

City of Edmonton

EPCOR Water Services Inc. 2017 Drainage Utility Transfer Review

Report date: May 31, 2021

Table of Contents

1	Executive summary	2
1.1	Project overview	2
1.2	Scope of work	2
1.3	Restrictions and limitations	2
1.4	Summary findings and observations	3
1.4.1	Guiding principles evaluation	3
1.4.2	Further analysis under guiding principle #3	4
1.4.3	Summary of outstanding items	5
2	Introduction	9
2.1	Purpose	9
2.2	Objectives and scope of work	9
2.3	Review approach	9
3	Findings and observations	10
3.1	Assessment of Letter of Intent commitments	10
3.1.1	Guiding Principle 1: The public's interests must be a top priority	10
3.1.2	Guiding Principle 2: There must be value for the taxpayers and ratepayers	10
3.1.3	Guiding Principle 3: Provide a net advantage to the City and maintain or enhance the City's long-term financial sustainability	12
3.1.3.1	Capital savings	12
3.1.3.2	Operational savings	14
3.1.3.3	Organizational focus	18
3.1.3.4	Incremental dividend	19
3.1.3.5	Commitment to hold rate increase	20
3.1.3.6	Proven regulatory framework	23
3.1.3.7	Transfer of liability	23
3.1.3.8	Control over municipal development	24
3.1.3.9	Expansion of EPCOR's business	24
3.1.3.10	Retained control	25
3.1.3.11	Summary of findings	25
3.1.4	Guiding Principle 4: EPCOR's existing electricity, water, and other business operations will be maintained.	26
3.1.5	Guiding Principle 5: City Council will remain as regulator of drainage rates through a Performance Based Regulation, similar to water.	27

3.1.6	Guiding Principle 6: Utility customers must not be negatively impacted. EPCOR to maintain no more than the rate increases required to support the service and quality metrics in the current Drainage Services Utility plan.	28
3.1.7	Guiding Principle 7: Ensure ongoing effective asset management practices and continued commitment to current council for flood mitigation.	29
3.1.8	Guiding Principle 8: All staff impacted by the proposal will be treated respectfully and their employment statuses will be maintained.	30
3.1.9	Guiding Principle 9: Additional mechanisms	31
3.1.10	Status on equity injections	32
3.1.11	Summary of findings	33
4	Outstanding areas for resolution	35
4.1	Methodology	35
4.1.1	Ownership of wet pond land parcels	35
4.1.2	Stormwater costs to the City of Edmonton	38
4.1.3	City of Edmonton contributed drainage assets as part of City capital projects	40
4.1.4	Appropriate documentation and oversight of ongoing services between the City and EPCOR through service agreements	43
4.1.5	Clarity of drainage planning roles and responsibilities between the City and EPCOR	45
4.1.6	Other potential issues, opportunities and risk for the City, taxpayers and rate associated with the EPCOR Drainage transfer	47
4.1.7	Summary of outstanding issues and findings	47
5	Glossary of terms	52
6	Appendices	54

Mr. Barry McNabb CPA, CA
Director, Utility Regulation
City of Edmonton
5th Floor, Century Place
9803 – 102A Avenue
Edmonton, AB, T5J 3A3

May 31, 2021

Dear Mr. McNabb:

Re: City of Edmonton – EPCOR Water Services Inc. Performance Based Regulation Application Filing Report

We enclose our report of the findings and observations with respect to the City of Edmonton – EPCOR Water Services Inc. 2017 Drainage Utility Transfer Review.

We would like to take this opportunity to thank the City and EPCOR Water Services Inc. for their co-operation throughout this engagement.

Yours sincerely,

Grant Thornton LLP



Troy MacDonald, CPA, CA, CBV
Partner, National Advisory Service Line Leader

Grant Thornton LLP
1701 Scotia Place 2
10060 Jasper Avenue NW
Edmonton, AB
T5J 3R8
T +1 780 422 7114
F +1 780 426 3208

1 Executive summary

1.1 Project overview

This report was prepared by Grant Thornton LLP (“we”, “us”, or “Grant Thornton”) under an engagement as a Consultant to the City of Edmonton (“the City”, “the Administration”, or “Edmonton”) for the review of the Drainage Utility Transfer (“Drainage Transfer”, “the Transfer”) that occurred September 1, 2017 following Grant Thornton’s “2016 EPCOR Proposal for Drainage Transfer Analysis” (“2016 Grant Thornton Report”). Included in this report is a review of the Drainage Services Transfer from the City to EWSI, including the actual happenings of the Transfer as compared to the Letter of Intent, the realized benefits for the City (taxpayer) and the ratepayer compared to EWSI’s 2016 proposal, any missing elements of the Transfer as well as EWSI’s rationale as to why those elements are outstanding.

1.2 Scope of work

Grant Thornton has been engaged to complete a review and analysis of the transfer of Drainage Services from the City to EWSI. Specifically, we have performed the following:

- Consulted with stakeholders regarding the Transfer process and final outcomes;
- Reviewed EWSI’s alignment to the Letter of Intent;
- Reviewed ratepayer and City benefits;
- Reviewed the outstanding elements of the Transfer; and
- Facilitated a findings’ meeting between the City and EWSI.

The specific procedures performed are outlined in each section of this report.

1.3 Restrictions and limitations

Our scope of work is set out throughout this report and reflected in the scope that was agreed upon with the City. The procedures undertaken in the course of our review do not constitute an audit of EWSI’s financial information and consequently, we do not express an opinion on the information provided by EWSI.

Information contained within this report may be considered commercially sensitive or confidential by the parties to the matter. Therefore, we defer to EWSI and the City to determine if some of the information contained in our report should be treated as confidential. We acknowledge that our report will be communicated to the parties to the matter and may become a public document accessible through the City’s website. We have given the City our consent to use our report for this purpose. Our report is not to be reproduced or used for any purpose other than that outlined above without prior written permission in each specific instance. Grant Thornton recognizes no responsibility whatsoever to any third party who may choose to rely on this report or other material provided to the City.

Unless stated otherwise within the body of this report, Grant Thornton has relied upon information provided by EWSI, the City and third-party sources in the preparation of this report, whom Grant Thornton believe to be reliable. Specifically, much of the analysis performed by Grant Thornton was based on information presented in EWSI’s 2022-2024 PBR Drainage Application, Information Request (“IR”) responses, and supporting documents provided. We are not guarantors of the information upon which we have relied in preparing the report and, except as stated, we have not audited or otherwise attempted to verify any of the underlying information or data contained in this report. We have made efforts to ensure a conservative,

realistic and transparent approach, however, some of the analysis depends on the input from third parties whose opinions may influence the conclusions.

All analyses, information and recommendations contained herein are based upon the information made available to Grant Thornton LLP as of the date of this report and are subject to change without notice. We reserve the right, but will be under no obligation, to review and/or revise the contents of this report considering information which becomes known to us after the date of this report.

1.4 Summary findings and observations

The following sections summarize the results of the analysis performed to determine the extent to which EWSI achieved the commitment outlined in the Letter of Intent. Grant Thornton uses the following colour coded legend to highlight differences in its assessment through this section and throughout our report.

Category 1: EWSI appears to have fully achieved its commitment as per the Letter of Intent.	Category 2: EWSI appears to have achieved its commitment as per the Letter of Intent, however there are related issues and/or other factors that should be considered/monitored.	Category 3: EWSI did not achieve its commitment as per the Letter of Intent.
--	---	---

1.4.1 Guiding principles evaluation

Though Grant Thornton has identified areas where other factors should be considered/monitored (highlighted in yellow), it has been concluded that EWSI has met their commitments as defined in the Letter of Intent document.

The following represents a summary of our key findings and assessments of the guiding principles outlined in the City Scope of Work in relation to the commitments outlined by EWSI in its Letter of Intent.

Guiding Principle Number	Assessment Category
1 – Prioritize public’s interests	The City remains a regulator and holds contractual rights to pass bylaws with the purpose of regulating utilities owned and operated by EWSI.
2 – Ensure value for taxpayers and ratepayers	Value was delivered to taxpayers and ratepayers through the delivery of an incremental dividend, and the Transition Payment to fund stranded costs and remediation of Drainage assets remaining with the City.
3 – Provide a net advantage to the City	Although commitments were achieved within this guiding principle, it is important to note that operational efficiencies, rate increases, and the expansion of EPCOR’s business had other factors to be considered and/or recommended to be monitored.
4 – Maintain EWSI’s existing business	EWSI’s other utilities have maintained the same level of service through the adoption of the Drainage Utility and have benefited through economies of scale.
5 – Council to remain as PBR regulator	The PBR structure adopted is similar to EWSI’s other water cycle utilities. While the next Drainage PBR Application submitted by EWSI is for a shorter duration (2022-2024) as compared to Water Services (2022-2026), this was done intentionally to stagger future PBR application reviews.

6 – Limit rate increase to support quality metrics	Through the basis from the previous metrics used in the City and other water utilities metrics, new metrics were made with reasonable amounts of experience and expertise. However, it is suggested that EWSI incorporate suggestions associated from the performance metric review noted in the Grant Thornton PBR Application Review Report (e.g. review and preform benchmarking on metrics, review the methodology associated with bonus point allocation, etc.).
7 – Ensure effect asset management for flood mitigation	Through the efforts of the Stormwater Integrated Resource Plan (SIRP), the improvements to Edmonton’s high-risk areas enhanced the drainage system.
8 – Maintain transferred staff employment status	No City Drainage staff who were transferred to EWSI were laid off, and interim agreements were created to determine job classifications for transferred employees.
9 – Additional Mechanisms	The additional mechanisms defined in the Letter of Intent appear to be upheld by EWSI, where applicable. EWSI has assisted in the planning and organizational roles that they had committed to, and have substantially taken over the roles that the City Drainage utility previously completed.

1.4.2 Further analysis under guiding principle #3

In addition to the overall summary of the guiding principles, further assessments were completed on the sub categories included in guiding principle 3 as follows:

The following table summarizes and assesses the level of commitments achieved within guiding principle #3 along with our brief assessment. Following the summary, an overall level of commitment of all guiding principles is provided.

Item	Findings
Capital Savings	EWSI has leveraged savings initiatives and prioritized capital investments to achieve similar outcomes compared to the City Drainage capital plan, meeting EWSI’s 10% capital efficiency commitment.
Operational Savings	A target for operational efficiencies was not specified within the Letter of Intent, however some operational efficiencies were generated. There are opportunities for EWSI to achieve additional operational efficiencies in the future.
Organizational Focus	EWSI has had the opportunity to focus on the entire water cycle for the City as well as other municipalities.
Incremental Dividend	An incremental dividend of \$25 million was paid over 2017 and 2018, meeting the commitment of \$20 million for the first year following the Transfer.
Commitment to Hold Rate Increase	A 3% annual rate increase was upheld throughout the period, however the introductions of Non-Routine Adjustments (NRA) in 2020 increased rates above 3% annually (approximately 4.4% on average from 2018 to March 2022).

Proven Regulatory Framework	The PBR framework was implemented following the precedent of the previously transferred Water and Wastewater utilities.
Transfer of Liability	EWSI has assumed responsibility of liabilities associated with the Utility, and has similar protections granted to the City as defined in the Municipal Government Act (MGA).
Control over Municipal Development	The City maintains control over municipal planning by retaining the area and engineering drawing review processes and collaborating with EWSI as necessary for specialist knowledge. As there is an interrelationship between the broader municipal planning and utility infrastructure planning, further clarification and coordination between municipal and utility planning areas may be required.
Expansion of EPCOR's Business	Business expansion opportunities in other jurisdictions have been sought out, but none have been secured to successfully expand the business through the full water cycle.
Retained Control	Through the Drainage Franchise, other agreements, and the MGA, City Council has remained regulator and shareholder, and retains control of assets, operations, and planning.
Overall Assessment of Letter of Intent Commitments	EWSI has substantially adhered to the guiding principles as documented in the Letter of Intent. However, Grant Thornton has noted additional areas of consideration (e.g. rate increases) and other areas to be monitored (e.g. performance metrics, expansion of EPCOR's business) by the City.

1.4.3 Summary of outstanding items

For all contemplated outstanding issues, the implications of alternatives are considered for both taxpayers and ratepayers, where applicable, in the following table. Cost estimates shown should be considered as draft and preliminary.

Outstanding Issues Potential Effects on Taxpayers and Ratepayers

Outstanding Issue and Relevance to Letter of Intent	City (Taxpayer)	EWSI (Ratepayer)	GT Suggested Course of Action
Wet Ponds <i>The Letter of Intent provides for the orderly transfer of the Drainage Utility assets, liabilities and operations from the City to EPCOR without negative impacts on utility</i>	Should the City reassume ownership of the wet ponds land parcels, the maintenance will be continued through the City and funded by taxpayers.	Should the wet ponds land parcels remain with EWSI, the City may maintain the greenspaces through a SLA and Public Access Agreement and collect fees funded by taxpayers.	Based on the evidence collected, there is merit to have EWSI retaining ownership due to the interrelated nature of wet ponds as Drainage infrastructure. The maintenance of the greenspaces can be completed by the City through a SLA (or part of the finalized

Outstanding Issue and Relevance to Letter of Intent	City (Taxpayer)	EWSI (Ratepayer)	GT Suggested Course of Action
<p><i>ratepayers or taxpayers.”</i></p> <p><i>“Transfer of Drainage would result in transfer of associated environmental and property damage liabilities”</i></p> <p><i>Assets to be transferred are “Those stormwater management facilities (dry ponds, wet ponds, etc.) that the parties identify as having a primary purpose of management (quality and quantity) and conveyance of stormwater.”</i></p> <p><i>The following will remain with the City Stormwater management facilities which are primarily utilized as parkland.</i></p> <p><i>Ongoing Service Agreements include “Maintenance of certain stormwater management facilities”</i></p>			<p>Operations and Maintenance Agreement).</p> <p>Next steps: Confirm the intended approach with both parties and develop agreements (i.e. SLA, Public Access Agreement, etc.).</p> <p>Approximate annual costs increase/decrease to taxpayers and ratepayers: \$0¹</p>
<p>Stormwater Costs</p> <p><i>There must be value for the taxpayers and ratepayers.</i></p>	<p>Should the City continue to pay its current stormwater costs, the City would likely continue to be</p>	<p>Should the City pay the increased costs for stormwater, there would likely be increased equity among ratepayers.</p>	<p>Based on the information gathered, the City should pay the stormwater costs associated with City properties in order to decrease cross subsidization. EWSI is currently reviewing EPCOR owned properties and plans to introduce full rates to its</p>

¹ Given information provided to Grant Thornton, the City maintains most green spaces surrounding EWSI owned wet ponds, and as such, the City has an existing allocated budget for this activity. EWSI currently does not have any funds allocated in the proposed PBR revenue requirement to address green space maintenance of wet ponds (EWSI response, May 15, 2021). As a result, there is no assumed corresponding decrease in costs to taxpayers or ratepayers.

Outstanding Issue and Relevance to Letter of Intent	City (Taxpayer)	EWSI (Ratepayer)	GT Suggested Course of Action
<p><i>Utility customers must not be negatively impacted.</i></p>	<p>subsidized by other ratepayers.</p>		<p>facilities by the next PBR term as well.</p> <p>Next steps: EWSI and City to confirm the associated City stormwater costs for the next PBR term (beginning in 2025).</p> <p>Approximate annual cost increase to taxpayers: \$8.0 million (based on 2022 rates)</p> <p>Approximate annual cost decrease to ratepayers: \$8.0 million (based on 2022 rates)</p>
<p>Contributed Assets</p> <p><i>There must be value for the taxpayers and ratepayers.</i></p> <p><i>Utility customers must not be negatively impacted.</i></p>	<p>Should the City elect to replace existing drainage assets as part of the neighbourhood renewal program that are not identified to require replacement by EWSI, the costs for the replacements are paid for by the City, and recorded as contributed assets from the City to EWSI.</p>	<p>Should EWSI fund the repair or replacement of these assets, the process would follow other approaches for City directed capital projects, whereby ratepayers would fund such asset repairs/replacements.</p>	<p>Based on the evidence collected, there is merit to have EWSI fund the expenses associated with repairing or replacing catch basins affiliated with the neighbourhood renewal program.</p> <p>Next steps: Confirm the intended approach with both parties, refine the estimate for funding required by EWSI for neighbourhood renewal projects, and update Section 9 of the Drainage Franchise Agreement.</p> <p>Approximate annual capital cost increase to ratepayers: \$10 million².</p> <p>Approximate annual capital cost decrease to taxpayers: \$10 million.</p>

² As EWSI finances capital expenditures in order to achieve an overall capital structure of 60% debt and 40% equity, increases in capital costs are reflected overtime in rates. The approximate revenue requirement increase associated with an annual addition of a \$10 million capital expenditure totals approximately \$2.8 million over the 2022-2024 PBR term (approximate average increase of \$730,000 per year during the next PBR term). While not quantified, this annual amount will likely grow as further capital expenditures are introduced (EWSI response, May 20, 2021). For the purposes of the illustrative comparison, the annual capital costs are used to reflect the cost increase (decrease) to ratepayers (taxpayers).

Outstanding Issue and Relevance to Letter of Intent	City (Taxpayer)	EWSI (Ratepayer)	GT Suggested Course of Action
<p>Service Agreement Documentation and Oversight</p> <p><i>“A number of agreements between the City and EPCOR will be required to effect the transfer.”</i></p>	<p>EWSI and the City are both large organizations that have frequent touchpoints and communications due to the nature of their interrelated operations. As a result of these interrelated operations, there are areas of complexity when it comes to the governance and oversight of both organizations. It is beneficial that there are documented agreements, as well as senior leadership committees to support a clear understanding of roles and responsibilities.</p>		<p>There are still areas for further understanding and clarifying roles from which both parties would benefit (including finalizing outstanding agreements). It is suggested that strong documentation processes are undertaken in order to generate a comprehensive organizational memory for reference.</p>
<p>Drainage Planning Roles and Responsibilities</p> <p><i>The City would have direct control over the direction of municipal development. Ongoing Service Agreements include “City Planning Services (land development planning, engineering, cost assessment and infill support).”</i></p>	<p>Both the City and EPCOR have roles and responsibilities at across various stages of the drainage planning process. While the City maintains authority over the City Plan, there will continue to be an interrelationship with EWSI to identify utility infrastructure requirements to support the City Plan, and also identify constraints to the City Plan imposed by utility infrastructure planning. As a result of this, and through the Drainage Transfer, there has been a perceived decrease in the clarity of City and EWSI drainage planning roles.</p>		<p>Further clarification and coordination between municipal and utility planning areas may be required. Adding formalized documentation (e.g. SLA) of the roles and responsibilities of each party should ensure that planning functions run more smoothly. Both parties should ensure that the Drainage knowledge that exists in either organization is appropriately leveraged at all stages of the planning process.</p>
<p>Summary of approximate cost impacts to taxpayers and ratepayers</p>			<p>Approximate annual cost increase to Drainage ratepayers: \$2 million</p> <p>Approximate annual cost decrease to taxpayers: \$2 million</p>

2 Introduction

2.1 Purpose

Edmonton City Council voted to transfer the Drainage Service Utility (also referred to as “Drainage”, the “Utility”, or the “Drainage Utility”) from the City to its wholly owned subsidiary corporation, EPCOR, effective September 1, 2017 (also referred to as “Transfer” or “Drainage Transfer”). A Letter of Intent (also referred to as “Report CR 4436”) established the foundation of the transfer. It was jointly developed by the City and EPCOR, and from findings and conclusions from the 2016 EPCOR Proposal for Drainage Transfer Analysis conducted by Grant Thornton. Given that approximately five years has passed since the transfer occurred and that EPCOR has submitted a new 2022-2024 PBR application for Drainage, the City engaged Grant Thornton to conduct an independent review of the Drainage transfer, taking into account the terms and commitments included in the Letter of Intent. Furthermore, this review also assesses the state of additional areas identified by the City, which may need further resolution between the City and EPCOR. As the Drainage Services Utility is organizationally housed in EPCOR Waster Services Inc. (EWSI), this report uses EWSI for further references to EPCOR as it relates to the Transfer.

2.2 Objectives and scope of work

Grant Thornton’s objectives with respect to the Drainage Transfer from the City to EWSI is to review and provide an assessment on the following areas:

1. Transfer elements as outlined in the Letter of Intent to the Transfer execution, including misalignments or gaps, and
2. Potential outstanding elements of the Transfer or elements of the Transfer that need to be addressed further, including perspectives on potential alternatives to resolve outstanding elements.

Please see Appendix A for Grant Thornton’s full Scope of Work pertaining to the Drainage Transfer Review, as well as Appendix B for full details regarding the commitments made by EWSI in the Letter of Intent.

2.3 Review approach

Our approach in relation to the Drainage Transfer review included the following key activities:

- Consulted with City staff to gather an understanding of the transfer details;
- Reviewed supporting documentation related to the transfer from the City to EWSI (see Appendix C for documents provided and reviewed);
- Prepared Information Requests (IRs) to EWSI to gather additional information
- Facilitated draft finding meeting (May 18, 2021) with City and EWSI stakeholders to confirm understanding of current state and review alternatives for areas that require further resolution (see Section 4 of this report).

3 Findings and observations

3.1 Assessment of Letter of Intent commitments

The following section includes an assessment of how EWSI met the commitments outlined in the Letter of Intent. This section is organized by the Guiding Principles noted in the Letter of Intent. Each Guiding Principle is followed by (1) a brief summarization of EWSI's commitment (note that more details from the Letter of Intent are provided in Appendix B), (2) qualitative and quantitative evidence regarding EWSI's achievement of the commitments outlined, and (3) Grant Thornton's assessment with respect to the extent to which EWSI achieved the commitment. Grant Thornton used the following colour coded legend to highlight differences in its assessment.

Category 1: EWSI appears to have fully achieved its commitment as per the Letter of Intent.	Category 2: EWSI appears to have achieved its commitment as per the Letter of Intent, however there are related issues and/or other factors that should be considered/monitored.	Category 3: EWSI did not achieve its commitment as per the Letter of Intent.
--	---	---

3.1.1 Guiding Principle 1: The public's interests must be a top priority

Following the Drainage Transfer, the City Council intends to prioritize the public's interest through remaining a regulator of the utility, City Council's role as a shareholder of EWSI, the owner and operator of the utility, and the City's contract rights regarding the utility through the franchise and transfer agreements.

Evidence Base:

Through the Municipal Government Act (MGA), municipalities are provided with the statutory authority to create bylaws or resolutions for municipal purposes. Section 3 of the MGA explains that these municipal purposes include providing "services, facilities or other things that, in the opinion of council, are necessary or desirable for all or a part of the municipality". In addition, the provincial government provided municipalities with "natural person powers" in 1995 that granted municipal councils the rights, powers, and privileges of a natural person, limited to the criteria set out in Section 3 of the MGA. These natural person powers allow the City of Edmonton City Council to enter into contracts and agreements³. Several agreements have been struck between the City and EWSI to facilitate the Drainage Utility's transfer, ownership and operation (see Section 4.1.4 of this report for further details).

