

Order No. 77/20

**RURAL MUNICIPALITY OF MOUNTAIN
BIRCH RIVER WATER AND WASTEWATER UTILITY
REVISED RATES FOR JULY 1, 2020, JANUARY 1, 2021, AND JANUARY 1, 2022**

May 26, 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) varies revised water rates for the Rural Municipality of Mountain (RM), Birch River Water Utility (Utility) and varies the effective dates to July 1, 2020, January 1, 2021, and January 1, 2022.

The approved rates are as follows:

	Current By-Law 06/15	July 1, 2020	January 1, 2021	January 1, 2022
Quarterly Service Charge	\$31.02	\$37.10	\$38.25	\$39.40
Water Rates (per quarter)*	\$100.85	\$127.08	\$129.67	\$133.96
Wastewater Rates (per quarter)*	\$19.75	\$20.34	\$20.95	\$21.58
Minimum Quarterly Charge – Water and Wastewater Customers*	\$151.62	\$184.52	\$188.87	\$194.94
Minimum Quarterly Charge – Water Only Customers*	\$131.87	\$164.18	\$167.92	\$173.36
Bulk Water	\$20.00	\$24.00	\$24.00	\$24.00
Rate Rider (per customer per quarter)**	\$16.74	\$16.74	\$16.74	\$16.74

*Based on 1 Residential Equivalency Unit (REU)

**Approved in Board Order No. 113/17 and Varied in Board Order No. 22/18 beginning April 1, 2018, collected over a period of 5 years

The Board also approves the revised REU Assignments, effective July 1, 2020, as follows:

	Existing REU Assignments	Revised REU Assignments	Number of Customers	Total REUs
Residential Churches	1.0	1.0	105.0	105.0
Non-Residential	-	-	-	-
Birch River Library RM of Mountain Canada Post Corp. Crop Production Services Northern Neighbours Seniors	1.0	1.5	5.0	7.5
Birchwood Grocery	2.0	2.0	1.0	2.0
Royal Canadian Legion	2.0	3.0	1.0	3.0
Birch River Fire Hall	1.0	3.0	1.0	3.0
Trevor Anderson	3.0	4.0	1.0	4.0
Swan Valley School Division	10.0	10.0	1.0	10.0
Manitoba Housing	12.0	12.0	1.0	12.0
Total			116.0	146.5

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 RM owns and operates the Utility serving 51 water and wastewater customers, 62 water only customers, and 3 wastewater only customers (or a total of 116 customers). Rates were last finalized for the Utility in 2017 in Board Order No. 113/17 and varied in 2018 in Board Order No. 22/18.

The 2017 Board Order approved metered water and wastewater rates in anticipation of meters being installed. To date meters have not been installed and the RM has continued to charge flat rates. The rate study advises meters have not been installed due to strong customer opposition against their installation.

A deficit was last approved by the Board in Board Order No. 113/17 in the amount of \$40,174 for 2014 and was Varied in Board Order No. 22/18. The deficit is approved to be recovered by a rate rider of \$16.74 per customer per quarter, effective April 1, 2018 for a duration of five years.

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 an unmetered distribution and collection system, where information regarding actual consumption is unavailable.

Water Supply/Distribution

The water system is composed of two wells, a water treatment plant, and distribution system. One well supplies a truck fill while the other supplies the distribution system. Water is treated by chlorination directly into the distribution system with no reservoir storage.

The RM does not currently have a plant operator, as it has not been able to find a replacement for the prior plant operator. A Ward Councillor who is certified in plant operation is currently fulfilling the plant operator's duties, charging only for the time spent water testing.

The RM advises the water supply was not meeting drinking water standards due to high levels of arsenic. Upgrades in 2019 were planned to resolve the issue and at the time of the rate study, the system was not under a boil water advisory.

Wastewater Collection/Treatment

The wastewater effluent from the lagoon is discharged on RM owned land. The wastewater lagoon is in compliance with its environmental license.

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 RM has not installed water meters and therefore the RM is unable to calculate unaccounted for water levels.

3.0 Application

On September 17, 2019, the RM applied for revised water and wastewater rates, to be effective January 1, 2020, January 1, 2021, and January 1, 2022 as set out in By-Law No. 19/19 having had first reading July 10, 2019. The application was supported by a rate study prepared by the RM's consultant.

A Public Notice of Application was issued on September 19, 2019 allowing for any questions or comments with respect to the proposed rate increases to the Board and/or the RM on or before October 19, 2019. No responses to the notice were received.

