

**Order No. 171/19 - revised**

**RURAL MUNICIPALITY OF HANOVER  
KLEEFELD WATER & WASTEWATER UTILITY  
WATER AND WASTEWATER RATES**

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**November 22, 2019**

**BEFORE: Irene Hamilton, Q.C., Panel Chair  
Carol Hainsworth, C.B.A., Panel Member**

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## 1.0 Executive Summary

By this Order, the Manitoba Public Utilities Board (Board) grants approval for revised water and wastewater rates as applied for by the Rural Municipality of Hanover (RM), Kleefeld Water and Wastewater Utility (Utility) as shown below. The Board denies the RM's request to revise the quantity used to calculate the Minimum Quarterly Charge for wastewater-only customers from 10,000 gallons to 3,000 gallons per quarter.

The revised rates are below:

	Revised Rates - By-Law 2428-18			
	Jan 1, 2020	Jan 1, 2021	Jan 1, 2022	Jan 1, 2023
Quarterly Service Charge	\$ 16.17	\$ 16.79	\$ 17.41	\$ 18.01
Water (per 1,000 gallons)	\$ 6.63	\$ 7.53	\$ 8.43	\$ 9.31
Wastewater (per 1,000 gallons)	\$ 2.05	\$ 1.82	\$ 1.59	\$ 1.37
Minimum Quarterly Charge*	\$ 42.21	\$ 44.84	\$ 47.47	\$ 50.05
Minimum Quarterly Charge - Wastewater Only**	\$ 36.67	\$ 34.99	\$ 33.31	\$ 31.71

\*Based on 3,000 gallons.

\*\*Based on 10,000 gallons.

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 system provides wastewater only or water and wastewater services to 319 customers. Utility bills are mailed out quarterly separate from property tax bills.

Rates were last approved in 2014 in Board Order No. 31/14.

### **Water Supply and Distribution & Wastewater Collection and Treatment**

The Kleefeld water and wastewater utility has lines constructed from the 1960's on. The water source is two deep wells. The wastewater system is a low pressure system with one lift station. The Utility has added a new reservoir, pumps and a generator in the last few years.

The Utility has a new water pipeline project planned for 2019 at an estimated cost of \$1.4 million. The RM anticipates the project will be funded by a \$700,000 grant from Manitoba Water Services Board, \$150,000 from the Utility reserve and \$550,000 in debenture debt.

### **Unaccounted for Water**

Unaccounted for water in 2017 was 23%, which is more than double the PUB's target level of 10%. The Utility's rate application did not provide any comment on steps taken or future plans to address the issue of unaccounted for water.

### 3.0 Application

On January 11, 2019, the Board received an application for revised rates from the Utility. The application was accompanied by a rate study completed by the RM's consultant and By-law 2428-18 read for the first time on January 9, 2019.

The Board issued a Public Notice of Application with respect to the proposed rate increases on January 28, 2019 allowing for stakeholder questions or comments on or before February 27, 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.

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

The Utility currently provides wastewater-only service to 30 residential customers. These customers are unmetered and are therefore charged a flat rate. Currently, the flat rate is calculated using an estimated 10,000 gallons of consumption. By-law 2428-18 included a clause stating wastewater-only customers would be charged the quarterly minimum charge for each meter as shown in the table for metered customers. All of the wastewater-only customers are serviced by a 5/8" connection, which has a standard minimum volume of 3,000 gallons per quarter.

When asked about the proposed change to the estimated volume for wastewater-only customers, the RM advised by email that it appeared to have come from using an out-of-date By-law as a template. The RM submitted the error was unintentional and the wastewater-only rate should continue to be calculated as an estimated 10,000 gallons per quarter. This error was only discovered after the Notice of Application was published.

The RM states the Utility has an annual transfer of property and gas tax revenue, which is projected to be \$238,377 in 2020. This transfer is in consideration of Utility debenture debt. The annual interest expense portion of this transfer has no net effect on utility rates. However, the annual principle payment is net revenue to the Utility. In 2022, the principle portion of the transfer is forecast to be \$198,312. Proposed 2022 Utility billing revenues will cover operating costs, but the amortization and interest costs are in effect paid by the transfer of tax revenues.

The RM stated its concern when the debenture debt matures in 2025, the resulting decrease in tax revenue will mean utility rates will have to absorb the annual amortization expense of approximately \$180,000. Utility rates would have to increase by more than 100% as a consequence, if the Utility's current rates did not include the provisions for reserves as requested.

