

**Order No. 26/20**

**RURAL MUNICIPALITY OF ST. FRANCOIS XAVIER  
ST. FRANCOIS XAVIER WATER AND WASTEWATER UTILITY  
2013 & 2017 ACTUAL OPERATING DEFICIT RECOVERY**

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**February 14, 2020**

**BEFORE: Carol Hainsworth, C.B.A., Panel Chair  
Bob Vandewater, 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 January 31, 2020, the Board received an application from the Rural Municipality of St. Francois Xavier (RM), St. Francois Xavier Water and Wastewater Utility (Utility), for approval of the following deficits:

- 2013            \$14,245
- 2017            \$ 9,667

Along with the application, the RM submitted Council Resolution No. 2020 204, requesting the recovery of the deficit through the Utility's Accumulated Surplus. The application stated that the deficit was due to increased costs and lack of revenue.

Rates for the Utility were last set in Board Order No. 120/15.

## 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:

	<b>2018</b>
Utility Fund Accumulated Surplus	\$3,115,905
Deduct Tangible Capital Assets	(\$3,607,653)
Add Long Term Debt	\$433,782
Add Utility Reserves	\$378,269
<b>Equals Working Capital Surplus (Deficit)</b>	<b>\$320,303</b>
Expenses	\$343,211
20% of Expenses (Target)	\$68,642

## 2.0 Board findings

The Board has reviewed the application and determined the Utility has adequate working capital surplus to absorb the deficits. The Board approves the 2013 deficit of \$14,245 and 2017 deficit of \$9,667 to be recovered through the Utility's Accumulated Surplus.

The Board notes the Utility's rationale for the deficits was due to "increased costs and lack of revenue". While the Board agrees that the deficits are due to increased expenses, these increased expenses were notable financial events and reminds the RM that timelier rate studies submitted every three (3) years would likely have mitigated this.

The Board notes the following regarding the Utility:

- In 2013, the RM starting to incur Treatment and Disposal costs which the Utility never had before 2012.
- In 2017, bulk water sales substantially decreased and ceased in 2018.

The Board reminds the RM it is responsible for the continuous monitoring of the financial health of the Utility and applying for revised rates on a regular schedule. There is no requirement to wait until new directed rate application date to apply to the Board if the RM determines revised rates are required before that time, especially when deficits are materializing.

The Board notes that the RM is non-compliant filing its deficit applications with the Board. Utilities are to file an application with the Board as soon as the deficits are known. In the case of the 2013 deficit, this should have been applied for over five (5) years ago. Please note 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 can apply penalties for non-compliance.

The Board urges the RM to review *The Public Utilities Board Act* and general Board Orders No. 151/08 and 93/09 to have a better understanding of its responsibilities when reporting to the Board.

The Board also notes that there are inconsistencies with the RM's Utility Schedule in the audited financial statement. The current template shows the Utility schedule as Schedule 9. The RM's Utility Schedule has been Schedule 8 or 9 depending on the year. In addition, the RM's audited financial statements show a yearly transfer from the General Operating Fund into the Utility revenue for property tax revenue collected for utility debenture debt. Under the current template for the Utility Schedule 9, this should be recorded as Property Tax under the Utility Revenue heading. If this is not properly recorded, there is the

potential the financial statements can incorrectly show the Utility's Net Operating in a deficit position because it is recorded in the transfer section, after the Net Operating has been calculated.

This is an unusual presentation and the Board recommends the RM work with its auditor(s) to align the audited financial statements to the current format. This includes the presentation of the Public Utilities Board Note, which shows the balance of unamortized capital grants and the annual portion to be amortized.

### 3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficits, when calculated for regulatory purposes, of \$14,245 in 2013 and \$9,667 in 2017, incurred in Rural Municipality of St. Francois Xavier, St. Francois Xavier Water and Wastewater Utility, are HEREBY APPROVED to be recovered through 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](http://www.pubmanitoba.ca).

THE PUBLIC UTILITIES BOARD

"Carol Hainsworth"

Panel Chair

"Rachel McMillin, B.Sc."

Assistant Associate Secretary

Certified a true copy of Order No. 26/20  
issued by The Public Utilities Board



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Assistant Associate Secretary