GT Assessment:

- The City remains a regulator of the Drainage Utility, in a similar capacity to EWSI's water and wastewater utility. The City holds contractual rights through the MGA and the rights outlined within Section 3 that grants municipalities to pass bylaws with the purpose of regulating utilities for the public. As the regulator of utilities, it is reasonable to assume that City Council intends to keep the public's interest a priority. Further, the City remains sole shareholder of EPCOR, of which EWSI is a subsidiary.

3.1.2 Guiding Principle 2: There must be value for the taxpayers and ratepayers

The City and taxpayers will benefit from a \$20 million increase in dividend from EPCOR in the first full year following the transfer. EWSI committed to hold the annual Drainage rate increases steady at 3% through to

³ GT-EWSI-A-1, page 2 (original source MGA, s.7(g) and 8(a)).

the end of March 2022. At the end of the period, they will complete an application Performance Based Regulation of new rates. In order to compensate the City and taxpayers for transfer costs, EWSI agreed to pay a Transition Cost Compensation in the amount of \$75M.

Evidence Base:

- The incremental dividend is discussed in Section 3.1.3.4.
- The rate increase is discussed in Section 3.1.3.5.

The intent of the Transition Payment (also referred to as “Transition Cost Compensation”) from EWSI was to allow the City to manage transition costs associated with the Transfer. Specifically, it was intended to offset stranded costs and fund remediation costs associate with the Bremner lagoons and Queen Elisabeth Park Wastewater Treatment Park (QE Park WWTP)⁴.

The \$75 million Transition Payment was treated as a promissory note with declining payments over five years. EWSI has paid \$69.2 million of the Transition Payment according to the following schedule with a remaining balance of \$5.8 million to be paid January 4, 2022⁵.

Date	Payment Amount (millions \$)
September 1, 2017	8.2
January 2, 2018	20.9
January 2, 2019	17.1
January 2, 2020	13.4
January 4, 2021	9.6
Balance paid to date	69.2
January 4, 2022 Scheduled Payment	5.8
Total Transition Cost	75.0

The following table outlines the City's allocation of the funds from the Transition Payment (rounded to the nearest hundred thousand dollar). Further details surrounding the amounts within the table can be found in Appendix D. The remaining unallocated balance as per the most recently available information is \$15.258M⁶.

Transition Payment	\$75.0M
Stranded Costs	\$(40.2M)
Contaminated Sites Liability Transferred (Bremner Lagoons)	\$(17.2M)
QE Park Demolition Project	\$(1.6M)
Other Associated Costs	\$(0.7M)
2021 Remaining Balance	\$15.3M

⁴ City of Edmonton email response, Oliver Zakoc, April 27, 2021.

⁵ GT-EWSI-A-2, page 6.

⁶ City of Edmonton, Transition payment received from EPCOR, net of contaminated sites liabilities and stranded costs, provided April 22, 2021.

With the remaining unallocated balance of \$15.258 million, nothing material would lead either the City or EWSI to believe that the Transition Payment of \$75 million was not sufficient to cover stranded and remediation costs.

GT Assessment:

- The transition costs from EWSI to the City were intended to cover stranded costs associated with the Transfer and contaminated site liabilities that remained with the City. There has been no evidence provided that would suggest that the \$75 million provided was not sufficient to cover these stranded costs. It is further suggested that stranded costs be reviewed by the City to ensure they accurately reflect all direct and indirect costs that have remained with the City as a result of the Transfer. Although various assessments and studies have been completed for the Bremner lagoons liability, it is suggested that the City update the cost estimate as further information becomes available. Upon the conclusion of the Bremner lagoons remediation and reviews associated with stranded costs, it is suggested that the City and EWSI review the potential surplus/deficit of the Transition Payment account, and determine how best to allocate such amounts.

3.1.3 Guiding Principle 3: Provide a net advantage to the City and maintain or enhance the City’s long-term financial sustainability

This guiding principle is subcategorized in several commitments as follows. Each subcategory is further detailed, followed by EWSI’s level of achievement and Grant Thornton’s assessment based on the evidence base gathered.

3.1.3.1 Capital savings

In the 10 years following the transfer, Drainage is expected to have a \$1.9B capital program, EWSI has identified a capital efficiency of 10% that can result in up to \$193M in savings over the period.

Evidence Base:

EWSI has outlined many projects that have been developed and implemented since the Drainage Transfer occurred that have allowed them to achieve capital savings within the organization. The most notable capital cost saving in comparison to the City plan is to be achieved through the implementation of the Stormwater Integrated Resource Plan (SIRP) in place of the City-Wide Flood Mitigation Plan (CWFM) that was presented to the Utility Committee in 2017. The implementation timeline of the CWFM project occurred over a 60 to 80-year timeline and forecast capital expenditures ranged from \$2.2 billion to \$4.7 billion. EWSI’s SIRP Strategy focuses more on the high-risk areas of the drainage system to safety, social, and health risks associated with flooding. The SIRP strategy involves a lower level of capital investment than the CWFM traditional engineering approach⁷.

CWFM vs. SIRP Strategy Capital Costs

SIRP Element	CWFM Low Risk Storm (millions \$)	CWFM High Risk Storm (millions \$)	SIRP Strategy (millions \$)
Slow	515	635	940
Move	1,690	4,045	300
Secure	0	0	190

⁷ Drainage PBR 2022-2024, page 35.

SIRP Element	CWFM Low Risk Storm (millions \$)	CWFM High Risk Storm (millions \$)	SIRP Strategy (millions \$)
Predict	0	0	70
Respond	0	0	45
Total	2,205	4,680	1,545

The SIRP Strategy involves a forecast capital expenditure of \$1.5 billion over a 20 to 30-year timeframe. Compared to the CWFM plan, the SIRP approach provides a direct cost savings of \$0.6 billion to \$2.9 billion depending on the level of severity of the storm mitigated.

Other capital savings have been achieved using the following:

- internal engineering;
- master agreements; and,
- the completion of Project Management Methodology Review processes.

Through the implementation of these initiatives over time and throughout the Drainage Utility, EWSI expects that the savings combined with SIRP savings, are expected to surpass the forecast capital cost savings of \$193 million of over the 10-year period as noted in the 2016 Grant Thornton Report.

EWSI has provided the estimated capital amounts delivered per employee within its Capital Delivery Team. Although not all projects completed are linear in scope and have various factors that make them difficult to compare, the analysis resulted in capital expenditures per employee growing from \$1.5 million in 2018 to \$2.7 million forecast in 2022⁸. This suggests that there is a correlation between the Drainage Transfer to EWSI, and EWSI's capital delivery team's efficiencies.

Other capital savings proposed by EWSI and highlighted in the 2016 Grant Thornton Report are in progress of being implemented. These include reducing crew sizes to save on labour costs and use of shared tandem trucks rather than having one truck per crew⁹.

EWSI has provided examples of projects which had a budget remaining from the City prior to the transfer, and the ways in which they were able to complete the projects at a lower capital cost. The 105 Avenue Sewer Lateral / Servicing for Downtown Project had been contemplated in the Drainage Application and explained a deep trunk line for a cost of \$17.7 million. Through Low Impact Development (LID) incorporation, EWSI was able to re-route the trunk line at a cost of \$11.5 million as a cost saving alternative¹⁰.

105 Avenue Sewer Lateral / Servicing for Downtown Project

	Plan	Method	Budget
City	Deep trunk line	Traditional engineering	17.7
EWSI	Re-route trunk line	Low Impact Development (LID)	11.5
Savings (millions \$)			6.2
Savings (%)			35%

⁸ UA-EWSI-5, page 2.

⁹ Drainage PBR 2022-2024, page 39.

¹⁰ UA-EWSI-5, page 3.

Two other capital projects remain under construction as seen in the next table. Malcolm Tweddle Edith Rogers (MTER) Pond Project and the Tweddle Place Pond Project both have forecast capital savings of \$14 million per project¹¹.

Projects Under Construction	MTER	Tweddle Place
City Cost Forecast	78	57
EWSI Forecast	64	43
Savings (\$)	14	14
Savings (%)	18%	25%

GT Assessment:

- EWSI has identified capital cost savings initiatives and specific project examples which support their original commitment of achieving at least a 10% capital efficiency. Comparing the City's forecast annual Drainage capital budget prepared in 2016 and EWSI's capital program is challenging given several variables that have changed since the Transfer (e.g. long-term accuracy of City's capital forecast, cancelled projects, SIRP, etc.). Further, EWSI has demonstrated methods to deploy less capital required to achieve similar outcomes (e.g. EWSI's SIRP Strategy compared to City's CWFm). EWSI's initiatives through leveraging internal engineering, improving their procurement process, standardizing project management across the organization, etc. have also demonstrated an efficient capital program delivery for Drainage. It is suggested that the City and EWSI monitor the results of continued improvements in the delivery of capital projects as EWSI makes further changes as noted in the PBR Application.

3.1.3.2 Operational savings

EPCOR proposed to generate operational cost savings, without any Drainage staff layoffs. Operational savings were to be achieved through reasonable opportunities where cost savings can be introduced, while being mindful of lost synergies. The 2016 Grant Thornton report reviewed operational costs savings proposed by EPCOR, which resulted in approximately 5% of savings from 2017-2022 further detailed in Appendix E (however, no operational cost savings percentage target was documented in the Letter of Intent).

Evidence Base:

- The employment commitments are discussed in Section 3.1.8.

The following analysis and presentation of the evidence base regarding operational efficiencies is divided into three key sections: (1) an analysis of the operational efficiencies targeted to be achieved, (2) EWSI 2022 forecast operational budget, and (3) the status of EWSI's achievement of operational efficiencies compared to the targets.

Target for EWSI's Operational Efficiencies

Grant Thornton has reviewed two approaches for quantifying the approximate operational efficiency target for EWSI as shown in the following table.

¹¹ UA-EWSI-5, page 4.

	Unadjusted City 2022F Budget ¹²	EWSI Adjusted City 2022F Budget ¹³
Total City Operational Budget	\$97.1M	\$117.2M
5% Efficiency Target	\$4.9M	\$5.9M
Total EWSI Operational Budget Target	\$92.2M	\$111.3M

The Unadjusted City 2022F Budget is based on Grant Thornton's 2016 Report, which included the City's Drainage operational budget in 2022F as \$97.1 million, had the Transfer not occurred (see Appendix E for details regarding the City's 2022F Budget). The operational efficiencies of 5% that were committed to by EWSI would result in its operational savings of \$4.9 million in 2022 or a total operational budget of \$92.2 million. Given that it was estimated in 2016, the unadjusted 2022F City Budget may not be an accurate reflection of the drainage operational costs in 2022. For the purposes of this analysis, it is used as another basis of comparison to illustrate the efficiency savings target itself to augment EWSI's Adjusted City Budget.

EWSI's Adjusted City 2022F Budget is based on adjustments made largely due to differences in accounting treatment. EWSI's full reconciliation of the adjusted City budget is detailed in Appendix E. These adjustments result in the Adjusted City 2022F Budget City budget of \$117.2 million. When taking into account the committed 5% efficiency that is to be achieved by EWSI, the 2022 EWSI operating budget target for Drainage is \$111.3 million, with an overall efficiency savings of \$5.9 million.

Given these two approaches, EWSI's 2022 operational efficiency target for Drainage following the transfer should be between \$4.9 million and \$5.9 million. As detailed further in Appendix E, this range was also compared to the list of operational efficiencies detailed in the Grant Thornton's 2016 Report, which summed to \$5.3 million by 2021¹⁴. The following table details the approximate ranges of operational efficiencies and resulting efficiency targets given these approaches. In summary, ESWI needs to achieve \$4.9 million to \$5.9 million in efficiency savings to deliver 5% operating efficiencies.

	Unadjusted City 2022F Budget ¹⁵	Operational Efficiency Bottom Up per 2016 GT Report	EWSI Adjusted City 2022F Budget ¹⁶
	Lower Efficiency Target	→	Higher Efficiency Target
Total 2022F City Operational Budget	\$97.1M	\$97.1M	\$117.2M
5% Efficiency Target (\$)	\$4.9M	\$5.3M	\$5.9M

¹² Refer to Appendix F of Grant Thornton's "2016 EPCOR Proposal for Drainage Transfer Analysis", dated October 5, 2016. The \$97.1 million forecast operating expenses in 2022 is derived from the sum of operating and maintenance, customer billing services, shared services, biosolids disposal, and SSSF payment in the table for Scenario 1A Forecast (it does not include local access fee, interest expenses or depreciation as these are not deemed to be related to operational expenses).

¹³ Drainage PBR 2022-2024, page 41.

¹⁴ 2016 Grant Thornton EPCOR Proposal for Drainage Transfer Analysis Report, page 37.

¹⁵ Refer to Appendix F of Grant Thornton's "2016 EPCOR Proposal for Drainage Transfer Analysis", dated October 5, 2016. The \$97.1 million forecast operating expenses in 2022 is derived from the sum of operating and maintenance, customer billing services, shared services, biosolids disposal, and SSSF payment in the table for Scenario 1A Forecast (it does not include local access fee, interest expenses or depreciation as these are not deemed to be related to operational expenses).

¹⁶ Drainage PBR 2022-2024, page 41.

EWSI 2022 forecast operational budget

The following tables detail EWSI's proposed revenue requirement for the entire Drainage Utility (i.e. stormwater and sanitary) from 2022 to 2024, excluding and including the costs associated with the SIRP and CORE programs¹⁷. Note the total forecast operational cost forecast is \$110.6 million in 2022 (including the SIRP and CORE programs).

Drainage Utility (excluding SIRP and CORE)	2022	2023	2024
	(millions \$)		
Operating Costs	98.7	94.2	95
Franchise Fees and Property Taxes	10.6	10.9	11.4
Depreciation and Amortization	38.8	39.9	42.1
Return on Rate Base financed by Equity	31.3	31.1	33.3
Return on Rate Base financed by Debt	34.6	43.7	54
Revenue Requirement before Offsets	214	219.8	235.7

Drainage Utility (including SIRP and CORE)	2022	2023	2024
	(millions \$)		
Operating Costs	110.6	105.7	108.3
Franchise Fees and Property Taxes	11.7	12.1	13
Depreciation and Amortization	42	46.1	51.1
Return on Rate Base financed by Equity	34.5	36.3	40.7
Return on Rate Base financed by Debt	41.1	54.7	69.4
Revenue Requirement before Offsets	240	254.9	282.4

In order to create a common basis for comparison to the original forecast 2022 budget, EWSI made adjustments to their internal 2022 forecast for operating costs of \$110.6 million in order to determine savings as compared to what the City would have experienced, had the transfer not occurred¹⁸. These are further detailed in Appendix E. Cumulatively, EWSI's net adjustments to the budget resulted in no change to its forecast operating costs, keeping the 2022 Drainage budget consistent at \$110.6 million¹⁹.

	2022 Forecast (millions \$)
Forecast Operating Expenses	110.6
Less: SIRP and CORE Expenses	(7.6)
Plus: Biosolids Management Program	12.6
Less: Additional Revenue	(2.1)
Less: Additional Capacity from Existing Resources	(2.4)
Less: Additional Cost Recoveries	(0.3)
Less: Customer Analytic Position	(0.2)
Adjusted Forecast Operating Expenses	110.6

¹⁷ Refer to Table 4.0-1 and Table 4.0-2 in the Drainage PBR 2022-2024 (page 76-77) for the information in which these tables were derived. The sanitary and stormwater tables were combined to determine full Drainage Utility costs.

¹⁸ Drainage PBR 2022-2024, page 44.

¹⁹ Drainage PBR 2022-2024, page 45.

The EWSI budget was decreased by \$7.6 million of expenses associated with SIRP and CORE programs. These costs are incremental to the City budget and therefore have a material impact.

In preparation for the Biosolids Management Program to be transferred to the Wastewater Utility in 2022, the budget has been increased by \$12.6 million to reflect the full year of operating expenses that EWSI will incur as a result.

Through the 2018-2021 transition period, EWSI noted errors in customer billing records due to incorrect rate classifications. By correcting these bills, the Drainage Utility experienced an unforeseen increase in revenues. By implementing new controls to ensure accuracy, the forecast budget is being reduced by \$2.1 million.

By using EWSI internal resources, the expenses associated with capital inspections and environmental consultations performed by external contractors could be reduced. Within 2022, additional savings of \$2.3 million for inspections and \$0.1 million for environmental consultation were removed from the forecast budget.

Additional cost recoveries include \$0.3 million in third party recoveries for services including inspections, and \$0.2 million in synergies in customer analytics which has eliminated the need for a position within Drainage, since the position has historically resided within the Water Services²⁰.

Per a high-level review of the EWSI forecast operational budget above, Grant Thornton created a normalized budget in which the additional revenues from customer billing adjustments and savings from the customer analytic position are excluded. While the additional revenues may not have been received if Drainage remained with the City, it does not appear to represent an operational saving.

It is also important to note that while Grant Thornton continued to include the customer analytic position as an operational efficiency, it does not appear to be aligned with the principle of no staff layoffs (i.e. though eliminated from Water Services, either the Drainage or Water Services position could have potentially been eliminated). Moreover, it was not a direct reduction to Drainage operational expenses. Nonetheless, given the overall savings to rate payers, and because Drainage staff were not eliminated, it was included.

Grant Thornton normalized forecast operating expenses

	2022 Forecast (millions \$)
Forecast Operating Expenses	110.6
Less: SIRP and CORE Expenses	(7.6)
Plus: Biosolids Management Program	12.6
Less: Additional Capacity from Existing Resources	(2.4)
Less: Additional Cost Recoveries	(0.3)
Less: Customer Analytic Position	(0.2)
Adjusted Forecast Operating Expenses (adjusted by Grant Thornton)	112.7

Status of EWSI’s achievement of operational efficiencies

As noted in the EWSI Drainage PBR 2022-24 Application, EWSI planned to achieve the 5% operational efficiencies through targeting a 1% annual efficiency savings that would accumulate from 2017 to 2022²¹. In general, EWSI stated to achieve operational savings by building synergies across utilities, reducing contractor and consultant costs, reducing lost time incidents, optimizing shift scheduling, strengthening financial controls over cost recoveries, and increasing fleet fuel efficiencies. These operational synergies

²⁰ Drainage PBR 2022-2024, page 45.

²¹ Drainage PBR 2022-2024, page 40.

were all noted and established without laying off any of the staff transferred along with the utility. Please refer to Appendix E for further qualitative details regarding how EWSI's achieved operational efficiencies.

In order to assess the level of achievement of operational efficiencies, we compared the budgeted forecast to determine the amount of efficiencies that have been achieved in comparison to the original and adjusted City budgets:

	EWSI Adjusted 2022F Forecast Operating Expenses (adjusted by Grant Thornton) (millions \$)	EWSI Adjusted 2022F Forecast Operating Expenses (unadjusted by Grant Thornton) (millions \$)
Total 2022F Adjusted EWSI Operational Budget	112.7	110.6
Total 2022F Adjusted City Operational Budget	117.2	117.2
Efficiency Savings	4.5	6.6
Efficiency %	3.8%	5.6%

As noted earlier, the 5% operational efficiency target should result in savings between \$4.9 million and \$5.9 million. Based on the adjusted EWSI 2022F operational budget, EWSI is set to achieve a \$4.5 million savings, which is below this targeted amount. It is important to note that 2022 budget prepared for the City was completed in 2016, and thus several changes have occurred to make the comparison of operational costs a challenging comparison. Nonetheless, based on this analysis, it does appear there is potential for additional operational efficiencies to be achieved for the Drainage Utility in the future.

EWSI has outlined future plans to achieve additional operational cost efficiencies through its Real Estate Consolidation Plan, the implementation of a common information systems platform known as GeoFit, and the further consolidation of all water utilities through One Water Planning²². The additional savings through the 2022-2023 period are forecast to total \$1.0 million for the Real Estate Consolidation Plan alone.

GT Assessment:

- EWSI does appear to have generated a degree of operational efficiencies. Because the Letter of Intent does not specify a target for the operational efficiencies, we can conclude that EWSI satisfied this requirement. However, given the previous references to a 5% target, there is merit for EWSI to find additional operational efficiencies in the future. Plans to continue operational efficiencies in future PBR periods have been outlined and focus on One Water Planning and the Real Estate Consolidation Plan. As EWSI plans to continue these efficiencies in future PBR periods, it is suggested that the City continue to monitor EWSI's operational efficiency results. Specifically, the Grant Thornton PBR Report suggests that the City consider efficiency factors for EWSI's Drainage Utility within a range 0.25% to 0.50%.

3.1.3.3 Organizational focus

Since transitioning from the power generation business in 2009, EWSI has been focused on water utilities.

Evidence Base:

Since obtaining the Drainage Utility following the transfer in 2017, EWSI has assumed ownership and control of the City's entire water cycle through providing potable water, stormwater, and wastewater services to Edmontonians. Since the transfer, through the Drainage utility, EWSI collects and treats wastewater at the Gold Bar Wastewater Treatment Plant before discharging it back to the North Saskatchewan River. The

²²Drainage PBR 2022-2024, page 46.

Drainage utility also collects and manages stormwater surface drainage in order to minimize flooding. EWSI states to have an overarching goal of minimizing the environmental impacts associated with providing these services²³.

The main goals provided by EWSI following the Drainage Transfer have been to focus on capturing operational synergies through the entire water cycle and leveraging ownership and management of the full water cycle within the City and through commercial opportunities across Canada²⁴.

GT Assessment:

- Following the review, EWSI has had the opportunity to focus on entire water cycle for the City and leveraging this local experience to provide similar services for other municipalities. In addition, EWSI has been able to focus on operational and organizational synergies presented as a result of the Transfer. Based on the evidence provided, it appears that as EWSI continues to mature, it has a stronger focus on water utilities with the inclusion of the Drainage Utility.

3.1.3.4 Incremental dividend

EWSI committed to increase the dividend to the City by \$20 million in the first year following the transfer.

Evidence Base:

The total incremental dividend increase in 2017 and 2018 was \$25 million. Specifically, as the Utility was transfer September 1, 2017, the last full calendar year that the City assumed ownership of the Drainage Utility was in 2016, and 2018 was the first calendar year that EWSI assumed ownership of the utility. A prorated increase of the \$20 million dividend would result in the payment of an additional \$7 million in 2017 and \$13 million in 2018. The actual increases in dividends were \$12 million in 2017 (total annual dividend of \$153 million), and \$13 million in 2018 (total annual dividend of \$166 million). Compared to the 2016 dividend of \$141 million, EWSI paid an additional increase in dividend of \$25 million in 2017 and 2018 combined, resulting in a payment of \$5 million above the agreed upon dividend increase²⁵.

The following table details the total dividend paid by EWSI to the City. From 2012 to 2016, the dividend did not increase (i.e. remained stagnant at \$141 million per year). In 2018 (the first calendar year following the transfer) alone, the incremental dividend was less than \$20 million. However, following the Transfer, there was a total dividend increase of \$25 million collectively in years 2017 and 2018.

