

Review of the Drainage Utility Transfer from the City of Edmonton to EPCOR

Recommendation

That Utility Committee recommend to the August 16, 2021, City Council meeting:

That the June 25, 2021, Financial and Corporate Services report FCS00626, be received for information.

Executive Summary

This report provides an independent assessment completed by Grant Thornton of the transfer of the Drainage Utility from the City of Edmonton to EPCOR effective September 1, 2017, taking into account the terms and commitments in the EPCOR Proposal Letter of Intent. Grant Thornton has concluded that EPCOR has met its commitments and substantially adhered to the guiding principles as defined in the Letter of Intent for the transfer. However, Grant Thornton has noted additional areas of consideration and other areas to be monitored by the City.

Report

Effective September 1, 2017, EPCOR Water Services Inc. (EWSI) began providing drainage services to the City of Edmonton. City Council approved the transfer of the Drainage Utility (Drainage) assets and liabilities from the City of Edmonton to EPCOR on April 12, 2017, in accordance with the EPCOR Proposal Letter of Intent included in Attachment 1 of Financial and Corporate Services report CR_4436. The letter was based on nine guiding principles for the proposed Drainage transfer approved by Council on January 24, 2017.

On September 12, 2017, City Council approved the EPCOR Drainage Services Bylaw 18100, which sets customer rates for drainage services provided by EWSI under Performance Based Regulation (PBR) from January 1, 2018 to March 31, 2022. Bylaw 18100 reflects EPCOR's commitment under the Letter of Intent to hold the average annual rate increases to three percent for the period January 1, 2018 to March 31, 2022 (on a blended basis between the Sanitary and Stormwater Utilities). In February 2021, EWSI submitted performance based rates applications and proposed bylaws for approval by City Council to establish customer rates for Water Services for the five year period April 1, 2022 to March 31, 2027 (proposed EPCOR Water Services Bylaw 19626), and for each of Wastewater Treatment and Drainage Services for the three

year period April 1, 2022 to March 31, 2025 (proposed EPCOR Drainage Services and Wastewater Treatment Bylaw 19627).

With the initial Drainage Services PBR term ending and a new PBR application being requested for approval effective April 1, 2022, Administration engaged an external consultant to complete an independent assessment of the Drainage transfer, taking into account the terms and commitments in the Letter of Intent. The consultant, Grant Thornton LLP, had previously completed an independent assessment of EPCOR's proposal to acquire the Drainage Utility from the City of Edmonton, which was presented to City Council on November 8, 2016 (Financial and Corporate Services report CR_3800).

Assessment of Drainage Transfer

Grant Thornton's assessment of the Drainage transfer is provided in Attachment 1, and has been based on the following requirements identified in the scope of the work prepared by Administration for the engagement:

- Were the transfer elements as outlined in the Letter of Intent conducted as intended?
- Did the City and the ratepayer achieve the benefits outlined in the 2016 EPCOR Proposal for Drainage Transfer Analysis?
- Are there any elements related to the transfer that are outstanding or need to be addressed further?

Report CR_4436, EPCOR Proposal for Drainage Transfer - Letter of Intent, presented to City Council on April 12, 2017, explained how each of the nine guiding principles for the Drainage transfer would be addressed, through a combination of the terms incorporated into the Letter of Intent and through the findings and conclusions of the Grant Thornton Report presented to City Council on November 8, 2016. Likewise, Grant Thornton's report in Attachment 1 provides an individual assessment for each of the nine guiding principles as to whether the corresponding commitments and transfer elements outlined in the Letter of Intent have been met.

Grant Thornton has concluded that EWSI has met its commitments and substantially adhered to the guiding principles as defined in the Letter of Intent. However, Grant Thornton has noted the following additional areas of consideration and other areas to be monitored by the City:

- **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;
- **Commitment to Hold Rate Increase** - A three percent annual rate increase was upheld throughout the period, however the introductions of Non-Routine Adjustments (NRA) in 2020 increased rates above three percent annually (approximately 4.4 percent on average from 2018 to March 2022);

- **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; and
- **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 (i.e., a further review of the methodology used to establish performance measures including the use of bonus points and ensuring standards are increasingly stringent over time as discussed in the June 25, 2021 Financial and Corporate Services report FCS00624).

Grant Thornton also provided recommendations for the following elements related to the Drainage transfer that are outstanding or need to be addressed further:

- **Wet Ponds** - There is merit to have EWSI retaining ownership due to the interrelated nature of wet ponds as Drainage infrastructure. The maintenance of the greenspaces can be completed by the City through a Service-level Agreement or part of the Operations and Maintenance Agreement (and continue to be paid for by the City and funded through property taxes);
- **Stormwater Costs** - 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 facilities by the next PBR term as well;
- **Contributed Assets** - There is merit to have EWSI fund the expenses associated with repairing or replacing catch basins affiliated with the neighbourhood renewal program;
- **Service Agreement Documentation and Oversight** - There are still areas for further understanding and clarifying roles from which both parties would benefit (including finalizing outstanding agreements); and
- **Drainage Planning Roles and Responsibilities** - 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.

Next Steps

Administration and EPCOR will continue to work together to address the remaining Drainage transfer elements as identified in the Grant Thornton assessment, following feedback received at the June 25, 2021, Utility Committee meeting.

Corporate Outcomes and Performance Management

Corporate Outcome(s):The City of Edmonton has sustainable and accessible infrastructure.			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Oversight and transparency of EPCOR water, wastewater and drainage services.	Annual and periodic reporting to Utility Committee of financial performance, operating and capital programs, and service quality levels.	Annual Progress Report - Water, Wastewater, Drainage (Fall 2020) Annual Operational Plan (Feb 2021) Performance Based Rates Applications (Feb 2021)	Annual Progress Report - Water, Wastewater, Drainage (June) Annual Operational Plan (Q1)

Attachments

1. Grant Thornton Report - EPCOR Water Services Inc. 2017 Drainage Utility Transfer Review

Others Reviewing this Report

- C. Owen, Deputy City Manager, Communications and Engagement
- G. Cebryk, Deputy City Manager, City Operations
- A. Laughlin, Deputy City Manager, Integrated Infrastructure Services
- K. Armstrong, Deputy City Manager, Employee Services
- R. Smyth, Deputy City Manager, Citizen Services
- S. McCabe, Deputy City Manager, Urban Planning and Economy
- K. Fallis-Howell, Acting City Solicitor