

Order No. 108/18

**RURAL MUNICIPALITY OF RITCHOT
LOCAL IMPROVEMENT DISTRICT NO. 2 STE. AGATHE
STE. AGATHE WATER & WASTEWATER UTILITY
ACTUAL OPERATING DEFICIT RECOVERY FOR 2014, 2015 & 2016**

July 31, 2018

**BEFORE: Carol Hainsworth, C.B.A., Panel Chair
Michael Watson, Member**

The Public Utilities Board (PUB) issued Order No. 151/08 on November 07, 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 \$10,000 or represents 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 Application

On March 7, 2018 the Board received a deficit application for 2016 in the amount of \$63,799 from the Rural Municipality of Ritchot (RM), Ste. Agathe Water & Wastewater Utility (Utility). The application was accompanied by Council Resolution No. 20180076, requesting that the deficit be recovered through the Utility accumulated surplus.

The RM stated that the deficit was attributable to an unforeseen and not budgeted for sludge removal cleaning of the Ste Agathe Lagoon in 2016.

After a review of the 2016 deficit application and the Utility's audited financial statements, the Public Utilities Board Staff and RM discovered subsequent deficits in 2014 and 2015 that had not received approval from the Board.

On June 27, 2018 the Board received deficit applications for 2014 in the amount of \$6,422 and 2015 in the amount of \$5,891 and a revised deficit application for 2016 in the amount

of \$24,046 from the RM. The RM submitted Council Resolution 20180199 requesting the recovery of the deficits through the Utility accumulated surplus.

The RM stated that the 2014 and 2015 deficits are due to amortization expenses not being recovered in the rates. The 2016 deficit is due to amortization expenses as well as the sludge removal for the Ste. Agathe Lagoon.

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 2016 audited financial statements for the Utility, the most recent information available, the working capital surplus at December 31, 2016 is as follows:

	2016	2015
Utility accumulated fund surplus	\$1,715,359	\$1,779,158
Deduct tangible capital assets	\$1,512,801	\$1,572,085
Add long term debt	\$0	\$0
Add utility reserves	\$407,014	\$391,492
Equals Working Capital Surplus	\$609,572	\$598,565
Operating costs	\$356,811	\$331,943
20% of operating costs (target)	\$71,362	\$66,389

2.0 Board Findings

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 of the deficit and for a recovery methodology.

The Board approves the 2014 deficit of \$6,421, the 2015 deficit of \$5,890 and the 2016 deficit of 24,045 to be recovered through the Utility's accumulated surplus account.

The deficit for the Utility in 2014, 2015, and part of 2016 is a result of the RM not reviewing their rates in a timely fashion. The Board notes the RM has not adjusted the rates to include amortization. The RM has had more than enough time to review and adjust its financials to Public Sector Accounting Board (PSAB) rules. The RM is directed to review general Board Order Nos. 151/08 and 93/09 (available on the Public Utilities Board website at www.pubmanitoba.ca) to understand its requirements and reporting responsibilities to the Board.

In addition, the Board notes that the RM Ste. Agathe Utility has not submitted a rate application to the Board in 12 years. In the Board's view, this is too long a time-period between rate reviews. Regular rate reviews submitted on a timelier three-year period, as per the Board's Guidelines, protect the financial position of the Utility and mitigates the need for substantial rate increases, or in the case of the Ste. Agathe Utility, deficits. Had the Utility not had an adequate surplus account, these deficits would have to be collected from the ratepayers through a rate rider.

It is the Utility's responsibility to review the rates and ensure rates are adequate to recover the cost of the service provided to its customers. Customers are generally more tolerant of regular, smaller increases. The RM needs to be much more diligent in conducting

regular reviews of its revenue requirements. Without new rates, the Utility will continue to incur deficits depleting the Utility's working capital.

The Board requires the Rural Municipality of Ritchot, to file a rate application for the Ste. Agathe Water and Wastewater Utility, no later than December 31, 2018.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual utility operating deficits, when calculated for regulatory purposes, for 2014 of \$6,421, 2015 of \$5,890 and 2016 of \$24,045 incurred in the Rural Municipality of Ritchot - Ste. Agathe Water & Wastewater Utility, are HEREBY APPROVED to be recovered from the Utility's accumulated surplus, effective the date of this Order.
2. The Rural Municipality of Ritchot - Ste. Agathe Water & Wastewater Utility, provide a copy of their 2017 audited financial statements as soon as they are available.
3. The Rural Municipality of Ritchot - Ste. Agathe Water & Wastewater Utility, review file an application for revised rates with the Public Utilities Board on or before December 31, 2018.

Fees payable upon this Order - \$150.00

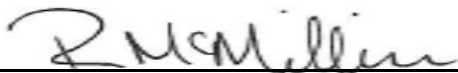
Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website at www.pub.gov.mb.ca.

THE PUBLIC UTILITIES BOARD

“Carol Hainsworth, C.B.A.”
Panel Chair

“Rachel McMillin, B.Sc.”
Acting Secretary

Certified a true copy of Order No. 108/18


Acting Secretary