

Order No. 142/19 - revised

**LOCAL GOVERNMENT DISTRICT OF PINAWA
PINAWA WATER AND WASTEWATER UTILITY
REVISED RATES FOR OCTOBER 1, 2019, JANUARY 1, 2020,
AND JANUARY 1, 2021
2016 AND 2017 ACTUAL OPERATING DEFICIT RECOVERY**

SEPTEMBER 30, 2019

**BEFORE: Shawn McCutcheon, Panel Chair
Carol Hainsworth, C.B.A., Panel Member**

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1.0 Executive Summary

By this Order, the Public Utilities Board (Board) approves the revised water rates for the Local Government District of Pinawa (LGD), Pinawa Water and Wastewater Utility (Utility) as shown below.

	October 1, 2019	January 1, 2020	January 1, 2021
Water (per cubic meter)	\$4.27	\$4.03	\$4.11
Wastewater (per cubic meter)	\$0.82	\$0.83	\$0.86
Quarterly Service Charge	\$20.00	\$20.60	\$21.25
Minimum Quarterly Charge*	\$91.26	\$88.64	\$90.83
Quarterly Deficit Recovery Rate Rider**	\$0.83	\$0.83	\$0.83
Lagoon Dumping Charge (per load)	\$25.00	\$25.00	\$25.00
Hydrant Rental	\$100.00	\$100.00	\$100.00

*Based on 14 cubic meters

**Rate Rider charge per cubic meter for six years and six months or until deficits are fully recovered

The Board approves the 2016 Actual Operating Deficit of \$74,698 and 2017 Actual Operating Deficit of \$55,469 applied for by the LGD, or a total two-year deficit of \$130,167, by extending the existing rate rider of \$0.83 per cubic meter per customer per quarter by 18 months, effective October 1, 2019. The \$0.83 per cubic meter rate rider will therefore be in effect from January 1, 2019 until June 30, 2025 or until all approved Utility deficits have been fully recovered, whichever comes first.

Details of other rates may be found in the attached Schedule A.

Reasons for the Board's decisions may be found under the heading Board Findings below.

2.0 Background

The LGD owns and operates a water and wastewater utility serving approximately 700 customers. Rates were last approved in Board Order No. 145/12 for 2013 up to and including 2016. Board Order No. 160/18 approved actual operating deficits of \$120,215 for 2013, \$250,042 for 2014, and \$200,456 for 2015 or a total three-year deficit of \$570,713 to be recovered through a rate rider of \$0.83 per cubic meter effective January 1, 2019 for up to five years or until the deficit is fully recovered.

Water Supply/Distribution

The water treatment plant was constructed in 1963 and upgraded in 1988 and 2005. The Utility draws its raw water from the Winnipeg River. A major filter replacement was completed in 2015. Water treatment includes filtration and chlorination. The LGD has installed a continuous monitoring system, which allows the LGD to comply with current regulatory requirements.

The water distribution system consists of a combination of asbestos cement pipe, plastic pipe, and ductile iron pipe (which makes up 90% of the system). The system ranges from approximately 50 years old to new and therefore some sections are in need of replacement. The lift station had a major pump replacement and new standby generator installed in 1995 and a new roof replacement in 2014.

Wastewater Collection/Treatment

The lagoon consists of two, 50 year-old cells and two cells that were completed in 2016. The collection system consists of plastic, polyvinyl chloride (PVC), and clay pipe. The discharge from the lagoon leads to the Winnipeg River by means of a drainage ditch. The lagoon was upgraded in 2015/16 at a cost of \$2.1M and is forecasted to meet the future growth/needs of the LGD for over 20 years.

Unaccounted for Water

The acceptable percentage of unaccounted 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 LGD advises unaccounted for water was 29% in 2016, 36% in 2017, and 38% in 2018 or a three-year average of 34%. Please see the Public Hearing section of the document for the LGD's plan to address the levels of unaccounted for water.

3.0 Application

On July 20, 2018, the LGD applied for revised rates as set out in By-Law 839-18 having had first reading July 10, 2018. The application was supported by a rate study prepared by the LGD's consultant. Rates were last approved in 2012 in Board Order No. 145/12 and amended by Board Order No. 154/12, effective for 2013, 2014, 2015, and 2016.

