

Order No. 91/20

**RURAL MUNICIPALITY OF MONTCALM
LETELLIER WATER AND WASTEWATER UTILITY
SAINT-JEAN BAPTISTE WATER AND WASTEWATER UTILITY
MONTCALM WATER UTILITY and
ST. JOSEPH WATER UTILITY
2015, 2016, 2017 and 2018
ACTUAL OPERATING DEFICITS RECOVERY**

July 10, 2020

**BEFORE: Carol Hainsworth, C.B.A., Panel Chair
Shawn McCutcheon, 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

In Board Order No. 146/18, the Board approved the amalgamation of the following utilities in the Rural Municipality of Montcalm (RM) into the Montcalm Water and Wastewater Utility (Utility):

- Letellier Water and Wastewater Utility (Letellier)
- Saint-Jean Baptiste Water and Wastewater Utility (St. Jean)
- Montcalm Water Utility (Montcalm)
- St. Joseph Water Utility (St. Joseph)

On November 28, 2019, the Board received applications from the RM for approval of the deficits incurred in these four separate utilities prior to amalgamation.

Along with the applications, the RM submitted Council Resolution No. 19 246 requesting the recovery of the deficits through the accumulated surplus of each separate Utility, prior

to amalgamation. The applications stated that the deficits were due to inadequate water rates, emergency repairs and water losses.

On December 19, 2019, Board staff requested the RM to re-submit and revise the deficit applications for the Letellier and St. Jean Utility using the Board's guidelines.

On March 24, 2020, the RM submitted the revised deficit applications and Council Resolution No. 20-055, requesting the recovery of the following deficits through the accumulated surplus of each utility:

Letellier Water and Wastewater Utility

• 2015	\$22,124
• 2016	\$19,303
• 2017	\$ 2,706
• 2018	\$20,925
Total	\$65,058

Saint-Jean Baptiste Water and Wastewater Utility

• 2015	\$ 9,050
• 2016	\$33,695
Total	\$42,745

Montcalm Water Utility

• 2015	\$ 7,326
• 2016	\$18,373
• 2017	\$13,207
• 2018	\$51,818
Total	\$90,724

St. Joseph Water Utility

• 2016	\$ 1,910
• 2017	\$ 2,136
• 2018	\$ 8,054
Total	\$12,100

Rates for the Utility were last set in Board Order No. 146/18. Rate increases were effective January 1, 2019, January 1, 2020 and January 1, 2021.

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

<u>Combined/Amalgamated Utility</u>	2019	2018
Accumulated Fund Surplus	\$2,791,092	\$2,173,449
Deduct: Tangible Capital Assets	\$3,235,808	\$3,125,567
Add: Long-Term Debt	\$635,436	\$0
Add: Utility Reserves	\$103,002	\$104,900
Equals Working Capital Surplus (Deficit)	\$293,722	(\$847,218)
Operating Expenses	\$587,363	\$494,353
20% of Operating Expenses (Target)	\$117,473	\$98,871

The combined working capital of the four utilities meets the Board's requirement of 20% of operating expenses.

The working capital calculation of each utility prior to amalgamation is as follows:

	2018			
	St. Jean	Letellier	Montcalm	St. Joseph
Accumulated Fund Surplus/Deficit	\$1,697,438	\$118,332	\$852,755	\$44,974
Deduct tangible capital assets	\$2,153,765	\$131,522	\$792,626	\$47,654
Add long term debt	\$0	\$0	\$0	\$0
Add utility reserves	\$1,041	\$39,982	\$63,820	\$57
Equals Working Capital Surplus/Deficit	(\$455,286)	\$26,792	\$123,949	(\$2,623)
Operating costs	\$253,769	\$60,983	\$125,096	\$54,505
20% of operating costs (target)	\$50,754	\$12,197	\$25,019	\$10,901

The working capital of the former Letellier and Montcalm Utilities met the Board's requirements prior to amalgamation while the former St. Jean and St. Joseph Utilities did not.

