

Order No. 139/19

**MUNICIPALITY OF SOURIS-GLENWOOD
SOURIS-GLENWOOD WATER & WASTEWATER UTILITY
WATER AND WASTEWATER RATES**

September 24, 2019

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

Table of Contents

1.0 Executive Summary 3

2.0 Background 4

 Water Supply and Distribution 4

 Wastewater Collection and Treatment..... 4

 Unaccounted for Water 4

3.0 Application 5

 Contingency Allowance and Utility Reserves..... 8

 Working Capital Surplus 8

 Cost Allocation Methodology 9

4.0 Board Findings 9

5.0 IT IS THEREFORE ORDERED THAT: 13

SCHEDULE “A” 15

1.0 Executive Summary

By this Order, the Manitoba Public Utilities Board (Board) grants approval for revised water and wastewater rates applied for by the Municipality of Souris-Glenwood (Municipality) for the Souris-Glenwood Water and Wastewater Utility (Utility) as shown below.

The Board confirms as final the interim water and wastewater rates previously established on an interim *ex parte* basis by Board Order No. 4/19.

The Board grants approval for the recovery of a cumulative operating deficit of \$318,049. This deficit is the sum of deficits from 2014 to 2017.

The revised rates are below:

	Current rates	Oct 1, 2019	Oct 1, 2020	Oct 1, 2021
Domestic Water Rate first 2,500 cu. ft (\$/100 cu. ft)	\$ 7.50	\$ 10.26	\$ 12.57	\$ 12.65
Intermediate Water Rate next 22,500 cu. ft (\$/100 cu. ft)	\$ 6.19	\$ 9.72	\$ 11.42	\$ 11.60
Wholesale Water Rate over 25,000 cu. ft (\$/100 cu. ft)	\$ 5.08	\$ 9.12	\$ 10.30	\$ 10.49
Wastewater (\$/100 cubic feet)	\$ 3.43	\$ 4.23	\$ 4.33	\$ 4.43
Quarterly Service Charge	\$ 16.53	\$ 12.93	\$ 14.18	\$ 14.63
Minimum Quarterly Charge*	\$ 71.18	\$ 85.38	\$ 98.68	\$ 100.03
Bulk Water Rates (\$/1,000 gallons)	\$ 26.00	\$ 26.00	\$ 26.00	\$ 26.00
Deficit Recovery				
Rate Rider (\$/100 cubic feet)**	-	\$ 2.20	\$ 2.20	\$ 2.20

*Based on 500 cubic feet

**The rate rider will be for a period of three years – October 1, 2019 to September 30, 2022

Details of other rates are in the attached Schedule “A”.

The reasons for the Board’s decisions are found under “Board Findings”.

2.0 Background

The construction of the Souris-Glenwood water and wastewater utility took place between the early 1900's to 2018.

The system provides water only or water and wastewater services to 873 customers. Utility bills are mailed out quarterly separate from property tax bills. There are thirty-five higher volume customers who are charged the second step rate and four customers at the third step, namely the hospital, school, arena complex and swimming pool. The Utility currently provides water only service to forty customers.

Prior to the interim *ex parte* rates set in January 2019 by Board Order No. 4/19, rates were last approved in Board Order No. 76/07, going into effect in 2009.

Water Supply and Distribution

The Municipality has provided that the source of raw water for the plant is a well and the treatment type is reverse osmosis. The waterlines are cast, duct tile iron and PVC.

Wastewater Collection and Treatment

The wastewater system is gravity fed with two lift stations, with the treatment type being described as extended aeration.

Unaccounted for Water

The rate study received by the Board on April 11, 2018 indicated the Utility's unaccounted for water is 13%. The volumes used to calculate this were from 2014 and included in excess of 27% of water consumed "for internal uses".

3.0 Application

On April 11, 2018, the Board received an application for revised rates from the Utility. The application was accompanied by a rate study completed by the Municipality's consultant and By-law 19/2018 read for the first time on April 9, 2018. The application also included Council Resolution #2018-049 requesting that the Board grant approval of the proposed Utility rates on an interim *ex parte* basis. The Board issued Board Order No. 4/19 granting interim rates. Rates had previously been set in Board Order 76/07, effective 2009.