A Public Notice of Application was issued on December 12, 2018 to allow for any questions or comments respecting to the Rate Application to be submitted to the Board and/or the LGD on or before January 15, 2019. The Board received 18 responses from individuals and the LGD advised it received an additional ten responses.

The concerns expressed are related to:

- The LGD's proposed rate increase being based on outdated financial data and not up-to-date Audited Financial Statements;
- The magnitude of the proposed rate increases; and
- Mismanagement of the Utility.

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. If a public hearing is not held when making its decision, the Board proceeds with a detailed paper review process which includes consideration of all comments and concerns received and may include additional information requests to the utility's application.

In this case, the Board elected to hold a public hearing, given the significant public response. A Notice of Public Hearing was issued on July 18, 2019 and a public hearing was held on September 12, 2019 at the Pinawa Community Centre.

Prior to the Hearing, the Board sent information requests to the LGD on May 8, 2019 requesting additional information and clarification regarding the LGD's Rate Study. The LGD responded to the information request on May 14, 2019.

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

Schedule of Utility Rate Requirements – Pinawa Water and Wastewater Utility				
2019 to 2021 Budget Forecasts (\$)				
	2017 Actuals	2019	2020	2021
		Forecast		
General Expenses				
Administration	15,216	15,672	16,142	16,626
Total General Expenses	15,216	15,672	16,142	16,626
Revenue				
Penalties	1,548	1,836	1,836	1,836
Total General Revenues	1,548	1,836	1,836	1,836
Net Costs General	13,667	13,836	14,306	14,790
Water Expenses				
Purification and Treatment	192,635	239,677	246,867	254,273
Debenture Payment	38,587	65,335	26,748	26,748
Transmission and Distribution	57,620	62,736	64,618	66,557
Other Water Supply Costs	44,523	40,348	41,558	42,805
Amortization/Depreciation	113,911	113,911	113,911	113,911
Minor Capital Upgrades	-	31,000	31,500	32,000
Contingency	-	34,261	34,261	34,261
Total Water Expenses	447,276	587,268	559,463	570,555
Revenue				
Hydrant Rentals	15,000	15,000	15,000	15,000
Amortization of Capital Grants	12,125	12,125	12,125	12,125
Other	4,389	7,650	7,650	7,650
Total Water Revenue	31,514	34,775	34,775	34,775
Net Costs Water	415,762	552,493	524,688	535,780
Wastewater Expenses				
Collection System	30,446	39,995	41,195	42,431
Lift Station	14,025	26,426	27,219	28,036
Treatment and Disposal	5,031	10,435	10,748	11,070
Amortization/Depreciation	42,000	42,000	42,000	42,000
Interest on Long-Term Debt	37,590	34,886	33,450	31,957
Minor Capital Upgrades	-	21,000	21,000	22,000
Total Wastewater Expenses	129,092	174,742	175,612	177,494

Revenue				
Amortization of Capital Grants	9,331	6,627	5,191	3,698
Taxation	70,259	70,259	70,259	70,259
Total Wastewater Revenue	79,590	76,886	75,450	73,957
Net Costs Wastewater	49,502	97,856	100,162	103,537
Net Revenue/(Expenses)	478,931	664,185	639,156	654,107

The proposed Utility Rate increases are primarily required as a result of insufficient rates that were last approved in 2012, to meet revenue requirements, and prevent ongoing deficits. Also, when rates were last set in 2012, water meters were to be installed for the first time, but no consumption data was available. Upon installation of the meters, it was determined the consumption forecast was significantly too high and therefore rates were insufficient to provide for the operating costs of the Utility.

Working Capital Calculation

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 2017 Audited Financial Statements, the most recent information available, the working capital surplus as December 31, 2017 was:

	2017	2016
Utility Fund Surplus/Deficit	\$2,087,172	\$2,064,231
Deduct: Tangible Capital Assets	(3,186,338)	(3,087,533)
Add: Long-Term Debt	892,859	697,857
Add: Utility Reserves	19,710	19,445
Equals Working Capital Surplus (Deficit)	\$(186,597)	\$(306,000)
Operating Expenses	523,848	492,511
20% of Operating Expenses (Target)	\$104,770	\$98,502

The above-noted working capital calculation for the Utility in 2018 is below the Board's recommended 20% target.

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 charged without receiving approval from the Board. The Board's requirements regarding cost allocation methodologies can be found in Board Order No. 93/09.