	2012	2013	2014	2015	2016	2017	2018	2019
EWSI Dividend Paid	\$141	\$141	\$141	\$141	\$141	\$153	\$166	\$171
Annual Increase in Dividend	\$0	\$0	\$0	\$0	\$0	\$12	\$13	\$5
Annual % Change in Dividend		0%	0%	0%	0%	9%	8%	3%

GT Assessment:

- EWSI maintained its commitment to increase the dividend amount by \$20 million in the first year following the Transfer. Since the Transfer occurred in September 2017, it is reasonable to classify the first year following the transfer would be 2018. In total, EWSI paid an additional dividend amount of \$25 million, which is \$5 million above the commitment of an \$20 million increase.

While EWSI notes that the dividend is determined annually and usually maintains a 60% dividend pay-out ratio²⁶, it is also reasonable for the City to expect that this incremental increase in the dividend should be sustainable (i.e. the dividend amount should at the very least should remain

²³ GT-EWSI-A-3, page 6.

²⁴ GT-EWSI-A-3, page 6.

²⁵ GT-EWSI-A-2, page 2.

²⁶ GT-EWSI-A-3, page 7.

consistent in the future, pending no substantial changes in EWSI's operations, etc.). Furthermore, EWSI has the potential to generate additional income from other business development opportunities from now having exposure to the full water cycle (see Section 3.1.3.3). Regardless, it is suggested that the City and EWSI review EPCOR's the Long Term Planning (LTP) Model in order to gain greater perspective on the growth of the dividend over the next 10 years with the most recently available information²⁷. It is also recommended that the City continue to track EWSI's net income and dividend payout ratio to measure the financial health and sustainability of the dividend policy (i.e. a material change in dividend payout ratio can help assess if the dividend increase was driven by the Drainage Transfer, or from other organizational growth in EPCOR).

3.1.3.5 Commitment to hold rate increase

EWSI has committed to hold annual rate increases at 3% between the years of 2017-2021 followed by a Performance Based Regulation application for new rates. The Utility does not appear to be financially self-sufficient over the long-term with a 3% annual increase of monthly Drainage rates.

A mechanism for non-routine rate adjustments, examples of which are costs related to accelerated flood mitigation capital spend and other emergent City directed needs. Such nonroutine adjustments will be similar to the one in Bylaw 17698 EPCOR Water and Wastewater Treatment Bylaw²⁸.

Evidence Base:

The following tables contain the percentage increase in Stormwater, Sanitary, and Large Wholesale rates through the 2017-2021 PBR period, with and without the introduction of Non-Routine Adjustments (NRA) beginning in 2020 for SIRP, CORE, and the City's LRT expansion. Excluding NRAs, stormwater rates increased between 4.1% to 4.6% annually, while the sanitary variable rates saw an increase between 1.8% to 2.1% annually²⁹.

Average Rate Increases for Excluding NRAs (2018 to March 31, 2022)	2018	2019	2020	2021	Jan 1 - March 31 2022	Average
Stormwater Rate	4.5%	4.6%	4.1%	4.3%	4.4%	4.4%
Sanitary Flat Charge (all)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Sanitary Variable Rate	1.9%	1.8%	2.1%	1.9%	1.9%	1.9%
Large Wholesale Rate	2.8%	1.8%	2.1%	1.9%	1.9%	2.1%

Average Rate Increases for Including NRAs (2018 to March 31, 2022)	2018	2019	2020	2021	Jan 1 - March 31 2022	Average
Stormwater Rate	4.5%	4.6%	9.4%	6.9%	5.4%	6.2%
Sanitary Flat Charge (all)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Sanitary Variable Rate	1.9%	1.8%	6.4%	6.0%	3.3%	3.9%
Large Wholesale Rate	2.8%	1.8%	6.4%	6.0%	3.3%	4.1%

²⁷ In the 2016 Grant Thornton EPCOR Proposal for Drainage Transfer Analysis Report (page 46), EPCOR forecasted an additional \$202M in dividends to the City from 2017 to 2026 following the Transfer.

²⁸ Letter of Intent Between the City of Edmonton and EPCOR, CR_4436 Attachment 1.

²⁹ For period from September 1 to December 31, 2017, EPCOR operated the Drainage Utility and collect rates, fees and charges in accordance with City Bylaw 16200 (i.e. the existing Drainage Bylaw prior to the Transfer) as per the Interim Regulatory Framework Agreement (EPCOR Utility Committee Presentation, 2017 slide 2).

In order to fully examine the combined storm and sanitary rate increase, Grant Thornton used the average proportion of storm and sanitary bill components for an average residential rate customer. The details of this analysis are shown in Appendix F. This resulted in average combined annual rate increase for an average residential customer of 3.02% from 2018 to March 31, 2022 without NRAs, and 4.40% with NRAs.

The implementation of NRA through the commitment period (i.e. up to March 31, 2022) been completed in a similar way to the Water and Wastewater utilities. The implementation of NRA's requires the cost to be "significant and out of the scope of control of EWSI", and a revenue requirement of over \$500,000 annually³⁰. Should the total cost be under \$3 million, the City Manager may approve the NRA, but if the cost is above this threshold it requires Council approval.

Also included within the Drainage Bylaw are NRAs for City initiatives (i.e. costs to comply with the City's directions/projects/initiatives) as well as Flood Mitigation costs above the City's 10-year forecast at the time of the Transfer. The 3% annual rate increase includes costs associated with Flood Mitigation efforts forecast by the City. This was forecast to be approximately \$55.2 million annually (i.e. the annual average of the City 10-year forecast). An NRA to accommodate rate increases above the 3% commitment was used where EWSI has expended Flood Mitigation costs above this amount³¹.

It is important to note that Letter of Intent does not indicate a requirement to maintain a specified average customer bill increase, only an average annual rate increase. Furthermore, given declines in overall consumption, some customers may benefit from sanitary bill increases at a rate less than 3%. The following table details the annual drainage bill increase for average residential customers with and without consumption forecast adjustments, and non-routine adjustments. By adjusting the customer consumption forecasts (i.e. all years of the 2017-2021 PBR Application), the average annual bill increase was 2.5% from 2018 to March 2022 prior to NRAs.

Average Total Drainage Bill Increases for Average Residential Customers (2018 to March 31, 2022)	2018	2019	2020	2021	Jan 1 - March 31 2022	Average
Unadjusted consumption forecast³²						
Prior to Non-Routine Adjustments	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Post Non-Routine Adjustments	3.2%	3.0%	6.4%	5.5%	3.9%	4.4%
Adjusted Consumption Forecast³³						
Prior to Non-Routine Adjustments	2.4%	2.4%	2.2%	2.5%	3.0%	2.5%
Post Non-Routine Adjustments	2.6%	2.4%	5.6%	4.9%	4.0%	3.9%

Following the 2017-2021 commitment period, EWSI has submitted a Performance Based Regulation application for new rates, inclusive of its proposed ROE ramp up. The following tables contain the percentage increase in Stormwater, Sanitary, and Large Wholesale rates through the 2022 to 2024 period, with and without the introduction of Special Rate Adjustments (SRAs) for SIRP and CORE. By using a

³⁰ EPCOR Utility Committee Presentation, 2017 slide 8.

³¹ EPCOR Utility Committee Presentation, 2017 slide 8.

³² Consumption forecast based on the first year of the 2017-2021 Water PBR Application (Follow Up Questions Drainage Rate Increases, page 5).

³³ Consumption forecast based on all years of the 2017-2021 PBR Application (Follow Up Questions Drainage Rate Increases, page 6).

similar methodology shown in Appendix G, this resulted in average combined rate increase for an average residential customer of 1.3% from 2022 to 2024 without SRAs, and 6.0% with SRAs. Note the negative rate increase in 2022F excluding SRAs is largely due to rebasing.

Average Rate Increases for Excluding SRAs for SIRP and CORE (2022F to 2024F) ³⁴	2022F	2023F	2024F	Average Rate Increase
Stormwater Rate	(3.0%)	3.2%	3.9%	1.4%
Sanitary Flat Charge (16 mm meter)	(1.7%)	1.8%	3.9%	1.3%
Sanitary Variable Rate	(3.8%)	3.9%	3.9%	1.3%

Average Rate Increases for Including SRAs for SIRP and CORE (2022F to 2024F) ³⁵	2022F	2023F	2024F	Average
Stormwater Rate	8.7%	9.6%	8.7%	9.0%
Sanitary Flat Charge (16 mm meter)	(1.7%)	1.8%	3.9%	1.3%
Sanitary Variable Rate	8.3%	0.8%	10.7%	6.6%
Large Wholesale Rate ³⁶	8.3%	0.8%	10.7%	6.6%

GT Assessment:

Based on the above noted analysis, EWSI maintained its commitment to hold annual rate increases at 3% between the years of 2017 to 2021 for residential and large wholesale customer classes. However, the addition of NRA's for SIRP, CORE, and the LRT Expansion in 2020 resulted in an average annual rate increase above 3%³⁷. This appears to be reasonable as the Drainage Services Bylaw 18100 allowed for NRAs for major initiatives not contemplated by the City prior to the transfer, such as for the SIRP and the CORE Strategies. City Council approved NRA's for new programs to deal with the SIRP and CORE Strategies and relocation of assets required due to LRT construction³⁸.

Following the 2017-2021 commitment period, EWSI has submitted a PBR application for new rates, inclusive of a proposed ROE ramp up period. This is aligned with the Letter of Intent. Drainage rates are proposed to increase during the upcoming PBR term by approximately 6.0% annually for an average residential customer (inclusive of SRAs). As shown in the proceeding table, this rate increase is largely due to the capital and operational costs associated with delivering SIRP and CORE programs. While this is higher than the 3% rate increase period from 2017 to 2021, it aligns with the Grant Thornton 2016 Analysis which also forecasted a substantial increase in the revenue requirement for the Drainage Utility with the inclusion of a ROE in 2022. Though the proposed rates are expected to increase at a higher rate than the 3% commitment period, EWSI has maintained the commitments of transitioning into new PBR term following the 2017 to 2021 commitment period.

³⁴ GT-EWSI-A-3, page 8.

³⁵ GT-EWSI-A-3, page 8. Also aligns with 2022-2024 PBR Drainage Application, pages 205 to 207. EWSI presents rate increases for 2022F from Jan to March 31, and for the remainder of the year.

³⁶ The Large Wholesale rates were only provided on a combined basis (i.e. including SRAs for SIRP and CORE).

³⁷ Follow Up Questions Drainage Rate Increases, page 5.

³⁸ 2022-2024 PBR Drainage Application, page 32.

Overall, EWSI maintained their commitments regarding rate increases and the approach following the 2017 to 2021 commitment period. However, we highlight this commitment for the City and EWSI's attention because actual rate increases (due to NRAs) increased beyond 3% annually.

3.1.3.6 Proven regulatory framework

Similar to the water and wastewater, EWSI intends to use a PBR approach for the Drainage Utility.

Evidence Base:

The 2022-2024 PBR Application for the Drainage Utility was developed with the same methodology as the Water and Wastewater utilities. All applications are based on the Performance Based Rate structure, with underlying constructs such as formulaic rate increase mechanisms, performance metrics with financial penalties, non-routine adjustment mechanisms, and the same level of risk assumption by the utility. The general terms and conditions of the Drainage bylaw are similar to those used in wastewater³⁹.

GT Assessment:

- The framework used in the development of legislation and procedures surrounding the Drainage Utility were based on the precedent of the Water and Wastewater utilities that have previously been transferred to EWSI from the City. It is reasonable to assume that following the historical regulatory framework of EWSI's water cycle utilities will be sufficient for the reporting of the Drainage Utility.

3.1.3.7 Transfer of liability

Following the Transfer, EWSI would assume environmental and property damage liabilities. However, similar to EPCOR's Water Services and Wastewater Treatment businesses, EWSI would be eligible for municipal protection offered by the Municipal Government Act through a bylaw.

Evidence Base:

With respect to environmental liabilities, EWSI assumed liability for claims resulting from a breach, violation, or proceeding in accordance with the Environmental Protection and Enhancement Act for the periods before and after the transfer date. This assumption of liability is subject to the City's indemnification of EPCOR if any loss relates to the period before the transfer date is not recoverable with drainage utility rates. The City remains indirectly liable for environmental claims through the Asset and Liability Transfer Agreement. If a claim arises that occurred prior to the transfer date, EWSI may seek recovery through a non-routine adjustment.

Prior to the Drainage Utility Transfer, the City was liable for property damages if its conduct as the utility owner led to a loss. Following the transfer, EWSI assumed the same liabilities that the City had previously held. Both parties were subject to the limited liability protection through either the Municipal Government Act, or the City of Edmonton Drainage Bylaw 18100, like the other utilities that EWSI operates⁴⁰.

GT Assessment:

- EWSI has assumed responsibility of liabilities associated with the Drainage transfer to the same extent that the City had assumed prior to the transfer. The two entities have also received the same level of limited liability protection under the Municipal Government Act. It is reasonable to assume that following the transfers of the other water cycle utilities from the City to EWSI, that all water cycle utilities have similar liabilities.

³⁹ GT-EWSI-A-3, page 9.

⁴⁰ GT-EWSI-A-3, page 9-11.

3.1.3.8 Control over municipal development

The role of area and detailed drawing review are to remain with the City and not be transferred with the utility.

Evidence Base:

As per the Letter of Intent, the area and detailed engineering drawing review processes have remained with the City following the Transfer. The City staff resources are funded by EWSI, and a Service Level Agreement exists between both parties to support the process. However, the City may work collaboratively with EWSI Drainage to provide resources to support area planning and engineering drawing review that involve sewer lift stations when requiring detailed assessments. EWSI noted that the City may not have internal resources to review specialized sewer lifts given these reviews often require input from operational staff. In addition, EWSI and the City Urban Planning group have been exploring opportunities to improve the review process in order to meet the development needs within the City⁴¹.

The City still holds the final approval authority of development within the City, but EWSI holds an active role in the circular review process of development activities. The overarching planning and approval roles remain solely with City Council with advising from Planning Coordination within City Administration. Additional collaborative sharing groups between the two entities have begun involving senior leaders from the City and EWSI⁴². Furthermore, broader planning (e.g. City Plan) informs EWSI utility infrastructure planning, however, there may be constraints and limitations imposed by utility requirements that are important to consider.

GT Assessment:

- The City maintains control over municipal planning by retaining the area and engineering drawing review processes and collaborating with EWSI as necessary for specialist knowledge. While the City maintains authority over broader municipal planning (e.g. City Plan), there will continue to be an interrelationship with EWSI to identify utility infrastructure requirements, and also identify constraints imposed by utility infrastructure planning. As a result of this, and through the Drainage Transfer, there has been a perceived decrease in the clarity of City and EWSI drainage planning roles. In order to achieve a high level of understanding and cooperation between the two parties, further clarification and coordination between municipal and utility planning areas may be required. See Section 4.1.5 regarding greater details and suggestions regarding the roles and responsibilities for drainage planning.

3.1.3.9 Expansion of EPCOR's business

Full cycle or drainage related business can be leveraged to create new opportunities for EWSI. These opportunities may lead to an increase in the City's dividend.

Evidence Base:

EWSI has pursued full water cycle business opportunities in Ontario, and by leveraging their business credentials they have been able to pre-qualify for opportunities. However, the municipal council they had been negotiating with decided not to proceed with the project. Although they did not win the project, EWSI's recent stormwater initiative to address the impact of climate change on stormwater management has generated interest and has strengthened their reputation as a full water cycle company⁴³.

GT Assessment:

⁴¹ GT-EWSI-A-3, page 12.

⁴² GT-EWSI-A-3, page 12.

⁴³ GT-EWSI-A-3, page 13.

- EWSI has applied for different projects in attempt to leverage a full water cycle opportunity for the business. Although no opportunities have been won, EWSI has demonstrated its capabilities and has generated interest. Due to the current economic environment new projects may be difficult to acquire. At this time, no business development opportunities have been acquired, and thus there has been no increased dividend to the City as a result of these efforts. It is suggested that EWSI report on further business development initiatives as part of its shareholder meetings with the City to further monitor this principle.

3.1.3.10 Retained control

Through the Council’s position, and as a shareholder and regulator, the City would retain control over the assets, operations, and planning of the Drainage Utility.

Evidence Base:

As noted above in Section 3.1.1, the City remains a regulator through City Council as defined in Section 3 of the MGA. The natural person powers outlined in this legislation allow City Council to enter into contracts and agreements. The City also has authorities provided to it as a result of the Drainage Franchise Agreement.

GT Assessment:

- The City and Council remains a regulator and holds contractual rights through the MGA and the rights outlined within Section 3 that grants municipalities to pass bylaws with the purpose of regulating utilities for the public. It is reasonable to assume that through the MGA the regulation is held to the same standard as it was prior to the Transfer.

3.1.3.11 Summary of findings

The following table summarizes and assesses the level of commitments achieved within guiding principle #3 along with our brief assessment. Following the summary, an overall level of commitment of this guiding principle is provided.

Item	Findings
Capital Savings	EWSI has leveraged savings initiatives and prioritized capital investments to achieve similar outcomes compared to the City Drainage capital plan, meeting EWSI's 10% capital efficiency commitment.
Operational Savings	A target for operational efficiencies was not specified within the Letter of Intent, however some operational efficiencies were generated. There are opportunities for EWSI to achieve additional operational efficiencies in the future.
Organizational Focus	EWSI has had the opportunity to focus on the entire water cycle for the City as well as other municipalities.
Incremental Dividend	An incremental dividend of \$25 million was paid over 2017 and 2018, meeting the commitment of \$20 million for the first year following the Transfer.
Commitment to Hold Rate Increase	A 3% annual rate increase was upheld throughout the period, however the introductions of Non-Routine Adjustments (NRA) in 2020 increased rates above 3% annually (approximately 4.4% on average from 2018 to March 2022).

Proven Regulatory Framework	The PBR framework was implemented following the precedent of the previously transferred Water and Wastewater utilities.
Transfer of Liability	EWSI has assumed responsibility of liabilities associated with the Utility, and has similar protections granted to the City as defined in the Municipal Government Act (MGA).
Control over Municipal Development	The City maintains control over municipal planning by retaining the area and engineering drawing review processes and collaborating with EWSI as necessary for specialist knowledge. As there is an interrelationship between the broader municipal planning and utility infrastructure planning, further clarification and coordination between municipal and utility planning areas may be required.
Expansion of EPCOR's Business	Business expansion opportunities in other jurisdictions have been sought out, but none have been secured to successfully expand the business through the full water cycle.
Retained Control	Through the Drainage Franchise, other agreements, and the MGA, City Council has remained regulator and shareholder, and retains control of assets, operations, and planning.

Legend		
Category 1: EWSI appears to have fully achieved its commitment as per the Letter of Intent.	Category 2: EWSI appears to have achieved its commitment as per the Letter of Intent, however there are related issues and/or other factors that should be considered/monitored.	Category 3: EWSI did not achieve its commitment as per the Letter of Intent.

3.1.4 Guiding Principle 4: EPCOR's existing electricity, water, and other business operations will be maintained.

Transferring the Drainage Utility to EWSI is not expected to negatively impact their existing business. EWSI has committed to reflecting economies of scale saving in shared service costs as part of the 2017-2021 Water and Wastewater PBR Approval.

Evidence Base:

Although no criteria or metrics were determined at the time of the transfer, EWSI's non-drainage business units have maintained performance expectations in the period following the transfer. Financial and regulatory internal performance have been maintained throughout EWSI's business units. The Water and Wastewater utilities have continued to meet the expectations outlined in their 2017-2021 PBR Applications and the Drainage Transfer has increased their level of visibility of operations through increased reporting⁴⁴. In addition to the maintained performance levels, EWSI has noticed enhanced business development

⁴⁴ GT-EWSI-A-4, page 2.

opportunities involving all water-related utilities, including total water cycle rate management and the prospect of full water cycle projects⁴⁵.

EWSI has identified economies of scale arising from administrative operational cost savings. The Drainage transfer broadened the bases under which different costs were allocated, without significantly raising the total amount of administrative costs incurred by EPCOR Utilities Inc. In turn, the amount of administrative costs incurred by the Water and Wastewater utilities decreased as a result of the transfer. EWSI requested permission from the City Manager to reflect these reduced costs as non-routine adjustments through the Water and Wastewater utilities in February 2018. The request was approved, and rate reductions were applied to ratepayer bills beginning April 1, 2018 and ending March 31, 2019. The rate reductions provided an annual savings of \$3.72 per average customer⁴⁶.

GT Assessment:

- Through our review, there have been no material issues that would lead us to believe that EWSI's other water cycle utilities have been unable to maintain the same level of service through the adoption of the Drainage Utility. The ability to offer full cycle services gives EWSI greater opportunity to expand through new projects and benefits from economies of scale. Measurable economies of scale have been achieved resulting in non-routine adjustment billing decreases for ratepayers through the reduction in administrative costs incurred by EWSI's other utilities.

3.1.5 Guiding Principle 5: City Council will remain as regulator of drainage rates through a Performance Based Regulation, similar to water.

Utility Committee and Council are to continue regulating the rates, terms and conditions of service, and major capital initiatives (SIRP, for example) as they had with the City. Prior to the development of a new EWSI Drainage Bylaw, EWSI will operate in accordance with the City Drainage Bylaw. Rates, fees, and charges are to be adjusted January 1 each year, and follow EWSI's commitment to hold annual rate increase at 3% through to the end of March 2022.

Evidence Base:

- The rate increase is discussed in Section 3.1.3.5.
- The position of City Council as a regulator is discussed in Section 3.1.1.
- The capital initiatives undertaken are discussed in Section 3.1.3.1

For the interim period prior to the EWSI Drainage Bylaw, EWSI operates under the terms of the City's Drainage bylaw. This included maintaining volumetric rates, fixed rates, service fees and charges, and the terms and conditions outlined in this bylaw⁴⁷.

The Drainage Utility has adopted a Performance Based Regulation process similar to the other water cycle utilities as has submitted their 2022-2024 application. The PBR process for the next period (2022-2024) will reflect only 3 years as opposed to the usual 5 years that EWSI's other business units observe, as Drainage has undertaken capital projects such as SIRP and CORE that require closer regulation to mitigate risks associated with these projects⁴⁸.

⁴⁵ GT-EWSI-A-4, page 3.

⁴⁶ GT-EWSI-A-4, page 5.

⁴⁷ GT-EWSI-A-5, page 2.

⁴⁸ Drainage PBR 2022-2024, page 5.

GT Assessment:

- EWSI has submitted its PBR application for the next period in a similar manner to EWSI's other water cycle utilities. City Council and the Utility Committee continue to act as regulators throughout the shorter 2022-2024 PBR term, in order to mitigate risks associated with the major capital initiatives that the City had outlined such as SIRP and CORE. Through the similar PBR structure and the retained control of Utility Committee and City Council it is reasonable to assume that EWSI has delivered on their commitment.

