values appear to be significantly lower than the norm. For example, the CAO's salary is allocated as two (2) hours per year, which seems insufficient; and \$17.69 per hour, which does not align with the compensation disclosure from the audited financial statements. The Board encourages the RM to review its CAM and ensure the Utility is paying its fair share of the general costs.

The RM's audited financial statements present the Utility revenue as a transfer from the operating fund. This is an unusual presentation and the Board recommends the RM work with its auditor to align the statements to a more typical format. This includes the presentation of Note 14, which shows the balance of unamortized capital grants and the annual portion to be amortized. This information is important for rate setting purposes, and must be updated to include any additions during the year, which was not done in the 2018 statements.

Of concern to the Board is a practice sometimes used by municipalities allowing for utility costs to be offset by the Home Owners Tax Assistance credit when utility charges are collected on the tax bill. The Board recommends that the RM consider switching to an annual or quarterly utility billing, rather than include the utility charges on the tax bill, to send a clearer pricing signal to ratepayers.

The Board reminds the RM regular reviews are important for a financially sound utility and encourages the RM to review Board Order No. 86/17 for future rate applications. The Order outlines the Simplified Rate Application Process for municipally owned public utilities. If, after its rate review, the RM finds it meets the designated criteria for a simplified rate application, it should apply for future rates using the Simplified Rate Application Process.

The Board requires the RM to review its wastewater rates for adequacy and file a report with the Board, as well as an application for revised rates if required, on or before December 31, 2022.

5.0 IT IS THEREFORE ORDERED THAT:

1. The wastewater rates for the Rural Municipality of Stuartburn – Vita Wastewater Utility, BE AND ARE HEREBY APPROVED in accordance with the attached Schedule “A” to this Order, effective January 1, 2020.
2. The Cost Allocation Methodology for shared services as submitted by the Rural Municipality of Stuartburn for the Vita Wastewater Utility BE AND IS HEREBY APPROVED.
3. The actual utility operating deficit, when calculated for regulatory purposes, of \$14,065 in 2018 incurred by the Rural Municipality of Stuartburn – Vita Wastewater Utility is HEREBY APPROVED to be recovered by a rate rider of \$45.19 per residential equivalency unit. The rate rider is for a period of one year, effective January 1, 2020.
4. The Rural Municipality of Stuartburn is to provide notice of the decisions found in this Order to its customers as soon as possible, with a copy submitted to the Public Utilities Board.
5. The Rural Municipality of Stuartburn, in collecting Utility charges with the tax bill, shall ensure that such charges are not offset by the Home Owners Tax Assistance Credit.
6. The Rural Municipality of Stuartburn amend its Utility 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.
7. The Rural Municipality of Stuartburn review Vita Wastewater Utility rates for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates (if necessary), on or before December 31, 2022.

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"
Panel Chair

"Jennifer Dubois, CPA, CMA"
Assistant Associate Secretary

Certified a true copy of Order No. 122/19
issued by The Public Utilities Board


Assistant Associate Secretary

SCHEDULE "A"

RURAL MUNICIPALITY OF STUARTBURN

Sewer Rates in the LID of Vita

BY-LAW NO. 150-2018

SCHEDULE OF RATES:

1. Customer Service Charge

The annual customer service charge shall be: \$2.88

2. Commodity Rates

The commodity rate for all sewer usage shall be based on one residential equivalency unit and pro-rated in accordance with the Schedule of Charges as detailed in Clause 3 hereafter.

The annual sewer usage rate for one residential equivalent unit shall be \$226.41

3. Schedule of Minimum Quarterly Charges

Customer	Measurement	Residential Equivalency Units	Customer Service Charge	Sewer Commodity Charge	Total Annual Charge
Residential	single family dwelling	1.00	\$2.88	\$226.41	\$229.29
Residential	multi-family - per dwelling unit	1.00	\$2.88	\$226.41	\$229.29
Access Credit Union	1 to 40 staff	1.00	\$2.88	\$226.41	\$229.29
Dueck's Drug Store	1 to 40 staff	1.00	\$2.88	\$226.41	\$229.29
Friendship Center	1 to 40 staff	1.00	\$2.88	\$226.41	\$229.29
Fresh Factory	1 to 40 staff	1.00	\$2.88	\$226.41	\$229.29
Level Welding	1 to 40 staff	1.00	\$2.88	\$226.41	\$229.29
Vita Bible Church	min. 1.00	1.00	\$2.88	\$226.41	\$229.29
Vita Hall	per 230 seats (350)	1.50	\$2.88	\$339.62	\$342.50
Eva's Restaurant	per 20 seats, rounded up	2.00	\$2.88	\$452.82	\$455.70
Vita Day Care	per 25 children (25) per 1-40 staff (1)	2.00	\$2.88	\$452.82	\$455.70
Vita Arena	for Small Rinks	2.40	\$2.88	\$543.38	\$546.26
Vita Curling Club	for Small Rinks	2.40	\$2.88	\$543.38	\$546.26

