

**Order No. 103/20**

**MUNICIPALITY OF NORFOLK TREHERNE  
LAVENHAM WATER UTILITY  
REVISED RATES FOR OCTOBER 1, 2020 AND JANUARY 1, 2022**

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**AUGUST 13, 2020**

BEFORE: Irene A. Hamilton, Q.C., Panel Chair  
Mike Watson, Panel Member

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## 1.0 Executive Summary

By this Order, the Public Utilities Board (Board) varies water rates for the Municipality of Norfolk Treherne (Municipality), Lavenham Water Utility (Utility) effective October 1, 2020 and January 1, 2022.

The approved rates are as follows:

	October 1, 2020	January 1, 2022
Quarterly Service Charge	\$3.00	\$6.25
Water Rates (per REU)	\$155.00	\$175.00
Minimum Quarterly Charge	\$158.00	\$181.25

\*Based on 1 Residential Equivalency Unit (REU)

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

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

## 2.0 Background

The Municipality owns and operates the Utility that provides water services to 20 customers (19 residential and 1 community hall) and 20 REUs. Rates were last approved for the Utility in 2009 in Board Order No. 159/09.

One REU is the estimate of the volume of water used by the average single-family residence. Units allocated to non-residential customers are based on estimated consumption, as compared to a residence. REUs are used in communities with unmetered distribution and collection systems, where information regarding actual consumption is unavailable.

Board Order No. 156/19 approved an actual operating deficit of \$6,046 to be recovered through a transfer of \$3,000 from the Utility's Accumulated Surplus Fund and a rate rider of \$19.00 per customer per quarter for two years, effective January 1, 2020

## **Water Supply/Distribution**

The water distribution system is approximately 15-20 years old. Raw water is supplied by an 18 meter deep well in a sand and gravel aquifer. Due to the high quality of the raw water, water is treated by ultraviolet and chlorine disinfection. Piping is less than one kilometer of low-density polyethylene piping. The system is metered only at the water plant with all customers unmetered. There is no bulk water sales and no hydrants.

## **Unaccounted for Water**

The acceptable percentage of unaccounted for 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 system is unmetered and therefore unaccounted for water is not measured.

## **3.0 Application**

On January 30, 2020, the Municipality applied for revised water rates, to be effective October 1, 2020 and January 1, 2022 as set out in By-Law No. 55-2020 having had first reading January 20, 2020. The Application was supported by a rate study prepared by the Municipality's consultant.

A Public Notice of Application was issued on February 5, 2020 allowing for any questions or comments with respect to the proposed rate increases to the Board and/or the Municipality on or before March 6, 2020. Two responses were received from one stakeholder.

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. The paper review process considers all written materials submitted by the Utility and the public, as well as any information requests and responses between the Board and the Utility. This process may reduce regulatory costs to the Utility.

A public hearing process allows the Utility and the public the opportunity to review the application and address any concerns with the Board present.

Whenever reasonable, the board will review the application using a paper review process, which saves the cost of a public hearing process.

The Board has chosen a paper review process for the Municipality's Application.

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

<b>Schedule of Utility Rate Requirements – Lavenham Water Utility 2020 to 2021 Budget Forecasts (\$)</b>		
	<b>2020</b>	<b>2021 Forecast</b>
<b>General Expenses</b>		
Administration	200	500
Total General Expenses	200	500
<b>Revenue</b>		
Penalties	-	-
Total General Revenues	-	-
<b>Net Costs General</b>	<b>200</b>	<b>500</b>
<b>Water Expenses</b>		
Purification and Treatment	7,956	8,115
Amortization	2,299	2,299
Contingency	812	812
Reserve	2,800	2,800
Total Water Expenses	13,867	14,026
<b>Revenue</b>		
Hydrant Rentals	-	-
Total Water Revenue	-	-
<b>Net Water Costs</b>	<b>13,867</b>	<b>14,026</b>
<b>Net Operating Costs</b>	<b>14,067</b>	<b>14,526</b>

The proposed Utility rate increases are necessary to provide adequate income to recover all of the costs required to operate the Utility and provide for contingency funding.

### **Contingency Allowance and Utility Reserves**

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

The RM has included a contingency allowance of \$812 per year as per the Guidelines and a reserve allowance of \$2,800 as was previously approved by the Board in the current rates. The reserve allowance is to provide for water line replacements and water treatment upgrades.

