



Manitoba Public Utilities Board

GUIDELINES

For use by water and/or wastewater utilities in
preparing applications for revised utility rates

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1.0 The Manitoba Public Utilities Board

[The Public Utilities Board Act \(Act\)](#) gives the Public Utilities Board (Board) the jurisdiction and authority over certain municipal and utility related matters. The Board is an independent, quasi-judicial administrative tribunal that has broad oversight and supervisory powers over public utilities and designated monopolies, as set out in statute. The Board considers both the impact to customers and the financial requirements of the utility in approving rates.

The Board has three principal roles related to water and wastewater utilities:

1. setting rates;
2. approving operating deficits and method of recovery; and
3. adjudicating appeals.

A public utility is defined as any works for the production, transmission, and/or delivery of water directly or indirectly to or for the public, including such works owned by a municipality.

If the Board declares a wastewater collection system a public utility, the Act then applies to it. The municipality or stakeholders may make a request for this, or the Board may initiate it. The Board always makes a utility declaration in cases where wastewater service is provided in combination with water service.

The Manitoba Water Services Board (MWSB), which acts as an operator and wholesaler of water, is exempt from the Act. MWSB customers may appeal to the Board if they have any concerns about the MWSB rates.

Private and cooperatively owned water and wastewater systems in Manitoba that serve the public were largely excluded from the Board's oversight until approximately 2007, at which point the Board began to exercise its regulatory oversight. These guidelines provide information about the regulation of private and cooperatively owned utilities.

In order to maximize economies of scale and facilitate oversight and regulation, public utilities are generally provided in a monopoly environment. For example, it would make no sense to have two waterlines running down the same street servicing the same area.

Readers may refer to the Act for general information, and are directed specifically to Sections 77, 78 and 82 - 95, which can be found on the Board's website.

2.0 Background

The tragic incident of coliform contamination of the water supply at Walkerton, Ontario greatly affected the water industry. Subsequent strengthening of Manitoba regulations to set standards in regulation to deal with both potable water quality and sewage treatment has affected all water and wastewater operations. While the Board has no direct responsibilities in these two areas, compliance with the regulatory standards can affect the cost of operations, and thus rate setting, for which the Board is responsible.

In 2009, the Public Sector Accounting Board (PSAB) introduced new accounting standards. Rates are affected by an ever-increasing awareness of infrastructure deficits requiring effective capital funding structures.

3.0 The Role of the Utility Owner and Management

The Board does not manage utilities. While the Board and its staff make every attempt to be helpful to utility operators, the Board does not have the resources or jurisdiction to oversee the day-to-day operations of the utility. If the utility does not have the in-house expertise to handle a particular operational issue, it may want to consider seeking professional assistance from external consultants.

A utility is responsible for determining when a rate review is required and is responsible for its submission to the Board. The Board recommends utilities review their rate requirements at least every three years, but it does not monitor whether or not utilities are following this recommendation. Utility owners must ensure their utility rates are adequate to meet operational requirements and comply with all Board Order directives. Where this has not occurred, the utility may experience a deficit, in which case the utility is required to seek Board approval through an application process defined later in this document.

A utility is responsible for its customers, including handling complaints. Disputes should be resolved between the customer and the utility. Where this is not possible, either the customer or utility can appeal to the Board.

3.1 When Should a Utility Apply to the Public Utilities Board?

Utility rates must provide sufficient revenue to recover all maintenance and operating costs and maintain the financial health of the utility. By law, Manitoba utilities are not allowed to incur deficits. In the event that a deficit does occur, [The Municipal Act](#) requires the utility to obtain Board approval for both the deficit and recovery methodology.

It is the responsibility and decision of the utilities to apply for new or revised rates. Regularly reviewing rates for adequacy provides the opportunity to assess the operating performance of a utility, avoids rate inadequacy, and prevents customer rate shock. Municipalities should do this at least annually. The Board promotes the user-pay principle in rate setting in order to encourage conservation and to send proper price signals to consumers. Fair and equitable rates are highly dependent on the accuracy of the underlying utility records.

It is with this background that Board staff provide these guidelines for the preparation of applications to the Board for approval of water and wastewater rates.

3.2 Statement of Rate Adequacy

Many of the water and wastewater Board Orders will include a directive requiring the utility to return to the Board with either a rate application or a statement of rate adequacy by a determined future date.

A typical statement of rate adequacy includes a letter from the Applicant advising the current rates are adequate, a PUB Schedule 9 for the most recent audited financial statements, a proposed date for follow up and a council resolution supporting the submission.

The Board recommends including all relevant additional information, if the utility intends to file a rate application in the future, the possibility of requesting pass through rates for utilities purchasing water, or any other information necessary for the Board to find the rates to be adequate.

3.3 Simplified Filing Process

The Board introduced a Simplified Filing Process in [Board Order No. 86/17](#), which allows utilities meeting designated criteria to file for a single rate increase without the need for a full rate study and application process. The Board will periodically review the criteria and maximum allowable rate increase under the Simplified Filing Process, and issue a Board Order to make any appropriate revisions.

Utilities are encouraged to visit the Board's website to access the most recent Board Order, as well as a webinar found in the Educational Webinars section, that contain the current criteria and the maximum allowable increase.

Note: The Simplified Process does not allow non-compliant utilities an opportunity to circumvent the Board's utility rate application process. The applicant utility is responsible for determining whether it meets the designated criteria. If it does not, but submits an application using the Simplified Process, the Board will deny the application and charge a processing fee of \$500.00.

