

Order No. 129/18

**RURAL MUNICIPALITY OF SIFTON
OAK LAKE WASTEWATER UTILITY
2014 UTILITY OPERATING DEFICIT RECOVERY**

September 20, 2018

**BEFORE: Irene A. Hamilton, Panel Chair
Carol Hainsworth, Member**

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 Application

On April 6, 2018, the Board received an application from the Rural Municipality of Sifton (RM), Oak Lake Wastewater Utility (Utility) for approval of a 2014 operating deficit in the amount of \$18,801. Together with the application, the Municipality also submitted Council Resolution No. 2018-090, which requested recovery of the deficit through the Utility's accumulated surplus.

After Board staff reviewed the application, it was discovered that there is a working capital deficit and therefore, the Utility is not able to recover from the utility surplus. In addition, there are adjustments that were not taken into account when the deficit amount was calculated using the PUB Schedule 9.

On September 4, 2018, the RM revised its application to recover the 2014 deficit of \$15,639 (after adjustments) by a rate rider of \$15.84 per Residential Equivalency Unit, per quarter for four quarters, supported by Council Resolution No. 2018-226.

The RM advises that the number of Residential Equivalency Units (REUs) assigned is 246.8. One REU is the volume of wastewater estimated to be produced by the average single-family residence. Units allocated to non-residential customers are based on their

estimated consumption, compared with residential consumption. REUs are used in communities with unmetered distribution and collection systems, where information regarding actual consumption is unavailable.

The application stated that the deficit was due to an increase in lift station costs incurred in 2014. Rates were last set in November 1995 in Board Order No. 100/95.

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.

The most recent information available are the 2016 audited financial statement, which show the working capital deficit at December 31, 2016 is as follows:

	2016	2015	2014
Utility accumulated fund surplus	\$2,542,245	\$2,431,255	\$250,668
Deduct tangible capital assets	(\$4,593,337)	(\$4,219,607)	(\$130,667)
Add long term debt	\$0	\$0	\$0
Add utility reserves	\$11,570	\$9,460	\$75,258
Equals Working Capital Surplus/Deficit	(\$2,039,522)	(\$1,778,892)	\$195,259
Expenses	\$36,140	\$64,300	\$211,278
20% of Expenses (Target)	\$7,228	\$12,860	\$42,256

The above-noted working capital calculation for the Utility is below the Board's recommended 20% target and insufficient to be applied to the Utility's 2014 deficit. As a result, there is no surplus available to offset any deficit.

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 a recovery methodology.

The RM applied for the deficit recovery by rate rider of \$15.84 per REU per quarter over one year or four quarters, calculated using the total REU listing of 246.8. The Board notes that three businesses are no longer in operation and can not contribute towards the deficit recovery, resulting in a difference of nine REUs. The three businesses no longer in operation are as follows:

Customer Type	REU Assignment*
Oak Lake Hair	1.5
Oak Lake Meat Market	1.5
Oak Land Hotel	6
TOTAL	9

*Residential Equivalency Unit

The Board approves the rate rider of \$15.84 per REU per quarter and varies the recovery timeframe to five quarters or until the total deficit amount of \$15,639 is recovered. The rate rider is effective January 1, 2019. The adjusted total REU assignment is 237.8 as follows:

Customer Type	REU Assignment*	Quarterly Rate Rider
Single Residence	1(175)	\$15.84
"Other" Single Residence	1 (18)	\$15.84
FLB School	14	\$221.76
Department of Public Works	2	\$31.68
J&L's Restaurant	3.5	\$55.44
Oak Lake Arena	2	\$31.68
Oak Lake Golf	2	\$31.68
Oak Lake Housing	2.8	\$44.35
Oak Lake Housing	12	\$190.08
Town of Oak Lake	3	\$47.52
Royal Canadian Legion	2	\$31.68
Valleyview Coop	1.5	\$23.76
TOTAL	237.8	-

*Residential Equivalency Unit

The Board directs the Utility to review the Residential Equivalency Unit assignment in its next rate review.

The Rural Municipality of Sifton, Oak Lake Wastewater Utility has not submitted a rate application to the Board in over 20 years as rates were last set in 1995 in by-law No. 594. In the Board's view, this is too long a time-period between rate reviews. Regular rate reviews submitted every three years, as per the Board's Guidelines, protect the financial position of the Utility and reduces the need for substantial rate increases, or incurring deficits.

It is the Utility's responsibility to review the rates and ensure rates are adequate to recover the cost of the service provided to its customers. Customers are generally more tolerant of regular, smaller increases. The RM must be diligent in conducting regular reviews of its revenue requirements. Without new rates, the Utility will incur further deficits and further deplete the Utility's working capital.

The Board requires the Rural Municipality of Sifton to file a rate application for the Oak Lake Wastewater Utility, no later than December 31, 2018.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficit, when calculated for regulatory purposes, for 2014 of \$15,639, incurred in the Rural Municipality of Sifton, Oak Lake Wastewater Utility is HEREBY APPROVED to be recovered through a rate rider of \$15.84 per Residential Equivalency Unit, per quarter, for five quarters or until the total deficit amount of \$15,639 is fully recovered, whichever first occurs. This rate rider is effective January 1, 2019.
2. The Rural Municipality of Sifton provide notice to its customers of the decisions found in this Order.
3. The Rural Municipality of Sifton, Oak Lake Wastewater Utility submit an application for revised wastewater rates and review of residential equivalency unit assignments to the Board by no later than December 31, 2018.

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

"Irene A. Hamilton."

Panel Chair

"Rachel McMillin, B.Sc."

Acting Secretary

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Acting Secretary