The proposed rates were calculated using the following projected revenue requirements:

	2020	2021	2022
<b>General Expenses</b>			
Administration (building, office, staff, etc)	17,129	17,472	17,821
Training costs	1,283	1,309	1,335
Working capital contribution 1% of 2022 expense	3,328	3,328	3,328
Billing and collection	1,925	1,963	2,002
<b>Total expenses general</b>	<b>23,665</b>	<b>24,072</b>	<b>24,486</b>
Penalties	1,509	1,509	1,509
<b>Total revenue general</b>	<b>1,509</b>	<b>1,509</b>	<b>1,509</b>
<b>Net revenue requirement - general</b>	<b>22,156</b>	<b>22,563</b>	<b>22,977</b>
<b>Water Expenses</b>			
Purification and treatment	61,124	62,346	63,593
Transmission and distribution	19,612	20,004	20,404
Service of supply	936	955	974
Amortization	119,695	119,695	119,695
Interest on long term debt	45,854	40,686	35,343
Reserves	85,000	85,000	85,000
Contingency	7,921	7,921	7,921
<b>Total expenses water</b>	<b>340,142</b>	<b>336,607</b>	<b>332,930</b>
Hydrant rentals	5,265	5,265	5,265
Amortization of capital grants	38,056	38,056	38,056
Taxation revenues	200,150	200,150	200,150
Connection fees	500	500	500
<b>Total revenue water</b>	<b>243,971</b>	<b>243,971</b>	<b>243,971</b>
<b>Net revenue requirement - water</b>	<b>96,171</b>	<b>92,636</b>	<b>88,959</b>
<b>Wastewater Expenses</b>			
Wastewater collection system	6,867	7,004	7,144
Wastewater treatment and disposal	6,633	6,765	6,901
Lift station costs	5,826	5,943	6,062
Amortization	60,333	60,333	60,333
Interest on long term debt	6,857	5,807	4,720
Reserves	15,000	15,000	15,000
Contingency	1,385	1,385	1,385
<b>Total expenses wastewater</b>	<b>102,901</b>	<b>102,237</b>	<b>101,545</b>
Lagoon tipping fees	6,260	6,260	6,260
Taxation revenues	38,226	38,226	38,226
Amortization of capital grants	41,734	41,734	41,734
<b>Total revenue wastewater</b>	<b>86,220</b>	<b>86,220</b>	<b>86,220</b>
<b>Net revenue requirement - wastewater</b>	<b>16,681</b>	<b>16,017</b>	<b>15,325</b>

The RM's consultant calculated the indicated rates for the final rate year requested (2022) and requested rates be implemented in a stable and predictable rate change year over year.

### 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 RM has included in the 2022 projections a contingency allowance of 10% of net rate requirements, less amortization and interest expenses.

The rates include a \$100,000 annual provision for 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 working capital surplus at December 31, 2018 was:

	2018
Accumulated Fund Surplus/Deficit	\$ 2,081,231
Deduct tangible capital assets	\$ 3,337,944
Add long term debt	\$ 1,185,063
Add utility reserves	\$ 283,525
<b>Equals Working Capital Surplus/Deficit</b>	<b>\$ 211,875</b>
Operating costs	\$ 291,470
<b>20% of operating costs (target)</b>	<b>\$ 58,294</b>



## 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's current CAM was approved in Board Order No. 98/17 and the RM's rate application did not include any proposal to amend it.

### 4.0 Board Findings

The Board has reviewed the application and revenue projections presented by the RM and finds the projections to be acceptable. Given the RM's confirmation that the proposal to revise the volume used to calculate the quarterly flat charge for wastewater-only customers from 10,000 gallons to 3,000 gallons was made in error, the Board will deny this request and directs the Utility to continue calculating wastewater-only quarterly charges based on 10,000 gallons.

The RM's submission indicated the Utility experienced unaccounted for water of 23% in 2017. Losses of 10% are considered acceptable. The RM's submission did not provide any explanation or plan to address the water losses. The Board directs the RM to submit a plan to address the volume of water lost.

The Board recognizes the RM's provision for reserves is relatively high at \$100,000 per year; however, the reasoning provided by the RM is fiscally responsible. The inclusion of the provision for reserves stabilizes Utility rates, which would otherwise fluctuate significantly over the next few years. The Board agrees with the RM that it is preferable to maintain a steady rate and use the subsequent surpluses to build the Utility reserves.

The Board supports the principle of user-pay utility rates. It is only when rates are set on a user pay basis that the correct price signal is sent to ratepayers and allows ratepayers to make decisions about their use of the services.

Appropriate rates allow for the full appreciation of the true value of services provided and will enable the Utility to better meet the objectives of *The Sustainable Development Act*.

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 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, 2023.

