

Order No. 42/25

**CITY OF BRANDON
BRANDON WATER AND WASTEWATER UTILITY
2023 ACTUAL OPERATING DEFICIT
RECOVERY BY INCREASED RATE RIDER
RATE ADEQUACY REPORT 2025**

March 25, 2025

**BEFORE: Shawn McCutcheon, Panel Chair
Irene Hamilton, K.C., Panel Member**

Table of Contents

1.0 Executive Summary 3

2.0 Application..... 3

 Working Capital 4

3.0 Board Findings 5

4.0 IT IS THEREFORE ORDERED THAT: 7

1.0 Executive Summary

By this Order, the Manitoba Public Utilities Board (Board) varies the City of Brandon (City), Brandon Water and Wastewater Utility's (Utility) 2023 actual operating deficit to \$2,288,976 when calculated for regulatory purposes.

The Board also varies the City's request to recover the deficit to a rate rider of \$0.064 per customer per cubic meter for a period of five years and six months.

The reasons for the Board's decisions are under Board Findings.

2.0 Board Methodology

By law, Manitoba utilities are not allowed to incur deficits. 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.

In the event that a deficit does occur, a Utility is required to obtain Board approval for a recovery methodology that the Utility proposes.

3.0 Application

On January 13, 2025, the Board received an application from the City for approval of an actual operating deficit for the Utility for 2023 in the amount of \$1,883,608, when calculated for regulatory purposes. The deficits were the result of delays in implementing new rates.

With the application, the City submitted an unnumbered Council Resolution dated November 19, 2024, requesting the Board approve the deficit to be recovered by an increased rate rider of \$0.053 per customer per cubic meter for a period of 5.5 years.

Utility rates were last approved in Board Order No. 119/23, with the most recent rates coming into effective January 1, 2025.

With the application, the City also filed a Rate Adequacy Report for 2024 on January 13, 2025 and for 2025 on February 28, 2025. The Reports were submitted by the City's Director of Finance, stating that based on the 2023 Audited Financial Statements and the 2024 and 2025 forecasted expenditures, and the City's 2024 budget, current rates are adequate for 2025 for currently budgeted expenditures. The City also submitted an unnumbered Council Resolution in support of the Rate Adequacy Reports.

Working Capital

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 2023 Audited Financial Statements, the working capital deficit as at December 31, 2023 was:

	2023
Fund Surplus	\$149,039,112
Deduct: Tangible Capital Assets	(225,859,809)
Add: Long-Term Debt	20,331,623
Add: Utility Reserve	18,458,507
Equals Working Capital Deficit	\$(38,030,567)
Operating Expenses	29,566,288
20% of operating expenses (Target)	\$5,913,258

The Utility does not meet the Board required minimum.

4.0 Board Findings

Deficit Application

The Board has reviewed the City's deficit application and 2023 Audited Financial Statements. The Board notes, at the time the City filed its deficit application and recovery methodology the 2023 Audit was still in draft form. An analysis of the completed 2023 Final Audit indicates the following 2023 deficit calculation for the Utility:

	2023 Audit (Draft)	2023 Audit (Final)
Net Operating Deficit	\$(370,948)	\$(776,316)
Less: Deficit Rate Rider Revenue	565,566	565,566
Less: Contributed Tangible Capital Assets	2,226,013	2,226,013
Less: Capital Grants	871,770	871,770
Add: Capital Grant Amortization	1,699,711	1,699,711
Add: Amortization of Contributed Tangible Capital Assets	450,978	450,978
Actual Operating Deficit	\$(1,883,608)	\$(2,288,976)
Rate Rider Requirement	\$0.053	\$0.064

On March 13, 2025, the City advised the difference was primarily due to accretion and the associated amortization expenses and requested the rate rider remain unchanged from the City's request to reduce additional financial burden on ratepayers and due to the timing of the City's initial rate application on July 22, 2022.

The Board notes, the Utility is currently operating with a working capital deficit of over \$38.0M and as a result the Board finds that it is imperative the Utility's Audit, resulting actual operating deficits, and required rate rider recoveries be accurate. Proper treatment and recovery of Utility deficits ensure the working capital is properly rebuilt to meet Board required levels and support the financial wellbeing of the Utility.

The Board notes PS 3280, the accounting standard regarding Asset Retirement Obligations (ARO). Public sector entities reporting under the Canadian Public Sector Accounting Standard (PSAS), including all Canadian municipalities, and are required to implement the new standard starting for fiscal years on or after April 1, 2022. The Board also notes, as per the Board Guidelines and *The Municipal Act*, the actual operating deficit is determined by what has been presented in the audited financial statements and adjusted to exclude revenue from capital grants or contributed assets, and to include one year's amortization of the same capital asset.

The Board therefore varies the City's deficit and recovery, as per the City's 2023 Final Audited Financial Statements, to \$2,288,976 when calculated for regulatory purposes, to be recovered by a rate rider of \$0.064 per customer per cubic meter for a period of five years and six months, effective April 1, 2025

The Board notes, Board order No. 119/23 approved a rate rider of \$0.19 per customer per cubic meter of water for a period of seven years, effective October 1, 2023 or until \$15,869,919 is collected, whichever comes first. Board Order No. 50/24 approved an additional deficit of \$1,387,450 to be recovered by a rate rider of \$0.033 per customer per cubic meter of water for a period of six years and six months. When combined, the total rate rider for the Utility will be \$0.287 per customer per cubic meter for a period of five years and five months, effective April 1, 2025 or until 19,546,345 is collected, whichever comes first.

Rate Adequacy Report

The Board has reviewed and accepts the City's Rate Adequacy Report and reminds the City 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 (for 2026) 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, 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.

5.0 IT IS THEREFORE ORDERED THAT:

1. The 2023 actual operating deficit in the amount of \$2,288,976, when calculated for regulatory purposes, incurred in the City of Brandon, Brandon Water and Wastewater Utility, is HEREBY VARIED to be recovered by a rate rider of \$0.064 per customer per cubic meter of water for a period of five years and six months, effective April 1, 2025.
2. The Rate Adequacy Report submitted by the City of Brandon, Brandon Water and Wastewater Utility, BE AND HIS HEREBY ACCEPTED.
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, 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. 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. 42/25
issued by The Public Utilities Board


Frederick Mykytyshyn
Assistant Associate Secretary