

Order No. 164/19

**TOWN OF SNOW LAKE
SNOW LAKE WATER AND WASTEWATER UTILITY
REVISED WATER AND WASTEWATER RATES
FOR JANUARY 1, 2020
2012, 2017, and 2018 ACTUAL OPERATING DEFICIT RECOVERIES**

November 12, 2019

**BEFORE: Marilyn Kapitany, BSc., (Hon.), MSc., Panel Chair
Shawn McCutcheon, Panel Member**

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1.0 Executive Summary

By this Order, the Public Utilities Board (Board) approves the revised water and wastewater rates for the Town of Snow Lake (Town), Snow Lake Water and Wastewater Utility (Utility) as shown below.

	Current Rates	January 1, 2020	January 1, 2021
Water (per cubic meter)	\$2.45	\$2.30	\$2.30
Wastewater (per cubic meter)	\$0.88	\$4.12	\$4.12
Quarterly Service Charge	\$72.75 ¹	\$12.88	\$12.88
Minimum Quarterly Charge ²	\$118.17 ¹	\$102.76	\$102.76
Bulk Water (per cubic meter)	-	\$4.45	\$4.45
Unmetered Customers ³	\$522.30 ¹	\$879.58	\$879.58
Tipping Fees (per cubic meter)	\$3.24	\$5.56	\$5.56
Hydrant Rental	\$150.00	\$150.00	\$150.00
Rate Riders			
Working Capital Deficit	\$59.00 ⁴	\$1.34 ⁵	\$1.34 ⁵
Operating Deficit ⁶	-	\$2.31	\$2.31

¹Includes \$59.00 Working Capital Deficit Rate Rider

²Based on 14 cubic meters

³Based on 135 cubic meters

⁴Per customer per quarter

⁵Per cubic meter per customer per quarter, for three years effective January 1, 2020

⁶Per cubic meter per customer per quarter, for three years effective January 1, 2020

The Board varies the Town's requested rate rider from \$59.00 per customer per quarter and approves a rate rider of \$1.34 per cubic meter per customer per quarter to address the Town's Working Capital Deficit, for three years or until the Working Capital Deficit has been eliminated, whichever comes first, effective January 1, 2020.

The Board approves the 2012 Actual Operating Deficit of \$75,757, the 2017 Actual Operating Deficit of \$280,031, and the 2018 Actual Operating Deficit of \$221,207 or a total three-year Actual Operating Deficit of \$576,995. These deficits are to be recovered by a rate rider of \$0.30 per cubic meter per customer per quarter, \$1.12 per customer per cubic meter per quarter, and \$0.89 per customer per cubic meter per quarter respectively or a total rate rider of \$2.31 per customer per cubic meter per quarter for a period of three years or until the deficit has been fully recovered, whichever comes first, effective January 1, 2020.

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

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

2.0 Background

The Town owns and operates a water and wastewater utility serving approximately 465 customers, two of which are unmetered. Rates were last approved in Board Order No. 164/11 for 2012.

Water Supply/Distribution

The water treatment plant was constructed in 1960 and upgraded in 1983 and 2005. The Utility draws its raw water from Snow Lake. Water is treated by actiflo ballasted flocculation with sand filtration, ultraviolet disinfection and final disinfection using chlorination.

The water distribution system was installed using cast iron mains upgraded to polyvinyl chloride (PVC). Recent upgrades use high-density polyethylene (HDPE).

Wastewater Collection/Treatment

The original plant was constructed in 1985 and a major upgrade and expansion was completed in 2016. The collection system consists of plastic, PVC, and clay pipe. The

lagoon consists of two, 50 year-old cells and two cells that were completed in 2016 at a cost of \$2.1M and the Town forecasts this will meet its future growth/needs for over 20 years.

Unaccounted for Water

The acceptable percentage of unaccounted water is 10%, based on industry standards. If the percentage is above this amount, the applicant is to explain why and provide a plan to remedy.

The Town's rate study notes unaccounted for water was 0.46% in 2015, 0.81% in 2016, and 1.1% in 2017 or a three-year average of 0.79%. However, the rate study also notes water main breaks/leaks as accounted for water. If water lost attributed to water main breaks/leaks is included in unaccounted for water totals, unaccounted water would be 50.6% in 2015, 37.8% in 2016, and 22.6% in 2017 or a three-year average of 37%.

