

Order No. 171/18

**CITY OF THOMPSON
THOMPSON WATER AND WASTEWATER UTILITY
APPROVAL OF COST ALLOCATION
METHODOLOGY AND REVISED RATES
EFFECTIVE JANUARY 1, 2019**

December 27, 2018

**BEFORE: Irene A. Hamilton, Panel Chair
Michael Watson, Member**

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1.0 Executive Summary

By this Order, the Manitoba Public Utilities Board (Board) approves the revised Cost Allocation Methodology and revised 2019 rates for the City of Thompson, Thompson Water and Wastewater Utility (Utility). The approved rates are shown below:

	2018 Rate	2019 Rate
Quarterly Service Charge	\$84.23	\$23.74
Water \$/cubic metre	\$2.39	\$3.42
Wastewater \$/cubic metre	\$1.28	\$1.51
Minimum quarterly – Water and Wastewater*	\$135.61	\$92.76
Bulk water \$/cubic metre	\$4.90	\$4.03
Reconnection fee	\$320.00	\$320.00
Hydrant rental (annual)	\$125.00	\$125.00

*Based on 14 cubic meters

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

The reasons for the Board’s decisions may be found under “Board Findings”.

2.0 Background

On January 10, 2018 in Board Order No. 6/18 (Board Order No. 42/18 varied the wording of this Order), the Board approved the transfer of ownership of the Thompson Water Treatment Plant (WTP) from Vale Canada Limited to the City of Thompson (City).

Due to this transfer of ownership and increasing operating costs starting in 2018, the City applied for interim rates on December 4, 2017. Interim rates were approved on January 11, 2018 in Board Order No. 9/18.

After a public hearing in the City of Thompson, the Board issued Board Order No. 49/18 on April 12, 2018, approving water and wastewater rates for the City until December 31, 2018, and denied the Cost Allocation Methodology (CAM). In that Board Order, the City was directed to submit a revised CAM for approval and projected rates for 2019 no later than November 30, 2018.

3.0 Application

The Board received a revised CAM on December 3, 2018, and the 2019 rate schedule from the City, accompanied by Resolution # 2018 208 and By-law #1974-2018, having received first reading on October 15, 2018.

The application further stated that during the January Public Hearing for the 2017-2019 rate study, members of the public communicated that the customer service charge was too high and that moving some of the maintenance costs into the rates would allow ratepayers a chance to adjust their usage to decrease their costs. The City has reviewed all equipment and public labour costs, and has reallocated those costs from the public works department to the water and wastewater rates.

The resulting change is a decrease in the customer service charge from \$91.62 to \$23.74, an increase in the water rates from \$2.92 per cubic meter, to \$3.42 per cubic meter, and an increase in the wastewater rates from \$1.17 per cubic meter to \$1.51 per cubic meter.

Cost Allocation Methodology

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. This policy must be submitted to the Board for approval and cannot be changed without Board approval. The Board's requirements regarding cost allocation methodologies can be found in Board Order No. 93/09.

The City has indicated that all meter reading and Utility clerk expenses will remain at 100% of Utility administration costs, per the previous submission. The City Manager, Finance Department costs, Audit costs, Purchasing Department costs, Personnel costs, Safety Program costs, Communications Department costs and Development Services costs also remain at 10%. The rationale for including these costs is that currently there are 14 out of 140 full-time staff working in the Utility and approximately 90% of the capital work at the

City is in the Utility, mostly due to the new Wastewater Treatment Plant build. However, the City states that it has incurred more costs than the allotted 10% of costs for these departments due to the major issues, including the new Wastewater Treatment Plant, the handover of the WTP from Vale, developing operational plans and the two treatment facilities along with hiring staff.

Many of the Public Works costs have been removed from the customer service charge and are being charged directly to the water and wastewater rates in the revised rate schedule. This includes 27% of Public Works buildings, supervision, vehicles and equipment. Approximately 14 out of the 42 Public Works employees are Utility employees who share the same equipment and work spaces. 67% of sidewalk and curb maintenance is charged directly to the water rates, as this is to replace assets due to water and wastewater line digs. All capital replacement of these items are born under the taxes and not included in these costs.

