

**Order No. 138/21**

**TOWN OF MINNEDOSA  
MINNEDOSA WATER AND WASTEWATER UTILITY  
2018 AND 2019 ACTUAL OPERATING DEFICITS RECOVERY**

---

**December 24, 2021**

**BEFORE:** Shawn McCutcheon, Panel Chair  
Irene Hamilton, Q.C., 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 that the utility proposes.

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 30, 2021, the Board received an application from the Town of Minnedosa (Town), Minnedosa Water and Wastewater Utility (Utility) for approval of the following actual operating deficits:

• 2018	\$315,166
• 2019	<u>\$153,429</u>
Total	\$468,595

With the application, the Town submitted Council Resolution # 2021 152, requesting approval for the recovery of the deficits through a five-year rate rider of \$0.51 per cubic meter per customer excluding Husky Oil (Cenovus) and the Rural Municipality of Minto-Odanah. The deficit application was incomplete at that time.

On July 5, 2021, the Town submitted a rate study and Council Resolution # 2021 209 amending the proposed deficit recovery method to the following:

- 2018 actual operating deficit of \$315,166 through a five-year rate rider of \$0.08 per cubic meter per customer to be collected from all utility customers.
- 2019 actual operating deficit of \$153,429 through a five-year rate rider of \$0.10 per cubic meter per customer excluding Husky Oil (Cenovus).

On August 10, 2021, Board staff asked the Town to clarify discrepancies between the volumes of water used to calculate the proposed water and wastewater rates and the proposed deficit recovery rate riders and for additional/missing information regarding its deficit and rate applications.

On October 20, 2021, the Town advised the Board the volumes of water sold found in the rate study are the correct volumes and that the proposed rate rider will be revised accordingly through a Council Resolution.

On November 1, 2021, the Town submitted Council Resolution # 2021-345 dated October 26, 2021 amending the proposed deficit rate riders to:

- 2018 actual operating deficit of \$315,166 through a five-year rate rider of \$0.07 per cubic meter per customer to be collected from all utility customers.
- 2019 actual operating deficit of \$153,429 through a five-year rate rider of \$0.07 per cubic meter per customer excluding Husky Oil (Cenovus).

The deficit application stated the 2018 deficit was due to higher than forecasted expenses and revised utility rates from Board Order No. 116/19 not coming into effect until January 1, 2020, and the 2019 deficit was due to a lump sum, confidential settlement agreement payment to Husky Oil (Cenovus) as a result of a dispute between the two parties.

Utility rates were last approved in Board Order No. 116/19. The Board also approved a two-year rate rider of \$0.20 per cubic meter per customer excluding Husky Oil (Cenovus) to recover a 2017 operating deficit.

Board Order No. 13/20 revised the rate rider for the 2017 deficit recovery to exclude the RM of Minto-Odanah, Odanah Water Utility and extended the recovery period to three years.

### Deficit Rate Rider Calculation

The Town stated in its application that the 2018 and 2019 operating deficits are a compendium of all the revenues and expenses attributable to providing water and wastewater services to all Utility customers. Excluding specific customers from deficit recovery rate riders unfairly place the deficit burden on the remaining customers.

The Town also stated the exclusion of Husky Oil (Cenovus) from the 2019 deficit recovery is in accordance with a confidential settlement agreement which states, no portion of the 2019 deficit can be recovered from Husky.

The Town's calculations of the deficit recovery rate riders are as follows:

#### 2018 Actual Operating Deficit

2018 Deficit	\$315,166	
Divided by: Volume of Water Sold	<u>871,053</u>	cubic meters
	\$0.36	
Divided by: Number of Recovery Years	<u>5</u>	
Proposed Rate Rider	<u>\$0.07</u>	per cubic meter

#### 2019 Actual Operating Deficit

2019 Deficit	\$153,429	
Volume of Water Sold	871,053	cubic meters
Less: Husky Water Consumption	<u>413,981</u>	cubic meters
Divided by: Water Volume Applicable to Rate Rider	457,072	cubic meters
	\$0.34	
Divided by: Number of Recovery Years	<u>5</u>	
Proposed Rate Rider	<u>\$0.07</u>	per cubic meter

## 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 2020 Audited Financial Statements for the Utility, the most recent information available, the working capital deficit as at December 31, 2020 is as follows:

	2020	2019
Utility Fund Surplus/Deficit	\$3,744,436	\$3,547,115
Deduct: Tangible Capital Assets	5,110,000	5,134,489
Add: Long-Term Debt	821,646	967,294
Add: Utility Reserves	148,966	146,577
<b>Equals Working Capital Surplus (Deficit)</b>	<b>\$(394,952)</b>	<b>\$(473,503)</b>
Operating Expenses	1,435,850	1,621,073
<b>20% of Operating Expenses (Target)</b>	<b>\$287,170</b>	<b>\$324,215</b>

The Utility's working capital does not meet the Board's minimum requirement of 20% of operating expenses.

