

Order No. 23/20

**LOCAL GOVERNMENT DISTRICT OF PINAWA
PINAWA WATER AND WASTEWATER UTILITY
2018 ACTUAL OPERATING DEFICIT RECOVERY
VARYING BOARD ORDER NUMBERS 160/18 & 142/19 DEFICIT RECOVERY**

February 12, 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 November 25, 2019, the Board received an application from the Local Government District of Pinawa (LGD), Pinawa Water and Wastewater Utility (Utility) for approval of a 2018 deficit in the amount of \$45,614.

Along with the application, the LGD submitted Council Resolution No. 5861-11-19, requesting approval for the recovery of the deficit by extending the existing rate rider of \$0.83 per cubic meter of consumption for another six (6) months. The application stated the deficit was due to decline in water consumption.

Rates for this Utility were last set in Board Order No. 142/19, with rates effective October 1, 2019.

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 deficit at December 31, 2018 is as follows:

	2018
Utility Fund Accumulated Surplus	\$2,366,490
Deduct Tangible Capital Assets	(\$3,802,818)
Add Long Term Debt	\$896,695
Add Utility Reserves	\$20,082
Equals Working Capital Surplus/(Deficit)	(\$519,551)
Expenses	\$575,331
20% of Expenses (Target)	\$115,066

The Utility's working capital does not meet the Board's minimum requirement of 20% of its operating expenses.

2.0 Board findings

In Board Order No. 160/18, the Board approved the recovery of the 2013, 2014 and 2015 operating deficits, totalling \$570,713, to be collected over five (5) years beginning January 1, 2019.

In Board Order No. 142/19, the Board approved the 2016 and 2017 operating deficits, totalling \$130,167, and extended the recovery period of the rate rider for an additional 18 months. The rate rider was to be collected until June 30, 2025, or until the total deficit amount is fully recovered, whichever comes first.

The Board approves the 2018 actual operating deficit, when calculated for regulatory purposes, in the amount of \$45,614. The Board, however, denies the LGD's request to extend the collection period of the existing rate rider for another six (6) months.

The Board notes this Utility has incurred six (6) consecutive deficits for a total amount of \$746,494 to be recovered from customers, of which \$95,424 has already been collected through the existing rate rider. The Board notes, in responses to Information requests sent by the Board, the LGD has confirmed that water consumption has decreased since the original rate rider was calculated in Board Order No. 160/18.

The water sales used to calculate the rate rider in Board Order No. 160/18 was 137,521 cubic meters; in this current application, the LGD's deficit recovery proposal used an average of 120,000 cubic meters. Through an information request to the LGD the actual water sales for 2019 were 117,768 cubic meters.

The Board is concerned with the continuing decline of water sales by the Utility and based on this trend, the Board is using projected water sales of 115,000 cubic meters to calculate the new rate rider.

The Board denies the request to extend the deficit recovery period beyond five (5) years. The five (5) year rate rider is already burdening current and future ratepayers for losses caused by inadequate rates in previous years.

The Board, therefore, varies Board Order Nos. 160/18 and 142/19 with respect to the rate rider. The Board varies the current rate rider from \$0.83 per cubic meter to \$1.13 per cubic meter to be collected over five (5) years beginning April 1, 2020 or until the deficit amount of \$651,070 has been fully recovered

The rate rider calculation is as follows:

2013 operating deficit	\$	120,215		
2014 operating deficit	\$	250,042		
2015 operating deficit	\$	200,456		
2016 operating deficit	\$	74,698		
2017 operating deficit	\$	55,469		
2018 operating deficit	\$	45,614		
Total operating deficits incurred	\$	746,494		
Less: Deficit rate rider revenue 2019	\$	95,424		
Outstanding deficit amount	\$	651,070		
Divided by 115,000 cubic meters	\$	5.66		
Divided by 5 years	\$	1.13	per cubic meter	

The Board also directs the LGD to monitor the collected deficit recovery revenues closely. Should the deficit amount be recovered before March 31, 2025, the LGD is to immediately cease the collection of the rate rider. The Board encourages the LGD to work with their auditors for the proper recording of the collected deficit revenues.

The Board is sensitive to the impact of this rate rider on customers; however, the Board must also consider the financial sustainability of the Utility when approving rates. The consecutive deficits experienced by this Utility since 2013, totalling \$746,494, has depleted the Utility's reserves and surplus. The only option available to the Utility to recover these deficits is through a rate rider.

The Board is concerned with the financial effect of the continuing decline in water sales and directs the LGD to closely monitor water sales. If deficits are anticipated or materialize for years 2020 or 2021 due to a shortfall in water sales, the LGD is to apply to the Board for revised rates.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficit, when calculated for regulatory purposes, of \$45,614 in 2018 incurred in the Local Government District of Pinawa, Pinawa Water and Wastewater Utility, is HEREBY APPROVED.
2. The request of the Local Government District of Pinawa to extend the recovery period of the existing \$0.83 per cubic meter rate rider for another six (6) months is HEREBY DENIED.
3. The existing rate rider of \$0.83 per cubic meter, previously approved in Board Order Nos. 160/18 and 142/19, IS HEREBY VARIED to \$1.13 per cubic meter to be collected over five (5) years or until all the approved deficits are recovered in full, whichever comes first. The rate rider is effective April 1, 2020.
4. The Local Government District of Pinawa is to provide a notice to its customers, including the decisions found in this Order.
5. The Local Government District of Pinawa is to monitor water sales and submit an application for new rates should deficits materialize due to decline in water sales.
6. The Local Government District of Pinawa, Pinawa Water and Wastewater Utility is to monitor the deficit revenues and stop the rate rider if recovered in full before March 31, 2025.

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, BSc."

Assistant Associate Secretary

Certified a true copy of Order No. 23/20
issued by The Public Utilities Board



Assistant Associate Secretary