

Order No. 9/20

**RURAL MUNICIPALITY OF ELLICE-ARCHIE
ST. LAZARE WATER AND WASTEWATER UTILITY
2018 ACTUAL OPERATING DEFICIT RECOVERY**

January 22, 2020

**BEFORE: Shawn McCutcheon, Panel Chair
Michael Watson, 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 October 15, 2019, the Board received an application from the Rural Municipality of Ellice-Archie (RM), St. Lazare Water and Wastewater (Utility), for approval of a 2018 deficit in the amount of \$20,259.

Along with the application, the RM submitted Council Resolution No. 266-19, requesting the recovery of the deficit through the Utility's Accumulated Surplus. The application stated that the deficit was due to system repairs. The RM has also indicated that the Utility has been experiencing deficits since 2012 when the former Village of St. Lazare installed a new water treatment plant, without a plan to adjust the flat rate the Utility charges.

Rates for the Utility were last set in Board Order No. 38/18.

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:

	2018
Utility Fund Accumulated Surplus	\$918,157
Deduct Tangible Capital Assets	(\$921,569)
Add Long Term Debt	\$67,329
Add Utility Reserves	\$11,557
Equals Working Capital Surplus (Deficit)	\$75,474
Expenses	\$109,807
20% of Expenses (Target)	\$21,961

2.0 Board findings

In calculating the deficit amount for 2018, the Board notes that there is grant amortization in the amount of \$1,819 that can be used to offset a portion of the deficit. Therefore, in calculating this deficit $-\$20,259 + \$1,819 = -\$18,440$. In reviewing the application, the Board has determined that the Utility has sufficient working capital to absorb this deficit, and approves the 2018 deficit of \$18,440 to be recovered through the Utility Accumulated Surplus.

In reviewing the audited financial statements for the Utility, the Board also notes that the deficit stated for 2017 of \$17,906 and approved in Board Order No. 49/19, is understated. This deficit did not remove the Capital Operating Grant of \$14,362 from revenues nor did the calculation factor in grant amortization. The actual deficit, when calculated for regulatory purposes, is \$30,449. As this has now come to light, the Board directs the Utility to recover the difference of the two deficits of \$12,543 through the Utility's Accumulated Surplus.

The Board will also recommend that the RM speak with its auditor and ensure the Public Utilities Board note, in the RM's audited financial statement, be included in future statements to reflect the correct grant amortization.

As stated in the RM's application, this Utility has been incurring deficits every year since 2012 indicating that rates are still not adequate. The Board directs the RM to file a rate application with the Public Utilities Board by no later than April 30, 2020. The Board understands that the 2019 audit will not be available by this date. However, the Board wants proactive action taken to minimize the effect of future deficits depleting the working capital through deficit recovery year after year.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficit, when calculated for regulatory purposes, of \$18,440 in 2018, incurred in Rural Municipality of Ellice-Archie, St. Lazare Water and Wastewater Utility, is HEREBY APPROVED to be recovered through the Utility's Accumulated Surplus, effective the date of this Order.
2. The actual operating deficit incurred in 2017, when calculated for regulatory purposes, is \$30,449, previously approved as \$17,906, where the difference of \$12,543 is HEREBY APPROVED to be recovered through the Utility's Accumulated Surplus, effective the date of this Order.
3. The Rural Municipality of Ellice-Archie, St. Lazare Water and Wastewater file a rate study with the Public Utilities Board by no later than April 30, 2020.

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

Certified a true copy of Order No. 9/20 issued
by The Public Utilities Board


Assistant Associate Secretary