

Order No. 109/21

**MUNICIPALITY OF WESTLAKE-GLADSTONE
LANGRUTH WATER AND WASTEWATER UTILITY
2015, 2016, 2017, 2018 and 2019
ACTUAL OPERATING DEFICITS RECOVERY**

October 5, 2021

**BEFORE: Shawn McCutcheon, Panel Chair
Mike Watson, 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 that the Utility proposes.

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 June 17, 2021, the Board received an application from the Municipality of Westlake-Gladstone (Municipality), Langruth Water and Wastewater Utility (Utility) for approval of the following deficits:

• 2015	\$49,564
• 2016	\$46,319
• 2017	\$26,517
• 2018	\$36,578
• 2019	<u>\$35,672</u>
Total	\$194,650

Along with the application, the Municipality submitted Council Resolution No. 2021 166, requesting approval for the recovery of the deficits through the following methods:

- 2015, 2016, 2017 and 2018 deficits totaling \$158,978 through the Utility's Accumulated Fund Surplus; and

- 2019 deficit of \$35,672 through a three-year rate rider of \$1.51 per cubic meter (Years 1 and 2) and \$1.52 per cubic meter (Year 3) per customer.

The application stated the deficits were due to the costly mechanical system of the water treatment plant.

Utility rates were last approved in Board Order No. 78/16.

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 2019 audited financial statements for the Utility, the most recent information available, the working capital deficit at December 31, 2019 is as follows:

	2019	2018
Utility Fund Accumulated Surplus	802,758	838,430
Deduct: Tangible Capital Assets	843,255	877,716
Add: Long Term Debt	50,899	54,594
Add: Utility Reserves	4,823	4,754
Equals: Working Capital Surplus (Deficit)	15,225	20,062
Expenses	108,613	119,889
Target (20% of Expenses)	21,723	23,978

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

2.0 Board Findings

The Board approves the actual operating deficits, when calculated for regulatory purposes, of \$49,564 in 2015, \$46,319 in 2016, \$26,517 in 2017 and \$36,578 in 2018, to be recovered through the Utility's Accumulated Fund Surplus.

The Board approves the 2019 actual operating deficit, when calculated for regulatory purposes, in the amount of \$35,672 to be recovered through a three-year Utility rate rider of \$1.51 per cubic meter (Years 1 and 2) and \$1.52 per cubic meter (Year 3) per customer beginning October 1, 2021, or until fully recovered, whichever comes first.

The Board directs the Municipality of Westlake-Gladstone to provide a notice of the decisions found in this Order to its customers as soon as possible, with a copy provided to the Public Utilities Board.

The Board has requested the inclusion of a Deficit Recovery Revenue line in Schedule 9 of the Municipal Audited Financial Statement template to monitor deficit rate rider collection of revenues. The Board recommends that the Municipality talk to its Municipal Auditors regarding the intent of the "Deficit Recovery Revenue" line item and ensure that appropriate presentation is used.

The Board notes the Municipality was directed in Board Order No. 78/16 to review the Utility's Water and Wastewater rates for adequacy and file a report, as well as an application or revised rates if required, by no later than June 30, 2019. To date, the Board has not received either a rate adequacy report or rate application. The Utility's working capital is below the Board's recommended 20% of operating expenses and there have been five consecutive deficits incurred by the Utility indicating that the Utility financial position has not been reviewed yearly.

Utility financials should be reviewed yearly, with an application to the Board to revise the rates approximately every three years. Regular rate reviews, as per the Board's Guidelines, protect the financial position of the Utility and may reduce the need for significant rate increases in one year. In some cases, such as the Langruth Utility, the additional cost of a rate rider becomes necessary to recover utility deficits from the rate payers.

It is the Utility's responsibility to review the rates and ensure rates are adequate to recover the cost of service, which includes maintenance, being provided to its ratepayers. Ratepayers are generally more tolerant of regular, smaller increases. The Municipality needs to be much more diligent in conducting regular reviews of its revenue requirements.

The Municipality has incurred five deficits, and has not come to the Board for approval. By law, Manitoba utilities are not allowed to incur deficits. In the event that a deficit does occur, the Utility is required by *The Municipal Act* to obtain Board approval for both the deficit and recovery methodology as soon as it is known. The Municipality needs to be more diligent in reporting the deficits to the Board.

Therefore, the Board directs the Municipality to submit a rate application by no later than December 1, 2021.

The Board also directs the Municipality to review the 2020 financials, which should be available, for a deficit. Should a deficit materialize the Utility is to apply for the deficit as soon as it is known,

3.0 IT IS THEREFORE ORDERED THAT:

1. The actual operating deficits, when calculated for regulatory purposes, of \$49,564 in 2015, \$46,319 in 2016, \$26,517 in 2017 and \$36,578 in 2018 incurred in the Municipality of Westlake-Gladstone, Langruth Water and Wastewater Utility, is HEREBY APPROVED to be recovered through the Utility's Accumulated Fund Surplus.
2. The 2019 actual operating deficit, when calculated for regulatory purposes, in the amount of \$35,672, incurred in the Municipality of Westlake-Gladstone, Langruth Water and Wastewater Utility, to be recovered through a 3-year rate rider of \$1.51 per cubic meter (Years 1 and 2) and \$1.52 per cubic meter (Year 3) to be collected beginning October 1, 2021 or until fully recovered, whichever comes first. Rate Riders are to begin October 1 of each year.
3. The Municipality of Westlake-Gladstone is to provide a notice of the decisions found in this Order to its customers as soon as possible, with a copy provided to the Public Utilities Board.
4. The Municipality of Westlake-Gladstone review Langruth Water and Wastewater Utility rates and submit a rate application, by no later than December 1, 2021.

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."
A/ Associate Secretary

Certified a true copy of Order No. 109/21
issued by The Public Utilities Board



A/Associate Secretary