"When calculated for regulatory purposes" refers to the operating results of a utility, adjusted to exclude revenue from capital grants or contributed assets, and to include one year's amortization of the same capital asset. The calculation is:

A utility's Net Operating Surplus/(Deficit) minus Government Transfers related to capital, plus the Amortization of Capital Grants included in the Public Utilities Board Note to the Audited Financial Statements.

3.4 Using Board Guidelines and Methodology

These guidelines outline the Board's recommended rate-setting methodology. Rate applications should be prepared using the Board methodology, unless there is evidence establishing an alternative methodology that better serves the public interest. Alternative methodology should always be transparent, consistent, logical and quantifiable.

The Board updates the guidelines periodically to improve value to the Applicant and ratepayers.

In the interest of providing guidance to Applicants, the Board's website has a number of resources, including several [Educational Webinars](#). The Webinars are developed based on identified topics of note. Applicants should review the topics available on the Board's website.

3.5 Rate Application Minimum Filing Requirements and Excel Workbook Templates

The Board has developed Minimum Filing Requirements (MFR), which are available on its website. There are two versions, one for the [Simplified Application Process](#) and another for the [Full Rate Application Process](#).

Consistent with its desire to contain regulatory costs, the Board has developed a set of spreadsheets to assist municipalities and other utilities in preparing rate studies. Unless there is an exceptional circumstance, the Board recommends that utilities use the spreadsheets to prepare their own rate studies. The utility may vary the spreadsheets to address specific circumstances. The utility must explain these variations in order for the Board to process the application. There is a worksheet included to refer back to these explanations. The spreadsheets are formula-driven and by following the completion instructions, a viable rate proposal will result. It is important to make sure the correct spreadsheet is selected. If in doubt, please contact Board staff for assistance.

The following pages describe how to prepare applications for revised water and/or wastewater rates. By following these steps, Applicants will help to expedite the rate review process.

3.6 Private and Cooperatively Owned Utilities

The Board regulates private and cooperatively owned utilities (Co-ops) on a "Complaint Based Model", which allows members and ratepayers to contact the Board with concerns and complaints. The regulation of Co-ops includes a requirement to file an annual information return with the Board, which provides requirements for notice of intent to revise rates. The form used for the annual return is available on the Board's website.

Privately owned utilities are businesses, and as such are entitled to a reasonable rate of return on investment.

4.0 Board Processes

4.1 Overview of the Application Process

When the utility files its application with the Board, Board staff will carry out an initial review to ensure the application is complete. If there are any issues, Board staff will contact the Applicant to request the missing or additional information. The Board will reject an application with serious deficiencies and will provide an explanation to the applicant.

The Board drafts a Public Notice of Application providing the details of the application. The Applicant is responsible for publication of the Notice, as per the Board's Rules of Practice and Procedure.

The Board reviews the application, produces information requests (IRs), if required, and sends them to the Applicant if required. Upon the receipt and review of the responses, the Board may require further information. This process repeats until the Board has no further questions.

The Board determines whether to review the application using a public hearing or a paper review process. The determination depends on many variables including, but not limited to, the volume of stakeholder responses, the nature of those responses and/or the magnitude of the requested increase.

If the Board chooses a public hearing process, Board staff and the municipality will determine a mutually agreeable hearing date, time and location, when possible. Once determined, the Board drafts a Public Notice of Hearing providing the details of the hearing. The Board also has the capability of hosting a public hearing in its hearing room in Winnipeg, which allows live streaming of the hearing and virtual participation in the form of questions and presentations.

The Board panel reviews all the evidence, including any from a public hearing, and make its decision. The Board communicates its decisions in the form of Board Orders, available on the Board's website.

Board Orders may contain recommendations and will contain directives. Recommendations are suggestions from the Board to the Applicant, however, utilities must comply with all directives, or appeal them using the Board's Review and Vary Process. The utility cannot ignore or refuse to comply with Board directions. Non-compliance may result in fines being levied against relevant parties.

4.1.1 Public Notices of Application and/or Public Hearing

Once Board staff have reviewed an application for completeness, a draft Notice of Application is prepared and sent to the Applicant. Once the Applicant has reviewed and approved, a finalized copy is sent to the Applicant for publication.

The Applicant must publish the finalized Notice within 15 days of receipt. Publication requirements are either twice in a local newspaper or by separate mailing to all customers. In addition, the Applicant must post copies of the Notice in five prominent locations within the municipality, such as the post office, grocery store, or community centre as per Section 5 of the Board's Rules of Practice and Procedure. Applicants are also encouraged to post the Notice on their website and/or social media, if possible.

No later than one week after the Notice closing date, the Applicant must send a signed affidavit to the Board, which advises Board staff of the publication methodology chosen. A blank affidavit is provided and available on the Board's website.

The Notice provides the public with an opportunity to provide comments and/or concerns regarding the application and helps the Board when deciding between a paper-based or public hearing. The Board will provide all comments it received to the Applicant. Applicants are to provide the Board with all comments they receive.

All questions regarding the application should be directed to the Applicant, not the Board. The Applicant is responsible for the content of its application.

Applicants are encouraged, but not required to respond to the comments received. If the Applicant provides any responses to comments, it should provide copies to the Board.

