

**2022 EDMONTON WASTE MANAGEMENT RATE
FILING
REVIEW BY THE UTILITY ADVISOR**

UTILITY ADVISOR

RESPONSE TO THE EDMONTON WASTE

MANAGEMENT

2022 RATE SUBMISSIONS

December 1, 2021

2022 EDMONTON WASTE MANAGEMENT RATE FILING REVIEW BY THE UTILITY ADVISOR

1.0 PURPOSE OF THIS REPORT

This report is prepared to provide advice to the City of Edmonton Utility Committee and Edmonton City Council on the 2022 rate submissions of Waste Management. Pursuant to the terms of reference for the Utility Advisor, the rate submission has been reviewed by the Utility Advisor, and requests for additional information were sent and received.

Currently, City Council acts as both the governor and regulator of the Waste Management Utility, approving both operating and capital budgets as well as the utility customer rates.

As noted in a City of Edmonton internal legal memo dated December 7, 2009, the Municipal Government Act (MGA) provides Council with the authority to pass bylaws and otherwise regulate municipal public Utility. The MGA does not provide for any specific guidance for Council regarding municipal utility governance. To that end, the regulation of these municipal public Utility would be subject to the same duty of good faith that applies to general municipal governance. Municipal public Utility are regulated by the municipalities which operate those Utility within the municipalities. Unlike investor-owned Utility, the shareowners of the utility, and the customers of the utility are, to a large extent, the same. However, that does not change the overall objective of regulating such Utility, the establishment of just and reasonable rates, in the public interest, and not unduly discriminatory. The major difference between investor-owned Utility and municipally-owned Utility is the determination of what makes up the public interest.

2.0 ROLE OF THE UTILITY ADVISOR

The role of the Utility Advisor (UA) is set out in the contract between the City and Beckett Consulting. Section 2.1 (Consultant Services) describes this role, and is included for convenience:

2.1 CONSULTANT SERVICES

2.2 Statement of Work

2.2.1 The Consultant will report directly to the Utility Committee and through the Committee to City Council. The Consultant will provide subject matter expertise as an advisor to the Committee and Council as they oversee, regulate and govern the utilities, alternative utility costing models, and rate-setting principles.

2.2.2 The reporting of the Consultant is subject to change depending on governance structural changes that may be made by City Council or the City Manager. In the event the Utility Committee is discontinued or corporate departments are reorganized and

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renamed, references in this agreement that refer to the standing committee or specific corporate departments will refer to the standing committee or specific corporate department that is responsible for the City's utilities.

2.2.3 The Consultant will:

2.2.3.1 Meet with Members of Utility Committee and City Council to understand their concerns and intentions relative to utility structures, financial frameworks, and setting transparent and equitable utility rates that will ensure long-term sustainability of all three utilities and EPCOR Water Services and Waste Water Treatment ("EPCOR") (Meetings for the City's three utilities are estimated at 1 to 3 private meetings with the Mayor and individual Councillors or groups of individual Councillors annually; meetings related to EPCOR are estimated at 1 or 2 private meetings with the Mayor and individual Councillors or groups of individual Councillors annually or as proposed rate changes are recommended).

2.2.3.2 Obtain necessary information and meet with the Administration and EPCOR as necessary to understand the underlying rationale and the historical methodologies and models used to set utility structures and rates in the City of Edmonton and EPCOR (Meetings for the City estimated at up to 3 meetings with the City Manager, Chief Financial Officer, Deputy City Manager of Integrated Infrastructure Services, and Utility Branch Managers and/or Directors annually).

2.2.3.3 Review the past two years' budget and rate-setting documentation packages to facilitate understanding of the City's historical practices for funding and operating each utility.

2.2.3.4 Participate in Utility Committee meetings as requested to assist and advise the Committee with establishing the principles for utility structures; governance, regulatory, and financial frameworks; budget and rate-setting approval processes; matters pertaining to the renewable energy utility model for Blatchford ("Blatchford"); and related timings as appropriate.

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3.0 EXECUTIVE SUMMARY

The 2022 rate application is excellent, and provides adequate information to enable the Utility Committee and Council to make an evidence-based decision on rates for 2022. The Utility Advisor addresses some issues later in this report, but the issues fall into the forward-looking category, rather than the immediate rate application.

