

Order No. 146/18

**RURAL MUNICIPALITY OF MONTCALM
AMALGAMATION OF THE LETELLIER WATER AND WASTEWATER,
ST. JEAN BAPTISTE WATER AND WASTEWATER, MONTCALM WATER,
ST. JOSEPH WATER UTILITIES & MONTCALM WATER AND
WASTEWATER UTILITY RATES EFFECTIVE
JANURY 1 2019, 2020 & 2021**

October 24, 2018

**BEFORE: Irene A. Hamilton, Panel Chair
Marilyn Kapitany, B. Sc. (Hons), M. Sc., Panel Member**

1.0 Executive Summary

By this Order, the Public Utilities Board (Board) approves the amalgamation of the Letellier Water and Wastewater, Saint-Jean Baptiste (St. Jean) Water and Wastewater, Montcalm Water, and St. Joseph Water Utilities, previously operating as four separate utilities by the Rural Municipality of Montcalm (RM). The amalgamated utility shall be known as the Montcalm Water and Wastewater Utility.

In addition, the Board approves the following revised water and wastewater rates to take effect January 1, 2019:

	2019	2020	2021
Quarterly Service Charge	\$ 8.92	\$ 11.05	\$ 13.81
Water per 1,000 gallons	\$ 17.74	\$ 19.81	\$ 22.07
Wastewater per 1,000 gallons	\$ 3.36	\$ 3.27	\$ 3.30
Minimum Quarterly Charge*	\$ 72.22	\$ 80.29	\$ 89.92
Minimum Quarterly Charge - Water/Service Only*	\$ 62.14	\$ 70.48	\$ 80.02

**Based on 3,000 gallons*

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

2.0 Background

The RM is located in the heart of the Red River Valley, approximately 60 km south of Winnipeg, and has three population centres: St. Joseph, Letellier, and St. Jean Baptiste (St. Jean). The RM has a population of approximately 1,300 residents.

The RM currently operates four separate utilities: St. Jean Water and Wastewater Utility, Letellier Water and Wastewater Utility, Montcalm Water Utility, and St. Joseph Water Utility.

The utilities last raised rates in 2008 and 2009, other than pass-through rate increases from the Pembina Valley Water Co-op (PVWC) from where the RM purchases its water.

Letellier has experienced deficits in 2012, 2013, and 2014, while St. Joseph and Montcalm both experienced deficits in 2014 that have been approved by the Board. Revised rate studies for the Utilities had been ordered to be filed on or before June 30, 2017.

Currently, the four utilities each have two-step water utility rates. The Rate Study proposes to immediately consolidate the rates into a one water commodity rate system for all consumers.

The Montcalm and St. Joseph Utilities provide water-only services, while the St. Jean and Letellier Utilities provide both water and wastewater services. To date the Letellier Utility has not charged for its wastewater services, however proposes to do so going forward.

Water Supply/Distribution

The Letellier Water and Wastewater, St. Jean Water and Wastewater, Montcalm Water, and St. Joseph Water Utilities provide water services through a system constructed in 1982/83 and the RM purchases water from the Pembina Valley Water Cooperative (PVWC) for each of the four existing utilities. All utilities comply with the terms of their operating licences.

All customers are metered, however there are six customers served outside the boundaries of St. Joseph. These six customers pay the same rates as residents in the community. No surcharge is assessed, as there is no debenture debt to be serviced.

Wastewater Collection/Treatment

St. Jean Water and Wastewater and Letellier Water and Wastewater Utilities provide a low-flow, gravity wastewater collection system without lift stations in St. Jean. The system was installed through a community cooperative, and paid for by the customers who connected to it at the time of installation. Since then, the system ownership has been transferred to the RM.

The St. Jean Utility has received Canada/Manitoba Infrastructure funding of \$2,337,250 toward the \$3,500,000 project of constructing a new two-cell wastewater lagoon facility. The existing two-cell lagoon will be decommissioned when the new facility is complete.

The Letellier Utility also has a wastewater system, but the costs associated with the system have been incorporated with the water costs, therefore there has only ever been a water rate for the residents of Letellier.