On June 14, 2019 the Board sent a letter requesting the Town's plan to address the high levels of water lost due to water main breaks/leaks. On June 27, 2019 the Town advised it is facing constant water line breaks resulting in significant water loss and has signed a five-year capital grant agreement with a mining company to replace and upgrade the aging water infrastructure. The Town also advised it has submitted an application to Manitoba Infrastructure for funding to replace the water and wastewater lines.

3.0 Application

On November 22, 2018, the Town applied for revised water and wastewater rates as set out in By-Law 966-18 having had first reading November 20, 2018. The Application was supported by a rate study prepared by the Town's consultant. Rates were last approved in 2011 in Board Order No. 164/11.

A Public Notice of Application was issued on December 7, 2018 to allow for any questions or comments respecting to the Rate Application to be submitted to the Board and/or the

Town on or before January 7, 2019. The Board did not receive any responses to the Notice.

When reviewing an application the Board can either: hold a public hearing at which the applicant can present its case and customers can present their concerns; or where it is deemed to be in the best interests of a utility and its customers, the Board can review the application using a paper review process without holding a public hearing. If a public hearing is not held when making its decision, the Board proceeds with a detailed paper review process which includes consideration of all comments and concerns received and may include additional information requests to the utility's application. In this case, given no public responses were received, a paper review process was chosen.

The rates were calculated based on the following projections using an inflation rate of 1.7% in all calculations:

Schedule of Utility Rate Requirements – Snow Lake Water and Wastewater Utility 2019 to 2021 Budget Forecasts (\$)				
	2017 Actuals	2019	2020	2021
		Forecast		
General Expenses				
Administration	384,474	6,308	6,415	6,524
Billing and Collection	17,654	17,654	17,954	18,259
Total General Expenses	402,128	23,962	24,369	24,783
Revenue				
Penalties	3,695	-	-	-
Total General Revenues	3,695	-	-	-
Net Costs General	398,433	23,962	24,369	24,783
Water Expenses				
Staffing	-	128,500	130,685	132,906
Purification and Treatment	83,312	135,702	138,009	140,355
Hydrant Maintenance	3,252	-	-	-
Transmission and Distribution	47,937	41,303	42,005	42,719
Other Water Supply Costs	-	25,338	25,769	26,207
Amortization/Depreciation	138,213	136,502	136,502	136,502

Interest on Long Term Debt	99,225	61,183	56,613	51,807
Contingency	-	30,551	31,070	31,598
Total Water Expenses	371,939	559,079	560,653	562,094
Revenue				
Connections	500	750	750	750
Hydrant Rentals	6,300	6,300	6,300	6,300
Investment Income	115	-	-	-
Debenture from Taxes	194,530	152,563	152,563	152,563
Amortization of Capital Grants	-	60,597	60,597	60,597
Taxation – Water Debt	-	150,623	150,623	150,623
Other – Bulk Water Fees	-	700	700	700
Total Water Revenue	201,445	371,533	371,533	371,533
Net Costs Water	170,494	187,546	189,120	190,561
Wastewater Expenses				
Staffing	-	94,700	96,310	97,947
Collection System	51,005	55,259	56,198	57,154
Lift Station	572	18,386	18,698	19,016
Treatment and Disposal	44,700	120,510	122,559	124,642
Other Collection/Disposal	-	3,090	3,143	3,196
Amortization/Depreciation	262,713	265,903	265,903	265,903
Interest on Long-Term Debt	99,225	23,061	22,019	20,936
Contingency	-	25,250	25,680	26,116
Total Wastewater Expenses	457,215	606,159	610,510	614,910
Revenue				
Lagoon Tipping Fees	35,024	46,000	46,000	46,000
Debenture from Taxes	-	56,254	56,254	56,254
Amortization of Capital Grants	-	117,179	117,179	117,179
Taxation	-	50,208	50,208	50,208
Total Wastewater Revenue	35,024	269,641	269,641	269,641
Net Costs Wastewater	422,191	336,518	340,869	345,269
Net Revenue Requirement	991,118	548,026	554,358	560,613

The proposed Utility Rate increases are primarily required due to increase wastewater operation costs associated with the new plant constructed in 2016. Also, existing rates have been in effect since 2012 and the revised rates will provide adequate revenue to provide for Utility operations and maintenance going forward.

