

Order No. 74/18

**THE RURAL MUNICIPALITY OF WEST ST. PAUL
RIVER'S EDGE WASTEWATER UTILITY
WASTEWATER RATES
Effective January 1, 2019, 2020, 2021 & 2022**

June 13, 2018 - Revised July 5, 2018

**BEFORE: Carol Hainsworth, C.B.A., Panel Chair
Irene A. Hamilton, Member**

Table of Contents

1.0	Executive Summary.....	3
2.0	Background	3
	Wastewater Collection/Treatment.....	4
3.0	Application.....	5
	Working Capital Surplus/Deficit	7
	Cost Allocation Methodology	7
	Contingency Allowance and Utility Reserves.....	8
4.0	Board Findings	9
5.0	IT IS HEREBY ORDERED THAT:.....	11
	SCHEDULE "A"	13

1.0 Executive Summary

By this Order, the Public Utilities Board (Board) approves the wastewater rates, cost allocation methodology as applied for by The Rural Municipality of West St. Paul (RM), River's Edge Wastewater Utility (Utility), effective January 1, 2019, 2020, 2021 and 2022.

The approved rates are provided:

Previous Rate	\$676.95	By-law (2011-02)
Year 1 rate for 2019	\$920.26	By-law (2016-17)
Year 2 rate for 2020	\$930.57	
Year 3 rate for 2021	\$941.03	
Year 4 rate for 2022	\$951.66	

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

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

2.0 Background

The RM owns and operates a wastewater utility, known as Local Improvement District (LID) No. 5 or River's Edge. All customers have private wells and the water supply is unmetered. The Utility services 97 residential lots with an assignment of one Residential Equivalency Unit (REU) per lot, 97 REUs in total.

Where a system or residence does not have meters, the volume of water used and/or the volume of effluent returned to the wastewater system is based on residential equivalent units; one unit being the volume of wastewater estimated to be produced by the average single family residence.

Currently, no customers are serviced beyond the boundaries of the LID. All customers receive an annual bill, sent out separately from property tax bills. However, the RM has advised that the Utility now has the capability to bill customers quarterly, which may help ratepayers adjust to the rate increases.

The wastewater treatment plant is over 10 years old and will need to be replaced in the future to meet the effluent limits set by the Province of Manitoba. Because of this, the treatment plant cannot absorb more users, and an alternative solution needed to be sought.

Following an extensive study by the RM and external engineers, Council agreed to pursue a connection to the City of Winnipeg (City) wastewater system. This solution was found to be the most cost-effective to adequately treat wastewater from the RM, both in terms of construction and long-term maintenance and operation.

Construction on this main trunk connection to the City system started in May 2014 and was completed, replacing four of the five localized wastewater treatment plants: Rivercrest, Riverdale, Lister Rapids and River Springs (as approved in Board Order No. 24/16). River's Edge is the only wastewater utility left in the RM. The RM is now a customer of the City's wastewater utility. When this project is complete, the mainline will service entire RM and the RM will have only one wastewater utility.

The River's Edge Utility is currently meeting specified guidelines and is currently forecast to transition to the mainline in 2025.

Wastewater Collection/Treatment

The wastewater system includes a batch wastewater treatment plant with sewage arriving at the plant via gravity flow wastewater lines. The system was constructed in 2006 by the developer of River's Edge subdivision and transferred to the RM in 2008 at no cost.

Sludge from the treatment process is hauled to the North Winnipeg Water Pollution Control Center owned by the City. In the past, the RM only paid for the cost of hauling the sludge.

However, the City has changed this practice and now charges the RM a “dumping fee” charged on a per load basis.

Following treatment, wastewater is discharged into the storm sewer collection system then enters the Red River. The wastewater system is classified as Class 2 system and is currently in compliance and meeting its environmental licence requirements.

3.0 Application

On August 23, 2016, the RM applied for revised wastewater rates, to be effective January 1, 2017 for a nine year period until January 1, 2025, as set out in By-law No. 2016-17 that received first reading on August 11, 2016. The application was supported by a rate study prepared by the RM’s consultant. Rates were last approved in 2011 in Board Order No. 135/11.

The primary reason stated for the increase in rates is to comply with Public Sector Accounting Board (PSAB) standards. The last rates were set in 2011 and did not include or account for the wastewater treatment plant amortization expense of \$22,616. In addition, the RM is seeking approval of nine years of rates with increases because of the future wastewater capital plan, which includes the connection to the City’s wastewater system.

A Public Notice of Application was issued on March 2, 2017 providing customers the opportunity to comment to both the Board and the RM with respect to the proposed rate increases. Six responses were received.

When reviewing an application, the Board has at its disposal two approaches, either a paper or a public hearing review. After the publication of the Notice of Application, the Board considers the application and stakeholder responses, and determines which method of review is most appropriate.

A public hearing process allows the Utility and stakeholders the opportunity to present their application and any concerns to the Board in person. A paper review process saves the cost

of a public hearing process. After considering the application and responses, the Board decided to process this application using a paper-based review.

