

Order No. 24/20

**RURAL MUNICIPALITY OF ROSEDALE
KELWOOD WATER UTILITY
WATER RATES – APRIL 1, 2020, 2021 AND 2022**

February 13, 2020

**BEFORE: Marilyn Kapitany, BSc. (Hon), MSc., Panel Chair
Mike Watson, Panel Member**

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1.0 Executive Summary

By this Order, the Manitoba Public Utilities Board (Board) approves the Rural Municipality of Rosedale (RM), Kelwood Water Utility's (Utility) application for revised water rates. The Board notes ratepayers are now billed in cubic meters (m³) instead of gallons.

The revised rates are below:

	Apr 1, 2020	Apr 1, 2021	Apr 1, 2022
Quarterly service charge	\$ 15.55	\$ 17.66	\$ 18.10
Water charge	\$ 2.09	\$ 2.11	\$ 2.19
Minimum quarterly charge*	\$ 44.86	\$ 47.18	\$ 48.70
Bulk Water	\$ 2.97	\$ 3.05	\$ 3.17
Reconnection	\$ 40.00	\$ 40.00	\$ 40.00

*based on 14m³

Details of other rates can be found in Schedule A.

The reasons for the Board's decisions are under Board Findings.

2.0 Background

The RM currently owns and operates two water utilities. They are Kelwood Water Utility and Eden Water Utility (Eden). This Board Order relates to an application for the Kelwood Utility.

The Kelwood Utility provides water service only to 90 customers, including four customers located outside Kelwood, but within the RM of Rosedale.

Water Supply/Distribution

The Utility water treatment plant was originally constructed in the mid 1960's and has no treatment other than disinfection with sodium hypochlorite prior to storage in an above grade concrete reservoir. The water treatment plant was turned over to the RM from the Manitoba Water Services Board approximately 17 years ago. The system is in good repair and has no capacity issues. The RM has advised that many of the water meters on the system are older and many were purchased used. The RM has budgeted \$50,000 in its five year capital plan to replace the aging meters.

3.0 Board Methodology

Review Process

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 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.

Interim *ex parte* Approval

Interim *ex parte* rates are typically approved as applied for and are then subject to a standard Board review process, including a Public Notice of Application, before being confirmed as final by Board Order.

Since this process allows a municipality to charge ratepayers revised rates in advance of the Board's comprehensive review, it is reserved for instances where a municipality can show a compelling argument to allow it.

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.

Working Capital

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.

Operating 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. The Board is therefore duty bound to approve reasonable rates based on reasonable expense projections.

Cost Allocation Methodology

The Board requires all municipalities to review the costs shared between the general operations of the municipality and the Utility, and to allocate appropriate and reasonable costs to the Utility, based on a policy known as a Cost Allocation Methodology. This policy must be submitted to the Board for approval and cannot be changed without approval by the Board. The Board's requirements regarding cost allocation methodologies can be found in Board Order No. 93/09.

Unaccounted for Water

Water losses may be caused by such events as distribution line losses, service leaks, water used for fire fighting or line flushing, and under-registration of water meters. The Board Guidelines require utilities to compare the volume of water produced or purchased against the volume of water sold, to determine the percentage of unaccounted for water. Unaccounted for water volumes of approximately 10% are considered industry standard.

The Board expects any utility experiencing a greater volume of unaccounted for water to provide an explanation and plan to address the water losses.

4.0 Application

On July 30, 2019 the Board received the RM's final application for revised water rates, after assisting the RM in determining the missing information from previous submissions.

The application was accompanied by a rate study completed by the RM, By-law 11-2018, read for the first time on September 14, 2018 and Council Resolution No. 19/99, dated April 10, 2019, requesting the Board approve interim *ex parte* rates for the Kelwood Utility.

The Board issued a Public Notice of Application on September 18, 2019 affording customers the opportunity to comment to both the Board and the RM with respect to the proposed rate changes. The Board did not receive any responses to the Notice.

