

**Order No. 28/21**

**RURAL MUNICIPALITY OF ELTON  
FORREST WATER AND WASTEWATER UTILITY  
2019 ACTUAL OPERATING DEFICIT RECOVERY**

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**February 22, 2021**

**BEFORE: Marilyn Kapitany, B.Sc. (Hon), M. Sc., 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 a 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 December 10, 2020, the Board received an application from the Rural Municipality of Elton (RM), Forrest Water and Wastewater Utility (Utility) for approval of a 2019 deficit in the amount of \$31,919.

Along with the application, the RM submitted Council Resolution No. 2020-317 requesting the recovery of the deficit through the Utility's Accumulated Surplus.

The application stated that the deficit was due to Public Sector Accounting Standards (PSAB) calculations. On January 19, 2021, the Board sought more information on the reason for the deficit and the RM stated that the deficit was due to the impact of the deferred grants.

Rates for the Utility were last set in Board Order No. 112/15.

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

	<b>2019</b>
Utility Fund Accumulated Surplus	\$11,282,315
Deduct Tangible Capital Assets	(\$10,805,859)
Add Long Term Debt	\$2,244,475
Add Utility Reserves	\$2,194,599
<b>Equals Working Capital Surplus/(Deficit)</b>	<b>\$4,915,530</b>
Expenses	\$720,445
20% of Expenses (Target)	\$144,091

The Utility's working capital exceeds the Board's minimum requirement of 20% of its operating expenses.

## 2.0 Board findings

The Board has reviewed the application and determined the Utility has adequate working capital surplus to absorb the 2019 deficit. The Board approves the 2019 deficit of \$31,919 to be recovered through the Utility's Accumulated Surplus.

The Utility stated in its application that the reason for the deficit was due to Public Sector Accounting Standards (PSAB) calculations. The Utility further stated in its response to the Board's information request, "*Part of the impact is in how the deferred grants showed last year – the situation is a bigger loss this year so those deferred grants do not cover the amount.*"

Upon review, the Board found that the amortization expense has correctly been included in the rate calculations from the previous rate application; therefore, the reason for the deficit is not PSAB calculations. The Board reminds the Town that the PSAB guidelines have been in effect since January 1, 2009 and amortization expense is no longer the sole reason for incurring a deficit.

The Board notes there have been some significant changes to the Utility's rate revenue requirement since the last rate application in 2014 approved in Board Order No. 112/15:

- The amortization expense has increased substantially from \$31,673 in 2016 to \$236,982 in 2019
- The Interest on Long Term Debt expense has increased from \$17,277 in 2016 to \$96,329 in 2019. The Utility's customer base increased from 104 connections in 2013 to 417 connections in 2019.
- The Utility's Tangible Capital Assets (TCAs) have also increased.

The deficits incurred by the Utility were therefore a result of increases in the costs of operations. The increase in connection revenues has offset the deficits for the Utility. If a deficit is anticipated or materializes for 2020, the RM is to apply to the Board for approval of the deficit and recovery methodology as soon as it is known.

The Board reminds the RM that these financial changes affect the Utility's rate revenue requirements. It is the Utility's responsibility to review the rates requirements on a regular schedule and ensure rates are adequate to recover the cost of service being provided to its ratepayers. The RM needs to be much more diligent in conducting regular reviews of its revenue requirements. Without the connection fee revenue the current rates set in 2015 would not be adequate for the current rate requirements.

The Board directs the RM to review its rates for adequacy and submit a report or a rate application, by no later than June 30, 2021.

As noted in Board Order No. 112/15, the working capital surplus of the Utility far exceeds the minimum requirements set out by the Board; however, much of this surplus can be directly related to the connection fees charged on the new developments. In the upcoming rate adequacy report or rate application, the Board expects the RM to submit information about how this money will be spent and when.

### 3.0 IT IS THEREFORE ORDERED THAT:

1. The 2019 actual operating deficit, when calculated for regulatory purposes, in the amount of \$31,919 incurred in Rural Municipality of Elton, Forrest Water and Wastewater Utility, is HEREBY APPROVED to be recovered through the Utility's Accumulated Surplus, effective the date of this Order.
2. The Rural Municipality of Elton submit a rate adequacy report or revised rate application for the Forrest Water and Wastewater Utility, on or before June 30, 2021.

Fees payable upon this Order - \$150.00

THE PUBLIC UTILITIES BOARD

"Marilyn Kapitany, B.Sc. (Hon), M. Sc."  
Panel Chair

"Rachel McMillin, B.Sc."  
Assistant Associate Secretary

Certified a true copy of Order No. 28/21  
issued by The Public Utilities Board



Assistant Associate Secretary