

Order No. 134/18

**TOWN OF CHURCHILL
WATER AND WASTEWATER UTILITY
ACTUAL OPERATING DEFICIT RECOVERY FOR 2014, 2015, AND 2016**

October 2, 2018

**BEFORE: Marilyn Kapitany, B.Sc. (Hons), M.Sc., Panel Chair
Irene A. Hamilton, Member**

The Public Utilities Board (PUB) issued Order 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 July 30, 2018, the Board received applications from the Town of Churchill (Town) Water and Wastewater Utility (Utility) for approval of utility operating deficits for 2014 in the amount of \$921,848, 2015 in the amount of \$621,987, and 2016 in the amount of \$604,329. The application includes Council Resolution Number 2018-077, requesting the recovery of the deficits through the Utility accumulated surplus.

The Town has advised the Board that Hydro Bonds account for approximately \$3.4 million of the approximately \$5.0 million held in reserves by the Town. These bonds mature in 2021.

The applications state the deficits are due to declining population, excessive water consumption due to use of spills required to prevent freezing water lines during winter months, and insufficient utility rates. Rates were last revised May 11, 2005 in Board Order 67/05.

Board Order 107/14 ordered the Town to submit to the Board a rate study, with a rate application if required, on or before January 31, 2015. On June 13, 2018 the Town requested an extension for completion of the Rate Application with a rate study to December 31, 2018, due to the prior 2015 application not being completed by the consultant hired. The Town also requested a meeting with representatives of the Board prior to the commencement of the application process to address questions and concerns relating to the operation of the Utility.

On June 28, 2018 the Board confirmed a Rate Study was underway and granted an extension for completion of the Rate Application to December 31, 2018, as requested by the Town. The Board advised of its willingness to arrange a teleconference between Town senior officials and Board staff, but to date the Board has not been contacted by the Town to schedule this meeting.

Working Capital Calculation

Board Order 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 deficit as at December 31, 2016 is as follows:

	2016	2015	2014
Utility accumulated fund surplus	\$4,036,916	\$2,206,617	\$2,514,604
Deduct tangible capital assets	7,188,286	4,192,926	4,488,041
Add long term debt	3,248,476	2,077,714	2,080,005
Add utility reserves	4,965,897	4,964,309	4,962,721
Equals Working Capital Surplus	\$5,063,003	\$5,055,714	\$5,069,289
Operating costs	1,566,088	1,476,299	1,718,019
20% of operating costs (target)	\$313,218	\$295,260	\$343,604

The above-noted working capital surplus for 2016 is above the Board recommended 20% target and is therefore sufficient to recover the Utility's 2014, 2015, and 2016 actual deficits totalling \$2,148,164.

2.0 Board Findings

By law, Manitoba utilities are not allowed to incur deficits. In the event 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 actual operating deficit of \$921,848, the 2015 actual operating deficit of \$621,987, and the 2016 actual operating deficit of \$604,329, to be recovered through the Utility's accumulated surplus. The Board notes, however, that these deficits cannot be fully recovered until the maturity date of the Hydro Bonds in 2021.

While the Board accepts the recovery methodology provided by the Town, the Board is concerned about the consecutive deficits experienced by the town annually for six years from 2011 up to and including 2016 totalling \$3,739,135. Given the current rates have been in effect since 2005, the Board anticipates these deficits will continue for 2017, 2018, and until new rates are submitted to the Board to revise rates to a level that meets operational requirements.

The Board understands the Town faces challenges, including a declining population and therefore fewer customers to pay for utility operations. Notwithstanding these circumstances and the pressure placed on ratepayers, there remains a duty of care for the Town to operate the Utility in manner that maintains its viability.

The Board is sensitive to consumer reaction to the magnitude of impending water and wastewater rate increases facing the Town, however must consider the sustainability of the Utility when approving rates. Consumers are generally more tolerant of regular, smaller utility rate increases.

The Board therefore finds that a rate rider is required to mitigate future deficits (based on six consecutive deficits from 2011 through 2016) resulting from deficient rates, until a rate study is received and new rates are established. Based on the most recent 2016 deficit, the Board finds a rate rider equal to 25% of that deficit, or \$5.28 per 1,000 gallons consumed, will start to alleviate future year deficits.

The Board is concerned that the Town has not adjusted the Utility rates to include amortization. The Board urges the Town to review general Board Order 151/08 and 93/09 (available on the Public Utilities Board website at www.pubmanitoba.ca) to ensure a better understanding of the Town's reporting responsibilities to the Board and the timeframes within which reports are to be received.

The Board urges the Municipality to review the Board Guidelines for the preparation and approval of water and wastewater rates, and ensure the Utility's base rate is sufficient to meet operational requirements at all times. It is the Utility's responsibility to regularly review the rates and ensure rates are adequate to recover the cost of service being provided to its customers.

The Board advises the Town that pursuant to *The Public Utilities Board Act*, it has available enforcement methods and can apply penalties for non-compliance. The Board does not take such measures lightly, but it can impose financial penalties and/or interim utility rates. Failure to submit the Rate Application ordered in Board Order 107/14 by the revised December 31, 2018 deadline may leave the Board no alternative but to impose penalties to ensure compliance.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual utility operating deficit, when calculated for regulatory purposes, of \$921,848 in 2014, of \$621,987 for 2015, and of \$604,329 for 2016 (or a total three-year actual deficit of \$2,148,164) incurred in the Town of Churchill, Water and Wastewater Utility, is HEREBY APPROVED to be recovered from the Utility's accumulated surplus effective the date of this Order.
2. The Town of Churchill implement a rate rider of \$5.28 per 1,000 gallons of water consumed per quarter per customer, effective the first quarter following the date of this Order.
3. The Town of Churchill amend its water and wastewater rate By-Law to reflect the decisions in this Order and submit a copy to the Board once it has received third and final reading.
4. The Town of Churchill is to submit a Rate Study, with accompanying Rate Application if required, no later than December 31, 2018.
5. The Town of Churchill is to provide the Board with a copy of the audited 2017 financial statements as soon as they are available.

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

“Marilyn Kapitany, B.Sc. (Hons), M.Sc.”
Panel Chair

“Frederick Mykytyshyn”
Acting Secretary

Certified a true copy of Order No. 134/18
issued by The Public Utilities Board



Acting Secretary