

M A N I T O B A) Order No. 16/15
)
THE PUBLIC UTILITIES BOARD ACT) February 6, 2015

BEFORE: Régis Gosselin, B ès Arts, MBA, CGA, Chair
The Hon. Anita Neville, P.C., B.A. (Hons.), Member

**RURAL MUNICIPALITY OF OAKVIEW
OAK RIVER WATER AND SEWER UTILITY
ACTUAL DEFICIT 2013**

WHEREAS the Public Utilities Board (Board) issued Order No. 151/08 on November 7, 2008 requiring all water and/or sewer utilities to report an actual year-end deficit to the Board if the utility:

1. had not received prior approval for the deficit from the Board and such deficit either exceeds \$10,000 or represents 5% of the utility's operating budget; or
2. had received prior approval for the deficit from the Board and the actual deficit:
 - a. exceeds the previously approved amount by either \$10,000 or 5% of the utility's operating budget; or
 - b. is caused as a result that differs from that upon which said approval was granted;

AND WHEREAS the Oak River Water and Sewer Utility, located in the Rural Municipality of Oakview (formerly the RM of Blanshard) incurred a deficit of \$214,472 at the end of the 2013 operating year;

AND WHEREAS it is proposed that the reason for said deficit is inadequate wholesale rates being charged by Manitoba Water Services Board for the operation of the Oak River water treatment plant over a 14 year period;

AND WHEREAS it is proposed that the 2013 deficit be recovered through a 20 year debenture, collected through land taxes of the benefitting properties, LIDs #1 and #2;

Application

The Board received a rate application for the Oak River Utility (Utility) from the former Rural Municipality of Blanshard (now the Rural Municipality of Oakview) on November 24, 2014. The rate application included draft copies of the 2013 audited financial statements. The Executive Summary of the application made reference to the Utility requesting that the 2013 deficit be recovered by a local improvement debenture. No deficit application or further information was provided with the rate application.

The Rural Municipality (RM) advised that the 2013 deficit was a result of of the Manitoba Water Services Board (MWSB), who operate the water treatment plant, charging a wholesale rate that did not adequately cover the operating costs of the water treatment plant. The Public Utilities Board will only vary rates set by the MWSB on appeal from its rate decisions.

MWSB reviewed the wholesale water rate for the Oak River water treatment plant in February 2014. At that time, MWSB approved a wholesale water rate increase of 4.2%, and expressed concerns with the financial status of the water plant, in particular the outstanding plant deficit, increasing each year.

The RM advised that while the MWSB is not demanding that the outstanding debt be repaid immediately, the MWSB has asked the RM to look at options to start paying down the debt. The Council of the RM of Blanshard approved a resolution requesting permission to recover the money outstanding to the MWSB by way of a borrowing, which would allow the Utility to repay the outstanding amount in full.

The RM has assured the Board that, if approved, the borrowing will be put on the land taxes of the benefitting properties, LID #1 and LID #2. The RM also contacted MWSB to discuss options to prevent the issue from recurring.

The RM has advised the Board that MWSB will be increasing the wholesale rate from \$12.95/1,000 gallons to \$13.50/1,000 gallons effective April 1, 2015. MWSB has also suggested that increasing the wholesale rate by an additional \$2.00/1,000 gallons (over and above the \$13.50/1000 gallons) would cover all the anticipated annual operating costs, so that the RM ceases accumulating an annual deficit. MWSB recommended that a discussion take place with Council to possibly implement this increase in October 2015.

MWSB provided the following information regarding operating costs, rates and indicated rates (labeled operational break-even rate) for the period of 2010 projected out to 2032.

Year	Total Operating Costs	Water Rate annual increase CPI or 2%	Annual Water Consumption Imperial Gallons	Revenue	Annual Surplus(Deficit)	Accumulated Surplus(Deficit)	Operational Break-even rate per 1000
						\$ -	\$ -
2010-11	\$ 42,532	\$ 11.13	3,697,100	\$ 41,149	\$ (1,383)		\$ 11.504
2011-12	\$ 55,721	\$ 11.44	3,704,300	\$ 42,377	\$ (13,344)		\$ 15.042
2012-13	\$ 66,421	\$ 12.00	3,539,700	\$ 42,476	\$ (23,945)		\$ 18.765
2013-14	\$ 58,114	\$ 12.51	3,449,275	\$ 43,150	\$ (14,964)		\$ 16.848
2014-15	\$ 52,979	\$ 12.95	3,449,275	\$ 44,668	\$ (8,310)		\$ 15.359
2015-16	\$ 53,508	\$ 13.50	3,449,275	\$ 46,565	\$ (6,943)	\$ (6,943)	\$ 15.513
2016-17	\$ 54,113	\$ 13.77	3,449,275	\$ 47,497	\$ (6,616)	\$ (13,559)	\$ 15.688
2017-18	\$ 54,719	\$ 14.05	3,449,275	\$ 48,446	\$ (6,273)	\$ (19,832)	\$ 15.864
2018-19	\$ 55,427	\$ 14.33	3,449,275	\$ 49,415	\$ (6,012)	\$ (25,844)	\$ 16.069
2019-20	\$ 56,069	\$ 14.61	3,449,275	\$ 50,404	\$ (5,665)	\$ (31,509)	\$ 16.255
2020-21	\$ 56,710	\$ 14.91	3,449,275	\$ 51,412	\$ (5,299)	\$ (36,808)	\$ 16.441
2021-22	\$ 57,352	\$ 15.20	3,449,275	\$ 52,440	\$ (4,912)	\$ (41,720)	\$ 16.627
2022-23	\$ 57,994	\$ 15.51	3,449,275	\$ 53,489	\$ (4,505)	\$ (46,225)	\$ 16.813
2023-24	\$ 58,635	\$ 15.82	3,449,275	\$ 54,559	\$ (4,077)	\$ (50,302)	\$ 16.999
2024-25	\$ 59,276	\$ 16.13	3,449,275	\$ 55,650	\$ (3,626)	\$ (53,928)	\$ 17.185
2025-26	\$ 59,106	\$ 16.46	3,449,275	\$ 56,763	\$ (2,344)	\$ (56,272)	\$ 17.136
2026-27	\$ 59,698	\$ 16.79	3,449,275	\$ 57,898	\$ (1,800)	\$ (58,071)	\$ 17.307
2027-28	\$ 60,294	\$ 17.12	3,449,275	\$ 59,056	\$ (1,239)	\$ (59,310)	\$ 17.480
2028-29	\$ 60,897	\$ 17.46	3,449,275	\$ 60,237	\$ (660)	\$ (59,970)	\$ 17.655
2029-30	\$ 61,506	\$ 17.81	3,449,275	\$ 61,442	\$ (65)	\$ (60,035)	\$ 17.832
2030-31	\$ 62,121	\$ 18.17	3,449,275	\$ 62,671	\$ 549	\$ (59,485)	\$ 18.010
2031-32	\$ 62,743	\$ 18.53	3,449,275	\$ 63,924	\$ 1,181	\$ (58,304)	\$ 18.190