4.1.2 Interveners and Presenters at Public Hearings

Interveners are parties other than the applicant who have formally filed for registration in respect of a proceeding and who intend to participate in the production and testing of evidence and whose registration has been approved by the Board pursuant to Rule 27 of the Board's Rules of Practice and Procedure. A presenter is any person who makes an unsworn or unaffirmed statement concerning an application to the Board in respect of a proceeding.

At water and wastewater hearings, public participation is typically by way of presenters, rather than interveners. Presenters, stakeholders have the opportunity to share their positions with the Board and ask questions of the Applicant.

Individuals or groups who wish to become interveners in a hearing are required to submit an application to the Board, which will then decide whether to grant status as an intervener.

The Board's website provides information regarding the process for applying for presenter or intervener status.

4.2 [Initial Interim Rates for New Systems](#)

New water and/or wastewater systems require Board approval to charge utility rates. It is the Applicant's responsibility to submit necessary information to the Board as early as possible, so review and approval of rates by the Board occur before services are provided to customers.

In the case of a new system, the Applicant should contact Board staff to determine the best way to proceed. Typically, with no operating history, the Board will grant approval of initial interim rates and direct the Applicant to submit additional information once the utility has been operating for a period long enough to provide sufficient financial results for review.

In some cases, where rates are not set until customers have been receiving services, the recovery of resulting shortfalls may occur through retroactive billing. This is subject to approval of the Board, and generally, the Board only gives consideration in cases where the Applicant can demonstrate that the customer was advised in advance. Utilities must keep detailed records and have customers confirm in writing their understanding of the need to pay for services at a future date to avoid disputes between the utility and ratepayers

4.3 Request to Review and Vary

Once the Board has issued a decision, the Applicant must either comply with the directives in the decision, or apply for a review under Section 36 of the Board's Rules of Practice and Procedure (Rules). An application to review a decision must be in writing and contain specific information, outlined in the Rules. Applicants have 30 days from the date of the Order or decision to apply for a review.

The Applicant may file an application to review decisions only when the Board has erred in law or where the Applicant has new facts not in evidence at the time of the Board's decision.

4.4 Request for Pass-Through Rate Increases

Pass-through rate increases occur when a Board regulated utility purchases water from another Board-regulated utility.

The Board does not typically allow pass-through rate increase from unregulated utilities (eg. City of Winnipeg) because it would not provide ratepayers with the protections afforded by the Board's oversight and notice requirements, with the exception of water utilities/cooperatives run by MWSB. The rate setting methodology of MWSB aligns with the Board guidelines and as per section 8 (2) of *The Manitoba Water Services Board Act*, the purchasing utility has the right to appeal to the Board any rate it believes to be excessive.

Utilities must strictly adhere to the following process for pass through rate increases:

Step 1. The purchasing utility will consider the implications of any water rate increase approved by the Board and or MWSB for its water source utility, and determine whether or not the increase needs to be passed on to its ratepayers to maintain the adequacy of rates.

Step 2. If the cost increase is to be reflected in the rates of the purchasing utility, and with the one exception that changes in the rate of water losses in the system may also be included, the municipality need only inform its ratepayers/customers and the Board of the pass through rate change, with a minimum of 90 days notice. This Notice must include information for ratepayers on their ability to communicate with the Board regarding the increase.

Step 3. If rates are to change for any reason other than the exact wholesale increase, the Municipality must make a rate application to the Board. The Board may decide to proceed to hear the application by way of a paper-based process or by way of a public hearing.

Step 4. Should a municipality decide to implement the pass-through rate changes, the municipality may only increase the water rate as a dollar amount, without markup, and not as a percentage increase. The Municipality must file an amended rate by-law with the Board and provide a notice of the change to its customers. The Board requires a copy of the increase notice sent by the Municipality to its customers prior to implementation of the revised rates.

4.5 Utility Customer Complaints

The Board receives complaints from customers concerning utility operations and decisions. The Board will only consider a formal complaint if the customer can demonstrate they have made reasonable attempts to resolve the dispute in discussion with the utility. Board staff will redirect a customer to the utility if they receive a complaint not yet discussed with utility management. The Board will also advise customers that a formal complaint to the Board may result in assignment of costs to either or both parties when the Board issues its decision.

When dealing with a formal customer complaint, the complainant must file the complaint in writing, including specific details regarding the remedy sought. The Board sends the complaint to the utility for a response, and then sends the utility's response to the complainant for a final comment. The Board will then review the evidence and make a decision, which will be in the form of a Board Order.

5.0 Application for Approval of Rates

The application should contain all information and supporting calculations. The Board has developed Excel workbooks which if properly completed will provide the necessary calculations. All workbooks include a worksheet with detailed instructions of how to use the workbooks. These workbooks are available on the Board's website.

<http://www.pubmanitoba.ca/v1/regulated-utilities/w-ww/ratepayer/ratestudy.html>

5.1 Considerations in Calculating Revenue Requirements:

5.1.1 Customer Service Charge

The customer service charge recovers utility administration costs, including meter reading (where there is a metered system), customer billing and collection, and a proportion of other General Administration costs, including office salaries, office expenses, auditing and similar costs.

The volume used generally does not influence these costs. The costs apply to all customers regardless of how much water is used or the amount of effluent discharged. Therefore, the total of these costs is divided by the total number of connections to the system (whether they use water service, wastewater service, or both), to derive the Customer Service Charge for the billing period (monthly, quarterly or annually).

