

Order No. 22/20

**RURAL MUNICIPALITY OF WEST INTERLAKE
ASHERN WATER AND WASTEWATER UTILITY
REQUEST FOR REVISED RATES**

February 12, 2020

BEFORE: Shawn McCutcheon, Panel Chair
Mike Watson, Panel Member

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1.0 Executive Summary

By this Order, the Public Utilities Board (Board) denies the request by the Rural Municipality of West Interlake (RM) for revised water and wastewater rates for the Ashern Water and Wastewater Utility (Utility).

The Board approves interim water and wastewater rates for the Utility as follows:

	Current Rates	Effective April 1, 2020
Quarterly Administration Fee	\$8.00	\$4.91
Water Rate (per cubic meter)	\$0.67	\$1.14
Wastewater Rate (per cubic meter)	\$0.26	\$0.97
Minimum Quarterly Charge	\$35.90*	\$34.45**
Bulk Water Fee (per cubic meter)	\$0.80	\$1.22
Wastewater Only Customers***	\$78.00	\$78.00
Hydrant Rental Charge (annual)	\$136.36	\$200.00
Septic Hauler Fees (per 1,000 gallons)	-	\$20.00

*Based on 30 cubic meters

**Based on 14 cubic meters

***Flat Rate

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

2.0 Background

The RM owns and operates the Utility and provides service to 173 water and wastewater customers and 117 wastewater only customers. Rates were last approved in Board Order No. 68/06 on May 8, 2006.

The Utility does not currently provide water or wastewater services to residents beyond the RM's boundaries.

Water Supply/Distribution

Water is obtained from a single well, which was originally drilled in 1998. There is no backup water source. Raw water is treated with sodium hypochlorite for disinfection prior to storage for contact time in an underground reservoir. Treated water is conveyed via three distribution pumps and associated piping. The pump house also has a diesel fire pump for high-pressure flows to serve fire hydrants.

Wastewater Collection/Treatment

The wastewater collection system is comprised mostly of concrete gravity wastewater lines and asbestos cement pressurized force mains. There are three lift stations located in three different areas of the community.

Collected wastewater is conveyed to a three-cell facultative lagoon. Cells 1 and 2 were constructed in 1955 and cell 3 was constructed in 1981. Cell 2 was expanded between 1965 and 1977.

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 Utility's rate study notes, data from 2017 and 2018 is unavailable at the time the study was conducted. The RM subsequently advises they are unable to provide any updated data, but estimate water losses of approximately 30-40% for 2018 resulting from the current state of repair of the system and the high propensity for water breaks and delays to repairs.

The RM advises the rates requested have been increased to supplement the associated increasing costs of repairs and operator training. The RM has also included funds to develop improved lead detection and repair protocols.

3.0 Application

On August 8, 2019, the RM applied for revised water and wastewater rates for the Utility. The application was accompanied by a rate study prepared by the RM's consultant in 2016 and By-Law No. 7-2019 having had first reading April 9, 2019.

A Public Notice of Application was issued on September 10, 2019 allowing for any questions or comments with respect to the proposed rate increases to the Board and/or the RM before October 10, 2019. One response to the Notice was received from a ratepayer.

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 concerns with the Board present.

Where there is an urgent need for initial or revised rates and the Board determines it to be in the best interest of all parties, the Board may establish interim (*ex parte*) rates. The use of interim rates is typically reserved for instances where a utility can show there is need for an immediate implementation of new or revised rates. This may include cases where a utility is experiencing consecutive operating deficits and will continue to do so if revised rates are not approved in an expedited manner.

The Board has chosen a paper review process for the RM's application.