On March 25, 2020, Board staff sent a letter to the RM requesting the RM revise or explain the all-at-once implementation of a \$10,000 reserve allowance in its forecast, revise or explain the requested contingency allowance (and why a methodology different from the Board recommended methodology was chosen), and advise why some Capital Grant Amortization (as noted in the RM's Audited Financial Statements) was omitted from the rate study/rate calculations. On April 1, 2020, the RM responded to Board staff's letter. Upon further clarification of the RM's response to the letter, the RM requested the Board consider the application as written with no revisions.

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 RM's application.

The rates were calculated based on the following projections using an annual inflation rate of 3% in all calculations:

Schedule of Utility Rate Requirements – Birch River Water and Wastewater Utility 2020 to 2022 Budget Forecasts (\$)			
	2020	2021	2022
	Forecast		
General Expenses			
Administration	17,510	18,035	18,576
Total General Expenses	17,510	18,035	18,576
Revenue			
Penalties	300	300	300
Total General Revenues	300	300	300
Net Costs General	17,210	17,735	18,276
Water Expenses			
Staffing	15,000	15,450	15,914
Purification and Treatment	25,000	25,750	26,522
Service of Supply	5,000	5,150	5,305
Other Water Supply Costs	-	-	850
Amortization – New Plant	27,000	27,000	27,000
Amortization/Depreciation	11,718	11,718	11,718
Reserves	10,000	10,000	10,000
Contingency	13,130	13,130	13,130
Total Water Expenses	106,848	108,198	110,439
Revenue			
Connection Revenue	400	400	400
Hydrant Rentals	1,700	1,700	1,700
Amortization of Capital Grants	13,320	13,320	13,320
Total Water Revenue	15,420	15,420	15,420

	Net Water Costs	91,428	92,778	95,019
Wastewater Expenses				
	Lift Station	2,060	2,122	2,185
	Treatment and Disposal	5,150	5,305	5,464
	Amortization/Depreciation	36,009	36,009	36,009
	Interest on Long-Term Debt	18,259	16,537	14,717
	Contingency	3,270	3,270	3,270
	Total Water Expenses	64,748	63,243	61,645
Revenue				
	Taxation Revenues	48,326	48,326	48,326
	Total Wastewater Revenue	48,326	48,326	48,326
	Net Wastewater Costs	16,422	14,917	13,319
	Net Operating Costs	125,060	125,430	126,614

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

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 \$13,130 for water and \$3,270 for wastewater representing 1% of the original capital cost of the water system. The RM has also included a new, annual reserve allowance of \$10,000 for future replacement of capital and water line repair.

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	2017
Utility Fund Surplus/Deficit	\$1,209,420	\$1,179,343
Deduct: Tangible Capital Assets	(1,652,779)	(1,656,593)
Add: Long-Term Debt	346,875	373,774
Add: Utility Reserves	153,019	135,075
Equals Working Capital Surplus (Deficit)	56,535	31,599
Operating Expenses	113,820	120,604
20% of Operating Expenses (Target)	22,793	24,121

The Utility meets the Board minimum 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 advises no changes are being proposed to the existing Cost Allocation Methodology last approved in Board Order No. 160/12, representing 5% of indirect overhead costs.

4.0 Board Findings

The Board has reviewed the application, the projections presented by the RM in its rate study, and the responses to Board staff questions/correspondence.

The Board finds there are issues with the RM's application and methodologies and forecasts used to calculate the requested rates as follows:

Public Sector Accounting Board Standards and Amortization

As of July 1, 2009, the Public Sector Accounting Board (PSAB) set new standards for public sector accounting. The Government of Manitoba adopted the new, national PSAB standards and required all municipalities and their utilities to comply. PSAB standards have had significant implications with respect to annual financial reporting, forecasting, and utility ratemaking. The requirement for the amortization/depreciation of utility assets to be included as an expense in utility financial statements as increased the total expenses, which need to be recovered through rates.

At the same time, the Public Utilities Board Guidelines for utility rate studies states the following under Calculations of Commodity Rates-Considerations:

- Amortization of capital assets (previously known as depreciation) in accordance with PSAB standards is an expense item and must be included in the determination of revenue requirements. Similarly, grants or other contributions received for capital purposes must be capitalized for rate setting purposes and also amortized over the life of the related asset(s) as an offset to amortization expenses.

Board Order No. 93/09 (available on the Board website) outlines PSAB accounting/reporting requirements for all municipalities and their utilities and states the following:

- Municipalities will now be required to establish amortization rates and record annual amortization as an expense for their utility.
- The treatment of such expenditures is critical, not only for financial statement presentation, but also for the establishment of just and reasonable rates.

Both amortization expenses and the amortization of capital grants for Tangible Capital Assets are important for rate setting purposes. They are not optional, they are a requirement of the Board and PSAB.

