

Order No. 33/18

**RIVERDALE MUNICIPALITY
RURAL WATER LINE UTILITY
2015 ACTUAL OPERATING DEFICIT RECOVERY**

March 2, 2018

**BEFORE: Carol Hainsworth, C.B.A., Panel Chair
Susan Nemec, FCPA, FCA, 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.

1.0 Application

On March 31, 2016, the Board received an application from the Riverdale Municipality (Municipality) Rural Water Line Utility (Utility) for approval of a utility operating deficit for 2015 in the amount of \$46,446.

In January 2015, the Rural Municipality of Daly (RM) and the Town of Rivers amalgamated to become the Riverdale Municipality. The new Municipality took over the operation of the Daly Rural Water Line Utility. Prior to amalgamation, the Daly water line was run through the RM's general operating fund. Post amalgamation, the Municipality noted that water purchases from the Rural Municipality of Wallace-Woodworth exceeded the amount being billed to the 11 customers on the line.

The Municipality paid the RM of Woodworth-Wallace all outstanding amounts which were accruing large penalties and started an investigation into the reasons for the discrepancy. Unaccounted for water was 42% for 2014 and was steadily increasing. A total of \$31,099 was spent in 2015 to repair three leaks.

All stakeholders plus one new connection were invited to a meeting that was held on February 9, 2016 to discuss the issues regarding the water line. Five of the stakeholders attended the meeting. Following this meeting, representatives from the water line met with Municipal

Council on March 15, 2016 and proposed their desired plan on how to recover the 2015 deficit. This plan was part of the first deficit recovery application that the Municipality sent to the Board for approval. The proposed recovery was to use the reserves of \$14,992 with a 3 year rate increase of \$2.00 per 1,000 gallons charged to the 11 customers. The new connection will not receive the increased rate.

Board staff discussed the inadequacies to the proposed recovery method. The Municipality then requested to disregard the proposal and a new proposal would be submitted to the Board.

On February 14, 2017, the Municipality proposed two recovery options for the Board to consider:

- Option 1: Reduce the deficit by withdrawing \$14,992 from reserves, as well as reducing the deficit by the 2016 surplus of \$6,100. The remaining \$25,354 will be recovered through a rate rider over 3 years. A \$2.00 per 1,000 gallon increase will generate an additional \$4,000, bringing an estimated surplus for 2017 to approximately \$10,380.82.
- Option 2: Reduce the deficit by withdrawing \$14,992 from reserves, as well as reducing the deficit by the 2016 surplus of \$6,100. The remaining \$25,354 will be recovered over 3 years by a lump sum payment from each account holder of \$2,304 or payment of \$830.24 to be levied on taxes for 3 years.

Both options indicated that a separate rate application will be submitted by March 31, 2017 to cover the real costs of the utility and will be borne by the 12 account holders.

The Municipality indicated that the RM of Daly used the RM of Woodworth rate application when billing out the customers. A proper rate application has not been made since 2004. Rates for the utility were last reviewed in Board Order 3/04. The current rates do not reflect repairs and maintenance or administrative costs.

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 2016 audited financial statements for the Utility, the most recent information available, the working capital deficit at December 31, 2016 is as follows:

	2015	2016
Utility accumulated fund surplus	\$204,718	\$197,072
Deduct tangible capital assets	\$252,190	\$245,006
Add long term debt	\$0	\$0
Add utility reserves	\$14,992	\$15,264
Equals Working Capital Surplus (Deficit)	(\$32,480)	(\$32,670)
Operating costs	\$68,537	\$34,597
20% of operating costs (target)	\$13,707	\$6,919

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 Board will approve the transfer of the \$14,992 reserves to partially recover the 2015 deficit.

The Board finds that there are no sufficient funds available in the Municipality's working capital surplus to recover this substantial deficit. The utility's working capital is already in a deficit position in 2015 and the draw down from reserves will make it worse for 2016.

A review of the 2016 audited financial statement indicated that the Utility is also in deficit for 2016 in the amount of \$7,646. Therefore, the proposed draw down of \$6,100 from the 2016 surplus is not an option.

The Board will order the Municipality to recover the remaining \$31,454 by a rate rider over three years, or until the amount is fully recovered, whichever comes first, on a per gallon basis of \$5.24 per gallon.

The computation is as follows:

2015 Deficit	\$ 46,446.00		
Less: Reserves	\$ 14,992.00		
	\$ 31,454.00		
Divided by 3 years	\$ 10,484.67		
Divided by 2M Gallons purchased	\$ 5.24	per 1,000 gallons	

The Board will also require the Municipality to review its Utility rates for adequacy and file a rate application for revised rates no later than June 30, 2018.

The Municipality will also be directed to file a recovery method for incurred deficit in 2016.

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.

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficit, when calculated for regulatory purposes, for 2015 of \$46,446, incurred in the Riverdale Municipality, Rural Water Line Utility is HEREBY APPROVED to be partially recovered through a transfer of \$14,992 from the reserves account of the Utility.
2. The remaining \$31,454 of the 2015 actual operating deficit be recovered by a rate rider of \$5.24 per gallon over three (3) years or until the total deficit is paid in full, whichever comes first. The rate rider is effective July 1, 2018 and notice is to be provided to all customers.
3. The Riverdale Municipality, Rural Water Line Utility review its water and wastewater 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 June 30, 2018.
4. The Riverdale Municipality, Rural Water Line Utility review its 2016 audited financial statements, and file a deficit application.

Fees payable upon this Order - \$150.00

THE PUBLIC UTILITIES BOARD

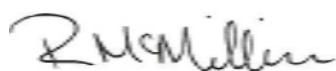
"Carol Hainsworth, C.B.A."

Panel Chair

"Rachel McMillin, B.Sc."

Acting Secretary

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by The Public Utilities Board



Acting Secretary