The Municipality also requested approval of operating deficits for 2013 and 2014. The Board noted the Utility had experienced deficits up to and including 2017. The Board therefore reserved its approval of recovery of any deficit until the Utility submitted all outstanding applications and supporting documents for approval. The Utility submitted the last of the necessary information on June 3, 2019.

The Municipality filed information showing the Utility's annual operating information for 2009 to 2017. When calculated for regulatory purposes, the Utility experienced the following operating deficits; \$38,258 (2014), \$5,337 (2015), \$167,336 (2016) and \$107,118 (2017), for a total of \$318,049. The Municipality requested permission to recover the deficits with a rate rider of \$2.20 per 100 cubic feet over a three year period.

The Board issued a Public Notice of Application with respect to the proposed rate July 29, 2019. No responses were received.

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.

Where there is an urgent need for a rate increase and the Board determines it to be in the best interest of all parties, the Board may also establish interim *ex parte* rates. Interim rates are typically approved as applied for, and are then subject to a Public Notice of Application and the Board's review using one of the processes outlined above, before being confirmed as final by Board Order.

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

The rates were calculated using the following revenue requirement projections:

	Rate Year 1	Rate Year 2	Rate Year 3
Administration (building, office, staff, etc)	42,032	43,293	44,592
Billing and collection	11,254	11,592	11,939
Total expenses general	53,286	54,885	56,531
Penalties	7,871	5,000	5,000
Total revenue general	7,871	5,000	5,000
Net revenue requirement - general	45,415	49,885	51,531
<i>Water - production expenses</i>			
Staffing	89,810	92,504	95,279
Purification and treatment	179,280	184,659	190,198
Amortization	185,000	185,000	185,000
Reserves	0	45,500	45,500
Contingency	25,000	25,000	25,000
<i>Subtotal - water production expenses</i>	479,090	532,663	540,977
<i>Water - distribution expenses</i>			
Staffing	1,910	1,967	2,026
Transmission and distribution	24,563	25,300	26,059
Amortization	60,000	60,000	60,000
Interest on long term debt	3,108	2,368	1,603
Reserves	0	45,500	45,500
Contingency	3,669	3,779	3,892
<i>Subtotal - water distribution expenses</i>	93,250	138,914	139,080
Total expenses water	572,340	671,577	680,057
Hydrant rentals	7,500	11,625	11,625
Amortization of capital grants - production	65,011	65,011	65,011
Amortization of capital grants - distribution	11,687	11,687	11,687
Taxation revenues - distribution	25,877	25,877	25,877
Other revenue - production	200	200	200
<i>Total non rate revenue - production</i>	65,211	65,211	65,211
<i>Total non rate revenue - distribution</i>	45,064	49,189	49,189
Total revenue water	110,275	114,400	114,400
Net revenue requirement - water production	413,879	467,452	475,766
Net revenue requirement - water distribution	48,186	89,725	89,891
Net revenue requirement - water	462,065	557,177	565,657

Staffing	58,640	60,399	62,211
Wastewater collection system	16,268	16,756	17,259
Wastewater treatment and disposal	71,525	73,671	75,881
Amortization	50,136	50,136	50,136
Contingency	14,379	14,810	15,255
Minor capital upgrades	10,621	10,190	9,745
Total expenses wastewater	221,569	225,962	230,487
Amortization of capital grants	31,765	31,765	31,765
Total revenue wastewater	31,765	31,765	31,765
Net revenue requirement - wastewater	189,804	194,197	198,722

Contingency Allowance and Utility Reserves

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

The Municipality has included in the projections a contingency allowance of approximately 10% of variable operating expenses. The Municipality also included a \$91,000 annual provision for reserves in the rates for Year 2 and 3, in its final application.

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 2017 audited financial statements, the working capital surplus at December 31, 2017 was:

Accumulated Fund Surplus	\$ 4,069,792
Deduct tangible capital assets	\$ 4,689,178
Add long term debt	\$ 87,576
Add utility reserves	\$ 557,990
Equals Working Capital Surplus	\$ 26,180
Operating costs	\$ 808,534
20% of operating costs (target)	\$ 161,707

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 Utility does not currently have a Board approved CAM, and the rate study did not include a proposal for one.

