

Order No. 5/19

**RURAL MUNICIPALITY OF ARGYLE
LOCAL IMPROVEMENT DISTRICT OF BALDUR
BALDUR WATER & WASTEWATER UTILITY
ACTUAL OPERATING DEFICITS
RECOVERY FOR 2013, 2014, 2015, 2016 & 2017**

January 4, 2019

**BEFORE: Shawn M^cCutcheon, Panel Chair
Mike Watson, 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 July 10, 2018, the Board received a deficit application from the Rural Municipality of Argyle (RM) – Baldur Water and Wastewater Utility (Utility), for approval of utility operating deficits for 2013 (\$51,114), 2014 (\$56,105), 2015 (\$20,885) and 2016 (\$29,841), totalling \$157,945.

A certified Council Resolution No. 2018-140 dated July 10, 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 increasing utility operating costs; therefore, rates have been insufficient to cover the costs. Rates were last approved in

Board Order No. 22/15 effective April 1, 2015. The RM submitted a rate application to the Board on February 21, 2018, which is currently before the Board pending review.

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	\$1,341,771	\$1,348,632	\$1,387,769
Deduct Tangible Capital Assets	(\$1,392,232)	(\$1,391,747)	(\$1,424,735)
Add Long-Term Debt	-	-	-
Add Utility Reserves	\$104,855	\$111,831	\$110,210
Equals Working Capital Surplus	\$54,394	\$68,716	\$73,244
Expenses	\$173,836	\$266,220	\$171,165
20% of Expenses (Target)	\$34,767	\$53,244	\$34,233

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 deficits of \$51,114 in 2013, \$56,105 in 2014, \$20,885 in 2015 and \$29,841 in 2016, totalling \$157,945 to be recovered through a transfer from the Utility's accumulated surplus account.

In reviewing the 2017 audited financial statements, the Board also notes the Utility has incurred another deficit in the amount of \$16,043. The Board also approved the recovery of the 2017 deficit of \$16,043 to be recovered 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 Baldur 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.

