

Order No. 89/19

**TOWN OF POWERVIEW-PINE FALLS
WATER AND WASTEWATER UTILITY
2009, 2010, 2012, 2013 and 2014
ACTUAL OPERATING DEFICIT RECOVERY**

June 27, 2019

**BEFORE: Shawn McCutcheon, Panel Chair
Bob Vandewater, 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 February 11, 2019, the Board received an application from the Town of Powerview-Pine Falls (Town), Water and Wastewater Utility (Utility), for approval of the following deficits:

- 2009 \$45,845
- 2010 \$18,765
- 2012 \$79,819
- 2013 \$63,704
- 2014 \$63,020

Along with the application, the Municipality submitted Council Resolution Nos. 2019-049, 2019-050, 2019-051, 2019-052 and 2019-053, which requested the recovery of the deficits through the Utility's Accumulated Cash Surplus.

The application stated that the deficits were due to lack of revenue and higher utility costs. The Town indicated that the rate increase approved in Order 109/10 did not take into account the financial impact of implementing Public Sector Accounting Board (PSAB) standards, most notably amortization expense.

In a letter dated March 12, 2019, the Board asked the Town to explain the discrepancies between the deficit amounts applied for and the audited financial statements, in particular, the amortization expenses and amortization of capital grants. Based on the Board's review of the audited financial statements, the deficits incurred in 2009, 2010, 2012, 2013 and 2014 are significantly higher than what was applied for.

In the Town's response dated April 17, 2019, it indicated that the audited financial statements were wrong. The Amortization of Capital Grants used in 2009, the first PSAB compliant statements, was not cross referenced with the records of the Manitoba Water Services Board (MSWB) and is therefore incorrect. Instead of \$9,229, it should only be \$4,616.

With regards to the amortization expense, the Tangible Capital Asset listing used to calculate the amortization had the following errors:

- Powerview Lagoon was listed twice in the amount of \$6,783.05
- Storm Sewers were listed under Water and Wastewater networks in the amount of \$34,373.95

A total of \$41,157 is being expensed in the Utility by mistake.

Interim *ex parte* rates were set for the Utility in Board Order 61/13. Revised rates for July 1, 2015 and January 1, 2016 were finalized in Board Order 50/15.

Board Order 50/15 denied the Town's 2009 and 2010 deficit application. Town was directed to re-submit the applications to recover the 2009 and 2010 operating deficits through a rate rider based on commodity or a flat rate recovery per customer. The Town

was also directed to review its water and wastewater rates and submit a rate study by January 1, 2016.

Since the Board has not yet received an application for revised rates, as part of the Board's March 12, 2019 letter, the Town was asked to submit a rate study and revised rate application by no later than June 1, 2019.

The Town has advised that it is currently working with a new auditor to bring the financial statements up to date. The Town further indicated that the 2017 and 2018 audited financial statements will not be available until November 30, 2019. Until then, the Town will not be in a position to complete a rate study based on audited financials.

In Directive No. 5 of Order 50/15, the Board granted approval in principle to recover Utility debentures up to \$260,000 for the SCADA and UV Treatment project through utility rates. The Town was to seek permission from the Municipal Board for any borrowings, and once the projects are completed, the Town is to return to the Board with financial information, prior to adjusting the utility rates to include the funds to repay the debenture. To date, the Town has not finalized the debenture recovery through rates.

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 2015 audited financial statements for the Utility, the most recent information available, the working capital surplus at December 31, 2015 is as follows:

	2015
Utility Fund Accumulated Surplus	\$1,038,162
Deduct Tangible Capital Assets	(\$1,010,887)
Add Long Term Debt	\$0
Add Utility Reserves	\$145,661
Equals Working Capital Surplus	\$320,159
Expenses	\$347,016
20% of Expenses (Target)	\$69,403

2.0 Board findings

The Board has reviewed the application, determining there is sufficient working capital, and approves the 2009 deficit of \$45,845, the 2010 deficit of \$18,765, the 2012 deficit of \$79,819, the 2013 deficit of \$63,704 and the 2014 deficit of \$63,020, to be recovered through the Utility Accumulated Surplus Account.

As of the date of this Order, the Town's most recent audited financial statement available is for 2015. This makes it difficult to determine the current financial position of the Utility, and delays deficit recoveries and rate reviews. The Board encourages the Town to work with the auditors to ensure timely delivery of the financial statements. Further, the Town is non-compliant to the directives of Order No. 50/15, particularly the application for revised rates and the finalization of the debenture surcharge.

Please note that all items found under the heading, "IT IS THEREFORE ORDERED THAT:" are directives, not recommendations, and must be complied with or appealed as outlined below. Pursuant to the *Public Utilities Board Act*, the Board has available enforcement methods and can apply penalties for non-compliance.

The Board urges the Town 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.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficits, when calculated for regulatory purposes, of \$45,845 in 2009, \$18,765 in 2010, \$79,819 in 2012, \$63,704 in 2013, and \$63,020 in 2014 incurred in Town of Powerview-Pine Falls, Water and Wastewater Utility, are HEREBY APPROVED to be recovered through the Utility's Accumulated Surplus Account, effective the date of this Order.

2. The Town of Powerview-Pine Falls submit an application for revised rates by no later than December 31, 2019.

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

"Jennifer Dubois, CPA, CMA"

Assistant Associate Secretary

Certified a true copy of Order No. 89/19
issued by The Public Utilities Board



Assistant Associate Secretary