

Order No. 53/19

**RURAL MUNICIPALITY OF WALLACE-WOODWORTH
RURAL PIPELINE WATER UTILITY
2013 AND 2014 ACTUAL OPERATING DEFICIT RECOVERY**

May 2, 2019

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

On October 22, 2018, the Board received an application from the Rural Municipality of Wallace-Woodworth (RM), Rural Pipeline Water Utility (Utility), for approval of deficits in the amount of \$23,000 in 2013 and \$25,063 in 2014 (a total two-year deficit of \$48,063). The application includes Council Resolution #18/434, requesting the recovery of the deficits through the Utility's accumulated surplus.

The RM advised that the primary reason for the deficits was due to increased operating costs and a lack of revenue to offset the increased costs. Rates were last approved in August 2014 in Board Order No. 90/14.

The RM has applied for the amalgamation of its three utilities (Rural Pipeline Water Utility, Kenton Water and Wastewater Utility, and Wallace Water Utility). An application for revised rates is currently before the Board.

The Board notes that rates were last set in 2014, and prior to that in 2006. Board Order No. 90/14 ordered the RM to review the Utility's water rates for adequacy and file a report with the Board as well as an application for revised rates by no later than June 30, 2015. The Board did not receive an application for revised rates until September 16, 2018.

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 2017 audited financial statements for the Utility, the most recent information available, the working capital surplus as at December 31, 2017 is as follows:

	2017	2016
Utility Accumulated Fund Surplus	\$1,489,730	\$1,529,081
Deduct: Tangible Capital assets	1,645,676	1,690,257
Add: Long-Term Debt	\$249,677	\$265,924
Add: Utility Reserves	\$0	\$0
Equals Working Capital Surplus	\$93,731	\$104,748
Expenses	\$183,613	\$172,901
20% of Expenses (Target)	\$36,723	\$34,580

The above-noted working capital surplus for both 2016 and 2017 is above the Board's recommended 20% target and therefore is sufficient to recover the Utility's 2013 and 2014 deficits totalling \$48,063.

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 a recovery methodology.

2.0 Board findings

The Board finds that the working capital surplus is sufficient to cover the Utility's deficit, and therefore approves recovery of the deficits from the Utility's accumulated surplus.

The Board reminds the RM that its guidelines recommend that utilities review their rate requirements at least every three years to ensure the Utility's base rate is sufficient to meet operational requirements. 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. Had the RM conducted regular rate reviews, the deficits applied for may have been avoided.

The Board has reviewed the RM's Audited Financial Statements and strongly encourages the RM to work with its auditor(s) to ensure the Public Utilities Board Note to the Consolidated Financial Statements is complete and correct. If this note is omitted, incomplete, and/or incorrect, it inhibits the Board's ability to accurately assess the Utility's financial position and the RM's ability to set appropriate rates to sustain the Utility and its operations.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficits, when calculated for regulatory purposes, of \$23,000 in 2013 and \$25,063 in 2014 (a total of \$48,063), incurred by the Rural Municipality of Wallace-Woodworth, Rural Pipeline Water Utility are HEREBY APPROVED to be recovered from the Utility's accumulated surplus, effective the date of this Order.

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. (Hons), M.Sc."
Panel Chair

"Frederick Mykytyshyn"
Assistant Associate Secretary

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Assistant Associate Secretary