

# EPCOR Water Services Inc. - Water and Wastewater Treatment Services 2017 Progress Report

## Recommendation

That Utility Committee recommend to the June 26, 2018, City Council Meeting:

That the June 8, 2018, Financial and Corporate Services report CR\_5997, be received for information.

## Executive Summary

This report provides an annual update of the financial and operational results for the In-City Water and Wastewater Treatment services provided by EPCOR Water Services Inc. for the year ended December 31, 2017, the first year of the 2017-2021 Performance Based Regulation term.

## Report

This report provides a progress update with respect to the first year of the 2017-2021 term for Performance Based Regulation ("PBR"), as established under Bylaw 17698 - EPCOR Water Services and Wastewater Treatment Bylaw.

EPCOR Water Services Inc. ("EWSI") has prepared a progress report for 2017 that is included as Attachment 1 to this report. The 2017 progress report generally follows the format for minimum filing requirements as discussed at the April 3, 2012 Utility Committee meeting as well as the format which has been utilized in the annual progress reports for the 2012-2016 Performance Based Regulation term. Performance measures and financial data within the progress report are reported on a calendar year basis.

Administration has identified the following key items within the 2017 progress report for Utility Committee's consideration:

## Financial Performance

In-City Water realized a 9.80% return on equity in 2017 on net income of \$35.7 million which were slightly lower than the PBR forecast return on equity of 10.175% and net income of \$37.1 million. The lower than forecast return on equity and net income were primarily due to lower than forecast revenues as a result of lower consumption in the commercial and multi-residential customer classes and lower inflation adjustments to rates than was utilized in the PBR forecast. Section 2.3 of the progress report provides details of the overall 2017 financial performance for In-City Water.

Wastewater realized a 12.60% return on equity in 2017 on net income of \$19.1 million which were higher than the PBR forecast return on equity of 10.175% and net income of \$16.1 million. Revenues were also affected by lower than forecast consumption and inflation adjustments to rates, but those two factors were more than offset by lower than forecast operating expenses and a lower than forecast mid-year equity portion of rate base. Section 3.3 of the progress report provides details of the overall 2017 financial performance for Wastewater.

#### Capital Expenditures

In-City Water's approved capital program for the 2017-2021 PBR term is \$475.8 million including more than 200 projects. Capital expenditures, net of contributions, for In-City Water for 2017 were \$98.1 million, \$10.0 million lower than the approved forecast of \$108.1 million. Higher than forecast expenditures in growth/customer requirements projects (\$5.4 million) and the E.L Smith Solar Farm project (\$1.5 million) were more than offset by a deferral of the Water Distribution and Transmission Facility Expansion project (\$16.0 million) from 2017 to 2019, pending the completion of an EPCOR wide real estate review.

Although the 2017 capital expenditures for In-City Water were \$10 million less than forecast, EWSI now estimates that the total cost of the In-City Water capital program over the 2017-2021 PBR term, including the cost of new projects and changes in scope for existing projects, will exceed the approved PBR forecast of \$475.8 million by \$87.8 million. This increase is due primarily to higher than forecast growth/customer requirements projects (\$41.6 million), reliability and life cycle improvement projects (\$13.2 million) and the addition of the new E.L Smith Solar Farm project (\$32.5 million). Further details of In-City Water's capital expenditures for 2017 and the updated forecast for the 2017-2021 PBR term are provided in Section 2.4 of the progress report.

Wastewater's approved capital program for the 2017-2021 PBR term is \$235.4 million including more than 50 projects. Capital expenditures, net of contributions, for Wastewater for 2017 were \$46.8 million, \$7.7 million lower than the approved forecast of \$54.5 million. The decrease was due primarily to lower than forecast costs to complete the Hydrovac Sanitary Grit Recovery Facility and delays in the Operations Centre at Mid-Point Entrance Project. EWSI's current estimate of capital expenditures over the 2017-2021 PBR term, including the cost of new projects and changes in scope for existing projects, will exceed the PBR forecast by \$3.3 million. Further details of Wastewater's capital expenditures for 2017 and the 2017-2021 PBR term are provided in Section 3.4 of the progress report.

### Non-Routine Adjustments

Bylaw 17698 allows for non-routine adjustments to customer rates set under Performance Based Regulation for items which were unusual, significant in size or nature, and beyond the scope of control of EPCOR. While EWSI did not identify any non-routine adjustments that met the criteria outlined in Bylaw 17698 during the review of its 2017 operations, EWSI did commit to flow through the benefits of any reductions in corporate service cost allocations, resulting from the transfer of Drainage Services to EPCOR, to In-City Water and Wastewater customers. These cost allocation reductions amount to \$11.4 million in total savings for In-City Water customers and \$4.2 million in total savings for Wastewater customers for the period 2017 to 2021. EWSI's request to include these savings in a non-routine adjustment incorporated into customer rates effective April 1, 2018 to March 31, 2022 was approved by the City Manager on March 13, 2018.

### Performance Measures

Operational performance for In-City Water and Wastewater Treatment services is measured by a number of indices prescribed within Schedule 3 of Bylaw 17698.

Operational performance for In-City Water is measured by five indices each consisting of one or more metrics. Data for metrics for the following five operational performance indices were provided: (1) Water Quality Index, (2) Customer Service Index, (3) System Reliability and Optimization Index, (4) Environment Index and (5) Safety Index. While In-City Water either met or exceeded the performance standards for all five performance measure indices in 2017, In-City Water did not meet the performance standard for the following two metrics in the Customer Service Index:

- **Post Service Audit Factor:** for 2018, the Water Call Center has developed internal tracking systems to provide more timely analysis of Call Center data and to identify upcoming issues earlier and has implemented customer service training programs.
- **Planned Construction Impact Factor:** training has been provided for all project teams to ensure appropriate notification timelines are followed for all work in 2018.

Details and data for the metrics for each index for In-City Water has been provided in Section 2.5.

Operational performance for Wastewater is measured by four indices each consisting of one or more metrics. Data for metrics for the following four operational performance indices were provided: (1) Water Quality and Environmental Index, (2) Customer Service Index, (3) System Reliability and Optimization Index and (4) Safety Index. While Wastewater either met or exceeded the performance standards for all four performance measure indices in 2017, Wastewater did not meet the performance standard for the following metric in the Safety Index:

- **All Injury Frequency Factor:** a new program to prevent musculoskeletal injuries will be introduced in 2018.

Details respecting the metrics for each index for Wastewater has been provided in Section 3.5.

### **Corporate Outcomes and Performance Management**

<b>Corporate Outcome(s): Sound Management Practices and Process</b>			
<b>Outcome(s)</b>	<b>Measure(s)</b>	<b>Result(s)</b>	<b>Target(s)</b>
Ongoing monitoring and reporting of EPCOR utility services regulated by Council	Annual and periodic reporting of utility operations	TBD (2018)	Annual Progress Report - Water, Wastewater, Drainage (June)  Annual Operational Plan (Q1)  Mid Year Update Report (August)

**Attachment**

1. 2017 PBR Progress Report - Water and Wastewater Treatment Services