PUBLIC UTILITIES BOARD OF MANITOBA

For use by utilities in preparing submissions for approval of Water and Sewer Rates

Guidelines

Public Utilities Board of Manitoba

Adopted by the Public Utilities Board
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ICON KEY
Key Information
MFR –Required Info
Template Information
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Water and Sewer Guidelines

Preamble

The Public Utilities Board Act (Act) awards the Public Utilities Board (Board) the jurisdiction and authority over certain municipal and other utility matters, including the setting of rates and the approval and disposition of deficits.

A public utility is defined as any works for the production, transmission, delivery of water directly or indirectly to or for the public, including such works owned by a municipality.

A sewer utility is required to be declared a public utility by the Board, and thereafter the Act applies to all sewer utility owners. Such declarations are sometimes the result of requests to the Board, but are most often made by decision of the Board and in all cases where the sewer service is provided in combination with the water services.

The Manitoba Water Services Board (MWSB), which will act as an operator and wholesaler of water, is exempted from the Act, but their customers may appeal to the Board if they have any concerns about the MWSB rates.

Private water systems in Manitoba that service the public were largely excluded from the Board`s oversight until approximately 2007, at which point the Board began to exercise its regulatory oversight. The Board requires rates charged by owners of private water systems to first be approved by the Board.

It is generally accepted that a public utility, especially one that delivers essential services, ought to be provided in a monopoly environment to exercise the economies of scale and to facilitate oversight and regulation. It would, for example, make no sense to have two waterlines running down the same street servicing the same area.

Readers may refer to the Act itself for general information, and are directed specifically to section 77, 78 and 82 though 95, which are reproduced in *Appendix C*, attached to this document.

Background

In 1960, the Board developed guidelines which included sample rate studies for use by municipalities in the development of proposals for water and sewer rates. The guidelines were largely influenced by recommendations from the Board's consultants from Templeton Engineering Company. These recommendations were based on an AWWA Water Rates Manual published in 1954.

In 1978, the Board issued revised guidelines. Though much has changed since then, the basic principles of rate setting have withstood the test of time. New factors have been introduced which now warrant an update to the guidelines.

The water industry was greatly affected by the tragic incident of coli-form contamination of the water supply at Walkerton, Ontario. Subsequent strengthening of Manitoba regulations to set standards in regulation to deal with both potable water quality and sewage treatment has affected all water and sewer operations. While the Board has no direct responsibilities in these two areas, compliance with the regulatory standards will often, if not always, affect the cost of operations and thus the setting of rates. The Board prefers to err on the side of caution so as to not become complicit by approving rates in a non-compliant environment.

In 2009, Public Sector Accounting Board (PSAB) introduced new accounting standards. Rates are impacted by an ever increasing awareness of infrastructure deficits requiring effective capital funding structures.

The provision of safe and adequate water and sewer services is vital for the economic well-being of every community. These guidelines were developed to provide effective and efficient low-cost regulatory standards.

Utilities and Applications

Generally it is the responsibility and decision of the utilities to apply for new rates. Regular rate reviews provide the opportunity to assess the operating performance of a utility. The Board has regularly heard customers complain about rate shock caused because a utility needs to "catch up" for years of rate inadequacy.

Private water co-operatives are required to adhere to the "*Complaint Based Regulatory Model*" and meet the *Minimum Annual Filing Requirements* set out on the Board's Website.

The Board promotes user-pay rate setting in order to encourage conservation and send proper price signals to consumers. Fair and equitable rates are highly dependent on the accuracy of the underlying utility records. Many operating and administrative resources are shared between municipal operations and the utility. The appropriate allocation of costs is essential to avoid inappropriate cross- subsidization.

It is with this background that Board staff provide these guidelines for the preparation of submissions to the Board for approval of water and sewer rates.

Guidelines

It is emphasized that the guidelines set out herein are only that, guidelines. In considering rate applications, the guidelines may be varied where evidence indicates that variation to be reasonable. This is subject to the responsibility of the Board to ensure that the resulting rates are equitable to all customers. Rates must also provide sufficient revenue to recover all maintenance and operating costs and maintain the financial health of the utility.

Changes to these guidelines may be adopted from time-to-time in order to improve the product so that it may be of maximum value to applicants. As the Board strives for an engaging work relationship with municipalities, please contact the Board with any relevant feedback.

Rate Study Template and Excel Workbook Templates

The Board has developed a rate study template which is available for viewing on its website. The template describes the various components which the Board anticipates receiving with a rate application.

Each section of the template contains a description of what the section is expected to contain.

Also posted on the Board's website is a sample rate study which is intended to provide applicants with an indication of what a completed rate application might look like.

Consistent with its desire to restrain regulatory costs, the Board has developed a set of spreadsheets to assist municipalities and other utilities in preparing rate studies. Unless there is an exceptional circumstance, the Board believes that utilities should be able to use the spreadsheets to prepare their own rate studies. The spreadsheets are formula driven and by following the completion instructions, a viable rate proposal will result.

However, as with guidelines, the spreadsheets may be varied by the utility to address specific circumstances. These variations must be explained in order for the Board to expeditiously process the application.

The following pages describe how to prepare applications for revised water and/or sewer rates. By following these steps, applicants will help to expedite the rate review process, ensuring that their applications will be dealt with in a timely fashion.

BOARD PROCESS

Processing an Application

Shortly after the utility files its application with the Board, a public notice of application will be issued and the utility is then responsible for its posting and/or publishing. Directions will be provided with the notice. As stakeholder responses are received, they are noted, ensuring that the utility has also received a copy of the stakeholder response.

> *Note:* At any time during the process, if the Board determines that the application lacks sufficient information to produce a decision, the application will be returned to the applicant for further review and re-submission.

The application is then reviewed and interrogatories are produced and sent to the applicant. Upon the receipt and review of the responses, the Board may require further responses. Once satisfied, a final review is completed. The Board panel will determine whether a public hearing is in the best interest of the community or whether a paper review process will suffice. This determination will depend on many variables, such as the volume of stakeholder response, the nature of those responses and/or the magnitude of the requested increase.

If it is determined that an oral hearing is necessary, Board staff will engage utility administration to determine a mutually agreeable hearing date. A public notice of hearing will be issued and the hearing held, usually at a location convenient to utility customers.

> *Note:* Board Practice and Procedure provides for interested parties with a demonstrable stake in the outcome of the hearings to apply for intervener status. While this is rare for water and sewer hearings, the Board will entertain such applications with input from the Utility. Approved interveners have the right to receive copies of all of the material and to ask questions both before and during the oral hearing. The process for applying for intervener status is defined on the Board's website.

The Board panel will then review all of the information at their disposal, including that gathered at the hearing if there was one, and make their decision.

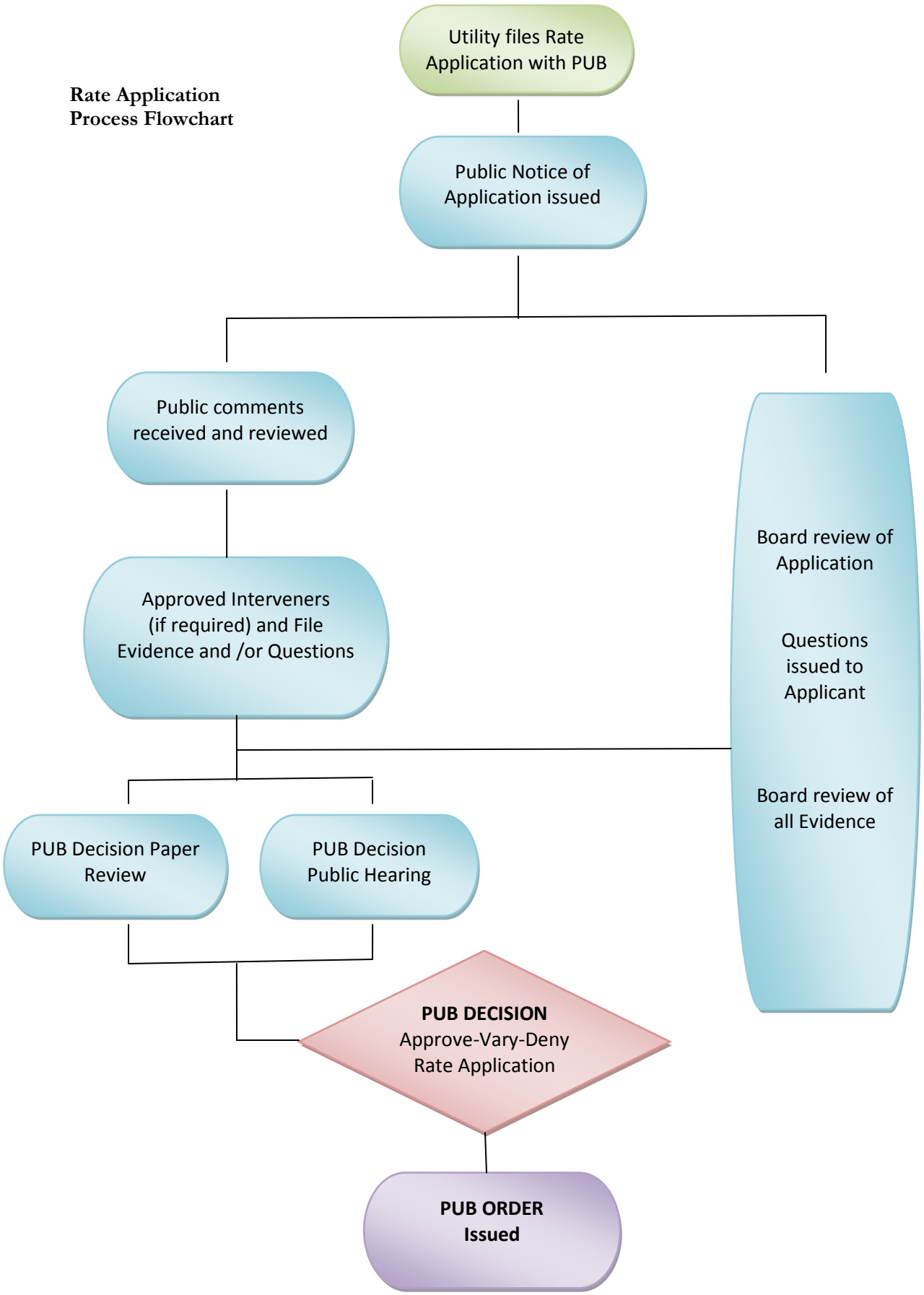
The Board decision is announced in the form of a Board Order; the Board will also issue a press release in the community.