3.1.6 Guiding Principle 6: Utility customers must not be negatively impacted. EPCOR to maintain no more than the rate increases required to support the service and quality metrics in the current Drainage Services Utility plan.

EWSI committed to hold annual rate increases at 3% through to the end of March 2022. New Drainage bylaws are to include service quality metrics approved by Council for the Drainage Utility.

- The rate increase is discussed in Section 3.1.3.5.

Following the Drainage Transfer, EWSI maintained the City of Edmonton performance program for two years in order to gain a base track record which they could use to form new PBR style metrics. In late 2019, the new metrics were set and approved by Council following a PBR program that resembled that of the Water and Wastewater Utilities. As of January 1, 2020, EWSI began reporting its actual performance measures as part of their PBR Progress Report under provisions of the bylaw⁴⁹.

The metrics outlined by EWSI are composed of four indices: Environmental, Customer Service, Reliability and Optimization, and Safety. Each Index is composed of 3-4 measures⁵⁰.

Index	Measures
Environmental Index	Stormwater Flow Monitoring Environmental Incidents Green Hectares
Customer Service Index	Service Maintenance Calls Emergency Dig Ups – Service Restored Service Connections Sewer Outdoor Hotspots
Reliability and Optimization Index	Blocked Sewers Sewer Renewals Minimum Level of Infrastructure Condition Rating Full Property Flood Inspections
Safety Index	Near Miss Reporting Worksite Inspections and Observations Lost Time Frequency Rate All Injury Frequency Rate

It is noted that if the standards are not met for the measures above, Drainage may be penalized up to \$1 million for non-compliance in the form of rate rebates to customers. In addition, no financial rewards are given to EWSI for the achievement of these performance standards. These measures are intended for the purpose of maintaining customer standards throughout the PBR period⁵¹.

GT Assessment:

- The new quality metrics were developed following the use of the City's previous metrics immediately following the Transfer. EWSI also had the knowledge of the other water cycle utilities

⁴⁹ GT-EWSI-A-6, page 2.

⁵⁰ GT-EWSI-A-6, page 3.

⁵¹ Drainage PBR 2022-2024, page 209

that allowed them to create new metrics for the Drainage Utility. Although these new metrics have been created with a reasonable amount of experience and expertise from the other utilities, it is suggested that they incorporate the recommendations in the Grant Thornton PBR Application Review Report (e.g. review and perform benchmarking on the Stormwater Flow Monitoring metric once a historical record is established; review the methodology associated with bonus point allocation for the calculation of performance metrics).

3.1.7 Guiding Principle 7: Ensure ongoing effective asset management practices and continued commitment to current council for flood mitigation.

EWSI has committed to provide the Utility Committee with both annual and periodic performance reporting. Audit reports may be requested by the Committee. In addition, EWSI has committed to develop a Stormwater Integrated Resource Plan, overseen and reviewed by the Utility Committee. This plan outlines capital investment strategies and priorities of the Utility.

Evidence Base:

In terms of planning and prioritizing, in addition to the periodic PBR Applications, EWSI also presented a Regulatory Framework and Timeline proposal to the Utility Committee in February 2018 that focus on the development of consistent reporting across all three water utilities to assist the Utility Committee in their role as a regulator. The framework for EWSI's Regulatory Framework focused on principles such as Reporting Basis, Ongoing Improvement, Visibility and Transparency, Consistency and Comparability, and incorporating a Collaborative Approach. EWSI intends to achieve these principles through the following:

Reporting Basis:

All PBR applications would be set out in terms of three to five years and include operational and capital initiatives along with their forecast financial performance. Additional reporting may be included in order to further explain high profile projects or initiatives with significant material impact on operational or capital forecasts.

Ongoing Improvement:

As the transfer of the Drainage Utility was centred around the "potential to yield net benefits to the City, taxpayers, and ratepayers", EWSI believes that ongoing shareholder reporting is the best way to convey benefits to the Council. The areas that are to be included in future Utility Committee reporting include capital and operational savings, commitment to hold rate increases, service metrics, asset management practices, SIRP planning, and odour reduction.

Visibility and Transparency:

In order to provide transparency and visibility, EWSI has agreed to present all their initiatives or issues in a clear and concise manner to limit misunderstanding, however the Utility Committee and direct EWSI towards a level of clarity in the reporting required to assist in their role as a regulator.

Consistency and Comparability:

EWSI plans to ensure that the format and structure of reporting is consistent across the utilities PBR Applications in accordance with the Minimum Filing Requirements (MFR) approved in 2013 by the Utility Committee and introduced in the 2017-2021 PBR process.

Collaborative Approach:

To increase collaboration, the materials presented to the Utility Committee and Council are to be passed through to City Administration and presented along with a Covering report. Throughout this

new reporting framework, EWSI has provided the Utility Committee with Annual Operational Plans each February, and PBR Progress reports each June⁵².

The SIRP strategy development started in 2017 with a team of EPCOR employees that had previous experience in the development of the Water Integrated Resource Plan (IRP). Using information from other communities and the insurance sector regarding the best practices for flood mitigation and the City Climate Change adaptational risk directions, EWSI ensures that the new plan aligned with public priorities. The SIRP strategy relies on the themes of Slow, Move, Secure, Predict, and Respond in relation to the stormwater. The plan has been recognized by parties including the Intact Centre on Climate Adaptation and Clean50 for their innovative approach⁵³. In addition, Edmonton's flood planning rating rose from a C to a B+ in a national report, now tied for the top ranking in Canada⁵⁴.

The Utility Committee played an active role in the development of the SIRP strategy and received multiple presentations from EWSI through 2018 to develop the strategy, and in 2019 and 2020 to discuss risk, non-routine adjustment, and PBR performance measures. Involving the Utility Committee throughout the process ensured that alignment to their goals were considered during the strategy development. EWSI plans to continue presenting SIRP related investments to the Committee in the future⁵⁵.

GT Assessment:

■ Through the efforts of the Stormwater Integrated Resource Plan, the improvements to Edmonton's high-risk areas effectively enhanced the Drainage system and has been recognized for its efforts in clean stormwater management. The active role of the Utility Committee throughout the development process of the SIRP strategy ensured alignment to City of Edmonton Climate Change goals and initiatives. The regulatory framework reasonably indicate that the Utility Committee maintains the same regulatory position that it had prior to the Drainage Transfer, and through EWSI's reporting all water cycle utilities have consistent regulatory principles in place.

3.1.8 Guiding Principle 8: All staff impacted by the proposal will be treated respectfully and their employment statuses will be maintained.

EWSI committed to the following in relation to Drainage staff:

- *There will be no layoffs,*
- *All employees can transfer to EWSI with comparable salaries, benefits, and seniority,*
- *Existing union agreements will be honoured,*
- *New agreements will be negotiated with EWSI after existing agreements expire,*
- *No assumptions will be made without discussions with the unions.*

Evidence Base:

EWSI was able to deliver on their commitment to not lay off any employees. More specifically, during the Transfer 605 permanent employees, and 58 temporary employees transferred from the City to EWSI along with the Utility. As of 2021, 516 of the permanent employees transferred remain with EWSI as of April 2021 (approximately 85% of the original 605 permanent employees transferred). The level of turnover within the Drainage utility has been consistently lower than the other EWSI operated utilities since 2017 when the

⁵² GT-EWSI-A-7, page 5.

⁵³ GT-EWSI-A-7, page 6.

⁵⁴ EPCOR PBR Reader's Guide, page 18.

⁵⁵ GT-EWSI-A-7, page 9.

transfer occurred. On average, the turnover within Drainage is 3.4% lower than EWSI as a which has had an average turnover rate of 6.7% since 2017 as seen in the table below⁵⁶.

Year	2017	2018	2019	2020
All EPCOR Turnover	6.8%	6.1%	8.6%	5.4%
Drainage Turnover	0.8%	4.0%	4.2%	4.1%

EWSI entered into Memorandums of Understanding (MOU) with union groups IBEW 1007, CUPE 30, and CSU 52 to capture specific terms that the City staff included in their agreements that pertained specifically to the Drainage staff. The terms related to Drainage employees that were included in the MOU's were discussed in collective bargaining and some terms were removed or added as needed while bargaining new collective agreements in 2018⁵⁷.

GT Assessment:

- Interim agreements were created to determine job classifications for transferred employees and harmonize wages and terms of employment for the transferred staff and existing EWSI employees. All employees were transferred with similar benefits and kept their pension plans. Based on the lowered level of turnover in the Drainage Utility in comparison to the rest of EUI, it is reasonable that the commitments outlined in the Letter of Intent have been met.

3.1.9 Guiding Principle 9: Additional mechanisms

EWSI has committed to seven additional mechanisms to be addressed and implemented following the Drainage Transfer. These commitments are outlined in the left-hand side of the below table, with the evidence base of how they were achieved in the right-hand side. Following the evidence base included in the table is our assessment.

Evidence Base:

Commitment	Achievement
1. Operate utilities in a highly transparent manner.	As noted in section 3.1.7, the Reporting Framework was developed following the principles outlined as Reporting Basis, Ongoing Improvement Demonstration, Visibility and Transparency, Consistency and Comparability, and implementing a Collaborative Approach.
2. Provide the Utility committee with the same amount of information it received with the City.	Through the principle of consistency, the Utility Committee may direct EWSI to provide a level of reporting that is required to perform their role as a regulator ⁵⁸ . Since the utility committee has the option of asking for increased clarity of levels of reporting, they can ensure that they are receiving the same amount of information that they would have prior to the Drainage Transfer.
3. Provide an annual, periodic, and audit reports as determined in consultation with the Utility Committee.	Throughout the initial years following the Transfer, audit reports were not provided since the rates had been predetermined by the bylaw and metrics program before the PBR style program began.
4. Involve the community in decisions.	In June 2018, EWSI presented "EPCOR's Approach to Public Engagement, a Report to Utility Committee" to

⁵⁶ GT-EWSI-A-3, page 6.

⁵⁷ GT-EWSI-A-8, page 1.

⁵⁸ GT-EWSI-A-7, page 3.

Commitment	Achievement
	ensure that the expectations of stakeholder consultation and engagement between the Utility Committee and Council were in alignment. This report included overall engagement strategy and approach, and specially outlined the alignment between EWSI and City Council's Initiative on Public Engagement. Many stakeholder consultation and engagement initiatives have been developed and taken place based on this report. Most notably, activities such as the PBR Renewal, the Stormwater Integrated Resource Plan (SIRP), and the Corrosion and Odour Reduction Strategy have begun. Stakeholder engagement programs have also been ongoing for capital programs, as well as for stormwater wet pond safety ⁵⁹ .
5. Participate in the Open Data initiative similarly to EWSI's other utilities.	EWSI has continued to participate in the City's Open Data for Initiative similar to the Water and Wastewater utilities which the last drainage update being provided in February 2021.
6. Allow the City the right to audit records and accounts in relation to the Drainage Franchise Agreement.	The City maintains the right to audit the records and EWSI accounts in relation to the Drainage Transfer Agreement, however no audit has been requested.
7. Attend Utility Committee meetings with reporting on operational matters and capital plan progress.	EWSI has attended Utility Committee meetings and has regularly reported on operational matters and progress on capital plans. They have also been supporting the City Administration and Urban Planning group for initiatives that involve EWSI at the Executive and Planning Committees for City Council.

GT Assessment:

- The additional mechanisms defined in the Letter of Intent appear to be upheld by EWSI. EWSI has assisted in the planning and organizational roles that they had committed to and have substantially taken over the roles that the City Drainage utility previously completed.

3.1.10 Status on equity injections

The status on equity injections was not contemplated in the letter of intent, however is was included within the City Scope of Work. Although this was not included as a guiding principle, we will review the status of these injections in a similar manner to the other areas within this section by including EWSI's explanation and evidence base on their perspective of the item, as well as our assessment on the overall treatment of each item following the Transfer.

Prior to the Drainage Transfer, within the 2016 Grant Thornton Report, EWSI provided an assessment on forecast equity injections and the tentative injection schedule was as follows⁶⁰:

⁵⁹ GT-EWSI-A-9, page 5.

⁶⁰ 2016 Drainage Report Final Appendices, page 119.

\$millions	2017	2018	2019	2020	2021	2022	2023	2024
Equity Injections	0	0	0	25	20	20	30	40

Evidence Base:

Following the Drainage Transfer, an equity injection of \$50M was made in July 2018 and no additional injections have been made since. The equity injections forecast in 2016 were made assuming the projected financial information prior to the Transfer, and the changes in actual financial occurrence changed the needs to inject equity⁶¹. EWSI believes that they continue to provide sufficient equity as they had intended to prior to the transfer in order to maintain their target capital structure of 60% debt and 40% equity⁶².

As at mid-year 2018, EWSI had a capital structure of 34% debt and 66% equity. The capital structure was expected to meet the target of 60% debt and 40% equity forecast year 2021 as shown in the following table⁶³. With an additional equity injection forecast of \$70 million in 2022 and \$10 million in 2024, this targeted capital structure is expected to be maintained during the upcoming PBR term as well.

Mid-Year Capital Structure	2018	2019	2020F	2021F	2022F	2023F	2024F
Debt	34%	51%	56%	60%	60%	60%	60%
Equity	66%	49%	44%	40%	40%	40%	40%

GT Assessment:

- Although the equity injections did not occur as per the schedule outlined before the transfer, equity injections appear to be reasonable based on their purpose of maintaining EWSI's capital structure. The total equity injection through the end of 2021 was forecast to be \$45 million prior to the transfer, and the actual injection made has been \$50 million since the transfer. Although the injection occurred sooner than anticipated, it has reasonably provided sufficient equity in similar amounts within the same time period. By the end of the 2021 forecast year, the capital structure for Drainage Utility is 60% debt and 40% equity which is consistent with EWSI's target.

3.1.11 Summary of findings

The following represents a summary of our key findings and assessments of the guiding principles outlined in the City Scope of Work in relation to the commitments outlined by EWSI in its Letter of Intent.

Guiding Principle Number	Assessment Category
1 – Prioritize public's interests	The City remains a regulator and holds contractual rights through the MGA to pass bylaws with the purpose of regulating utilities for the public.
2 – Ensure value for taxpayers and ratepayers	Value was delivered to taxpayers and ratepayers through the delivery of an incremental dividend, and the Transition Payment to fund stranded costs and remediation of Drainage assets remaining with the City.
3 – Provide a net advantage to the City	Although commitments were achieved within this guiding principle, it is important to note that operational efficiencies, rate increases, and EPCOR business had other factors to be considered and/or recommended to be monitored.
4 – Maintain EWSI's existing business	EWSI's other utilities have maintained the same level of service through the adoption of the Drainage Utility and have benefited through economies of scale.

⁶¹ GT-EWSI-B, page 2.

⁶² Drainage PBR 2022-2024, page 95, item 237.

⁶³ 2022-2024 Drainage PBR Application Model, Tab R-8

5 – Council to remain as PBR regulator	The PBR structure adopted is similar to EWSI’s other water cycle utilities. The Drainage Utility implemented a shorter period for the 2022-2024 term in order to mitigate risks associated with major capital investments.
6 – Limit rate increase to support quality metrics	Through the basis from the previous metrics used in the City and other water utilities metrics, new metrics were made with reasonable amounts of experience and expertise. However, it is suggested that EWSI incorporate suggestions associated from the performance metric review noted in the Grant Thornton PBR Application Review Report (e.g. review and preform benchmarking on metrics, review the methodology associated with bonus point allocation, etc.).
7 – Ensure effect asset management for flood mitigation	Through the efforts of the Stormwater Integrated Resource Plan, the improvements to Edmonton’s high-risk areas enhanced the drainage system.
8 – Maintain transferred staff employment status	No City Drainage staff who were transferred to EWSI were laid off, and interim agreements were created to determine job classifications for transferred employees.
9 – Mechanisms to address and include	The additional mechanisms defined in the Letter of Intent appear to be upheld by EWSI, where applicable. EWSI has assisted in the planning and organizational roles that they had committed to, and have substantially taken over the roles that the City Drainage utility previously completed.
Status on equity injections (additional review item)	Although the equity injections did not occur as per the forecast plan in the 2016 Drainage Transfer Report, EWSI made injections consistent with its needs in relation to its capital structure.
Overall Assessment	EWSI has substantially adhered to the guiding principles as documented in the Letter of Intent. However, Grant Thornton has noted additional areas of consideration (e.g. rate increases) and other areas to be monitored (e.g. performance metrics, expansion of EPCOR’s business) by the City.

Legend		
Category 1: EWSI appears to have fully achieved its commitment as per the Letter of Intent.	Category 2: EWSI appears to have achieved its commitment as per the Letter of Intent, however there are related issues and/or other factors that should be considered/monitored.	Category 3: EWSI did not achieve its commitment as per the Letter of Intent.

4 Outstanding areas for resolution

4.1 Methodology

Additional focus areas were outlined in the City's description of work for examination. Most of these areas identified are yet to have full resolution following the Drainage Transfer and/or require further clarity. Grant Thornton has taken a consultative approach to the topics and determined historical and current state of each item, weighing potential benefits and impacts surrounding the current state, and our suggestions for further resolutions.

Information and perspectives on all areas were received from both the City and EWSI through both information requests and through one on one meetings. Grant Thornton facilitated a draft finding meeting (May 18, 2021) with City and EWSI stakeholders to confirm our understanding of current state and review potential alternatives for areas that require further resolution.

4.1.1 Ownership of wet pond land parcels

Historical state: Owned by City Drainage Services prior to the Drainage Transfer in September 2017.

Relevant References from the Letter of Intent:

The Letter of Intent provides for the orderly transfer of the Drainage Utility assets, liabilities and operations from the City to EPCOR without negative impacts on utility ratepayers or taxpayers.”⁶⁴ “Transfer of Drainage would result in transfer of associated environmental and property damage liabilities”⁶⁵

Assets to be transferred are “Those stormwater management facilities (dry ponds, wet ponds, etc.) that the parties identify as having a primary purpose of management (quality and quantity) and conveyance of stormwater.”⁶⁶

The following will remain with the City Stormwater management facilities which are primarily utilized as parkland.⁶⁷

Ongoing Service Agreements include “Maintenance of certain stormwater management facilities”⁶⁸

Current state following Drainage Transfer: Over two hundred wet ponds (also referred to as stormwater management facilities) have been transferred to EWSI since September 2017 in accordance with the Asset Transfer Agreement⁶⁹. These stormwater management facilities include the wet pond land parcel, and any “park-like” attributes such as trees, walkways, benches, and turf. The land wet ponds were transferred as they play a vital role in the stormwater management.

These assets were typically contributed by land developers, except for three wet pond parcels where the Drainage Utility has debt associated with them. These parcels are Millwoods (\$1.5M), Pylypow (\$1.5M) and Hurstwood (\$2.3M). This debt was transferred to EWSI as part of the Drainage Transfer⁷⁰.

EWSI is the legal land owner for any incidents that occur in the water. The original intention was for the City to continue to keep ownership of the “park-like” features, but both parties agreed that it was not feasible to

⁶⁴ EWSI Letter of Intent, page 3.

⁶⁵ EWSI Letter of Intent, page 4.

⁶⁶ EWSI Letter of Intent Attachment 1, page 2.

⁶⁷ EWSI Letter of Intent Attachment 1, page 10.

⁶⁸ EWSI Letter of Intent Attachment 1, page 7.

⁶⁹ EWSI was transferred 106 wet ponds and 88 constructed wetlands, while the City retained ownership of 106 wet ponds and 14 constructed wetlands. City of Edmonton response questions, April 14, 2021, Item #1.

⁷⁰ GT-EWSI-A, page 1.

subdivide the “land up to the high-water mark”. As such, the entire parcels were transferred to EWSI. Specifically, it was decided that the entire land parcels would be transferred as there was no inexpensive and simple way to subdivide the land parcels and assume separate ownership of the wet pond and the surrounding land parcel.⁷¹

While City-owned wet ponds at the time of the Drainage Transfer in September 2017 were transferred to EWSI, some wet ponds have remained in City ownership following the Transfer as well⁷². Other wet ponds and constructed wetlands are privately/developed owned. This has introduced an inconsistency in the ownership of land parcels and has generated confusion among residents who may not know which party to contact should there be issues to be resolved pertaining to the land parcel itself.

The current annual costs for EWSI amount to nearly \$1,722,000 for solely the maintenance of the ponds without the maintenance of the greenspaces associated with the land parcels. This amount is broken down in the following table⁷³:

Expense Item	Cost (\$)
Labor (Wages and Fringe)	1,426,875
Vehicles	75,000
Materials	50,000
Aquatic Weed Control Contractors	60,000
Pest Control Contractors	30,000
Invasive Specific Control Contractors	80,000
Total	1,721,875

Based on high-level estimates provided by the City, the annual costs associated with parkland land maintenance for EPCOR owned wet ponds and constructed wetlands ranges between approximately \$2.0 million to \$2.3 million⁷⁴. As EWSI currently owns the land parcels containing the wet ponds, it assumes liability for the property as outlined in the City Drainage Bylaw. EWSI’s liability however, would be subject to other parties’ (including the City’s) liability for their actions that may have caused or contributed to the damage or injury in question.

EPCOR’s insurance is intended to respond to EPCOR’s negligence causing bodily injury and property damage regardless of who owns the land parcels. However, EPCOR’s insurance does not provide direct coverage for the City’s negligence or other actions. For example, if the City is confirmed to be responsible to maintain the parkland surrounding the wet ponds on the land parcels, the City will have responsibility/liability for matters related to the parkland to the extent it is negligent or otherwise responsible in law⁷⁵.

⁷¹ GT-EWSI-A, page 1.

⁷² There are 206 EWSI City of Edmonton response, May 26, 2021.

⁷³ GT-EWSI-C-A Follow Up, page 2. Note that EWSI does have any funds included in the revenue requirement to address green space maintenance of wet ponds (EWSI response, May 15, 2021).

⁷⁴ City of Edmonton response, May 26, 2021. 528 total hectares of wetland and constructed wetlands owned by EPCOR (City of Edmonton preliminary data estimate, provided April 30, 2021). Note that this does not include capital renewal costs.

⁷⁵ GT-EWSI-A Follow Up, page 3.

Benefits and potential issues surrounding the current state:

Benefits:

- The ownership of the wet ponds and their land parcels remain with the EWSI, the operator and manager of the Drainage Utility.

Potential Issues:

- EWSI does not have the equipment or related infrastructure to maintain the greenspaces surrounding the wet ponds up to City standards. As they are not equipped, they have been ticketed for failing to upkeep the greenspaces.
- The roles and responsibilities surrounding the operation and maintenance of the land parcels are ambiguous (e.g. City began to send EWSI access agreement requests from citizens wanting to access their adjoining lots through the parkland surrounding wet ponds). These roles and responsibilities may have been unclear prior to the Transfer, but have since been further highlighted due to the separation of the roles and responsibilities between the City and EWSI.
- The Asset and Liability Transfer Agreement does not address the value, if any, that EWSI should pay for the future ownership of any wet pond land parcels in new developed areas.
- As the purpose of the land parcels includes the purposes of both Drainage and park land for citizen recreation, the language in City Policy C2202 could suggest that the land parcels may be considered official park land⁷⁶.

