



WATER AND WASTEWATER UTILITY RATE APPLICATIONS

FOR MUNICIPALLY OWNED WATER AND WASTEWATER UTILITIES

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OVERVIEW

- INTRODUCTION
- THE ROLE OF THE PUBLIC UTILITIES BOARD
- RATE APPLICATION PROCESS
- [MINIMUM FILING REQUIREMENTS CHECKLIST](#)
- GUIDELINES/RATE STUDY REQUIREMENTS
- EXCEL WORKBOOKS

PUBLIC UTILITIES BOARD

THE PUB HAS THREE PRINCIPAL ROLES IN RELATION TO WATER & WASTEWATER UTILITIES:

1. APPROVE RATES & FEES
2. APPROVE OPERATIONAL DEFICITS
3. ACT AS THE ADJUDICATOR FOR APPEALS
CUSTOMER COMPLAINTS

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RATE APPLICATION PROCESS

WHEN DOES A UTILITY NEED TO APPLY?

- Responsibility of the municipality
- In Manitoba, utilities are by legislation not allowed to incur deficits
- Deficits must be approved by the PUB, which requires an application
- Board Orders will often include a directive ordering the municipality to submit a rate application or statement of rate adequacy, on or before a specific date – this is NOT OPTIONAL

STATEMENT OF RATE ADEQUACY

- All municipalities should review the financial position of the utility/utilities annually
- If a rate revision isn't necessary, submit a Statement of Rate Adequacy to the Board
- A Statement of Rate Adequacy should include a Council Resolution supporting the determination that current rates are adequate

APPLYING FOR REVISED RATES – SIMPLIFIED FILING

- When a rate increase is required the utility needs to submit an application to the Board
- This can be done one of two ways, either a full rate application or through the Board's simplified rate application process
- Details of the simplified rate application process, eligibility requirements and the applicable Minimum Filing Requirements can be found in Board Order No. 86/17, and on the Board's website, including a webinar to assist in preparing the application
- Today we are looking at the Full Rate Application Process

USING BOARD GUIDELINES

- The Board provides guidelines and rate setting methodology
- Applicants may apply using alternative methodologies and the Board will consider the application
- There are hundreds of variables, making each application and utility different – one size does not fit all
- Contact Board staff to seek clarity on methodology and best practice when preparing a rate application

USING ALTERNATIVE METHODOLOGY

- The application may take longer to process
- If the applicant has found previous decisions (from Manitoba or otherwise) supporting the alternate methodology, including those submissions may be helpful
- Note that Board decisions do not set precedent by law

PROCESSING AN APPLICATION

- Preliminary review for completeness of MFR (minimum filing requirements)
- Minimal analysis done at this point
- Draft Notice of Application is prepared and sent to municipality for review

PROCESSING AN APPLICATION

- The Board tries to review applications in the order received
- The review will typically result in questions, known as information requests or IRs, which are sent to the *Municipality* with a response due date
- The process is repeated until the Board has all the evidence it needs to make a decision

PROCESSING AN APPLICATION

- The Board will decide the method of review for the application
- The Board will review all the evidence from the application, including the public hearing if one is held, and make its decision
- Board Orders will contain directives and may contain recommendations
- Recommendations are discretionary and directives are not

EXPLANATION - DIRECTIVES

- All Board Orders will contain directives
- Directives appear at the end of the Order, under the heading “It is therefore ordered that”
- Board decisions carry the weight of the Court of Queens Bench
- All directives must be either implemented or appealed
- Failure to comply with Board directives may result in sanctions

APPEALING A BOARD DECISION

OPTIONS TO APPEAL A DECISION:

- REQUEST A REVIEW AND VARY:
 - 30 DAYS TO FILE
 - INFORMATION PREVIOUSLY UNAVAILABLE
 - ERROR IN JURISDICTION OR LAW
- REQUEST LEAVE TO APPEAL THE DECISION TO THE COURT OF QUEEN'S BENCH