The Utilities are compliant with the terms of their operating licences.

Unaccounted - for Water

The acceptable percentage of unaccounted water is 10%. If the percentage is above this amount, the applicant is to explain why and provide a plan to remedy.

The most recent information available from the RM in 2015 indicates the combined unaccounted for water for the four utilities was 11.39%, which is 1.39% over the industry standard of 10%. No plan to remedy has been provided.

3.0 Application

On May 10, 2017, the Board received an application from the RM accompanied by a rate study completed by the RM's consultant and By-Law 776/17, which was read for the first time on May 3, 2017. A Public Notice of Application was issued on September 11, 2017 with a closing date of October 11, 2017, affording customers the opportunity to comment to both the Board and the RM with respect to the proposed rate increases.

The Board received two responses to the Notice of Application from stakeholders in the RM. One response stated concerns with increases pertaining to service charges and minimum quarterly charges; and recommended capping water rates to the rate of inflation. The other specified concerns with respect to the high rate of increase for residents of Letellier (approximately 59%) and asked the Board to consider the impact on low or fixed income users.

The RM's application proposes to consolidate the utilities and merge water rates to a one-rate system. All four utilities rely on a regional water co-operative, thereby strengthening

their position as a larger user when combined. The RM advises it can better serve customers through combined administration and operations, and will be able to offer improved timelines for service through amalgamation. The municipal-wide approach to utility related decision and bundling of projects/resources will provide the RM with more borrowing flexibility for larger capital projects and allow costs to be shared by all residents of the RM.

The level of service is the same throughout the entire RM and all customers would pay the same price for the same services. An economy of scale is anticipated, which will help offset future rising costs and therefore set more affordable rates for the users.

Working Capital Surplus/Deficit

Board Order No. 93/09 established that utilities should maintain a minimum working capital surplus, in an amount equal to 20% of annual expenses. The working capital surplus is defined as the Utility fund balance, excluding any capital-related items plus Utility reserves.

As per the 2016 audited financial statements, the combined working capital surplus at December 31, 2016 is as follows:

Fund Surplus	\$1,450,164
Deduct Tangible Capital Assets	(\$1,265,205)
Add Long-Term Debt	-
Add Utility Reserves	\$177,049
Equals Working Capital Surplus	\$362,008
Operating Expenses	\$401,426
20% of Operating Expenses (Target)	\$80,285

The above-noted working capital surplus for 2016 is above the Board 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 changed without receiving approval from the Board. The Board's requirements regarding cost allocation methodologies can be found in Board Order No. 93/09.

The RM proposes that the percentage of time be used for allocating the administrative wages and percentage of supplies and activities be charged as follows:

<u>Proposed</u> Position	2018 Budget (\$)	Allocation to Utility	2018 Allocation
CAO	59,956	5%	2,998
ACAO	39,535	10%	3,954
Clerk	32,773	10%	3,277
Benefits (20% of Wages)*	10,229		2,046
Office Building Insurance	1,301	10%	130
Office Equipment Service Agreement	8,323	10%	832
Postage	5,202	30%	1,561
Office Supplies	5,202	10%	520
Audit	31,212	10%	3,121
Property/Liability Insurance	91,555	10%	9,156
2018 Allocation of Administration and Office Costs			<u>27,595</u>
Public Works Manager - Water	62,500	10%	6,250
Benefits (20% of Wages)			1,250
To Water Cost Centre; Add to Trans.& Dist. Costs			<u>7,500</u>

**Corrected due to an incorrect percentage used in Rate Study.*

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.

The contingency allowance of 10% equates to \$28,437 for water and \$4,177 for wastewater.

The amount contributed to the Reserve Fund by the St. Jean Utility is \$970, Letellier Utility is \$86,244, Montcalm Utility is \$89,780, and \$55 for the St. Joseph Utility. The RM proposes an annual reserve transfer of \$50,000 from the amalgamated Utility.

Deficits

By law, Manitoba utilities are not allowed to incur deficits. In the event that a deficit does occur, a Utility is required to obtain Board approval of the recovery methodology.