Working Capital Calculation

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 2018 Audited Financial Statements, the most recent information available, the Working Capital Deficit as at December 31, 2018 was:

	2018	2017	2016
Utility Fund Surplus/Deficit	12,635,879	\$11,097,275	\$11,491,661
Deduct: Tangible Capital Assets	(16,522,386)	(14,316,407)	(14,643,962)
Add: Long-Term Debt	2,546,833	1,978,197	1,456,780
Add: Utility Reserves	32,434	32,090	31,975
Equals Working Capital Surplus (Deficit)	\$(1,339,674)	\$(1,208,845)	\$(306,000)
Operating Expenses	1,149,800	\$1,133,057	\$1,008,142
20% of Operating Expenses (Target)	\$229,960	\$226,611	\$204,628

The above-noted working capital calculation for the Utility in 2018, 2017, and 2016 is below the Board's recommended 20% target.

Board Order No. 164/11 approved a \$59.00 per customer per quarter, quarterly service charge to address the Town's Working Capital Deficit. The charge was to be in place for a period of five years or until the Working Capital Deficit has been eliminated. The Town has advised it continues to charge this amount to date.

As per the table above, the Town's Working Capital Deficit continues to date and the Town has proposed to continue the \$59.00 quarterly service charge for two years to continue to address the issue.

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 charged without receiving approval from the Board. The Board's requirements regarding cost allocation methodologies can be found in Board Order No. 93/09.

Shared Overhead	Dollar Value
Meter Reading – Salaries and Wages	\$2,952
Billing – Receipting and Collection	3,357
CAO Salaries and Benefits	17,654
Total Shared Overhead	\$23,963
Shared Direct Operating Costs	
Vehicles – Fuel/Insurance	\$2,500
Machinery and Equipment	18,809
Total Shared Direct Operating Costs	\$21,309
Shared Capital Costs	
Interest on Debt	\$84,244
Total Shared Capital Costs	\$84,244

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 contingency allowance.

There is a Contingency Allowance of \$30,551 for 2019, \$31,070 for 2020, and \$31,598 for 2021 for water and \$25,250 for 2019, \$25,680 for 2020, and \$26,116 for 2021 for wastewater. No transfer to reserves included in the Town's rate study.

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 September 5, 2018 the Town submitted a Deficit Application requesting approval of a 2017 Actual Operating Deficit of \$280,031 to be recovered by a rate rider of \$1.12 per customer per cubic meter per quarter for three years or until the deficit is fully recovered.

On June 19, 2019 the Town submitted a Deficit Application requesting approval of a 2012 Actual Operating Deficit of \$75,757 to be recovered by a rate rider of \$0.30 per customer per cubic meter per quarter for three years or until the deficit is fully recovered.

On August 21, 2019 the Town submitted a Deficit Application requesting approval of a 2018 Actual Operating Deficit of \$221,207 to be recovered by a rate rider of \$0.89 per customer per cubic meter per quarter for three years or until the deficit is fully recovered.

The total rate rider requested by the Town for the 2012, 2017, and 2018 Actual Operating Deficits totalling \$576,995 is \$2.31 per customer per cubic meter per quarter for three years or until the deficits are fully recovered.

4.0 Board Findings

The Board has reviewed the application and the projections presented by the Town in its rate application and notes the calculations used to formulate the Utility's rates seem reasonable.

The Board notes the Schedule of Utility Rate Requirements completed in the rate study submitted by the Town's consultant forecasts expenditures for 2019, 2020, and 2021 are in-line with previous year's audited financial statements.

The Board approves the rates as requested by the Town for January 1, 2020.

The Board notes the Town has forecasted total income from taxes of \$409,648 (\$303,186 for water and \$106,462 for wastewater) to provide for debentures. The Board also notes the Town has advised most of the water and wastewater projects are to be amortized over 40 to 45 years and the debentures expire in 20 years.