75% of the customer work completed by Public Works staff is charged to the water and wastewater rates, as all of the corresponding revenues would be included here (this includes service line hookups and repairs not covered by the City's special levy). Public Works sanding, paving and grading is charged 10% to the Utility. This is for items such as sanding of icy areas due to water line breaks, grading of areas in winter due to water line break ice buildup and patching of areas where the digs have occurred.

Private Service connection repair remains the same, the Utility is charged 100%, which is covered 100% by the special levy charged to each property.

The City submitted a revised CAM for 2019 for Board approval. The following table compares the previous and newly proposed methodologies:

COST ALLOCATION METHODOLOGY COMPARISON			
<i>Shared Overhead: Includes all direct and indirect costs related to the administration of the Utility.</i>			
Sub-Category	Activity/Expenses (Object)	Expenses allocated to the Utility (Estimated)	
		Percentage (%)	
		Previously Proposed	Newly Proposed

Direct Overhead Cost	Meter reading – Salaries & wages	100%	100%
	Billing – Receipting and Collection	100%	100%
	Other Admin (Legal, Bleeder rebate, Insurance, Rate Study, Building Services, Memberships & Training, Water & Sewer Manager & Engineering Tech)	100%	-
	Printing & Photocopying	10%	100%
	Lease Cost	27%	100%
	Utilities	100%	100%
Indirect Overhead Costs – General Administrative Costs & Shared Office Costs	City Manager	10%	10%
	Legal/Audit	10%	10%
	Purchasing & Stores	10%	10%
	Chief Financial Officer (department)	10%	-
	Community Development	10%	10%
	Personnel	10%	10%
	Safety	10%	10%
	Communications	10%	10%
	Public Works Admin	27%	-
	Memberships & Training	27%	-
Shared Direct Operating Costs: <i>Includes all costs directly attributable to the maintenance and repair of the utility. Public work employees repair and maintain both transportation and utility infrastructure. A portion of the cost for the public works department should be allocated to the Utility.</i>			
Direct Equipment & Materials Cost	Printing & Photocopying	27%	-
	Communications	27%	-
	Public Works tools	27%	-
	Public Works Sanding, Paving & Grading	10%	10%
	Public Works Sidewalk & Curb Maintenance	67%	67%
	Public Works Custom Work Equipment & Materials	75%	75%
	Public Works Grounds & Janitorial	27%	-
	Private Service Connection Repair	100%	100%
	Machinery and Equipment	-	27%
	Vehicles – Fuel / Insurance	-	27%
Direct Labour	Professional Services	27%	-
	Public Works Salaries & Benefits	10%	-
	Public Works Sidewalk & Curb Maintenance	67%	-
	Public Works Custom Work Mechanics Salaries & Benefits	75%	-
	Public Works Grounds & Janitorial	27%	-
	Private Service Connection Repair	100%	-
	Labour costs directly attributable to the maintenance and repair of utility TCA and supervisory costs	-	27%
Shared Capital Costs: <i>These shared costs should not be directly charged to utility operations. Capital costs should be capitalized as a tangible capital asset and amortized to the utility operations over its useful life. *Includes all costs directly attributable to the development and construction of a tangible capital asset for a utility. Public works project often construct transportation and utility assets at the same time. In these cases, a portion of the road work should be allocated to the utility TCA based on the relative fair market value of the assets. * The cost of a tangible capital asset can include interest costs on debt directly attributable to the development and construction of a tangible capital asset. Only interest owed to external parties such as banks or debenture holders. Capitalization of interest cost must end when there is no construction or when the asset is put into use.</i>			
Direct Overhead Costs	Salaries & Benefits	50%	-
	Memberships & Training	68%	-
	Printing & Photocopying	68%	-
	Communications	68%	-

Direct Equipment & Materials Cost	Infrastructure & Asset Management	68%	-
	Operating Costs – Vehicles / Fuel / Insurance	-	68%
Direct Labour	Labour costs directly attributable to the maintenance and repair of Utility TCA	-	50%

Contingency Allowance and Utility Reserves

In the Board's Water and Wastewater Rate Application Guidelines, a yearly allowance equal to 10% of the variable operating costs is recommended

The City has not included a contingency for the 10% of the systems variable-operating costs, as only a redistribution of the costs has occurred and no additional expenses have been included. The City stated that it would review the contingency in its next rate application, which will occur in 2019, for the years 2020 to 2022.