The LGD advises meter reading time will be tracked and carried out by public works staff. Wages and benefits will be allocated based on tracked time. Billing, receipting, and collection will be carried out primarily by the receptionist and the accountant therefore 5% of the receptionist's and 5% of the accountants time will be allocated to the Utility.

The LGD estimates the Utility will require approximately 5% of the CAO's time and 5% of all administrative staff time. This also includes 5% of utility costs, office equipment rentals, insurance, and audit expenses.

The LGD has allocated direct equipment costs using tracked increments. Costs will be allocated annually based on the following formula:

$$\frac{\text{Total Public Works Hours Working on Utility Maintenance/Repair}}{\text{Total Public Works Employee Hours Worked}}$$

The resulting percentage will be applied to equipment fuel, repairs, insurance, amortization, leasing, and Public Works Manager's time.

Public Works employees record their time in 1/2 hour increments. Time is charged directly to the Utility if applicable. Payroll software allocates benefits to the Utility based on the time recorded.

The Public Works Manager's wages and benefits will be allocated to the Utility using tracked increments. Costs are allocated annually based on the following formula:

$$\frac{\text{Total Public Works Hours Working on Utility Maintenance/Repair}}{\text{Total Public Works Employee Hours Worked}}$$

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 contingency allowance.

There is a Contingency Allowance of \$34,261 annually and no transfer to reserves included in the LGD's rate study.

Deficits

By law, Manitoba utilities are not allowed to incur deficits. In the event that a deficit does occur, the Utility is required by *The Municipal Act* to obtain Board approval for both the deficit and recovery methodology as soon as it is known.

Board order No. 160/18 denied the LGD's application for approval of a 2016 unaudited deficit of \$86,733 and ordered the LGD to apply for an actual operating deficit once Audited Financial Statements are complete.

On May 8, 2019 the Board sent a letter to the Utility requesting confirmation of Utility Actual Operating Deficits for 2016 and 2017 and the requisite Deficit Applications including a plan to provide for the deficits. On May 14, 2019 the LGD responded, noting a 2016 deficit of \$74,698 and a 2017 operating deficit of \$55,469. No Deficit Applications were filed.

The LGD's presentation at the Public Hearing noted a 2016 audited deficit of \$86,733. There was no comment on the 2017 deficit.

Given the conflicting information, on September 13, 2019, the Board sent a subsequent letter to the LGD requesting the specific details of the calculation for the 2016 and 2017 audited deficits.

On September 20, 2019 the LGD responded, advising of actual operating deficits of \$74,698 in 2016 and \$55,469 in 2017 resulting from declining and lower than forecasted consumption. The LGD noted the discrepancy was due to an omission by the auditor regarding property tax revenue not reported in the 2016 and 2017 Audited Financial Statements. The LGD also filed Actual Operating Deficit Applications for the noted deficits to be recovered by extending the existing, five-year \$0.83 per cubic meter per customer per quarter rate rider by one year and 1.68 months.

4.0 Public Hearing

A Public Hearing took place on September 12, 2019, in accordance with the Notice of Hearing. In attendance were 13 members of the public, including the Mayor and members of the LGD's Council. There were no registered presenters for the Hearing.

During the open comment session of the hearing, members of the public provided opinions and comments. Where possible, the LGD, Utility staff, and the LGD's council answered the questions that were presented.

Comments and questions can be summarized as follows:

- What operating cost reduction measures has the Utility undertaken and what efficiencies has the Utility achieved to minimize expenses?
- Have there been any procedural changes to the Utility system to improve reliability?
- What happens to the rate rider at the conclusion of its current five-year term?
- What is the current status of the Utility equipment and its modernization?
 - o Is the current system/equipment automated or manual?

- What are the consequences if the proposed utility rate increase results in customers further limiting their consumption, as was the case with the previous utility rate increase that resulted in Utility deficits?
 - o What is the worst case scenario for this potential occurrence?
- Has the LGD considered the implications of the proposed utility rate increases to apartment occupancy with respect to affordability to renters?
- How stable are the Utility's rates?
 - o How do the Utility's rates compare to other utilities in Manitoba?

On September 13, 2019, a second request for information was sent by the Board to the LGD regarding information presented at the hearing, as follows:

- Clarification of the 2016 and 2017 Utility actual operating deficits;
- Submission of Deficit Applications with proposed recovery methods for the 2016 and 2017 Utility actual operating deficits;
- Clarification of a discrepancy regarding amortization reported in the Audited Financial Statements;
- The current and future steps the LGD is taking to mitigate the Utility's high levels of unaccounted for water/water loss; and
- If any customers have been exempted from the current rate rider of \$0.83 per customer per quarter.

