

Order No. 105/20

**RURAL MUNICIPALITY OF HANOVER
BLUMENORT WASTEWATER UTILITY
2019 ACTUAL OPERATING DEFICIT RECOVERY**

August 24, 2020

BEFORE: Shawn McCutcheon, Panel Chair
Carol Hainsworth, C.B.A., 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 July 21, 2020, the Board received an application from the Rural Municipality of Hanover (RM), Blumenort Wastewater Utility (Utility), for approval of a 2019 deficit in the amount of \$16,703.

Along with the application, the RM submitted Council Resolution No. FA 20-143, requesting the recovery of the deficit through the Utility's Accumulated Surplus.

The application stated that the deficit was due to the amortization expense. The application further stated that the over-all size and capacity of the wastewater collection and treatment facility is quite large compared to the needs of the community.

Rates for the Utility were last set in Board Order No. 57/17 with rates effective July 1, 2017.

The RM also submitted a Statement of Rate Adequacy. The RM stated that rates are able to sustain the Utility. Further, there are lots available for construction in 2020 which if connected will provide additional revenue to the Utility.

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 2019 audited financial statements for the Utility, the most recent information available, the working capital surplus at December 31, 2019 is as follows:

	2019
Utility Fund Accumulated Surplus	\$4,757,310
Deduct Tangible Capital Assets (TCA)	(\$4,812,132)
Add Long Term Debt	\$0
Add Utility Reserves	\$444,439
Equals Working Capital Surplus (Deficit)	\$389,617
Expenses	\$488,173
20% of Expenses (Target)	\$97,635

2.0 Board findings

The Board has reviewed the application and determined the Utility has adequate working capital surplus to absorb the deficit. The Board approves the 2019 deficit of \$16,703 to be recovered through the Utility's Accumulated Surplus.

However, the Board notes that this deficit is not due to an increased amortization expense. In reviewing the Utility's last rate study, completed in 2016 by the RMs consultant, it accurately accounts and projects the amortization in the Utility's current rate structure. The amortization expense has actually decreased. This deficit is due to a decrease in wastewater revenue collected from Utility customers including the industrial service agreements.

The Board is concerned with a statement made in the RM's deficit application that *"the over-all size and capacity of the wastewater collection and treatment facility is quite large compared to the needs of the community"*, as this would indicate that rates are not adequate and should be reviewed and potentially increased. However, the RM states in the Statement of Rate Adequacy *"that rates are able to sustain the Utility"* and further states that *"there are lots available for construction in 2020 which if connected will provide additional revenue to the Utility"*.

The Board will accept the RM's Statement of Rate Adequacy, even though it contradicts the statement in the deficit application, as the working capital is well above the Board recommended 20% of operating expenses and because there is potential for new connections. The Board directs the RM to closely monitor the Utility operations and file a rate adequacy report or a rate application on or before September 15, 2021.

3.0 IT IS THEREFORE ORDERED THAT:

1. The 2019 actual operating deficit, when calculated for regulatory purposes, of \$16,703 incurred in Rural Municipality of Hanover, Blumenort Wastewater Utility, are HEREBY APPROVED to be recovered through the Utility's Accumulated Surplus, effective the date of this Order.
2. The Rural Municipality of Hanover review its wastewater rates for the Blumenort Wastewater Utility for adequacy and file a report to the Public Utilities Board, or an application for revised rates, on or before September 15, 2021.

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, BSc."
Assistant Associate Secretary

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issued by The Public Utilities Board


Assistant Associate Secretary