Suggestions for further resolutions:

In order to prioritize the maintenance of the greenspaces, three alternatives have been identified as follows:

- 1) *Develop and implement a Service Level Agreement (SLA) between the City and EPCOR in which the City will provide maintenance services to the greenspaces for a fee that will be funded by ratepayers.*
- 2) *Develop and implement a Service Level Agreement (SLA) between the City and EPCOR, in which the City will provide maintenance services to the greenspaces for a fee that will be funded by taxpayers as part of City-wide park and greenspace maintenance*
- 3) *Return the ownership of the wet ponds to the City. This allows the City to maintain the greenspaces of the land parcels that contain the wet ponds through the funding of taxpayers, while EWSI may still operate and maintain the wet ponds themselves through the Drainage Franchise agreement.*

The first alternative would see EWSI continue to own the wet ponds and associated land parcels, but the City would have a clear role and responsibility to maintain the surrounding greenspace. EWSI would likely be charged for this service through a SLA. This would ultimately form part of EWSI's revenue requirement to be recovered from ratepayers.

Through the second alternative, EWSI continues as the owner of the land parcels containing the wet ponds which allows them to remain under common ownership with the Drainage Utility. As the surrounding space is often used as greenspace and/or parkland, it is difficult to justify that ratepayers bear the responsibility for the maintenance of these surrounding spaces. The SLA along with the Public Access Agreement would allow the City to maintain surrounding spaces and grant access to residents, while keeping ownership of the wet ponds land parcel with EWSI.

⁷⁶ City of Edmonton response, May 26, 2021.

By returning the ownership of the ponds to the City, the third alternative would have the legal ownership and maintenance of the greenspaces return to the City. However, EWSI would operate and maintain and assume liability for the wet ponds themselves through the Drainage Franchise Agreement⁷⁷. In this alternative, the City assumes all responsibility for associated costs with the land parcels that are surrounding the wet ponds themselves. Through this ownership model, the maintenance of surrounding parklands is assumed to be funded by taxpayers⁷⁸.

As noted previously, there would continue to be liabilities for both the City and EWSI regardless of ownership alternatives.

GT Observations and Findings:

Based on the information gathered, and in combination with the cumulative effects on taxpayers and ratepayers in the following sections, there is greater merit for alternative two. Specifically, we suggest that the City and EWSI further explore the consequences of EWSI maintaining ownership of the wet ponds and land parcels, and to develop a SLA and Public Access Agreement in order for the City to maintain the greenspaces. This maintenance activity should continue to be funded by taxpayers considering the main use of these greenspaces is not directly related to the operations of the Drainage Utility. The SLA and Public Access Agreement can form part of the yet to be finalized Operations and Maintenance Agreement. This allows the continued ownership of wet ponds to remain as an asset with the Drainage Utility. Through the implementation of this alternative, it is important to fully clarify the roles and responsibilities of each party pertaining to the land parcels and ensure that they are well documented and able to be operationalized successfully (e.g. operating and maintenance responsibilities, capital renewal responsibilities, etc.).

4.1.2 Stormwater costs to the City of Edmonton

Historical state: Prior to the Drainage Transfer, several City owned land parcels (e.g. parks and green spaces) were not charged for stormwater utility costs.

Relevant References from the Letter of Intent:

*There must be value for the taxpayers and ratepayers.*⁷⁹

*Utility customers must not be negatively impacted.*⁸⁰

Current state following drainage transfer: Based on EWSI's preliminary analysis using 2020 rates, the City currently pays approximately \$88,000 per month in stormwater charges. If charged as per the Bylaw 18100, the City would pay an estimated \$692,000 per month⁸¹. Based on the initial analysis completed by EWSI, the City would pay an additional \$603,985 per month. With the inclusion of proposed rate increases in 2021 and 2022, EWSI estimates the additional charge to the City would be \$8.0 million for 2022 (approximately \$9.1 million in total City stormwater costs for 2022)⁸². The proposed new stormwater charges are anticipated to be implemented at the beginning of the next PBR period in 2025⁸³.

As noted above, when the transfer occurred, some land parcels owned by the City and other ratepayers were not being billed as they should have been according to the Drainage Bylaw. EWSI believes that charging the City the proposed elevated costs will be equitable towards other major ratepayers within the City and will be consistent with Bylaw 12294.⁸⁴ In addition, the current bylaw charges stormwater rates

⁷⁷ GT-EWSI-A Follow Up, page 3.

⁷⁸ GT-EWSI-A Follow Up, page 2.

⁷⁹ EWSI Letter of Intent, page 1.

⁸⁰ EWSI Letter of Intent, page 1.

⁸¹ EPCOR Drainage Services, Summary of Stormwater Revenue in the City of Edmonton, page 2.

⁸² GT-EWSI-B Follow Up, page 1. EWSI response, May 13, 2021.

⁸³ EPCOR Drainage Services, Summary of Stormwater Revenue in the City of Edmonton, page 10.

⁸⁴ GT-EWSI-B, page 3.

based on land use zoning classification, however this is subject to change for the next PBR term, given potential future adjustments to the City's zoning bylaw.

Benefits and potential issues surrounding the current state:

Benefits:

- City of Edmonton does not receive additional charges, which would likely be funded directly or indirectly by taxpayers
- Principle of maintaining cost neutrality as discussed prior to the transfer is maintained

Potential Issues:

- Does not follow accepted regulatory principles of charging users based on their cost of service and Drainage Bylaw (In accordance with Bylaw 18100, any property owner that receives Drainage Services is considered a customer whom can be billed for service)
- Results in potential cross subsidization as stormwater rates would continue to include a component for services to the City of Edmonton
- Presents an inequitable situation for privately owned properties that are the same as City of Edmonton properties (e.g. cemeteries and golf courses)
- EWSI may remain unsure of the manner to treat new properties in some accounts (e.g. new fire station)

Suggestions for further resolutions:

In order to determine an appropriate resolution for stormwater cost system for the City, two alternatives have been identified as follows:

- 1) *Continue charging the City the current stormwater costs.*
- 2) *City to pay the proposed rates as per Bylaw 18100 regardless of the perception of circuitous payments.*

The first alternative maintains the principle of cost neutrality, which was discussed by both City and EWSI prior to the Drainage Transfer. However, it does not address the treatment of new properties, and presents inequitable situations for privately owned properties within the City⁸⁵.

The second alternative would eliminate or limit the cross subsidization for the City stormwater costs from other ratepayers. While it would have the City pay an increase in stormwater costs (estimated at \$8.0 million per year, resulting in a total stormwater costs for the City of approximately \$9.1 million in 2022), it would result in a reduction of stormwater rates for other customers. The average consumer rates impacts are reflected in the following table throughout the 2022-2024 PBR term⁸⁶:

⁸⁵ GT-EWSI-B, page 5.

⁸⁶ In forecast year 2022, the City's additional \$8.0 million stormwater costs are estimated to lower the Stormwater Utility's revenue requirement from \$80.7 million to \$72.7 million, resulting in a 9.9% reduction. Note that this is different than then percentage decrease in rates due to the timing impacts of the assumed change in stormwater cost treatment and rate calculation (i.e. the rate calculation takes into account a 25% of the prior year rate and 75% of the current year rate). GT-EWSI-B Follow Up, page 2.

	2022 (Jan-Mar)	2022 (Apr-Dec)	2023	2024
PBR Stormwater Rate ⁸⁷	0.049718	0.048209	0.049737	0.051684
Adjusted Rate	0.049718	0.041789	0.045596	0.046893
\$ Change in Rate	0	0.00642	0.004141	0.004791
% Decrease in Rate		-13%	-8%	-9%

Although the ratepayers benefit from a decrease in rates, it is likely that taxpayers would assume responsibility for funding these costs.

Certain EWSI facilities are currently either not being billed or are being partially billed for their stormwater charges. The billing costs have been identified as part of EWSI's 2020 budget development and properties will begin full billing in 2022⁸⁸.

GT Observations and Findings:

Based on the information gathered, there is greater merit for alternative two (i.e. City to pay stormwater costs for City land parcels). This is largely because it would limit cross subsidization from other ratepayers and create greater equity with similar privately-owned operations (e.g. golf courses). Although the principle of maintaining cost neutrality discussed prior to the Drainage Transfer may not adhered to in this alternative, this approach takes into account value for both taxpayers and ratepayers. It should also be noted that EWSI uses City zoning classification in order to categorize the land parcels for stormwater costs. However, EWSI may need to consider upcoming changes to the City's zoning bylaw for the respective stormwater classifications.

EWSI intends to complete both a cost of service review as well as a review of best practices review prior to making a formal proposal to the City as part of the next PBR for the inclusion of stormwater costs for the City. This review will include EWSI owned properties (some of which are also not being billed fully), wet ponds, as well as City owned properties, etc. Grant Thornton recommends that the City analyse EWSI's review to ensure the proposed rates charged to the City are fair, equitable, clear, and aligned with the Drainage Bylaw. Specifically, this includes a detailed review of land parcels and properties EWSI proposes to include in its determination of stormwater costs for the City. Nevertheless, the City has demonstrated a willingness to work with EWSI to review proposed changes to help ensure ratepayer equity.

4.1.3 City of Edmonton contributed drainage assets as part of City capital projects

Historical state: The Drainage Services Utility would typically complete repairs/replacements of deep, underground infrastructure during the initial stages of City capital programs. While the Drainage Services Utility distinguished between contributed and non-contributed assets for City capital projects (e.g. neighbourhood renewal projects), there was less explicit focus to classify and recover funding for drainage infrastructure associated with catch basins, manholes, and catch basin leads associated with City capital projects (e.g. to accommodate road alignment as part of neighbour renewal projects).

Relevant References from the Letter of Intent:

*There must be value for the taxpayers and ratepayers.*⁸⁹

⁸⁷ Based rate in Drainage PBR Application, including SRAs for re-basing and 90-day deferral, excluding SRA for CORe (GT-EWSI-B Follow Up, page 2).

⁸⁸ GT-EWSI-B Follow Up, page 2.

⁸⁹ EWSI Letter of Intent, page 1.

*Utility customers must not be negatively impacted.*⁹⁰

Current state following drainage transfer: Similar to the approach prior to the Drainage Transfer, when EWSI is notified of a new City capital project, EWSI reviews its records and may identify assets that have been documented as damaged or approaching the end of their useful life. Asset replacements identified by EWSI, which require utility service are funded by EWSI and recorded as non-contributed assets. At times, the City or its contractor may elect to replace existing assets that were not identified to require replacement by EWSI for construction efficiency or other reasons. In these cases, the costs for the replacements of these assets are paid for by the City, and they will be recorded as contributed assets from the City to EWSI⁹¹. Although this is the general approach taken, each asset repair or replacement's treatment is assessed by EWSI on a case by case basis⁹². Nonetheless, the current approach is based on the guidance provided in Section 9 of the Drainage Franchise Agreement (see Appendix H for greater details regarding the Drainage Transfer Agreement and examples of asset repairs/replacements are currently treated).

As per Section 9 of the Drainage Franchise Agreement, EWSI is not responsible for relocation costs associated with “catch basins to accommodate road alignment changes”⁹³. In other words, unless a catch basin is damaged or approaching the end of its useful life a catch basin, the City would typically be required to fund the catch basin construction works associated with City capital projects. This has been occurring most commonly through the City's neighbourhood renewal program, which is designed to “renew and rebuild roads, sidewalks and street lights in existing neighbourhoods and collector roadways. The program balances the need to rebuild in some neighbourhoods with a preventive maintenance approach in others.”⁹⁴

The costs associated with the neighbourhood renewal program are regularly being funded through tax levies. Based on high-level estimates provided, each year the City has approximately 12 individual neighbourhoods renewal projects, with a total annual budget of approximately \$150 million. Of this amount, it is estimated that \$10 million is directly related to catch basin work⁹⁵. As noted above, these are often elected to be replaced as part of neighbourhood renewal projects, and recorded as contributed assets from the City to EWSI. From 2017 to 2022, the annual amount of contributed drainage assets from the City to EWSI was on average approximately \$36.6 million⁹⁶. Therefore, the contributed assets related to catch basins as part of the neighbourhood renewal program represents a substantial (roughly 27%) of all City contributed drainage assets to EWSI.

Benefits and potential issues surrounding the current state:

Benefits:

- There exists flexibility between parties. For example, the City can plan and install catch basin and manholes for City projects through the use of a contractor if EWSI does not have the capacity to assist due to ongoing projects.
- The current process is efficient and cost minimizing to ratepayers. The City works with a contractor to streamline the process, causing less disruptions within neighbourhoods.

⁹⁰ EWSI Letter of Intent, page 1.

⁹¹ GT-EWSI-C, page 2.

⁹² GT-EWSI-C-C Follow Up, page 2-3.

⁹³ GT-EWSI-C, page 3.

⁹⁴ City of Edmonton Website, Neighborhood Renewal, accessed May 12, 2021.

⁹⁵ City of Edmonton response, May 4, 2021.

⁹⁶ City of Edmonton response, May 26, 2021.

Potential Issues:

- Section 9 in the Franchise Agreement does not directly address neighbourhood renewal; the determination of asset allocation requires collaboration between the City and EWSI.
- The high costs associated with neighbourhood renewal have a material impact on whichever party funds the repair and replacement of catch basins whether it be taxpayers or ratepayers.
- Large amounts of administrative tasks arise through communication and transactions surrounding the updated assets.
- Delays exist between when work is performed, and invoicing occurs. This can create difficulties in forecasting expenditures⁹⁷.

Suggestions for further resolutions:

The primary issue regarding contributed drainage assets for City capital projects, and in particular, for catch basin works associated with neighbourhood renewal programs, is whether the taxpayer or ratepayer should fund such asset repairs/replacements irrespective of the asset requiring immediate repair/replacement. In order to determine an appropriate resolution for allocating costs associated with drainage assets in these circumstances, two alternatives have been identified as follows:

- 1) Continue to use status quo approach in accordance with Section 9 of the Drainage Franchise Agreement whereby the City funds catch basin replacement/repair works, which are not damaged or approaching the end of their useful life.
- 2) Modify Section 9 of the Drainage Franchise Agreement to explicitly document the circumstances whereby EWSI would fund catch-basin replacement/repair works for City neighbourhood renewal projects.

Alternative one follows Section 9 of the existing Drainage Franchise Agreement and general principles for contributed assets provided to a utility. However, unlike new assets that are contributed to a utility, the issue is for the repair/replacement of catch basins associated with neighbourhood renewals. These renewal projects are intended to rebuild infrastructure in some areas and invest to provide preventive maintenance in others. As such, while catch basins may not be near the end of their useful life during these projects (and if replaced, deemed as a contributed asset and funded by the City), it may be reasonable to assume that they would be otherwise repaired/replaced in the future (prior to the surface works being repaired/replaced once again).

City Policy C624, Fiscal Policy for Revenue Generation, provides a governing framework for allocating service and infrastructure costs. This Policy is “intended to guide fiscal decisions on the fundamental question of who pays for what, in what amount, and why?”⁹⁸ It states that “where a regulated utility service is provided, revenues are raised from customers and other non-tax sources to recover the whole cost of the service”⁹⁹. As such, it is reasonable that most catch basins, manholes, and catch basin leads replacements in neighbourhood renewal projects form part of the “regulated utility service” for Drainage.

In addition, there are other precedents that can be considered, such as with water hydrants and Drainage relocation required for LRT. Although these are not identical to catch basin, when the City performs road alignment work, EWSI is typically responsible and funds the relocation of hydrants, which are subsequently

⁹⁷ GT-EWSI-C, page 3-4.

⁹⁸ City Policy C624, Fiscal Policy for Revenue Generation, November 2, 2020.

⁹⁹ GT-EWSI-D, page 4.

funded by rates¹⁰⁰. Furthermore, the costs associated with drainage infrastructure associated with LRT relocation, is funded through EWSI's revenue requirement to be recovered from ratepayers¹⁰¹.

GT Observations and Findings:

For circumstances where catch basin repair/replacement is required as part of a neighbourhood renewal project, it is reasonable for EWSI to fund these costs through from ratepayers. This is largely due to the older state of the infrastructure as part of neighbourhood renewal projects, regardless of whether the catch basin infrastructure is at or near the end of its useful life. These potential increases in rates may have a material impact on ratepayers, however this approach remains consistent with other City directed capital projects that ratepayers have funded (e.g. LRT, etc.). The City and EWSI may need to further quantify the impacts and address potential changes required to the Drainage Franchise Agreement. Overall, this will help ensure alignment to Policy C624 and help ensure that utility ratepayers are allocated the appropriate capital costs of infrastructure replacement.

There may be exceptions that should be considered by the City and EWSI as well. For example, EWSI may have repaired/replaced a catch basin prior to a neighbourhood renewal project. The City may choose to handle these circumstances on an exceptional basis. These situations may also help inform the prioritization of neighbourhoods for renewal (e.g. EWSI recently invested significant amounts to repair/replaced a catch basin).

It should also be noted that if EWSI was to fund the cost of catch basin replacement through rates, it would form a non-contributed asset, on which EWSI is able to earn a return. This can also be quantitatively examined during the detailed assessment suggested.

Regardless of either alternative selected, it is recommended that the City and EWSI delivery services to Edmonton's residents at the lowest cost and with the least disruption to the public. As such, there is likely to be administrative burden to allocate costs for combined construction projects irrespective of the resolution selected. Nonetheless, both the City and EWSI have independently expressed that cost minimization on behalf of Edmonton's businesses and residents should always be the primary consideration, with cost allocation being a secondary consideration. While EWSI and the City prioritized the scope of analysis to catch basins and associated infrastructure associated with neighbourhood renewal, it is suggested that EWSI and the City examine other City Drainage contributed assets to ensure consistency with City Policy C624.

4.1.4 Appropriate documentation and oversight of ongoing services between the City and EPCOR through service agreements

Historical state: Service agreements were used for Water and Wastewater prior to the Drainage Transfer and were used as a precedent in create new SLAs for the Drainage Utility.

Relevant References from the Letter of Intent:

"A number of agreements between the City and EPCOR will be required to effect the transfer."¹⁰²

Current state following drainage transfer: The following documentation and service agreements have been developed and executed:

1. Biosolids Service Level Agreement
2. Customer Contact Centre Services Agreement

¹⁰⁰ City of Edmonton response, May 4, 2021.

¹⁰¹ Drainage PBR 2022-2024, page 165.

¹⁰² EWSI Letter of Intent Attachment 1, page 1.

3. Drainage Enforcement Services Agreement
4. Fleet Services Agreement
5. Information Technology Services Agreement
6. Facility Maintenance Agreement (now expired and will not be renewed)
7. Urban Form and Corporate Strategic Development Services Agreement
8. Witness, Employee and Information Sharing Services Agreement
9. Integrated Infrastructure Services Agreement¹⁰³

In addition, there are also four outstanding agreements that have yet to be finalized:

1. City Operations Service Agreement – also known as Operations and Maintenance Agreement
2. Restricted Covenant Service Level Agreement
3. All Utility URW Service Level Agreement
4. Clarification Services Agreement¹⁰⁴

In addition to agreements, there is a Steering Committee of City of Edmonton Branch Managers and EPCOR Directors that meet quarterly to strategically plan, construct and operate infrastructure to support the implementation of the City Plan and complementary EPCOR Strategic Plans¹⁰⁵. The primary goal of the Committee is to maintain effective communication channels at senior management levels and provide a forum where challenging issues of mutual interest can be addressed in a timely manner.

Benefits and potential issues surrounding the current state:

Benefits:

- As there have been previous transfers of utilities from the City to EWSI, there have been precedents set for agreements that have been followed for Drainage agreements.

Potential Issues:

- The language in some of the agreements and documentation of agreements may be interpreted differently.
- While committees have at senior levels have been established, there can be a lack of connection between directions confirmed at this level, and operational activities.
- In some cases, shared responsibilities have not been clearly defined between EWSI and the City; understanding when a handover should take place, or who has decision making authority, is not always clear.

Suggestions for further resolutions:

While there are no binary alternatives for this area, it's important to note that the City and EPCOR have taken positive steps to collaborate in order to provide services for the delivery of Utility and other City services.

¹⁰³ GT-EWSI-D, page 1

¹⁰⁴ GT-EWSI-D, page 2

¹⁰⁵ GT-EWSI-D, page 3

GT Observations and Findings:

EWSI and the City are both large organizations that have frequent touchpoints and communications due to the nature of their interrelated operations. As a result of these interrelated operations, there are areas of complexity when it comes to the governance and oversight of both organizations. It is beneficial that there is documented agreements, as well as senior leadership committees to support a clear understanding of roles and responsibilities. There are also recent precedents (such as the Sanitary Servicing Strategy Fund (SSSF) as mentioned in Section 4.1.5) where roles, responsibilities, oversight, decision making processes, and authority have been recently discussed and confirmed. Nonetheless, due to the complexity that accompanies these large organizations, there are still areas for further understanding and clarifying roles from which both parties would benefit (including finalizing the outstanding agreements noted in this section). While discussing the roles and responsibilities of each other in the decision-making process, it is suggested that strong documentation processes are undertaken in order to generate a comprehensive organizational memory for reference. Senior leadership committees can be expanded upon to include more involvement from operational levels in order to reduce ambiguity and confusion for both strategic and day-to-day decision-making processes.

4.1.5 Clarity of drainage planning roles and responsibilities between the City and EPCOR

Historical state: The City assumed control over Drainage planning across development stages.

Relevant References from the Letter of Intent:

*The City would have direct control over the direction of municipal development.*¹⁰⁶
*Ongoing Service Agreements include "City Planning Services (land development planning, engineering, cost assessment and infill support)."*¹⁰⁷

Current state following drainage transfer: Both the City and EPCOR have roles and responsibilities at across various stages of the drainage planning process. Generally, for broader planning stages (e.g. City plan, area and neighbourhood plans, etc.) EWSI is consulted to provide general input and specialised technical knowledge for drainage (e.g. for developments that require specialized consideration such as lift station). However, the City leads and develops the long-term strategies and planning policies through the City Plan, which at a high-level provides guidance for land use direction. Drainage is one of several disciplines (e.g. transportation, landscaping, etc.) that is be considered in an integrated fashion at this stage of planning. The City leads the review and approval of all area and neighbourhood plans, and has Drainage staff to review these plans to ensure they are meeting design objectives¹⁰⁸. Further City Drainage staff review and approve all development and infill submission drawings submitted for the Drainage system, with technical input provided by EWSI as required. The full details of City and EWSI roles are detailed in Appendix I.