## Working Capital Surplus/Deficit

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

As per the 2018 Audited Financial Statements, the most recent information available, the working capital surplus for the Utility at December 31, 2018 was:

	2018
Utility Fund Surplus/Deficit	\$31,072
Deduct: Tangible Capital Assets	27,402
Add: Long-Term Debt	-
Add: Utility Reserves	464
<b>Equals Working Capital Surplus (Deficit)</b>	<b>\$4,134</b>
Operating Expenses	14,046
<b>20% of Operating Expenses (Target)</b>	<b>\$2,809</b>

The Utility exceeds the Board minimum working capital surplus of 20% as of December 31, 2018.

Note – At the time of the issuance of this Order, the 2019 Audited Financial Statements were not available. Board Order No. 156/19 (issued October 17, 2019) approved \$3,000 from the Utility's Accumulated Fund Surplus to provide for a 2018 actual operating deficit, leaving a balance of \$1,134 (\$4,134 - \$3,000) which does not meet the Board Minimum working capital requirement. (Please see Board Order No. 156/19 for complete details.)

## Cost Allocation Methodology

The Board requires all municipal governments to review the costs shared between its general operations and the Utility, and to allocate appropriate and reasonable costs to the Utility, based on a policy known as a Cost Allocation Methodology. This allocation must be submitted to the Board for approval and cannot be changed without receiving approval from the Board.

The Board's requirements regarding cost allocation methodologies can be found in Board Order No. 93/09.

The Municipality's allocation plan for shared costs is as follows:

<b>Municipality of Norfolk Treherne Lavenham Water Utility Allocation Plan for Non-Direct Shared Services (see Note 1) as at December, 2019</b>			
Category	Sub-category	Options	
1.0	Administrative Staff		\$500 flat amount per year for administrative costs.
	1.1 Billing services – meter reading to receipting and collection.		No meters
	1.2 Accounting/ auditing/ including bylaw making and enforcement.		Part of \$500 flat amount per year.
	1.3 Common office space		Part of \$500 flat amount per year.
	1.4 Office overheads (telephone, photocopier, computer, etc.)		Part of \$500 flat amount per year.
2.0	Operating, construction and maintenance costs		
	2.1 Vehicle – fuel, maintenance, lease costs, capital costs		Cost is minimal and nothing is charged to the Utility.
	2.2 Labor – full time, part time, on call, sick time, vacation (see Note 2)		5% of Water Plant Manager is charged to the Utility.
	2.3 Public works building and property.		Cost is minimal and nothing is charged to the Utility
	2.4 Road repairs and alike (see Note 3)	Based on actual costs	-
3.0	Major projects		
	Interest/ financing		N/A
	Labor	Based on actual costs	-
	External costs	Direct charge (dedicated consulting)	-

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

Note 2 – Including salaries and benefits.



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

#### 4.0 Board Findings

The Board has reviewed the application and the projections presented by the Municipality in its rate study and finds them to be reasonable. The Board notes, however, the calculation of the Customer Service Charge in the rate study contains a mathematical error as follows:

Administration Costs – 2021 Forecast	\$500.00
Divided by: Number of Customers	20
Equals: Proposed Annual Customer Service Charge	\$25.00
<b>Quarterly Customer Service Charge</b>	<b>\$6.00</b>

Based on the above calculation, the Quarterly Customer Service Charge should be \$25.00/4 Quarters or \$6.25 per customer per quarter. The Board therefore varies the Municipality's Customer Service Charge to \$6.25 per customer per quarter for January 1, 2022.

In Board Order No. 101/10 approval was granted to the Municipality on an interim *ex parte* basis as follows:

“This is not a seasonal system therefore all properties will still be responsible for the quarterly utility levy as this utility is based on flat rates and not volume.”

The Board notes this wording has been included in Clause 3-Disconnection in the Municipal By-Law. The Board directs the Municipality to advise the Board should any issue arise with this utility levy.

It has been eleven 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.

The Board requires the Municipality to review its water rates for the Utility for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates (if required) on or before December 31, 2022.

The Board notes, according to the Municipality's 2017 Audited Financial Statements, the Municipality has incurred an operating deficit in 2017. The Board reminds the Municipality, Board Order No. 156/19 directed the Municipality to review its 2017 Audited Financial Statements and submit a Deficit Application to the Board by November 30, 2019. To date, the Board has not received a Deficit Application.

