

Order No. 3/19

**RURAL MUNICIPALITY OF PRAIRIE LAKES
LOCAL IMPROVEMENT DISTRICT No. 1 of DUNREA
DUNREA WATER UTILITY
ACTUAL OPERATING DEFICIT RECOVERY FOR 2015 AND 2016**

January 3, 2019

**BEFORE: Marilyn Kapitany, B.Sc. (Hon), M.Sc., Panel Chair
Carol Hainsworth, C.B.A, 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 of the deficit and for a recovery methodology.

The Public Utilities Board (PUB) issued Order No. 151/08 on November 07, 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 \$10,000 or represents 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 Application

On December 20, 2018, the Board received a deficit application from the Rural Municipality of Prairie Lakes (RM) – Dunrea Water Utility (Utility), for approval of utility operating deficits for 2015 in the amount of \$2,305 and for 2016 in the amount of \$1,492, totalling \$3,797.

A certified copy of Council Resolution 255/2018 dated December 12, 2018 accompanied the application. The RM is requesting that the recovery method be through the Utility's accumulated surplus account.

The RM stated the reason for the deficits was due to insufficient rates in 2015 and 2016. Rates were last approved in Board Order No. 79/16 effective July 1, 2016. The RM further advises that it plans to submit a rate study to the Board by March 31, 2019.

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 2017 audited financial statements for the Utility, the most recent information available, the working capital surplus at December 31, 2017 is as follows:

	2017	2016	2015
Fund Surplus	\$136,684	\$138,716	\$143,225
Deduct Tangible Capital Assets	(\$118,330)	(\$122,486)	(\$126,642)
Add Long-Term Debt	-	\$4,151	\$8,657
Add Utility Reserves	\$8,963	\$6,914	\$4,914
Equals Working Capital (Surplus)	\$27,317	\$27,295	\$30,154
Expenses	\$25,859	\$28,642	\$29,590
20% of Expenses (Target)	\$5,172	\$5,728	\$5,918

The above-noted working capital calculation for the Utility is above the Board's recommended 20% target and sufficient to be applied to the Utility's deficits.

2.0 Board Findings

The Board approves the deficit of \$2,305 incurred in 2015 and the \$1,492 deficit incurred in 2016, totalling \$3,979 to be recovered through a transfer from the Utility's accumulated surplus account.

Regular rate reviews protect the financial position of the Utility and mitigates the need for substantial rate increases, or in the case of the Dunrea Utility, deficits. Had the Utility not had an adequate surplus account, these deficits would have to be collected from the ratepayers through a rate rider.

As per the letter dated November 9, 2018 from the Board, the Board expects the revised rate application and rate study to be submitted on or before March 31, 2019.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual utility operating deficits, when calculated for regulatory purposes, of \$2,305 in 2015 and \$1,492 in 2016 incurred in the Rural Municipality of Prairie Lakes, Dunrea Water Utility, are HEREBY APPROVED to be recovered from the Utility's accumulated surplus, effective the date of this Order.

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

"Marilyn Kapitany, B.Sc. (Hon), M.Sc."
Panel Chair

"Rachel McMillin, B.Sc."
A/Assistant Associate Secretary

Certified a true copy of Order No. 3/19
issued by The Public Utilities Board



A/Assistant Associate Secretary