The rates were calculated based on the following revenue projections, using an inflation rate of 1% in all calculations:

	Actual	Acutal	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Wastewater Only	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<i>Expenses:</i>												
Staffing	6,599	8,804	7,653	7,767	7,885	8,003	8,123	8,244	8,369	8,494	8,620	8,751
Sewage Collection System	-	-	-	-	-	-	-	-	-	-	-	-
Sewage Lift Station	49,384	34,850	30,150	30,602	31,061	31,527	32,000	32,480	32,967	33,462	33,964	34,473
Sewage Treatment & Disposal	13,936	14,574	19,315	19,605	19,899	20,197	20,500	20,807	21,119	21,437	21,759	22,084
Other Sewage Collection & Disposal Costs	4,571	4,578	1,980	2,010	2,040	2,070	2,101	2,133	2,165	2,197	2,230	2,264
Transfer to Reserve												
Amortization/ depreciator	22,616	22,616	22,616	22,616	22,616	22,616	22,616	22,616	22,616	22,616	22,616	22,616
Interest on long term debt												
Reserves												
Future Remediation												
Minor capital upgrades					-	-	-	-	-	-	-	-
Contingency				6,665	6,765	6,866	6,969	7,074	7,180	7,288	7,397	7,508
Total sewer expenses	97,106	85,422	81,714	89,265	90,266	91,279	92,309	93,354	94,416	95,494	96,586	97,696
<i>Revenue</i>												
Sewer rate charge	65,650	65,650	65,650									
Connection Revenue												
Lagoon Tipping Fees												
Investment Income		970										
Amortization of capital grants												
Taxation revenues	-	-	-	-	-	-	-	-	-	-	-	-
Other Revenue												
Total revenue- sewer	65,650	66,620	65,650	-	-	-	-	-	-	-	-	-
Net rate revenue requireme				89,265	90,266	91,279	92,309	93,354	94,416	95,494	96,586	97,696
Net results	31,456	18,802	16,064									

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 most recent information available, the working capital surplus at December 31, 2016 was:

	2015	2016
Accumulated Fund Surplus	\$462,240	\$439,624
Deduct Tangible Capital Assets	\$472,350	\$449,734
Add Long-Term Debt	\$0	\$0
Add Utility Reserves	\$224,942	\$222,916
Equals Working Capital Surplus	\$214,832	\$212,806
Operating expenses	\$85,422	\$94,092
20% of operating expenses (Target)	\$17,094	\$18,818

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 receiving approval from the Board. The Board's requirements regarding cost allocation methodologies can be found in Board Order No. 93/09.

The RM has proposed a new Cost Allocation Methodology for shared expenses as follows:

- CAO, Assistant CAO & Director of Operations - 1% of time.
- Operator Training and working time - 1/5 of cost (shared between five Utilities).
- Vehicle capital expense - 1/5 of cost (shared between five Utilities).
- Vehicle operating - mileage allocated.

The Board had previously noted that the RM was to consider an allocation of Council time to the Utility. The RM considered an allocation for Council time and determined no allocation will be made, as the amount of time spent is not material.

The customer service charge is included in the flat wastewater rate and is calculated by taking the shared office costs divided by number of customers, and is as follows:

2017: $\$2,493/97 = \25.70

2018: $\$2,567/97 = \26.50

2019: $\$2,567/97 = \26.50

As the cost allocation for the projected nine years is to remain the same, the customer service charge will remain at \$26.50.

Since the submission of the rate application there have been changes within the RM and four out of the five wastewater utilities have been decommissioned. Therefore, the cost allocation that estimates the operator and vehicle expenses at 1/5th the shared costs is no longer accurate. The RM has advised that the operator has spent approximately 25% of the time within the River's Edge Utility and costs should remain the same.

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 RM has proposed an annual contingency allowance of 10% of the forecast operating expenses, which is in line with the Board's guidelines. The RM does not plan to expend this allotment as all major expenses have been budgeted and in the past, the contingency has resulted in a surplus, which was transferred to the Utility Reserves.

The Utility's reserve as at December 31, 2016 is \$222,916. The RM has proposed an annual contribution to reserves of the contingency amount plus the amortization expense of \$22,616 as the assets were donated. This amounts to an approximate contribution of \$30,000 a year. In addition, the reserve has a 1% annual contribution of interest earned.

It is the RM's intent to build the Utility's Reserves in preparation for the 2025 transition to the new mainline with the City.

4.0 Board Findings

The Board has reviewed the application and revenue projections presented by the RM, and finds it to be acceptable. The Board approves the wastewater rates as applied for years 1 to 4 (previously January 1, 2017 to January 1, 2020) effective January 1, 2019 (Year 1), January 1, 2020 (Year 2), January 1, 2021 (Year 3), January 1, 2022 (Year 4).