The Rates were calculated based on the following projections:

Schedule of Utility Rate Requirements – Ashern Water and Wastewater Utility 2019 to 2021 Budget Forecasts (\$)			
	2019	2020 Forecast	2021
General Expenses			
Administration	2,500	2,550	2,601
Billing and Collection	2,000	2,000	2,000
Working Capital Surcharge		1,651	1,798
Total General Expenses	4,500	6,201	6,399
Revenue			
Penalties	500	500	500
Total General Revenues	500	500	500
Net Costs General	4,000	5,701	5,899
Water Expenses			
Staffing and Training	15,000	16,000	17,000
Purification and Treatment	18,500	20,500	22,500
Service of Supply	800	1,200	1,600
Transmission and Distribution	8,000	9,000	10,000
Other Waster Supply Costs	6,500	9,500	12,000
Amortization	32,014	32,014	32,014
Reserves	2,500	2,500	2,500
Minor Capital Upgrades	2,500	2,550	2,601
Contingency	2,500	2,550	2,550
Total Water Expenses	88,314	95,814	102,765
Revenue			
Hydrant Rentals	4,400	4,400	4,400
Total Water Revenues	4,400	4,400	4,400
Net Costs Water	83,914	91,414	98,365
Wastewater Expenses			
Staffing and Training	10,000	12,000	14,000
Wastewater Collection System	31,000	33,000	35,000
Lift Station	4,500	5,500	6,500
Treatment and Disposal	2,300	2,346	2,393
Other Collection and Disposal	20,000	20,400	20,808
Reserves	1,000	1,000	1,000
Contingency	3,500	3,500	3,500
Total Wastewater Expenses	72,300	77,746	83,201
Net Costs Wastewater	72,300	77,746	83,201
Net Operating Costs	160,214	174,861	187,465

Contingency Allowance and Utility Reserves

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

The RM has included a contingency allowance of \$2,500 for year one of the requested rates and \$2,550 for years two and three of the requested rates for water and \$3,500 for wastewater.

The RM has included a transfer to the Utility reserve of \$2,500 for water and \$1,000 for wastewater to assist the utility in establishing financial independence.

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 at December 31, 2018 was:

	2018
Utility Fund Surplus/Deficit	\$907,215
Deduct: Tangible Capital Assets	(954,576)
Add: Long-Term Debt	-
Add: Utility Reserves	63,006
Equals Working Capital Surplus (Deficit)	\$15,645
Operating Expenses	133,870
20% of Operating Expenses (Target)	\$26,774

The Utility does not meet the Board minimum target working capital surplus of 20%.

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 RM did not provide a fully completed template for a proposed Cost Allocation Methodology.

4.0 Board Findings

The Board has reviewed the application and the projections presented by the RM in its rate application and finds them to be deficient. The Board therefore denies the RM's request for revised water and wastewater rates.

Application Deficiencies

Audited Financial Statements

Public Utilities Board Guidelines states financial projections, working capital surplus, and forecasted rate requirements should be calculated using the RM's latest Audited Financial Statements. Section 4.3.5 (Working Capital Surplus) states the consultant used the 2013 Audited Financial Statements, as the most recent Audited Financial Statements, for its calculations.

As the rate study was submitted August 2019, the RM should be using the 2018 Audited Financial Statements as the basis for its financial and financial forecasting data.

Use of current financial data ensures utility rates are being forecasted based on the most current actual operating expense trends and the requested rates are sufficient to provide for the costs to operate the Utility.

Cost Allocation Methodology

Public Utilities Board Guidelines states when a utility is introducing a new or revised Cost Allocation Methodology, Board approval is required. Rate applications seeking such approval must provide clear details of the proposed Cost Allocation Methodology clearly demonstrating how that allocation is determined. The Board's requirements regarding Cost Allocation Methodologies can be found in Board Order No. 93/09.

In the Board's view, the Form for the Allocation Plan for Shared Costs included in Appendix A of the rate study is incomplete.

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.

Based on the RM's Audited Financial Statements, the RM has incurred actual operating deficits from 2008 up to and including 2018 for the Utility. The Board finds this practice unacceptable due to its weakening of the Utility's working capital and requirement for immediate, significant cost increases to ratepayers. The Board directs the Utility to return to the Board no later than April 30, 2020 with a deficit application and recovery methodology for all deficits incurred by the utility from 2010 to date.

The Board finds the RM's inattention to the Utility's rates has resulted in 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 consecutive deficits and in ratepayer's being subject to increases that are considered rate shock.

Based on the above-noted actual operating deficits incurred by the Utility, the Board finds the Utility requires immediate revised rates to mitigate future year's deficits. The Board therefore approves interim rates. The Board directs the RM to review its water and wastewater rates

for the Utility for adequacy and file a report with the Public Utilities Board, as well as a full and complete application for revised rates on or before November 30, 2020.

