

# EPCOR Water Services Inc. - 2020 PBR Progress Report

## Recommendation

That the June 25, 2021, Financial and Corporate Services report FCS00682, be received for information.

## Executive Summary

This report provides the annual update of the financial and operational results for Water, Wastewater Treatment and Drainage Services provided by EPCOR Water Services Inc. for the year ended December 31, 2020. It also provides a status update for each of the initiatives included in the 2020 Operating Plan for Water, Wastewater Services and Drainage Services.

## Report

This report provides a progress update for the year ended December 31, 2020 for In-City Water (Water) and Wastewater Treatment Services, in accordance with the Performance Based Regulation (PBR) Plan approved in EPCOR Water Services and Wastewater Treatment Bylaw 17698. This report also provides a progress update for the year ended December 31, 2020 for Drainage Services, in accordance with the PBR Plan approved in the EPCOR Drainage Services Bylaw 18100.

Attachment 1 includes the progress report prepared by EPCOR Water Services Inc. (EWSI) for 2020 that includes performance measures and financial data reported on a calendar year basis. The following is a summary of the financial and operating results for Water, Wastewater Treatment and Drainage services provided by EWSI.

## In-City Water Services

EWSI provides the financial and operating results for 2020 for Water Services on pages 8 to 36 of Attachment 1. The following table summarizes the actual financial results for 2020, as well as for the first four years (2017 - 2020) of the PBR plan, as compared to the PBR forecast.

Item	2020 PBR Forecast	2020 Actual	2017-2020 PBR Forecast	2017-2020 Actual
Revenue (\$Millions)	214.2	203.4	808.1	774.6

Operating Expenses (\$Millions)	110.4	100.3	425.1	395.8
Return on Equity (\$Millions)	42.6	42.9	159.7	153.1
Rate of Return on Equity (%)	10.18	10.09	10.18	9.74
	<b>2020 PBR Forecast</b>	<b>2020 Actual</b>	<b>2017-2021 PBR Forecast</b>	<b>2017-2021 Current Projection</b>
Capital Expenditures (\$Millions)	108.5	125.8	515.3	576.6

**Financial Performance**

The 2020 Actual Return on Equity of \$42.9 million is \$0.3 million higher than the 2020 PBR forecast of \$42.6 million, primarily as a result of lower than forecast operating expenses offsetting lower revenues due to lower than forecast inflation adjustment to rates and lower than forecast commercial consumption attributable to the COVID-19 pandemic.

**Capital Expenditures**

Capital expenditures of \$576.6 million are projected to be \$61.3 million (11.9 percent) higher than the PBR forecast of \$515.3 million (including amounts approved through Non-Routine Adjustments) over the 2017-2021 period primarily due to:

1. the E.L. Smith Solar Farm and Battery Storage System (\$26.0 million);
2. change in scope of the Water Distribution and Transmission Facility Expansion Project (\$6.5 million); and,
3. an increase in developer driven projects, e.g., Network Transmission Mains Program (\$25.5 million)

EWSI provides a table showing the actual and PBR forecast capital expenditures for each project with approved capital expenditures in excess of \$5.0 million over the PBR term, as well as detailed variance explanations, on pages 22-27 of Attachment 1.

**Operational Performance**

Operational performance for Water is measured by the following five indices, each consisting of one or more metrics:

1. Water Quality Index
2. Customer Service Index
3. System Reliability and Optimization Index
4. Environment Index
5. Safety Index

Water either met or exceeded the performance standards for all five performance measure indices in 2020. Details and data for the metrics for each index, and 2020 highlights and areas for improvement, are provided on pages 28-34 of Attachment 1.