The rates were calculated using the following revenue requirement projections:

	Year 1	Year 2	Year 3
Administration	4,615	4,720	4,825
Training costs			
Working capital surcharge		706	728
Billing and collection	1,294	1,323	1,353
Total expenses general	5,909	6,749	6,906
Penalties	311	391	391
Investment income			
Total revenue general	311	391	391
Net revenue requirement - general	5,598	6,358	6,515
Purification and treatment			
Transmission and distribution	19,000	19,428	19,865
Other Water supply costs	4,300	4,397	4,496
Amortization	6,774	6,774	6,774
Contingency	2,850	2,914	2,980
Reserves			
Interest on long term debt			
Total expenses water	32,924	33,513	34,115
Amortization of capital grants			
Bulk water fees	3,535	3,625	3,715
Hydrant rentals	3,375	3,375	3,375
Total revenue water	6,910	7,000	7,090
Net revenue requirement - water	26,014	26,513	27,025

Contingency Allowance and Utility Reserves

The RM has included a contingency allowance of 15% of Transmission and Distribution Expenses. This equates to just under \$3,000 per year. There is no provision for transfer to Utility Reserve proposed. The Utility does not currently have a Reserve Fund and has asked the Board for approval to create one.

Working Capital

As per the 2018 audited financial statements, the working capital surplus at December 31, 2018 was:

	2018
Accumulated Fund Surplus/Deficit	\$393,378
Deduct tangible capital assets	(\$150,180)
Add long term debt	\$0
Add utility reserves	\$0
Equals Working Capital Surplus/Deficit	\$543,558
Operating costs	\$32,545
20% of operating costs (target)	\$6,509

Operating Deficits

The Utility experienced operating deficits in 2012, 2014 and 2016, previously approved by the Board. The Board approved recovery of all from the Utility Accumulated Surplus.

Cost Allocation Methodology

The Board approved the Utility's current Cost Allocation Methodology (CAM) in Board Order No. 84/12. The RM proposed a new CAM to recover 2% of the RM's operating costs, allocated equally between the Kelwood and Eden utilities.

Unaccounted for Water

The Utility indicated the 2017 unaccounted for water was 21% of water produced in the rate study submission; however, the financial projections supplied indicated the actual number was just over 6%.

5.0 Board Findings

The Board considered the RM's request for interim *ex parte* approval of wholesale rates, found no evidence of an urgent need and denied the request in Board Order No. 127/19. The application took its place in the queue for standard review; this Order is the result of that review. Having considered the RM's filing and in view of the fact that no responses were received to the Notice of Application, the Board has chosen a paper review process.

The Utility requested the Board's approval to create a reserve fund for the Kelwood Utility. Section 168(1) of *The Municipal Act* grants council the authority to establish reserve funds, therefore the approval of the Board is not required. The Utility would need to seek the Board's approval for any expenditure from that reserve, if it were not related to the Utility, as per Section 168(2)b of the same Act.

The Board has reviewed the application and revenue projections presented by the RM. The application provided conflicting information in several instances.

For example, unaccounted for water is stated to be 21% in the Minimum Filing Requirements Schedule B, but the Financial Projections worksheets provided indicate 6.31%. In the same worksheets, the "WCS tab" (working capital surplus tab) indicates 2018 expenses are \$70,619, while the financial projections tab indicates \$32,924 for the same year. This error would be significant, except the financial projections are what was used in calculating the rates, and are very close to the audited actual expenses of \$32,924. The expenses in the WCS tab are used to calculate the working capital target, therefore has no impact on rates. The rate application stated the \$50,000 meter replacement project was included in the five year capital plan, to be funded by way of Utility surplus or through the Gas Tax Reserve. The 2019 five year plan indicates an unspecified "utility upgrade" for \$50,000 being funded through borrowing. Again, this amount is not material when calculating rates, depending on the length of the borrowing.

The Board is conscious of the fact that Municipalities are often inexperienced in the preparation of utility rate studies, in addition to being resource constrained. The Board

makes every attempt to support administrators in their work preparing rate studies; however, the Board must be able to rely on the information provided. Accurate and factual submissions are critical to the process. These types of errors in a submission undermine the credibility of the entire submission, and the Board urges the RM to be mindful of that in future applications.

