

Order No. 62/23

**TOWN OF THE PAS
THE PAS WATER AND WASTEWATER UTILITY
2020 and 2021 ACTUAL OPERATING DEFICITS RECOVERY**

May 15, 2023

**BEFORE: Marilyn Kapitany, B.Sc. (Hon), M.Sc., 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 May 19, 2022, the Board received an application from the Town of the Pas (Town), Water and Wastewater Utility (Utility) for approval of a 2020 actual operating deficit in the amount of \$125,454, when calculated for regulatory purposes. The application stated the deficit was due to an increase in operating costs during Covid-19.

On April 28, 2023, the Board received an application from the Town for approval of a 2021 deficit in the amount of \$479,197. The application stated the deficit was due to an increase in operating costs due to a lagoon expansion.

Along with the applications, the Town submitted Council Resolution Nos. 2022 089 and 2023 070 requesting approval for the recovery of the deficits through the Utility's Accumulated Fund Surplus.

Utility rates were last approved in Board Order No. 34/18, with the most recent rates coming into effect January 1, 2020.

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	2020
Utility Fund Surplus/Deficit	\$5,417,437	\$6,313,633
Deduct: Tangible Capital Assets	\$7,173,220	\$7,615,896
Add: Long-Term Debt	\$0	\$0
Add: Utility Reserves	\$2,471,895	\$2,105,244
Equals Working Capital Surplus (Deficit)	\$716,112	\$802,981
Operating Expenses	\$2,643,211	\$2,561,299
20% of Operating Expenses (Target)	\$528,642	\$512,260

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

2.0 Board Findings

The Board approves the 2020 actual operating deficit, when calculated for regulatory purposes, in the amount of \$124,454 to be recovered through the Utility's Accumulated Fund Surplus.

The Board varies the 2021 deficit to \$286,104 due to regulatory adjustments. The Town did not adjust the 2021 deficit amount to account for the amortization of capital grants in the amount of \$193,093.

The Board approves the recovery of the varied 2021 deficit of \$286,104 through the Utility's Accumulated Fund Surplus.

The reasons provided by the Town for the deficits are increased operating expenses due to Covid-19 and a lagoon expansion project. The Town has experienced operating deficits in six of the past seven years. The Board finds the operating deficits are a result of the Town not properly reviewing its revenue requirements and applying for revised rates suitable to meet those requirements. The Town's 2021 audited financial statements do not include any increase in wastewater amortization expense reflecting the lagoon expansion, therefore the Board expects to see an increase in expenses when the 2022 audited financial statements are released. The increase is anticipated to create even greater operating deficits for the Utility.

The Board notes that in Board Order No. 34/18, the Town was directed to review its water and wastewater rates for adequacy and file a report with the Public Utilities Board, as well as application for revised rates by no later than June 30, 2021. To date, the Board has not received an application for revised rates from the Town.

The Board directs the Town to submit an application for revised rates by no later than, September 30, 2023. This application must be done using the full rate application process. The Town must take action immediately to ensure it has the rate application completed and submitted on time.

The Board also notes an approval in principle to collect a debenture surcharge was granted in Board Order No. 148/20. The Board reminds the Town of the requirement to return to the Board with the final debenture servicing costs (including the annual payment) and calculated surcharge proposal prior to billing customers. The Board will direct the Town to file information regarding the status of the debenture by the end of May 2023.

3.0 IT IS THEREFORE ORDERED THAT:

1. The 2020 actual operating deficit, when calculated for regulatory purposes, in the amount of \$124,454, incurred in the Town of the Pas Water and Wastewater Utility, BE AND IS HEREBY APPROVED to be recovered through the Utility's Accumulated Fund Surplus.
2. The 2021 actual operating deficit amount BE AND IS HEREBY VARIED to \$286,104 to account for regulatory adjustments. The 2021 operating deficit BE AND IS HEREBY approved to be recovered through the Utility's Accumulated Fund Surplus.
3. The Town of the Pas submit information on the status of the Utility debenture having received approval in principle for recovery through utility rates on or before May 31, 2023.
4. The Town of the Pas submit a full rate application for revised rates by no later than September 30, 2023.

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

"Jennifer Dubois, CPA, CMA"
Assistant Associate Secretary

Certified a true copy of Order No. 62/23
issued by The Public Utilities Board



Assistant Associate Secretary