

**Order No. 78/18**

**TOWN OF SWAN RIVER  
WATER AND WASTEWATER UTILITY  
2016 ACTUAL OPERATING DEFICIT RECOVERY**

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**June 15, 2018**

**BEFORE:** Shawn McCutcheon, Panel Chair  
Carol Hainsworth, C.B.A., 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 February 13, 2018, the Board received an application from the Town of Swan River (Town), Water and Wastewater Utility (Utility) for approval of a 2016 operating deficit in the amount of \$312,786. Along with the application, the Municipality also submitted Council Resolution No. 2017.446, which requested recovery of the deficit through the Utility's accumulated surplus.

The application advised that the deficit was due to a discrepancy between consumption and billed amounts. The Town had installed new radio read water meters during a five-year period that was completed in 2016. During the installation of the new computer system, the Utility found a large number of bills had a discrepancy in consumption versus billed amounts. To correct this, on any account where there was a discrepancy the ratepayer paid the minimum charge.

Rates were last set in Board Order No. 149/16 and the effective dates varied in Board Order No. 163/16 effective December 1, 2016 and 2017. The Town advises that a consultant is currently completing a new rate study.

## 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 surplus at December 31, 2016 is as follows:

	<b>2016</b>
Utility accumulated fund surplus	\$10,617,372
Deduct tangible capital assets	\$11,825,915
Add long term debt	\$1,236,483
Add utility reserves	\$482,610
<b>Equals Working Capital Surplus</b>	<b>\$510,550</b>
Operating Costs	\$1,305,846
<b>20% of operating costs (target)</b>	<b>\$261,169</b>

## 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 finds that there are sufficient funds available in the Town's working capital surplus to cover this deficit. The Board approves the 2016 actual operating deficit of \$312,786 to be recovered through the Utility's accumulated surplus.

The Board notes that since 2014 this utility has incurred \$686,110 in deficits. Even though the Utility has been able to recover these deficits from their accumulated surplus fund, going forward the situation is not sustainable. If the utility continues to incur deficits the accumulated surplus will be depleted further and future deficits may need to be

recovered from ratepayers through rate riders. This is of concern to the Board as new rates were set in 2016. The Board reiterates the directive in Board Order No 149/16 that the Utility review rates for adequacy and submit a rate application to the Board no later than June 30, 2019 or sooner."

### 3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficit, when calculated for regulatory purposes, for 2016 of \$312,786, incurred in the Town of Swan River, Water and Wastewater Utility is HEREBY APPROVED to be recovered through a transfer from the Utility's accumulated surplus.

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](http://www.pubmanitoba.ca).

THE PUBLIC UTILITIES BOARD

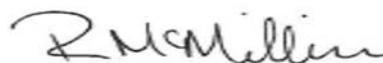
"Shawn McCutcheon."

Panel Chair

"Rachel McMillin, B.Sc."

Acting Secretary

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Acting Secretary