Request to Review and Vary

If the utility objects to the Board's decisions, the applicant has 30 days from the date of the Order to file a request to the Board to review and vary the Order. Otherwise, the utility is required by law to implement the directives contained in the Order.

The process is defined in flowchart on the following page.

Rate Application Process Flowchart



ROLES

Public Utilities Board

The Public Utilities Board has three principal roles in relation to water and sewer utilities. These include:

- to set rates,
- approve operational deficits,
- and act as the adjudicator for appeals.

While this document focuses mainly on the Board's role of rate setting, it is worthwhile to delineate how it functions as an adjudicator for appeals.

Once the Board has issued its decisions by way of a Board Order, it is expected that the applicant will carry out the directives. However, it is recognized that on occasion the Order may need to be amended for various reasons.

Board Orders contain a statement which makes it clear that both utilities and customers may appeal the contents of an order. The Board will receive and consider such requests, referred to as requests to review and vary an order, provided that the request complies with the requirements of the *Public Utilities Board Act* and the *Board's Rules of Practice and Procedure*, both of which are available for review on the Board's website.

The Board will also field complaints from customers concerning utility operations and decisions. It is vital to understand however that the Board will only consider a complaint after the customer has made every attempt possible to resolve the dispute in discussion with the utility. Board staff will redirect a customer to the utility if they receive a complaint which has not yet been discussed with utility management. When dealing with a customer complaint, the Board will seek the position of both the customer and the utility before rendering its decision. That decision may occasionally be rendered in an order but more frequently through a letter or e-mail notification.

Utility

Please note that it must be clear to all concerned that the Board does not manage the utility. While the Board and its staff make every attempt to be as helpful as possible to utility operators, the Board does not have the staff, or the technical knowledge to deal with the day-to-day operational challenges that the utility might encounter. If the utility does not have the in-house expertise to handle a particular operational issue, it should seek professional assistance from external consultants.

The utility is responsible for determining if and when a rate review is required and is also responsible for preparing its submission to the Board. While the Board does recommend that utilities review their rate requirements at least every three years, it is not in a position to monitor whether or not utilities are complying with this recommendation. Utility owners must be diligent in ensuring that their rate base is sufficient to meet operational requirements. Where this has not occurred, the utility will experience a deficit, in which case the utility is required to seek the approval of the Public Utilities Board through an application process defined later on in this document.

The utility is responsible for dealing with its customers, including the handling of complaints. It is expected that in the vast majority of cases, disputes will be resolved between the customer and the utility. Only in rare occasions should customer complaints be escalated to the Board. The utility is also responsible for ensuring it meets potable water and wastewater treatment requirements in accordance with regulations. The Board's concern, with respect to compliance with potable water and wastewater treatment, is to ensure a utility is adequately considering potential major capital expenditures to address these issues.

Application for Approval of Rates

Attached to these Guidelines as "*Appendix J", is* a Rate Study Template which provides the format for applicants to follow when preparing their submission.

The template contains a description after each section heading of what that section is intended for and what it should contain. After completing each of the sections, the applicant may delete the descriptions, leaving only their application information.

The rate study should contain all information and underlying calculations. The Board has developed Excel workbooks which if properly completed and unaltered will provide the necessary calculations.

An instruction sheet for completing the workbooks is appended to these Guidelines as "*Appendix G."*

Cost Components:
Customer Service Charge

This charge is based on utility administration costs, including meter reading (where the system is metered), customer billings and collection, and a proportion of other General Administration costs, including office salaries, office expenses, auditing and similar costs.

These costs are generally not influenced by water consumption. They are costs which apply to all customers regardless of how much water they use or effluent they discharge. Therefore, the total of these costs is divided by total number of customers connected to the system (whether they use water service, sewer service, or both), to derive the Customer Service Charge for the billing period (monthly, quarterly or annually).

Where the utility is assessed an administration fee by a town or municipality, the application must provide details of the cost allocation methodology (see appendix D and Rate Study Template) showing how that allocation is determined.

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.

Debenture Costs

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 of the annual debenture repayment is considered an expense for rate setting purposes. The principal repayment component is not. However, the assets acquired through the debenture will have an annual amortization expense. These amortization expenses are driven by PSAB standards. A Guide is available on the PSAB website at www.frascanada.ca/public_sector-accounting-board/.

Whether or not debenture servicing costs are better borne through 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.

For example, some properties with special needs may drive higher capital cost or operating expenditures to ensure that the system can accommodate adequate fire protection, even though these properties may use little water. In such cases, debenture cost may be more equitably recovered through taxes.

In other circumstances, such as where the Utility does not service the entire tax base, it may be more equitable that the debenture servicing costs be included in rates as part of the customer service charge.
Alternatively, in these circumstances, it is common that the municipality would establish either a Local Improvement District (LID) or a Local Urban District (LUD) and recover the debenture charges through a special levy on the affected district.

In some cases, a hybrid of the two methodologies may be warranted. Some municipalities have determined that part of the debenture servicing costs will be recovered from taxes and the remainder through rates. It remains a matter of fair and reasonable user-pay cost allocation.

> *Note*: Earlier editions of Board Guidelines encouraged recovery of debenture costs through the tax base. This is being modified to allow for the most equitable treatment, which may vary according to circumstances.

Contingency Allowance

Forecasts used as a base for commodity rates should generally include an allowance for unforeseen costs which may arise unexpectedly such as for unusual maintenance. This is the purpose of a contingency allowance.

A yearly allowance equal to 10% of the variable operating costs is recommended as a guideline, unless other indicators suggest something different. Variations should be explained. A new water or sewer system will not likely require maintenance or repairs during the period covered by the rate study. A utility with mostly fixed costs will not usually encounter large unexpected expenses.

A utility may also determine that it has sufficient reserves or surpluses to cover potential unexpected expenses. In this case, no contingency provision may be required.

Reserves

Reserves are often created to deal with unforeseen expenses or anticipated but undefined future capital projects.

As well, the building of reserves is encouraged in situations where capital improvement or significant repair requirements are foreseen. The target level must be determined, indicating an end amount and the date it is expected to be attained. The study should also delineate the nature and projected cost of the capital improvements being anticipated.

However, building excess reserve balances may create intergenerational inequities, with the rate payer of today paying for services from which they will not benefit. A balance must be sought between sufficient savings for unforeseen circumstances and excessive rates.
Where reserves exceed 20% of original gross capital cost, unless a major part of the excess is shown to have a specific need in the near future, the Municipality should, and may be asked to, consider refunding mechanisms such as a onetime rebate or the addition of a prompt payment discount to the rate schedule, subject to removal of the discount when surplus funds are no longer excessive.

A utility reserve fund may be established by a Council By-law authorized by the PUB, as set forth in Section 168 of *The Municipal Act*. Such reserves may be used, subject to the Board's approval in each case, to recover deficits, unforeseen costs, and planned capital expenditures not large enough to warrant a debenture issue.

Notes: 1. The reserve By-law may authorize transfer of part or all of a present utility fund surplus to reserve or provide that annual surpluses up to a stated amount each year may be transferred to reserve for a stated number of years.
This last clause is compulsory if used to accumulate funds to cover some planned expenditure. In this case, the amount of the compulsory transfer is included in the utility budget for each year, and rates must be sufficient to cover this amount.

2. It is important to note however, that if the expected in-year surplus does not materialize, the transfer can only be made from available working capital (see item 2.5) in the utility operating fund; in other words, a transfer to reserves cannot be made without sufficient fluid assets.

Working Capital Surplus

The Board has set a minimum working capital balance of 20% of operating expenses.
Working capital represents the net liquid assets of the utility and is calculated by subtracting current liabilities from current assets. In the case of utilities, working capital is calculated as follows:

Utility Fund Surplus as per schedule 9* (Utility Operations)	
Deduct Tangible Capital Assets as per schedule 8* (Statement of Financial Position)	
	sub-total
Add long-term debt as per schedule 8*	
Less current portion of long term debt as per note on debt**	
Add Utility Reserves as per schedule 6 (Reserve Fund Balances)	
	Results in Working Capital Surplus (Deficit)

* Source-The Audited Financial Statements
** The Audited Financial Statements must contain a note disclosing long-term debt and a 5-year principal repayment schedule. The current portion is the principal repayment due in the coming year.

The Board has taken the position that each utility should be solvent and have a buffer to mitigate against unforeseen operational deficiencies.

Where a utility's working capital balance has dropped below the 20% threshold, the Board requires that a provision equal to 1% of operating expenses be added to rates until the working capital balance has reached the 20% target level.

Deficit Recovery

If the utility has a deficit, it is required by law to file a deficit approval application and recovery plan with the Board. (See section 18) That plan may include recovery by either rate increase, transfer from surplus funds or transfers from tax revenues. Where the recovery plan, as approved by the Board, includes recovery through rates, the defined amount must be added to the revenue requirement in the rate study.

Water Included in Minimum Rates

Some minimum charge should be paid by all customers connected to the system, so all will make a fair contribution to the cost of operating the utility. It also ensures that customers have sufficient base supply to maintain health drinking and hygienic habits.

It is deemed equitable if the minimum charge paid by customers with 5/8 inch meters includes 3,000 gallons or 14 m^3 of water per quarter. A rate structure which includes a larger volume in the minimum charge transfers a portion of operating costs to the people who often are those which can least afford it. 3,000 gallons (14 m^3) per quarter is believed to provide an optimum balance between conservation, basic water requirements, and fairness.

The amount of water included for customers using larger meters is based on Group Capacity Ratios recognized by the *American Water Works Association.*

Meter Size (Inches)	Group Capacity Ratio	Minimum Quarterly Consumption (gallons)	Minimum Quarterly Consumption (m^3)
5/8	1	3,000	14
3/4	2	6,000	27
1	4	12,000	55
1 1/4	10	30,000	140
2	25	75,000	341
3	45	135,000	614
4	90	270,000	1,227
6	170	510,000	2,319

Residential Equivalency Units

Where a system has no meters, including systems with sewer service only, volume of water used and volume of effluent returned to the sewer system are based on residential equivalent units; one unit being the volume of water estimated to be used by the average single family residence.
Units allocated to other customers are based on estimated water they will use, as compared with a residence.

A study conducted in 1971 is used as a general guide in allocating units. The study was based on completed questionnaires of 30 small metered systems. Experience has not warranted any change to the over the years. The study is still considered valid and remains the basis for the indicators found in Appendix A. Utilities may vary their assignment of residential equivalency unites based on their specific knowledge of their customer base and water consumption.

