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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,

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).

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>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>

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.

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).

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

