

Order No. 50/24

**CITY OF BRANDON
BRANDON WATER AND WASTEWATER UTILITY
2022 ACTUAL OPERATING DEFICIT RECOVERY**

April 26, 2024

BEFORE: Shawn McCutcheon, Panel Chair

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

In Board Order No. 119/23, dated October 20, 2023, the Board directed the City to submit a deficit application and recovery methodology to the Board for the for the Utility for 2022 and any other outstanding deficits as soon as possible.

On December 29, 2023, the City submitted a Deficit Application, requesting recovery of a 2022 actual operating deficit of \$1,387,450 to be recovered by a rate rider of \$0.033 per customer per 1,000 gallons of water for a period of 6.5 years, effective April 1, 2024. The City also submitted an unnumbered Council Resolution dated December 19, 2023 in support of the City's Deficit Application.

On January 17, 2024, Board staff sent information requests to the City requesting clarification regarding the City's Deficit Application.

On March 1, 2024, the City finalized its responses to Board staff information requests.

On April 19, 2024, the City submitted a revised Schedule 9. The revisions included increased Water Fees of \$667,442 and a revision of \$340,998 from being reported as a capital government grant to an operating government grant. Board staff also received confirmation from the City's auditor the amount would be revised accordingly in the City's 2023 Audited Financial Statements.

On April 23, 2024, the City submitted a revised Schedule 9 and confirmed the initial actual operating deficit amount of \$1,387,450 to be recovered by a rate rider of \$0.033 per customer per 1,000 gallons of water for a period of 6 years and 6 months, effective April 1, 2024.

Utility rates were last approved in Board Order No. 119/23, with the most recent rates coming into effect October 1, 2023. Deficits were also approved for the Utility at that time in the amounts of \$2,590,217 for 2015, \$8,757,815 for 2016, \$2,272,738 for 2017, \$686,336 for 2020, and \$1,562,813 for 2021 (or a total five-year deficit of \$15,869,919) to be recovered by a rate rider of \$0.19 per customer per 1,000 gallons of water and a rate rider of \$0.21 per customer per 1,000 gallons of wastewater for a period of seven years, effective October 1, 2023, or until \$15,869,919 is collected, whichever comes first.

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 City's 2022 Audited Financial Statements, the most recent information available, the working capital surplus for the Utility as at December 31, 2022 was:

	2022
Utility Fund Surplus/Deficit	\$151,510,742
Deduct: Tangible Capital Assets	(222,186,932)
Add: Long-Term Debt	21,898,633
Add: Water Distribution Reserve	8,652,255
Add: Wastewater Distribution Reserve	8,308,698
Add: DC Water and Wastewater Cost Charge Reserves	1,137,117
Equals Working Capital Surplus (Deficit)	\$(30,679,487)
Operating Expenses	27,396,597
20% of Operating Expenses (Target)	\$5,479,319

The Utility does not meet the Board's minimum working capital surplus of 20% and represents a shortfall of \$36,158,806.

2.0 Board Findings

The Board has reviewed the City's revised Deficit Application. The Board notes the 2022 Audited Financial Statements reported "Government Transfers – Capital – government" of \$340,998 that will be reclassified to an operating grant in the 2023 Audited Financial Statements and "Government Transfers – Capital – other organizations" of \$506,255 that will be reclassified to system development charges in the 2023 Audited Financial Statements.

The Board grants approval of the 2022 actual operating deficit, when calculated for regulatory purposes, in the amount of \$1,387,450 to be recovered by a rate rider of \$0.033 per customer per 1,000 gallons of water for a period of six years and six months, effective April 1, 2024.

The Board notes, Board Order No. 119/23 approved a rate rider of \$0.19 per customer per 1,000 gallons of water for a period of seven years, effective October 1, 2023 or until \$15,869,919 is collected, whichever comes first. When combined, the total rate rider for the Utility will be \$0.223 per customer per 1,000 gallons of water for a period of six years and six months, effective April 1, 2024 or until \$17,257,369 is collected, whichever comes first.

The Board directs the City to work with its auditor(s) to ensure the \$340,998 and \$506,255 reported as government capital transfers be revised accordingly in the 2023 Audited Financial Statements.

The Board reiterates, it is the City's responsibility to review utility rates and financials on a regular basis to ensure rates are adequate to recover the cost of service being provided to ratepayers and to mitigate deficits. It is also important the Utility respond to Board information requests on a timely basis to ensure the accuracy and integrity of the information and data provided.

The Board notes, Board Order No. 119/23 directed the City to:

- Review its water and wastewater rates for the Utility for adequacy and file a report with the Board, as well as an application for revised rates if required, by no later than April 1, 2026.
- Review its Audited Financial Statements and Utility financials annually, and file either a Rate Adequacy Report or a request to review and vary the rates approved in the Order, including a copy of City Administration's annual review of the financial position of the Utility, on October 1, 2024 and October 1, 2025.
- Return to the Board with an application for final approval of capital projects, as soon as costs have been finalized and approved by the Municipal Board, and for approval of any rate adjustments as may be required.

3.0 IT IS THEREFORE ORDERED THAT:

1. The 2022 actual operating deficit in the amount of \$1,387,450, when calculated for regulatory purposes, incurred in the City of Brandon, Brandon Water and Wastewater Utility, is HEREBY APPROVED to be recovered by a rate rider of \$0.033 per customer per 1,000 gallons of water for a period of six years and six months, effective April 1, 2024.
2. The City of Brandon work with its auditor(s) to ensure the \$340,998 and \$506,255 reported as government capital transfers be revised accordingly in the 2023 Audited Financial Statements.
3. The City of Brandon review its water and wastewater rates for the Brandon Water and Wastewater Utility for adequacy and file a report with the Board, as well as an application for revised rates if required, by no later than April 1, 2026.
4. The City of Brandon review its Audited Financial Statements and Utility financials annually, and file either a Rate Adequacy Report or a request to review and vary the rates approved in the Order, including a copy of City Administration's annual review of the financial position of the Utility, on October 1, 2024 and October 1, 2025.
5. The City of Brandon return to the Board with an application for final approval of capital projects, as soon as costs have been finalized and approved by the Municipal Board, and for approval of any rate adjustments as may be required.

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

"Frederick Mykytyshyn"

Assistant Associate Secretary

Certified a true copy of Order No. 50/24
issued by The Public Utilities Board



Assistant Associate Secretary