INTERIM RATES

IF A UTILITY CAN SHOW THAT THERE EXISTS AN URGENT NEED FOR A RATE INCREASE, THE BOARD WILL CONSIDER APPROVING RATES ON AN INTERIM *EX PARTE* BASIS

- THESE RATES ARE SUBJECT TO A THOROUGH REVIEW IN DUE COURSE
- INTERIM RATES ARE USUALLY APPROVED AS APPLIED FOR, WITHOUT THE BOARD REVIEWING THE APPLICATION

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MINIMUM FILING REQUIREMENTS

MINIMUM FILING REQUIREMENTS APPLICATION AND FINANCIAL

1. UTILITY RATES BY-LAW, AFTER FIRST READING ONLY, DETAILING RATES, BILLING INFORMATION, PENALTIES, FEES, ETC AND RESCINDING PAST BY-LAW
2. RATE STUDY USING BOARD GUIDELINES AS APPLICABLE
3. COMMENTARY ON THE REASON FOR THE RATE INCREASE
4. AVAILABLE ON MANITOBA MUNICIPALITIES ONLINE: PRIOR YEAR'S UTILITY FINANCIAL STATEMENTS, BUDGET, CAPITAL PLANS, ETC

MINIMUM FILING REQUIREMENTS APPLICATION AND FINANCIAL

5. PROPOSED METHOD OF FINANCING 5 YEAR CAPITAL PLAN
6. COST ALLOCATION POLICY WITH RESPECT TO SHARED SERVICES AND EQUIPMENT BETWEEN THE UTILITY AND GENERAL OPERATIONS
7. STATEMENT ON THE NEED FOR CONTINGENCY
8. STATEMENT ON THE NEED FOR RESERVES, IF REQUESTED
9. STATEMENT ON ADEQUACY OF EQUITY POSITION AND PLANS TO ADDRESS IF INSUFFICIENT

MINIMUM FILING REQUIREMENTS APPLICATION AND FINANCIAL

10. SUMMARY OF OPERATING DEFICITS IN THE LAST 5 YEARS
11. DETAILS OF ANY INCENTIVES OR SPECIAL RATE TREATMENT PROVIDED TO LARGE VOLUME USERS WITH AN EXPLANATION
12. IF RATES ARE DETERMINED ON A RESIDENTIAL EQUIVALENT UNIT BASIS, CONFIRMATION THAT THE ASSESSMENTS HAVE BEEN REVIEWED AND REMAIN ACCURATE. COMMENT ON THE POTENTIAL USE OF METERS.
13. DETAILS OF CONNECTION CHARGES AND DEVELOPER AGREEMENTS RELATED TO THE EXTENSION OF SERVICE

MINIMUM FILING REQUIREMENTS APPLICATION AND FINANCIAL

14. DESCRIPTION OF THE SYSTEM(S) INDICATING AGE, CONDITION AND CAPACITY TO MEET CURRENT AND FUTURE NEEDS OF THE RATEPAYERS

15. IF THE UTILITY HAS BEEN NOTIFIED IT IS NON-COMPLIANT WITH WATER QUALITY AND ENVIRONMENTAL REGULATION, PROVIDE THE TIMELINE AND MANNER OF RECOVERY OF ANY ASSOCIATED COSTS TO BECOME COMPLIANT

MINIMUM FILING REQUIREMENTS APPLICATION AND FINANCIAL

16. STATEMENT AS TO WHETHER SERVICE IS EXTENDED BEYOND THE MUNICIPALITY OR LID BOUNDARY AND IF SO, DETAILS OF ANY SURCHARGES LEVIED OR PROPOSED
17. DETAILS OF ANY PLANT BEING DECOMMISSIONED AND ANY RESULTING EXPENSES SET UP AS AN ENVIRONMENTAL LIABILITY TO BE COLLECTED IN RATES
18. COMMENTARY ON UNACCOUNTED FOR WATER IF THE AMOUNT EXCEEDS 10% AND IF RELATED TO A DETERIORATING SYSTEM, PROVIDE A PLAN TO ADDRESS