## 5.0 IT IS THEREFORE ORDERED THAT:

1. The water and wastewater rates for the Rural Municipality of Hanover – Kleefeld Water and Wastewater Utility, BE AND ARE HEREBY APPROVED in accordance with the attached Schedule A to this Order, effective January 1, 2020, 2021, 2022 and 2023.
2. The Rural Municipality of Hanover – Kleefeld Water and Wastewater Utility's request to revise the volume used to calculate the Minimum Quarterly Charge for wastewater only customers, BE AND IS HEREBY DENIED.
3. The Rural Municipality of Hanover is to provide notice of the decisions found in this Order to the customers of the Kleefeld Water and Wastewater Utility as soon as possible, with a copy submitted to the Public Utilities Board.
4. The Rural Municipality of Hanover is to provide a report to the Public Utilities Board on or before March 1, 2020 providing details of the steps taken and any plans to address the levels of unaccounted for water experienced by the Kleefeld Water and Wastewater Utility.
5. The Rural Municipality of Hanover 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.
6. The Rural Municipality of Hanover review the Kleefeld Water and 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, 2023.

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](http://www.pubmanitoba.ca).

THE PUBLIC UTILITIES BOARD

"Irene Hamilton, Q.C."  
Panel Chair

"Jennifer Dubois, CPA, CMA"  
Assistant Associate Secretary

Certified a true copy of Order No. 171/19  
issued by The Public Utilities Board

  
Assistant Associate Secretary

RURAL MUNICIPALITY OF HANOVER – KLEEFELD UTILITY

WATER & SEWER RATES BY-LAW NO. 2428-18

**SCHEDULE A**

SCHEDULE OF QUARTERLY RATES

**January 1, 2020**

1. Rates per 1,000 gallons

<u>1,000 gallons per quarter</u>		
Water	Sewer	Total Water & Sewer
\$6.63	\$2.05	\$8.68

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges set out below, which includes the water allowance as listed.

**a. Water & Sewer Customers**

Meter Size	Group Capacity Ratio	Water Included Thousands of Gallons	Customer Service Charge	Water Commodity Charge	Sewer Commodity Charge	Water & Sewer Total Quarterly Minimum	Water Only Quarterly Minimum
5/8	1	3,000	\$16.17	\$19.89	\$6.15	\$42.21	\$36.06
1 inch	4	12,000	\$16.17	\$79.56	\$24.60	\$120.33	\$95.73
1 ½ inch	10	30,000	\$16.17	\$198.90	\$61.50	\$276.57	\$215.07
2 inch	25	75,000	\$16.17	\$497.25	\$153.75	\$667.17	\$513.42

**b. Metered Water Only Customers**

Quarterly minimum charge will be the same for each meter size as shown in table above.

**c. Sewer Only Customers**

Quarterly minimum charge for customers with a 5/8" connection will be calculated based on estimated consumption of 10,000 gallons plus Customer Service Charge. (\$20.50 + \$16.17 = \$36.67)

**January 1, 2021**

1. Rates per 1,000 gallons

<u>1,000 gallons per quarter</u>		
Water	Sewer	Total Water & Sewer
\$7.53	\$1.82	\$9.35

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges set out below, which includes the water allowance as listed.

**a. Water & Sewer Customers**

Meter Size	Group Capacity Ratio	Water Included Thousands of Gallons	Customer Service Charge	Water Commodity Charge	Sewer Commodity Charge	Water & Sewer Total Quarterly Minimum	Water Only Quarterly Minimum
5/8	1	3,000	\$16.79	\$22.59	\$5.46	\$44.84	\$39.38
1 inch	4	12,000	\$16.79	\$90.36	\$21.84	\$128.99	\$107.15
1 ½ inch	10	30,000	\$16.79	\$225.90	\$54.60	\$297.29	\$242.69
2 inch	25	75,000	\$16.79	\$564.75	\$136.50	\$718.04	\$581.54

**b. Metered Water Only Customers**

Quarterly minimum charge will be the same for each meter size as shown in table above.

**c. Sewer Only Customers**

Quarterly minimum charge for customers with a 5/8" connection will be calculated based on estimated consumption of 10,000 gallons plus Customer Service Charge. (\$18.20 + \$16.79 = \$34.99)

**January 1, 2022**

1. Rates per 1,000 gallons

<u>1,000 gallons per quarter</u>		
Water	Sewer	Total Water & Sewer
\$8.43	\$1.59	\$10.02

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges set out below, which includes the water allowance as listed.

**a. Water & Sewer Customers**

<u>Meter Size</u>	<u>Group Capacity Ratio</u>	<u>Water Included Thousands of Gallons</u>	<u>Customer Service Charge</u>	<u>Water Commodity Charge</u>	<u>Sewer Commodity Charge</u>	<u>Water &amp; Sewer Total Quarterly Minimum</u>	<u>Water Only Quarterly Minimum</u>
5/8	1	3,000	\$17.41	\$25.29	\$4.77	\$47.47	\$42.70
1 inch	4	12,000	\$17.41	\$101.16	\$19.08	\$137.65	\$118.57
1 ½ inch	10	30,000	\$17.41	\$252.90	\$47.70	\$318.01	\$270.31
2 inch	25	75,000	\$17.41	\$632.25	\$119.25	\$768.91	\$649.66

**b. Metered Water Only Customers**

Quarterly minimum charge will be the same for each meter size as shown in table above.