Hydrant Rentals

A Municipality must pay to the Utility an annual rental sufficient to cover cost of maintaining and replacing all hydrants connected to the system. The Municipality is also required to pay for any water used for fire-fighting; this is not a Utility responsibility and related costs should be recovered through taxes.

Since hydrant costs are part of Water Distribution costs, revenue from hydrant rentals is deducted from Distribution costs when calculating rates.

Hydrant rental costs will vary by municipality and circumstances. Where cost of water used is included in the rental rate, the charge may vary from $100.00 to $300.00 in southern Manitoba, and up to $400.00 in some Northern Manitoba Municipalities with heated and circulated water. (Based on 2012 figures, which should be adjusted by annual inflation as determined by The Consumer Price Index).

Interim Rates for New Systems

Each Municipality which has received authority from the Provincial Government to construct a new water or sewer system must keep in mind the requirement that commodity rates must be approved by the Board. Municipalities are urged to submit necessary information to the Board as early as possible, so rates may be approved, if possible, before the customers are connected to the system.

Where Board staff is aware, they will attempt to keep in touch with such Municipalities to obtain such information and rate By-law. However, this is a municipal responsibility to notify the Board (see Appendix B). If it appears that full information may not be available before customers are connected, the Board may consider authorization of interim rates, subject to a hearing to authorize regular rates to be held within a stated period.

In some cases, where rates are not set until some customers have been using water for some months, resulting shortfalls can be recovered through retroactive billing, if approved by the Board.

Sewer Surcharge

By Resolution of Council, a special sewer surcharge, on sewage having a Biochemical Oxygen Demand (BOD) in excess of 300 parts per million may be levied. Sewer surcharges may also be required to treat other wastewater flows from customers that have specific properties in excess of "normal" wastewater characteristics. The amount should be sufficient to cover the cost of chemicals required to treat the excess BOD (or other wastewater parameters) and all costs related to such treatment.

Water not returned to Sewage System

Where it can be clearly shown to the satisfaction of the Board that a substantial amount of water (e.g. approximately 10% of the water sold to a particular customer), used by a large volume customer (e.g. consuming in excess of 100,000 gals/quarter) does not return to the sewer system, the Municipality may be authorized to deduct such water volumes in calculating the Sewer charge to such customers. This authorization shall be applied for by By-law to amend the general rate By-law. Such water would also be deducted in calculating Sewer rates.

Non-Supplied Water discharged into Sewage System

Where there is evidence that water not assessed by meter consumption, such as weeping tile water, is being discharged into the sewer system, the Municipality may make an estimate of the volume to be added to water volume for sewage volume count purposes. The method of estimation (ideally an engineering assessment) must be clearly defined in the rate application. In general, the Board would encourage a utility owner to have By-Laws or policies in place prohibiting weeping tile water from entering the wastewater collection system.

Sewage volumes impact on future capital requirements, such as new lagoons or treatment plants. In the interest of fairness, the generators of that volume should be bearing their fair share for these costs.

Service to Customers outside the Municipality, Local Improvement District or Local Urban District

The Council of the municipality may sign agreements with customers for provision of water and sewer services to properties located outside the legal boundaries of the municipality, Local Urban District (LUD) or Local Improvement District (LID). Such agreements must provide expressly for payment of the appropriate rates and must include a surcharge set by resolution of Council. The surcharge must be equivalent to the frontage levy, general taxes and special taxes for utility purposes in effect at the time, or which 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, all costs of connecting to the utility mains and installing and maintaining service connections must be paid by such customers.

Bulk Water Sales

All bulk water should be charged at a rate which includes:

13.1. The appropriate commodity water rate.
13.2. A share of the utility administration costs.
13.3. A surcharge equivalent to their fair share of taxes assessed for recovery of debenture costs relating to the water system paid by customers in the Municipality.
13.4. Any additional costs incurred in serving bulk customers.

Where bulk water sales make up a substantial part of water sales, and particularly where water is purchased by the Utility, the appropriate commodity rate may be The Wholesale (or lowest) commodity rate in the schedule.

Where bulk water is sold through a coin meter, the rate is expressed as: y gallons (m^3) for x cents.

The formula for calculating the bulk water rate is as follows:

Administration revenue requirement	A
Water revenue requirement	B
Taxation revenue collected for the repayment of water related debt	C
All additional costs of servicing bulk customers	D
Sub-total	E= A+B+C+D
Bulk Ratio	F= E ÷ B
Domestic water rate	G
Bulk Water Rate	G x F

Billing Period

When practical, accounts should be billed quarterly. Quarterly billing (compared to monthly billing) saves two-thirds of the cost of meter reading, billing and collecting.

Accounts based on Residential Equivalent Units, or minimum charges for metered service, may be billed quarterly in advance. Billing in advance for Minimum Quarterly Rates provides cash flow.

Charges for consumption in excess of the minimum volumes included in the minimum charges for water and sewer service for the preceding quarter for metered services are to be included with the next bill for advance minimum charges.

Billing Due Date and Penalties

Bills should be due approximately 14 days after the mailing of the bills, and a penalty should be charged on the dollar amount owing after the billing due date.

The following clause is recommended:

"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 fourteen days after the mailing of the bills."

Disconnection and Reconnection of Service for Non-Payment

The Board has approved a standard disconnection policy in its order No. 39/09. The terms of service disconnection are laid out in that policy and utilities are encouraged to use the following wording in their by-laws:

"The Public Utilities Board, in its Board Order No. 39/09, 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."

> *Notes*: 1. Reconnection fees should be based on the actual costs of doing the disconnection and the reconnection. These should include all labour, material and vehicle costs.
>
> 2. Some Municipalities do not include a disconnection clause, nor a reconnection fee, relying on their right to add any past-due bills to the Tax Roll. This practice is not recommended because, in effect, it results in the customers who pay bills promptly carrying the cost of customers who may defer their payments for up to a year.

Customers who wish to disconnect due to a planned extended absence are subject to payment of disconnection and reconnection fees. Customers who are "disconnected", whether by non-payment or by customer choice, are not subject to minimum quarterly charges since they are no longer a utility customer.

Outstanding Utility Charges - Lien on Land

Pursuant to Section 252(2) of The Municipal Act, the amount of all outstanding charges for water or sewer service are a lien and charge upon that land, and may be collected in the same manner in which ordinary taxes upon the land are collectable, and with like remedies.

The Board recommends the use of tax rolls as a last resort, especially where the user is not the owner, i.e. in a rental situation. After all, the wrong-doer is the tenant, and not the landlord. Where a tenant is in arrears the property owner should be notified in all cases.

> **Service agreements with tenants**
> Some utilities have tenants sign service agreements which clearly establish the tenant's responsibility to pay for services provided. This is done in such a way whereby the utility's right to add an uncollectible charge as a lien on the land is in no way diminished, but makes it clear that the tenant has primary responsibility.
>
> Where such arrangements exist; they should be clearly delineated in the water and sewer rate by-law.

Application for Approval of Utility Deficits

Where a public utility incurs, or expects to incur, a deficit in its operations in any year, it is required to apply to the Board for approval of that deficit, to explain the cause in detail, and to advise how it wishes to recover the deficit, e.g. through taxes, by special assessment over one to three years, from fund surplus, from the reserve fund, by a temporary rate increase (or rate rider), a permanent rate increase, or a combination of these methods.

Notes: 1. The Board encourages user-pay rate models, and would therefore suggest that an assessment on taxes be the last option selected.

2. If it appears that rates need to be revised in order to avoid on-going deficits, an application for amended rates is recommended, and in fact may be ordered by the Board as a condition of deficit approval.

3. The Municipal Act requires that deficits must be approved by the Board. Technically that deficit is as determined in the audited financial statements.

However, because the Board has established requirements that vary from the audited statements, (e.g. amortization of capital grants), a deficit may occur when calculated on a Board determined basis where there is no deficit on an audited basis, or vice versa.

Utilities are required to file deficit approval applications for deficits determined by either or both methods.

Financial reporting requirements, including deficit application procedures, are outlined in detail in the Board's Order No. 151/08.

Calculations of Commodity Rates-Considerations

All operating and maintenance expenses, including contingency allowances and appropriations to utility reserve funds, are to be separately identified and included in calculation of commodity rates, excluding administration costs recovered through the customer service charge.

Amortization of capital assets (previously known as depreciation) in accordance with PSAB standards is an expense item and must be included in the determination of revenue requirements. Similarly, grants or other contributions received for capital purposes must be capitalized for rate setting purposes and also amortized over the life of the related asset(s) as an offset to amortization expense.

By way of example, consider a capital development project costing $3 million and expected to last 50 years, to which government contributed $1 million, customers $1 million and the remainder funded through debentures. The annual amortization expense is $60,000, and the offsetting contributions are amortization at $20,000 per annum each. The net cost of amortization is $20,000.

Revenue items such as hydrant rentals and contributions from other agencies or municipalities, to cover work done for them by utility employees, are deducted from the above costs.

The resulting net cost, with water and sewer costs being shown separately are divided by the gallons or cubic meters of total water sold, to derive the water commodity rates and the sewer commodity rates.

Using Workbooks to Calculate Commodity Rates

The Board has developed a series of Excel workbooks to assist applicants in the calculation of commodity rates. Each workbook targets different rate structures which may exist in different municipalities.

What follows is some guidance as to which workbook to select:

20.1. Where all customers are metered and charged the same rate (i.e. no declining block rate) utilities should select the workbook entitled "1-step rate".
20.2. Where some customers are metered and some are not, utilities should select the workbook entitled "1-step rate metered and unmetered".
20.3. Where all services are metered with some customers in the intermediate range in terms of consumption, with no large customers, utilities should select the workbook entitled "2-step rate – intermediate and domestic". Where all services are metered and all customers use approximately the same as residences except for one or two fairly large customers, the workbook entitled "2-step rate – wholesale - domestic" should be selected.
20.4. Where all services are metered with some customers in the intermediate consumption range and one or more large customers in terms of consumption, the workbook entitled "3-step rate" should be selected.
20.5. Where all services are metered with some customers in the intermediate consumption range, some slightly higher and one or two extremely high users, select the workbook entitled "4-step rate".
20.6. Where no services are metered, select the workbook entitled "REU only".

Note: Except in situations where there are no meters, a workbook has been developed for each type of structure in either gallons or cubic meters. The utility should of course select the one that suits its measurement methodology.