The Board will require the RM to review the financial position of the Utility on an ongoing basis, to ensure the rates approved remain appropriate. The RM should submit either a statement of rate adequacy or, if it has determined revised rates are necessary, a date by which the Board will receive a rate application. These submissions will be due July 31, 2020, 2021 and 2022.

The Board strongly encourages the RM to work closely with its auditor(s) to ensure the Public Utilities Board Note to the Consolidated Financial Statements is complete and accurate. If this note is omitted, incomplete, or incorrect, it limits the Board's ability to assess the Utility's financial position, and the RM's ability to set appropriate rates to sustain the Utility and its operations.

In addition, the Long-Term Debt Note should include the name of the relevant utility, given the RM owns two utilities. Note 8 of the 2018 audited financial statements indicates there are two outstanding utility debentures, but provides no information regarding which utility holds the debt. The debentures appear to relate to Eden, but the Board reached this conclusion by examining Schedule 8, which indicates that only Eden has interest expense on long-term debt. Neither Eden nor Kelwood include any taxation revenue, which is the standard label for debenture revenue collected by taxes. This should also be revised going forward, as this note can also have a significant impact for rate setting purposes.

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.

6.0 IT IS THEREFORE ORDERED THAT:

1. The water rates for the Rural Municipality of Rosedale – Kelwood Water Utility, BE AND ARE HEREBY APPROVED in accordance with the attached Schedule A, effective April 1, 2020, 2021 and 2022.
2. The Cost Allocation Methodology for shared services as submitted by the Rural Municipality of Rosedale BE AND IS HEREBY APPROVED.
3. The Rural Municipality of Rosedale amend the Kelwood Water 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
4. The Rural Municipality of Rosedale – Kelwood Water Utility water rates for adequacy and file reports with the Public Utilities Board on or before July 31, 2020, 2021 and 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

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

"Jennifer Dubois, CPA, CMA"
Assistant Associate Secretary

Certified a true copy of Order No. 24/20
issued by The Public Utilities Board


Assistant Associate Secretary

SCHEDULE "A"
RURAL MUNICIPALITY OF ROSEDALE
WATER RATES
BY-LAW NO. 11-2018

SCHEDULE OF QUARTERLY RATES:

April 1, 2020

1. Rate Per Cubic Meter \$2.09

2. Customer Service Charge

The quarterly customer service charge shall be
\$15.55

3. Commodity Rates

The commodity rate for all water usage shall be pro-rated in accordance with the Schedule of Minimum Quarterly Charges as detailed in Clause 3 hereafter.

4. Minimum Quarterly Charges

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

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption (m3)	Customer Service Charge	Water Commodity Charge	Total Quarterly Minimum
5/8 inch	1	14	\$15.55	\$29.31	\$44.86
¾ inch	2	27	\$15.55	\$56.54	\$72.09
1 inch	4	55	\$15.55	\$115.17	\$130.72
1 ¼ inch	10	140	\$15.55	\$293.15	\$308.70
2 inch	25	341	\$15.55	\$714.03	\$729.58

5. Bulk Sales Rate

All water sold in bulk by the Kelwood Public Water System shall be charged for at the rate of \$2.97 per 4.55 cubic meters (approx. 1,000 gallons) on a pro-rated basis for all quantities greater than 2.27 cubic meters (approx. 500 gallons).

SCHEDULE OF QUARTERLY RATES

April 1, 2021

1. Rate per Cubic Meter

\$2.11

2. Customer Service Charge

The quarterly customer service charge shall be
\$17.66

3. Commodity Rates

The commodity rate for all water usage shall be pro-rated in accordance with the Schedule of Minimum Quarterly Charges as detailed in Clause 3 hereafter.

