

Order No. 37/23

**RURAL MUNICIPALITY OF WEST INTERLAKE
ASHERN WATER AND WASTEWATER UTILITY
2019 AND 2020 ACTUAL OPERATING DEFICITS RECOVERY
AND REQUEST TO TRANSFER GENERAL OPERATING FUNDS**

March 28, 2023

**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 May 6, 2022, the Board received an application from the Rural Municipality of West Interlake (RM), Ashern Water and Wastewater Utility (Utility), for approval of the following actual operating deficits:

- 2019 \$24,511
- 2020 \$ 9,935

The total amount of the two-year actual operating deficits incurred is \$34,446. The RM's application stated that the deficits were due to the phase-in of rate increases.

Along with the application, the RM also submitted Council Resolution # 2022-158, requesting the recovery of the deficits through future Utility Fund Surplus.

Rates for the Utility were last set in Board Order No. 94/21 with rates effective October 1, 2021, January 1, 2022 and January 1, 2023. Interim rates were set in Board Order No. 22/20 effective April 1, 2020. Prior to the RM's application for the rates approved in Board Order No. 94/21, it had been 13 years since the RM submitted a rate application to the Board.

Request to Transfer Funds

The RM has also applied to transfer \$91,094 from the RM's General Operating fund to the Utility to provide for a wastewater lagoon capital project for the Utility.

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 2021 audited financial statements for the Utility, the most recent information available, the working capital surplus at December 31, 2021 is as follows:

	2021	2020
Utility Fund Surplus/Deficit	\$1,263,537	\$1,261,320
Deduct: Tangible Capital Assets	(1,381,274)	(1,424,236)
Add: Long-Term Debt	-	-
Add: Utility Reserve	72,937	61,831
Equals Working Capital Surplus (Deficit)	\$(44,800)	\$(101,085)
Operating Expenses	144,906	162,198
20% of Operating Expenses (Target)	\$28,981	\$32,440

2.0 Board findings

The Board has reviewed the RM's deficit application and the supporting years' Audited Financial Statements. The Board notes a minor discrepancy in the reporting of water purification and treatment expenses that were reported as \$70,106 in the 2019 Audited Financial Statements, and corrected to \$70,108 in the 2020 Audited Financial Statements for the 2019 fiscal year.

The Board notes that while the RM stated in its deficit application the reason for the deficit was due to the phase-in of rate increases, prior to the RM's revised rate application submitted on October 5, 2020 it had been 14 years since the RM submitted a complete and correct rate application to the Board. The Board finds that had the RM conducted regular rate reviews submitted every three years, as per the Board's Guidelines, the Utility may not have incurred the 2019 and 2020 deficits.

The Board notes that as per the RM's 2021 Audited Financial Statements, the Utility's working capital did not meet the Board's minimum requirement of 20% of annual operating expenses. The Board also notes, however, the most recent rates approved by the Board in Board Order No. 94/21 were phased-in to minimize customer rate shock and rate calculations included forecasted deficits that would be fully provided for by the Utility's Accumulated Fund Surplus by 2023. The updated expenditure and working capital forecasts for 2023 submitted with the RM's deficit application also support the RM's request to recover the actual operating deficits from future Utility Accumulated Surplus funds.

The Board grants approval of the actual operating deficits, when calculated for regulatory purposes, of \$24,511 in 2019 and \$9,935 in 2020 (or a two-year total actual operating deficit of \$34,446) to be recovered through future Utility Accumulated Surplus funds.

The Board notes the RM had previously budgeted \$91,094 from the RM's Gas Tax Reserve Fund for a 2019 \$543,083 wastewater lagoon capital project for the Utility. The RM advises to receive provincial grant funding for the project Gas Tax Reserve Funding was not eligible. To provide for the RM's portion of funding for the capital project, the RM is requesting a transfer of \$91,094 from the RM's General Operating fund.

The Board notes the \$91,094 transfer was approved as part of the RM's 2022 municipal budget. The RM advises the municipal budget is presented at and is subject to a public hearing (to which all ratepayers are invited to attend) prior to being approved by Council and then sent to The Department of Municipal Relations for comment/approval. Given the review of the requested transfer has undergone reasonable scrutiny and transparency for ratepayers, the Board approves a one-time transfer of \$91,094 from the RM's General Operating fund to provide for the wastewater lagoon capital project.

The Board reminds the RM Board Order No. 94/21 directed the RM to review its water and wastewater rates for the Utility for adequacy and file a report with the Board, as well as an application for revised rates if necessary, by no later than December 31, 2023.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficits, when calculated for regulatory purposes, of \$24,511 in 2019 and \$9,935 in 2020, incurred in Rural Municipality of West Interlake, Ashern Water and Wastewater Utility, are HEREBY APPROVED to be recovered through future Utility Accumulated Surplus funds, effective the date of this Order.
2. A one-time transfer of \$91,094 from the RM's General Operating Fund to provide for a Utility wastewater lagoon capital project is HEREBY APPROVED.

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

"Marilyn Kapitany"

Panel Chair

"Frederick Mykytyshyn"

Assistant Associate Secretary

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issued by The Public Utilities Board



Assistant Associate Secretary