Each type of rate structure and related considerations are explained in more detail below.

Excel workbooks for each step method are available on the Board's website. An instructions sheet for completing the workbook is attached as *Appendix G*

Water Included in Rates

Step	Category	Gallons per quarter	m^3 per quarter
1st step	Domestic rate	First 20,000	
2nd step	Intermediate rate	Next 80,000	
3rd step	Wholesale rate	Next 400,000	
4th step	Special rate	Over 500,000	

The number of steps required in the rate schedule depends on the circumstances which should be described in the rate study. The "break-point" between rates may be varied from the above according to requirements of the Municipality's customers.

Notes: 1. In a single step rate, all water is sold at the 1st step. In a 2-step rate, all water over 20,000 gallons per quarter is sold at the 2nd step rate, etc.

The 1st step is designed to include all water used by most residential and small commercial customers; the second step is designed to include water used by "Intermediate" customers which use up to five times as much water as Domestic customers; the third step is designed to include water used by Wholesale customers using up to five times as much water as used by the Intermediate customers; the fourth step is required only if there are one or more customers who use up to five times as much as the Wholesale customers.

2: Where preferential rates are established, the following section of the Act must be considered:

Preferential rates from municipal utility

82(15) Notwithstanding subsection (1), a municipality that is the owner of a public utility may, if authorized by by-law, enter into an agreement to charge an individual consumer a preferential rate; and, where the rate specified in the agreement is, in the opinion of the Board, one to which clause (1)(a) would apply, the authorizing by-law shall provide that ***the municipality shall annually pay, from proceeds of a special levy imposed annually*** *for that purpose to the account of the utility concerned the difference between the amount received pursuant to the agreement and the amount that would have been received had the rate been established in compliance with this Act but without reference to this subsection; and the rate used in establishing the difference shall be approved by the Board.* (**Emphasis added**)

Therefore, where preferential rates are proposed, the municipality must define the nature and amount of the special levy which will be imposed. This amount should appear as a revenue item in the utility statements as part of the tax revenues and itemized separately.

Step Rates

The Board and municipalities are bound by the tenets of *The Sustainable Development Act*. The concept of step rates (declining block rates), with lower unit charges applied to high volume users, works against the principles of conservation, encouraging, rather than discouraging consumption.

Therefore, declining block rates are discouraged. Where they exist, the Board recommends that rate studies consider a plan for phasing them out, subject to special economic considerations as defined below.

Special Economic Consideration:

There will be circumstances where, in the interest of regional economic development, lower consumption rates have been provided to certain customers or groups of customers. In those cases, the following blocks should be considered. If not, the rationale for the differing breakpoints must be provided.

Characteristics of Various Rates Models
Multi-Step Rates

Fourth-Step or Special Rate:
The Special Water rate is generally based on variable water production costs. These costs should include cost of chemicals, power and heating. It is then suggested that 25% of plant labour costs plus half of water production contingency cost be added, although these percentages may varied if warranted (an explanation should be included). Amortization and interest costs related to water production and treatment should be included in the Special Rate calculation as all water consumption will put pressure on and affect the longevity of the water treatment plant. The resulting cost is divided by gallons of **total** water sold, to derive the **Special** Water rate for this step.

The sewer rate should be based on sewage disposal costs, including cost for lift stations pumping effluent into the disposal system, and contingency allowances related to disposal system. Again amortization and interest costs related to sewage disposal capital plan are an expense item which should be included in this calculation. The resulting cost is divided by the volume of water returned to the sewage disposal system, to derive the Sewer rate for this step.

Third Step or Wholesale Price:
All water production costs not included in calculating the special rate is then divided by the volume of total water sold, less the water sold at the special rate. This gives an increment which when added to the Special Water rate, gives the **wholesale** Water rate per volumetric unit.

The Sewer rate derived for the special rate applies to the wholesale rate also.

Second Step or Intermediate Rate:
50% of Water distribution costs, less hydrant rentals, are divided by the volume of total water sold, less water sold at Special & Wholesale water rates. This gives an increment which, when added to the wholesale water rate, gives the **Intermediate** Water rate per volumetric unit.

Total sewage collection costs are divided by the volume of water sold, less water sold at Special & Wholesale Sewer rates, excluding any such water not returned to the sewer system. This gives an increment which, when added to Wholesale sewer rate, gives the Intermediate Sewer rate per volumetric unit.

First Step or Domestic Rate:
All remaining water costs, net of offsets and revenue, not included in calculating the first three steps is then divided by the volume of water sold at domestic rates. This gives an increment which, when added to Intermediate Water rate, gives the **domestic** Water rate per volumetric unit.

The sewer rate derived for the intermediate rate applies to the domestic Sewer rate also.

Three-Step Rate

Third Step or Wholesale Rate:
All water production costs are to be divided by the volume of total water sold, to derive the **wholesale** Water rate per volumetric unit.

All sewage collection and disposal costs are to be divided by the volume of total water returned to sewage system, to derive the wholesale Sewer rate per volumetric unit.

Second Step or Intermediate Rate:
50% or one-half of water distribution costs less hydrant rentals are to be divided by the volume of water sold, less water sold at Wholesale water rates. This gives an increment which, when added to the wholesale water rate, gives the **intermediate** Water rate per volumetric unit.

The sewer rate derived for the wholesale rate applies to the intermediate Sewer rate also.

First Step or Domestic Rate:
All remaining costs, less hydrant rentals and other revenue offsets are then divided by the volume of water sold at domestic and bulk rates. This gives an increment which, when added to the Intermediate water rate, gives the domestic Water rate per volumetric unit.

The sewer rate derived for the wholesale rate applies to the domestic Sewer rate also.

Two-Step Rate- Domestic and Wholesale

Second Step or Wholesale Rate:
All water production costs are divided by the volume of total water sold, to derive the wholesale Water rate per volumetric unit.

All sewage collection and disposal costs are divided by the volume of total water returned to the sewage system, to derive the wholesale Sewer rate per volumetric unit.

First Step or Domestic Rate:
All water distribution costs, less hydrant rentals, are to be divided by volume of Water sold at Domestic and bulk rates, to derive an increment, which when added to Wholesale Water rate, gives the Domestic Water rate per volumetric unit.

The sewer rate derived for the wholesale rate applies to the domestic Sewer rate also.

Two-Step Rate- Domestic and Intermediate

Second Step or Intermediate Rate:
All water production costs, plus 1/2 of water distribution costs net of hydrant rentals, are to be divided by the volume of total water sold, to derive the intermediate Water rate per volumetric unit.

All sewage collection and disposal costs are divided by total water returned to the sewage system, to derive the intermediate Sewer rate per volumetric unit.

First Step or Domestic Rate:
50% or one-half of water distribution costs net of hydrant rentals is to be divided by the volume of water sold at domestic and bulk rates. This gives an increment which, when added to the intermediate water rate, gives the domestic Water rate per volumetric unit.

The sewer rate derived for the intermediate rate applies to the domestic Sewer rate also.

Single-Rate-Metered Services

All costs entered into the calculation of water commodity rates, less revenues and offsets, are divided by the volume of total water sold, to derive the single water rate per volumetric unit.

All costs entered into the calculation of sewer commodity rates are divided by total volume of water returned to the sewage system, to derive the single sewer rate per volumetric unit.

Partly Metered and Partly Unmetered Services

Metering for all consumption is encouraged. Metered services tend to use less water, consistent with water conservation objectives. Metered service is more equitable as customers who use more water pay the cost of excess water used.

The estimated volume of water used by unmetered services is calculated as follows:

			(gallons)	m^3
Total water produced or purchased yearly		A		
Deduct:	Water unaccounted for which seems appropriate for system (ideally based on engineering assessment; industry standard is 10%)	B		
	Volume sold to metered customers	C		
	Bulk sales	D		
	Sales through hydrants (fire, etc.)	E		
Total deductions		F = B+C+D+E		
Balance = sales to unmetered customers		A-F		

The unit cost of water sold to each unmetered customer per year is derived by dividing gallons of water sold to unmetered customers, as shown above, by total residential equivalent units.

The Quarterly charge per unit consists of one quarter of the unit cost as derived in the previous paragraph plus one quarter of the annual customer service charge.

Where a service is unmetered, and the customer desires to have a meter installed, this should be allowed after the customer completes an application which provides that the meter will be installed, the cost being borne by the Municipality or the customer, whichever is the practice with other metered customers; and acceptance that such installation is permanent; once metering is installed, a customer cannot revert to unmetered service.

Single-Rate-Unmetered Services

All costs entering into calculation of water commodity rates, less revenues and offsets are divided by the total number of residential equivalent units allocated to water customers, to derive the annual rate per water unit.

All costs entering into calculation of sewer commodity rates, less revenues and offsets, are divided by total units allocated to sewer customers, to derive the annual rate per sewer unit.

Phase-in Rate Increases

Indicated rates are those determined as required to cover projected operating expenses in any given year.

An owner may be tempted to request that indicated rate increases be phased-in in order to avoid rate shock. This practice is discouraged as it will usually result in operating deficits during the phase-in years, which in turn will require deficit approval applications, which will often result in rate rider requirements. In other words, phasing in of rates simply defers the "rate shock" to a future period. Not only does this create an additional and unnecessary step in the process, it transfers the responsibility away from the current user to future users, countering the user-pay principle, and creating an intergenerational inequity.

The Board will only contemplate a proposal to phase-in rates where the working capital position of the utility, excluding any reserves created for specific purposes, is sufficient to absorb the deficits which will arise in the phase-in period.

GUIDE FOR ASSIGNING RESIDENTIAL EQUIVALENCY UNITS FOR UNMETERED SYSTEMS

Preamble

A study of water used in 1971 by selected customers, compared with use by an average residential customer, in municipalities and villages equipped with meters and having populations up to 1,000.
Of 38 questionnaires distributed:

- 30 replies were received,
  - 10 from municipalities with populations between 200 and 450,
  - 10 between 470 and 640, and
  - 10 between 800 and 1,000.

Except as shown below, there did not appear to be significant differences in use, compared with residences, between customers in smaller or larger towns. Since municipalities without meters generally have fewer than 1,000 residents, no larger municipalities were included.

