

Order No. 45/20

**RURAL MUNICIPALITY OF ROSEDALE
EDEN WATER UTILITY
WATER RATES EFFECTIVE APRIL 1, 2020**

March 27, 2020

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

Table of Contents

1.0	Executive Summary	4
2.0	Background	5
	Water Supply/Distribution	5
3.0	Board Methodology.....	6
	Review Process	6
	Interim <i>ex parte</i> Approval.....	6
	Contingency Allowance and Utility Reserves.....	6
	Working Capital	7
	Operating Deficits	7
	Cost Allocation Methodology	7
	Unaccounted for Water	7
4.0	Application.....	8
	Contingency Allowance and Utility Reserves.....	9
	Working Capital	10
	Operating Deficits	10
	Cost Allocation Methodology	10
	Unaccounted for Water	11
5.0	Board Findings	11

6.0 IT IS THEREFORE ORDERED THAT: 13

SCHEDULE "A" 15

1.0 Executive Summary

By this Order, the Manitoba Public Utilities Board (Board) varies the application made by the Rural Municipality of Rosedale (RM), Eden Water Utility (Utility) and grants approval of revised water rates as shown below.

The Board also confirms as final the interim water rates previously established on an interim *ex parte* basis by Board Order No. 128/19.

The Board notes prior to the approval of interim rates, the RM billed Utility ratepayers based on residential equivalency units (REUs). The Utility has installed meters and customers are now billed in cubic meters (m³) based on actual consumption.

The current and revised rates are below:

	July 2019	April 2020
Quarterly service charge	\$ 17.71	\$ 19.21
Water \$/cubic meter	\$ 4.80	\$ 3.15
Minimum quarterly charge*	\$ 84.91	\$ 63.31
Bulk water fee	\$ 6.76	\$ 4.43

*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 Eden Water Utility and Kelwood Water Utility (Kelwood). This Board Order relates to an application for the Eden Utility.

The Utility provides water only service to approximately 100 customers, two of which are serviced with a larger supply line.

Water Supply/Distribution

The Utility formerly operated a water treatment plant constructed in 1977 and a two cell concrete reservoir with a total storage of approximately 54,000 litres. Treatment consisted of chlorination and the system provided treated water to 35 unmetered residences and a coin operated truck fill. In the 2009 engineering system assessment, the Eden WTP had treated water arsenic concentrations which exceeded health based limits. It was recommended a compliance plan be developed to meet standards and water meters be installed at all service connections.

The Utility installed water meters, and a new distribution line to allow the Utility to purchase water from the Town of Neepawa. The new line goes from Neepawa to Eden, passing through a new booster station approximately midway between the two communities. The Utility began purchasing and distributing water from the Neepawa Utility in January 2018. The old concrete reservoir is still in use, and an operator regularly tests the water and chlorine levels there.

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 May 30, 2019 the Board received the RM's application for revised water rates.

The application was accompanied by a rate study completed by the RM, By-law 10-2018, read for the first time on September 14, 2018 and Council Resolution No. 19/100, dated April 10, 2019, requesting the Board approve interim *ex parte* rates for the Eden Utility. The RM advised the interim *ex parte* rates were required because the existing rates were previously set using residential equivalency units (REUs). One REU is the estimate of the volume of wastewater produced by the average single family residence. Units allocated to non-residential customers are based on estimated consumption, as compared with a residence. REUs are used in communities with unmetered distribution and collection systems, where information regarding actual consumption is unavailable. The RM identified the need to revise the water rates to a volumetric charge, given the Utility had connected to the Neepawa Utility and was purchasing the water on a per cubic meter basis.

The Board issued a Public Notice of Application on September 17, 2019 affording customers the opportunity to comment to both the Board and the RM with respect to the proposed rate changes. The Board received two responses to the Notice, which the RM replied to, copying the Board.

The RM submitted an amendment to the application on February 20, 2020, and provided revised rate calculations for the Board's consideration.

The rates were calculated using the following revenue requirement projections:

	2020	2021
Administration (building, office, staff, etc)	5,228	5,228
Working capital surcharge (1% of water expenses)	1,423	1,423
Billing and collection	1,276	1,276
Total expenses general	7,927	7,927
Penalties	243	243
Total revenue general	243	243
Net revenue requirement - general	7,684	7,684
Water expenses		
Water purchases	62,468	62,468
Transmission and distribution	10,455	10,455
Other water supply costs	5,228	5,228
Amortization	50,584	50,584
Contingency	7,292	7,292
Interest on long term debt	6,315	6,315
Total expenses water	142,342	142,342
Bulk water revenues	6,275	6,275
Amortization of capital grants	40,888	40,888
Taxation revenues	15,480	15,480
Total revenue water	62,643	62,643
Net revenue requirement - water	79,699	79,699

Contingency Allowance and Utility Reserves

The RM has included a contingency allowance of 10% of Water Purchase and Transmission and Distribution Expenses. This equates to approximately \$7,000 per year. There is no provision for transfer to Utility Reserve proposed.

Working Capital

The May 30, 2019 rate study indicated the WCS was \$1,306,134 at December 31, 2017, which included long term debt of \$2M. The RM submitted amendments to the rate study on February 20, 2020 which included a revised working capital calculation, showing the 2017 results were actually a deficit of nearly \$700,000.