2.0 Board findings

Letellier Water and Wastewater Utility

The Board approves the 2015 deficit of \$22,124, 2016 deficit of \$19,303, 2017 deficit of \$2,706 and 2018 deficit of \$20,925, incurred in the former Letellier Utility to be recovered through the Letellier Utility's Accumulated Surplus.

Saint-Jean Baptiste Water and Wastewater Utility

The working capital of the former St. Jean Utility did not meet Board's guidelines in 2018. However, upon review the Board found this is likely due to a timing issue connected with the lagoon project identified in the 5-year capital plan. In 2019, a debenture in the amount of \$674,782.59 was issued for a lagoon project. The increase in Tangible Capital Assets (TCAs) and Long Term Debt (LTD) makes the Utility's working capital compliant in 2019, if reviewed separately.

The 2015 deficit of \$9,050 incurred in the St. Jean Utility, when calculated for regulatory purposes, is below \$10,000 and 5% of the operating expenses (\$9,533), and therefore does not require Board approval.

The Board approves the 2016 deficit of \$33,695 incurred in the former St. Jean Utility to be recovered through the St. Jean Utility's Accumulated Surplus.

Montcalm Water Utility

The Board also approves the 2015 deficit of \$7,326, 2016 deficit of \$18,373, 2017 deficit of \$13,207 and 2018 deficit of \$51,818 incurred in the former Montcalm Utility to be recovered through the Montcalm Utility's Accumulated Surplus.

St. Joseph Water Utility

Typically, deficits are approved and recovered prior to an amalgamation. In the case of the St. Joseph Utility, the working capital is deficient and the deficits should have been recovered from its ratepayers. However, the Board will allow the deficits to be recovered through the amalgamated Utility's Accumulated Surplus. This is to lessen the financial impact to ratepayers as well as the administrative burden of imposing rate riders to specific groups of ratepayers.

The 2016 deficit of \$1,910 incurred in the St. Joseph Utility, when calculated for regulatory purposes, is below \$10,000 and 5% of the operating expenses (\$2,174), and therefore does not require Board approval.

The Board approves the 2017 deficit of \$2,136 and 2018 deficit of \$8,054 incurred in the former St. Joseph Utility to be recovered through the amalgamated Montcalm Water and Wastewater Utility's Accumulated Surplus.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficits, when calculated for regulatory purposes, of \$22,124 in 2015, \$19,303 in 2016, \$2,706 in 2017 and \$20,925 in 2018 incurred in the Rural Municipality of Montcalm, former Letellier Water and Wastewater Utility, are HEREBY APPROVED to be recovered through the Letellier Water and Wastewater Utility's Accumulated Surplus, effective the date of this Order.
2. The actual operating deficit, when calculated for regulatory purposes, of \$33,695 in 2016, incurred in the Rural Municipality of Montcalm, former Saint-Jean Baptiste Water and Wastewater Utility, are HEREBY APPROVED to be recovered through the Saint-Jean Baptiste Water and Wastewater Utility's Accumulated Surplus, effective the date of this Order.
3. The actual operating deficits, when calculated for regulatory purposes, of \$7,326 in 2015, \$18,373 in 2016, \$13,207 in 2017 and \$51,818 in 2018 incurred in the Rural Municipality of Montcalm, former Montcalm Water Utility, are HEREBY APPROVED to be recovered through the Montcalm Water Utility's Accumulated Surplus, effective the date of this Order.
4. The actual operating deficits, when calculated for regulatory purposes, of \$2,136 in 2017 and \$8,054 in 2018 incurred in the Rural Municipality of Montcalm, former St. Joseph Water Utility, are HEREBY APPROVED to be recovered through the Amalgamated 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.

THE PUBLIC UTILITIES BOARD

"Carol Hainsworth, C.B.A."
Panel Chair

"Rachel McMillin, BSc."
Assistant Associate Secretary

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issued by The Public Utilities Board


Assistant Associate Secretary