

Order No. 63/16

**RURAL MUNICIPALITY OF WHITEMOUTH
WHITEMOUTH WATER UTILITY
OPERATING DEFICITS 2012, 2013 AND 2014**

May 10, 2016

**BEFORE: Susan Proven, P.H.Ec., Acting Chair
The Hon. Anita Neville, P.C., B.A. (Hons.), Member**

The Public Utilities Board (Board) issued Order No. 151/08 on November 7, 2008 requiring all water and/or sewer 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;

Application

On March 22, 2016, the Board received deficit applications for 2012 and 2013 in the amount of \$23,266 and \$24,614, for the Whitemouth Water Utility (Utility) from the Rural Municipality of Whitemouth (RM). The deficit applications were accompanied by Council Resolution No. 51/16 requesting the deficits be recovered through the Utility's accumulated surplus fund.

The RM advised the Board that the Utility's deficit position is because the current rates are not sufficient to cover amortization. The RM stated that the water utility rates have not changed since 2010 and that current rates are not adequate to cover the amortization expense increase.

On April 5, 2016, the Board sent a letter to the RM requesting an application for the deficit shown in the Utility's 2014 audited financial statement. The letter also asked the RM to explain the discrepancy in calculating the deficit amount for regulatory purposes. The PUB Schedule 9 forms provided by the RM included \$117,042 in capital grant amortization; Note 14 of the audited statements indicate the capital grant amortization for the water utility is \$79,812. The discrepancy of \$37,230 was unexplained and no supporting calculations were provided.

On April 14, 2016 the RM provided Council Resolution No. 123/16 requesting the 2014 deficit of \$57,236 for the Whitemouth Water Utility be recovered through the Utility's Reserve funds. On April 15, 2016 the RM submitted the 2014 deficit application, stating that the 2014 deficit for the Utility was a result of the current rates being insufficient to cover amortization, like the prior years. No explanation was provided for the discrepancy in the capital grant amortization.

The RM has advised a rate study and application are near completion and should be submitted in the spring of 2016.

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 a recovery methodology. The Board approves the 2012, and 2013 deficits in the amount of \$23,266 and \$24,614, to be recovered through the Water Utility's accumulated surplus fund. The Board also approves the 2014 deficit of \$57,236 for the Water Utility be recovered through a transfer from the Utility's Reserve Fund.

The Board will approve these deficits, despite the RM not providing the requested information regarding the capital grant amortization; because the deficits are being recovered through the accumulated surplus and the reserve fund, the discrepancy will not have a material impact on the financial results or the method of recovery. The Board will require that all future deficit applications either agree to the audited financial statements or provide a clear reconciliation for the Board's information. The Board urges the RM to work with their auditor to eliminate these types of discrepancies.

The RM stated in its application that the current rates are inadequate, thus resulting in the 2012, 2013 and 2014 deficits. The recurrence of the operating deficits reaffirms the inadequacy of the Utility's rates and shows that these deficits are likely to continue until the rates are revised. The Board will direct the RM to submit the 2015 audited financial statements for review as soon as they have been finalized, including any necessary deficit applications.

The Board will request that the RM submit a rate application on or before June 30, 2016. The Board urges the RM to make efforts to submit this rate application as soon as possible, as further delays may lead to significant deficits that can negatively impact its customers.

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.pub.gov.mb.ca.

IT IS THEREFORE ORDERED THAT:

1. The 2012 and 2013 operating deficits, when calculated for regulatory purposes, for 2012 of \$23,266 and 2013 of \$24,614 incurred in the Rural Municipality of Whitemouth – Whitemouth Water Utility are HEREBY APPROVED to be recovered from the Utility's Accumulated Surplus Fund.
2. The 2014 operating deficit, when calculated for regulatory purposes, of \$57,236 incurred in the Rural Municipality of Whitemouth – Whitemouth Water Utility is HEREBY APPROVED to be recovered from the Utility's Reserve Fund.
3. The Rural Municipality of Whitemouth – Whitemouth Water Utility file an application for revised rates on or before June 30, 2016.
4. The Rural Municipality of Whitemouth – Whitemouth Water Utility provide a copy of the 2015 audited financial statements to the Public Utilities Board as soon as they are available, with deficit application if required.

Fees payable upon this Order - \$150.00

THE PUBLIC UTILITIES BOARD

"SUSAN PROVEN, P.H.Ec."

Acting Chair

"JENNIFER DUBOIS, CPA, CMA"

Acting Secretary

Certified a true copy of Order No. 63/16
issued by The Public Utilities Board

Acting Secretary