

Order No. 68/23

**RURAL MUNICIPALITY OF PIPESTONE
PIPELINE MUNICIPAL WATER UTILITY
2021 ACTUAL OPERATING DEFICIT RECOVERY**

June 6, 2023

BEFORE: Shawn McCutcheon, Panel Chair
Marilyn Kapitany B.Sc. (Hon), M. Sc., 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 September 16, 2022, the Board received an application from the Rural Municipality of Pipestone (RM), Pipeline Municipal Water Utility (Utility) for approval of a 2021 actual operating deficit in the amount of \$12,679, when calculated for regulatory purposes.

Along with the application, the RM submitted Council Resolution # 2022 09 0009, requesting approval for the recovery of the deficit through the Utility's Accumulated Fund Surplus. The application stated the deficit was due to insufficient rates.

Utility rates were last approved in Board Order No. 124/21, with the most recent rates coming into effect January 1, 2022. Deficits were last approved for the Utility in Board Order No. 124/21 in the amounts of \$11,216 for 2017, \$15,949 for 2018, \$16,936 for 2019, and \$19,882 for 2020 (or a total four-year deficit of \$63,443). The Board also approved the amalgamation of the Utility with the Reston Wastewater Utility, to form the Rural Municipality of Pipestone Water and Wastewater Utility, effective January 1, 2022.

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	\$14,481,598
Deduct: Tangible Capital Assets	(15,814,961)
Add: Long-Term Debt	1,438,186
Add: Utility Reserves	1,533,443
Equals Working Capital Surplus (Deficit)	\$1,638,266
Operating Expenses	1,040,414
20% of Operating Expenses (Target)	\$208,083

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

Background - Royalties

The RM has mineral rights on approximately 55 parcels of land. Many of these sites have an active oil well and generate an average of \$1,500,000 in revenue annually. The royalty money is intended to benefit as many RM taxpayers as possible. Currently 50% of the funding is going to municipal annual operating, 25% to the General Municipal Reserve Fund, and 25% to the Municipal Utility Reserve Fund.

Board Order No. 97/16 allowed the use of oil royalties as expenses to fund capital projects and to be amortized in the same manner as capital grants. Board Order No. 124/21 approved the amortization oil royalty monies used as expenses to fund capital projects for the Utility and to be amortized in the same manner as capital grants.

In Board Order No. 124/21, the RM also proposed that Gas Tax Reserve funds used to fund capital assets be treated in the same manner as capital grants and be amortized. The application also included an annual amortization amount for capital assets contributed from the RM to the Utility.

At that time, the Board denied the RM's request and did not allow for Gas Tax Reserve funds to be amortized in the requested manner and denied the use of an annual amortization amount for capital assets contributed from the RM to the Utility. The Board Order found that the amortization for contributed assets is intended for use of capital assets contributed from other parties, not the General Operating Fund.

2.0 Board Findings

The Board has reviewed the RM's Deficit Application and supporting documents/calculations. The Board notes that in Board Order No. 124/21, the Board denied the RM's request to allow for Gas Tax Reserve funds and capital assets contributed from the RM to be amortized in the same manner as capital grants.

The Board will continue to allow the RM to amortize Oil Royalties used to fund capital project for the Utility in the same manner as capital grants. The Board notes, however, Section 7.0 of the Board Guidelines outlines that the Board treatment of grants or other contributions does not apply to monies, which are not restricted to specific capital projects, such as Gas Tax Revenues. The Board maintains its position and denies the RM's request for Gas Tax Reserve funds or capital assets contributed from the RM to be amortized in the same manner as capital grants.

The Board therefore varies the RM's 2021 actual operating deficit as follows:

Applied for 2021 Actual Operating Deficit	\$(12,679)
Deduct: Amortization of Gas Tax Grants	(15,740)
Deduct: Tangible Capital Assets	(7,631)
Equals Revised 2021 Actual Operating Deficit	\$36,050

The Board also notes a small discrepancy between the amount reported in the 2021 Audited Financial Statements for capital grant amortization of \$121,631 and the amount included in the RM's Deficit Application of \$122,107 (or a variance of \$476). The RM's Manager of Finance and Administration has advised Board staff that the RM is working with its Auditor(s) to correct the discrepancy.

The Board notes the Utility's working capital surplus is sufficient to fully recover the revised 2021 actual operating deficit and grants approval of the revised 2021 actual operating deficit, when calculated for regulatory purposes, in the amount of \$36,050 to be recovered through the Utility's Accumulated Fund Surplus.

The Board directs the RM to cease the use of amortization of Gas Tax Reserve funds or capital assets contributed from the RM to offset any future utility deficits or in its Utility rate calculations.

The Board notes that Board Order No. 124/21 to review its rates for the RM of Pipestone Water and Wastewater Utility for adequacy and file a report with the Board, as well as an application for revised rates if applicable, on or before December 31, 2022. The Board also notes that an application for revised rates has been filed with the Board.

3.0 IT IS THEREFORE ORDERED THAT:

1. The 2021 actual operating deficit, when calculated for regulatory purposes, in the amount of \$12,679, incurred in the Rural Municipality of Pipestone, Pipeline Municipal Water Utility, is HEREBY VARIED to a 2021 actual operating deficit in the amount of \$36,050 to be recovered through the Utility's Accumulated Fund Surplus.
2. The Board directs the Rural Municipality Pipestone to cease the use of amortization of Gas Tax Reserve funds or capital assets contributed from the RM to offset deficits incurred by the Rural Municipality of Pipestone Water and Wastewater Utility or in its rate calculations.

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

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issued by The Public Utilities Board



Assistant Associate Secretary