

Order No. 156/19

**MUNICIPALITY OF NORFOLK TREHERNE
LAVENHAM WATER UTILITY
2018 ACTUAL OPERATING DEFICIT RECOVERY**

October 17, 2019

BEFORE: Shawn McCutcheon, Panel Chair
Marilyn Kapitany, B.Sc. (Hon), M.Sc., Panel Member

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 recovery methodology.

The Public Utilities Board (Board) issued Order No. 151/08 on November 7, 2008 requiring all water and/or wastewater 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.

1.0 Deficit Application

On June 12, 2019, the Board received an application from the Municipality of Norfolk Treherne (Municipality), Lavenham Water Utility (Utility) for approval of a 2018 deficit in the amount of \$4,111. Along with the application, the Municipality submitted Council Resolution No. 19-0894, which requested approval for a recovery of the deficit through a combination of a transfer from the Utility's Accumulated Fund Surplus in the amount of \$3,000 and a rate rider of \$18.52 (flat rate) per customer per quarter over a three (3) quarters. The application stated that the deficit was due to five emergency water main and/or valve repairs experienced in 2018.

The Municipality also advised the Board that the current rate structure of the Utility is a flat rate of \$100.00 per customer per quarter and that there was a \$35.00 rate rider initially used to recover a 2009 deficit; however it was removed in 2015. This rate rider will be re-established for the next quarterly billing as Board Order No. 159/09 approved the

\$35.00 rate rider as a provision for reserves. The \$35.00 fee was mistaken for deficit recovery and the deficit had been recovered. Rates for this Utility were last set in 2009.

Working Capital Calculation

Board Order No. 93/09 established that utilities should maintain a minimum working capital surplus, in an amount equal to 20% of annual expenses. The working capital surplus/deficit is defined as the Utility fund balance, excluding any capital related items plus Utility reserves.

As per the 2018 audited financial statements for the Utility, the most recent information available, the working capital surplus at December 31, 2018 is as follows:

	2018
Utility Fund Accumulated Surplus	\$31,072
Deduct Tangible Capital Assets	(\$27,402)
Add Long Term Debt	\$0
Add Utility Reserves	\$464
Equals Working Capital Surplus/(Deficit)	\$4,134
Expenses	\$14,046
20% of Expenses (Target)	\$2,809

2.0 Board findings

The Board has reviewed the application and found that there was an error in the calculation of the deficit amount applied for by the Municipality. The Board's Guidelines allow for adjustments to account for amortization of capital grants and contributed Tangible Capital Assets (TCAs). These amounts are usually found in the Notes to the Audited Financial Statements. It appears that Municipality adjusted the deficit amount by adding the amortization expense, which is different than amortization of capital grants and/or contributed (donated) assets.

The Board therefore approves the recovery of the 2018 deficit in the amount of \$6,046 through the transfer of \$3,000 from the Utility's Accumulated Fund Surplus and a rate rider of \$19.00 per customer per quarter over a two year period or until the deficit is fully recovered, whichever comes first. This rate rider is effective January 1, 2020.

Rates will be as follows:

Effective Period	Quarterly Water Rate & Service Charge	Reserve Provision	2018 Deficit recovery	Total per Quarter
January – March	\$100.00	\$35.00	\$19.00	\$154.00
April – June	\$100.00	\$35.00	\$19.00	\$154.00
July – September	\$100.00	\$35.00	\$19.00	\$154.00
October - December	\$100.00	\$35.00	\$19.00	\$154.00

The Board has reviewed the 2017 Audited Financial Statements of the Utility and found that the Utility has also incurred a deficit in 2017. The Board directs the Municipality to review the 2017 Audited Financial Statements and submit an application by no later than November 30, 2019.

It has been ten years since the Lavenham Utility has submitted a rate application to the Board. In the Board's view, this is too long a time-period between rate reviews. Regular rate reviews submitted on a timelier three-year period, as per the Board's Guidelines, protect the financial position of the Utility and may mitigate the need for substantial rate

increases. In some cases, the additional cost of a rate rider becomes necessary to recover utility deficits.

It is the Utility's responsibility to review the rates and ensure rates are adequate to recover the cost of service being provided to its customers. Customers are generally more tolerant of regular, smaller increases. The Municipality needs to be much more diligent in conducting regular reviews of its revenue requirements.

The Board is concerned about the Utility's rate structure of a flat rate, a reserve rate rider and a deficit recovery rate rider; this is an indication to the Board that the rates are no longer adequate. The Board directs the Municipality to file a full rate study and application for revised rates using the Board's Guidelines, with the Board by no later than January 31, 2020. The Board notes the water rate in the revised rate application should be separate from the quarterly customer service charge.

3.0 IT IS THEREFORE ORDERED THAT:

1. The 2018 actual operating deficit, when calculated for regulatory purposes, of \$6,046 incurred in the Municipality of Norfolk Treherne, Lavenham Water Utility, is HEREBY APPROVED to be recovered through a transfer of \$3,000 from the Utility's Accumulated Fund Surplus and a rate rider of \$19.00, per customer per quarter over two (2) years or until the deficit is recovered in full, whichever comes first. The rate rider is effective January 1, 2020.
2. The Municipality of Norfolk Treherne is to provide a notice to its customers, including the decisions found in this Order, in the next quarterly billing.
3. The Municipality of Norfolk Treherne review its 2017 Audited Financial Statements and submit a deficit application to the Board, if needed, by November 30, 2019.
4. The Municipality of Norfolk Treherne file a rate study and revised rate application with the Public Utilities Board, by no later than January 31, 2020.

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.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Shawn McCutcheon"

Panel Chair

"Rachel McMillin, B.Sc."

Assistant Associate Secretary

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issued by The Public Utilities Board



Assistant Associate Secretary