

Order No. 3/21

**TOWN OF CARBERRY
CARBERRY WASTEWATER UTILITY
2016 AND 2018 ACTUAL OPERATING DEFICIT RECOVERY**

January 5, 2021

**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 a 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 November 13, 2020, the Board received two applications from the Town of Carberry (Town), Carberry Wastewater Utility (Utility) for approval of the following deficits:

- 2016 \$26,139
- 2018 \$38,267

Along with the application, the Town submitted Council Resolution No. 233-20 requesting the recovery of the 2016 through the Utility's Accumulated Surplus and Council Resolution No. 234-20, requesting the recovery of the 2018 deficit through the Utility's Accumulated Surplus (\$7,654) and Utility's Reserve Funds (\$30,613).

The application stated that the 2016 deficit was due to a transfer from the reserves to cover the installation of sewer lines for a new subdivision. The Town also stated that the main reason for the 2018 deficit was the conversion from cash basis accounting to Public Sector Accounting Standards (PSAB) and a sewer repair.

Rates for the Utility were last set in Board Order No. 63/18.

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	\$1,162,038
Deduct Tangible Capital Assets	(\$752,375)
Add Long Term Debt	\$0
Add Utility Reserves	\$127,502
Equals Working Capital Surplus/(Deficit)	\$537,165
Expenses	\$173,396
20% of Expenses (Target)	\$34,679

The Utility's working capital exceeds the Board's minimum requirement of 20% of its operating expenses.

2.0 Board findings

The Board has reviewed the application and determined the Utility has adequate working capital surplus to absorb both deficits. The Board approves the 2016 deficit of \$26,139 to be recovered through the Utility's Accumulated Surplus. The Board also approves the 2018 deficit of \$38,267 but denies the partial recovery from the Accumulated Surplus and partial recovery from the Utility Reserve Fund. The Board approves the 2018 deficit of \$38,267 to be recovered from the Utility's Accumulated Surplus only.

The Utility stated in its application that the main reason for the 2018 deficit was the conversion from cash basis accounting to Public Sector Accounting Standards. The Utility further stated "*there was no deficit amount incurred on a cash basis, rather a \$28,716 surplus. After amortizing our tangible capital assets in PSAB that surplus was changed to a \$38,267 deficit.*"

Upon review, the Board found that the amortization expense has correctly been included in the rate calculations and there was no material increase in amortization expense from 2010 to 2017. The amortization increase from \$25,213 in 2017 to \$32,301 in 2018 is not the cause of the 2018 deficit. Instead, there was an increase in Collection System Costs from \$15,865 in 2017 to \$89,268 in 2018.

The Board reminds the Town that the PSAB guidelines have been in effect since January 1, 2009 and amortization expense is no longer the sole reason for incurring a deficit. The deficits incurred by the Utility were therefore a result of increases in the costs of operations. If a deficit is anticipated or materializes for 2019, the Town is to apply to the Board for approval of the deficit and recovery methodology as soon as it is known.

3.0 IT IS THEREFORE ORDERED THAT:

1. The 2016 actual operating deficit, when calculated for regulatory purposes, in the amount of \$26,139 incurred in Town of Carberry, Carberry Wastewater Utility, is HEREBY APPROVED to be recovered through the Utility's Accumulated Surplus, effective the date of this Order.
2. The 2018 actual operating deficit, when calculated for regulatory purposes, in the amount of \$38,267 incurred in Town of Carberry, Carberry Wastewater Utility, is HEREBY APPROVED to be recovered through the Utility's Accumulated Surplus, effective the date of this Order.
3. The Town of Carberry is to review the 2019 audited financial statements and submit a deficit application should a deficit materialize.

Fees payable upon this Order - \$150.00

THE PUBLIC UTILITIES BOARD

"Shawn McCutcheon"

Panel Chair

"Rachel McMillin, B.Sc."

Assistant Associate Secretary

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by The Public Utilities Board



Assistant Associate Secretary