

**Order No. 75/23**

**MUNICIPALITY OF WESTLAKE-GLADSTONE  
GLADSTONE WATER AND WASTEWATER UTILITY  
2020 AND 2021 ACTUAL OPERATING DEFICIT RECOVERY**

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**June 29, 2023**

**BEFORE: Shawn McCutcheon, Panel Chair  
Marilyn Kapitany, B.Sc. (Hon), M. Sc., 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 August 19, 2022, the Board received Applications from the Municipality of Westlake-Gladstone (Municipality), Gladstone Water and Wastewater Utility (Utility) for approval of a 2020 actual operating deficit of \$137,260 requested to be recovered by a rate rider of \$0.01 per customer per 1,000 gallons for a period of one year and a 2021 actual operating deficit of \$46,601 requested to be recovered from the Utility's Accumulated Fund Surplus.

Board staff reviewed the Municipality's Deficit Applications and the Utility's Working Capital. On May 2, 2023, Board staff requested additional information regarding the Municipality's deficit calculations. Board staff also advised the Utility was in a Working Capital deficit (please see Working Capital Calculation below), therefore could not recover the 2021 deficit from the Utility's Accumulated Fund Surplus, and requested a revised Deficit Application.

On May 29, 2023, the Municipality provided additional information to Board staff regarding its Deficit Applications. Board staff responded to the Municipality's revised calculations/Applications and requested clarification regarding water consumption data used to formulate the revised deficit recovery methodology requests.

On June 6, 2023, the Municipality submitted revised Deficit Applications. On June 8, 2023, Board staff requested clarification regarding the deficit recovery methodology and calculations and the Municipality revised its Deficit Applications.

On June 22, 2023, the Municipality submitted Council Resolution # 2023-159 and # 2023-160, supporting the Municipality's requests. The application stated the deficits were primarily due to unforeseen water and wastewater line breaks and the requisite repairs.

On June 23, 2023, Board staff requested clarification from the Municipality of an error in the revised 2021 deficit calculation. On June 26, 2023, the Municipality's Interim Assistant Chief Administrative Officer (CAO) confirmed a recalculation of the deficit amount and requested recover amount as outlined in the Board Findings below.

### **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 2021 Audited Financial Statements, the most recent information available, the working capital surplus for the Utility as at December 31, 2021 was:

	2021	2020
Utility Fund Surplus/Deficit	\$2,856,670	\$2,923,271
Deduct: Tangible Capital Assets	(3,636,010)	(3,446,788)
Add: Long-Term Debt	440,690	-
Add: Utility Reserves	70,372	50,080
<b>Equals Working Capital Surplus (Deficit)</b>	<b>\$(268,278)</b>	<b>\$(473,437)</b>
Operating Expenses	433,085	532,336
<b>20% of Operating Expenses (Target)</b>	<b>\$86,617</b>	<b>\$106,467</b>

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 has reviewed the Municipality's Deficit Applications, revised Deficit Applications, and supporting documents. Based on the inaccuracies and errors in the many iterations of Deficit Applications and supporting documents filed with the Board, there may be a knowledge gap for municipal staff pertaining to the Board's application process. The Board recommends the Municipality review the Board's Educational Webinar, Operating Deficit Guide for Municipal Utilities to better understand how to calculate utility deficits, the deficit recovery process and recovery methodologies, and filing Deficit Applications.

The Board notes the Municipality's proposed 2020 deficit recovery methodology is based on the following calculation:

2020 Deficit \$137,260/3-Year Average Water Consumption 65,283,000 gallons\*

= \$2.10 per 1,000 gallons/3-Year Rate Rider

= \$0.70 Rate Rider per customer per 1,000 gallons

\*Note – 3-Year Average Water Consumption is based on 2018, 2019, and 2021 water consumption. There was an error with water meter readings in 2020 creating an anomaly in water consumption for that year and therefore that year’s consumption was not used in the average consumption calculation.

The Board also notes the Municipality’s proposed 2021 deficit recovery amount and methodology was based on the Utility’s working capital deficit and not the Utility actual operating deficit. Board staff have confirmed the revised, requested deficit recovery amount and methodology with the Municipality based on the following calculation:

2021 Deficit \$46,601/2021 Water Consumption 63,909,000 gallons

= \$0.73 per 1,000/3-Year Rate Rider

= \$0.24 Rate Rider per customer per 1,000 gallons

**Total 3-Year Rate Rider = \$0.70 + \$0.24 = \$0.94/customer per 1,000 gallons**

The Board notes, Board Order No. 82/19 directed the Municipality to review the Utility water and wastewater rates for adequacy and file a report with the Board, as well as an application for revised rates, by no later than December 31, 2022. To date, the Board has not received a report from the Municipality. The Board directs the Municipality to file a report with the Board, as Ordered in Board Order No. 82/19, as soon as possible.

Based on the evidence provided in the Municipality’s Deficit Applications, the Board recommends the Municipality review the Board’s Educational Webinar, Water and Wastewater Utility Rate Applications, to fully understand the Board’s application process and requirements prior to filing a Rate Application with the Board. The Board also recommends the Municipality consider seeking assistance from a qualified consultant prior to filing a Rate Application with the Board.

### 3.0 IT IS THEREFORE ORDERED THAT:

1. The 2020 actual operating deficit of \$137,260, when calculated for regulatory purposes, and the 2021 actual operating deficit of \$46,601, when calculated for regulatory purposes, incurred in the Municipality of Westlake-Gladstone, Gladstone Water and Wastewater Utility, are HEREBY APPROVED to be recovered through a rate rider of \$0.94 per customer per 1,000 gallons of water consumed, effective October 1, 2023 for a period of three years or until the deficit is fully recovered, whichever comes first.
2. The Municipality of Westlake-Gladstone review the Gladstone Water and Wastewater Utility water and wastewater rates for adequacy and file a report with the Public Utilities Board, as well as an application for revised rates (if applicable), as soon as possible.

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

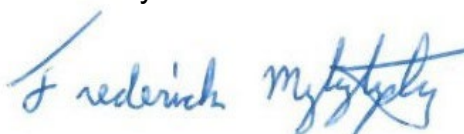
"Shawn McCutcheon"

Panel Chair

"Frederick Mykytyshyn"

Assistant Associate Secretary

Certified a true copy of Order No. 75/23  
issued by The Public Utilities Board



Assistant Associate Secretary