

Order No. 75/21

**RURAL MUNICIPALITY OF DUFFERIN
DUFFERIN STEPHENFELD WATER UTILITY
2018 ACTUAL OPERATING DEFICIT RECOVERY**

July 15, 2021

BEFORE: Marilyn Kapitany, B.Sc. (Hon), M. Sc., 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) Order No. 151/08 issued 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 March 11, 2021, the Board received an application from the Rural Municipality of Dufferin (RM), Dufferin Stephenfeld Water Utility (Utility) for approval of a 2018 actual operating deficit in the amount of \$33,852. With the application, the RM also submitted Council Resolution #9, requesting approval for the recovery of the deficit through the Utility's Accumulated Fund Surplus.

The application stated the deficit was incurred due to "Public Sector Accounting Board (PSAB) – amortization/principal portion of debenture debt".

Utility rates were last set in Board Order No. 83/18. In Board Order No 83/18, the RM was ordered to review the Utility's water rates for adequacy and file a report or application for revised rates (if needed) by no later than June 30, 2021. On June 25, 2021, the RM submitted a request for an extension of the due date to September 30, 2021. The RM advised it is currently working with a consultant on a rate adequacy review.

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 2020 audited financial statements for the Utility, the most recent information available, the working capital surplus at December 31, 2020 is as follows:

	2020
Utility Fund Surplus/Deficit	\$7,679,322
Deduct: Tangible Capital Assets	(7,412,024)
Add: Long-Term Debt	129,631
Add: Utility Reserves	824,880
Equals Working Capital Surplus (Deficit)	\$1,220,809
Operating Expenses	\$956,592
20% of Operating Expenses (Target)	\$191,318

The Utility's working capital meets the Board's minimum requirement of 20% of operating expenses. The high amount of working capital is due to newer utility infrastructure requiring few repairs, replacements, or new capital expenditures.

2.0 Board findings

The Board approves the 2018 actual operating deficit, when calculated for regulatory purposes, in the amount of \$33,852 to be recovered through the Utility's Accumulated Fund Surplus.

The Utility stated in its application the reason for the deficit was "PSAB – Amortization/principal portion of debenture debt." Upon review, the Board found that amortization expense of \$217,972 has been included in the rate calculations approved in Board Order No. 83/18 as compared to the actual audited amortization expense of \$219,371 and there was no material variance between the projected and actual expense.

There was, however, an increase in total water expenses from \$463,280 in 2017 to \$618,212 in 2018 and property tax revenue of \$64,308 in 2017 decreased to \$0 in 2018.

The Board therefore notes amortization was not a reason for the deficit. The deficit was incurred due to a combination of increased water expenses and the maturity of a debenture debt. The RM is correct in stating that the deficit was due to the principal portion of a debenture debt.

The Board approves the RM's request for extension of the due date to submit a rate adequacy report or rate study, if required, from June 30, 2021 to September 30, 2021.

The Board notes the Utility has \$89,174 in capital grant amortization. The Board directs the RM to plan for the expiration of this offset accordingly in its future rate studies so rates are not increased all at once to provide for it upon expiration.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficit, when calculated for regulatory purposes, of \$33,852 in 2018 incurred in the Rural Municipality of Dufferin, Dufferin Stephenfeld Water Utility, is HEREBY APPROVED to be recovered through the Utility's Accumulated Fund Surplus.
2. The Rural Municipality of Dufferin review its water rates for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates if required, by no later than September 30, 2021.

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.

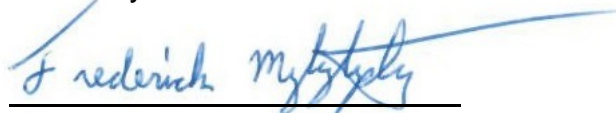
Fees payable upon this Order - \$150.00

THE PUBLIC UTILITIES BOARD

"Marilyn Kapitany"
Panel Chair

"Frederick Mykytyshyn"
Assistant Associate Secretary

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issued by The Public Utilities Board


Frederick Mykytyshyn
Assistant Associate Secretary