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. The utility must submit this policy to the Board for approval. Board order No. 93/09, on the Board's website at http://www.pubmanitoba.ca/v1/pdf/09water/93_09.pdf, outlines the Board's requirements regarding cost allocation methodologies.

5.1.2 Debenture Costs Recovered on Taxes

Annual debenture costs (loan principal repayment plus interest), incurred to repay the debenture debt of the utility, are an essential consideration for rate determination. Debenture revenue from taxation must be included in the calculation of rates. Utilities must consider expiring debenture tax revenues when reviewing and setting rates to prevent large, one-time rate increases.

The interest component of the annual debenture repayment is considered an expense for rate setting purposes. The principal repayment component is not. However, the assets acquired through the debenture will have an annual amortization expense. The Public Sector Accounting Board (PSAB) standards require municipalities to have an annual amortization expense for assets acquired through debentures. A Guide is available on the PSAB website at www.frascanada.ca/public_sector-accounting-board/.

5.1.3 Debenture Costs Recovered through Utility Surcharge

Municipalities may decide to recover utility debenture payments through a utility surcharge, through taxes, or through a hybrid of the two methods. The Municipal Board approves Debenture debt, regardless of method of recovery. In order to recover any portion of debenture debt through a utility surcharge, a municipality must first seek the Board's approval in principle. Once the project is complete and the actual costs and debenture payments are known, the municipality must apply to the Board for approval of the final debenture recovery surcharge.

The interest component of the annual debenture repayment remains an expense for rate setting purposes. The principal repayment component is not, and disclosure of revenues collected by way of a debenture recovery must be included on audited financial statements to allow for proper accounting. The assets acquired through the debenture will still have an annual amortization expense, which also must be considered for rate setting purposes.

Collecting debenture debt through a consumption-based utility surcharge, rather than on property taxes, better aligns with the user-pay principle. Most municipalities continue to use property taxes to recover debenture payments, but the Board has seen an increase in applications for at least a portion of recovery to be through a utility surcharge. This method of recovery is not without its challenges, as it requires a higher level of administration and oversight on the part of the municipality. Revenues generated must be appropriate to fund the debenture payment. Audited financial statements must be properly prepared to account for these revenues on a dedicated revenue line on the Schedule of Utility Operations (Schedule 9).

Whether or not debenture servicing costs are better borne through a utility surcharge or taxes will vary with the circumstances. This determination should take into account equity and fairness, as well as a municipality's ability to appropriately oversee the collection of debenture payments through a utility surcharge.

In some cases, a hybrid of the two methodologies where collection of part of the debenture servicing costs is from taxes and the remainder is through a utility surcharge may be appropriate.

5.1.4 System Development Charge

A System Development Charge (SDC) is a charge paid by a new utility customer to buy into an existing system. These charges can go by different names, SDC, one-time equity buy-in, connection fees, etc. The guidelines apply regardless of the name chosen by the utility.

The intention is to have the new user contribute to existing infrastructure and/or contribute to future capacity required because of the addition of new users to the system.

The Board does not have a prescribed method or formula for calculating the SDC; however, any utility charging such a fee should ensure it is transparent, consistent, logical and quantifiable. Regulation of SDCs a “Complaint Based Model”, which allows utilities and ratepayers to contact the Board with concerns and complaints. Upon receipt of a complaint, the utility must be able to provide the methodology used to determine the SDC so the Board can adjudicate the complaint.

5.1.5 Contingency Allowance

Forecasts used as a base for commodity rates should generally include a contingency allowance to provide for unforeseen costs.

The Board recommends an annual allowance equal to 10% of the variable operating costs as a guideline, unless other indicators suggest something different. Variations from the recommended guideline require explanation and substantiation.

A utility may also determine that it has sufficient reserves or surpluses to cover potential unexpected expenses. In such cases, a contingency provision may not be required.

5.1.6 Reserves

Utilities may create reserves to provide for future unforeseen expenses or anticipated, but undefined or not fully planned, future capital projects. The building of reserves is encouraged where future capital improvements or significant repairs are anticipated. The target level must be determined, indicating a final amount and the end date. The study should also delineate the nature and projected cost of the anticipated capital improvements.

However, building excess reserves may create intergenerational inequities where current ratepayers are paying for services from which they will not benefit. A utility must seek a balance between sufficient savings for unforeseen circumstances and excessive rates.

Where reserves exceed 20% of original gross capital cost, unless a major part of the excess is shown to have a specific need in the near future, the Municipality should, and may be asked to, consider refunding mechanisms such as a one-time rebate or the addition of a discount to the rate schedule. This is subject to removal of the discount when surplus funds are no longer excessive. A utility may establish a reserve fund by a Council By-Law approved by the Board, as provided in Section 168 of *The Municipal Act*. Use of such reserves is subject to the Board's approval in each case, to recover deficits, unforeseen costs, and capital expenditures not large enough to warrant a debenture issue. Any use of reserve funds previously approved through the municipal budget process do not require Board approval.

A utility cannot make a transfer to reserves without sufficient operating surplus.

5.1.7 Working Capital

The Board has set a target for a minimum working capital balance of 20% of operating expenses. Working capital represents the net liquid assets of an organization and is calculated by subtracting current liabilities from current assets.

In the case of utilities, the working capital calculation is as follows:

Accumulated fund surplus/deficit
Deduct tangible capital assets
Add long term debt
Add utility reserves
Equals Working Capital Deficit/Surplus

The Board expects each utility to be solvent and have a buffer to mitigate against unforeseen operational deficiencies.