The Board recommends the Town considers the timing of the cessation of tax revenues coinciding with the expiration of the debentures and factors the reduction in revenues in the Town's future rate requirements and Rate Applications to properly provide for all ongoing amortization expenses and avoid potential large increases. The Town should consider phasing in small rate increases annually to provide for the noted revenue reductions and avoid potential large rate increases all at once.

The Board is concerned by the Town's Working Capital Deficit, which is \$(1,339,674) as at December 31, 2018. The Board agrees a rate rider is a reasonable method to reduce the Working Capital Deficit, but notes the Town's request to continue the charge of \$59.00 per customer per quarter for two years is unfair to customers with smaller meter sizes and therefore varies the Town's request to be reflective of consumption, based on the following calculations:

Town's Requested Rate Rider	\$59.00*
2019 Customer Base	465
Forecasted Annual Revenue	\$109,740
Divided By: Forecasted Annual Consumption	81,600**
Consumption-Based Rate Rider	\$1.34***

*per customer per quarter

**cubic meters

***per customer per cubic meter per quarter

The Board approves a rate rider of \$1.34 per customer per cubic meter per quarter to reduce the Town's Working Capital Deficit, effective January 1, 2020. The Board varies the duration of the rate rider to three years or until the Working Capital Deficit has been eliminated (whichever comes first), to allow a safeguard in case the Working Capital Deficit is not fully recovered prior to the Town's next Rate Study.

The Board directs the Town to cease the collection of the \$59.00 per customer per quarter rate rider, effective immediately.

The Board notes the Town is to provide a detailed plan to address any Working Capital Deficit in its next Rate Application(s) if applicable.

The Board requires the Town to review its rates for adequacy for the Utility and file a report with the Board, as well as an application for revised rates if required, on or before December 31, 2021. The Board notes there is no requirement to wait until December 31, 2021 to apply for revised rates if the Town determines revised rates are required at any time before this date. The Board reminds the Town it is responsible for the continuous monitoring of the financial health of the Utility and applying for revised rates using a regular schedule and/or if it determines the existing rates are insufficient to fully provide for the costs of operating the Utility.

The Board approves the Shared Cost Allocation Methodology and reminds the Town this methodology must be used consistently and requires Board approval should any changes be considered.

The Board approves the recovery of the 2012 Actual Operating Deficit of \$75,757, the 2017 actual operating deficit of \$280,031, and the 2018 Actual Operating Deficit of \$221,207 (or a total three-year actual operating deficit of \$576,995) to be recovered by rate riders of \$0.30, \$1.12, and \$0.89 respectively per cubic meter per customer per quarter rate rider for three years (or a total three-year rate rider of \$2.31 per cubic meter per customer per quarter) or until the total deficit has been fully recovered.

The Board reminds the Town, by law Manitoba utilities are not allowed to incur deficits. Should Utility operating deficits materialize in any year the Town must file a Deficit Application and proposed method of recovery as soon as it is known.

The Board also reminds the Town, in calculating the annual surplus/deficit, revenue received from the working capital rate rider and the deficit recovery rate rider are not to be included as revenue in this calculation.

The Board is concerned by the high levels of unaccounted for water and commends the Town on its plan and efforts to reduce the high levels of unaccounted for water going forward.

5.0 IT IS THEREFORE ORDERED THAT:

1. The revised water rates for the Town of Snow Lake, Snow Lake Water and Wastewater Utility, BE AND ARE HEREBY APPROVED in accordance with the attached Schedule A, effective January 1, 2020.
2. The Town of Snow Lake cease collection of the \$59.00 per customer per quarter rate rider, effective the date of this Order.
3. A rate rider of \$1.34 per cubic meter per customer per quarter BE AND IS HEREBY VARIED for a period of three years or until the Town's Working Capital Deficit is fully eliminated, whichever comes first, effective January 1, 2020.
4. The Cost Allocation Methodology for shared administrative services as submitted by the Town of Snow Lake BE AND IS HEREBY APPROVED.
5. The Town of Snow Lake 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.