Number of Municipalities	Customer	RESIDENTIAL EQUIVALENCY UNITS (REU's)		
		Average	Middle Half	Remarks
37	**Garages** - no wash rack	1.2*	.6 to 1.3	
9	- with one wash rack	2*	1.8 to 3.0	Large Municipalities
	School (per classroom)			
25	- elementary	0.9*	.6 to 1.1	
22	- secondary	1.2*	.8 to 1.2	
	(each shower - additional 1/2 unit)			
34	**Churches**	0.6*	.3 to .7	
31	**Restaurants & Cafes** (1 unit for each 20 seats)	1*	.5 to 1.0	
32	**Hotels & Motels-** (1 unit for - 2 rooms)	1*	.6 to 1.3	(average in Small and Medium Municipalities .9; Large Municipalities 1.2)
	20 restaurant seats			
	15 beverage room seats			
25	**Halls**	1*	.6 to 1.2	
	(1 unit for 230 seats)			
27	**Rinks** - any size or use	2.4*	1.2 to 3.5	
		3.7*		Large Municipalities
16	**Hospitals** - per bed	1.5*	1.1 to 1.7	
15	**Senior Citizens Homes**	1.1*	1.1 to 1.3	
	(1/2 unit-single room;			
	1 unit-double room)			
7	**Laundromats** (per washing machine)	1.1*	.7 to 1.4	Most in Large Municipalities
	Annual Residential IG'S*	19,400	16-22,000	

*This statistic was from the 1971 study. The Canadian average for 1998 was 343 liters per day and the 2009-10 annual report from the Department of Water Stewardship shows the average per capita consumption for residential service in Manitoba is approximately 200 liters per day or 16,000 gallons per year.

Notes: 1. In some cases more than one customer in a class was shown by a municipality, so customers shown may exceed replies. To eliminate wide variations due to exceptional circumstances, only the middle half of each sample is shown, as well as the average.

2. While these averages provide a reasonable guide for municipalities without meters, the study is old and the sample is comparatively small; exceptional circumstances should be taken into consideration.

3. Personal Care Homes were not surveyed but may be regarded as a facility falling between a Senior Citizens Home and a Hospital, depending on services provided.

4. Total assessed units are calculated to the closest half unit. One unit being a minimum for any customer.

GUIDE FOR INFORMATION REQUIRED BY THE PUB FOR CONSTRUCTION OF A NEW WATER SYSTEM

When new water systems are constructed, in many cases applications for approval of utility rates are not received by The Public Utilities Board until some customers have been using water for some months. It may take several months for the Board to obtain all the information it needs to assure that rates applied for are equitable and will produce sufficient revenue to cover utility costs.

The Board does not consider it good practice to authorize rates retroactively covering water used before the date of the order and the utility often incurs a deficit, which may have to be recovered through taxes, rather than by charging customers for water used before the date of the Order.

If you are arranging to construct a new water system, and to assure that rates may be approved by the Board before water is available to customers, the Board suggests that, as soon as possible and well before the system is operating, you provide the Board with the following information:

- Approximate date construction will begin and completion date.
- Approximate date first customers will be connected.
- Will you produce and treat water, or will you buy water from the Water Services Board?
- If water purchased, estimated initial price?
- Estimated gross cost of facilities.
- Source and amount of expected grant support.
- Number of customers likely to be connected.
- If metered, number using each size of meter.
- Estimated gallons (m^3) of water to be purchased.
- Estimated gallons (m^3) of water to be sold, 1st year of operation.
- Estimated yearly operating expenses-
    - **Please complete and submit Appendix B from the Board's website**

If rates to be applied for have been calculated, please include this information, along with any rate study or calculations. If you have prepared a rate By-law, please send two (2) copies, certified, after first reading.

Please call the Board, if you have any questions. If you are not likely to be able to file most of the above information, please contact the Board to see if sufficient information is available to allow the Board to consider authorization of Interim Rates, subject to authorization of regular rates after a hearing by the Board to be held by a date to be set as soon as possible.

MINIMUM FILING REQUIREMENTS FOR FILING APPLICATIONS FOR WATER AND/OR SEWER REVISED RATES

Water and/or Sewer Rate Submission Planning Checklist

Minimum Filing Requirements (MFR) Checklist

Application	**Yes**	**No**	**Not Required**	**Comments**
Utility Rates By-law after 1st Reading to be submitted as 3 paper copies in paper and one in *WORD* Document format-by email	☐	☐	☐	
Prior year's Utility financial statements (audited, if available noting Schedule 9 prepared for the Board's purposes is unaudited), 5 year Utility capital plan, and Utility debenture schedules.	☐	☐	☐	
Proposed method of financing 5 Year Capital Plan and details of any capital grant applications being considered or proposed or outstanding Municipal Board approvals	☐	☐	☐	
Cost Allocation Policy with respect to shared services and equipment between the Utility and general operations	☐	☐	☐	
Summary of operating deficits in the last 5 years i.e.(amount and approved method of recovery)	☐	☐	☐	
Operating System- Water	**Yes**	**No**	**Not Required**	**Comments**
Description of the system(s) indicating age, condition and capacity to meet current and future needs of the ratepayers	☐	☐	☐	
Statement of compliance with drinking water standards and commentary on any outstanding recommendations	☐	☐	☐	
Commentary on unaccounted for water if the amount exceeds 10% and if related to a deteriorating system, provide a plan to address	☐	☐	☐	
Statement as to whether there are any color and taste issues with respect to drinking water and capital plans to address, if any	☐	☐	☐	

MINIMUM FILING REQUIREMENTS FOR FILING APPLICATIONS FOR WATER AND/OR SEWER REVISED RATES

Operating System-Sewer	**Yes**	**No**	**Not Required**	**Comments**
Statement of compliance with Environmental License	☐	☐	☐	
A description as to type of wastewater treatment and where discharges are made	☐	☐	☐	
File the Executive Summary and recommendations of the most recent engineering assessment and if not yet done, when it is expected to be done	☐	☐	☐	
General	**Yes**	**No**	**Not Required**	**Comments**
Statement as to whether service is extended beyond the municipality or LID boundary and if so, details of any surcharges levied or proposed	☐	☐	☐	
Details of connection charges and developer agreements related to the extension of service	☐	☐	☐	
Rates	**Yes**	**No**	**Not Required**	**Comments**
Board Order Number approving Current Rates	☐	☐	☐	
Statement on the needs for Reserves (if requested)	☐	☐	☐	
Details of any incentives or special rate treatment provided to large volume users with an explanation	☐	☐	☐	
If a declining block rate is used, provide commentary on any consideration given to reducing or eliminating such blocks	☐	☐	☐	
Commentary as to whether an increasing block rate or any other conservation efforts have been considered	☐	☐	☐	
If rates are determined on a Residential Equivalent Unit (REU) basis, confirmation that the assessments have been reviewed and remain accurate	☐	☐	☐	

✎ Allocation Plan for Shared Costs			
Shared Overhead: Includes all direct and indirect costs related to the administration of the Utility.			
Sub-Category	**Activity/Expenses (object)**	**% of Expenses allocated to Utility (Estimated)**	**Tracked Increments (Actual)**
Direct Overhead Costs	Meter reading Salaries & wages	%	/hr
	Billing Receipting and Collection	%	/hr
Indirect Overhead Costs- General Administrative Costs and Shared Office Costs	CAO salaries and benefits	%	/hr
	Council costs	%	/hr
	Audit and legal	%	/hr
	Interest cost on office space	%	/hr
	Lease costs	%	/hr
	Utilities (i.e. telephone, heat)	%	/hr
	Photocopying (etc.)	%	/hr
Shared Direct Operating Costs: 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.			
Sub-Category	**Activity/Expenses (object)**	**% of Expenses allocated to Utility (Estimated)**	**Tracked Increments (Actual)**
Direct Equipment Costs	Public works buildings- Maintenance	%	/hr
	Vehicles-Fuel / Insurance	%	/hr
	Machinery and equipment	%	/hr
	Road construction and maintenance equipment- Interest / Lease costs / Amortization	%	/hr
Direct Labour	Labour costs directly attributable to the maintenance and repair of utility TCA.	%	/hr

COST ALLOCATION METHODOLOGY FOR SHARED COSTS
UTILITY AND MUNICIPALITY OPERATIONS

Shared Capital Costs: These shared **costs should not be directly charged** to utility operations. Capital costs should be capitalized as a tangible capital asset and amortized to utility operations over it 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 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.

Sub-Category	Activity/Expenses (object)	% of Expenses allocated to Utility (Estimated)	Tracked Increments (Actual)
Direct Overhead Costs	**Administrative**	%	/hr
	Legal fees / Survey Costs	%	/hr
	Design / Engineering Fees	%	/hr
	Interest on Debt	%	/hr
Direct Equipment Costs	**Operating Costs**	%	/hr
	Vehicles / Fuel / Insurance	%	/hr
	Equipment / Amortization / Interest	%	/hr
Direct Labour	Labour costs directly attributable to the maintenance and repair of Utility TCA.	%	/hr

ORDERS AS TO UTILITIES

77 The Board may, by order in writing after notice to, and hearing of, the parties interested,

(a) fix just and reasonable individual rates, joint rates, tolls, charges, or schedules thereof, as well as commutation, mileage, and other special rates that shall be imposed, observed, and followed thereafter, by any owner of a public utility wherever the Board determines that any existing individual rate, joint rate, roll, charge or schedule thereof or commutation, mileage, or other special rate is unjust, unreasonable, insufficient, or unjustly discriminatory or preferential;

(b) fix just and reasonable standards, classifications, regulations, practices, measurements, or service to be furnished, imposed, observed, and followed thereafter by any such owner;

(c) direct any railway, street railway, or traction company, to establish and maintain at any junction or point of connection or intersection with any other line of the road, or with any line of any other railway, street railway, or traction company, such just and reasonable connections as may be necessary to promote the convenience of shippers of property, or of passengers, and in like manner may direct any railway, street railway, or traction company engaged in carrying merchandise to construct, maintain, and operate, upon reasonable terms a switch connection with any private side-track that may be constructed by any private shipper to connect with the railway or street railway where, in the judgment of the Board, the connection is reasonable and practicable and can be put in with safety, and will furnish sufficient business to justify the construction and maintenance thereof.