Customer	Measurement	Residential	Customer Service Charge	Sewer Commodity Charge	Total Annual Charge
		Equivalency Units			
Old Vita Motel	per 2 single rooms (6) per dwelling (1)	4.00	\$2.88	\$905.64	\$908.52
Vita Hotel (bar)	per 20 seats (20)				
Vita Hotel Restaurant	per 20 seats (35) per 2 single rooms (3) per dwelling (1)	5.75	\$2.88	\$1,301.86	\$1,304.74
Clearview Co-op	with one wash rack (2) per extra wash rack (1) per washing machine (9)	12.00	\$2.88	\$2,716.92	\$2,719.80
Vita Mobile Home Park	per site (14)	14.00	\$2.88	\$3,169.74	\$3,172.62
Shevchenko School	0.8 per classroom (19) per 2 showers (16)	23.20	\$2.88	\$5,252.71	\$5,255.59
Shady Oaks Lodge	per 2 single rooms (14) per double room (18)	25.00	\$2.88	\$5,660.25	\$5,663.13
Vita & District Hospital & Personal Care Home	1.5 for every bed (10) for every 2 PCH rooms (44) per dwelling (2)	39.00	\$2.88	\$8,829.99	\$8,832.87
Churches	min. 1.00	1.00	\$2.88	\$226.41	\$229.29
Garages	no wash rack	1.00	\$2.88	\$226.41	\$229.29
Garages	with one wash rack	2.00	\$2.88	\$452.82	\$455.70
Garages	per wash rack after first	2.00	\$2.88	\$452.82	\$455.70
Halls	for every 230 seats	1.00	\$2.88	\$226.41	\$229.29

Customer	Measurement	Residential Equivalency Units	Customer Service Charge	Sewer Commodity Charge	Total Annual Charge
Hotels & Motels	for every 2 rooms	1.00	\$2.88	\$226.41	\$229.29
Hotels & Motels	for every 20 beverage room seats	1.00	\$2.88	\$226.41	\$229.29
Laundromats	per washing machine	1.00	\$2.88	\$226.41	\$229.29
Offices	1 to 40 staff	1.00	\$2.88	\$226.41	\$229.29
Offices	41 to 80 staff	2.00	\$2.88	\$452.82	\$455.70
Offices	81 to 120 staff	3.00	\$2.88	\$679.23	\$982.11
Restaurants & Cafes	per 20 seats, rounded up	1.00	\$2.88	\$226.41	\$229.29
Retail & Commercial	without public washroom	1.00	\$2.88	\$226.41	\$229.29
Retail & Commercial	with public washroom	2.00	\$2.88	\$452.82	\$455.70
Schools	per classroom	0.80	\$2.88	\$181.13	\$184.01
Senior Citizens Home	2 single rooms, rounded up	1.00	\$2.88	\$226.41	\$229.29
Senior Citizens Home	double room	1.00	\$2.88	\$226.41	\$229.29

4. Service to Customers Outside LID or RM Limits

The Council of the Rural Municipality of Stuartburn may sign agreements with customers for the provision of sewer services to properties located outside the legal boundaries of the Rural Municipality of Stuartburn or LID of Vita. 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 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 these boundaries. In addition, all costs of connecting to the utility's mains and installing and maintaining service connections will be paid by the customer.

5. Sewage Truck Dumping Charge

Septic service haulers shall remit \$35.00 per load for septage hauled from residents located outside the boundaries of the LID of Vita. One load is described as from one septic tank.

6. Billings and Penalties

A late payment charge of 1¼% 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.

7. Outstanding Bills

Pursuant to Section 252(2) of The *Municipal Act*, the amount of all outstanding charges for 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. Where charges and penalties pursuant to this by-law remain outstanding on the last day of the fiscal year, said charges and penalties may be added on an annual basis to the taxes on the property and collected in the same manner as other taxes.

8. Sewage Surcharges

- a. There may be levied annually, in addition to 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 wastes.

9. Conditions of Disrepair

In the event that there are conditions of disrepair in the sewer on a property that detrimentally affects the system as a whole and, upon the failure of the owner of the property to correct the condition within a reasonable time, the Municipality, or its agents, may enter the property, effect repairs and charge the cost thereof against the subject property as ordinary taxes.