The Board notes, the Municipality's rate study notes a previously approved charge of \$35.00 per customer per quarter to provide for utility reserves was inadvertently discontinued. The error was discovered in 2019 and the charge was reinstated July 1, 2019. The Board reminds the Municipality rates charged to customers must be charged in accordance with the rates and By-Law approved by the Board in this Order.

The Board has not received the Municipality's 2019 Audited Financial Statements and reminds the Municipality audited financial statements are to be reported to the Board no later than June 30 of the following year.

## 5.0 IT IS HEREBY ORDERED THAT:

1. The revised water rates for the Municipality of Norfolk Treherne, Lavenham Water Utility, BE AND ARE HEREBY VARIED in accordance with the attached Schedule A, effective October 1, 2020 and January 1, 2022.
2. The cost allocation methodology for shared services as submitted by the Municipality of Norfolk Treherne BE AND IS HEREBY APPROVED.
3. The Municipality of Norfolk Treherne 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.
4. The Municipality of Norfolk Treherne amend its water 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.
5. The Municipality Norfolk Treherne review its water rates for the Lavenham Water Utility for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates if required, by no later than December 31, 2022.
6. The Municipality of Norfolk Treherne file a Deficit Application and recovery methodology for all outstanding deficits for the Lavenham Water Utility by September 30, 2020.
7. The Municipality of Norfolk Treherne submit its 2019 Audited Financial Statements as soon as possible.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website at [www.pubmanitoba.ca](http://www.pubmanitoba.ca).


Fees payable upon this Order - \$500.00

THE PUBLIC UTILITIES BOARD

"Irene A. Hamilton, Q.C."  
Panel Chair

"Frederick Mykytyshyn"  
Assistant Associate Secretary

Certified a true copy of Order No. 103/20  
issued by The Public Utilities Board

  
Frederick Mykytyshyn  
Assistant Associate Secretary

**SCHEDULE A TO BY-LAW NO. 55/2020**  
**Schedule of Water Rates for the Properties Serviced by Lavenham Utility**

**October 1, 2020**  
**SCHEDULE OF QUARTERLY RATES**

1. Customer Service Charge  
The quarterly customer service charge shall be \$3.00  
The quarterly water commodity charge shall be \$155.00
  
2. Commodity Rates  
The commodity rate for all treated water supplied shall be based on the residential equivalent unit. The quarterly water usage rate for one residential equivalent unit shall be \$158.00

**January 1, 2022**  
**SCHEDULE OF QUARTERLY RATES**

3. Customer Service Charge  
The quarterly customer service charge shall be \$6.25  
The quarterly water commodity charge shall be \$175.00
  
4. Commodity Rates  
The commodity rate for all treated water supplied shall be based on the residential equivalent unit. The quarterly water usage rate for one residential equivalent unit shall be \$181.25

**The following clauses take effect October 1, 2020:**

1. Quarterly Billing  
Accounts shall be billed quarterly in advance.  
A late payment charge of 1.25% compounded monthly shall be charged on the dollar amount owing after the billing due date. The due date will be at least twenty (20) days after the mailing of the bills.
  
2. Service to Customers Outside Lavenham Limits  
The Council of the Municipality of Norfolk Treherne may sign Agreements with customers for the provision of water services to properties located outside the boundaries of the Lavenham Water Utility. Such Agreements shall provide for payment of the appropriate rates set out in the Schedule, as well as a surcharge, set by

Resolution of Council which shall be equivalent to the frontage levy, general taxes, and special taxes for the Utility purposes in effect at the time or may be in effect from time to time, and which would be levied on the property concerned if it were within the Lavenham Water Utility boundaries. In addition, all costs of connecting to the Utility's mains, and installing and maintaining service connections, will be paid by the customer.

**3. Disconnection**

The Public Utilities Board has approved the Conditions Precedent to be followed by the Municipality with respect to disconnection of service for non-payment including such matters as notice and the right to appeal such action to The Public Utilities Board. A copy of the conditions precedent is available for inspection at the Municipality's offices. This is not a seasonal system therefore all properties will still be responsible for the quarterly utility levy as this utility is based on flat rates and not volume.

**4. Outstanding Bills**

Pursuant to Section 25(2) of *The Municipal Act*, the amount of all outstanding charges for water 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.