All four utilities have incurred varying deficits between 2012 and 2014, which have all been approved by the board, and recovered through accumulated surplus. Deficits for 2016, 2017, and 2018 have been forecasted.

4.0 Board Findings

The Board has reviewed the RM's submission, and the stakeholder concerns. Based on this information the Board's decision is as follows:

- There were no direct concerns voiced about the amalgamation, other than the resulting increase in rates for some communities.
- The Board believes a combined utility for the region is consistent with the municipal-wide approach to services being taken by other municipalities.
- The RM's request is aligned with the Province of Manitoba's policy of encouraging the amalgamation of municipalities. Amalgamation can improve efficiency, lead to uniform services throughout the Rural Municipality, generate economies of scale due to larger capital projects being undertaken, provide the RM with increased borrowing flexibility when undertaking larger capital projects, and improve the Utility's financial position.

The Board approves the amalgamation of the St. Jean Water and Wastewater, Letellier Water and Wastewater, Montcalm Water, and St. Joseph Water Utilities, to be known as the Montcalm Water & Wastewater Utility. To facilitate the preparation of audited financial statements, the Board agrees the RM can begin reporting amalgamated results as of January 1, 2019.

The Board has reviewed the application and the projections presented by the RM in its rate application and finds them to be reasonable. The Board approves the water and wastewater rates as applied for, but varies the effective dates to January 1, 2019, January 1, 2020 and January 1, 2021.

The Board approves the revised cost allocation methodology, however, has corrected the percentage applied to wages for benefits for the CAO, ACAO, and Clerk. The Board reminds the RM that this methodology must be used consistently, any changes to the new, revised cost allocation methodology require Board approval.

It has been approximately ten years since the RM has submitted a rate application to the Board. In the Board's view, this is too long a time-period between rate reviews. Regular rate reviews submitted on a timelier three-year period, per Board Guidelines, protects the financial position of the Utility and mitigates the need for substantial rate increases and deficit recovery. The RM needs to be much more diligent in conducting regular reviews of its revenue requirements.

The Board requires the RM to review the new utility's water and wastewater rates for adequacy and file a report with the Board, as well as an application for revised rates on or before December 31, 2021. The Board reminds the RM that regular reviews of utility rates is required to ensure rates are adequate to recover the costs of service being provided to its customers.

The Board notes the Utility has deficits for 2015, 2016, and 2017. By law, Manitoba utilities are not allowed to incur deficits. The Board reminds the Utility that if it has a deficit, it is required by law to file a deficit approval application and recovery plan with the Board as soon as it is known.

The Board directs the RM to file deficit applications for each of the Utilities, for each of the years the utilities are in deficit as soon as possible.

5.0 IT IS THEREFORE ORDERED THAT:

1. The amalgamation of the St. Jean Baptiste Water and Wastewater, Letellier Water and Wastewater, Montcalm Water, and St. Joseph Water Utilities, to be known going forward as the Montcalm Water & Wastewater Utility, is HEREBY APPROVED effective October 15, 2018.
2. Revised water and wastewater rates for the Rural Municipality of Montcalm, Montcalm Water & Wastewater Utility, BE AND ARE HEREBY APPROVED in accordance with the attached Schedule "A", effective January 1, 2019, January 1, 2020, and January 1, 2021.
3. The cost allocation methodology for shared services and equipment as corrected by the Board for the Rural Municipality of Montcalm BE AND IS HEREBY APPROVED.
4. The Rural Municipality of Montcalm 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.
5. The Rural Municipality of Montcalm amend its water and wastewater 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.
6. The Rural Municipality of Montcalm file a deficit application for each Utility, for each of the years the Utility is in deficit, by no later than December 31, 2018.
7. The Rural Municipality of Montcalm review its water and wastewater rates for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates, by no later than December 31, 2021.

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.