4.0 Board Findings

The Board has reviewed the application and revenue projections presented by the Municipality and finds the projections in the final submission, received July 14, 2019, to be reasonable.

The Municipality's submission included an estimated volume of water for internal use, estimated at 27% of total water produced. It is very unlikely this much water was used for internal purposes, and if so, the unaccounted for water in the utility will be higher than the figure presented. The Municipality has advised the Board they are now metering the swimming pool volumes and charging the cost of water provided to the appropriate department. This will help to determine the actual volume of unaccounted for water going forward.

The rate study submitted was not prepared using the Board's guidelines or Minimum Filing Requirements. The application required an inordinate number of follow up questions to gather information necessary to allow the Board to make its decision.

The Board does encourage applicants to confer with Board staff where there is uncertainty about Board recommended methodology and, where variation is proposed, that the variation be clearly substantiated in the application.

The rate study did not include a provision to rebuild the working capital position of the Utility, as required by the Board's guidelines. Given the significance of the rate increases, as well as the deficit rate rider, the Board will allow the rate as calculated. Future rate applications should include this, if necessary.

The initial submission did not include an electronic copy of the Board's rate application working papers in Excel. The Board requested this information, and the Municipality's consultant advised it would not be made available, despite the fact that the working papers were templates provided by the Board at no cost. The consultant did eventually send the working papers; however by this time the Board had already used resources to recreate them from hard copies. This was unfortunate and the lack of cooperation resulted in delays in processing the application.

The Board's information requests dated December 31, 2018 included a request to provide the full details of the Utility systems, including age. The Municipality's consultant responded that the systems were constructed "early 1900's to 2018". This response was unhelpful to the Board in its decision; however, there was no further information provided by the consultant.

The rate application was prepared using information that was unreasonably out of date. The expenses, water volumes and working capital calculation were prepared using figures from 2014. This rendered the information unusable to the Board, and required the Municipality to revise and resubmit its application.

The Board would like to commend the Municipality for working diligently through the shortcomings of the rate study. This allowed the Board to produce a final decision instead of rejecting the application.

The Municipality did not include a Cost Allocation Methodology (CAM) with its application, which has been a requirement of rate applications since 2009 and forms part of the Minimum Filing Requirements. The Board will direct the Municipality to submit an appropriate CAM for review before December 31, 2019.

The Board is concerned with the lengthy history of operating deficits, and the Municipality's apparent lack of urgency in correcting the financial course of the Utility. Interim rates were set in Board Order No. 4/19, and included a directive that the Municipality file outstanding deficit applications by no later than January 31, 2019. The required applications were filed in June 2019. This has also delayed the Board's ability to issue a decision on this application.

The Board will approve the deficits to be recovered through a rate rider of \$2.20 per 100 cubic feet, effective October 1, 2019 to September 30, 2022.

In the case of Souris-Glenwood, it has been ten years since a rate change has taken place. Rates were approved in Board Order No. 76/07, which was issued June 1, 2007, with rates effective July 1, 2007, January 1, 2008 and January 1, 2009. The approved rates did not reflect an annual provision for amortization of the plant and equipment, which became a requirement with the implementation of Public Sector Accounting Board (PSAB) rules in 2009. The Board is concerned that the Municipality has not applied to adjust the utility rates to include amortization. The Municipality has had more than enough time to comply with the requirements of PSAB standards.

The Municipality's audited financial statements present the Utility revenue as "Water Fees", rather than allocating the revenues between water and wastewater. Expenses are properly distributed, but the revenue is all shown as water fees, including the bulk water revenue. This is an unusual presentation and the Board recommends the Municipality 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.

The Municipality's neglect in updating the rates for such a lengthy period of time will now result in significant increases to ratepayers. Consumers are generally more tolerant of regular, smaller increases. The Municipality needs to be more diligent in conducting regular reviews of its revenue requirements.