**c. Sewer Only Customers**

Quarterly minimum charge for customers with a 5/8" connection will be calculated based on estimated consumption of 10,000 gallons plus Customer Service Charge. (\$15.90 + \$17.41 = \$33.31)

**January 1, 2023**

1. Rates per 1,000 gallons

<u>1,000 gallons per quarter</u>		
Water	Sewer	Total Water & Sewer
\$9.31	\$1.37	\$10.68

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges set out below, which includes the water allowance as listed.

**a. Water & Sewer Customers**

Meter Size	Group Capacity Ratio	Water Included Thousands of Gallons	Customer Service Charge	Water Commodity Charge	Sewer Commodity Charge	Water & Sewer Total Quarterly Minimum	Water Only Quarterly Minimum
5/8	1	3,000	\$18.01	\$27.93	\$4.11	\$50.05	\$45.94
1 inch	4	12,000	\$18.01	\$111.72	\$16.44	\$146.17	\$129.73
1 ½ inch	10	30,000	\$18.01	\$279.30	\$41.10	\$338.41	\$297.31
2 inch	25	75,000	\$18.01	\$698.25	\$102.75	\$819.01	\$716.26

**b. Metered Water Only Customers**

Quarterly minimum charge will be the same for each meter size as shown in table above.

**c. Sewer Only Customers**

Quarterly minimum charge for customers with a 5/8" connection will be calculated based on estimated consumption of 10,000 gallons plus Customer Service Charge. (\$13.70 + \$18.01 = \$31.71)



Clauses 3 to 14 are Effective January 1, 2020

3. Service to Customers outside Kleefeld L.I.D. limits

The Council of the Rural Municipality of Hanover may sign agreements with customers for the provision of water and sewer services to properties located outside the legal boundaries of Kleefeld Local Improvement District #2 limits.

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 connection to the Utility's mains and installing and maintaining service connections will be paid by the customer.

4. Billings and Penalties

Accounts shall be billed quarterly based on water used. A late payment penalty charge of 1 ¼% compounded monthly shall be charged on the dollar amount owing after the billing due date. The due date will be at least thirty (30) days after the mailing of the bills.

5. Disconnections

The Public Utilities Board has approved the Conditions Precedent to be followed by the Rural 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 are available for inspection at the Rural Municipal office.

6. 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.

#### 7. Outstanding Bills

Pursuant to Section 252(2) of the Municipal Act, the amount of all outstanding charges for water and sewer services, including fines and penalties, 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, said charges and penalties shall be added to the taxes on the property and collected in the same manner as other taxes.

#### 8. Hydrant Rentals

The Rural Municipality will pay to the Utility an annual rental of \$135.00 for each hydrant connected to the system which includes the cost of water.

#### 9. 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.

#### 10. Meter Testing

Any customer wishing to have a meter tested for accuracy will pay in advance a fee of \$50, plus any applicable meter testing costs. In the event the meter tests prove that the meter is recording water flows in excess of actual flows, the meter testing fee and associated costs will be refunded to the customer and the customer's account will be reviewed and adjusted accordingly.

### 11. Meter Tampering

Where there is evidence of meter tampering a minimum charge of \$500 will be applied to the customer's account in addition to an amount calculated to adjust for the tampering based on historical usage.

### 12. Cross Connections

No customer or person shall connect, cause to be connected or allow to remain connected any piping, fixture, fitting, container or appliance in a manner which under any circumstances may allow water, wastewater or any harmful liquid or substance to enter the Rural Municipality's water system.

If a condition is found to exist which, in the opinion of the Rural Municipality, is contrary to the aforesaid, the Rural Municipality may either:

- shut off the service or services; or
- give notice to the customer to correct the fault at his or her own expense within a specified time period. If the customer fails to comply with such notice the Rural Municipality shall proceed in accordance with clause 1 of this section.

### 13. Authorization for Officer to Enter Upon Premises

The Public Works Foreman, or other employee authorized by the Rural Municipality in the absence of the Public Works Foreman, shall be authorized to enter upon any premise for the purpose of:

- affixing to any pipe, wire or apparatus connected with any such utility, a meter or any other measuring or testing device; or
- taking readings from, repairing, inspecting or removing any meter or apparatus belonging to the Rural Municipality.

#### 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.