Management of this utility should be congratulated for presenting a rate application with no general rate increase, particularly given the challenges of implementing source separation (cart rollout) and the effects of the COVID pandemic.

4.0 PROCESS

The following process was utilized by Waste Management and the Utility Advisor to review this application:

Thursday, October 28, 2021 - Waste sends preliminary rate filing to UA

Thursday, November 18, 2021 - Informal meeting - Waste and UA

Thursday, November 18, 2021 – Waste sends final rate filing to UA

Tuesday, November 23, 2021 - UA submits information requests to Waste

Tuesday, November 30, 2021 - Waste sends responses to UA

Wednesday, December 1, 2021 – UA submits report

The Utility Advisor is very satisfied with this process, and with the responsiveness of Waste Management.

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5.0 SPECIFIC FINDINGS

5.1 Financial Indicators & Risk Allowance

The utility is holding \$31.4 million cash over target and in response to IR-UA-1 breaks that down into cash exceeding the required risk allowance (50%) and restricted cash held to remediate environmental obligations related to the Bremner Lagoon contaminated site (50%). Management intends to undertake a risk based review to determine the adequate cash position necessary to adequately manage future risks.

The Utility Advisor believes that proper utility regulatory treatment of this amount would require specific identification of restricted funds and funds held pending a risk based review to be identified separately from the Risk Allowance Target established by the Fiscal Policy. Holding cash in reserve for a future risk based review to determine cash position requirements is inappropriate from a regulatory standpoint.

5.2 Branding

In IR-UA-2, the UA raised the issue of the branding on the EPCOR Billing and Envelope through which Waste rates are collected. Management responded that there seems to be no confusion from customers over the identity of the Waste Services provider.

The UA accepts management's response. However, the UA encourages management to continue working with the City's brand identity branch to review the level of branding required on utility invoices (and envelopes) to ensure there is no potential for confusion in utility service providers.

5.3 Affiliate Transactions

Those who have read the Utility Advisor's previous comments on city utility rate applications will recognize that he has strong feelings about affiliate transactions. In the past, based on urgings from the Utility Advisor and the Utility committee, several affiliate transactions were reviewed to ensure that the costs of the services provided were just and reasonable.

Waste Services should be applauded for implementing the independent review of the reasonableness of affiliate transactions. The UA suggests that such a review should be carried out on a routine basis, rather than as a response to UA criticism.

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Appendix A
Information Requests from the Utility Advisor

Edmonton Waste Services 2022 Utility Rate Filing Information

Requests of the Utility Advisor

IR-UA-1

Topic: Financial Indicators & Risk Allowance

Reference: Section 7, page 24

Request:

The table indicates that Cash Over Target is significant over the forecast period, with 2022 having an excess of \$31,413,000.

- i. Could this surplus be used to reduce customer rates?
- ii. Could this surplus be used to reduce debt?
- iii. What benefit do customers receive from carrying this cash more than target?

Response:

- i. As per Waste Services Fiscal Policy C558B, the Utility is to contribute towards achieving the goals of the City Plan, and promote the efficient use of resources to achieve broader social, economic and environmental goals. Two projects that directly contribute to the City Plan and the City's environmental goals include the ongoing work on the Bremner Lagoon and landfill capping, which relate to the current cash over target.

The Utility has used some of the cash over target to reduce rates in the past and will continue to leverage cash over target to maintain low and stable rate increases in the future, please see response to IR-UA-1-ii. The Utility is in the process of undertaking a risk based review to determine the optimal cash position necessary to adequately mitigate future risks. Depending on the outcome of the review, Waste Services may use some of the current cash over target to limit future rate increases and/or borrowing.

Of the \$31.4 million cash over target balance, approximately half is restricted and held to remediate environmental obligations related to the Bremner Lagoon contaminated site¹. The Bremner Lagoon project is currently in the planning and design phase. The future costs associated with remediating the Bremner Lagoon are dependent upon review and approval of the remediation plan by Alberta Environment and Parks (AEP). Maintaining slightly higher cash over target helps mitigate the risk of higher remediation cost and its impact to ratepayers in the future. In addition, as outlined in the table summarizing expected landfill costs under section 5 on page 20, a portion of the cash over target will also be used to make disbursements required for capping and final closure of the landfill which is expected to be completed by the end of 2023.