While documented in Appendix I, both the City and EWSI suggest that there remain some ambiguities around certain roles for Drainage Planning, which can be further clarified. For example, the City has collaborated with EWSI and other stakeholders in the development community to provide greater clarity and confirm roles, responsibilities, governance, and decision-making processes for the Sanitary Servicing Strategy Fund (SSSF). This can help inform future working arrangements and collaboration between the City and EWSI for other drainage planning matters.

¹⁰⁶ EWSI Letter of Intent, page 4.

¹⁰⁷ EWSI Letter of Intent Attachment 1, page 7.

¹⁰⁸ City of Edmonton drainage review staff are funded by EWSI through a SLA (GT-EWSI-E, page 1).

Benefits and potential issues surrounding the current state:

Benefits

- The City has ultimate control over the direction of municipal development via the Urban Growth and Planning Coordination sections, the development and approval of City Plan, in-house Drainage engineers, etc.
- EWSI and the City have developed a process that allows for additional EWSI resources to be brought into the discussion and review process when required.

Potential Issues:

- In some circumstances, there are unclear priorities between the City and EWSI around the roles and responsibilities that each party plays.
- The transition of knowledge through the Drainage Transfer process may not have been sufficiently documented, leaving some ambiguity and interpretation of roles¹⁰⁹.
- Some challenges associated with the planning of major infrastructure additions to the sewer trunk network due to historical design standards¹¹⁰.
- Some questions pertaining to where (City or EWSI) fully technical expertise for drainage planning currently exists (e.g. lift station reviews often require operational expertise which has transitioned to EWSI).

Suggestions for further resolutions:

Grant Thornton did not consider binary alternatives for this area. The City and EWSI have taken positive steps to collaborate and clarify roles for drainage planning since the Transfer. While the City continues to lead much of the municipal development planning and drainage reviews for area and neighbourhood plans, there may be opportunities to further leverage the technical expertise from EWSI's drainage staff. EWSI has provided diagrams, as seen in Appendix J that outline proposed changes to the current system for Area/Neighbourhood Plans and Infill and Industrial Plans as well as for Neighbourhood Design Reports. These charts are meant to clarify the roles and responsibilities of EWSI and the City moving forward in the Drainage utility planning to ensure effective operations. In this scenario, EWSI's roles and responsibilities would include reviewing and confirming boundary conditions and design assumptions, as well as reviewing and approving analysis for infill and industrial areas. These proposed changes allow for a multi-level review of plans and ensure agreement from both EWSI and the City.¹¹¹

GT Observations and Findings:

The City and EWSI are both large organizations whose operations are interrelated and involve significant amounts of communication and discussion around the planning of the drainage network. While the City maintains authority over the City Plan, there will continue to be an interrelationship with EWSI to identify utility infrastructure requirements to support the City Plan, and also identify constraints to the City Plan imposed by utility infrastructure planning. As a result of this, and through the Drainage Transfer, there has been a perceived decrease in the clarity of City and EWSI drainage planning roles. In order to achieve a high level of understanding and cooperation between the two parties, further clarification and coordination between municipal and utility planning areas may be required. Adding formalized documentation of the roles and responsibilities of each party should ensure that planning functions run more smoothly (including interrelationships needed for successful drainage planning). Specifically, it is suggested that the City and

¹⁰⁹ City of Edmonton, meeting with Lindsey Butterfield, April 22, 2021

¹¹⁰ GT-EWSI-D, page 3

¹¹¹ GT-EWSI-E, page 7

EWSI consider improvements to the roles and responsibilities with the items noted above (e.g. drainage technical expertise, lessons learned from working committees and SSSF, consideration of updated City Plan) and document roles and responsibilities in an updated SLA. Furthermore, both parties should ensure that the Drainage knowledge that exists in either organization is appropriately leveraged at all stages of the planning process (e.g. currently, Drainage operational staff in EWSI provide technical input for lift station planning reviews submitted to the City).

4.1.6 Other potential issues, opportunities and risk for the City, taxpayers and rate associated with the EPCOR Drainage transfer

As a part of Grant Thornton consultations with EUI and the City, no further major issues or risks were raised by stakeholders that would have material impact on taxpayers or ratepayers. Nonetheless, two additional areas for further exploration and resolution were identified:

Status of Land and Real Estate Transfer: There are a few outstanding real estate transfers yet to be confirmed since the transfer. Specifically, there were four land parcels that were used as integrated sites with operations of both City operations and Drainage. These required needed further contemplation than what was indicated in the agreements. The City and EWSI have had discussions since the Drainage Transfer and have resolved the treatment of three out of four of the land parcels, leaving the resolution of the final integrated site to be determined¹¹². Regarding materials issues involving real estate, it was noted by the City that wet ponds (described earlier in this report), remain the largest unresolved issue. Some other issues such as utility right of ways may continue to surface as land use holdings changes and potentially sold in the future.

“One Water” System: EWSI proposed that there is an opportunity for EWSI to implement a “One Water” System through leveraging synergies created with the ownership of the full water cycle. EWSI has expressed a desire to use their integrated resource plans to create a Sanitary Integrated Resource Plan (SanIRP) and take advantage of the full water cycle to create a “One Water” planning team for sustainable wastewater services¹¹³. Although no cost analysis has been completed, by leveraging the full water cycle, EWSI believes that ratepayers should benefit from larger operational synergies with this approach.

4.1.7 Summary of outstanding issues and findings

For all contemplated outstanding issues, the implications of alternatives are considered for both taxpayers and ratepayers, where applicable, in the following table. Cost estimates shown should be considered as draft and preliminary.

Outstanding Issues Potential Effects on Taxpayers and Ratepayers

Outstanding Issue and Relevance to Letter of Intent	City (Taxpayer)	EWSI (Ratepayer)	GT Suggested Course of Action
Wet Ponds <i>The Letter of Intent provides for the orderly transfer of the Drainage Utility assets, liabilities and operations from the</i>	Should the City reassume ownership of the wet ponds land parcels, the maintenance will be continued through	Should the wet ponds land parcels remain with EWSI, the City may maintain the greenspaces through a SLA and Public Access Agreement and collect	Based on the evidence collected, there is merit to have EWSI retaining ownership due to the interrelated nature of wet ponds as Drainage infrastructure. The

¹¹² City of Edmonton, meeting with Chris Hodgson, May 7, 2021.

¹¹³ GT-EWSI-F, page 4.

Outstanding Issue and Relevance to Letter of Intent	City (Taxpayer)	EWSI (Ratepayer)	GT Suggested Course of Action
<p><i>City to EPCOR without negative impacts on utility ratepayers or taxpayers.”¹¹⁴</i></p> <p><i>“Transfer of Drainage would result in transfer of associated environmental and property damage liabilities”¹¹⁵</i></p> <p><i>Assets to be transferred are “Those stormwater management facilities (dry ponds, wet ponds, etc.) that the parties identify as having a primary purpose of management (quality and quantity) and conveyance of stormwater.”¹¹⁶</i></p> <p><i>The following will remain with the City Stormwater management facilities which are primarily utilized as parkland.¹¹⁷</i></p> <p><i>Ongoing Service Agreements include “Maintenance of certain stormwater management facilities”¹¹⁸</i></p>	<p>the City and funded by taxpayers.</p>	<p>fees funded by taxpayers.</p>	<p>maintenance of the greenspaces can be completed by the City through a SLA (or part of the finalized Operations and Maintenance Agreement).</p> <p>Next steps: Confirm the intended approach with both parties and develop agreements (i.e. SLA, Public Access Agreement, etc.).</p> <p>Approximate annual costs increase/decrease to taxpayers and ratepayers: \$0¹¹⁹</p>

¹¹⁴ EWSI Letter of Intent, page 3.

¹¹⁵ EWSI Letter of Intent, page 4.

¹¹⁶ EWSI Letter of Intent Attachment 1, page 2.

¹¹⁷ EWSI Letter of Intent Attachment 1, page 10.

¹¹⁸ EWSI Letter of Intent Attachment 1, page 7.

¹¹⁹ Given information provided to Grant Thornton, the City maintains most green spaces surrounding EWSI owned wet ponds, and as such, the City has an existing allocated budget for this activity. EWSI currently does not have any funds allocated in the proposed PBR revenue requirement to address green space maintenance of wet ponds (EWSI response, May 15, 2021). As a result, there is no assumed corresponding decrease in costs to taxpayers or ratepayers.

Outstanding Issue and Relevance to Letter of Intent	City (Taxpayer)	EWSI (Ratepayer)	GT Suggested Course of Action
<p>Stormwater Costs</p> <p><i>There must be value for the taxpayers and ratepayers.</i>¹²⁰</p> <p><i>Utility customers must not be negatively impacted.</i>¹²¹</p>	<p>Should the City continue to pay its current stormwater costs, the City would likely continue to be subsidized by other ratepayers.</p>	<p>Should the City pay the increased costs for stormwater, there would likely be increased equity among ratepayers.</p>	<p>Based on the information gathered, the City should pay the stormwater costs associated with City properties in order to decrease cross subsidization.</p> <p>EWSI is currently reviewing EPCOR owned properties and plans to introduce full rates to its facilities during the next PBR term as well.</p> <p>Next steps: EWSI and City to confirm the associated City stormwater costs for the next PBR term (beginning in 2025).</p> <p>Approximate annual cost increase to taxpayers: \$8.0 million (based on 2022 rates)</p> <p>Approximate annual cost decrease to ratepayers: \$8.0 million (based on 2022 rates)</p>
<p>Contributed Assets</p> <p><i>There must be value for the taxpayers and ratepayers.</i>¹²²</p> <p><i>Utility customers must not be negatively impacted.</i>¹²³</p>	<p>Should the City elect to replace existing drainage assets as part of the neighbourhood renewal program that are not identified to require replacement by EWSI, the costs for the replacements are paid for by the City, and recorded as contributed</p>	<p>Should EWSI fund the repair or replacement of these assets, the process would follow other approaches for City directed capital projects, whereby ratepayers would fund such asset repairs/replacements.</p>	<p>Based on the evidence collected, there is merit to have EWSI fund the expenses associated with repairing or replacing catch basins affiliated with the neighbourhood renewal program.</p> <p>Next steps: Confirm the intended approach with both parties, refine the estimate for funding required by EWSI for neighbourhood renewal</p>

¹²⁰ EWSI Letter of Intent, page 1.

¹²¹ EWSI Letter of Intent, page 1.

¹²² EWSI Letter of Intent, page 1.

¹²³ EWSI Letter of Intent, page 1.

Outstanding Issue and Relevance to Letter of Intent	City (Taxpayer)	EWSI (Ratepayer)	GT Suggested Course of Action
	assets from the City to EWSI.		<p>projects, and update Section 9 of the Drainage Franchise Agreement.</p> <p>Approximate annual capital cost increase to ratepayers: \$10 million¹²⁴.</p> <p>Approximate annual capital cost decrease to taxpayers: \$10 million.</p>
<p>Service Agreement Documentation and Oversight</p> <p><i>“A number of agreements between the City and EPCOR will be required to effect the transfer.”¹²⁵</i></p>	EWSI and the City are both large organizations that have frequent touchpoints and communications due to the nature of their interrelated operations. As a result of these interrelated operations, there are areas of complexity when it comes to the governance and oversight of both organizations. It is beneficial that there are documented agreements, as well as senior leadership committees to support a clear understanding of roles and responsibilities.		There are still areas for further understanding and clarifying roles from which both parties would benefit (including finalizing outstanding agreements). It is suggested that strong documentation processes are undertaken in order to generate a comprehensive organizational memory for reference.
<p>Drainage Planning Roles and Responsibilities</p> <p><i>The City would have direct control over the direction of municipal development.¹²⁶ Ongoing Service Agreements include “City Planning Services (land development planning, engineering, cost assessment and infill support).”¹²⁷</i></p>	Both the City and EPCOR have roles and responsibilities at across various stages of the drainage planning process. While the City maintains authority over the City Plan, there will continue to be an interrelationship with EWSI to identify utility infrastructure requirements to support the City Plan, and also identify constraints to the City Plan imposed by utility infrastructure planning. As a result of this, and through the Drainage Transfer, there has been a perceived decrease in the clarity of City and EWSI drainage planning roles.		Further clarification and coordination between municipal and utility planning areas may be required. Adding formalized documentation (e.g. SLA) of the roles and responsibilities of each party should ensure that planning functions run more smoothly. Both parties should ensure that the Drainage knowledge that exists in either

¹²⁴ As EWSI finances capital expenditures in order to achieve an overall capital structure of 60% debt and 40% equity, increases in capital costs are reflected overtime in rates. The approximate revenue requirement increase associated with an annual addition of a \$10 million capital expenditure totals approximately \$2.8 million over the 2022-2024 PBR term (approximate average increase of \$730,000 per year during the next PBR term). While not quantified, this annual amount will likely grow as further capital expenditures are introduced (EWSI response, May 20, 2021). For the purposes of the illustrative comparison, the annual capital costs are used to reflect the cost increase (decrease) to ratepayers (taxpayers).

¹²⁵ EWSI Letter of Intent Attachment 1, page 1.

¹²⁶ EWSI Letter of Intent, page 4.

¹²⁷ EWSI Letter of Intent Attachment 1, page 7.

Outstanding Issue and Relevance to Letter of Intent	City (Taxpayer)	EWSI (Ratepayer)	GT Suggested Course of Action
			organization is appropriately leveraged at all stages of the planning process.
Summary of approximate cost impacts to taxpayers and ratepayers			Approximate annual cost increase to Drainage ratepayers: \$2 million Approximate annual cost decrease to taxpayers: \$2 million

As the City and EWSI continue to collaborate to resolve issues, below are some criteria to support the facilitation of future discussions:

- *Legal constraints and implications*
- *Each party's desire for the authority over the issue at hand*
- *Where the technical expertise on the subject matter resides*
- *Value and equity for both taxpayers and ratepayers*
- *Cost efficiency/minimization*
- *Appropriate risk allocation*

5 Glossary of terms

General Terms	Description
2012-2016 PBR Report	Grant Thornton's report completed in 2011
2017-2021 PBR Report	Grant Thornton's report completed in 2016
ALTA	Asset and Liability Transfer Agreement
AUC	Alberta Utilities Commission
Bylaw 18100	EPCOR Drainage Services Bylaw
CCC	Construction Completion Certificate
COE	City of Edmonton
CORe	Corrosion and Odour Reduction Strategy
CWFM	City Wide Flood Mitigation Plan
Drainage	Drainage Services Utility
Drainage PBR 2022-2024	2022-2024 Performance Based Regulation Drainage Application
Edmonton	The City of Edmonton
EWSI	EPCOR Water Services Inc.
EUI	EPCOR Utilities Inc.
FAC	Final Acceptance Certificate
Grant Thornton	Grant Thornton LLP
GT	Grant Thornton LLP
IRs	Information Requests
Letter of Intent	Report CR_4436
LID	Low Impact Development
LRT	Light Rail Transit
MGA	Municipal Government Act
MTER	Malcom Tweddle Edith Rogers Pond Project
NRA	Non-Routine Adjustment

General Terms	Description
PBR	Performance Based Regulation
SIRP	Stormwater Integrated Resource Plan
SSSF	Sanitary Servicing Strategy Fund
The Administration	The City of Edmonton
The Applications	2022-2026 Performance Based Regulation Water Application, 2022-2024 Performance Based Regulation Wastewater Application, and 2022-2024 Performance Based Regulation Drainage Application
The City	The City of Edmonton
The Company	EPCOR Water Services Inc.
Transfer	September 1, 2017 Drainage Transfer
Us	Grant Thornton LLP
We	Grant Thornton LLP

6 Appendices

EPCOR Water Services Inc. 2017 Drainage Utility Transfer Review: **Appendices**

1.1.	Appendix A: Grant Thornton Scope of Work Provided by the City	ii
1.2.	Appendix B: Commitments from EWSI Letter of Intent	vii
1.3.	Appendix C: List of Documentation Received and Reviewed in Report	xvi
1.4.	Appendix D: Full Allocation of Transition Cost Spending	xvii
1.5.	Appendix E: Operational Efficiency Analysis	xviii
1.6.	Appendix F: Average Residential Rate Customer Impacts	xxii
1.7.	Appendix G: Drainage Annual Rate Increase Analysis	xxiii
1.8.	Appendix H: Treatment of Repaired and Replaced Assets as per Drainage Transfer Agreement	xxiv
1.9.	Appendix I: Detail of the City and EWSI Roles and Responsibilities	xxv
1.10.	Appendix J: Proposed Alternatives to Current Drainage Planning Roles	xxvii

1.1. Appendix A: Grant Thornton Scope of Work Provided by the City

DocuSign Envelope ID: 6943C08D-69FD-402D-A6F8-C2FB0ECCF823



1. DESCRIPTION OF PROJECT

1.1. This project involves a) assisting City of Edmonton Administration with the review of Performance Based Rates (PBR) applications submitted by EPCOR Water Services Inc. (EWSI) for water, wastewater treatment and drainage services, b) review of the Drainage Utility (Drainage) transfer from the City of Edmonton to EPCOR.

1.2. **Performance Based Rates Applications Background:** EPCOR Utilities Inc. (EPCOR) provides water, wastewater treatment and drainage services within the boundaries of the city of Edmonton through EPCOR Water Services Inc.(EWSI). In 2016, City Council approved rate applications to set customer rates for water and wastewater treatment services provided by EWSI under performance based regulation for the 5 year period April 1, 2017 to March 31, 2022 (Bylaw 17698). In 2017, City Council approved a rate application to set customer rates for drainage services provided by EWSI for the period January 1, 2018 to March 1, 2022 (Bylaw 18100).

With the current PBR terms set to expire on March 31, 2022, EWSI will be submitting rates applications with the City in February 2021, requesting City Council approval to set new customer rates under performance based regulation for:

- water services for the five year period April 1, 2022 to March 31, 2027 and
- drainage and wastewater treatment services for the three year period April 1, 2022 to March 31, 2025.

1.3. **Drainage Transfer Background:** On June 14, 2016 EPCOR made a proposal to transfer the City of Edmonton's (the City) Drainage Utility (Drainage). In July 2016, the City selected Grant Thornton LLP (GT) after a competitive procurement process to provide an independent assessment of the EPCOR's Proposal. In response, Grant Thornton evaluated the EPCOR Proposal from quantitative and qualitative perspectives and assessed the impacts to the City, ratepayers, and taxpayers.



CW2286210 EPCOR PBR Analysis and Drainage Transfer Review

Using this analysis, at the April 12, 2017, City Council meeting, Council voted to transfer the Drainage from the City to its wholly owned subsidiary corporation, EPCOR, effective September 1, 2017. The foundations of the transfer were based on terms outlined in a Letter of Intent jointly developed by the City and EPCOR, and from findings and conclusions of a 2016 EPCOR Proposal for Drainage Transfer Analysis conducted by GT.

As part of its Proposal, EPCOR has committed for the Drainage Services to hold a 3.0% annual increase in utility rates for 2017 to 2021 and then to submit a PBR application to set new rates effective April 1, 2022.

- 1.4. In response, the City would like to have an independent assessment of the Drainage transfer to EPCOR, taking into account the terms and commitments included in the Letter of Intent.

2. CONSULTANT SERVICES

2.1. The Consultant will

- a. Assist City of Edmonton Administration with the review of the proposed performance based rate applications by EWSI for water, wastewater treatment and drainage services (section 1);
- b. Assess and evaluate the Drainage transfer to EPCOR (section 2) against the principles in the Letter of Intent.

2.2. Section 1: Reviews of PBR Applications by EWSI

As part of the overall review of the rates applications by Administration, the Consultant will provide the due diligence review of certain regulatory technical aspects of the applications in accordance with the guiding objectives for the assessment of rates as outlined in Section 5 of the EPCOR Rates Procedures Bylaw 12294. The technical aspects will include:

- a) a detailed assessment of cost of capital including the requested **return on equity and interest on long term debt**. The assessment will include an evaluation of the operational and financial risks for EWSI in comparison to the benchmark return on equity approved by the Alberta Utilities Commission. The assessment will also include an evaluation of the impact of any additional deferral accounts (such as long term debt interest rates and water consumption impact on revenue) on the **risk of EWSI** and the requested return on equity.
- b) an overall assessment of the **efficiency factor** proposed by EWSI for each of water, wastewater treatment and drainage services taking into



- account the number of years each utility has operated under performance based regulation.
- c) an overall assessment of the **inflation** methodology and factor proposed by EWSI along with any **other proposed annual adjustments** to customer rates.
 - d) an overall assessment of the proposed PBR formula including the **appropriateness of 5 year PBR applications** in light of the current economic environment (including the impact of COVID).
 - e) a scan of approaches currently being used by **other regulators** in North America to approve rates given COVID and the economic uncertainty.
 - f) an overall assessment of **cost of service and rate design** studies submitted by EWSI (i.e. drainage services cost of service study)
 - g) a high-level assessment of how EWSI met its performance metrics with potential suggestions for future consideration.

Section 2: Review of Drainage Transfer to EPCOR

The Consultant will perform an independent review to assess the Drainage Transfer taking into account the terms and commitments included in the Letter of Intent and as summarized in Administration report CR_4436 presented to City Council on April 11, 2017. This review will cover the following

- a) Were the transfer elements as outlined in the Letter of Intent conducted as intended?
 - S1. Overview - Principles of the Drainage Transfer
 - S2. Drainage Utility Transfer - utility assets, land transfers, assignment of contracts, retained earnings, liabilities, commitments for employment
 - S3. Drainage Transfer Transition - transition cost compensation
 - S.4 Ongoing Agreements with City - ongoing services agreements and jointly managed initiatives
 - S. 5 Regulatory Framework for Drainage

- b) Did the City and the ratepayer achieve the benefits outlined in the 2016 EPCOR Proposal for Drainage Transfer Analysis? This review should include, but not limited to:
 - Capital and operating cost efficiencies and resulting savings;
 - Economies of scale in shared services with water and wastewater;
 - Incremental dividend commitment by EPCOR;

CW2286210 EPCOR PBR Analysis and Drainage Transfer Review

- Rate stability (3% increase per year from 2018 to 2022 and impact of non-routine adjustments) and impact on ratepayers average monthly utility rates;
 - Development of Stormwater Integrated Resource Plan and capital spending on flood mitigation;
 - Status on equity injections;
 - Transition fee payable by EPCOR to the City.
- c) Are there any elements related to the transfer that are outstanding or need to be addressed further? This review should include, but not limited to:
- Ownership of wet pond land parcels and the associated insurance/liability issues and financial impacts (eg. debt, operational costs);
 - Stormwater costs to the City of Edmonton - alignment to principles established for ratepayers while balancing value for taxpayers as part of transfer. Review of options, impacts, and other considerations (eg. dividend);
 - City of Edmonton contributed drainage assets as part of City capital projects - ensuring rate payers are allocated the appropriate capital costs of infrastructure;
 - Appropriate documentation and oversight of ongoing services between the City and EPCOR through service agreements;
 - Clarity of drainage planning roles and responsibilities between the City and EPCOR;
 - Other potential issues, opportunities and risk for the City, taxpayer and rate associated with the EPCOR Drainage transfer.

