

Order No. 50/18

**MUNICIPALITY OF STE. ROSE
LOCAL IMPROVEMENT DISTRICT NO. 1 LAURIER UTILITY
ACTUAL OPERATING DEFICIT FOR 2013 AND 2014 RECOVERY**

April 16, 2018

**BEFORE: Carol Hainsworth, C.B.A., Panel Chair
Michael Watson, Member**

The Public Utilities Board (PUB) issued Order No. 151/08 on November 07, 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 \$10,000 or represents 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 Application

On March 27, 2017 the Board received a deficit application from the Municipality of Ste. Rose (Municipality) – Local Improvement District No. 1 Laurier Utility, for approval of a utility operating deficit for 2013 in the amount of \$3,112 and for 2014 in the amount of \$6,757.

The application was accompanied by a certified Council Resolution dated February 15, 2017. The Municipality proposes a recovery method through a flat rate rider of \$19.16 per customer per quarter over 6 billing cycles or 1.5 years. The total number of customers is 86.

The Municipality stated the reason for the deficits was because rates are not adequate to cover the costs of amortization. The Municipality further stated that prior to January 01, 2017 the Utility had not had rate increases since 2006, with new rates approved in Board Order No. 134/16 in October 2016, effective January 1, 2017 until December 31, 2018 only.

The recovery methodology of a flat rate ride is being proposed because within the Laurier water system, users are residential customers that use similar quantities of water, with no large industrial or commercial users. As such, the Municipality is of the view that a flat rate option would be easier to relay to the rate payers in terms of the impact to their water bills. The duration of the rate rider was determined with the aim of preventing continual fluctuations of the water rates.

2.0 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 the deficit and a recovery methodology.

The Board will approve the deficits incurred in 2013 and 2014, to be recovered through a flat rate rider of \$19.16 per customer per quarter over 6 billing cycles (1.5 years), or until the total deficit of \$9,869 is paid in full, whichever comes first. This rate rider is effective July 1, 2018.

The Board notes in Board Order No. 37/14, the Municipality was granted approval to recover deficits for a 4 year period from 2009 – 2012 totalling \$48,311. The 2009 and 2010 operating deficits of \$8,648 and \$13,393 were approved to be recovered from the Utility's Surplus, while the 2011 and 2012 operating deficits of \$15,046 and \$11,224 were varied and approved to be recovered via a rate rider of \$25 per quarter per customer, over three years.

Moreover, in October 2016, the Board in Board Order No. 134/16 varied the application of the Municipality and issued increased revised water and wastewater rates effective January 01, 2017 to December 31, 2018. The Municipality was also ordered to submit deficit applications for 2013, 2014 and 2015, if required, on or before November 30, 2016.

While the Board accepts the recovery methodology provided, the Board is disconcerted by the Municipality's repeated failure to submit its deficit application for 2013 and 2014 within the specified timeframe and only doing so four months after the ordered deadline of November 30, 2016 as stated in Board Order No. 134/16.

The rates that the Municipality is charging are not sufficient to cover the Utility's expenses, which include amortization, and that the Utility has incurred deficits for seven years (2009-2014 and 2016). As per Board Order No. 134/16, an application for revised rates was to be submitted on or before June 30, 2018.

The Board further notes that as per the Municipality's deficit application, the Municipality stated it will be submitting another rate study by December 31, 2017 to ensure that rates remain adequate. The Board has yet to receive this submission for revised water and wastewater rates.

The Board would also like to highlight the ongoing ambiguity surrounding the insufficient information to set separate rates for water and wastewater services and had previously recommended in Board Order No. 134/16 that the Municipality work closely with their auditors to ensure that the audited financial statements Schedule 9, Utility Operations, properly allocate expenses between the two services. A review of the audited financials Schedule 9 for 2015 and 2016, show that the Municipality still has not taken any measures to rectify this discrepancy in its reporting.

Furthermore, the Municipality stated that the reason for the deficit was that "Rates were not adequate to cover costs including amortization". The Municipality is reminded that the Board highlighted its concerns with its 2014 rate application in Board Order No. 134/16, wherein the Municipality indicated that lagoon operations are not included in the Schedule of Utility Operations at all, and only the amortization of the collection system is accounted for. The Board noted that, this was not the appropriate treatment of the asset or related operating costs, and if this is accurate, meant that taxpayers are cross subsidizing the Utility by paying the lagoon costs through the general operations of the Municipality.

The Board also takes note of the operating deficit incurred for 2016 and expects the Municipality to submit a deficit application for 2016 in a timely manner with the revised rate application by June 30, 2018.

The Board urges the Municipality to review the Public Utilities Board Act and general Board Order Nos. 151/08 and 93/09 to have a better understanding of its responsibilities in reporting to the Board.

Please note that all items found under the heading, "IT IS THEREFORE ORDERED THAT:" are directives, not recommendations or suggestions, and must be complied with or appealed as outlined below. Pursuant to the Public Utilities Board Act, the Board has available enforcement methods and can apply penalties for non-compliance.

3.0 IT IS HEREBY ORDERED THAT:

1. The actual operating deficit, when calculated for regulatory purposes for 2013 and 2014 totalling \$9,869, incurred in the Municipality of Ste. Rose – Local Improvement District No. 1 Laurier Utility, is HEREBY APPROVED to be recovered through a flat rate rider of \$19.16 per quarter per customer over 6 billing cycles (1.5 years) or until the total deficit is paid in full, whichever comes first. This rate rider is effective July 1, 2018 and notice is to be provided to all customers.
2. The Municipality of Ste. Rose, submit their operating deficit application for 2016, no later than June 30, 2018 with its revised rate application.

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

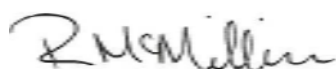
of Practice and Procedure (Rules). The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Carol Hainsworth, C.B.A."
Panel Chair

"Rachel McMillin, B.Sc."
Acting Secretary

Certified a true copy of Order No. 50/18
issued by The Public Utilities Board



Acting Secretary