ORDERS AS TO OWNERS

78(1) The Board may, by order in writing and notice to, and hearing of, the parties interested, require every owner of a public utility

(a) to comply with the laws of the province and any municipal by-law affecting the public utility or its owner, and to conform to the duties imposed thereby, or by the provisions of its own charter, or by any agreement with any municipality or other owner;

(b) to furnish safe, adequate, and proper service, and to keep and maintain its property and equipment in such condition as to enable it to do so;

(c) to establish, construct, maintain, and operate any reasonable extension of its existing facilities where, in the judgment of the Board, the extension is reasonable and practicable and will furnish sufficient business to justify the construction and maintenance thereof, and when the financial condition of the owner reasonably warrants the original expenditure required in making and operating the extension;

(d) to keep its books, records, and accounts so as to afford an intelligent understanding of the conduct of its business, and to that end, in the case of owners of public utilities of the same class, to adopt a uniform system of accounting, which system may be prescribed by the Board;

(e) to furnish periodically, and in any case where the Board requires, a detailed report of finances and operations, in such form, and containing such matters, and verified in such manner, as the Board may, from time to time in that behalf, by order prescribe;

(f) to carry, whenever in the judgment of the Board it may reasonably be required, for the protection of the holders of securities or creditors of the owner, a proper and adequate depreciation account in accordance with such rules, regulations, and forms of account as the Board may prescribe;

(g) to give such notice to the Board as it may by order require, of all accidents that occur within the province upon the property of the public utility or that directly or indirectly arise out of, or are connected with, its maintenance or operation, and to investigate any accident;

(h) to apply to the Canadian Transport Commission, or such other tribunal or municipal or other body or official, as may have jurisdiction or authority in the premises, for permission, where necessary, to undertake any work ordered by the Board contingently on the permission being granted.

Fixing of rates of depreciation

78(2) The Board shall, from time to time, ascertain and determine, and by order in writing after a hearing fix, proper and adequate rates of depreciation of the property of each public utility, in accordance with the regulations or classifications, and the rates shall be sufficient to provide the amounts required, over and above the expense of maintenance, to keep the property in a state of efficiency corresponding to the progress of the industry.

Establishment of depreciation fund

78(3) Every owner of a public utility shall make its depreciation accounts conform to the rates ascertained, determined, and fixed under subsection (2), and shall set aside the moneys so provided for out of earnings, and carry the moneys in a depreciation fund; and the income from investments of moneys in the fund shall likewise be carried in the fund.

Expenditure from fund

78(4) The owner of a public utility shall not expend moneys in a fund to which subsection (3) refers otherwise than for depreciation, improvements, new constructions, extensions, or additions to the property of the public utility or retirement of bonds and debentures issued by it.

Orders respecting accidents

78(5) The Board may make such order or recommendation with respect to any accident or matter to which clause (1)(g) refers as in its judgment may be just and reasonable.

RESTRICTION ON POWERS OF OWNERS OF PUBLIC UTILITIES

Discriminatory rates

82(1) No owner of a public utility shall

(a) make, impose, or exact any unjust or unreasonable, unjustly discriminatory, or unduly preferential, individual or joint rate, commutation rate, mileage, or other special rate, toll, fare, charge, or schedule, for any product or service supplied or rendered by it within the province;

(b) without the written authorization of the Board and subject to subsection (2), make, impose, exact, or collect, any rate, toll, fare, or charge, or any schedule of rates, either individual or joint, for any product supplied or service rendered by it within the province;

(c) adopt or impose any unjust or unreasonable classification in the making, or as the basis, of any individual or joint rate, toll, fare, charge, or schedule for any product or service rendered by it within the province;

(d) adopt, maintain, or enforce any regulation, practice, or measurement that is unjust, unreasonable, unduly preferential, arbitrarily or unjustly discriminatory, or otherwise in violation of law, or provide or maintain any service that is unsafe, improper, or inadequate, or withhold or refuse any service that can reasonably be demanded and furnished when ordered by the Board;

(e) make or give, directly or indirectly, any undue or unreasonable preference or advantage to any person or corporation, or to any locality, or to any particular description of traffic in any respect whatsoever, or subject any particular person or corporation or locality, or any particular description of traffic, to any prejudice or disadvantage in any respect whatsoever;

(f) subject to subsection (3), issue any stocks, stock certificates, bonds, or other evidences of indebtedness payable in more than one year from the date thereof, unless it has first obtained authority from the Board for the proposed issue;

(g) subject to subsection (9),

(i) capitalize its right to exist as a corporation; or

(ii) capitalize any right, franchise, or privilege in excess of the amount (exclusive of any tax or annual charge) actually paid to the government or any municipality in the province as the consideration therefore; or

(iii) capitalize any contract for consolidation, merger, or lease; or

(iv) issue any securities against, or as a lien upon, any contract for consolidation, merger, or lease;

(h) without the approval of the Board, sell, lease, mortgage, or otherwise dispose of or encumber its property, franchises, privileges, or rights, or any part thereof, or merge or consolidate its property, franchises, privileges, or rights, or any part thereof, with that of any other public utility or its owner;

(i) subject to subsections (12) and (13), enter into any contract or arrangement, other than a contract to provide the services that the public utility provides, at rates approved by the Board, with a company or firm in which the owner of the public utility or a director thereof has an interest, unless the public utility has filed with the Board the contract, or a memorandum describing and giving full details of the arrangement, and has received from the Board a written acknowledgment that the filing has been made as required herein;

(j) discontinue service to the public without authorization of the Board at least one year prior to discontinuance, unless otherwise provided in the statute or agreement under which the public utility is operated;

(k) declare or pay any dividend, or effect any other distribution of the assets of the utility, when it appears likely that an application will be made in the foreseeable future for authority to discontinue service to the public, unless authorization of the Board is first obtained;

(l) declare or pay any dividend, or effect any other distribution of the assets of the utility, at a time when a subsisting order of the Board prohibiting the owner from declaring or paying dividends or effecting any other distribution of or from the assets of the utility is in force, unless authorization of the Board is first obtained;

(m) declare or pay any dividend, or effect any other distribution of the assets of the utility, that would contravene any restriction on the payment or declaration of dividends or other distribution of the assets of the utility imposed by a subsisting order of the Board, unless authorization of the Board is first obtained.

Application of clause (1)(b)

82(2) Clause (1)(b) does not apply

(a) subject to clause 76(c) and clause 77(a), to any individual joint, or special rate, toll, fare, or charge, or any schedule of rates, commutation, or mileage, that was in effect prior to the coming into force of this Act;

(b) subject to clause 76(c) and clause 77(a), to any individual joint, or special rate, toll, fare, or charge made by the owner of the public utility for any product supplied or service rendered or to any contract covering an individual, joint, or special rate, toll, fare, or charge made or entered into by such an owner for such a product or service; or

(c) to any appliance sold by a public utility or to services rendered in respect thereof.

Where clause (1)(f) not applicable

82(3) Clause (1)(f) does not apply to a municipality or to the city of Winnipeg.

Where clause (1)(h) does not apply

82(3.1) Clause (1)(h) does not apply to the sale of the city's electric utility to Manitoba Hydro as approved by *The Purchase of Winnipeg Hydro Act*.

Where clause (1)(i) not applicable

82(4) Clause (1)(i) does not apply in respect of a contract where the value of the consideration thereunder is less than $100.

Orders affecting dividends

82(5) Where the Board considers it expedient in the public interest, it may by order prohibit or restrict the payment of dividends by the owner of a public utility or any other distribution of the assets of the public utility.

Liability of directors

82(6) If a company declares or pays a dividend, or effects a distribution of assets in contravention of clause (1)(k), (l) or (m), the directors thereof are personally liable to repay to the company the amount or value of any money or assets so disbursed or distributed, but in the case of a contravention of clause (1)(m), if the company could have disbursed or distributed part of the money or assets without any contravention of that clause, the directors shall be liable to repay only the amount of the excess.

Relief for directors

82(7) A director

(a) who is present at the time when a dividend is declared or a distribution of assets authorized, but who dissents therefrom and within seven days thereafter delivers to an officer of the company his written protest against the declaration or authorization; or

(b) who is absent at the time when a dividend is declared or a distribution of assets is authorized and who, within seven days after he becomes aware of the declaration or authorization, delivers to an officer of the company his written protest against the declaration or authorization;

and who, in either case, within seven days after delivery of the protest, sends a copy thereof by registered mail to the secretary of the Board, thereby, and not otherwise, is relieved from liability under subsection (6) in respect of that dividend or distribution of assets.

Order authorizing dividends

82(8) Notwithstanding clause (1)(k), (l) or (m), the Board may, upon application and after a hearing, by order authorize an owner of a public utility to declare and pay dividends or to effect any other distribution of the assets of the utility if the Board is satisfied that the terms of the order adequately protect the public interest.

Effect of clause (1)(g)

82(9) Clause (1)(g) does not prevent the issue of securities, subject to the approval of the Board, in respect of any lawfully merged or consolidated public utilities not in contravention of clause (1)(g).

Certain dispositions void

82(10) Every sale, lease, mortgage, disposition, encumbrance, merger, or consolidation, made in violation of any provision of clause (1)(h) is void; but nothing herein prevents the sale, lease, or other disposition, of any of the property of an owner of a public utility in the ordinary course of its business.

Granting of authority to issue securities

82(11) The Board shall grant the authority to which reference is made in clause (1)(f) upon being satisfied that the proposed issue is to be made in accordance with law and that the purpose of the issue is approved by the Board.

Authority of Board re contracts

82(12) Where a proposed contract is filed with the Board as provided in clause (1) (i), the Board may

(a) if the contract is not yet in effect,

(i) by its order, disapprove the contract and order the public utility not to execute it or put it into effect; or

(ii) order that the contract be amended in a manner specified in the order before it is executed or put into effect; or

(b) if the contract is in effect,

(i) order that the contract be terminated forthwith on such terms and conditions as may be stated in the order; or

(ii) order that the contract be amended in a manner specified in the order, before any further action is taken, things are done, or payments are made thereunder.

Compliance with orders of Board

82(13) Where the Board makes an order as provided in subsection (12), the contract to which the order relates

(a) shall not be executed or put into effect; or

(b) shall be terminated or amended;

as prescribed in the order; and the public utility and all other persons who are parties to the contract or proposed contract shall comply with the order.

Meaning of "interest in a corporation"

82(14) For the purposes of clause (1)(i), a person shall be conclusively deemed not to have an interest in a corporation unless

(a) he or any company of which he is a director holds at least 5% of the capital stock thereof; or

(b) he is a director thereof.

Preferential rates from municipal utility

82(15) Notwithstanding subsection (1), a municipality that is the owner of a public utility may, if authorized by by-law, enter into an agreement to charge an individual consumer a preferential rate; and, where the rate specified in the agreement is, in the opinion of the Board, one to which clause (1)(a) would apply, the authorizing by-law shall provide that the municipality shall annually pay, from proceeds of a special levy imposed annually for that purpose to the account of the utility concerned the difference between the amount received pursuant to the agreement and the amount that would have been received had the rate been established in compliance with this Act but without reference to this subsection; and the rate used in establishing the difference shall be approved by the Board.