- ii. Over the past few years, the Utility has used some existing cash to limit the amount of borrowing and Pay As You Go requirement to fund capital programs. This allows the Utility to maintain stable and consistent rates while managing the Utility's Debt Service Coverage Ratio (see section 12.1, line 3). Depending on the amount of cash over target remaining after remediating environmental obligations,

¹ Restricted cash held for the Bremner Lagoon remediation was contributed by EPCOR during the transition of the drainage utility.

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Requests of the Utility Advisor

the Utility may continue to use existing cash balances to reduce future borrowing requirements that may be subject to rising interest rates.

Waste Services evaluated debt early payment options in the past and found that early repayment was not beneficial for the Utility and its ratepayers. This was due to some of the restrictive financing terms and higher costs associated with penalties related to interest differential applied to the remaining term of the loan. As a result, the City of Edmonton seldom pursues early debt repayment on existing debt due to the high penalty fees charged by the Provincial lender and instead uses Pay As You Go financing in lieu of new borrowing when feasible.

The provincial lender recently transitioned from the Alberta Capital Financing Authority (ACFA) to the Government of Alberta and the Utility will use this opportunity to explore the options of early debt repayment with the lender.

- iii. Higher cash over target helps mitigate the risk of unanticipated cost increases pertaining to some of the environmental obligations mentioned above and subsequently its impact to ratepayers in the future. In addition, it allows the Utility to optimize future capital funding requirements to maintain stable and consistent rates for ratepayers.

Edmonton Waste Services 2022 Utility Rate Filing Information Requests of the Utility Advisor

IR-UA-2

Topic: Customer Billing Services

Reference: Page 34

Request:

The billing envelope and billing statement for Waste Services and Drainage are branded as EPCOR with a small City of Edmonton logo beside the Waste Services section of the statement.

- i. Is there potential for confusion by customers as to the identity of the Waste Services provider due to the preponderance of EPCOR branding on the bill?
- ii. Could Waste Services arrange to have these bills co-branded?

Response:

- i. While Waste Services has not received any reports of confusion, the Utility is committed to working with the City of Edmonton's brand identity branch to review the level of branding required on utility invoices to ensure there is no potential for confusion in utility service providers.
- ii. The City of Edmonton has a long-term contract with EPCOR to provide residents' utility bills on a monthly basis. The City of Edmonton's Waste Services charge on the monthly utility bill is one of several line items. If feedback of confusion were to emerge, both the City of Edmonton and EPCOR are open to making continuous improvements to processes, branding and customer interactions. Any potential changes to the utility bill design will require engagement with EPCOR and additional costs.

Edmonton Waste Services 2022 Utility Rate Filing Information Requests of the Utility Advisor

IR-UA-3

Topic: Shared Services

Reference: Section 9.5, page 36

Request:

With the exception of Real Estate and Housing, the 2022 proposed amounts for each service are identical to the 2021 forecast.

- i. Why are there no changes to the 2022 forecast from 2021?

Response:

Waste Services' portion of Corporate Shared Service costs were set for 2019-2022 as part of the City's four-year budget. Although there are minor adjustments from year to year, as with Real Estate and Housing, the annual changes are nominal. Shared Service costs will be re-examined during the City's next four-year budget cycle for 2023-2026 and will inform the Waste Services 2023 rate filing.

Edmonton Waste Services 2022 Utility Rate Filing Information

Requests of the Utility Advisor

IR-UA-4

Topic: Utilities

Reference: Section 9.7, page 38

Request:

Power, natural gas and water estimates are provided by another City department. Waste Services is responsible for ensuring the accuracy of all forecasts included in the rate application.

- i. Describe the oversight applied by Waste Services to the forecast service level charges applied to each category.
- ii. Without divulging commercial details, describe the approach used by the City to acquire these products at competitive rates.
- iii. Are the electricity and natural gas purchase prices hedged (i.e. fixed in price), or are they spot-market price forecasts?
- iv. Why are 2021 forecast power costs so much lower than 2021 budget?

