

Order No. 75/22

**MUNICIPALITY OF WESTLAKE-GLADSTONE
LANGRUTH WATER AND WASTEWATER UTILITY
2020 ACTUAL OPERATING DEFICIT RECOVERY**

July 14, 2022

**BEFORE: Marilyn Kapitany, B.Sc. (Hon), M.Sc., Panel Chair
Shawn McCutcheon, 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 November 19, 2021, the Board received an application from the Municipality of Westlake-Gladstone (Municipality), Langruth Water and Wastewater Utility (Utility) for approval of a 2020 operating deficit in the amount of \$35,304.

Along with the application, the Municipality submitted Council Resolution No. 2021-335, requesting approval for the recovery of the deficit through the Utility's Accumulated Fund Surplus. The Municipality proposed to recover the deficit through the Utility's Accumulated Surplus because it is performing a full rate study and anticipates the resulting rate increase will address the recurring deficit issue. The Utility has an existing rate rider to recover the 2019 actual operating deficit.

The application stated the deficit was due to the costly mechanical system of the water treatment plant.

Utility rates were last approved in Board Order No. 78/16. The 2019 actual operating deficit rate rider was approved in Board Order No. 109/21.

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 2020 audited financial statements for the Utility, the most recent information available, the working capital deficit at December 31, 2020 is as follows:

| | 2020 |
|--|-----------------|
| Utility Fund Accumulated Surplus | \$767,454 |
| Deduct: Tangible Capital Assets | \$808,792 |
| Add: Long Term Debt | \$46,992 |
| Add: Utility Reserves | \$4,861 |
| Equals: Working Capital Surplus (Deficit) | \$10,515 |
| | |
| Expenses | \$111,622 |
| Target (20% of Expenses) | \$22,324 |

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 notes that in Board Order No. 109/21, the Municipality was directed to submit a rate application on or before December 31, 2021. On November 25, 2021, the Board granted an extension to April 30, 2022. To date, the Board has not received an application for revised rates from the Municipality.

On June 9, 2022, Board staff asked for an update to the status of the rate application and on June 14, 2022, the Municipality stated that it is currently in the process of a rural water

expansion project in the Langruth area and the Langruth system will be converting to the Yellowhead water supply. The Municipality advised that it is working with a consultant for the rate study and with the expansion project, the Utility will determine whether to request approval to amalgamate the Utility with the Yellowhead Utility or to request for new rates for the Utility. The decision will be made following a Local Improvement Public Hearing scheduled on July 6, 2022.

The Board grants approval of the 2020 actual operating deficit, when calculated for regulatory purposes, in the amount of \$35,304. The Board, however, varies the recovery method to a two-year Utility rate rider of \$1.99 per cubic meter to be collected beginning October 1, 2022, or until fully recovered, whichever comes first.

The Utility's working capital surplus does not meet the Board's requirement, the Utility incurred yearly deficits since 2015 and unaudited financials indicate a deficit likely occurred in 2021.

As noted in Board Order No. 109/21, Utility financials should be reviewed yearly, with an application to the Board to revise 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 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 ratepayers.

The Board directs the Utility to submit a rate study by no later than December 31, 2022, regardless of the outcome of the proposed project. While the proposed capital projects may impact the rates significantly, the Board finds increased utility rates are required whether the project moves forward or not. The Municipality has been delinquent in not applying to the Board for revised rates, despite having actual operating deficits totalling over \$200,000 since 2015. Further delays in making application to the Board will result in more deficits in the future.

The Municipality is to provide an update to the Board as to the results of the Local Improvement Public Hearing by no later than July 31, 2022.

3.0 IT IS THEREFORE ORDERED THAT:

1. The 2020 actual operating deficit, when calculated for regulatory purposes, in the amount of \$35,304, incurred in the Municipality of Westlake-Gladstone, Langruth Water and Wastewater Utility, are HEREBY VARIED to be recovered through a two-year rate rider of \$1.99 per cubic meter to be collected beginning October 1, 2022, or until fully recovered, whichever comes first.
2. The Municipality of Westlake-Gladstone is to provide an update to the Public Utilities Board as to the results of the Local Improvement Public Hearing by no later than July 31, 2022.
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 submit a rate application for the Langruth Water and Wastewater Utility by no later than December 31, 2022.

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

"Marilyn Kapitany, B.Sc. (Hon), M. Sc."
Panel Chair

"Jennifer Dubois, CPA, CMA"
Assistant Associate Secretary

Certified a true copy of Order No. 75/22
issued by The Public Utilities Board



Assistant Associate Secretary