The Board reminds the Municipality regular reviews are important for a financially sound utility and encourages the Municipality 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 Municipality 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 Municipality to review its water and 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 water and wastewater rates for the Municipality of Souris-Glenwood – Souris-Glenwood Utility, BE AND ARE HEREBY APPROVED in accordance with the attached Schedule “A” to this Order, effective October 1, 2019, October 1, 2020 and October 1, 2021.
2. The water and wastewater rates for the Municipality of Souris-Glenwood Utility, as approved on an interim *ex parte* basis in Board Order No. 4/19, BE AND ARE HEREBY APPROVED AS FINAL.
3. The 2014 to 2017 operating deficits totalling \$318,049, when calculated for regulatory purposes, incurred in the Municipality of Souris-Glenwood – Souris-Glenwood Utility, BE AND ARE HEREBY APPROVED to be recovered by a rate rider of \$2.20 per 100 cubic feet effective October 1, 2019 to September 30, 2022.
4. The Municipality of Souris-Glenwood submit an application for a Cost Allocation Methodology for shared services to the Public Utilities Board on or before December 31, 2019.
5. The Municipality of Souris-Glenwood 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.
6. The Municipality of Souris-Glenwood 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 Municipality of Souris-Glenwood review the Souris-Glenwood Wastewater Utility rates for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates (if applicable), 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. 139/19
issued by The Public Utilities Board



Assistant Associate Secretary

SCHEDULE "A"

MUNICIPALITY OF SOURIS-GLENWOOD WATER AND SEWER RATES BY-LAW No. 25-2019

SCHEDULE OF QUARTERLY RATE

1. (a) Effective October 1, 2019 Commodity Rates per 100 cubic feet

	<u>Water</u>	<u>Sewer</u>	<u>Water & Sewer</u>
First 2,500 cu. ft per quarter (Domestic Rate)	\$10.26	\$4.23	\$14.49
Next 22,500 cu. ft. per quarter (Intermediate Rate)	\$ 9.72	\$4.23	\$13.95
Over 25,000 cu. ft. per quarter (Wholesale Rate)	\$ 9.12	\$4.23	\$13.35

1. (b) Effective October 1st, 2020, Commodity Rates per 100 cubic feet

First 2,500 cu. ft. per quarter (Domestic Rate)	\$12.57	\$4.33	\$16.90
Next 22,500 cu. ft. per quarter (Intermediate Rate)	\$11.42	\$4.33	\$15.75
Over 25,000 cu. ft. per quarter (Wholesale Rate)	\$10.30	\$4.33	\$10.63

1. (c) Effective October 1st, 2021, Commodity Rates per 100 cubic feet

First 2,500 cu. ft. per quarter (Domestic Rate)	\$12.65	\$4.43	\$17.08
Next 22,500 cu. ft. per quarter (Intermediate Rate)	\$11.60	\$4.43	\$16.03
Over 25,000 cu. ft. per quarter (Wholesale Rate)	\$10.49	\$4.43	\$14.92

2. Minimum Quarterly Rates for Water and Sewer Customers

Notwithstanding the Commodity Rates set for in Paragraph 1(a), (b) and (c) hereof, all customers will pay the applicable minimum charges set out below, which will include the water allowances indicated;

2. (a) Effective October 1st, 2019 the Minimum Quarterly Charges shall be as follows:

<u>Meter Size</u>	<u>Group Capacity Ratio</u>	<u>Minimum Water Allowance Quarterly in cu. ft.</u>	<u>Quarterly Service Charges</u>	<u>Quarterly Commodity Charges</u>		<u>Minimum Quarterly Bill</u>
				<u>Water</u>	<u>Sewer</u>	
5/8" & 3/4"	1	500	\$12.93	\$51.33	\$21.14	\$ 85.40
1"	4	2,000	\$12.93	\$205.33	\$84.55	\$ 302.81
1 1/2"	10	5,000	\$12.93	\$499.76	\$211.40	\$ 724.09
2"	25	12,500	\$12.93	\$1,229.09	\$528.49	\$ 1,770.50

2. (b) Effective October 1, 2020, the Minimum Quarterly Charges shall be as follows:

<u>Meter Size</u>	<u>Group Capacity Ratio</u>	<u>Minimum Water Allowance Quarterly in cu. ft.</u>	<u>Quarterly Service Charges</u>	<u>Quarterly Commodity Charges</u>		<u>Minimum Quarterly Bill</u>
				<u>Water</u>	<u>Sewer</u>	
5/8" & 3/4"	1	500	\$14.18	\$ 62.87	\$ 21.64	\$ 98.68
1"	4	2,000	\$14.18	\$251.48	\$ 86.54	\$ 352.20
1 1/2"	10	5,000	\$14.18	\$599.77	\$216.36	\$ 830.31
2"	25	12,500	\$14.18	\$1,456.04	\$540.91	\$2,011.13