**Non-Routine Adjustments and Customer Bill Impacts**

In 2019, EWSI applied for, and received City Manager approval of, non-routine adjustments for three projects. Customer bill impacts in 2020 for these three non-routine adjustments were as follows:

1. Lead mitigation strategy - costs of a new strategy to meet new Health Canada Guidelines that reduce the maximum concentration of lead in drinking water. The monthly bill increase for an average residential customer is \$0.40 per month and was effective April 1, 2020.
2. Leduc County annexation - costs related to the purchase of water infrastructure as a result of the annexation of certain lands in Leduc County by the City of Edmonton. The monthly bill increase for an average residential customer is \$0.26 per month and was effective April 1, 2020.
3. Relocation of water infrastructure due to LRT construction - the cost of work related to the relocation of water infrastructure for the West Valley Line and Metro Line Northwest Phase I projects. The monthly bill increase for an average residential customer is \$0.17 per month and was effective April 1, 2020.

**Wastewater Treatment Services**

EWSI provides the financial and operating results for 2020 for Wastewater Treatment services on pages 37 to 58 of Attachment 1. The following table summarizes the actual financial results for 2020, as well as for the first four years (2017-2020) of the PBR plan, as compared to the PBR forecast.

Item	2020 PBR Forecast	2020 Actual	2017-2020 PBR Forecast	2017-2020 Actual
Revenue (\$ Millions)	112.6	105.4	410.1	391.4
Operating Expenses (\$Millions)	59.6	53.9	226.3	200.5
Return on Equity (\$ Millions)	20.6	20.1	73.6	78.6
Rate of Return on Equity (%)	10.18	10.70	10.18	11.52
	2020 PBR Forecast	2020 Actual	2017-2021 PBR Forecast	2017-2021 Current Projection
Capital Expenditures (\$ Millions)	47.7	39.2	235.4	248.3

**Financial Performance**

The 2020 actual Return on Equity of \$20.1 million was \$0.5 million lower than the 2020 PBR forecast of \$20.6 million primarily due to lower than forecast revenues from the same factors as Water (lower than forecast inflation adjustment to rates and lower commercial consumption), which more than offset a decrease in operating expenses relative to forecast.

**Capital Expenditures**

Actual capital expenditures are currently projected to be \$12.9 million (5.5 percent) higher than the PBR forecast over the 2017-2021 period (\$248.3 million versus \$235.4 million) primarily due to repairs to aging critical infrastructure at the Gold Bar Wastewater Treatment Plant. EWSI provides a table showing the actual and PBR forecast capital expenditures for each project with approved capital expenditures in excess of \$5.0 million over the PBR term, as well as detailed variance explanations, on pages 47 to 51 of Attachment 1.

**Operational Performance**

Operational performance for Wastewater is measured by the following four indices each consisting of one or more metrics:

1. Water Quality and Environmental Index
2. Customer Service Index
3. System Reliability and Optimization Index
4. Safety Index

Wastewater Treatment services either met or exceeded the performance standards for all four performance measure indices in 2020. Details and data for the metrics for each index, as well as a discussion of 2020 highlights and areas for improvement, are provided on pages 51-56 of Attachment 1.

**Drainage Services**

EWSI provides the financial and operating results for 2020 for Drainage Services on pages 59 to 81 of Attachment 1. EWSI does not currently have a City of Edmonton approved PBR forecast to serve as the basis for financial performance, so its financial performance for 2020 has been compared to its 2020 EPCOR drainage (adjusted) budget. The following table summarizes the actual financial results for 2020 as well as for the three year period 2018 to 2020.

Item	2020 Forecast	2020 Actual	2018-2020 Forecast	2018-2020 Actual
Revenue (\$ millions)	208.5	214.4	607.5	608.0

Return on Equity (\$ millions)	19.1	30.3	76.7	90.0
Rate of Return on Equity (%)	3.25	4.96	4.46	5.03
	<b>2020 Forecast</b>	<b>2020 Actual</b>	<b>2018-2021 Forecast</b>	<b>2018-2021 Current Projection</b>
Capital Expenditures (\$ millions)	215.5	236.1	780.6	747.5

**Financial Performance**

The 2020 actual Return on Equity of \$30.3 million is \$11.2 million higher than the 2020 budget of \$19.1 million. Lower than forecast interest expenses and higher than forecast revenue contributed to the higher than forecast Return on Equity.