The Board finds the RM has not properly accounted for all capital grant amortization in its forecasts and requested rates. The Board therefore varies the RM's forecast for rate requirements to include capital grant amortization of \$1,663 for water and \$17,957 for wastewater.

Contingency Allowance Calculations

The Board approved Guidelines for preparing Public Utilities Board rate applications states the following as the Board approved methodology for calculating contingency allowances for the purposes of forecasting and ratemaking:

- "A yearly allowance equal to 10% of the variable operating costs is recommended as a guideline, unless other indicators suggest something different. Variations should be explained. A new water or [wastewater] system will not likely require maintenance or repairs during the period covered by the rate study. A utility with mostly fixed costs will not usually encounter large unexpected expenses."

The Board finds the calculation used in the rate study for the contingency allowance (1% of the historical capital cost of the Utility System) inconsistent with the Board's Water and Wastewater Rate Application Guidelines and does not accept the RM's explanation for the variance from the Board recommended methodology. The Board recommends the RM review the most recent Public Utilities Board of Manitoba Guidelines prior to filing its next application.

The Board therefore varies the RM's contingency allowance, using 10% of the Utility's variable costs, to \$8,820 for 2020, \$8,685 for 2021, and \$8,461 for 2022 for water.

Based on the above-noted variances, the Board varies the water rates to \$127.08 per REU per quarter for 2020, \$129.67 per REU per quarter for 2021, and \$133.96 per REU per quarter for 2022. The Board also varies the effective dates to July 1, 2020, January 1, 2021, and January 1, 2022 in keeping with the Utility's quarterly billing cycle.

The Board notes, inclusion of the required capital grant amortization results in a negative expenditure rate requirement for wastewater rates. The Board therefore varies the wastewater rates to \$20.34 per REU per quarter for 2020, \$20.95 per REU per quarter for 2021, and \$21.58 per REU per quarter for 2022, which includes an increase equal to the rate of inflation included in the RM's rate application of 3.0%.

The Board approves a bulk water rate of \$24.00 per 1,000 gallons, effective July 1, 2020.

The Board notes no changes to the RM's existing Cost Allocation Methodology and reminds the RM this methodology must be used consistently; any changes to the Cost Allocation Methodology require Board approval.

The Board requires 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 an application for revised rates (if required) on or before December 31, 2022.

The Board reminds the RM the water meters are a capital asset and must be properly amortized as per Generally Accepted Accounting Principles. The Board also notes that it supports the use of water meters over Residential Equivalency Units as it allows for fairness in water billing, as all customers are then only billed for the water they are using. Water meters also encourage water conservation and the detailed tracking of unaccounted for water to reduce water loss.

The Board notes the Utility has expiring taxation revenues of \$11,277 in 2026 and \$37,049 in 2028 for wastewater and directs the RM to account for this loss of revenue to the Utility in future rate studies/applications to prevent future large, all-at-once rate increases to customers.

5.0 IT IS HEREBY ORDERED THAT:

1. The revised water rates for the Rural Municipality of Mountain, Birch River Water and Wastewater Utility, BE AND ARE HEREBY VARIED in accordance with the attached Schedule A, effective July 1, 2020, January 1, 2021, and January 1, 2022.
2. The Rural Municipality of Mountain 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.
3. The Rural Municipality of Mountain 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.
4. The Rural Municipality of Mountain review its water and wastewater rates for the Birch River Water and Wastewater 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.

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. 77/20
issued by The Public Utilities Board



Assistant Associate Secretary

SCHEDULE A**RURAL MUNICIPALITY OF MOUNTAIN – LUD OF BIRCH RIVER
BIRCH RIVER WATER AND WASTEWATER UTILITY
WATER AND WASTEWATER UTILITY RATES BY-LAW NO. 09/19**1. Schedule of Quarterly Rates **July 1, 2020**

All customers will pay the applicable minimum charges set out below, which includes the water and wastewater allowance listed.

REU's	Quarterly Service Charge	Water Charge	Wastewater Charge	Total Quarterly Charge
1	\$37.10	\$127.08	\$20.34	\$184.52
1.5	\$37.10	\$190.62	\$30.51	\$258.23
2	\$37.10	\$254.16	\$40.68	\$331.94
3	\$37.10	\$381.24	\$61.02	\$479.36
4	\$37.10	\$508.32	\$81.36	\$626.78
10	\$37.10	\$1,270.80	\$203.40	\$1,511.30

2. Bulk Water Sales

The charge for bulk water shall be at the rate of \$24.00 per thousand gallons of water.

1. Schedule of Quarterly Rates **January 1, 2021**

All customers will pay the applicable minimum charges set out below, which includes the water allowance listed.