Where a utility's working capital balance has dropped below the 20% threshold, the Board requires that a minimum provision equal to 1% of total expenses be added to rates until the working capital balance has reached the 20% target level.

5.1.8 Water Included in Minimum Rates – Metered Customers

To ensure that all customers make a fair contribution to the cost of operating the utility, all customers connected to the system should pay a minimum charge. This also ensures that customers have a sufficient base supply of water.

Currently, best practice is a minimum charge for 3,000 gallons or 14 m³ of water per quarter for a 5/8 inch meter. A rate structure, which has a larger volume in the minimum charge, transfers too large a portion of operating costs to the people who use less of the services. An estimate of 3,000 gallons (14 m³) per quarter provides an optimum balance between conservation, basic water requirements, and fairness.

The Board and utilities in Manitoba recognize the following group capacity ratios as best practice. Any applicant wishing to deviate from this best practice must provide supporting rationale, including calculations, for the Board to review and consider.

Meter Size	Group Capacity Ratio	Water Included m ³
5/8"	1	14
3/4"	2	28
1"	4	56
1 1/2"	10	140

5.1.9 Residential Equivalency Units

Where a system has no meters, including systems with wastewater service only, volume of water used and volume of effluent returned to the wastewater system are based on residential equivalency units; one unit being the volume of water estimated to be used by the average single family residence. Estimated water use, as compared with a single-family residence or estimated effluent returned to the water system, is the basis for units allocated to customers.

A study conducted in 1971 serves as a general guide in allocating units. The study used completed questionnaires from 30 small-metered systems. Experience has not warranted any change to the general guide over the years. The study remains the basis for Board

methodology. Utilities may vary their assignment of residential equivalency units based on specific knowledge of its customer base and water consumption.

5.1.10 Hydrant Rentals

A Municipality must pay to the utility an annual rental fee sufficient to cover the costs of maintaining and replacing all hydrants connected to the system. The Municipality is also required to pay for any water used for fire fighting as this is not a utility responsibility, and related costs should be recovered through taxes.

Since hydrant costs are part of water distribution costs, the utility must deduct revenue from hydrant rentals from distribution costs when calculating rates.

Hydrant rental costs will vary by municipality and circumstances. The Board approves hydrant rental charges.

5.1.11 Wastewater Surcharge

By Resolution of Council, a special wastewater surcharge on sewage having a Biochemical Oxygen Demand (BOD) in excess of 300 parts per million may be levied. Wastewater surcharges may also be required to treat other wastewater flows from customers that have specific properties in excess of “normal” wastewater characteristics. The amount should be sufficient to cover the cost of chemicals or other remediation materials required to treat the excess BOD (or other wastewater parameters) and all costs related to such treatment.

5.1.12 Water Not Returned to Wastewater System

Where a utility can demonstrate to the satisfaction of the Board that a substantial amount of water (e.g. approximately 10% or more of the water sold to a particular customer), used by a large volume customer (e.g. consuming in excess of 100,000 gals/quarter) does not return to the wastewater system, the municipality may apply to the Board to deduct such water volumes in calculating the wastewater charge to such customers. When a Municipality applies for such authorization, the Board requires a By-Law to amend the general rate By-Law. The utility must use the adjustment when calculating overall utility wastewater rates.

5.1.13 Non-Supplied Water Discharged Into Wastewater System

Where there is evidence that water not part of a distribution system, such as weeping tile water, is being discharged into the wastewater system, the Municipality may apply to the Board to make an estimate of the volume to be added to water volume for sewage volume count purposes. The Board requires use of a clearly defined method of estimation (ideally determined by an engineering assessment) in the rate application. In general, the Board encourages utility owners to have By-Laws or policies in place prohibiting weeping tile water from entering the wastewater collection system. Water from private wells or other sources of drinking water should not be included.

Wastewater volumes have an impact on future capital requirements, such as new or upgraded lagoons or treatment plants. In the interest of fairness, the generators of that volume should be contributing their fair share for these costs.

5.1.14 Unaccounted for Water

The Minimum Filing Checklists require Applicants to calculate the volume of unaccounted for water. The calculation, expressed as a percentage of total water produced and/or purchased, is as follows:

Total Water Produced and/or Purchased

Less Water Sales, water used for firefighting, line flushing or other operations

Equals Unaccounted for Water

Unaccounted for Water divided by Total Water Produced and/or Purchased = %

5.1.15 Service to Customers Outside the Municipality, Local Improvement District or Local Urban District

The Council of the municipality may sign agreements with customers for provision of water and wastewater services to properties located outside the legal boundaries of the municipality, Local Urban District (LUD) or Local Improvement District (LID). Such agreements must provide expressly for payment of the appropriate rates and must include a surcharge set by resolution of

Council. The surcharge must be equivalent to the frontage levy, general taxes and special taxes for utility purposes in effect at the time, or which 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, such customers must pay all costs of connecting to the utility mains and installing and maintaining service connections. Parties should have agreements in place prior to provision of services.

5.1.16 Bulk Water Rates

All rates charged for bulk water purchases should include:

the appropriate commodity water rate; a share of the utility administration costs; a surcharge equivalent to a fair share of taxes assessed for recovery of debenture costs relating to the water system paid by customers in the Municipality; and any additional costs incurred in serving bulk customers (coin operating system for example).

