

Order No. 114/20

**MUNICIPALITY OF ETHELBERT
ETHELBERT WATER AND WASTEWATER UTILITY
2016 ACTUAL OPERATING DEFICIT RECOVERY**

September 18, 2020

BEFORE: Shawn McCutcheon, Panel Chair
Carol Hainsworth, C.B.A., 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.

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 July 31, 2020, the Board received an application from the Municipality of Ethelbert (Municipality), Ethelbert Water and Wastewater Utility (Utility), for approval of a 2016 deficit in the amount of \$16,175.

Along with the application, the Municipality submitted Council Resolution No. 179-2020, requesting the recovery of the deficit through the Utility's Accumulated Surplus.

The application stated that the deficit was due to amortization.

Rates for the Utility were last set in Board Order No. 161/12.

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 2018 audited financial statements for the Utility, the most recent information available, the working capital surplus at December 31, 2018 is as follows:

	2018
Utility Fund Accumulated Surplus	\$449,365
Deduct Tangible Capital Assets (TCA)	(\$235,811)
Add Long Term Debt	\$0
Add Utility Reserves	\$0
Equals Working Capital Surplus (Deficit)	\$213,554
Expenses	\$109,111
20% of Expenses (Target)	\$21,822

2.0 Board findings

The Board has reviewed the application and determined the Utility has adequate working capital surplus to absorb the deficit. The Board approves the 2016 deficit of \$16,175 to be recovered through the Utility's Accumulated Surplus.

The Utility stated in its application that the deficit was due to amortization expense. Upon review, the Board found there was no material increase in amortization expense for 2016 as compared to previous years'. Instead, there were increases in utility expenses, with a significant increase in wastewater expenses and this is the cause of the deficit not amortization.

In a letter to the Board dated July 29, 2020, the Municipality has stated that the 2016 increase in wastewater expense was due to a lagoon assessment being completed. The Municipality also listed other Utility maintenance projects and upgrades that have taken place since 2015. It appears these upgrades and minor capital projects have been paid for with the Utility Reserve and operating grants from Manitoba Water Services Board and potentially the use of the Municipality's Gas Tax.

As per the Municipality's responses to the Board's information requests, it appears that the Utility accounts are not fully amalgamated from the 2015 Municipal amalgamations directed by the Provincial Government. The Municipality stated:

"As of November, 2018 the two accounts that were initially thought to both be Reserves for the Utility. However, the Auditors told us that one was actually only an extension of the utility operating and that we could consolidate both of them."

In reviewing the Municipality's 2018 financial statements the Board notes there is no Utility reserve or separate account, as stated above, in the Schedules. Further, the Board notes that there has only ever been one utility reserve listed. The Board also notes that the 2019 audited financials are not yet available. Without a more current and full financial picture

of the Utility, it is difficult for the Board to determine its financial health. The Board recommends the Municipality work with its auditor to amalgamate Utility accounts for Schedule 9 and/or the Utility Reserves for Schedule 6. In addition, on Schedule 9 the Board notes that all the Utility revenue from rates is stated as one revenue under water fees. For proper rate setting purposes the revenue stream for each rate should be broken out, i.e. administration, water rates, wastewater rates etc.

The Board directs the Municipality to review the 2017 and 2018 financials incorporating the amalgamated accounts, and file a deficit application for each year, if a deficit materializes. The Board directs the Municipality to submit any restated financial statements with the Board promptly, if such action is required.

It has been eight years since the Ethelbert Water and Wastewater Utility has submitted a rate application to the Board. In the Board's view, the period between rate reviews is too long. Regular rate reviews submitted every three years, as per the Board's Guidelines, protect the financial position of the Utility and may reduce the need for substantial rate increases in one year. In some cases, the additional cost of a rate rider becomes necessary to recover utility deficits. The Municipality needs to be diligent in conducting regular rates reviews of its revenue requirements.

The Board directs the Municipality to review its water and wastewater rates for adequacy and file a report with the Board, as well as an application for revised rates if required, by no later than January 15, 2021.

3.0 IT IS THEREFORE ORDERED THAT:

1. The 2016 actual operating deficit, when calculated for regulatory purposes, in the amount of \$16,175 incurred in Municipality of Ethelbert, Ethelbert Water and Wastewater Utility, are HEREBY APPROVED to be recovered through the Utility's Accumulated Surplus, effective the date of this Order.

2. The Municipality of Ethelbert review its 2017 and 2018 financials incorporating the amalgamated accounts, and file a deficit application for each year, if a deficit materializes. The Municipality is to submit any restated financial statements with the Board promptly, if such action is required.
3. The Municipality of Ethelbert review its water and wastewater rates for the Ethelbert Water & Wastewater Utility for adequacy and file a report to the Public Utilities Board, or an application for revised rates, on or before January 15, 2021.

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

"Rachel McMillin, B.Sc."

Assistant Associate Secretary

Certified a true copy of Order No. 114/20
issued by The Public Utilities Board



Assistant Associate Secretary