Response:

- i. The City of Edmonton uses a Software program called “EnergyCap”. It contains the historical billing and usage info for power, water and gas for every utility meter in the City’s account. Waste Services reviews data from each individual meter to obtain consumption and cost information across all facilities. Historical consumption data is used to build the foundation for forecasted costs. Both the actual energy costs and forecasted expenses are then reviewed and adjusted as appropriate on a monthly basis.
- ii. The approach is to aggregate the City’s consumption, across all civic operations’ buildings and assets. This allows for better pricing based on size and shape (timing) of utilities consumption. Through this model the City of Edmonton is able to obtain better rates during the day, based on the City’s consumption of electricity being higher at night (mainly due to street lights). The City uses a Request for Proposal process to procure competitive pricing for electricity and gas. Water and drainage is a regulated utility service provided by EPCOR.
- iii. The energy component of the electricity costs are hedged and there is very little exposure to spot prices under normal operations. The contract has a volume obligation to cover the load with small market exposure during normal operations to spot electricity prices driven mainly by weather. The electricity delivery charges are regulated services that are provided by EPCOR. The City moved its natural gas supply to a competitive retailer in November 2020. The natural gas energy component is not hedged and is a flow through of spot prices. The delivery charges are regulated and are provided by ATCO. By moving to a competitive retailer for natural gas, the City has reduced the administration fees associated with providing the retailer services.

Edmonton Waste Services 2022 Utility Rate Filing Information

Requests of the Utility Advisor

- iv. Feedstock supply for the privately owned Waste to Biofuels and Chemicals Facility is prepared at the City owned Refuse Derived Fuel (RDF) facility. The Waste to Biofuels and Chemicals Facility did not request the City to supply refuse derived fuel for most of 2021 resulting in significantly lower than budgeted power and operating costs at the RDF facility. In addition, commissioning of the Anaerobic Digestion Facility was delayed, resulting in lower than budgeted power costs. Lastly, the 2021 power costs are reflective of abnormal operations due to the COVID-19 pandemic, resulting in a credit on the electricity rates.

Edmonton Waste Services 2022 Utility Rate Filing Information

Requests of the Utility Advisor

IR-UA-5

Topic: **Affiliate Transactions Benchmarking Study**

Reference: **MNP Report, page 16**

Request:

MNP notes that the City should follow up on the items identified as outliers to understand what the underlying reasons for the difference are in detail. However, later in the report Exhibit 36 identifies no outliers.

- i. Will Waste Services and the City of Edmonton follow up on this recommendation?
- ii. When will the follow up occur, and when might the Utility Committee see the results?

Response:

Administration has reviewed the noted statement on page 16 of the Affiliate Transactions Benchmarking Study report and agrees that this statement could be misinterpreted to indicate that the study did identify outliers. The statement was intended to imply that if there were outliers, Waste Services should investigate them. However, as the Utility Advisor has correctly pointed out, the study did not identify any outliers, as summarized in Exhibit 36 on page 48 of the report. As such, no further investigations are scheduled at this point.

Separate from this study, the City of Edmonton Shared Service costs are reviewed every four years as part of the City's four-year budget cycle. The City's next four-year budget cycle for 2023-2026 will inform the Waste Services 2023 rate filing.

Edmonton Waste Services 2022 Utility Rate Filing Information Requests of the Utility Advisor

IR-UA-6

Topic: **Affiliate Transactions Benchmarking Study**

Reference: **Overall Report**

Request:

The report performs a benchmarking study with peer utilities to determine the reasonableness of shared services costs allocated to Waste Services.

- i. Has Waste Services drawn any conclusions from this report on the reasonableness of shared services costs allocated to Waste Services versus providing the services themselves (either with staff or outside service providers)?

Response:

The benchmarking study compared shared services cost allocations of municipally-owned utilities and found the shared services costs allocated to the Waste Services Utility to be reasonable and on par with its peers. The Utility remains an integrated part of the City of Edmonton's City Operations Department and is not a separate stand-alone entity such as EPCOR. As a result, the Utility works in an integrated fashion with the City to deliver waste services in the most efficient and cost effective manner.