Where bulk water sales make up a substantial part of water sales, and particularly where a Utility purchases water, the appropriate commodity rate may be the lowest commodity rate in the schedule. Where a utility sells bulk water through a coin meter, the rate is expressed as: y gallons (m³) for x cents.

The formula for calculating the bulk water rate is as follows:

Administration revenue requirement	A
Water revenue requirement	B
Taxation revenue collected for the repayment of water related debt	C
All additional costs of servicing bulk customers	D
Subtotal	$E=A+B+C+D$
Bulk ratio	$F=E/B$
Domestic water rate	G
Bulk Water Rate	$G \times F$

5.1.17 Lagoon Tipping Fees

Lagoon tipping fees should include:

the appropriate commodity wastewater rate; a share of the utility administration costs;

a surcharge equivalent to their fair share of taxes assessed for recovery of debenture costs relating to the wastewater system paid by customers in the Municipality; and any additional costs incurred in serving lagoon customers (keys and access systems for example).

In the case of lagoon tipping fees, a municipality may wish to collect information about charges in nearby municipalities set rates that will discourage waste haulers from bringing in out of boundary waste to take advantage of lower tipping fees.

Due to the nature of lagoon tipping fees collected from wastewater haulers, the municipality must provide an additional notice period. This will allow wastewater haulers the opportunity to adjust their rates and notify their customers prior to the implementation of revised or new rates.

5.1.18 Billing Period

It is up to the utility to determine the optimal billing period. Utilities cannot bill in advance, with the exception of REUs or minimum charges for metered service. Billing in advance for Minimum Quarterly Rates provides cash flow.

Charges for consumption in excess of the minimum volumes included in the minimum charges for water and wastewater service, for the preceding quarter for metered services, are to be included with the next bill for advance minimum charges.

5.1.19 Billing Due Date and Penalties

Bills should be due a minimum of 14 days after the mailing of the bills., Utilities may charge a penalty on the dollar amount owing after the billing due date, following the requirements set out by the Board in Order Nos. 127/08 and 39/09.

<http://www.pubmanitoba.ca/v1/pdf/08water/127-08.pdf>

http://www.pubmanitoba.ca/v1/pdf/09water/39_09.pdf

The Board recommends including the following clause in the utility's By-Law:

“A late payment charge of 1.25% per month shall be charged on the dollar amount owing after the billing due date. The due date will be 14 days after the mailing of the bills.”

5.1.20 Disconnection and Reconnection of Service for Non-Payment

The Board has approved a standard disconnection policy in its order Nos. 127/08 and 39/09. The terms of service disconnection are set out in that policy and utilities are encouraged to use the following wording in their By-Laws:

“The Public Utilities Board, in Board Order No. 39/09, has approved the Conditions Precedent to be followed by the Municipality with respect to the disconnection of service for non-payment including such matters as notice and the right to appeal such action to the Public Utilities Board. A copy of the Conditions Precedent is available for inspection at the Municipality’s office.”

Reconnection fees should consist of the actual costs of the disconnection and the reconnection. These should include all labour, material and vehicle costs.

Some municipalities include neither a disconnection clause, nor a reconnection fee, relying on their right to add any past-due bills to the tax roll. The Board does not recommend this practice because, in effect, it results in the customers who pay bills promptly carrying the cost of customers who may defer their payments for up to a year.

The municipality may impose disconnection or reconnection fees for customers who wish to disconnect due to a planned extended absence. Customers who are disconnected, whether by non-payment or by customer choice, are not subject to minimum quarterly charges since they are no longer a utility customer.

5.1.21 Outstanding Utility Charges - Lien on Land

Pursuant to section 252(2) of *The Municipal Act*, the amount of all outstanding charges for water or wastewater service are a lien and charge upon land, and may be collected in the same manner in which ordinary taxes upon the land are collectable, and with like remedies.

5.1.22 Service Agreements with Tenants

Some utilities have tenants sign service agreements, which clearly establish the tenant's responsibility to pay for services provided and provide the utility with the ability to report delinquent accounts to the owner of the property. This agreement shall not diminish in any way the utility's right to add an uncollectible charge as a lien on the land, but makes it clear that the tenant has primary responsibility.

The water and wastewater By-Law should clearly delineate such agreements.

6.0 Application for Approval of Utility Deficits

Where a public utility incurs, or expects to incur, a deficit in its operations, it is required to apply to the Board for approval of that deficit. The utility must explain the cause of the deficit in detail and advise how it seeks to recover the deficit. Examples of recovery methodologies include: from fund surplus; from the reserve fund; by temporary rate increase (or rate rider); through taxes; by special assessment; or a combination of these methods.

The Board encourages user-pay rate models, and therefore suggests that an assessment on taxes be the last option selected. If chosen, a strong justification submitted with the application is required.

If rates require revision to avoid on-going deficits, the Board recommends an application for amended rates, and the Board may order this as a condition of deficit approval.

The Municipal Act requires that the Board approve deficits. The deficit is determined in the audited financial statements, however the Board has established requirements that vary from the audited statements. The Board requires utilities to file for deficits totalling the lesser of \$10,000 or 5% of the utility's operating budget, when calculated for regulatory purposes.

"When calculated for regulatory purposes" refers to the operating results of a utility, adjusted to exclude revenue from capital grants or contributed assets, and to include one year's amortization of the same capital asset. The calculation is as follows:

- A utility's Net Operating Surplus/(Deficit) less Government Transfers related to capital plus the Amortization of Capital Grants included in the Public Utilities Board Note to the Audited Financial Statements.