2. (c) Effective October 1, 2021 the Minimum Quarterly Charges shall be as follows:

<u>Meter Size</u>	<u>Group Capacity Ratio</u>	<u>Minimum Water Allowance Quarterly in cu. ft.</u>	<u>Quarterly Service Charges</u>	<u>Quarterly Commodity Charges</u>		<u>Minimum Quarterly Bill</u>
				<u>Water</u>	<u>Sewer</u>	
5/8" & 3/4"	1	500	\$14.63	\$ 63.22	\$ 22.14	\$ 100.00
1"	4	2,000	\$14.63	\$252.90	\$ 88.58	\$ 356.11
1 1/2"	10	5,000	\$14.63	\$606.13	\$221.44	\$ 842.21
2"	25	12,500	\$14.63	\$1,476.17	\$553.62	\$2,044.42

2. (d) Rate Rider for the purpose of Deficit Recovery

Rate rider through a deficit recovery surcharge collected over three (3) years at a rate of \$ 2.20 per 100 cubic feet for metered services, effective October 1, 2019 to September 30, 2022.

3. Minimum Quarterly Rates for Water Only Customers

Customers with water only services shall be charged the minimum quarterly rate applicable to the customer's meter size less the sewer charge.

4. Minimum Quarterly Rates for Sewer Only Customers

Customers with sewer only shall be charged the minimum applicable quarterly rate together with applicable administration fee.

5. Bulk Water

All water sold in bulk by the MUNICIPALITY OF SOURIS-GLENWOOD shall be charged at the rate of \$26.00 per 1,000 gallons including rate rider 2.(d).

6. Hydrant Rentals

The MUNICIPALITY OF SOURIS-GLENWOOD will pay to the Utility an annual rental of \$125.00 for each hydrant connected to the system which includes the cost of water for firefighting.

7. Prompt Payment Discounts

The aforementioned rates are net and no prompt payment discount shall be allowed.

8. Billings and Penalties

Meters are to be read at the end of each quarter. Accounts are billed at the first of the following month, minimum charges being billed in advance, together with any excess water used in the preceding quarter. Bills are due and payable by the end of the month in which they are presented. 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.

9. Outstanding Bills

Pursuant to Section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water and sewer service 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 are not paid within sixty (60) days from the date when they were incurred, the CAO may add said charges and penalties to the taxes of the property and collect them in the same manner as other taxes.

10. Service to Customers outside the Municipal Boundaries

The Council for the MUNICIPALITY OF SOURIS-GLENWOOD may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of the Town. Such agreements shall provide for payment of the appropriate rates set out in paragraph 2(a), (b) and (c), 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 the Town boundaries. In addition, all costs of connecting to the utility's mains and installing and maintaining service connections will be paid by the customer.

11. Disconnection

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.

12. Reconnection

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee \$50.00 have been paid.

13. Temporary/Seasonal Disconnection of Service

Any service disconnection for longer than 5 days by request of owner/occupant due to the building being vacant by way of vacation, or non-occupancy shall be charge a reconnection fee of \$50.00 which shall be added to the utility account and collected along with the next scheduled billing.

14. Water Allowance Due to Line Freezing

That in any case where, at the request of the Council, a customer allows water to run continuously for any period of time to prevent the water lines in the water system from freezing, the charge to that customer for the current quarter shall be the average of the billings for the last two previous quarters to the same customer, or to the same premises if the occupant has changed.

15. Temporary Water Service

That in any case where at the request of the Public Works Department, a customer is provided with a temporary water service from another utility customer, the charge to both customers for the

current quarter shall be the average of the billings for the last four previous quarters to each customer, or the same premises if the occupant has changed.

16. Meter Replacement

Where the meter requires replacement due to damage or freezing, the cost of the meter plus 20% and a labour fee of \$75.00, shall be added to the utility account and collected along with the next scheduled billing.