As per the City's rate application and financial projections, there is no dedicated allotment for a maintenance contingency. Annual contributions for 2018 and 2019 to a capital reserve fund for future replacement of the WTP has been established. This reserve fund was established in 2018, and is dedicated for the future replacement of machinery and equipment (M&E) for the WTP. This is estimated at approximately \$278,000 per year, and included in the cost of water treatment to be cost shared with Vale.

The City has provided the Board with By-law 1964-2018 to create the M&E Reserve for the WTP, read for a third time on May 7, 2018.

In addition, there was a one-time contribution of \$60,000 in 2017 to a reserve fund for the Wastewater Treatment Plant to maintain rate stability and to offset borrowing for the new plant. There are no other significant reserve contributions included in the rate requirements due to the cash basis approach to financing capital projects.

4.0 Board Findings

In Board Order No. 49/18, the City was ordered to submit a new cost allocation methodology with a clear rationale for the costs allocated to the customer service charge, as it contained costs including equipment and labour of its public works department. As stated in the Board Order, the Board believed these costs would be more appropriately allocated to the water and wastewater rates as they relate to maintenance of the systems. Removing these costs from the customer service charges would allow the ratepayers a chance to adjust their usage to decrease their costs.

The Board has reviewed the new rate schedule for 2019 and the new shared Cost Allocation Methodology for the customer service charge, and believes this redistribution of costs to the rates is appropriate and reasonable. The Board approves the revised water and wastewater rates and cost allocation methodology, effective January 1, 2019.

The Board reminds the City that this Cost Allocation Methodology must be used consistently and requires Board approval should any further changes be considered.

The Board also approves the creation of a Reserve Fund within the Utility's schedule, to be called the M&E Reserve, dedicated for the future replacement of machinery and equipment for the WTP.

A Notice of the Application to inform the ratepayers of the revised water and wastewater rate increases and customer service charge will be issued.

The Board acknowledges the City's efforts to revise their rate schedules and continues to recommend that all future applications be prepared using the PUB's guidelines.

The Board directs the City of Thompson to review its water and wastewater rates for adequacy and file a report with the Board, as well as an application for revised rates if required, on or before September 30, 2019.

5.0 IT IS THEREFORE ORDERED THAT:

1. The 2019 revised water and wastewater rates and customer service charge as submitted by the City of Thompson BE AND ARE HEREBY APPROVED in accordance with the attached Schedule “A” to this Order, effective January 1, 2019.
2. The Cost Allocation Methodology for shared services as submitted by the City of Thompson BE AND IS HEREBY APPROVED.
3. The creation of a separate reserve fund within the Utility for Machinery and Equipment for the Water Treatment Plant, BE AND IS HEREBY APPROVED.
4. The City of Thompson is to provide notice of the decisions found in this Order to its customers as soon as possible.
5. The City of Thompson amend its water and wastewater rate By-Law to reflect the decisions in this Order and submit a copy to the Public Utilities Board once it has received third and final reading.
6. The City of Thompson 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, if applicable, on or before September 30, 2019.