Board Order No. 151/08 outlines financial reporting requirements in detail. The Board's website provides deficit application procedures in the Educational Webinars section.

7.0 Calculations of Commodity Rates-Considerations

All operating and maintenance expenses, including contingency allowances and utility reserve contributions, are to be separately identified and included in calculation of commodity rates, excluding administration costs recovered through the customer service charge. These expenses should align with the audited financial statements, and any material changes require explanation.

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 utility revenue requirements. Similarly, grants or other contributions received for specific capital purposes require capitalization for rate setting purposes and amortization over the life of the related asset(s) as an offset to the amortization expense. This PUB treatment of grants or other contributions does not apply to monies, which are not restricted to specific capital projects, such as Gas Tax Revenues.

The above costs deduct non-rate revenue items, such as hydrant rentals and contributions from other agencies or municipalities, to cover work done for them by utility employees.

7.1 Using Workbooks to Calculate Commodity Rates

The Board has developed a series of Excel workbooks to assist Applicants in the calculation of commodity rates. Each workbook targets different rate structures, which may exist in different municipalities.

What follows is some guidance as to which workbook to select:

- Where all customers are metered and charged the same rate (i.e. no declining block rate), utilities should select the workbook entitled "1-step rate".

- Where some customers are metered and some are not, utilities should select the workbook entitled "1-step rate metered and unmetered".
- Where all services are metered with some customers in the intermediate range in terms of consumption, with no large customers, utilities should select the workbook entitled "2-step rate – intermediate and domestic".
- Where all services are metered and all customers use approximately the same volume of water as residences except for one or two large customers, the workbook entitled "2-step rate – wholesale - domestic" should be selected.
- Where all services are metered with some customers in the intermediate consumption range and one or more large customers in terms of consumption, the workbook entitled "3-step rate" should be selected.
- Where all services are metered with some customers in the intermediate consumption range, some slightly higher and one or two extremely high users, select the workbook entitled "4-step rate".
- Where no services are metered, select the workbook entitled "REU only".

Except in situations where there are no meters, there is a workbook for each type of structure in either gallons or cubic meters. The utility should select the one that suits its measurement methodology. **If in doubt, contact Board staff for assistance in selecting the correct workbook.**

The below explains each type of rate structure and related considerations in more detail.

Excel workbooks for each step method are available on the Board's website. An instruction sheet for completing the workbook is included as a worksheet in each workbook.

7.2 Preferential Rates

Where the municipality establishes preferential rates billed to a single customer, as opposed to a category of customer, requires consideration of the following section of the Act:

Preferential rates from municipal utility

82(15) *Notwithstanding subsection (1), a municipality that is the owner of a public utility may, if authorized by by-law, enter into an agreement to charge an individual consumer a preferential*

rate; and, where the rate specified in the agreement is, in the opinion of the Board, one to which clause (1)(a) would apply, the authorizing by-law shall provide that the municipality shall annually pay, from proceeds of a special levy imposed annually for that purpose to the account of the utility concerned the difference between the amount received pursuant to the agreement and the amount that would have been received had the rate been established in compliance with this Act but without reference to this subsection; and the rate used in establishing the difference shall be approved by the Board. (Emphasis added)

Therefore, where preferential rates are proposed, the municipality must define the nature and amount of the special levy it intends to impose. This amount should appear as a revenue item in the utility statements as part of the tax revenues and itemized separately on tax bills.

7.3 Step Rates

The Board has long been a proponent of the user-pay principle. The concept of step rates (declining block rates), with lower commodity charges applied to high volume users, works against the principles of conservation. For this reason, the Board discourages step rates and recommends utilities consider phasing them out where appropriate.

There will be circumstances where lower consumption rates will be proposed as a special economic consideration to promote growth in the region. Please see below for a description of Board methodology. Proposed variations from this methodology requires justification by the applicant

In a single step rate, all water sales are at the first step. Single step is by far the most commonly used rate model in Manitoba and utilities must justify any proposed use of multi-step rate models.

There are four steps identified in Board Methodology:

- First step or Domestic rate
- Second step or Intermediate rate
- Third step or Wholesale rate
- Fourth step or Special rate

8.0 Characteristics of Various Rates Models Multi-Step Rates

8.1 Four Step Rates:

8.1.1 Fourth-Step or Special Rate:

The Special Water rate is based on variable water production costs. These costs should include:

- Cost of chemicals, power and heating
- 25% of plant labour costs
- 50% of water production contingency cost
- Amortization and interest costs related to water production and treatment

The Special Water Rate calculation divides the sum of the costs listed above by the volume of total water sold.

The Special Wastewater Rate is based on wastewater disposal costs. These costs should include:

- Cost of lift stations pumping effluent into the disposal system, and contingency allowances related to disposal system
- Amortization and interest costs related to wastewater disposal

The Special Wastewater Rate divides the sum of the costs listed above by the total volume of water returned to the wastewater disposal system.

8.1.2 Third Step or Wholesale Price:

The calculation then divides all water production costs not included in the calculating of the Special Water Rate by the volume of total water sold, less the water sold at the Special Water Rate. This gives an increment which when added to the Special Water rate, is the Wholesale Water Rate per volumetric unit.

The Special Wastewater Rate also applies to the Wholesale Wastewater Rate.