REU's	Quarterly Service Charge	Water Charge	Wastewater Charge	Total Quarterly Charge
1	\$38.25	\$129.67	\$20.95	\$188.87
1.5	\$38.25	\$194.51	\$31.43	\$264.19
2	\$38.25	\$259.34	\$41.90	\$339.49
3	\$38.25	\$389.01	\$62.85	\$490.11
4	\$38.25	\$518.68	\$83.80	\$640.73
10	\$38.25	\$1,296.70	\$209.50	\$1,544.45

2. Bulk Water Sales

The charge for bulk water sales shall be at the rate of \$24.00 per thousand gallons of water.

1. Schedule of Quarterly Rates**January 1, 2022**

All customers will pay the applicable minimum charges set out below, which includes the water allowance listed.

REUs	Quarterly Service Charge	Water Charge	Wastewater Charge	Total Quarterly Charge
1	\$39.40	\$133.96	\$21.58	\$194.94
1.5	\$39.40	\$200.94	\$32.37	\$272.71
2	\$39.40	\$267.92	\$43.16	\$350.48
3	\$39.40	\$401.88	\$64.74	\$506.02
4	\$39.40	\$535.84	\$86.32	\$661.56
10	\$39.40	\$1,339.60	\$215.80	\$1,594.80

2. Bulk Water Sales

The charge for bulk water sales shall be at the rate of \$24.00 per thousand gallons of water.

The following clauses take effect July 1, 2020:3. Deficit Recovery

In accordance with PUB Order No. 113/17 and No. 22/18 a rate rider for deficit recovery which states: "The Board will approve the recovery of the 2014 operating deficit of \$40,174 by rate rider. The deficit will be recovered by a rate rider of \$8,034.80 per year for the term of five (5) years [\$16.74 per customer, per quarter], commencing April 1, 2018."

4. Service to Customers Outside L.U.D. of Birch River Limits

The Council of the Municipality of Mountain may sign agreements with customers for the provision of water and wastewater services to properties located outside the legal boundaries of the L.U.D. of Birch River. 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 connecting to the Utility's mains and installing and maintaining service connections will be paid by the customer.

5. Billings And Penalties

A late payment penalty 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.

6. Disconnections

The Public Utilities Board has approved the Conditions Precedent to be followed by the Rural Municipality of Mountain 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 Rural Municipality's office.

7. 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.

8. Outstanding Bills

Pursuant to Section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water and wastewater 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 sixth (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.

9. Hydrant Rentals

An annual charge of one hundred dollars (\$100.00) per hydrant shall be made by the said utility to the L.U.D. of Birch River for fire protection services, which annual charge shall include water used.

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 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 expenses 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.

11. Authorization for Officer to Enter Upon Premises

The Designated Officer, or other employee authorized by the Rural Municipality, shall be authorized to enter upon any premises 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.

12. Actual Turn Off/On of Water Service

That the charge for physically turning on a water service shall be \$50.00. Connections or disconnections completed after hours, weekends, or emergency call outs shall be subject to a water turn off/on fee of \$50.00

13. New Connections to the Utility System

Any residents of the L.U.D. of Birch River that are not connected to the utility system, but wish to connect will be responsible for any fees and permits associated with such a connection.

14. REU Table

The RM of Mountain hereby establishes the following non-residential REU multiples:

Residential	Commercial	Commercial II	Commercial III	Commercial IV	School	Housing (Birchwood Place)
1 REU	1.5 REUs	2 REUs	3 REUs	4 REUs	10 REUs	12 REUs
All Residential Properties, including churches	Non Residential properties that do not have public washroom facilities or do not require water for business purposes	Non Residential properties with public washroom facilities, but do not require water for business purposes or vice versa	Non Residential properties with public washroom facilities, require water for business purposes or are considered a public facility	Non Residential properties that are considered to be of an industrial nature	Birch River School	Birchwood Senior Housing (12 suites)
Residential Properties	Canada Post	Mafeking Gas & Grocery	Restaurants	Manitoba Infrastructure Office	Birch River School	Birchwood Place
Churches	Nutrien Ag Solutions	Birchwood Grocery	Legion Hall (Mafeking)	Birch River Fisheries		
	Municipal Office		Fire Hall (Mafeking)			
	Northern Neighbors		Legion Hall (Birch River)			
	Birch River Library		Fire Hall (Birch River)			

15. Application to the Public Utilities Board for Adjustment in REUs

Owners of non-residential locations may apply to the RM of Mountain for an adjustment in class in accordance with the non-residential REU class schedule. These adjustments shall be prepared by the RM of Mountain staff and sent to The Public Utilities Board for review and approval. The cost for such an application shall be bore by the applicant and shall be the actual amount charged by The Public Utilities Board for such an order plus an administration fee of \$100.00 for preparing the required documents.