6. The Town of Snow Lake amend its water and 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.
7. The Town of Snow Lake review the water and wastewater rates for the Snow Lake Water and Wastewater Utility and file a report with the Board, as well as an application for revised rates if required, by no later than December 31, 2021.
8. The 2012 actual operating deficit of \$74,698, 2017 actual operating deficit of \$280,031, and 2018 actual operating deficit of \$221,207 when calculated for regulatory purposes, incurred in the Town of Snow Lake, Snow Lake Water and Wastewater Utility, is HEREBY APPROVED to be recovered through a rate rider of \$2.31 per cubic meter per customer per quarter for three years or until the deficit has been fully recovered, whichever comes first, effective January 1, 2020.

Fees payable upon this Order - \$1,650.00

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

"Marilyn Kapitany, BSc., (Hon.), MSc."
Panel Chair

"Frederick Mykytyshyn"
Assistant Associate Secretary

Certified a true copy of Order No. 164/19
issued by The Public Utilities Board


Assistant Associate Secretary

**SCHEDULE A
TOWN OF SNOW LAKE
WATER AND WASTEWATER RATES
BY-LAW NO. 966-18**

A schedule of water and wastewater rates for the properties in Local Improvement District in the Town of Snow Lake.

SCHEDULE OF QUARTERLY RATES:
(Effective January 1, 2020)

1.	<u>Commodity Rates per m³</u>	<u>Water</u>	<u>Wastewater</u>	<u>Water & Wastewater</u>
	Domestic (all water sold)	\$2.30	\$4.12	\$6.42

(a) Notwithstanding the Commodity rates set forth in paragraph 1 hereof, all customers will pay an additional Rate Rider in the amount of \$1.58 per cubic meter of water sold until it has collected a total of \$394,386 for recovery of the 2017 utility deficit.

2. Minimum Charges, Quarterly

Notwithstanding the Commodity rates set forth in paragraph 1 hereof, all customers will pay the applicable minimum charge set out below, which will include water allowances indicated:

(a) Water and Wastewater Customers

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption m ³	Customer Service Charge	<u>Commodity Charges</u>		Minimum Quarterly Charges
				<u>Water</u>	<u>Wastewater</u>	
5/8"	1	14	\$12.88	\$32.20	\$57.68	\$102.76
3/4"	2	27	\$12.88	\$62.10	\$111.24	\$186.22
1"	4	55	\$12.88	\$126.50	\$226.60	\$365.98
1 1/2"	10	140	\$12.88	\$322.00	\$576.80	\$911.68
2"	25	341	\$12.88	\$784.30	\$1,404.92	\$2,202.10
3"	45	614	\$12.88	\$1,412.20	\$2,529.68	\$3,954.76
4"	90	1,227	\$12.88	\$2,822.10	\$5,055.24	\$7,890.22

3. Unmetered Customers

Based on an average of 135 cubic meters per quarter consumption, non-metered wastewater and water customers shall pay \$879.58 per quarter, which includes the quarterly service charge.

4. Service for Connecting Customers Outside of the Town Limits

The Council of the Town of Snow Lake may sign agreements with customers for the provision of water and wastewater services to properties located outside the legal boundaries of the Town. 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, 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. Billing and Penalties

Accounts shall be billed quarterly, and shall be due and payable upon receipt by owner. A late payment charge of 1.25% shall be charged on the dollar amount owing after the billing due date. The date will be at least fourteen days after the mailing of the bills.

6. 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. A copy of the Conditions Precedent is available for inspection at the Town's Office.

7. Reconnection

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$50.00 have been paid. Any customer wishing to have billings discontinued due to vacancy of premises shall be required to pay a service disconnection fee of \$50.00 and pay a \$50.00 reconnection fee when service resumes.

8. Outstanding Bills

Pursuant to Section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water and wastewater service may be collected by the Town in the same manner as a tax may be collected or enforced under this Act.

9. Hydrant Rentals

The Town of Snow Lake shall pay to the Utility an annual rental of \$150.00 for each hydrant connected to the system. This includes water for fire purposes.

10. Water Allowance Due to Line Freezing

That in any case where, at the request of 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.

11. 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 mg/L, to be set by resolution of Council.
- (b) A special surcharge for substances requiring special treatment shall be charged based on the actual cost of treatment required for the particular wastewater or industrial waste.

12. Tipping Fees

The rate of \$5.56 per cubic meter shall be charged for the dumping of septage haulers.

13. Bulk Water Rate

The rate of \$4.45 per cubic meter shall be charged for all bulk water sales.