Prior to the RM's application on August 8, 2019, it had been 13 years since the RM had submitted a rate application to the Board, which has resulted in multi-year deficits. In the Board's view, the period between rate reviews is too long. Regular rate reviews submitted every three years, as per the Board's Guidelines, protect the financial position of the Utility and may reduce the need for substantial rate increases in one year. 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 ratepayers. Ratepayers are generally more tolerant of regular, smaller increases. The RM needs to be much more diligent in conducting regular rate reviews of its revenue requirements.

The Board is concerned with the high percentage of water loss and the lack of availability concrete data regarding unaccounted for water levels. The Board commends the RM on developing a plan to remedy unaccounted for water and strongly encourages the RM to continue to implement solutions accordingly to bring the level closer to the acceptable percentage of 10%.

5.0 IT IS HEREBY ORDERED THAT:

1. The revised water and wastewater rates for the Rural Municipality of West Interlake, Ashern Water and Wastewater Utility, BE AND IS HEREBY DENIED.
2. Interim water and wastewater rates for the Rural Municipality of West Interlake, Ashern Water and Wastewater Utility BE AND ARE HEREBY APPROVED in accordance with the attached Schedule A, effective April 1, 2020.
3. The Rural Municipality of West Interlake amend its water and wastewater By-Law for the Ashern Water and Wastewater Utility to reflect the decisions in this Order and file a copy with the Public Utilities Board, as soon as it has received third and final reading.
4. The Cost Allocation Methodology for shared services as submitted by the Rural Municipality West Interlake BE AND IS HEREBY DENIED.
5. The Rural Municipality of West Interlake review its water and wastewater rates for the Ashern Water and Wastewater Utility for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates by no later than November 30, 2020.
6. The Rural Municipality of West Interlake submit a Utility Operating Deficit Application for all deficits incurred by the Ashern Water and Wastewater Utility for the year's 2010 to date by no later than April 30, 2020.

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.

Fees payable upon this Order - \$500.00

THE PUBLIC UTILITIES BOARD

"Shawn McCutcheon"

Panel Chair

"Frederick Mykytyshyn"

Assistant Associate Secretary

Certified a true copy of Order No. 22/20
issued by The Public Utilities Board



Frederick Mykytyshyn
Assistant Associate Secretary

SCHEDULE A

**RURAL MUNICIPALITY OF WEST INTERLAKE
ASHERN WATER AND WASTEWATER UTILITY
WATER AND WASTEWATER UTILITY RATES BY-LAW NO. 7-2019
SCHEDULE OF QUARTERLY RATES**

1.0 SCHEDULE OF QUARTERLY RATES

Effective: April 1, 2020

Rates per Cubic Meter

	Administration Fee	Water	Wastewater
	\$4.91	\$1.14	\$0.97
Bulk Water Fee		\$1.22	

2.0 MINIMUM CHARGES PER QUARTER

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

<u>Meter Size</u>	<u>Capacity</u>	<u>Water Included Cubic Meters</u>	<u>Admin. Fee</u>	<u>Water Commodity Charge</u>	<u>Wastewater Commodity Charge</u>	<u>Total</u>
5/8 inch	1.00	14	\$4.91	\$15.96	\$13.58	\$34.45
3/4 inch	2.00	28	\$4.91	\$31.92	\$27.16	\$63.99
1 inch	4.00	56	\$4.91	\$63.84	\$54.32	\$123.07
1 ½ inch	10.00	140	\$4.91	\$159.60	\$135.80	\$300.31
2 inch	25.00	350	\$4.91	\$399.00	\$339.50	\$743.41
3 inch	45.00	630	\$4.91	\$718.20	\$611.10	\$1,334.21
4 inch	90.00	1,260	\$4.91	\$1,436.40	\$1,222.20	\$2,663.51
6 inch	170.00	2,380	\$4.91	\$2,713.20	\$2,308.60	\$5,026.71

2.1 WATER ONLY CUSTOMERS

For customers with water service only, quarterly minimums shown in Section 2.0 are thereof reduced by the Wastewater Commodity Charge shown for the customer's meter size.