8.1.3 Second Step or Intermediate Rate:

The calculation is as follows:

50% of water distribution costs, less hydrant rentals, divided by the volume of total water sold, less water sold at Special & Wholesale Water Rates. This gives an increment which, when added to the Wholesale Water Rate, is the Intermediate Water Rate per volumetric unit.

Total wastewater collection costs are divided by the volume of water sold, less water sold at Special and Wholesale Wastewater rates, excluding any such water not returned to the wastewater system. This gives an increment which, when added to Wholesale Wastewater Rate, is the Intermediate Wastewater rate per volumetric unit.

8.1.4 First Step or Domestic Rate:

All remaining water costs, net of offsets and revenue, not included in calculating the first three steps is then divided by the volume of water sold at the Domestic and Bulk Water Rates. This gives an increment which, when added to Intermediate Water Rate, is the Domestic Water Rate per volumetric unit.

The Intermediate Wastewater Rate also applies to the Domestic Wastewater rate.

8.2 Three Step Rates

8.2.1 Third Step or Wholesale Rate:

The calculation for the Wholesale Water Rate divides all water production costs by the volume of total water sold.

The calculation for the Wholesale Wastewater Rate divides all wastewater collection and disposal costs by the total volume of water returned to the wastewater disposal system.

8.2.2 Second Step or Intermediate Rate:

The calculation is as follows:

50% of water distribution costs, less hydrant rentals, divided by the volume of water sold, less water sold at Wholesale Water Rates. This gives an increment which, when added to the wholesale water rate, gives the Intermediate Water Rate per volumetric unit.

The Wholesale Wastewater Rate also applies to the Intermediate and Domestic Wastewater Rate.

8.2.3 First Step or Domestic Rate:

All remaining water costs, net of offsets and revenue, not included in calculating the first three steps is then divided by the volume of water sold at the Domestic and Bulk Water Rates. This gives an increment which, when added to Intermediate Water Rate, is the Domestic Water Rate per volumetric unit.

The Wholesale Wastewater Rate also applies to the Intermediate and Domestic Wastewater Rate.

8.3 Two Step Rates - Domestic and Wholesale

8.3.1 Second Step or Wholesale Rate:

The calculation for the Wholesale Water Rate divides all water production costs by the volume of total water sold.

The calculation for the Wholesale Wastewater Rate divides all wastewater collection and disposal costs by the total volume of water returned to the wastewater disposal system.

8.3.2 First Step or Domestic Rate:

The calculation is as follows:

All remaining water costs, net of offsets and revenue, divided by the volume of water sold at the Domestic and Bulk Water Rates. This gives an increment which, when added to Intermediate Water Rate, is the Domestic Water Rate per volumetric unit.

The Wholesale Wastewater Rate also applies to the Domestic Wastewater Rate.

8.4 Two Step Rates - Domestic and Intermediate

8.4.1 Second Step or Intermediate Rate:

The calculation for the Intermediate Water Rate divides all water production costs, plus 50% of water distribution costs, less hydrant rentals, by the volume of water sold.

The calculation for the Intermediate Wastewater Rate divides all wastewater collection and disposal costs by the total volume of water returned to the wastewater disposal system.

8.4.2 First Step or Domestic Rate:

The calculation is as follows:

All remaining water costs, net of offsets and revenue, divided by the volume of water sold at the Domestic and Bulk Water Rates. This gives an increment which, when added to Intermediate Water Rate, is the Domestic Water Rate per volumetric unit.

The Intermediate Wastewater Rate also applies to the Domestic Wastewater Rate.

8.5 Single Step Rates - Metered Services

The calculation for the Domestic Water Rate divides all water costs, net of offsets and revenue, by the volume of water sold.

The calculation for the Domestic Wastewater Rate divides all wastewater costs, net of offsets and revenue, by the volume of water returned to the wastewater disposal system.

8.6 Partly Metered and Partly Unmetered Services

The Board encourages metering for all consumption. Metered services typically use less water, consistent with water conservation objectives. Metered service is more equitable as customers who use more water pay the cost of water used.

The calculation for the estimated volume of water used by unmetered services is as follows:

The unit cost of water sold to each unmetered customer per year is derived by dividing gallons of water sold to unmetered customers, as shown above, by total residential equivalent units.

The quarterly charge per unit consists of one quarter of the unit cost as derived in the previous paragraph plus one quarter of the annual customer service charge.

8.7 Single Step Rates - Unmetered Services

The calculation for a Residential Equivalency Unit divides all water and wastewater costs, net of offsets and revenue, by the total number of residential equivalent units assigned to utility customers.

8.8 Phased-in Rate Increases

Indicated rates are those determined as required to cover projected operating expenses in any given year.

Utilities will often propose that indicated rate increases be phased-in in order to mitigate the effects of rate shock. The Board discourages this practice, which is likely to be denied by the Board, as it will almost certainly result in operating deficits, if the projected operating expenses are accurate. This will then require the utility to file deficit applications with the Board. Not only does this create additional and unnecessary steps in the process, it transfers the responsibility away from the current user to future users, countering the user-pay principle, and creating an intergenerational inequity.

The Board will only contemplate a proposal to phase-in rates where the working capital position of the utility, excluding any reserves created for specific purposes, is sufficient to absorb the expected deficits. If the Board finds it is not in the best interest of stakeholders to approve the phase-in approach, it may deny the proposal.