2.3. The Consultant will:

- a) Provide initial comments on the Rate Notices, Rate Reports, and Performance Based Rate Information Package outlining key issues and findings;
- b) Deliver a draft report, and the final reports and presentations as outlined in 2.2;
- c) Address feedback on the draft report in to the final report and presentations, as required;
- d) Prepare a presentation of the final report and findings to the City to allow for preparation for the presentation of the findings to the City Council;
- e) Attend at City Council and/or Utilities Committee Meetings and potentially make a presentation of the findings of the report;
- f) Provide responses to Councillor or general inquiries as required;
- g) Provide weekly progress reports to the City Project Manager.

CW2286210 EPCOR PBR Analysis and Drainage Transfer Review

2.4. The Consultant shall provide to the City:

- a) A digital copy of all final report files & presentation and up to six paper copies of the final report.

3. SCHEDULE OF SERVICES AND BUDGET

- 3.1. The Consultant will provide a detailed overview of the budget for the services, including personnel and the number of hours before commencement of the work.
- 3.2. The Consultant will begin services no later than February 15, 2021.

4. MILESTONES

- 4.1. An initial comments on the Rate Notices, Rate Reports, and Performance Based Rate Information Package outlining key issues and findings should be provided no later than March 15, 2021;
- 4.2. Written questions for response from EWSI no later than March 29 to City of Edmonton for submission to EWSI on March 31, 2021;
- 4.3. A draft report shall be provided by April 30, 2021 and the final report and presentation by May 14, 2021;
- 4.4. The consultant will attend a City Council and/or Utilities Committee Meetings after the submission of the final report. More information on the dates will be shared with the consultant as those date(s) are known and confirmed (tentatively scheduled for June 25, 2021).



1.2. Appendix B: Commitments from EWSI Letter of Intent

6.
5

EPCOR Proposal for Drainage Transfer - Letter of Intent

Recommendation:

That the April 11, 2017, Financial and Corporate Services report CR_4436, be received for information.

Report Summary

This report provides an overview of the Letter of Intent that Administration and EPCOR Utilities Inc. developed for further consideration of Council regarding the transfer of the Drainage Utility assets and liabilities from the City to EPCOR.

Previous Council/Committee Action

At the January 24, 2017, City Council meeting, the following motion was passed:

That the City Manager work with EPCOR Utilities Inc. to develop a Letter of Intent with EPCOR for further consideration of Council regarding the transfer of the Drainage Utility assets and liabilities from the City to EPCOR as outlined in the EPCOR Proposal with due consideration of the following principles:

1. The public's interests must be a top priority.
2. There must be value for the taxpayers and ratepayers.
3. Provide a net advantage to the City and maintain or enhance the City's long-term financial sustainability.
4. EPCOR's existing electricity, water and other business operations will be maintained.
5. City Council will remain as regulator of drainage rates through a Performance Based Regulation, similar to water.
6. Utility customers must not be negatively impacted: EPCOR to maintain no more than the rate increases required to support the service and quality metrics in the current Drainage Services Utility plan.
7. Ensure ongoing effective asset management practices and continued commitment to current Council priorities for flood mitigation.
8. All staff impacted by the proposal will be treated respectfully and their employment statuses will be maintained.
9. Mechanisms to address and include:
 - transparency of operations
 - equivalent public involvement to current environment situation,

- public access to information
- City's right to audit (or audit by City Auditor)
- future divestment of assets requiring public hearing
- an inquiry process to ensure the regulator and public can stay involved outside the Performance Based Rates process

Report

Context

The Letter of Intent, included as Attachment 1, sets out the fundamental terms of the proposed transfer of the City's Drainage Utility assets and liabilities to EPCOR. It outlines the key steps and actions necessary to effect the orderly transfer of the City's Drainage Utility, if the transfer is approved. It also formalizes EPCOR's commitments to satisfy the principles referred to in the January 24, 2017, City Council motion.

Transfer Principles

The balance of this report explains how each of the transfer principles identified by Council is addressed. This is done through a combination of the terms incorporated into the Letter of Intent developed by Administration and EPCOR and through the findings and conclusions of the independent Grant Thornton Report (presented to City Council on November 8, 2016, as Attachment 1 of CR_3800 EPCOR Proposal - Results of the Independent Assessment).

1. *The public's interests must be a top priority.*
 - City Council will continue to ensure the public interest remains a top priority following a transfer of the Drainage Utility through (1) Council's ongoing role as regulator of the Drainage Utility, (2) Council's ongoing role as the shareholder of the company that owns and operates the Drainage Utility and (3) the City's contractual rights concerning the provision of the Drainage Utility services under the franchise and other transfer agreements. Attachment 2 provides a matrix outlining the various roles of City Council.
2. *There must be value for the taxpayers and ratepayers.*
 - Grant Thornton's independent analysis confirmed that "EPCOR's proposal to transfer Drainage has potential to yield net benefits to the City, taxpayers, and ratepayers."
 - The City and taxpayers will benefit from the increase in the EPCOR Dividend by at least \$20 million in the first full year following a transfer (prorated over the balance of 2017).
 - EPCOR has committed to hold the 3% annual Drainage Utility rate increase through to March 31, 2022, followed by a Performance Based Regulation application for new rates. This is below the rate increase for Drainage Utility currently projected by the City and is accomplished through operating and capital management efficiencies

that were independently reviewed and assessed as reasonable by Grant Thornton.

- The Letter of Intent provides for the orderly transfer of the Drainage Utility assets, liabilities and operations from the City to EPCOR without negative impacts on utility ratepayers or taxpayers.
 - EPCOR will pay the City \$75 million of Transition Cost Compensation over a period of time, to be determined by the City, to ensure that the City and taxpayers are fully compensated for any costs incurred by the City as a result of the transfer.
3. *Provide a net advantage to the City and maintain or enhance the City's long-term financial sustainability.*
- As noted above, the independent Grant Thornton analysis concluded that EPCOR's proposal to transfer the Drainage Utility has potential to yield net benefits to the City, taxpayers, and utility ratepayers. The net benefits were summarized by Grant Thornton starting on page 103 of Attachment 1 of CR_3800 and are quoted below:
 - **Capital Savings:** Drainage is forecast to have large \$1.9 billion capital program over the next 10 years (which can potentially increase further with additional flood mitigation investment). EPCOR's 10% capital efficiency appears to be reasonable, and can result in \$193 million in savings over the 10 year forecast period. This is a significant factor, and one which would also benefit ratepayers since EPCOR would have a lower rate base on which it would be able to generate a regulated Return on Equity (ROE) compared to other ownership alternatives.
 - **Operational Savings:** EPCOR meets the mandatory criteria of not proposing any Drainage staff layoffs. Rather it poses a number of incremental cost savings opportunities which appear reasonable. It was agreed that EPCOR would be able to introduce cost saving measures, while minimizing the impact of lost synergies, where possible.
 - **Organizational Focus:** EPCOR has matured as an organization, and has fully transitioned from the sale of its power generation business in 2009. It has shifted much of its focus on water utilities since that time. This is a fundamental change since its last Proposal to transfer Drainage in 2005.
 - **Incremental Dividend:** EPCOR proposes to use the health of its strong balance sheet to provide the City with at least a \$20 million additional dividend the first year following the transfer. We find this to be advantageous to the City and taxpayers since Drainage currently does not pay a dividend to the City, and the future state of the Drainage Utility appears to require a significant amount of investment.

- **Commitment to Hold Rate Increase:** Our quantitative analysis revealed that any owner (i.e. City, EPCOR, notional third-party) of Drainage Utility will need to increase utility rates to fund the forecast capital program. The Utility does not appear to be financially self-sufficient over the long-term with a 3% annual increase of monthly Drainage rates. However, EPCOR has committed to hold these rate increases in spite of earning a low Return on Equity (ROE) between forecast years 2017 to 2021. In addition, it is forecast to have the lowest total rate revenue increase of the scenarios analyzed when a 10.5% ROE on the equity component of the rate base is introduced in 2022.
 - **Proven Regulatory Regime:** EPCOR proposes to use a Performance Based Regulation for Drainage as it does for EPCOR Water and Wastewater. Given that both EPCOR and the City (in its capacity as regulator) are familiar with this regime for Water, it is reasonable to assume that similar regulatory regime can be adopted for Drainage.
 - **Transfer of Liability:** A transfer of the Drainage Utility would result in a transfer of associated environmental and property damage liabilities. EPCOR would be eligible for municipal protection offered by the Municipal Government Act through a bylaw in the same manner as those protections have been extended to EPCOR's Water Services and Wastewater Treatment businesses.
 - **Control over Municipal Development:** The proposed division of Drainage Planning responsibilities means that the two areas responsible for area and detailed engineering drawing review would remain with the City. This ensures the City would have direct control over the direction of municipal development.
 - **Expansion of EPCOR's Business:** In-house expertise in the full water-wastewater cycle could be leveraged by EPCOR to qualify for new full-cycle or drainage related business development opportunities. This could have a direct financial benefit for the City through further increases in EPCOR's dividend.
 - **Retained Control:** The City would retain control over the Drainage Utility assets, operations, and planning through its roles as regulator and shareholder, and through Council's position as elected officials representing citizens.
4. *EPCOR's existing electricity, water and other business operations will be maintained.*
- The transfer of the Drainage Utility to EPCOR is not expected to negatively affect EPCOR's existing business operations.
 - As part of the 2017-2021 Water and Wastewater Performance Based Regulation approval, EPCOR has committed to reflect economies of scale

savings in shared service costs in water and wastewater rates.

5. *City Council will remain as regulator of drainage rates through a Performance Based Regulation, similar to water.*
 - Utility Committee (and Council) will continue to regulate the same key aspects of the Drainage Utility as they currently do today with rates, terms and conditions of service and major capital initiatives such as the development and implementation of a Stormwater Integrated Resource Plan.
 - EPCOR will operate in accordance with the existing Drainage Bylaw until such time as a new EPCOR Drainage Bylaw is approved. This will include a mechanism whereby rates, fees and charges will be adjusted on January 1 of each year in accordance with EPCOR's commitment to limit annual rate increases to 3% (blended between the Sanitary and Stormwater Utilities) through to the end of March 2022. (Further details of the model for the proposed EPCOR Drainage Bylaw are included in Schedule B of the Letter of Intent (Attachment 1).
6. *Utility customers must not be negatively impacted: EPCOR to maintain no more than the rate increases required to support the service and quality metrics in the current Drainage Services Utility plan.*
 - EPCOR has committed to hold the 3% annual rate increase (blended between the Sanitary and Stormwater Utilities) through to March 31, 2022.
 - The new EPCOR Drainage Bylaw will include service quality metrics currently approved by Council for the Drainage Utility.
7. *Ensure ongoing effective asset management practices and continued commitment to current Council priorities for flood mitigation.*
 - As regulator, Utility Committee and Council will be able to continue to monitor the effectiveness of the asset management practices.
 - EPCOR has committed to provide Utility Committee with annual and periodic performance reporting including progress on capital programs and audit reports as may be requested by the Committee.
 - EPCOR has committed to the development of a Stormwater Integrated Resource Plan, a long-term road map that sets stormwater capital investment strategies and priorities. Development of the Stormwater Integrated Resource Plan would be overseen by Utility Committee and would be reviewed annually and updated periodically. EPCOR has agreed to be adaptable to meet the City's needs should Council or Utility Committee desire to have a different type or level of reporting with respect to the Stormwater Integrated Resource Plan and its implementation.

8. *All staff impacted by the proposal will be treated respectfully and their employment statuses will be maintained.*

The Letter of Intent reflects EPCOR's commitments to City employees concerning their transfer to EPCOR. These include EPCOR's commitment to no layoffs and honouring all existing collective agreements until such time as new agreements are negotiated.

9. *Mechanisms to address and include:*

- *Transparency of operations,*

- EPCOR's regulated utility operations are operated in a highly transparent environment.
- The rate renewal process includes extensive information provision concerning rate applications, expert reports and information request responses. It is expected that the Utility Committee will receive the same or more information concerning the Drainage Utility than it currently does.
- EPCOR will provide an annual performance report, periodic reports and audit reports as determined in consultation with Utility Committee. If Utility Committee desires to receive more information, Utility Committee can direct EPCOR to provide the required information.

- *Equivalent public involvement to current environment situation,*

- The public has the right to attend Utility Committee and Council meetings and participate in public hearings for certain bylaw amendments concerning EPCOR utility matters including rate setting. This is the same right that the public currently has as it relates to Drainage matters including rate setting.
- For significant initiatives such as the development of a Stormwater Integrated Resource Plan, EPCOR will conduct extensive community consultation and will adopt consultation and engagement principles and guidelines established through the "Council Initiative on Public Engagement" initiative. The initiative will be developed under the direction of Utility Committee with regular reporting on progress. The public will have the same right to participate in the community consultation process and any subsequent bylaw approval process that they have currently.

- *Public access to information,*

- EPCOR will participate in the City's Open Data initiative for Drainage as it currently does for Water and Wastewater.
- To preserve the public's access to Drainage information, specific information access protocols will be included in the EPCOR Drainage Bylaw that are consistent with the requirements of the *Freedom of*

Information and Protection of Privacy Act— as outlined in Schedule C of the Letter of Intent.

- In this way, the public has similar rights to access such information under EPCOR operation of the Drainage Utility as they do currently under City operation.
- *City's right to audit (or audit by City Auditor),*
- As part of the Franchise Agreement for Drainage, the City will have the right to audit the records and accounts of EPCOR relating to the Drainage Franchise Agreement.
 - The proposed EPCOR Drainage Bylaw will require an annual filing that includes an auditor's report concerning the accuracy of rate calculations.
 - The City's right to request an audit of Utility matters will be included for Council consideration in proposed amendments to Bylaw 12294 - EPCOR Rates Procedures Bylaw.
- *Future divestment of assets requiring public hearing,*
- The Asset and Liability Transfer Agreement will require City Council approval of any proposal to sell all or substantially all of the Drainage Utility assets. Council meetings must be in public unless justification exists for the meeting to be held in private pursuant to the *Freedom of Information and Protection of Privacy Act*.
 - It is in the discretion of Council to determine whether to provide for a public hearing at the time that any divestment is proposed in order to make its decision with respect to divestment. Council will also need to consider any confidentiality requirements of any proposed divestment as part of this determination.
 - In addition, the Unanimous Shareholder Agreement requires Shareholder (represented by City Council) approval of any sale or disposition of the property of EPCOR where any such sale or disposition represents a material amount of the assets or equity base of EPCOR. The Drainage assets would constitute a material amount of EPCOR and could not be sold without Shareholder approval.
- *An inquiry process to ensure the regulator and public can stay involved outside the Performance Based Regulation process.*
- EPCOR has an established process for responding to inquiries from members of Council. The dedicated single point of contact for City Council responds to inquiries within 24 hours and works with the executive assistants to provide updates to more complex inquiries. Drainage will be incorporated into this process following a transfer of

Drainage to EPCOR.

- EPCOR will agree to attend Utility Committee meetings with regular reporting on operational matters and progress on capital plans.
- Provisions granting Utility Committee and Council explicit authority to direct the provision of utility information by EPCOR, including audit reports will be included for Council consideration in proposed amendments to Bylaw 12294 - EPCOR Rates Procedures Bylaw.
- The public will have the same access to monitor and participate in Utility Committee meetings as it does currently.

Next Steps

Council will need to decide if it will authorize the transfer of the assets and liabilities of the Drainage Utility to EPCOR and provide the City Manager with delegated authority to execute all the required agreements to effect the Transfer.

If Council's decision is to transfer, then the following actions should be taken:

- Administration will work with EPCOR to complete the transaction and execute all required agreements as outlined in the Letter of Intent.
- Administration will report back to Council once the transaction has been completed.
- Administration will make recommendations to Council for revisions to Bylaw 16200 - Drainage Bylaw in conjunction with EPCOR proposing an EPCOR Drainage Bylaw.
- Administration will make recommendations to Council for revisions to EPCOR Bylaw 12294 – EPCOR Rates Procedure Bylaw.
- In order to effect a seamless transition, EPCOR and the City will begin collaboration immediately on significant operational matters such as flood mitigation and will report to Utility Committee, as required.
- EPCOR will commence reporting to Utility Committee after the Transfer with respect to the Drainage Utility.

If Council's decision is not to transfer, then the City will continue operating the Drainage Utility.

Corporate Outcomes

The City of Edmonton has a resilient financial position.

Legal Implications

As owner and operator of the Drainage Utility, the City may transfer the assets and liabilities of the Drainage Utility to EPCOR as contemplated in the Letter of Intent.

Pursuant to the *Municipal Government Act*, City Council would remain as regulator of the Drainage Utility as outlined in the Letter of Intent.

Revision or replacement of Bylaw 16200 - Drainage Bylaw is recommended to provide for terms of service and rates for the Drainage Utility in a manner more

consistent with how the water services and wastewater treatment services are regulated by City Council through Bylaw 17698 - EPCOR Water Services and Wastewater Treatment Bylaw.

Although EPCOR has agreed to provide additional reporting and respond to inquiries with respect to the Drainage Utility, in order to implement this reporting, it is recommended that City Council consider revisions to Bylaw 12294 - EPCOR Rates Procedures Bylaw.

In terms of public access to drainage information, EPCOR has exemptions within the *Freedom of Information and Protection of Privacy Act* for the parent company and subsidiaries that operate under the *Gas Utilities Act* and the *Electric Utilities Act*. It does not appear that these exemptions would apply to the Drainage Utility.

If the Office of the Information and Privacy Commissioner were to ever determine that the *Freedom of Information and Protection of Privacy Act* would not apply to the Drainage Utility, the transfer agreements will include a contractual commitment from EPCOR that it will implement and operate an access to information program that is identical to the processes prescribed in the *Freedom of Information and Protection of Privacy Act*, as generally described in Schedule C of the Letter of Intent. Using this approach, EPCOR would agree to provide access to information and apply only the exceptions to disclosure permitted by the *Freedom of Information and Protection of Privacy Act*, however applicants would not have a right of appeal to the Office of the Information and Privacy Commissioner or other independent reviewer. The Office of the Information and Privacy Commissioner can only review access to information requests for public bodies that are subject to the *Freedom of Information and Protection of Privacy Act*.

Metrics, Targets and Outcomes

Drainage Utility's 2017-18 business plan measures - which are aligned to the 2015-24 Aspirational Drainage Master Plan - are included in Attachment 3.

Attachments

1. Letter of Intent Between the City of Edmonton and EPCOR
2. Council's Role as Shareholder, Regulator and Contracting Party
3. Drainage Utility Performance Measures from the 2017 Utility Rate Filing – Operational Performance

Others Reviewing this Report

- R. G. Klassen, Deputy City Manager, Sustainable Development
- A. Laughlin, Deputy City Manager, Integrated Infrastructure Services
- C. Campbell, Deputy City Manager, Communications and Engagement
- D. Jones, Deputy City Manager, City Operations

1.3. Appendix C: List of Documentation Received and Reviewed in Report

The following documents were received and reviewed prior to the completion of our report. References may be made throughout to these documents.

- Description of Work
- Drainage Transfer Grant Thornton 2016 Final Report
- Drainage Transfer Grant Thornton 2016 Final Appendices
- EPCOR Proposal Letter of Intent
- EPCOR Proposal Letter of Intent Attachment
- 2022-2024 PBR Drainage Application
- 2022-2024 PBR Drainage Services Financial Schedules
- Employee Transfer Agreement
- Asset and Liability Transfer Agreement
- Drainage Services Franchise Agreement
- Interim Regulatory Framework Agreement

The following information requests (IRs) were received from EWSI and are references throughout the report.

GT-EWSI-A-1	Guiding Principle 1 – Prioritize public's interests
GT-EWSI-A-2	Guiding Principle 2 – Ensure value for taxpayers and ratepayers
GT-EWSI-A-3	Guiding Principle 3 – Provide a net advantage to the City
GT-EWSI-A-4	Guiding Principle 4 – Maintain EWSI's existing business
GT-EWSI-A-5	Guiding Principle 5 – Council to remain as PBR regulator
GT-EWSI-A-6	Guiding Principle 6 – Limit rate increase to support quality metrics
GT-EWSI-A-7	Guiding Principle 7 – Ensure effect asset management for flood mitigation
GT-EWSI-A-8	Guiding Principle 8 – Maintain transferred staff employment status
GT-EWSI-A-9	Guiding Principle 9 – Mechanisms to address and include
GT-EWSI-B	Status on equity injections
GT-EWSI-C-A	Ownership of wet ponds land parcels
GT-EWSI-C-B	Stormwater costs to the City of Edmonton
GT-EWSI-C-C	Contributed drainage assets
GT-EWSI-C-D	Appropriate documentation and oversight
GT-EWSI-C-E	Clarity of drainage planning roles and responsibilities
GT-EWSI-C-F	Other potential issues, opportunities and risks.
GT-EWSI-C-A Follow Up	Follow up on ownership of wet ponds land parcels
GT-EWSI-C-B Follow Up	Follow up on stormwater costs to the City of Edmonton
GT-EWSI-C-C Follow Up	Follow up on contributed drainage assets
UA-EWSI-5	Drainage 10% capital efficiencies

1.4. Appendix D: Full Allocation of Transition Cost Spending

The following table provides further detail into the uses and timing of the allocation of the \$75 million Transition Payment paid to the City by EWSI¹. Figures provided by the City have been rounded to nearest hundred thousand.

Transition Payment	75,000,000
2017 Stranded Costs (actual)	(4,500,000)
2018 Stranded Costs (actual)	(11,600,000)
2019-2022 Budget Stranded Costs	(25,800,000)
2019 Stranded Costs (released)	1,400,000
2020 Stranded Costs (released)	300,000
Total Balance Following Stranded Cost Compensation	34,800,000
Contaminated Sites Liability Transferred (Bremner Lagoons)	(17,200,000)
Remaining Balance following Bremner Remediation²	17,600,000
QE Park Demolition Total per Transfer Agreement	(3,400,000)
2019 Actual QE Park Demolition (Actual)	(1,100,000)
2019 Actual QE Park Demolition (Actual)	1,100,000
QE Demolition Released	1,700,000
Remaining Balance Following QE Park Demolition³	15,900,000
SOBA 2019	(300,000)
Unrecoverable Uncleared Drainage Costs	(400,000)
2021 Unallocated Balance	15,300,000

¹ City of Edmonton, Transition payment received from EPCOR, net of contaminated sites liabilities and stranded costs, provided April 22, 2021.

² The Bremner lagoons liability was initially set at \$17.245 million. At the stage of this report, the project has not commenced beyond various assessments and studies (City of Edmonton response, May 12, 2021).

³ \$3.353 million was initially appropriated in the fund to address the QE Park Wastewater Treatment Plant cleanup. The project is complete with actual costs of \$1.641 million. The remaining \$1.712 million was released to the unallocated balance (City of Edmonton response, May 12, 2021).

