



EPCOR WATER SERVICES INC.

Utility Committee Reporting Framework

for EPCOR Water Services Inc.

(Water Services, Wastewater Treatment and Drainage Services)

Report to City of Edmonton Utility Committee

February 4, 2022

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1.0 REPORT PURPOSE

EPCOR Water Services Inc. (EWSI), the legal entity that encompasses Water Treatment and Distribution (collectively referred to as Water Services), Wastewater Treatment and Sanitary and Stormwater Drainage Services (collectively referred to as Drainage Services) is seeking to review and confirm the regulatory reporting requirements of the City of Edmonton's Utility Committee and City Council. In the following discussion, EWSI proposes a reporting framework and timeframe which would form the basis of future Utility Committee reporting for all EWSI entities. The intent this framework and associated reporting calendar is to ensure the adequacy and frequency of planned reporting to enable the Utility Committee to fulfill its role as Regulator. An earlier version of this report was similarly reviewed and endorsed by the previous Utility Committee.

Note: The reporting discussion within this document is from the perspective of Utility Committee and City Council as regulator and does not consider other reporting provided to the City of Edmonton as shareholder or to Councillors individually regarding utility activities within their respective wards.

2.0 BACKGROUND

EWSI has the obligation to provide information and reporting to the Utility Committee and City Council in order to facilitate their role as Regulator. In addition to the formal Rates Applications (or "PBR Applications") that underlie the approval of rates and terms and conditions of service for utility services provided in the City of Edmonton, additional reporting that allows on-going monitoring of utility performance is also required. Prior to the transfer of Drainage Services, the Utility Committee monitored Water Services' and Wastewater Treatment performance primarily through the annual PBR Progress Report which covered the prior years' financial, operational and metrics performance. As a precursor for the transfer of Drainage Services to EPCOR, a "Letter of Intent" was developed to document specific requirements for the transfer, including additional reporting requirements. These reporting requirements were not specifically defined, which lead to an earlier version of the Reporting Framework being presented to Utility Committee to confirm their expectations.

3.0 REPORTING PRINCIPLES

EWSI's reporting to the Utility Committee and City Council is based on the following principles:

- a. **Reporting Basis:** the PBR Applications, through which City Council approves EWSI's proposed rates and terms and conditions of service, establish the baseline against which all reporting is assessed. More specifically, the PBR Application sets out a five (or three) year plan in terms of operational and capital initiatives as well as projected financial performance. All reporting post application approval is intended to assess alignment with that application and to explain any variations. Additional reporting is also presented to provide more detailed information not normally included in the application process for specific high profile projects or significant initiatives.

- b. Visibility and Transparency:** EWSI has the obligation to present information in a clear and concise manner in order to facilitate an understanding of the initiative or issue. Ultimately, EWSI looks to the Utility Committee and City Administration to provide direction in this regard to ensure information is provided at a level and frequency to support their role as Regulator.
- c. Consistency and Comparability:** The structure and format of information provided remains consistent with previous material and across EWSI's utilities in order to facilitate comparability and trend analysis. The format and structure of financial information in the PBR Applications is based on the Minimum Filing Requirements (MFR) as approved by Utility Committee in 2013 and introduced in the 2017-2021 PBR applications. The annual PBR Progress Report financial reporting aligns with the MFR schedules so that there is a direct line of comparability to the PBR application.
- d. Collaborative Approach:** All material presented to Utility Committee and City Council is provided to City Administration for review. Administration provides a Covering Report to Utility Committee and City Council.

4.0 REPORTING FRAMEWORK

The following reporting framework is generally the same in form and content as approved by the previous Utility Committee except that the framework has been expanded to include learnings and expectations derived from the recent approval of the 2022-2026 and 2022-2024 PBR applications. As with the prior framework, the level of reporting is intended to provide transparency to operational and financial performance. Moreover, a formalized, structured approach has proven to facilitate a consistent and timely provision of information to allow all stakeholders to be aware of when specific information will be presented and discussed. The Reporting Framework is summarized as follows:

Report	Focus	Timeframe
PBR Application	<ul style="list-style-type: none"> Provides the basis upon which Council approves rates and terms of service Provides the baseline for all other reporting during the term 	<ul style="list-style-type: none"> Water Services (2022-2026) Wastewater Treatment (2022-2024) Drainage Services (2022-2024)
PBR Progress Report	<ul style="list-style-type: none"> Detailed update of financial performance capital projects, metrics and operational initiatives 	<ul style="list-style-type: none"> 1 year – calendar year Presented mid-year for the previous year
Utility Committee Motions	<ul style="list-style-type: none"> EWSI's formal response to Utility Committee motions 	<ul style="list-style-type: none"> Based on EWSI operational requirements or as directed by Utility Committee
Annual Operational Plan	<ul style="list-style-type: none"> Overview of the significant operational initiatives and activities planned for the year 	<ul style="list-style-type: none"> 1 year – calendar year Presented in February (March in 2022)
PBR Application – Preparatory Initiatives	<ul style="list-style-type: none"> Analysis and review of proposed structural changes to the PBR regulatory framework or its central components 	<ul style="list-style-type: none"> Based on EWSI operational requirements or as directed by Utility Committee
Initiative Specific Reporting	<ul style="list-style-type: none"> Detailed plans or updates on major initiatives or responses to Utility Committee Requests (e.g. SIRP) 	<ul style="list-style-type: none"> Based on EWSI operational requirements or as directed by Utility Committee

The Reporting Framework is based on the premise that the PBR Application is the foundation upon which all other reporting is developed. As the PBR Applications are presented and approved only once every 5 (or 3) years, the Reporting Framework is structured with a series of annual reports which would provide more tactical plans and accomplishments based on the Application. The annual reporting consists of an Annual Operational Plan for a given year, presented at the February Utility Committee Meeting (note: the 2022 Operating Plans will be presented in March once content and requirements are confirmed with Utility Committee through this document) and a comprehensive review of results achieved presented as part of the Annual PBR Progress Report. This PBR Progress Report is presented mid year and covers the previous calendar year's performance. The framework also allows specific detailed reporting and updates of significant initiatives or responses to Utility Committee motions or requests. This type of reporting is not based on a predefined schedule as it is dependent on the nature and circumstances of each initiative.

Many of these initiatives may only be presented once to Utility Committee, while others such as the Stormwater Integration Resource Plan (SIRP) are brought forward a number of times for updates as the initiative proceeds. The specific contents of the reports contained within the reporting framework, are further detailed in the section below.

5.0 REPORTING CALENDER

The following chart details the planned schedule of material to be presented to Utility Committee over the next few years, leading to the PBR Applications for Drainage Services and Wastewater Treatment in mid 2024. This material is more fully defined in Section 6 below.

Utility Committee Date	Topic
2022	
4-Feb-22	2022 Utility Committee - Reporting Framework Review
25-Mar-22	Water, Wastewater and Drainage 2022 Operational Plan
20-May-22	Disclosure of Accounting and Capitalization Policies (Motion)
	Reporting of Actual and Forecast Workforce Full Time Equivalents (Motion)
	Setting of Long Term Interest Rates for EWSI (Motion)
26-Aug-22	PBR Progress Report - 2021
	SIRP and CORe Update
4-Nov-22	Initiative Specific Updates
25-Nov-22	Initiative Specific Updates
2023	
Q1 and Q2	Water, Wastewater and Drainage Annual Operational Plan - 2023
	Deferral Account Analysis - including Ratepayer Consultation
	Stormwater Rate Structure Review - including Stakeholder Consultation
Q3 and Q4	PBR Progress Report - 2022
	SIRP and CORe Update
	Return on Equity Analysis
	PBR Application - Process and Timeline Report
2024	
Q1 and Q2	Water, Wastewater and Drainage Annual Operational Plan - 2024
	Performance Measure Review (Motion)
Q3 and Q4	Drainage & Wastewater Treatment - PBR Application

6.0 REPORT SUMMARIES

a. PBR Application

In 2021, EWSI developed and presented the 2022-2026 Water Services, the 2022-2024 Wastewater Treatment and the 2022-2024 Drainage Services PBR Applications to Utility Committee. These applications were the most comprehensive ever developed by EWSI and extended to over 2,700 pages of material (not including the responses to subsequent questions received through the Information Request process). This was also the first PBR application for Drainage Services since its transfer to EPCOR. To provide an indication of the

scope and depth of the application, the Table of Contents from the Water Application is included as Attachment 1.