The LGD responded on September 20, 2019 as follows respectively to the above:

- Application for a 2016 Actual Operating Deficit of \$74,698 and a 2017 Actual Operating Deficit of \$55,469 to be recovered by extending the existing, five-year \$0.83 rate rider by one year and 1.68 months.
- The LGD advised the discrepancy in the reporting of the amortization was due to timing.

- The LGD advised staff are monitoring water usage to identify and repair leaks in valves, water meters are being tested on a door-to-door basis, cameras are being used to oversee piping to identify and repair leaks, and water main breaks and hydrant flushing are being monitored to mitigate high levels of unaccounted for water.
- The LGD advises no customers have been exempted from the current rate rider.

5.0 Board Findings

The Board has reviewed the application and the projections presented by the LGD in its rate application and notes the calculations used to formulate the Utility's rates seem reasonable. While the Board is sensitive to the effect of the rate increases on customers the Board must balance this effect with the financial sustainability of the Utility when approving rates.

The Board notes the Schedule of Utility Rate Requirements completed in the rate study submitted by the LGD's consultant forecasts expenditures for 2019, 2020, and 2021 are in-line with previous year's audited financial statements.

The Board approves the rates as requested by the LGD for October 1, 2019, January 1, 2020, and January 1, 2021 as set out in Schedule A of this Order.

The Board requires the LGD to review its rates for adequacy for the Utility and file a report with the Board, as well as an application for revised rates if required, on or before December 31, 2021. The Board notes there is no requirement to until December 31, 2021 to apply for revised if the LGD determines revised rates are required at any time before this date. The Board reminds the LGD it is responsible for the continuous monitoring of the financial health of the Utility and applying for revised rates using a regular schedule and/or if it determines the existing rates are insufficient to fully provide for the costs of operating the Utility.

The Board has not received the LGD's 2018 audited financial statements and reminds the LGD audited financial statements are to be reported no later than June 30 of the following year. The Board also reminds the Utility up-to-date audited financial statements are required for both the LGD to accurately forecast Utility rate requirements and for the Board to analyse Rate Applications. Failure to provide up-to-date audited financial statements with future Rate and/or Deficit Applications may result in the Application being rejected by the Board. The Board directs the LGD to submit its 2018 Audited Financial Statements by November 30, 2019.

The Board approves the Shared Cost Allocation Methodology and reminds the LGD this methodology must be used consistently and requires Board approval should any changes be considered.

The Board approves the recovery of the 2016 actual operating deficit of \$74,698 and the 2017 actual operating deficit of \$55,469 (or a total two-year actual operating deficit of \$130,167) to be recovered by extending the existing, five-year \$0.83 per cubic meter per customer per quarter rate rider. The Board varies the extension period from one year and 1.68 months as requested by the LGD to 18 months, or until the deficit is fully recovered, whichever comes first. The variance is to account for any potential reductions in consumption by customers resulting from the increased utility rates to reduce customer costs which could cause reduced revenues required to provide for the deficit recovery.

The Board notes Board Order No. 160/18 approved a five-year \$0.83 per cubic meter per customer per quarter rate rider effective January 1, 2019. The above-noted actual operating deficit recovery extends the rate rider to June 30, 2025, or until the deficit is fully recovered, whichever comes first.

The Board strongly encourages the LGD to work closely with its auditor(s) to ensure all items reported in the annual audited financial statements are complete and correct. If any information is omitted, incomplete, and/or incorrect, it inhibits the Board's ability to assess the Utility's financial position and the LGD's ability to set appropriate rates and/or or correctly recover deficits to sustain the Utility and its operations.

The Board reminds the LGD, by law Manitoba utilities are not allowed to incur deficits. Should Utility operating deficits materialize in any year the LGD must file a Deficit Application and proposed method of recovery as soon as it is known.

The Board notes and commends the LGD on its plan and efforts to reduce the high levels of unaccounted for water.

