

Order No. 160/18

**LOCAL GOVERNMENT DISTRICT OF PINAWA
WATER AND WASTEWATER UTILITY
2013, 2014 and 2015 ACTUAL OPERATING DEFICIT RECOVERY
AND 2016 UNAUDITED DEFICIT**

December 4, 2018

**BEFORE: Shawn M^cCutcheon, Panel Chair
Carol Hainsworth C.B.A, Member**

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 27, 2018, the Board received an application from the Local Government District of Pinawa (LGD), Water and Wastewater Utility (Utility), for approval of a 2013 deficit in the amount of \$120,215 and a 2014 deficit of \$250,042. Along with the application, the LGD submitted Council Resolution No. 5144-02-18, which requested the recovery of the deficits through a rate rider.

The application advised that the primary reason for the deficits was the decline in consumption since the water meters were installed in 2013, as projections were not adjusted. A secondary contributing factor to the deficits was frozen water lines during those years and the costs of repairs. The LGD has requested the deficits be recovered through a rate rider over three (3) years.

On May 16, 2018, the Board received another application from the LGD for approval of a 2015 deficit of \$200,456 and a 2016 deficit in the unaudited amount of \$86,733. Along with this application, the LGD submitted Council Resolution No. 5259-05-18 requesting that the 2013, 2014, 2015 and 2016 deficit applications be recovered together as one rate rider over five (5) years in the amount of \$1.12 per cubic meter.

These deficits are the result of declining consumption and low rates. A new application and rate study were submitted to the Board on July 20, 2018. Rates were last set in Board Order No. 145/12, for years 2013 through 2016.

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 2015 audited financial statements for the Utility, the most recent information available, the working capital deficit at December 31, 2015 is as follows:

	2015	2014
Utility accumulated fund surplus	\$2,068,472	\$1,429,524
Deduct tangible capital assets	-\$2,653,164	-\$1,462,244
Add long term debt	\$0	\$0
Add utility reserves	\$19,193	\$18,938
Equals Working Capital Deficit	(\$565,499)	(\$13,782)
Expenses	\$601,061	\$614,451
20% of Expenses (Target)	\$120,212	\$122,890

The above-noted working capital calculation for the Utility is below the Board's recommended 20% target and insufficient to be applied to any of the deficits incurred by the Utility. As a result, there is no surplus available to offset any deficit amounts.

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 for recovery methodology.

The Board approves the 2013 deficit of \$120,215, the 2014 deficit of \$250,042, and the 2015 deficit of \$200,456 and varies the rate rider from \$1.12 to \$0.83 per cubic meter over five (5) years, or until the total deficit amount of \$570,713 is fully recovered, whichever comes first. The computation of the rate rider is as follows:

Total deficit amount of \$570,713 divided by the average water consumption sales of 137,628 cubic meter, divided by 5 years = \$0.83 per cubic meter, per customer, per quarter.

The LGD has not yet submitted the 2016 Audited Financial Statement. Board staff have communicated with the LGD staff on numerous occasions, both via telephone, email and letter to no avail. The LGD has had ample time to submit the financial information.

The 2016 deficit of \$86,733 was estimated based on unaudited financials. The LGD should have a confirmed deficit based on audited financial statements by now. Because of the number of deficits and the large total, the LGD should be applying to the Board with final numbers, as estimates will require adjustments to the rate riders once final numbers are confirmed. The Board denies the application for the 2016 unaudited deficit of \$86,733, and orders the LGD to apply once the audited financials can confirm the actual deficit amount.

The Board notes that the LGD does not have completed audited financial statements for years 2016 and 2017, making it difficult to determine an exact financial state of the Utility. Section 190(1) of *The Municipal Act* requires auditors to submit an audited report to Council by no later than June 30 in the year following the fiscal year for which the audit is prepared.

The Board orders the LGD to submit the 2016 and 2017 audited financial statements to the Board as soon as they are completed, and to file deficit applications for each year the Utility is in deficit, should a deficit materialize.

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, and this cannot be determined without audited financial statements. The LGD has incurred three consecutive audited deficits, one unaudited deficit and two more anticipated deficits for 2017 and 2018 because the LGD has not been up-to-date with its financial responsibilities and reporting.

The LGD must work towards providing more timely audited financials and must be more diligent in conducting regular reviews of its Utility's revenue requirements. This will protect the financial position of the Utility; mitigate the need for substantial rate increases, and the additional cost of a rate rider, which becomes necessary to recover utility deficits.

The Board orders the LGD to review general Board Order Nos. 151/08 and 93/09 (available on the PUB website at www.pubmanitoba.ca) to have a better understanding of its reporting responsibilities to the Board.

The Board also notes that in Board Order No. 99/16, the LGD was ordered to submit an application for the approval of the 2014 operating deficit on or before September 1, 2016. The Board received this deficit application on May 1, 2017, then a revised application on March 29, 2018.

The items found under the heading, "IT IS THEREFORE ORDERED THAT" are directives, not recommendations, and must be complied with or appealed. Pursuant to *The Public Utilities Board Act*, the Board has available enforcement methods and can apply penalties for non-compliance.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficits, when calculated for regulatory purposes, of \$120,215 in 2013, \$250,042 in 2014, and \$200,456 in 2015, incurred by the Local Government District of Pinawa Water and Wastewater Utility, are HEREBY APPROVED to be recovered through a rate rider of \$0.83 per cubic meter, per customer, per quarter over five (5) years or until the total deficit is paid in full, whichever comes first. The rate rider is effective January 1, 2019.
2. The Local Government District of Pinawa deficit application for approval of the 2016 deficit in the unaudited amount of \$86,733 IS HEREBY DENIED.
3. The Local Government District of Pinawa provide notice to its customers, including the decisions found in this Order.
4. The Local Government District of Pinawa file its 2016 and 2017 audited financial statements as soon as they are available.
5. The Local Government District of Pinawa file a Deficit Application for 2016 and 2017, once the audited financial statements are available.
6. The Local Government District of Pinawa review *The Public Utilities Board Act* and general Board Order Nos. 151/08 and 93/09 to have a better understanding of their responsibilities in reporting to the Board.

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 M^cCutcheon"

Panel Chair

"Rachel M^cMillin, B.Sc."

A/Assistant Associate Secretary

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issued by The Public Utilities Board



A/Assistant Associate Secretary