Board authorization

82(16) A by-law may not be passed under subsection (15) unless it is authorized by the Board.

Terms of authorization

82(17) In authorizing a by-law under subsection (16), the Board may prescribe such terms and conditions as it considers advisable in the circumstances, and all such terms and conditions shall be complied with by the municipality.

Authority for special levy

82(18) The enactment of a by-law under subsection (15) authorized as provided in subsection (16) is authority for imposing the special levy mentioned in subsection (15).

Required provision of by-law

82(19) Any agreement entered into pursuant to subsection (15) shall set out, as one of the recitals thereto, the provisions of subsections (15), (16), (17) and (18).

S.M. 1996, c. 58, s. 469; S.M. 2002, c. 45, s. 10.

Statutory condition

83(1) In every public utility the operation or objects of which are the construction, working, or maintaining of telegraph, telephone, or transmission lines, or the delivery or sale of water, gas, heat, light, or power, the owner thereof shall fulfil the following conditions over and above those that may be prescribed by the Board:

(a) the owner shall not unnecessarily interfere with the public right to travel, and shall not in the construction of any such lines obstruct the entrance to any door or gateway existing at the date of the construction, or free access to any then existing building;

(b) the owner shall not erect more than one line of poles along any highway and shall, so far as possible, make each pole straight and perpendicular;

(c) the owner shall not unnecessarily cut down or mutilate any shade, fruit, or ornamental tree;

(d) the opening up of any street, square, or other public place, for the erection of poles, or for the carrying of pipes or wires underground, shall be subject to the supervision of such person as the municipality concerned may appoint, and the street, square, or other public place shall, without unnecessary delay, be restored as far as possible to its former condition; and

(e) where, in the exercise of the public right of travel, it is necessary that poles or wires be temporarily removed by cutting or otherwise, the owner shall, upon reasonable notice in writing from any person desiring it, at the party's expense, remove the poles and wires, but the owner may, subject to an appeal to the Board, refuse to remove the poles and wires, if in its opinion the moving will jeopardize the service of the utility to the public.

Owner responsible for damage in operations

83(2) An owner is responsible for all unnecessary damage that he wilfully or negligently causes in carrying out, maintaining, or operating any of his works.

Cutting wires for fighting fires

83(3) An owner, unless so ordered by the Board, is not entitled to compensation on account of his poles or wires being cut by order of the officer in charge of a fire brigade at any fire, if, in the opinion of the officer, it is advisable that the poles or wires be cut.

Regulations respecting construction standards

83(4) The Board may make and enforce regulations, not inconsistent with this Act, prescribing standards for the construction and erection of telephone, telegraph, and power transmission lines; and every such regulation made under and in accordance with the authority granted by this section, has the force of law; and any owner of a public utility who has constructed or erected such lines in accordance with such regulations, is relieved from all liability for damage arising out of the construction or erection of the lines.

Badge for meter reader

83(5) Every person engaged in erecting or repairing any line or instrument of an owner, or engaged in an inspection or meter reading, shall have conspicuously attached to his dress a badge on which are legibly inscribed the name of the owner and a number by which the wearer can be readily identified.

Authority to sell water, light, etc., required

83(6) Nothing in this section authorizes an owner to sell or distribute water, gas, light, heat, power, or electricity in any municipality without having previously obtained the consent of the municipality or other authority thereto, unless the owner is specially empowered so to do by any special or general Act of the Legislature or any letters patent or document issued under an Act of the Legislature.

Changes in rates to be approved by Board

84(1) No change in any existing individual rates, joint rates, tolls, charges, or schedules thereof or any commutation, mileage, or other special rates shall be made by any owner of a public utility, nor shall any new schedule of any such rates, tolls, or charges be established until the changed rates or new rates are approved by the Board, when they shall come into force on a date to be fixed by the Board; and the Board may, either upon written complaint or upon its own initiative, hear and determine whether the proposed increases, changes, or alterations are just and reasonable.

Onus

84(2) The burden of proof to show that any such increases, changes, or alterations are just and reasonable is upon the owner seeking to make the increases, changes, or alterations.

Municipal utility accounts

85 Every municipality owning, operating or controlling any form of public utility service shall keep the accounts thereof in the manner prescribed by the Board for the accounting of similar public utilities, and shall file with the Board such statements thereof as may be directed by the Board.

STATISTICAL REFERENCES

📖

Average daily water consumption per capita (2000)	1,494 m^3 per annum
Average residential daily water consumption per capita (2000)- Manitoba	250 litres 55 gallons
Average residential daily water consumption per capita (2009-10)- Winnipeg	214 litres 47 gallons
Average residential daily water consumption per capita (2009-10)- Brandon	197 litres 43.5 gallons
Average numbers of persons per private household (2011)- Manitoba	2.5
Average residential quarterly water consumption per household (2000)- Manitoba	77 cubic meters 12,500 gallons
Water usage percentages- Manitoba - industry - domestic (residential and small commercial) - agricultural	 68% 20% 12%

Note: references are for Canada unless otherwise indicated

STEPS FOR COMPLETING EXCEL WORKSHEETS (RATE CALCULATION TEMPLATES)

1. Selecting the Template

   The Board has developed a number of Excel Workbooks to cover various types of situations which might exist in different municipalities. Select the spreadsheet that fits your situation.

   Note: Each workbook has a series of spreadsheet tabs and in most cases, except for unusual circumstances; you will need to populate the blue highlighted areas on the first three tabs and the explanations in the fourth tab. The workbook will then automatically populate the remaining tabs.

2. Completing the Workbook

   The first four worksheet tabs are denoted as the "Overview", the "Working Capital - Debenture Tax", the "Financial Projections" and the "Explanations". The worksheet tabs should be completed in that sequence.

   The blue highlighted cells require completion. If they do not apply to your situation, enter zero.

   You should prepare by gathering utility information as indicated on the overview sheet as well as your latest audited financial statements. Armed with this data, you should be able to complete the workbook.

3. Completing the "Overview" worksheet

   The highlighted cells in the "overview" workbook are intended to capture the basic data about the utility, especially related to the composition of the customer base and volumes.

   As you populate the current data, you will note that some of the cells for the ensuing years become automatically populated on the assumption that nothing is projected to change. If this is not the case, i.e. if there will be increases or decreases; simply populate the ensuing years with the correct information.

   Be sure to enter the name of the Municipality and the Utility.

4. Completing the "Working Capital and Debenture Tax" worksheet

   The information required for completing the Working Capital section will be found in your audited financial statements. This information will determine whether or not you require a surcharge to build your working capital.

   There are cells provided for populating the taxation revenues that are being collected to repay utility related debentures. Entering this information correctly will populate certain cells within the body of the revenue requirement in the financial projections. The taxation revenues should be broken down appropriately between water related and sewer related debentures.

5. Completing The "Financial Projections" worksheet

The Financial Projections Worksheet makes provision for entering data for two historical years, the current year projected results and forecasts for the three "test years" i.e., those years for which rates are being requested.

It is not mandatory to complete both historical years, but this is recommended in order to assist both the utility and the Board in identifying trends. The historical year(s) should agree to schedule 9 of your audited financial statements for the utility in question. This may require that you reclassify some of the figures from your financial statements so that they will match the categories on the spreadsheet. Note that the "net results" cells should agree to your financial statements.

In developing your forecasts, there is provision at the top of the spreadsheet to enter an inflation factor. This will assist in automatically populating some of the forecasts once the forecast for the first test year has been entered.

Forecasts should be based on historical trends. If a particular line item varies significantly from the historical and current years' results, an explanation should be attached with the cross-reference indicated on the spreadsheet under the column headed "Expl #".

Working Capital Surcharge

The spreadsheet contains a formula driven provision for a working capital surcharge where working capital is less than 20% of annual expenses.

Deficit Recovery

The spreadsheet also provides for the insertion of revenue requirements to recover deficits. Where these cells are populated, you should have completed and forwarded to the Board a deficit approval application along with the appropriate council resolution requesting the recovery through rates.

Reserves

The worksheet has made allowance for the inclusion of a provision to build reserves in each of the water and sewer categories. Reserves are generally required only for specific purposes. Where a reserve provision is included in the spreadsheet, an explanatory note should be attached.

Contingencies

Contingency provisions are formula driven based on 10% of variable operating expenses. (Note that this is a revision to the Board's previous guidelines whereby contingencies were based on the capital cost of the plant.) As with all fields in these spreadsheets, these provisions can be overridden and the cells populated with specific values where the utility believes that a greater (or reduced) provision is more appropriate. Where a formula has been overwritten, an explanatory note must be included.

6. Final Review

   As stated above, completing the cells in the first three tabs will populate all other tabs in the workbook. Once you have completed the Overview, Working Capital, and Financial Projections, review the results that have been calculated in the other spreadsheets to ensure that they are consistent with your intent. This review will also help identify where blue highlighted fields may not have been completed, thus not producing the proper calculations.

   Once again, none of the cells in this workbook are protected. This means that you are able to amend calculated results to reflect what you may wish to propose to the Board with respect to rights. However, it is crucial that all amendments be supported by an explanatory note.

7. Printing

   Once you have finished reviewing the workbook and are satisfied with the results, the workbook should be printed and attached to your submission. Depending on your printer and other variables which may have caused an expansion of the column widths, you may need to manipulate paper orientation, fonts, etc. to ensure an appropriate printing.

VOLUMETRIC CONVERSION TABLE
REFERENCE FOR ABBREVIATIONS

3,000 imperial gallons	13,639 cubic meters
1 cubic meter	1,000 litres
1 cubic meter	219.969248 imperial gallons
1 imperial gallon	4.54609 litres

W	Water
S	Sewer
M & O	Maintenance and Operation
G followed by a number	Guidelines item
M.G.	Thousand gallons
M.L.	Thousand liters
C	Contingency allowance
Incr.	Increment
Ratio	Group Capacity Ratio
Dom.	Domestic rate
Int.	Intermediate rate
Wh.	Wholesale rate
Spl.	Special rate
C. M. or M^3	Cubic meters
M.F.R	Minimum filing requirements
Gallons	Refers to imperial gallons unless otherwise specified
IMG	Thousand imperial gallons
Test year(s)	The year or years for which rates are being set
PSAB	Public Sector Accounting Board

ICON KEY
Key Information
MFR –Required Info
Template Information
Reference Material

RATE STUDY TEMPLATE

INTRODUCTION

The following package is a template for what an applicant should submit to the Public Utilities Board when requesting a revision to rates for a water and sewer utility.