Fees payable upon this Order - \$650.00

THE PUBLIC UTILITIES BOARD

"Irene A. Hamilton"

Panel Chair

"Frederick Mykytyshyn"

Assistant Associate Secretary

Certified a true copy of Order No. 146/18 issued
by The Public Utilities Board



Assistant Associate Secretary

**RURAL MUNICIPALITY OF MONTCALM
WATER & WASTEWATER UTILITY RATES BY-LAW NO. 776/17
SCHEDULE "A"
SCHEDULE OF QUARTERLY RATES**

1. Schedule of Commodity Rates & Quarterly Service Charge

January 1, 2019

Rates per 1,000 Gallons

1,000 Gallons per quarter

	Water	Wastewater	Water & Wastewater
	\$17.74	\$3.36	\$21.10

Quarterly Service Charge

\$8.92

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges per quarter set out below, which includes the water allowance as listed.

a. Water & Wastewater Customers

<u>Meter Size</u>	<u>Group Capacity Ratio</u>	<u>Water Included Gallons</u>	<u>Customer Service Charge</u>	<u>Water Commodity Charge</u>	<u>Wastewater Commodity Charge</u>	<u>Water & Wastewater Total Quarterly Minimum</u>	<u>Water Only Total Quarterly Minimum</u>
5/8 inch	1	3,000	\$8.92	\$53.22	\$10.08	\$72.22	\$62.14
¾ inch	2	6,000	\$8.92	\$106.44	\$20.16	\$135.52	\$115.36
1 inch	4	12,000	\$8.92	\$212.88	\$40.32	\$262.12	\$221.80
1 ½ inch	10	30,000	\$8.92	\$532.20	\$100.80	\$641.92	\$541.12
2 inch	25	75,000	\$8.92	\$1,330.50	\$252.00	\$1,591.42	\$1,339.42

1. Schedule of Commodity Rates & Quarterly Service Charge

January 1, 2020

Rates per 1,000 Gallons

1,000 Gallons per quarter

	Water	Wastewater	Water & Wastewater
	\$19.81	\$3.27	\$23.08

Quarterly Service Charge

\$11.05

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges per quarter set out below, which includes the water allowance as listed.

a. Water & Wastewater Customers

Meter Size	Group Capacity Ratio	Water Included Gallons	Customer Service Charge	Water Commodity Charge	Wastewater Commodity Charge	Water & Wastewater Total Quarterly Minimum	Water Only Total Quarterly Minimum
5/8 inch	1	3,000	\$11.05	\$59.43	\$9.81	\$80.29	\$70.48
¾ inch	2	6,000	\$11.05	\$118.86	\$19.62	\$149.53	\$129.91
1 inch	4	12,000	\$11.05	\$237.72	\$39.24	\$288.01	\$248.77
1 ½ inch	10	30,000	\$11.05	\$594.30	\$98.10	\$703.45	\$605.35
2 inch	25	75,000	\$11.05	\$1,485.75	\$245.25	\$1,742.05	\$1,496.80

1. Schedule of Commodity Rates & Quarterly Service Charge

January 1, 2021

Rates per 1,000 Gallons

1,000 Gallons per quarter

Water	Wastewater	Water & Wastewater
\$22.07	\$3.30	\$25.37

Quarterly Service Charge \$13.81

2. Minimum Charges per Quarter

Notwithstanding the rates set forth in paragraph 1, all customers will pay the applicable minimum charges per quarter set out below, which includes the water allowance as listed.

a. Water & Wastewater Customers

Meter Size	Group Capacity Ratio	Water Included Gallons	Customer Service Charge	Water Commodity Charge	Wastewater Commodity Charge	Water & Wastewater Total Quarterly Minimum	Water Only Total Quarterly Minimum
5/8 inch	1	3,000	\$13.81	\$66.21	\$9.80	\$89.92	\$80.02
¾ inch	2	6,000	\$13.81	\$132.42	\$19.80	\$166.03	\$146.23
1 inch	4	12,000	\$13.81	\$264.84	\$39.60	\$318.25	\$278.65
1 ½ inch	10	30,000	\$13.81	\$662.10	\$99.00	\$774.91	\$675.91
2 inch	25	75,000	\$13.81	\$1,655.25	\$247.50	\$1,916.56	\$1,669.06

The following clauses take effect January 1, 2019:

3. Billings and Penalties:

All connected customers shall be billed quarterly and payment shall be due and payable at least 14 days after the mailing of the bills. A late payment charge of

1.25% (1¼%) per month shall be charged on the dollar amount owing after the billing due date and a notice to this effect shall be clearly printed on all bills sent to customers.