**Capital Expenditures**

The current 2018-2021 projected capital expenditures of \$747.5 million are \$33.1 million (4.4 percent) less than the City of Edmonton’s long term plan (and approved Non-Routine Adjustments) of \$780.6 million. Substantial shifts of projected costs between programs have been made as EWSI continues to refine and reprioritize its overall capital expenditure program to address asset condition, mitigate risk of failure and maintain required service levels.

EWSI provides a table showing the actual and budget capital expenditures for each project with approved capital expenditures in excess of \$10.0 million over the 2018-2021 term, as well as detailed variance explanations, on pages 71-75 of Attachment 1.

**Operational Performance**

City Council approved amendments to the EPCOR Drainage Services Bylaw 18100 on February 19, 2020 for EWSI to introduce new PBR performance metrics, scoring and penalties beginning in 2020.

EWSI has provided details and data for these new metrics, categorized into the following four indices:

1. Environmental Index
2. Customer Service Index
3. Reliability and Optimization Index
4. Safety Index

In 2020, Drainage exceeded the performance standards for three of its four performance measure indices, but was unable to meet the standard for the Reliability and Optimization Index due to challenges encountered in the Blocked Sewers and Full

Property Flood Proofing Inspections metrics. Details and data for the metrics for each index, as well as a discussion of 2020 highlights and areas for improvement, have been provided on pages 75-81 of Attachment 1.

**Non-Routine Adjustments and Customer Bill Impacts**

In 2019, EWSI applied for, and received City Manager or City Council approval of, non-routine adjustments for three projects:

1. Stormwater Integrated Resource Plan - costs related to capital and operating investments required to mitigate flood risks across the City. The increase in the monthly bill for an average residential customer in 2020 was \$0.51 per month and \$0.15 per month effective January 1, 2021. An additional \$0.03 per month is to be effective January 1, 2022. City Council approved this non-routine adjustment to rates on November 26, 2019 (Financial and Corporate Services Report CR\_7558).
2. Corrosion and Odour Reduction Strategy - costs related to reducing community odour impacts and corrosion of drainage pipes. The increase in the monthly bill for an average residential customer in 2020 was \$0.53 per month and \$0.42 per month effective January 1, 2021. An additional \$0.06 per month is to be effective January 1, 2022. City Council approved this non-routine adjustment to rates on November 26, 2019 (Financial and Corporate Services Report CR\_7559).
3. Relocation of drainage infrastructure due to LRT construction - the cost of work related to the relocation of drainage infrastructure for the West Valley Line and Metro Line Northwest Phase I projects. The increase in the monthly bill for an average residential customer in 2020 was \$0.14 per month and \$0.37 per month effective January 1, 2021. An additional \$0.31 per month is to be effective January 1, 2022.

**Corporate Outcomes and Performance Management.**

<b>Corporate Outcome(s):The City of Edmonton has sustainable and accessible infrastructure</b>			
<b>Outcome(s)</b>	<b>Measure(s)</b>	<b>Result(s)</b>	<b>Target(s)</b>
Oversight and transparency of EPCOR water, wastewater and drainage services.	Annual and periodic reporting to Utility Committee of financial performance, operating and capital programs, and service quality levels.	Annual Progress Report - Water, Wastewater, Drainage (June 2021)  Annual Operational Plan (Feb 2021)  Performance Based Rates Applications (Feb 2021)	Annual Progress Report - Water, Wastewater, Drainage (June)  Annual Operational Plan (Q1)

**Attachments**

1. 2020 PBR Progress Report

**Others Reviewing this Report**

- C. Owen, Deputy City Manager, Communications and Engagement
- S. McCabe, Deputy City Manager, Urban Planning and Economy
- K. Fallis-Howell, Acting City Solicitor