

**Order No. 40/16**

**RURAL MUNICIPALITY OF DUFFERIN  
DUFFERIN STEPHENFIELD WATER UTILITY  
OPERATING DEFICITS 2012, 2013 and 2014**

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**March 21, 2016**

BEFORE: Susan Proven, P.H.Ec., Acting Chair  
The Hon. Anita Neville, P.C., B.A. (Hons.), Member

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;

### **Application**

On February 2, 2016, the Board received the deficit applications for 2012; \$75,788, 2013; \$189,839 and 2014; \$84,843 for Dufferin Stephenfield Utility (Utility) from the Rural Municipality of Dufferin (RM). The deficit application was accompanied by Council Resolution No. 6 and No. 9, requesting the 2012, 2013 and 2014 deficit be recovered from the Utility's reserve fund.

The application advised the Board that the deficits were a result of an improper reporting of the Waterline Connections Local Improvement Debenture Funding received by the Province. It stated that the loans were originally setup as revenues in the year end financial statements, but has been rectified and reversed to setup the debentures as liabilities to be recognized as revenue when the local improvement tax comes in each year. The waterline projects borrowed for must be expended in the year the project occurred and the liability for the loans were setup as they would be normally. This follows the Public Sector Accounting Board standards.

Rates were last revised in By-Law 1951, to be effective January 1, 2016. This was as a result of a "pass through" increase from the Pembina Valley Water Co-operative (PVWC), from which the Utility buys its water. The RM did not state any date by which the next rate application should be expected.

The application advised that the RM is running a balanced budget and that they will continue to give its rate payers the option of paying for capital project through local improvement debentures when connecting to its potable water source, which could in the future create deficits on the audited financial statements.

The application showed a 25% unaccounted water percentage, which is significantly higher than the 10% acceptable range. The RM advised that the Council and utility staff are currently undergoing an audit of the boundary meter chambers as the system has recently been changed to new remote read meters in an effort to isolate where losses are being incurred. The RM also stated that internally, potential points of water loss have been accounted for, and the RM feels that half of the percentage of the water loss is not internal. The application stated that the RM is currently meeting with representatives from Pembina Valley Water Cooperatives in hopes of coming to a resolution.

### **Board findings**

By law, Manitoba utilities are not allowed to incur deficits. In the event that a deficit does occur, a Utility is required to obtain Board approval for a recovery methodology. The Board approves the 2012, 2013 and 2014 deficits, but will vary the application to recover the deficits through the Utility's accumulated surplus, not the reserve. The reserve balance as of December 31, 2014 was \$384,982 and in a letter from the RM dated March 16, 2016 the Chief Administrative Officer indicates that in the 2015 Utility budget the RM withdrew \$99,905 from the reserve to cover the expenditure for the projects that were reversed in 2011, 2012 and 2013, which leaves the balance at \$285,072.

In the previous Board Order No. 116/10, the Board requested that the RM provide comments as to the adequacy of its rates, no later than May 15, 2014. In the current deficit application, the RM attached a statement on rate adequacy stating that the RM is running a balanced budget.

The RM has incurred significant operating deficits consecutively for the past three years and they are using their municipal budget figures to assess the adequacy of their rates. This is inappropriate, as the utility must operate on a break even basis using Public Sector Accounting Board standards, as has been the case since 2010.

The responses provided by the RM to the Board are disconcerting, as they indicate that the administration is unaware of the methodology that must be used in setting utility rates. The Board urges the RM to review the *Public Utilities Board Act* and general Board Order Nos. 151/08 and 93/09 to have a better understanding of their responsibilities in reporting to the Board.

The Board will request that the RM submit a rate application on or before September 30, 2016. The rate application must contain all the necessary items from the Board's Minimum Filing Requirement Checklist, which can be found on the Board's website. The rate application must be prepared in a manner consistent with Board recommended methods. The Board does encourage applicants to confer with Board staff where there is uncertainty about Board recommended methodology and, where variation is proposed, that the variation be clearly substantiated in the application.

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](http://www.pub.gov.mb.ca).

**IT IS THEREFORE ORDERED THAT:**

1. The operating deficits, when calculated for regulatory purposes, for 2012 of \$75,788; 2013 of \$189,839 and 2014 of \$84,843 incurred in the Rural Municipality of Dufferin – Dufferin Stephenfield water utility are HEREBY APPROVED to be recovered from the Utility's Accumulated Surplus Fund.
2. The Rural Municipality of Dufferin – Dufferin Stephenfield water utility file an application for revised rates on or before September 30, 2016.
3. The Rural Municipality of Dufferin – Dufferin Stephenfield water utility, provide a copy of their 2015 audited financial statements as soon as they are available, including a deficit application if required.

Fees payable upon this Order – \$150.00

THE PUBLIC UTILITIES BOARD

"SUSAN PROVEN, P.H.Ec."

Acting Chair

"JENNIFER DUBOIS, CPA, CMA"

Acting Secretary

Certified a true copy of Order No. 40/16  
issued by The Public Utilities Board

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Acting Secretary