MINIMUM FILING REQUIREMENTS OTHER

19. IF A DECLINING BLOCK RATE IS USED, PROVIDE COMMENTARY ON ANY CONSIDERATION GIVEN TO REDUCING OR ELIMINATING SUCH BLOCKS
20. DETAILS OF ANY NOTIFICATION OF REVISED RATES PROVIDED TO CUSTOMERS AND SUMMARY OF RESPONSE
21. IF UTILITY RATES ARE COLLECTED WITH TAXES OR ON TAX BILLS CONFIRMATION THAT UTILITY OPERATING COSTS ARE NOT BEING OFFSET BY THE EDUCATION PROPERTY TAX CREDIT

MINIMUM FILING REQUIREMENTS OTHER

22. IF ANY PUBLIC CONSULTATION HAS BEEN HELD OR IS PLANNED IN ANTICIPATION OF THE APPLICATION, PROVIDE DETAILS
23. A SIGNED STATEMENT FROM THE APPLICANT WITH THE STATEMENT “THE INFORMATION CONTAINED WITHIN THIS APPLICATION IS CERTIFIED AS TRUE AND ACCURATE”

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RATE STUDY

CALCULATIONS OF COMMODITY RATES: CONSIDERATIONS

- All operating and maintenance expenses, including contingency and reserves, are to be separately identified and used in calculating the required revenue for utility rates
- The expense lines used should align with those found on Schedule 9 to the audited financial statements, or be adequately explained and mapped for the Board's review

CALCULATIONS OF COMMODITY RATES: CONSIDERATIONS

- Amortization of capital assets is an expense item and must be included in the determination of revenue requirements for utility rates
- Grants for capital assets or contributed capital assets received must be capitalized for rate setting purposes and amortized over the life of the related asset, as an offset to amortization expense

COST COMPONENTS: CUSTOMER SERVICE CHARGE

- The customer service charge is a flat rate paid by all utility customers, regardless of consumption
- It includes utility administration costs, meter reading, customer billings, collection and other shared administration costs

COST COMPONENTS: CUSTOMER SERVICE CHARGE

- The cost allocation methodology must be submitted to the Board for approval and once approved cannot be changed without receiving approval from the Board
- The Board's requirements regarding cost allocation methodologies can be found in general Board Order No. 93/09 on the PUB website

COST COMPONENTS: OPERATING COSTS

- Projected operating costs must be calculated using historical audited costs as a basis
- A 0-3% annual increase what is typically used by applicants
- Increases over the indicated % and significant decreases in expenses should be explained and quantified

COST COMPONENTS: CONTINGENCY ALLOWANCE

- Projected revenue requirements for rate setting should generally include a contingency allowance
- A yearly allowance equal to 10% of the variable operating costs is recommended as a guideline

COST COMPONENTS: RESERVES

- A utility reserve fund may be established by a Council by-law, as set forth in Section 168 of *The Municipal Act*.
- Reserves are often created to provide for unforeseen expenses or anticipated, but undefined future capital projects
- If the municipal budget includes the use of reserve funds for a capital project, Board approval is not necessary as the expenditure has already been approved through the budget process.

UTILITY RATE REVENUE REQUIREMENTS

- Rates are calculated using the utility's rate requirements. This consists of expenses, less non-rate revenue or offsetting revenues.
- 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.
- The interest component is considered an expense for rate setting purposes and the principal is not. However, the assets acquired through the debenture will have an annual amortization expense. These amortization expenses are driven by Public Sector Accounting Board (PSAB) Standards.

OFFSETTING REVENUES: PROPERTY TAXES

- Whether debenture servicing costs are better borne through utility rates or taxes will vary with the circumstances. This determination should be made on the basis of equity and fairness, where customers are being assessed their fair share of costs.
- In some cases, a hybrid of the two methodologies may be the preferred option.