These applications continued the format and content first provided in the 2017-2021 applications which were expanded from previous applications at the Utility Committee's request for greater transparency and background information as well as financial information in the Minimum Filing Requirements format. The intent of these changes were to:

- Clearly demonstrate the linkages between the revenue requirements, cost of service, rebasing adjustments and rates,
- Facilitate a better understanding of forecasting assumptions and methodologies,
- Place greater emphasis on and explanation of cost drivers and their effects on both operating and capital costs,
- Provide greater visibility on significant changes in operating costs due to new programs being introduced or existing programs being reduced or eliminated,
- Provide clearer rationale for capital projects and in particular, to provide detailed business cases for all capital projects with a total cost exceeding the defined expenditure threshold,
- Post Implementation Reviews for prior term projects where final costs exceeded initial projections beyond a minimum threshold, and
- Increase usability of information by including prior term results plus five years of PBR forecast results – all based on the Minimum Filing Requirements.

EWSI is committed to providing the same format, level of content and analytical rigour to all future applications. In addition, activities are currently underway to further refine the underlying supporting data which will be used in future PBR applications, including the capital planning methods, return on equity and other critical components of the PBR regulatory structure.

Until the recent PBR Applications, all prior applications were based on 5 year terms as this is seen as the optimal time period to balance both risk and rewards and the regulatory burden of developing and assessing PBR applications. The recent applications were approved with a 5 year term for Water Services and 3 year terms for both Wastewater Treatment and Drainage Services. Based on discussions with the Utility Committee, there was the stated desire to establish a staggered schedule for the applications so that, in the future, all three applications would not be reviewed at a single point in time given the inherent workload for Utility Committee, City Council, City Administration and EWSI. With all Bylaws expiring on March 31, 2022, it was necessary to provide all three applications in the recent submission, but with different term lengths in order to establish a staggered schedule for future applications. All future applications are currently contemplated at 5 year terms for all utilities.

b. PBR Progress Report

The current PBR Progress Report format (for reference, Attachment #2 details the Table of Contents for the 2020 PBR Progress Report) is intended to provide a comprehensive review of the prior calendar year's performance of each utility individually. The Report includes the following sections for each utility:

- **Financial Performance** – Financial performance is detailed on a number of dimensions including revenue (including consumption and customer count), net income, operational costs, capital expenditures, debt, etc. All PBR Performance Report financial reporting includes the comparable information from the PBR Application's financial schedules to enable direct comparability of planned versus actual financial performance.
- **Capital Projects and Programs** – Capital reporting is completed for all individual projects or programs above the pre-defined financial threshold (\$5 million for Water Services and Wastewater Treatment and \$10 million for Drainage Services) and include both a financial review and a discussion of any changes in scope/deliverables or timelines. Projects below the financial threshold are aggregated by operational category for reporting purposes. The basis of comparison is the Business Cases detailed in the PBR Applications and the focus of the commentary is where projects differ from the approved plans. In addition to active projects/programs, the PBR Progress Report also details project postponements and cancellations as well as new projects not contemplated in the PBR application. This format was originally developed to meet a Utility Committee Motion that "significant changes to capital be part of annual reporting" (October 14, 2016).
- **Performance Metrics** – The PBR Progress Reports provide a detailed analysis of operational performance as measured through the PBR metrics programs with all variations from performance standards noted and analyzed.
- **Operational Plan** – The PBR Progress Report provides a year-end summary update of the initiatives identified in the Annual Operational Plan (as detailed below). The focus of the update is the status of the various initiatives including accomplishments to date as well as any changes in timing and scope and the rationale for those changes.
- **Additional Content** – Report includes a high level discussion of major accomplishment and future challenges, along with customer bill comparisons. The Future Challenges section is intended to provide Utility Committee with an early indication of evolving issues that may impact the utilities.

c. Utility Committee Motions

EWSI is obligated to provide detailed reporting or analysis when requested by the Utility Committee. This is normally directed through a formal motion. EWSI responses entail a report providing the analysis requested and a summary presentation to Utility Committee. At the present time, all open motions are from the recently approved PBR application hearing and include the following:

- Improved disclosure of changes in accounting and capitalization policies and treatment;

- Reporting the size of the workforce including actual and forecast full-time equivalents;
- A review of how long-term debt interest rates are set for EPCOR Water Services Inc.; and
- A review of the performance measures to ensure they are increasingly stringent and challenging over time.

d. Annual Operational Plan

The Annual Operational Plan is intended to provide Utility Committee and other stakeholders with an awareness of significant operational initiatives planned for the calendar year. Given the number of initiatives within each utility, the initiative descriptions are generally limited in both specific detail and to those impacting customers or activities designed to improve operational performance and safety of the utilities. If Utility Committee requires additional detail on any specific initiative, EWSI is prepared to provide a detailed report in a subsequent meeting. The Annual Operational Plan does not include financial budgets as all financial plans are included in the PBR Applications and these projections do not change over the term of the PBR, excepting only for non-routine adjustments.

e. PBR Application Preparatory Initiatives

A PBR Application entails a substantial amount of information being provided to Utility Committee (and Administration) for review in a relatively short period of time. This challenge is often compounded with multiple applications being submitted at the same time. From EWSI's perspective, the hearing (and Administration review) process provides a good opportunity to broadly review the application, but may not provide the best means for a more detailed analysis of critical issues within the application. In particular, issues related to the underlying structure of the performance based regulation, the risk sharing between rate payers and the utility, appropriate returns and other more complex issues would likely receive a more substantial review if discussions on these topics happened prior to the hearing itself.

The previous Utility Committee started this process prior to the last PBR hearing with motions on Return on Equity. EWSI is proposing to continue, and likely expand, that process going forward with additional topics. In term of mechanics, EWSI, working with Administration, would identify major issues or proposed structural changes to the regulation and provide detailed analytical reports on the subject to Utility Committee for discussion. The intent would not be to determine the final outcome of the issue, but rather to allow sufficient time for both EWSI and Administration to present the issue, its benefits and drawbacks and then provide answers to questions from Utility Committee. This process would also allow EWSI to conduct stakeholder engagement where needed to provide that perspective to the discussions as well. Ultimately, the final decision on these issues would remain as part of the PBR approval hearing, as these discussion are intended to supplement that process, not replace it.

The following topics have been identified for reports to Utility Committee prior to the next PBR Applications:

- **Utilization of Deferral Account** – a consumption deferral account was introduced for all three utilities in the recent PBR approval process. Despite being a temporary measure to address forecasting concerns arising from the COVID pandemic, EWSI expressed concern that deferral accounts were contrary to the central tenets of the performance based regulatory structure and inappropriately transferred risk from the utility to rate payers (in terms of rate volatility). As part of the discussion, EWSI committed to providing a detailed review of the issue including stakeholder feedback in order to fully explore the continued use of deferral accounts in future applications and to inform the design of deferral accounts if they should be use during future PBR terms.
- **Stormwater Rate Structure** – The goal of any rate structure is fairness to customers. A number of factors, such as the recent Stormwater Integrated Resource Plan (SIRP) and the associated changes to deal with flooding as well changing home lot sizes, were not considered when the current stormwater rate structure was determined. A detailed review of the rate structure is warranted to ensure that these changes are appropriately accounted for and rate payers continue to pay in accordance with their utilization of the stormwater system. This initiative will require considerable stakeholder engagement to ensure that the proposed rate structure aligns with stakeholder expectations. This work will be completed prior to the next PBR application. Drainage Services had initially contemplated making some changes to the stormwater billing system during the 2022-2024 term (e.g. moving all cemeteries and golf courses into billing). These changes have been place on hold pending the more comprehensive stormwater rate structure review.
- **Return on Equity** – For the past two PBR terms, the allowed Return on Equity has been established through a risk premium approach, where a risk premium is added to the Alberta Utilities' Commission (AUC) Generic Cost of Capital. The risk premium is intended to recognise the additional risk assumed by EWSI above that of the gas and electric utilities regulated by the AUC. This approach has been subject to much discussion as it does not align with more traditional approaches and the quantification of specific risk components has proven to be challenging. EWSI intends to continue to assess alternatives to provide Utility Committee with policy options to consider when setting the return on equity for future PBR applications.