6.0 IT IS THEREFORE ORDERED THAT:

1. The revised water rates for the Local Government District of Pinawa, Pinawa Water and Wastewater Utility, BE AND ARE HEREBY APPROVED in accordance with the attached Schedule A, effective October 1, 2019, January 1, 2020, and January 1, 2021.
2. The Cost Allocation Methodology for shared administrative services as submitted by the Local Government District of Pinawa BE AND IS HEREBY APPROVED.
3. The Local Government District of Pinawa 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.
4. The Local Government District of Pinawa 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.

5. The Local Government District of Pinawa review the water rates for the Pinawa Water and Wastewater Utility and file a report with the Board, as well as an application for revised rates if required, by no later than December 31, 2021.
6. The 2016 actual operating deficit of \$74,698 and 2017 actual operating deficit of \$55,469, when calculated for regulatory purposes, incurred in the Local Government District of Pinawa, Pinawa Water and Wastewater Utility, is **HEREBY APPROVED**.
7. The Deficit Application by the Local Government District of Pinawa **BE AND IS HEREBY VARIED** to be fully recovered through the extension of the existing rate rider of \$0.83 per cubic meter per customer per quarter by 18 months to June 30, 2025 or until the total of all approved deficits are paid in full, whichever comes first.
8. The Local Government District of Pinawa submit its 2018 Audited Financial Statements by November 30, 2019.

Fees payable upon this Order - \$1,650.00

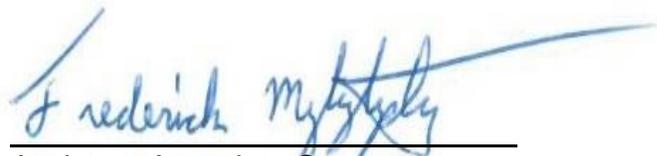
Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure. The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Shawn McCutcheon"
Panel Chair

"Frederick Mykytyshyn"
Assistant Associate Secretary

Certified a true copy of Order No. 142/19(rev). issued by The Public Utilities Board


Frederick Mykytyshyn
Assistant Associate Secretary

**SCHEDULE A
THE LOCAL GOVERNMENT DISTRICT OF PINAWA
WATER AND WASTEWATER RATES
BY-LAW NO. 839-18**

SCHEDULE OF QUARTERLY RATES:
(Effective October 1, 2019)

1.	<u>Commodity Rates per m³</u>	<u>Water</u>	<u>Wastewater</u>	<u>Water & Wastewater</u>
	All water consumption			
	2019	\$4.27	\$0.82	\$5.09
	2020	\$4.03	\$0.83	\$4.86
	2021	\$4.11	\$0.86	\$4.97

2. Minimum Charges, Quarterly

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

(a) Water and Wastewater Customers

	<u>Water Included m³</u>	<u>Customer Service Charge</u>	<u>Commodity Charges</u>		<u>Total Quarterly Minimum</u>
			<u>Water</u>	<u>Wastewater</u>	
2019	14.00	\$20.00	\$4.27	\$0.82	\$91.26
2020	14.00	\$20.60	\$4.03	\$0.83	\$88.64
2021	14.00	\$21.25	\$4.11	\$0.86	\$90.83

3. Billings and Penalties

Accounts shall be billed quarterly and shall be due and payable 30 days after date of billing. A late payment charge of 1 1/4% shall be charged on the dollar amount owing after the billing due date.

4. Disconnection

The Public Utilities Board has approved the Conditions Precedent to be followed by the LGD 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 LGD's office.

Service may be disconnected and discontinued immediately and without further notice in the event of non-payment of the account within 30 days after due date.

5. Reconnection

Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$25 have been paid.

6. Outstanding Bills

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

7. Hydrant Rentals

The Local Government District of Pinawa will pay to the utility an annual rental of \$100 for each hydrant connected to the system. In addition, the Local Government District of Pinawa will pay for water used for fire-fighting.

8. Water Allowance Due to Line Freezing

That in any case where, at the request of Council, a customer allows water to run continuously for any period of time to prevent the water lines in the water system from freezing, the charge to that customer for the current quarter shall be the average of the billings for the last two previous quarters to the same customer, or to the same premises if the occupant has changed.

9. Wastewater Surcharges

- (a) There may be levied annually, in addition to rates set forth above, a special surcharge on wastewater having a Biochemical Oxygen Demand in excess of 300 parts per million, to be set by resolution of Council.
- (b) A special surcharge for substances requiring special treatment shall be charged based on the actual costs of treatment required for the particular wastewater or industrial wastes.