2.2 WASTEWATER ONLY CUSTOMERS

For customers with wastewater service only, volume of water used and volume of effluent returned to the wastewater system are based on residential equivalent units; one unit being the volume of water estimated to be used by the average single family residence. A residential equivalency unit shall be 42 cubic meters of water per quarter. Commercial wastewater only customers will be charged a residential equivalency based upon the amount of water they use as evaluated by the RM, see clause 11 Estimating Consumptions.

3.0 SEPTIC HAULER FEES

All hauled sewage shall be charged for at the rate \$20.00 per 1,000 gallons.

4.0 SERVICE TO OTHER MUNICIPALITIES

The Council of the RM of West Interlake may sign agreements with another municipality or Service Area for the provision of water and wastewater services to properties located outside the legal boundaries of the municipality. Such agreements shall provide for payment of the appropriate rates set out in the Schedule, as well as terms and conditions, including fees or other charges set by Council for providing the service.

5.0 BILLING AND PENALTIES

Accounts shall be billed quarterly, and shall be due and payable at least fourteen (14) days after date of billing a penalty equal to 1.25% per month of the amount outstanding shall be added if not paid by the due date.

6.0 DISCONNECTION DUE TO NON-PAYMENT

Customer disconnection shall follow the disconnection procedure as follows:

- i. Customers shall receive a billing statement each billing cycle for services. The due date which appears on the bill shall be no less than 14 days after the billing date.
- ii. If payment is not received within 31 days from the last billing date, notice will be provided.
- iii. If payment is not received within 45 days of the last billing date, a second and final reminder notice shall be provided indicated the disconnection date. A disconnection fee of \$50.00 will be assessed.

6.1 DISCONNECTION EXCEPTIONS

The following are exceptions to the above notice requirements prior to disconnection:

- a. Where the customer's account was past due and where a payment arrangement was made and subsequently broken, the RM of West Interlake may disconnect the customer's service with 7 calendar days notice.
- b. Where the customer's account was past due for services billed at a previous premises, the RM of West Interlake may, with 10 days notice, disconnect the customer's service at the new premises if the customer fails to make a payment arrangement.

7.0 RECONNECTION

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

7.1 RECONNECTION OF A REQUESTED DISCONNECTION

Any customer wishing to have billings discontinued due to vacancy of premises shall be required to pay two times the minimum quarterly water billing to have service resume. This reconnection fee is to be based upon the customers' connected service(s).

8.0 OUTSTANDING BILLS

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

9.0 HYDRANT RENTALS

The RM of West Interlake shall pay to the utility an annual rental of \$200.00 for each hydrant connected to the system. This includes water for fire purposes.

10.0 WATER METERS

- a. The RM of West Interlake shall supply an appropriate size water meter.
- b. The meter shall be installed by the RM of West Interlake and the costs shall be the responsibility of the property owner.
- c. The meter shall be installed above the floor as approved by the Rural Municipality.
- d. The meter shall be located as close as practical to the point of entry of the water line. Ample room must be provided for access to the meter and main valve at all times.

- e. The meter shall be in a horizontal position with the main shut off valve immediately before the meter. Another valve shall be installed downstream of the meter before any distribution piping or ports.
- f. No distribution piping or ports shall be allowed before the meter.
- g. The meter shall be protected from any type of damage including freezing.
- h. Costs for any damage and labour for repairs to the water meter and associated equipment shall be the responsibility of the property owner.
- i. The charge to remove a meter for testing at the request of a customer shall be \$100.00 plus any charges incurred for the testing of said meter. Should the meter test indicate that the meter is faulty, the charges will be waived.
- j. Where there is evidence of meter tampering, a minimum charge of \$500.00 will be applied to any account plus the value of the estimated unmeasured water consumed.

11.0 ESTIMATING CONSUMPTION

Where a meter is found not in use or out of proper working order or the scheduled reading is not obtained, or where no meter is installed, the Chief Administrative Officer shall estimate the consumption of water used for any quarter or other period based on the amount of water consumed during the time the meter was working or from any other information or source available, and such estimate shall be the basis for billing the customer for water used.

12.0 WATER ALLOWANCE DUE TO LINE FREEZING

At the request of the Council, a customer may be requested to run water continuously for a period of time to prevent water distribution lines from freezing. The charge incurred to the 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.