f. Initiative Specific Updates

EWSI has historically provided detailed, stand-alone reports and updates on a wide range of significant initiatives, at either Utility Committee's request or based on EWSI's desire to obtain feedback and commentary from the Utility Committee. This type of reporting is not based on a predefined schedule as it is dependent upon the timing, nature and circumstances of each initiative. The following provides some examples of initiatives that will be reported to the Utility Committee:

i) Significant Operational and Capital Initiatives

The PBR Application and Annual Plan identify and describe significant operational and capital initiatives, but given the intent of the documents and volume of information, these descriptions

are typically higher level and do not include substantial details for timing, specific activities or public engagement plans. In instances where additional information would prove beneficial, EWSI will present a detailed review of the initiative to Utility Committee. The report formats will vary with the topic but are intended to advise Utility Committee of the activities being undertaken and the planned outcome and benefits. Some initiatives maybe presented only once, while others may be reported on a number of times as they progress through their development.

The selection of specific initiatives to be presented will be based on factors such as significant stakeholder impacts, potential future rate impacts, and projects that would be of interest to the citizens of Edmonton. Utility Committee can also direct EWSI to provide more detailed reporting as they will be made aware of these activities through the Annual Operational Plan. Examples of initiatives that have been reported in the past include:

- Storm Water Integrated Resource Planning (SIRP)
- Corrosion and Odor Reduction Strategy (COrE)
- E.L. Smith Solar Project
- Integration Planning and Synergies Between Water and Drainage
- Community Relations and Customer Education Activities

ii) Legislated and Regulated Changes

As part of the PBR Application development process, projects and initiatives are identified to address planned and approved changes in legislation and regulations, particularly those related to public health, water quality and the environment. These changes are often the basis upon which capital projects are justified. Despite active engagement with all levels of government to anticipate new regulations, occasionally changes are introduced during the PBR term that require action prior to the next application approval process. In these instances, EWSI will report on these regulatory and legislated changes to Utility Committee. The reports will include a detailed review of the regulatory change as well as operational impacts and measures required to align with that change. If significant capital or operational costs are required to meet the new requirements, the current Non-Routine Adjustment process will be followed in order to gain approval to adjust rates accordingly.

The most recent example of this type of reporting is the Lead Service Program, which addressed changes to federal government regulations to reduce allowable concentrations of lead in drinking water and change the point of compliance from the property line to the tap.

iii) Long Term Plans (Master Plans, IRPs, etc.)

The PBR process is generally based on a 5 year term and current reporting to Utility Committee is typically confined to that timeframe. EWSI does develop longer term plans through a number of avenues including the development of Master Plans, Integrated Resource Plans (IRP) and other plans to address longer term concerns such as population

growth, changing technologies and regulations and the impact of climate change and flood mitigation on the utilities. These documents have a much longer timeframe than the PBR and facilitate longer term infrastructure and operational planning, for periods generally in excess of 40 years. These plans also provide an assessment of plant and infrastructure capacities under various scenarios. When these plans are developed, they will be presented to Utility Committee to provide an understanding of the broader basis upon which the PBR Application capital plans are developed.

iv) New Technologies

EWSI often assess new technology and processes to determine its applicability in current and future operations. These assessments cover a broad range of areas and activities, and range from trials of new field level equipment to formal scientific assessment of equipment and processes to determine impact on water quality parameters. Additionally, less structured research is also conducted into new treatment processes that may become standard in the industry as they evolve.

Where appropriate, EWSI will provide Utility Committee with a review of these new technologies, their intended benefits as well as potential uses in the broader utility (and potentially City of Edmonton) context. The need to provide new technology reviews has been noted previously by a Utility Committee Motion (October 14, 2016).

7.0 CONCLUSION

As previously indicated, the proposed Reporting Framework is intended to facilitate Utility Committee's and City Council's role as regulator. EWSI believes that the framework will provide a comprehensive view of utility operations and increase overall transparency to significant initiatives and activities. EWSI also recognizes that it is within Utility Committee's discretion to determine their reporting requirements and EWSI is fully prepared to comply with those directions.

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