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

	2018
Accumulated Fund Surplus/Deficit	\$2,373,053
Deduct tangible capital assets	\$2,575,750
Add long term debt	\$190,621
Add utility reserves	\$0
Equals Working Capital Surplus/Deficit	(\$12,076)
Operating costs	\$56,899
20% of operating costs (target)	\$11,380

Operating Deficits

The rate application stated the Utility experienced an operating deficit of \$1,942 in 2014 and there are no outstanding PUB Orders or instructions with respect to deficit recovery. The rate study also stated the Utility Fund is operating with a WCS that exceeds the minimum levels established by the Board.

The RM's February 20, 2020 amended rate study did not address any issues with operating deficits, given the change in working capital.

Cost Allocation Methodology

The RM proposed a Cost Allocation Methodology (CAM) to recover 4% of the RM's operating costs, allocated equally between the Eden and Kelwood utilities.

Unaccounted for Water

The Utility originally indicated levels of unaccounted for water that were very high, between 30-60%. After the Board inquired about these volumes, it was determined the Utility was calculating the volume of water sold by dividing the total fees charged (based on residential equivalency units, not cubic meters) and the volume of water purchased.

5.0 Board Findings

The Board considered the RM's request for interim *ex parte* water rates, and found there was an urgent need to revise the rates as soon as possible. The rates were approved in Board Order No. 128/19.

Having considered the RM's filing and reviewed the responses 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 Eden 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, and with two exceptions, finds them to be reasonable. The Board had some questions on the calculation of unaccounted for water, given the lack of historical information prior to the installation and use of meters in January 2018, which were answered by the RM. An inflated percentage of unaccounted for water results in a higher water rate. The Board finds while the methodology used by the RM in calculating unaccounted for water is logical, it does not serve the ratepayers of the Utility. Given the age and recent history of the Utility, it appears unlikely the actual unaccounted for water is nearly as high as was estimated. In one instance in particular, it was brought to the Board's attention that one

of the large use customers has historically been charged five REUs, when an assignment of 30 REUs would have been more accurate. The Board finds it appropriate to use a 15% estimate to calculate water rates, until enough time has passed for an accurate historical measurement to be used.

In addition, the Public Utilities Board Note of the 2018 audited financial statements (Note 20) indicates of \$2M in grants received by the Eden Utility, but “Amortization During Year” is nil. The Note was not prepared correctly, and the Board had to contact the RM to ask for information on the annual amount of amortization that should have been included in the Note. This capital grant amortization amount has the effect of offsetting amortization expense, and resulted in a decrease in revenue requirements of approximately \$40,000.

The adjustments in revenue requirements have resulted in a significant change in the indicated rates, which have been varied in this Order by the Board.

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.

The Schedule of Utility Operations is prepared in a summary format that does not lend itself to the Board’s rate setting methodologies. It does not include a general section for service charges and expenses are lumped together. The Eden Utility does not show any “water purchase expense” for 2018, but the transmission and distribution expenses increase from \$9,504 in 2017 to \$74,707 in 2018. Accepted practice in the preparation of these Schedules includes providing comprehensive information on the Utility’s revenues and expenses.

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 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. This submission will be due July 31, 2022.

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 – Eden Water Utility, BE AND ARE HEREBY VARIED in accordance with the attached Schedule A, effective April 1, 2020.
2. The water rates for the Rural Municipality of Rosedale – Eden Water Utility, as approved on an interim ex parte basis in Board Order No. 128/19, BE AND ARE HEREBY CONFIRMED AS FINAL.
3. The Cost Allocation Methodology for shared services as submitted by the Rural Municipality of Rosedale BE AND IS HEREBY APPROVED.

4. The Rural Municipality of Rosedale amend the Eden 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.
5. The Rural Municipality of Rosedale – Eden Water Utility review water rates for adequacy and file a report with the Public Utilities Board on or before July 31, 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. 45/20
issued by The Public Utilities Board


Assistant Associate Secretary

SCHEDULE "A"
RURAL MUNICIPALITY OF ROSEDALE
UTILITY RATE BY-LAW

SCHEDULE OF QUARTERLY RATESApril 1, 20201. Schedule of Commodity Rates & Quarterly Service Charge

Water rate per cubic meter	\$3.15
Quarterly Service Charge	\$19.21

2. 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	\$19.21	\$44.10	\$63.31
¾ inch	2	27	\$19.21	\$85.05	\$104.26
1 inch	4	55	\$19.21	\$173.25	\$192.46
1 ½ inch	10	140	\$19.21	\$441.00	\$460.21
2 inch	25	341	\$19.21	\$1,074.15	\$1,093.36

3. Bulk Sales Rate

All water sold in bulk by the Eden (Neepawa) Public Water Distribution System shall be charged for at the rate of \$4.43 per cubic meter.

The following clauses take effect April 1, 20201. Service to Customers Outside the L.I.D. of Eden 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 LID of Eden. 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 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 added 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. 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.

7. 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 or refunded any balance owing.

8. 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.

9. 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.

10. 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.