4. Minimum Quarterly Charges

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption (m3)	Customer Service Charge	Water Commodity Charge	Total Quarterly Minimum
5/8 inch	1	14	\$17.66	\$29.51	\$47.18
¾ inch	2	27	\$17.66	\$56.92	\$74.58
1 inch	4	55	\$17.66	\$115.95	\$133.61
1 ½ inch	10	140	\$17.66	\$295.14	\$312.80
2 inch	25	341	\$17.66	\$718.87	\$736.53

5. Bulk Sales Rate

All water sold in bulk by the Kelwood Public Water System shall be charged for at the rate of \$3.05 per 4.55 cubic meters (approx. 1,000 gallons) on a pro-rated basis for all quantities greater than 2.27 cubic meters (approx. 500 gallons).

SCHEDULE OF QUARTERLY RATES

April 1, 2022

1. Rate per Cubic Meter

\$2.19

2. Customer Service Charge

The quarterly customer service charge shall be
\$18.10

3. Commodity Rates

The commodity rate for all water usage shall be pro-rated in accordance with the Schedule of Minimum Quarterly Charges as detailed in Clause 3 hereafter.

4. Minimum Quarterly Charges

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption (m3)	Customer Service Charge	Water Commodity Charge	Total Quarterly Minimum
5/8 inch	1	14	\$18.10	\$30.60	\$48.70
¾ inch	2	27	\$18.10	\$59.02	\$77.12
1 inch	4	55	\$18.10	\$120.23	\$138.32
1 ½ inch	10	140	\$18.10	\$306.03	\$324.13
2 inch	25	341	\$18.10	\$745.40	\$763.50

5. Bulk Sales Rate

All water sold in bulk by the Kelwood Public Water System shall be charged for at the rate of \$3.17 per 4.55 cubic meters (approx. 1,000 gallons) on a pro-rated basis for all quantities greater than 2.27 cubic meters (approx. 500 gallons).

The following clauses take effect April 1, 2020

1. Service to Customers Outside the L.U.D. of Kelwood Limits

The Council of the Rural Municipality of Rosedale may sign agreements with customers for the provision of water and sewer services to properties located outside the boundaries of the LUD of Kelwood. 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.

2. Water Allowance Due to Line Freezing

In any case where, at the request of Council, a customer is allowed to run water 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 billings for the last two quarters for the same customer, or the same premises if the occupant has changed.

3. Billings and Penalties

Accounts shall be billed quarterly, and shall be due and payable fourteen (14) days after the date of billing. A late payment charge of 1.25% per month shall be charged on the dollar amount owing after the billing due date and shall be compounded monthly.

4. Disconnection

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 matter 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 Municipal office.

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$40.00 have been paid.

5. 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 charge and penalties shall be assessed to the taxes on the property and collected in the same manner as the other taxes.

Because water and sewer services may be provided and billed to a tenant, information about accounts outstanding may be shared with the property owner.

6. Hydrant Rentals

The R.M. of Rosedale will pay to the Utility an annual rental of \$225.00 for each hydrant connected to the system.

7. Water Used During Construction

Contractors using water in connection with the construction of buildings shall be charged a flat fee of \$35.00 for dwellings and \$55.00 for commercial buildings for every three month period until completion.

8. Meter Testing

In any case where a utility customer requests that a meter be tested for accuracy, the customer will provide the RM with a deposit of \$200. The RM will then remove the subject meter and send it to an independent lab for testing. If the meter is found to be faulty, all costs associated with the testing process will be borne by the RM and the deposit will be refunded to the customer. If the meter is found to be in proper working order, all costs associated with the testing process will be borne by the customer and the customer will be billed of refunded any balance owing.

9. 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.

10. 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 and circumstances may allow water, wastewater or any harmful liquid or substance to enter the RM's water system.

If a condition is found to exist which, in the opinion of the RM, is contrary to the aforesaid, the RM 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.

11. Authorization For Officer to Enter Upon Premises

The Public Works Manager, Shop Foreman, or other employee authorized by the RM in the absence of the Public Works Manager or Shop 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 reading from, repairing, inspecting or removing any meter or apparatus belonging to the RM.