Fees payable upon this Order - \$150.00

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

"Irene A. Hamilton"
Panel Chair

"Rachel McMillin, B.Sc."
A/Assistant Associate Secretary

Certified a true copy of Order No. 171/18 issued
by The Public Utilities Board



A/Assistant Associate Secretary

Schedule A

THE CITY OF THOMPSON WATER AND WASTEWATER RATES BY-LAW No. 1974-2018

1. Water and Wastewater Rates

1.1 SCHEDULE OF QUARTERLY RATES - 2019

<u>Service</u>	<u>Water</u>	<u>Wastewater</u>	<u>Water & Wastewater</u>
a. Commodity Rate Per Cubic Meter	\$3.42	\$1.51	\$4.92
b. Quarterly Service Charge Per Meter			\$23.74
c. Minimum Quarterly Charges			

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

Meter Size	Group Capacity Ratio	Minimum Quarterly Consumption (cubic meters)	Quarterly Service Charge (\$)	Commodity Charge Water (\$)	Commodity Charge Wastewater (\$)	Minimum Quarterly Water & Wastewater Charge
15mm	1	14	23.74	47.88	21.14	92.76
20mm	2	27	23.74	92.34	40.77	156.85
25mm	4	55	23.74	188.10	83.05	294.89
37mm	10	140	23.74	478.80	211.40	713.94
50mm	25	341	23.74	1,166.22	514.91	1,704.87
75mm	45	614	23.74	2,099.88	927.14	3,050.76
100mm	90	1,227	23.74	4,196.34	1,852.77	6,072.85
150mm	170	2,319	23.74	7,930.98	3,501.69	11,456.41
200mm	320	4,364	23.74	14,924.88	6,589.64	21,538.26
250mm	610	8,319	23.74	28,450.98	12,561.69	41,036.41

2. Bulk Water Sales

Water sold in bulk shall be charged for at the rate of:

- In 2019 - \$4.03 per cubic meter

3. Unmetered Fire Lines

Unmetered Fire Lines shall be charged at a flat rate of \$75.00 per quarter.

4. Application Fee

An application fee of \$50.00 will be charged for new water utility customers.

5. Water Meter Installation

Water meters will be provided free of charge for new construction within the City of Thompson, with an installation fee of \$500.00 for a standard installation of a meter not greater than one inch (25mm), or an inspection fee at the rates for Service Calls if the installation is not performed by the City.

6. Service Calls and Additional Services

A fee for service of \$250.00 for the first hour and \$125.00 thereafter shall apply for testing of water meters at the request of the Customer, repair of damage to water meters attributable to the Customer, inspection of installations, or any other minor service requested by the Customer.

7. Service to Outside Customers

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

8. Billings and Penalties

A late payment charge of 1¼% per month shall be charged on the dollar amount owing after the billing due date. The due date will be at least fourteen days after the mailing of the bills.

9. Disconnection and Shut-Off

A scheduled shut-off charge of \$320.00 shall apply.

An unscheduled shut-off charge of \$480.00 shall apply.

The Public Utilities Board 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.

10. Reconnection

A reconnection fee of \$320.00 shall apply.

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

11. Calibration of Meter

All costs associated with the calibration of a meter, at a customer's request, will be the responsibility of the customer, this will include shipping, installing a replacement meter and calibration, unless it is identified during calibration that there is an issue with the meter in which all costs will be paid for by the City of Thompson.

12. Damaged Meter

The cost to replace a damaged meter shall be the actual cost of the meter and installation. Meters which malfunction will be replaced at the cost of the City of Thompson.

13. 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.

14. Hydrant Rentals

The City of Thompson will pay to the utility an annual rental of \$125.00 for each hydrant connected to the system. In addition, the City of Thompson will pay for water used for fire-fighting at the current rates applied to a volume identified by the Water Utility.

15. Allowance For Prevention of Freezing

Where advanced approval has been granted by the Utility, a customer allows water to run continuously for any period of time to prevent water service lines from freezing, the charge to that customer for the current quarter shall be the average of the billings for the two previous quarters to the same customer, or to the same premises if the occupant has changed.

16. Thawing of Frozen Lines

A fee for service of \$250.00 for the first hour and \$125.00 thereafter shall apply for thawing of Private Water Service lines by the Water Utility.

17. Sewage Surcharges

There may be levied annually, in addition to rates set forth above:

- (a) 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 based on the actual costs of treatment required for the particular sewage or industrial wastes.

18. Hauled Sewage Dumping Fee (Septage)

All hauled sewage fee shall be charged for at the rate of \$4.00 per cubic meter.