## 2.0 Board Findings

The Board has reviewed the Town's 2018 and 2019 deficit applications. The Board notes the Town sells water outside its boundaries to the RM of Minto-Odanah, Odanah Water Utility, which in turn sells water to the Town of Rapid City. The Board finds that Odanah customers, and therefore Town of Rapid City Customers, should not be burdened for the 2019 deficit principally caused by settlement payments resulting from a dispute with a local, commercial customer. The Board notes Minto customers are direct customers of the Town and will therefore pay the rate rider for the 2019 deficit recovery.

The Board is concerned about the duration of five-year deficit rate riders requested. In the Board's view, utility deficits should ideally be paid by the customer base that existed when the deficits were incurred and therefore, in general, the Board recommends deficits be recovered as soon as feasible (usually within three years or fewer).

The Board also notes, however, the Town has also applied for three years of rate increases in addition to the rate increases previously approved by the Board for 2020 and 2021. The Board also recognizes that recovering the deficits incurred by the Utility over a period longer than three years will mitigate the annual impact of the rate rider. The Board therefore finds it must attempt to balance rate fairness and the mitigation of customer rate shock and approves the recovery of the 2018 and 2019 deficits over five years.

The Board approves the 2018 actual operating deficit of \$315,166, when calculated for regulatory purposes, to be recovered through a rate rider of \$0.07 per cubic meter per customer to be collected from all utility customers for a period of five years or until the deficit is fully recovered, whichever comes first.

The Board varies the calculation for the five-year 2019 deficit rate rider to exclude the RM of Minto Odanah, Odanah Water Utility as follows:

2019 Revised Rate Rider Calculation

2019 Deficit	\$153,429	
2020 Volume of Water Sold	871,053	cubic meters
Less: Husky Water Consumption	413,981	cubic meters
Less: Odanah Water Utility Consumption	<u>131,496</u>	cubic meters
Divided by: Water Volume Applicable to Rate Rider	325,576	cubic meters
	\$0.47	
Divided by: Number of Recovery Years	<u>5</u>	
	<u>\$0.09</u>	per cubic meter

The Board varies the 2019 actual operating deficit of \$153,429, when calculated for regulatory purposes, to be recovered through a rate rider of \$0.09 per cubic meter per customer excluding Husky Oil (Cenovus) and the Rural Municipality of Minto-Odanah, Odanah Water Utility for a period of five years or until the deficit is fully recovered, whichever comes first.

The Board directs the Town of Minnedosa to provide a notice of the decisions found in this Order to its customers as soon as possible, with a copy provided to the Board.

The Board has requested the inclusion of a Deficit Recovery Revenue line in Schedule 9 of the Municipal Audited Financial Statement template to monitor deficit rate rider collection of revenues. The Board recommends that the Town discuss with its Municipal Auditor(s) regarding the intent of the "Deficit Recovery Revenue" line item and ensure that appropriate presentation is used.

### **3.0 IT IS THEREFORE ORDERED THAT:**

1. The 2018 actual operating deficit in the amount of \$315,166, when calculated for regulatory purposes, incurred by the Town of Minnedosa, Minnedosa Water and Wastewater Utility, is HEREBY APPROVED to be recovered through a rate rider of \$0.07 per cubic meter per customer from all Utility customers beginning January 1, 2022 for a period of five years or until the deficit is fully recovered, whichever comes first.
2. The 2019 actual operating deficit of \$153,429, when calculated for regulatory purposes, incurred by the Town of Minnedosa, Minnedosa Water and Wastewater Utility, is HEREBY VARIED to be recovered through rate rider of \$0.09 per cubic meter per customer from all Utility customers except Husky Oil (Cenovus) and the Rural Municipality of Minto-Odanah, Odanah Water Utility beginning January 1, 2022 for a period of five years or until the deficit is fully recovered, whichever comes first.
3. The Town of Minnedosa is to provide a notice of the decisions found in this Order to its customers as soon as possible, with a copy provided to the Public Utilities Board.

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

"Shawn McCutcheon"  
Panel Chair

"Frederick Mykytyshyn"  
Assistant Associate Secretary

Certified a true copy of Order No. 138/21  
issued by The Public Utilities Board

  
Assistant Associate Secretary