OFFSETTING REVENUES: HYDRANT RENTALS

- A Municipality must pay to the utility an annual rental sufficient to cover the cost of maintaining and replacing all hydrants connected to the system.
- Hydrant rental costs will vary by Municipality and circumstances.

OFFSETTING REVENUES: BULK WATER SALES

- All bulk water should be charged at a rate which includes:
 - The appropriate commodity water rate
 - A share of the utility administration costs
 - A surcharge equivalent to a fair share of property tax assessed to connected users for recovery of debenture costs relating to the water system.
 - Any additional costs incurred in serving bulk customers, for example a card lock system, coin op infrastructure, assets purchased to secure the bulk water station such as fencing or gates.

OFFSETTING REVENUES: BULK WATER SALES

BULK WATER FORMULA	
Administration revenue requirement	A
Water revenue requirement	B
Revenue collected on taxes for water related debentures	C
All additional costs of servicing bulk customers (provide details)	D
Subtotal	$E=A+B+C+D$
Bulk water ratio	$F=E/B$
Domestic water rate	G
Bulk water rate	$G \times F$

OFFSETTING REVENUES: LAGOON TIPPING FEES

- Lagoon tipping fees are similar to bulk water fees and may be calculated using the same considerations and formula to determine an appropriate volumetric wastewater charge.
- Some utilities will compare rates with neighbouring communities or limit who is allowed to use the lagoon.

WORKING CAPITAL SURPLUS

- Working capital is a financial metric used to assess liquidity
- It is one measure of the financial health of the Utility, and if the working capital is in deficit, that's usually an indicator of financial issues

WORKING CAPITAL SURPLUS

- The Board uses the following calculation for working capital:

Accumulated Fund Surplus/Deficit
Deduct tangible capital assets
Add long term debt
Add utility reserves
Equals Working Capital Surplus/Deficit
Operating costs
20% of operating costs (target)

- The information to calculate working capital is found in Schedules 6, 8 and 9 of the Municipality's audited financial statements

SERVICE AGREEMENTS

- Supply and service agreements should be negotiated, finalized, signed and submitted to the Board prior to the installation of utility distribution or collection systems.

SYSTEM DEVELOPMENT CHARGES

- According to section 82(1)(b) of *The Public Utilities Board Act*, no owner of a public utility can make or impose any charge without the written authorization of the Board.
- System development charges (SDCs) are referred to by many different names. Development charges, water or wastewater connection fees, etc.
- A Municipality seeking Board approval of an SDC should provide the information as identified, as well as a Council Resolution supporting the application.
- The proposed SDC should be transparent, consistent, logical and quantifiable.

APPLICATION FOR APPROVAL OF UTILITY DEFICITS

- *The Municipal Act, Section 165(2)*, requires that utility deficits be approved by the Board.
- Where a public utility incurs, or expects to incur, an operating deficit it is required to apply to the Board for approval of the deficit and method of recovery.

USING WORKBOOKS PROVIDED TO CALCULATE COMMODITY RATES

- The Board developed a series of Excel workbooks to assist applicants in the calculation of commodity rates. There are various workbooks targeting different rate structures and all are available in gallons and cubic meters.
- Where all customers are metered and charged the same rate, utilities should select the workbook titled “1-step rate”, either gallons or cubic meters depending on the meters in use by the municipality.
- If in doubt as to which workbook to use, please contact Board staff for assistance.

USING WORKBOOKS PROVIDED TO CALCULATE COMMODITY RATES

- The PUB Excel workbooks are designed for an applicant to start with two years of audited history
- This align exactly with Schedule 9 of the audited financial statements, schedule of utility operations. Any discrepancy in line items should be reconciled and explained in the application
- Projected costs will populate in most of the workbook
- Explain variations