4. Liability for Charges:

Where charges and penalties pursuant to this by-law are not paid within ninety (90) days from the date when they were incurred; said charges and penalties shall be added to the taxes on the property and collected in the same manner as other taxes as per authority of Section 252(2) of The Municipal Act of Manitoba.

5. Testing of Water Meters for Accuracy:

Any customer desiring and requesting their meter to be tested for accuracy shall deposit with the Rural Municipality the sum of \$ 40.00, which will be retained if the meter (when tested) shall be found to be within the allowable limits of variation from accuracy. If the meter is found to register in excess of the allowable limits the deposit shall be refunded and the customer's account adjusted to reflect an accurate consumption. The allowable limit of variation shall be 4% of average flow.

6. Disconnection and Reconnection:

- a. The Public Utilities Board has approved the Conditions Precedent to be followed by the Rural Municipality with respect to the disconnection of service for non-payment including, such matters, as notice and right to appeal such action to the Public Utilities Board. A copy of the Conditions Precedent is available for inspection at the Rural Municipality's office.
- b. Any service disconnected due to non-payment of account shall not be reconnected until all arrears, penalties and a reconnection fee of \$50.00 have been paid. Service may be removed upon written request and a payment of \$50.00.

7. Responsibility for Service Connections:

The Utility is responsible for all costs involved to bring services to the property line of the owner (including any water losses that may occur to that point.) The owner

is responsible for all costs of services (including water losses) from the property line into the building being serviced.

8. Outstanding Bills

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

9. Service to Customers outside the limits of the Rural Municipality of Montcalm

The Council of the Rural Municipality of Montcalm may sign agreements with customers for the provision of water and wastewater services to properties located outside the legal boundaries of the Rural Municipality of Montcalm. Such agreements shall provide for payment of the appropriate rates set out in Section 1 of this schedule (for each applicable year), as well as a surcharge set by resolution of Council, which shall be equivalent to the frontage levy, general taxes and special taxes for utility purposes in effect at the time, or may be in effect from time to time which would be levied on the property concerned if it were within these boundaries. In addition, all costs for connecting to the utility's mains and installing and maintaining service connections shall be paid for by the customer.

10. Cross Connections

No customer or person shall connect, cause to be connected or allow to remain connected any piping, fixture, fitting, container or appliance in a manner which under any circumstances may allow water, wastewater or any harmful liquid or substance to enter the Rural Municipality of Montcalm's water system.

If a condition is found to exist which, in the opinion of the Rural Municipality of Montcalm, is contrary to the aforesaid, the Rural Municipality of Montcalm may either: Shut off the service or services; or give notice to the customer to correct the fault at his or her own expense within a specified time period.

11. Conditions of Disrepair

In the event that there are conditions of disrepair in the wastewater and water works on a property that detrimentally affects the system as a whole and, upon the failure of the owner of the property to correct the condition within a reasonable time, the Rural Municipality of Montcalm, or its agents, may enter the property, effect repairs and charge the cost thereof against the subject property as ordinary taxes.

12. Authorization For Officer To Enter Upon Premises

The Public Works Manager, or other employee authorized by the Rural Municipality of Montcalm in the absence of the Public Works Manager, shall be authorized to enter upon any premise for the purpose of:

13. Responsibility for Service Connections

The Utility is responsible for all costs involved to bring services to the property line of the owner (including any water losses that may occur to that point). The owner is responsible for all costs of services (including water losses) from the property line into the building being serviced.

14. Wastewater Surcharges

a) There may be levied annually, in addition to the rates set forth above, a special surcharge on sewage 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 sewage or industrial waste.

15. Hydrant Charges

The Rural Municipality of Montcalm or any other hydrant owner will pay to the Utility an annual fee of \$150.00 for each hydrant connected to the system which shall include the cost of water used for firefighting.