Shown below is a sample table of contents. Page numbers will change depending on the particulars of each submission. In the following template there is a brief description of what each section should contain.

Explanations with respect to various items can be found in more detail in the *Board's Guideline* document.

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RATE STUDY TEMPLATE

Section 1 -COVERING LETTER

The covering letter from the applicant should be signed by the senior administrative officer usually the Chief Administrative Officer, and should describe any special requests such as a desired effective date, preference for an oral or paper based hearing and any other item which may be unique to the municipality, city, town or village.

The letter should delineate the upcoming billing dates in order that the Board may take this into consideration when establishing the effective date of the revised rates.

The covering letter should also indicate if the rate study was completed by staff or whether a consultant was engaged; if the latter the name of the consulting individual or firm should be disclosed.

Section 2- BY-LAW

The by-law accompanying the rate submission should have received first reading only and should contain certification indicating the date of the first reading.

An electronic WORD version of the by-law is a mandatory inclusion in the submission package (see Minimum Filing Requirements below).

The by-law should have an attached schedule showing the proposed rates for the commodities in question. The by-law should contain the following:

- proposed commodity charges
- minimum quarterly or annual charges
- bulk water rates (if applicable)
- tipping fees (if applicable)
- terms of service to customers outside the boundaries
- billing terms and late payment penalties
- disconnection terms (must be consistent with the *Conditions Precedent* set by the Public Utilities Board)
- reconnection terms including fees
- hydrant rentals annual fee
- water allowance due to line freezing if any
- sewage surcharges
- meter testing conditions and charges if any
- any other terms and conditions related to the provision of water and sewer service that the applicant may want to enforce

A copy of the current utility rate by-law should also be filed showing existing rates.

Section 3- SUMMARY OF APPLICATION

The summary should include:

- the years for which you are making application
- date rates were last set and by-law no.
- reason for rate application
- any pertinent information (summarized)

Section 4- SYSTEM DESCRIPTION

This section should describe your water and/ or sewer system.

The description should include:

- the age and condition of the system as well as its capacity to meet current and future needs of the ratepayers.
- details of operator certifications and whether they meet current requirements. If operators do not meet the requirements, what is the plan to address this issue?
- whether services extended beyond the municipal boundary and if so, provide details of any surcharges levied or proposed.

Water System:

Briefly describe the new water, sewer and method of water treatment.

Address the water source, e.g., well water, surface water, etc. If water is purchased indicate the wholesaler and describe the purchase arrangement, specifically the price and responsibility for water treatment and compliance with drinking water standards.

Indicate the water treatment system, whether there is a water treatment plant, reservoir, etc. Describe the treatment process. If the plant is not owned, indicate the third party owner and, where provisions are made for eventual transfer of ownership, describe those provisions.

Include a statement as to whether there are any color or taste issues with respect to drinking water and if so, describe the plans in place to address the issue, if any.

Comment on unaccounted for water if it exceeds 10%, being the industry standard. If in excess of 10%, describe the steps being taken, if any, to resolve the situation. If no steps are being taken, explain why.

Provide a statement on compliance with drinking water standards. The statement should refer to the most recent report from water stewardship and provide commentary on any recommendations contained therein.

Sewer System:

Describe the type of collection system, such as gravity or low-pressure sewer and when it was constructed. Describe the type of wastewater treatment system, such as lagoon or mechanical plant and the overall condition of the system. Indicate where wastewater discharges are made and the tributary or river which ultimately receives wastewater discharge.

Provide a statement with respect to compliance with your environmental license. The statement should make reference to the most recent engineering assessment and commentary on any recommendations contained therein. If no engineering assessment has yet been conducted, indicate when that is expected to be done.

Provide details on any plant being decommissioned and any expected environmental liability resulting from that decommissioning, including a statement of how that is expected to be collected in future rates.

Section 5- AUDITED FINANCIAL STATEMENTS

The latest audited financial statements should a company each submission. Those statements should be for the previous calendar year, depending on the timing of the submission and in any event no later than six months following the year end. If there are extraordinary circumstances which preclude this, a detailed explanation of those circumstances must accompany the submission.

If the audited financial statements have already been submitted to the Public Utilities Board (the board encourages utility owners to file their financial statements annually), it is acceptable to so state and indicate the date that the statements were sent.

Where the utility's financial results are a subset of the audited financial statements, such as in the case of municipalities, cities, towns and villages, then the complete set of financial statements for the municipality, city, town or village must be submitted.

The Board has made certain exceptions to the Public Sector Accounting Board (PSAB)'s accounting principles as applied to rate determination, specifically; the Board has required that capital grants be capitalized and amortized in lockstep with the underlying assets. Any rate filing must take this exception into account with the audited financial results being restated for financial projection purposes.

Section 6- YEAR CAPITAL PROGRAM

Include a table showing the proposed capital projects being proposed for the utility, by year, over the next five years.

If the project is not self-explanatory, please provide a brief description.

Each project should contain an estimated cost as well as a proposed method of funding.

Section 7- STATEMENT OF COMPLIANCE WATER QUALITY STANDARDS (water utilities)

This statement should be signed by the senior administrative officer for the utility, usually the chief administrative officer, attesting to the fact that the utility has complied with all of the requirements of the office of drinking water and that it meets all of the required standards.

The statement should also disclose the date of the latest engineering assessment conducted; the recommendations contained therein and add brief description of the plans to address those recommendations

If for some reason one or more of the standards are not being met, the statement should disclose the utilities plan for addressing the deficiency (ies) including timeline and funding source.

Section 8- STATEMENT OF COMPLIANCE ENVIRONMENTAL STANDARDS (sewer utilities)

This statement should be signed by the senior administrative officer for the utility, usually the chief administrative officer, attesting to the fact that the utility has complied with all of the requirements of the Provincial Department in charge of environmental regulation and that it meets all of the required standards.

The statement should also disclose the date of the latest engineering assessment conducted; the recommendations contained therein and add brief description of the plans to address those recommendations

If for some reason one or more of the standards are not being met, the statement should disclose the utilities plan for addressing the deficiency including timeline and funding source.

RATE STUDY TEMPLATE

Section 9- FINANCIAL PROJECTIONS AND RATE CALCULATIONS

A template for financial projections is included on the Board's website as an Excel spreadsheet. A copy of that spreadsheet is provided on the following page for information.

The spreadsheet is not protected. In other words, any of the cells containing formulas can be altered by the applicant. However, caution should be exercised in making such alterations and they should be accompanied by explanatory notes.

The spreadsheet suggests that two historical years of audited financial information be provided. It may be acceptable to provide only the latest year's audited financial statements. Two years is however recommended in order to assist both the applicant and the Board in determining trends.

The applicant may have to break down or re-categorize some of the items in the audited financial statements in order to populate the financial projections spreadsheet. However, the utility's net result for those years should equal the amount shown on schedule 9 of the financial statements. Utilities are reminded that the Board will require that capital contributions, grants and donations be capitalized and amortized along with the underlying asset, requiring that a separate version of schedule 9 be completed and attached to the submission. A sample of this version is available on the Board's website.

The spreadsheet makes provision for including an inflation rate to be applied to certain expense items subject to inflation, but the utility must determine whether or not those inflation percentages are reasonable for each item in question.

The projected results for the current year and those provided for the following three years should be consistent with historical information. In other words, the reader should not be surprised by the magnitude of the numbers when comparing them two historical results. However, it is possible that there are specific reasons for expenditure increases in the projections. Explanatory notes should be provided with the financial projections spreadsheet for all such unusual items.

The spreadsheet makes provision for the automatic calculation of a contingency equal to 10% of variable operating expenses. This may or may not be appropriate for the utility in question. Again that variation to that contingency provision can be inserted in the spreadsheet but should be accompanied by an explanatory note. Similarly, the spreadsheet makes provision for reserve contributions to be included in the rate requirements. All proposals for rate based reserve contributions must be explained.

The spreadsheet also automatically calculates a provision called the "working capital surcharge" where the utilities are working capital balance is less than 20% of operating expenses. The surcharge will carry forward until the 20% target level has been reached.

Completing the financial projections for the utility is a requirement common to all submissions, forming the basis for the calculations of the required rates.

The Board's website contains sample spreadsheets, including instructions, for the calculation of rates in various circumstances. It is conceivable that a utility has unique circumstances which have not been covered in the Board's models. The applicant is of course free to amend of the models as necessary. However, satisfactory explanation must accompany the amended model.

If there is anything unique used to make the rate calculations, other than that the formulas provided in the Board's sample spreadsheets, explanations should be contained in this section. Otherwise, a simple statement indicating that the Board's formulas were used should be sufficient for this section.

Section 10- COST ALLOCATION METHODOLOGY (new or changed only)

Many or most utilities have already obtained Board approval for the cost allocation methodology being used by them and allocating common costs shared between the utility and the general operation of the municipality, city, town or village.

The Board is a proponent of the user pay concept. It is therefore important that the true cost of running the utility is included in the financial reporting and projections related to each of those utilities.

A matrix of considerations for developing a cost allocation methodology is included as appendix B him and him for information.

While the utility requires order approval of its cost allocation methodology, the Board will generally rely on the local expertise of the utility to appropriately determine the shared cost percentages being allocated to the utility.

Once the cost allocation methodology has been approved by the Public Utilities Board, it must be applied consistently until and unless the methodology has been altered with approval by the Board. The Board requires that the senior financial officer provide a management representation letter indicating and confirming that the cost allocation methodology as approved by the Board has been used in the preparation of the utilities financial statements as well as in its expense projections.

RATE STUDY TEMPLATE

Section 11- CHECKLIST MINIMUM FILING REQUIREMENTS

The following items are **mandatory** and if they do not accompany the submission will result in the submission being returned in its entirety:

- latest audited financial statements (PSAB compliant)
- financial projections complete with explanatory notes
- details of rate calculations
- an electronic WORD version of the related by-law
- existing rates- including by-law and Board Order references

Attached as appendix B is a master checklist, and the WORD version of the Minimum Filing Requirements that must accompany all rates applications. Each item on the checklist must be addressed. If response to the specific item is not available, an explanatory note should be included. All other items on the Minimum Filing Requirements checklist must be submitted in due course.

It is recommended that the Minimum Filing Requirements template be used with responses interspersed after each of the items within the template. For example, the proposed method for financing the five-year capital plan can be described immediately following that item on the checklist.