

Order No. 94/20

**RURAL MUNICIPALITY OF WEST INTERLAKE
ASHERN WATER AND WASTEWATER UTILITY
2010, 2013, 2014, 2015, 2016, 2017 and 2018
ACTUAL OPERATING DEFICITS RECOVERY**

July 17, 2020

**BEFORE: Shawn McCutcheon, Panel Chair
Mike 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 April 23, 2020, the Board received an application from the Rural Municipality of West Interlake (RM), Ashern Water and Wastewater Utility (Utility), for approval of the following deficits:

- 2010 \$5,627
- 2013 \$1,943
- 2014 \$70,152
- 2015 \$73,083
- 2016 \$25,507
- 2017 \$11,119
- 2018 \$41,533

The total amount of the deficits incurred is \$228,964.

For historical purposes, the Ashern Water and Wastewater Utility, was formerly part of the Rural Municipality of Siglunes prior to 2015.

Along with the application, the RM submitted Council Resolution No. 2020-184, requesting the recovery of a portion of the deficits in the amount of \$218,243 through the Utility's Accumulated Surplus and the remaining \$10,721 through a rate rider of \$9.34 per customer per quarter to be collected over a one year period.

The application stated that the deficits were due to increased costs. Various small capital items and repairs contributed to the deficits that were incurred. Larger expenses included; a manhole inspection and winter sewer back-up repair in 2014, meter replacements in the water treatment plant, lagoon force main leak repair and a lagoon feasibility study in 2015, repair of broken pipe, service lines replacements and lagoon expansion in 2018.

Rates for the Utility were last set in Board Order No. 22/20 with rates effective April 1, 2020. There was a period of 13 years in between rate applications.

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	\$907,212
Deduct Tangible Capital Assets (TCA)	(\$954,576)
Add Long Term Debt	\$0
Add Utility Reserves	\$63,417
Equals Working Capital Surplus (Deficit)	\$16,053
Expenses	\$133,870
20% of Expenses (Target)	\$26,774

The Utility does not meet the Board minimum working capital of 20%.

2.0 Board findings

The Board has reviewed the RM's application and found discrepancies between the application and the audited financial statements.

As outlined in the PSAB GAAP for Manitoba Municipalities Reference Manual – Financial Statement Presentation and Disclosure, municipalities are required to disclose in the notes to the financial statements the amount of:

1. Deferred contributions at the beginning of the year;
2. New capital grants deferred during the year;
3. The amount amortized to revenue during the year; and
4. The unamortized balance at the end of the year.

According to Note 18 in the RM's 2018 Audited Financial Statements, no capital grants have been deferred or amortized in the financial statements. The RM's application shows a regulatory adjustment of \$26,736 every year from 2010 to 2018 to account the amortization of capital grants.

The discrepancy between these amounts can impact the actual operating deficits. In response to information requests from the Board, the RM indicated that according to its auditors there is capital grant amortization of \$28,600 in the Utility. The RM suggested that since the Capital Grant Amortization used in the application is slightly less than what the auditor has stated to proceed with the deficit application as filed.

The Board recalculated the deficits and used the capital grant amortization provided by the RM's auditor. The difference between what the RM submitted and the Board's calculation is as follows:

	Deficit Application*	Board's Calculations**	
2010	\$5,627	\$3,763	***
2013	\$1,943	\$78	***
2014	\$70,152	\$68,288	
2015	\$73,083	\$71,219	
2016	\$25,507	\$23,643	
2017	\$11,119	\$9,254	
2018	\$41,533	\$39,668	
Total Deficits Incurred	\$228,964	\$215,913	

*Deficit amount plus \$26,736

**Deficit amount plus \$28,600

*** No longer requires a deficit application

The deficits incurred in 2010 and 2013, when calculated for regulatory purposes are below \$10,000 and 5% of the operating expenses, and do not need to be approved by the Board. Therefore, the total deficit amount to be recovered after the Board's recalculation is \$212,072 that omits deficits from 2010 and 2013, and is a \$16,892 difference than what applied for.

The Board varies the RM's application and approves the following deficits: \$68,288 for 2014, \$71,219 for 2015, \$23,643 for 2016, \$9,254 in 2017 and \$39,668 in 2018 to be recovered through the Utility's Accumulated Fund Surplus.

Although the 2018 working capital did not meet the Board's minimum of 20% of operating expenses but was still in a surplus position. However, should a deficit materialize for 2019, as a result of the deteriorated working capital of the Utility, the RM must apply for recovery as soon as the deficit is known. If a 2019 deficit materializes it is likely the working capital will not be sufficient to absorb it and that a rate rider on top of the current rates will have to be implemented to recover the deficit.

The Board strongly encourages the RM to work closely with its auditor(s) to ensure that the Public Utilities Board Note to the Consolidated Financial Statements is complete and

accurate. If this note is omitted, incomplete, or incorrect, it limits the Board's ability to assess the Utility's financial position, the RM's ability to set appropriate rates to sustain the Utility and its operations, and require additional rate riders for the ratepayers.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficits, when calculated for regulatory purposes, of \$68,288 in 2014, \$71,219 in 2015, \$23,643 in 2016, \$9,254 in 2017 and \$39,668 in 2018, incurred in Rural Municipality of West Interlake, Ashern 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.

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