Should the municipality implement a quarterly billing schedule the Board approves the following quarterly rates:

	2019	2020	2021	2022
Quarterly Charge	\$230.07	\$232.64	\$235.26	\$237.92
Total Annual Charge	\$920.26	\$930.57	\$941.03	\$951.66

With regard to the rate increases after Year 4 or 2022, the Board will not approve the applied for rates; instead it encourages the RM to review Board Order No. 86/17, which outlines the Simplified Rate Application Process for municipally owned public utilities. If after its review the RM finds that it meets the designated criteria, it should apply for rates using the Simplified Rate Application Process.

The Board considered the responses to the Notice of Application. Most of these responses focussed on statements about the substantial rate increase and asked for an explanation. The RM did provide a written explanation to these ratepayers and provided a general notice explaining the increase in rates to River's Edge residents on August 26, 2016. The Board is satisfied with the explanation to residents.

The Board notes that the RM has a history of larger rate increases and the Board is sensitive to customer reaction to the magnitude of rate increases. Consumers are generally more tolerant of regular, smaller increases. However, when approving rates the Board must also consider the sustainability of the Utility.

Of concern to the Board is that the RM had not adjusted the wastewater rates to include amortization. The RM has had more than enough time to review and adjust its financials to Public Sector Accounting Board (PSAB) rules.

The Rural Municipality of West St. Paul River's Edge Utility has not submitted a rate application to the Board in five years. In the Board's view, this is too long a time-period between rate reviews. Regular rate reviews submitted every three years, or a yearly simplified filing, as per the Board's Guidelines, protect the financial position of the Utility and mitigates the need for substantial rate increases for the ratepayers.

It is the RM's responsibility to review the rates, ensure rates are adequate, and understand its requirements and reporting responsibilities to the Board. The RM needs to be much more diligent in conducting regular reviews of its revenue requirements.

The RM is directed to review general Board Order Nos. 151/08 and 93/09 (available on the Public Utilities Board website at www.pubmanitoba.ca) to understand its requirements and reporting responsibilities to the Board.

The Board approves the revised Cost Allocation Methodology with the allocation of 25% for operator training and work, and vehicle capital expense. The Board directs that should there be a realized increase/decrease use of operator time in the utility, that the RM apply to the Board for approval of a revised methodology. The Board reminds the RM that this methodology must be used consistently, and requires Board approval should any further changes be considered.

The Board encourages the RM to familiarize itself with the new Simplified Rate Application Filing process in Board Order No. 86/17 and to use it its next rate application.

The Board will require the Rural Municipality of West St. Paul to review its wastewater rates for the River's Edge Utility for adequacy and file a report of adequacy or an application for revised rates if required with the Public Utilities Board, on or before June 30, 2023.

5.0 IT IS HEREBY ORDERED THAT:

1. The wastewater rates for the Rural Municipality of West St. Paul, River's Edge Wastewater Utility, BE AND ARE HEREBY APPROVED in accordance with the attached Schedule "A" to this Order, effective January 1, 2019, January 1, 2020, January 1, 2021 and January 1, 2022.
2. The revised shared Cost Allocation Methodology for the Rural Municipality of West St. Paul, River's Edge Wastewater Utility, BE AND IS HEREBY APPROVED.
3. The Rural Municipality of West St. Paul amend its wastewater rate By-law for the River's Edge Wastewater Utility to reflect the decisions in this Order and submit a copy to the Board once it has received third and final reading.
4. The Rural Municipality of West St. Paul is to provide notice to its customers regarding the final wastewater rates with a copy provided to the Public Utilities Board.
5. The Rural Municipality of West St. Paul review the River's Edge Wastewater Utility's wastewater rates for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates if required, by no later than June 30, 2023.

Fees payable upon this Order - \$500.00

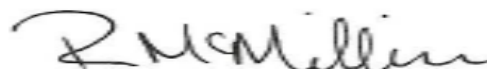
Board decisions may be appealed in accordance with the provisions of Section 58 of The Public Utilities Board Act, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Carol Hainsworth, C.B.A."
Panel Chair

"Rachel McMillin, B.Sc."
Acting Secretary

Certified a true copy of Order No. 74/18 issued by
The Public Utilities Board



Acting Secretary

SCHEDULE "A"**THE RURAL MUNICIPALITY OF WEST ST. PAUL
BY-LAW NO. 2016-17
For the period January 1, 2019 to December 31, 2022**

1. THAT the following rates for maintenance of the sewer system in River's Edge be levied against each of the building lots connected to the system in District 5.

January 1, 2019	\$920.26
January 1, 2020	\$930.57
January 1, 2021	\$941.03
January 1, 2022	\$951.66

2. THAT an invoice for the sewer charges will be mailed to the owner of each building lot in District No. 5.
3. THAT a late payment charge of 1 ¼% per month shall be charged on the dollar amount owing after the billing due date. The due date will be a minimum of thirty days after the mailing of the bills.
4. THAT 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.