

Order No. 60/23

**MUNICIPALITY OF TWO BORDERS
PIERSON WATER AND WASTEWATER UTILITY
2017, 2018, 2019, 2020, AND 2021 ACTUAL OPERATING DEFICIT RECOVERIES**

May 4, 2023

BEFORE: Shawn McCutcheon, Panel Chair
Jack Winram, B.A. (Econ), 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 February 10, 2023, the Board received an application from the Municipality of Two Boarders (Municipality), Pierson Water and Wastewater Utility (Utility) for approval of a 2017 actual operating deficit of \$7,371, a 2018 actual operating deficit of \$65,783, a 2019 actual operating deficit of \$27,599, a 2020 actual operating deficit of \$8,464, and a 2021 actual operating deficit of \$6,431 or a total five-year actual operating deficit of \$115,648 when calculated for regulatory purposes.

Along with the application, the Municipality submitted Council Resolution # 2022-436, requesting approval for the recovery of the deficit through a rate rider of \$3.29 per 1,000 gallons per customer for a period of five years and \$64,271 from future working capital surplus funds. The application stated the deficit was due to increased operating costs and a 7% reduction in utility customers causing lower than forecasted billing volumes.

Utility rates were last approved in Board Order No. 67/18, with the most recent rates coming into effect January 1, 2021. Actual operating deficits were also approved in the Board Order in the amounts of \$43,390 for 2014 and \$17,527 for 2015 (or a two-year deficit of \$60,917) to be recovered from the Utility's Accumulated Surplus Fund and a 2016 actual operating deficit of \$35,939 and a 2017 anticipated operating deficit of \$34,145 (or a two-year deficit of \$70,084) to be recovered by a rate rider of \$4.00 per 1,000 gallons per customer per quarter for five years or until the total 2016 and 2017 deficits of \$70,084 has been recovered, whichever comes first.

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, the most recent information available, the working capital surplus for the Utility as at December 31, 2021 was:

	2021
Utility Fund Surplus/Deficit	\$249,115
Deduct: Tangible Capital Assets	(304,263)
Add: Long-Term Debt	-
Add: Utility Reserves	-
Equals Working Capital Surplus (Deficit)	\$(55,148)
Operating Expenses	77,115
20% of Operating Expenses (Target)	\$15,423

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

2.0 Board Findings

The Board has reviewed the Municipality's deficit application and is concerned by the number of consecutive deficits incurred by the Utility. The Board reminds the Municipality that by law, Manitoba utilities are not allowed to incur deficits. In the event that a deficit does occur, the Utility is required by *The Municipal Act* to obtain Board approval for both the deficit and recovery methodology as soon as a deficit is known.

The Board is also concerned in regards to the five-year duration of the rate rider requested to recovery the 2017 through 2021 deficits. In general, the Board recommends deficits be recovered as soon as feasible (usually three years or less). The Board recognizes, however, that recovering the deficits incurred by the Utility over a period longer than three years will mitigate the impact of the rate rider.

The Board notes utility deficits should ideally be paid by the customer base that existed when the deficits were incurred, however, prior to the Municipality's rate application in 2017, it had been twelve years since the Utility had submitted a rate application. The Municipality's neglect of the Utility lead to multiple deficits. The Board also notes that on February 10, 2023, the Municipality has also applied for revised rates for the Utility and has requested a significant rate increase. The Board therefore finds it must attempt to balance rate fairness and the mitigation of customer rate shock.

The Board notes that the Municipality requested the Utility's Deficit Application be expedited for approval prior to the expiration of the rate rider approved in Board Order No. 67/18 on June 30, 2023. The Utility Rate Application will be reviewed in a separate Order based on the application's position in the Board's application queue.

The Board notes it is the Municipality's responsibility to review utility rates and financials on a regular basis to ensure rates are adequate to recover the cost of service being provided to ratepayers and to mitigate deficits.

The Board approves the Utility's actual operating deficits, when calculated for regulatory purposes of \$7,371 for 2017, \$65,783 for 2018, \$27,599 for 2019, \$8,464 for 2020, and 6,431 for 2021, or a total five-year deficit of \$115,648, to be recovered through a combination of future Accumulated Surplus Fund funding of \$64,271 (including \$19,194 in rate rider revenue approved to be recovered in Board order No. 67/18) and a rate rider of \$3.29 per 1,000 gallons per customer per quarter beginning April 1 2023, for a period of five years or until revenue from the rate rider has reached \$51,377, whichever comes first.

The Board notes that in Board Order No. 67/18, the Board approved a 2017 anticipated operating deficit of \$34,145. As per the Municipality's 2017 Audited Financial Statements, the reported actual operating deficit incurred by the Utility was \$41,516, when calculated for regulatory purposes. The actual operating deficit applied for by the Municipality for 2017, is the remaining portion of \$7,371 that has not yet been recovered.

The Board notes that there is no requirement to wait until the Board's ordered date to file a rate application with the Board. The Board directs the Municipality to closely monitor the Utility's finances to ensure rates are adequate and the 2017 through 2021 five-year deficit recovery rate rider and duration forecast is accurate. If it is determined that either the Utility rates or deficit rate rider is inadequate, the Board directs the Municipality to file an application for revised rates and/or deficit recovery accordingly.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficits, when calculated for regulatory purposes, of \$7,371 for 2017, \$65,783, \$27,599 for 2018, \$8,464 for 2020, and \$6,431 for 2021, or a five-year deficit of \$115,648, incurred in the Municipality of Two Borders, Pierson Water and Wastewater Utility, are HEREBY APPROVED to be recovered through a combination of future surplus account funding of \$64,271 and a rate rider of \$3.29 per customer per 1,000 gallons per quarter beginning July 1, 2023 for a period of five years or until revenue from the rate rider has reached \$51,377, whichever comes first.

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

"Frederick Mykytyshyn"

Assistant Associate Secretary

Certified a true copy of Order No. 60/23
issued by The Public Utilities Board



Assistant Associate Secretary