Board findings

By law, Manitoba utilities are not allowed to incur deficits. In the event that a deficit does occur, the Utility is required to obtain Board approval for a recovery methodology. The Board is therefore duty bound to approve reasonable rates based on reasonable expense projections.

The Board will only regulate the wholesale rates charged by the Manitoba Water Services Board on appeal. In this case, the accumulated deficit has been caused by a shortfall in the wholesale rate charged by the MWSB. The information provided supports the submission from the RM stating that the deficit occurred over a lengthy period and stemmed from a combination of higher than anticipated operating costs and lower than expected volumes. It also shows that MWSB has made the appropriate adjustments to their forecasts for future periods.

Without an adjustment to bring the wholesale rate up, MWSB will continue to collect revenues which fail to cover the operating costs. It is projected that the Utility will incur further deficits in the future, which will be compounded by any further cost increases (beyond those projected by MWSB) or conservation efforts by the Utility ratepayers, which will decrease revenues.

The Board has long been a proponent of the user pay principle and believes that utility rates should reflect the actual costs of operating the utility without cross subsidization. Including all of the costs sends a clear pricing signal to customers,

gives them a better understanding of the value of the services they receive and can encourage conservation.

The Board has considered the RM's request to recover the 2013 deficit through a 20 year debenture to be collected through taxes. The Board is generally averse to this approach for the reasons mentioned earlier, but has concluded that the situation is an exceptional one and approves the proposed method of recovery, on the condition that the RM and MWSB agree to raise the wholesale rate to the indicated rate of \$15.50/1,000 gallons on or before October 1, 2015. The Board encourages the RM to work with MWSB to continue adjusting the wholesale rate to keep pace with future operating costs.

The Board will also require the Utility to provide annual reports of the operating results from MWSB. The Board will monitor them to ensure that the wholesale rate remains appropriate going forward.

The Board recognizes that the rates charged by MWSB make up only one component of the costs incurred in the operation of the Utility, that being water purchases expense. The RM has submitted a rate application which is being processed by the Board. In the meantime, in the interest of avoiding deficits in the Utility operations, the Board will authorize the RM to implement "pass through" rates to keep up with any future changes to the MWSB wholesale rate.

Pass through rates

By this Order, the Board also approves the "pass through" additional costs arising out of a Manitoba Water Services Board (MWSB) wholesale rate increase by the Rural Municipality of Oakview, Oak River Utility.

Process for "pass through rates"

The process to be followed is as follows:

- Step 1. The Utility shall consider the implication of any increase implemented by the MWSB.
- Step 2. If the cost increase is to be reflected in the rates of the Utility, the Rural Municipality need only inform PUB and its ratepayers/customers of the "pass through" rate change. Changes in the rate of system water losses may also be included in the rate setting.
- Step 3. If rates are to change for any other reason, the Rural Municipality must make application to the Board, which may decide to proceed to hear the application by way of a paper-based process or by way of an oral public hearing.
- Step 4. For such "pass through" rate changes, the Rural Municipality shall file an amended rate by-law with the Board and provide notice of the change to its customers at least one quarter in advance. There will be no need for a rate study.

IT IS THEREFORE ORDERED THAT:

1. The 2013 operational deficit of \$214,472 for the Oak River Utility in the Rural Municipality of Oakview (formerly the Rural Municipality of Blanshard) is **HEREBY APPROVED** to be recovered through a 20 year debenture to be collected on the land taxes of the benefitting properties (LID #1 and #2), on the condition that the Rural Municipality and the Manitoba Water Services Board agree to increase the wholesale rate to \$15.50 per 1,000 gallons on or before October 1, 2015,
2. The process for "pass-through" rates by the Oak River Utility will be adhered to as set out in this Order, and
3. The Rural Municipality of Oakview provide the Public Utilities Board with annual reports on the operating results from the Manitoba Water Services Board.

Fees payable upon this Order - \$150.00

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

THE PUBLIC UTILITIES BOARD

"Régis Gosselin, B ès Arts, MBA, CGA"

Acting Chair

"Jennifer Dubois, CMA"

Acting Secretary

Certified a true copy of
Order No. 16/15 issued by the
Public Utilities Board

Acting Secretary