1.5. Appendix E: Operational Efficiency Analysis

Target for EWSI's Operational Efficiencies

Three approaches were used to determine the 2022F operational budget and resulting 5% efficiency target. They are as following:

1. Unadjusted City 2022F Budget⁴

This approach uses the forecast operating expenses in 2022 is derived from the sum of operating and maintenance, customer billing services, shared services, biosolids disposal, and SSSF payment in the table for Scenario 1A Forecast of the 2016 Grant Thornton Report. It does not include local access fee, interest expenses or depreciation as these are not deemed to be related to operational expenses. This sums to approximately \$97.1 million. Please see the following table for reference.

Scenario 1A – Forecast

In \$000s	For the forecast period ended December 31,									
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenues										
Rate Revenue	171,878	179,309	186,941	195,595	204,657	214,240	223,826	235,047	245,528	259,505
Program Revenue	11,026	9,961	10,177	10,397	10,622	10,852	11,087	11,327	11,572	11,823
Interest Income	1,193	797	760	732	666	627	551	422	381	105
Total Revenues	184,097	190,067	197,879	206,724	215,945	225,719	235,464	246,796	257,482	271,433
Expenses										
Operations and Maintenance	45,318	46,481	46,980	47,938	48,845	49,860	50,929	51,591	52,696	53,711
Customer Billings Services	6,185	6,321	6,458	6,598	6,741	6,888	7,037	7,190	7,346	7,505
Shared Services	16,905	17,351	17,611	17,875	18,144	18,416	18,692	18,972	18,972	18,972
Biosolids Disposal	17,412	17,562	18,987	19,505	20,035	20,584	21,150	21,728	22,325	22,325
Local Access Fee	9,043	9,379	9,717	10,088	10,455	10,831	11,232	11,658	12,098	12,265
Interest Expense	23,539	26,058	28,930	34,373	40,556	46,785	52,875	59,427	67,102	75,527
Depreciation	27,015	30,126	33,482	37,299	40,694	43,620	46,945	50,256	53,620	56,561
SSSF Payment	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300	1,300
Total Expenses	146,717	154,578	163,465	174,978	186,770	198,284	210,159	222,123	235,459	248,167
Net Income	37,380	35,489	34,413	31,746	29,175	27,435	25,305	24,674	22,023	23,265
Deduct: Interest Income	(1,193)	(797)	(760)	(732)	(666)	(627)	(551)	(422)	(381)	(105)
Add: Interest Expense	23,539	26,058	28,930	34,373	40,556	46,785	52,875	59,427	67,102	75,527
Add: Depreciation	27,015	30,126	33,482	37,299	40,694	43,620	46,945	50,256	53,620	56,561
EBITDA	86,741	90,876	96,065	102,687	109,759	117,213	124,574	133,935	142,364	155,248
Rate Base - mid year	1,162,447	1,268,413	1,401,649	1,577,766	1,755,264	1,919,619	2,071,435	2,226,489	2,390,267	2,557,300

⁴ Refer to Appendix F of Grant Thornton's "2016 EPCOR Proposal for Drainage Transfer Analysis", dated October 5, 2016. The \$97.1 million forecast operating expenses in 2022 is derived from the sum of operating and maintenance, customer billing services, shared services, biosolids disposal, and SSSF payment in the table for Scenario 1A Forecast (it does not include local access fee, interest expenses or depreciation as these are not deemed to be related to operational expenses).

2. EWSI Adjusted City 2022F Budget⁵

EWSI adjusted the City's 2022F budget, largely based on differences in accounting treatment (e.g. capitalizing or expensing line items). Additional costs of \$6.3 million were also added based on EWSI's analysis. EWSI's reconciled these differences in the following table. Note that Grant Thornton did not complete a comprehensive accounting review for the changes of treatment proposed by EWSI, nor was Grant Thornton able to assess whether the additional costs noted by EWSI would have been incurred by Drainage if remained with the City. Due to these factors, the range approach was used incorporating data from the 2016 Grant Thornton Report.

Table 2.3.8-1
Calculation of the 2022 Drainage Operating Cost Target
(\$ millions)

		A 2022 F
1	City Budget Operating Expenses	107.9
2	Less: Franchise Fee and Property Taxes	(10.8)
3	City Budget Operating Expenses, net of Franchise Fees	97.1
Accounting Differences:		
4	Expensing of Cancelled Projects	1.6
5	Expensing of Shared Services	5.0
6	Expensing of Design and Construction	8.5
7	Capitalization of Planning	(0.2)
8	Capitalization of SSSF	(1.3)
9	Expensing of Public Consultation Costs	0.2
10	City Budget Restated to Regulated Basis of Accounting	110.9
Additional Costs incurred if Drainage under City:		
11	Utility Locates Charges	0.5
12	Meter Reading Charges	0.5
13	New Positions	4.3
14	Dewatering Contract Costs	1.0
15	Adjusted City Budget	117.2
16	Less: Target 5% Efficiency Reduction	(5.9)
17	2022 Drainage Operating Cost Target	111.3

⁵ Drainage PBR 2022-2024, page 41.

3. Operational Efficiency Bottom Up per 2016 GT Report⁶

Grant Thornton's 2016 Drainage Transfer Report included a detailed analysis of potential operational efficiencies proposed to be achieved by EWSI. This is noted below and summed to \$5.3 million by 2021.

Cost Category	Annual Savings (Thousands)	Achievable at City & Resulting EPCOR Savings
1. Synergies with Retiring Employees	\$2,500	\$2,500
2. Implementing Support Crews and Area Approach	\$0 to \$2,350	\$1,175
3. Optimize Shift Scheduling	\$500 to \$1,000	\$0
4. Not filling new proposed positions in the 2016 -2018 budget	\$425 to \$850	\$212
5. Reduction in Lost Time Incidents	\$322 to \$645	\$322
6. Fleet Fuel Efficiency	\$176 to \$605	\$176
7. Enhance Drainage Commercial Activities	\$422 to \$590	\$422
8. WCB Rebates through improved safety performance	\$300	\$300
9. Third Party Damage Recoveries	\$175 to \$225	\$175
10. Reduced Absenteeism	\$120	\$60
Total Forecast Annual Savings by 2021	\$4,960 to \$9,185	\$5,342

Legend		
Category 1: Highly achievable at City / Unlikely to be achieved by EPCOR: no major savings	Category 2: May be achievable at City / May be achievable by EPCOR: 50% cost savings or low range.	Category 3: Unlikely to be achieved at City / Highly achievable by EPCOR: 100% cost savings of high or low range.

The following table details the approximate ranges of operational efficiencies given these approaches.

	Unadjusted City 2022F Budget ⁷	Operational Efficiency Bottom Up per 2016 GT Report	EWSI Adjusted City 2022F Budget ⁸
	Lower Efficiency Target	→	Higher Efficiency Target
Total 2022F City Operational Budget	\$97.1M	\$97.1M	\$117.2M
5% Efficiency Target (\$)	\$4.9M	\$5.3M	\$5.9M

⁶ 2016 Grant Thornton EPCOR Proposal for Drainage Transfer Analysis Report, page 37.

⁷ Refer to Appendix F of Grant Thornton's "2016 EPCOR Proposal for Drainage Transfer Analysis", dated October 5, 2016. The \$97.1 million forecast operating expenses in 2022 is derived from the sum of operating and maintenance, customer billing services, shared services, biosolids disposal, and SSSF payment in the table for Scenario 1A Forecast (it does not include local access fee, interest expenses or depreciation as these are not deemed to be related to operational expenses.

⁸ Drainage PBR 2022-2024, page 41.

EWSI Provided Details Regarding Operational Savings

This section provides qualitative details provided by EWSI regarding how operational efficiencies were achieved. Note that Grant Thornton did not review the achievement of each of these items in detail, nor did we analyse the quantitative impacts of each individual initiative listed below.

EWSI was able to achieve operational savings by building synergies across utilities, reducing contractor and consultant costs, reducing lost time incidents, optimizing shift scheduling, strengthening financial controls over cost recoveries, and increasing fleet fuel efficiencies. These operational synergies were all noted and established without laying off any of the staff transferred along with the utility.

Identifying and introducing operational synergies across Drainage, Water and Wastewater allowed EWSI to benefit from the ownership of the full water cycle. These operational synergies have been introduced across EWSI's three utilities and consist of Private Development and Inspection Services, One Water Planning, Quality Assurance and Environment, Customer Analytics, Procurement, Inventory Management, and Operational Excellence. EWSI also decreased their expenses for contractors and consultants by increasing their use of internal resources.⁹

Prior to the Drainage transfer, the utility had seen 42 lost time incidents over a four-year period. By implementing EPCOR's Health & Safety Management System within the utility following the transfer, time lost incident injuries were reduced by 79% over the 2018-2020 period, with injury severity reduction of 75%. These efforts resulted in lowered costs for medical leave and employee replacement. EWSI reduced the number of time lost incidents to only seven within the two-year period of 2018-2020.

Other operational savings were created through optimizing employee shift schedules and incorporating EWSI processes to strength financial controls over cost recoveries. Employee shift schedules have been improved through adopting more efficient work schedules, establishing a trouble response crew, and improving their shift scheduling during the spring season where the City experiences run-off. These changes have resulted from opportunities to reduce overtime hours. The Drainage utility has also implemented EPCOR's processes to ensure that third party damage claims and cost of service recovery is complete, accurate, and completed in a timely manner¹⁰.

Lastly, EWSI improved their fleet fuel efficiency through replacing older model vehicles with newer more fuel-efficient vehicles, and through the use of telematics reduced vehicle maintenance costs.

⁹ Drainage PBR 2022-2024, page 39.

¹⁰ Drainage PBR 2022-2024, page 40.

1.6. Appendix F: Average Residential Rate Customer Impacts

The following tables use the average rate increase from 2017 to March 31, 2022 and the average proportion of customers' bills (including and excluding NRAs) in order to determine the average rate increase. This resulted in average combined rate increase for an average residential customer of 3.02% from 2018 to March 31, 2022 without NRAs, and 4.40% with NRAs.

Average Rate Increase Based on Bill Proportions – Prior to Non-Routine Adjustments

Excluding NRAs	Average Rate Increase	Average Bill Proportion Impact
Stormwater Rate	4.4%	1.43%
Sanitary Flat Charge	3.0%	0.82%
Sanitary Variable Rate	1.9%	0.77%
	Total	3.02%

Average Rate Increase Based on Bill Proportions – Post to Non-Routine Adjustments

Including NRAs	Average Rate Increase	Average Bill Proportion Impact
Stormwater Rate	6.2%	2.03%
Sanitary Flat Charge	3.0%	0.80%
Sanitary Variable Rate	3.9%	1.56%
	Total	4.40%

1.7. Appendix G: Drainage Annual Rate Increase Analysis

In order to fully examine the combined storm and sanitary rate increase, Grant Thornton used the average proportion of storm and sanitary bill components for an average residential rate customer as shown in the tables below.

Average Rate Increase – Prior to Non-Routine Adjustments

Sanitary	2017	2018	2019	2020	2021	2022
Sanitary Variable Fee	13.94	14.2	14.46	14.76	15.04	15.32
Fixed Monthly Fee	9.35	9.63	9.92	10.22	10.52	10.84
Total Sanitary Monthly Fee	23.29	23.83	24.38	24.98	25.56	26.16
Stormwater						
Stormwater Fee (average density factor of 276)	10.74	11.22	11.73	12.21	12.74	13.3
Total Monthly Bill						
Total Bill	34.03	35.05	36.11	37.19	38.3	39.46

Monthly Bill Proportions – Prior to Non-Routine Adjustments

Sanitary	2017	2018	2019	2020	2021	2022	Average
Sanitary Variable Fee	59.9%	59.6%	59.3%	59.1%	58.8%	58.6%	59.2%
Fixed Monthly Fee	40.1%	40.4%	40.7%	40.9%	41.2%	41.4%	40.8%
Total Sanitary Monthly Fee	68.4%	68.0%	67.5%	67.2%	66.7%	66.3%	67.4%
Stormwater							
Stormwater Fee (average density factor of 276)	31.6%	32.0%	32.5%	32.8%	33.3%	33.7%	32.6%
Total Monthly Bill	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Average Rate Increase – Post Non-Routine Adjustments

Sanitary	2017	2018	2019	2020	2021	2022
Sanitary Variable Fee	13.89	14.2	14.46	15.39	16.31	16.85
Fixed Monthly Fee	9.35	9.63	9.92	10.22	10.52	10.84
Total Sanitary Monthly Fee	23.24	23.83	24.38	25.61	26.83	27.69
Stormwater						
Stormwater Fee (average density factor of 276)	10.74	11.22	11.73	12.83	13.71	14.46
Total Monthly Bill						
Total Bill	33.98	35.05	36.11	38.44	40.54	42.15

Monthly Bill Proportions – Post Non-Routine Adjustments

Sanitary	2017	2018	2019	2020	2021	2022	Average
Sanitary Variable Fee	59.8%	59.6%	59.3%	60.1%	60.8%	60.9%	60.1%
Fixed Monthly Fee	40.2%	40.4%	40.7%	39.9%	39.2%	39.1%	39.9%
Total Sanitary Monthly Fee	68.4%	68.0%	67.5%	66.6%	66.2%	65.7%	67.1%
Stormwater							
Stormwater Fee (average density factor of 276)	31.6%	32.0%	32.5%	33.4%	33.8%	34.3%	32.9%
Total Monthly Bill	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

1.8. Appendix H: Treatment of Repaired and Replaced Assets as per Drainage Transfer Agreement

The treatment of repaired and replaced assets can be summarized in the Drainage Franchise Agreement.

Section 9 of the Drainage Franchise Agreement states that

“EPCOR is responsible for relocation costs unless the costs are a result of the following:

- (a) catch basins to accommodate road alignment changes;*
- (b) relocations required due to private development by developers or by the City acting as a developer;*
- (c) temporary connections;*
- (d) beautification projects, provided that neighbourhood renewal projects are not considered beautification projects;*
- (e) projects initiated to provide concessions to third parties; or*
- (f) projects related to development on lands other than City Lands.”*

The following table explains through the current state how different situations would be treated in terms of contributed assets:

Situation	Asset Treatment
A drainage asset that is not assessed by EWSI to repair, but it replaced or relocated through a neighborhood renewal project where it would be reasonable or efficient.	This asset would be treated as a non-contributed asset. As EWSI is a collaborator in the neighbourhood renewal process, most assets are predetermined as needed to be replaced by EWSI through inspections. Following inspections, the following approaches may be used: <ol style="list-style-type: none"> 1) EWSI can perform replacement or repair if the request provides sufficient notice, 2) EWSI can confirm the inspection of the asset and provide necessary materials. The City can then hire contractors to perform the work and have EWSI assess the work has been completed up to their standards, 3) The City may repair or replace assets at their costs and transfer the assets to EWSI after an inspection is complete.
A drainage asset that is not assessed by EWSI to repair and is replaced or relocated not due to (a) to (f) as per the Franchise Agreement.	This asset would be treated as a non-contributed asset. Replacement or relocation may only be completed following EWSI's approval. If an asset is noted to be at the end of its life or in need of repairs, the alternatives above can be followed. If an asset is damaged during construction, the City is to cover the replacement costs. In other cases, a cost-sharing agreement can be used if the work is to be completed by the City's contractor.
A drainage asset that is not assessed by EWSI to repair and is replaced or relocated due to (a) to (f) as per the Franchise Agreement.	This asset would be treated as a contributed asset. The City may drive projects that require altering to the Drainage system and the City completes the work after approval of plans by EWSI. Once complete, the assets are transferred to EWSI for operation and maintenance.
A drainage asset that is not assessed by EWSI to repair but is relocated as a result of the City LRT project.	This asset would be treated as a non-contributed asset as it has been proactively identified as an item that needs to be altered, replaced, or built by the City contractor. A new cost sharing agreement is currently under review that will allocate costs accordingly between parties.

1.9. Appendix I: Detail of the City and EWSI Roles and Responsibilities

The following table outlines the key roles and responsibilities of the City and EWSI in terms of planning and development¹¹:

Planning Process	City of Edmonton Role	EPCOR Role
City Plan (including major sub plans of Infill Strategy, District Plans, Industrial Servicing, Rezoning)	The City of Edmonton leads and develops the long-term strategies for the City of Edmonton	EPCOR participates in the development of the plans through provision of analysis of the infrastructure requirements to support the proposed changes in the urban form. This work is coordinated within EPCOR to include the perspectives of the Drainage, Water and Power utilities.
Area and Neighborhood Planning	<p>The City of Edmonton leads the review and approval of all area and neighborhood plans.</p> <p>The City of Edmonton Drainage staff funded through the COE/EPCOR SLA review these plans with the developers to ensure they are meeting the design objectives.</p>	<p>EPCOR Drainage staff are consulted on the review of the Area and Neighborhood plans on an exception basis, primarily in the cases where there is a lift station that requires expertise not available within the City staff.</p> <p>EPCOR Water staff complete the technical reviews for the Area and Neighborhood plans and provide recommendations for the water infrastructure back to the City Planning group.</p> <p>EPCOR has set up a biweekly meeting internally with the Drainage and Water planning teams to facilitate coordination of responses for Area and Neighborhood plans that have complexities impacting both Water and Drainage.</p>
Development and Infill Subdivision Reviews and Approvals	The City of Edmonton Drainage staff review and approve all development and infill submission drawings submitted for the Drainage system.	<p>EPCOR Water staff review and provide approval recommendations back to City Planning for water infrastructure development. This includes assessment of fire protection requirements and hydrant spacing to support infill development.</p> <p>EPCOR Water Infill Servicing team provides technical input for both Water and Drainage servicing for single lot infill development</p> <p>EPCOR Drainage Planning staff provide technical input back to City Planning for drainage infrastructure development where there are specialized considerations such as lift stations.</p>
Construction Inspections, CCC and FAC approvals	The City issues the CCC and FAC approvals after receiving confirmation from EPCOR for the water and drainage infrastructure	EPCOR Water Inspection team completes all construction inspections for both the Water and Drainage infrastructure and recommends timing for CCC and FAC approvals back to the City

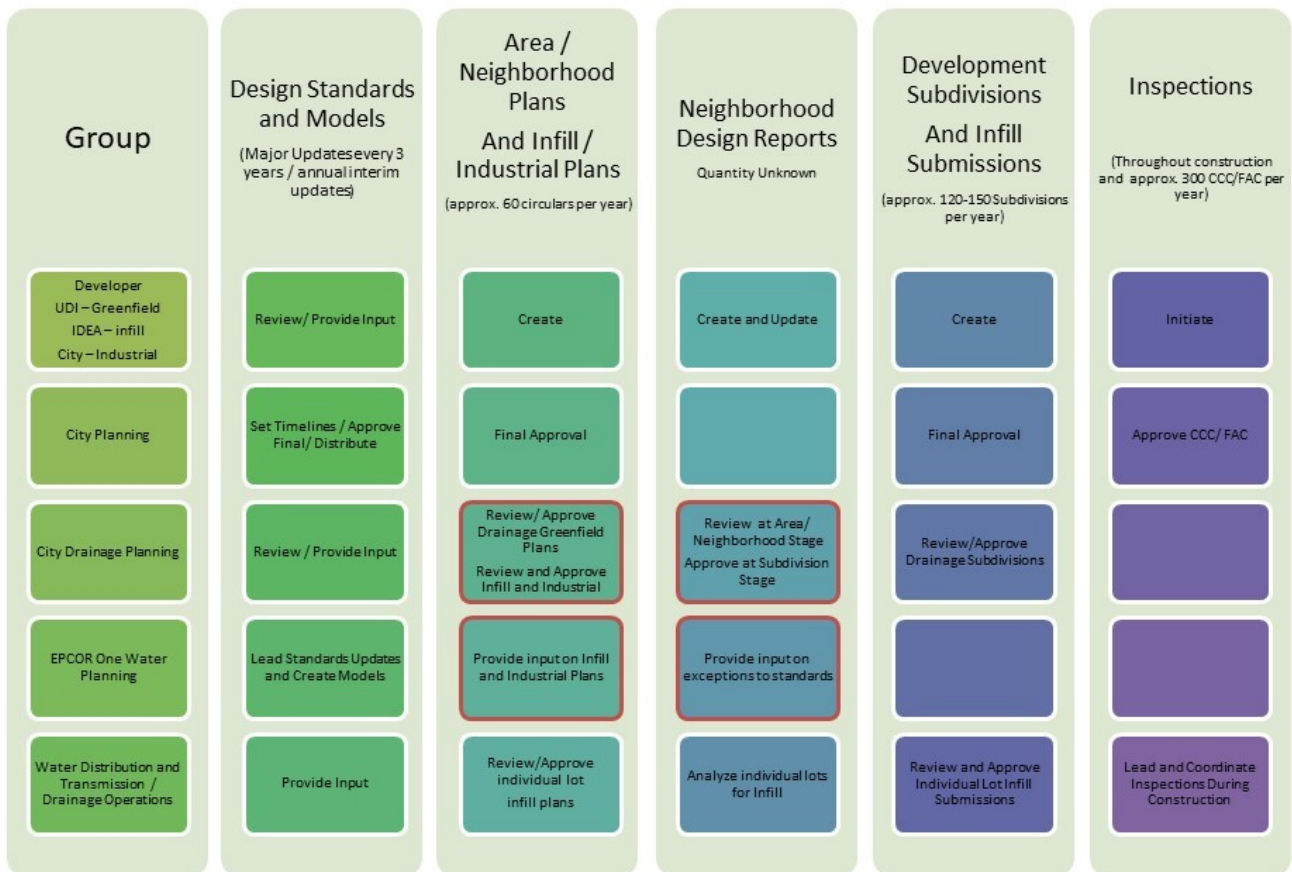
¹¹ GT-EWSI-C-E, page 1-4.

<p>Design Standards and Hydraulic Model development</p>	<p>The City coordinates the overall Design and Construction standards for the City</p>	<p>EPCOR Water and EPCOR Drainage coordinate the technical reviews and updates for the respective volumes of the Design and Construction standards.</p> <p>EPCOR One Water Planning develops the hydraulic models for both the water and drainage infrastructure and coordinates directly with the developer consultants to provide the necessary base models to complete their Area, Neighbourhood and Subdivision planning.</p> <p>The One Water modelling team also either completes or coordinates with consultants any hydraulic analysis required for the City Plan and major planning initiatives and also supports analysis for small scale development where a quick analysis can be completed without requiring consultant support.</p>
---	--	---

1.10. Appendix J: Proposed Alternatives to Current Drainage Planning Roles

The following charts provided by EWSI outline drainage planning roles and responsibilities before and after a proposed change to the City Drainage Planning and EPCOR One Water Planning in order to further clarify expectations. The changes to these parties are outlined in red borders.

Drainage System Planning – Post Transition to EPCOR



Drainage Planning – Proposed Modification

