



# City of Edmonton and EWSI: Drainage Transfer Review

*Utility Committee Meeting: June 25<sup>th</sup>, 2021*

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# Overall Assessment of LOI Commitments

*Summary conclusion: EWSI has substantially adhered to the guiding principles as documented in the Letter of Intent.*

Guiding Principle Number
1 – The public's interests must be a top priority
2 – There must be value for the taxpayers and ratepayers
3 – Provide a net advantage to the City and maintain or enhance the City's long-term financial sustainability
4 – EPCOR's existing electricity, water, and other business operations will be maintained
5 – City Council will remain as regulator of drainage rates through a Performance Based Regulation
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
7 – Ensure ongoing effective asset management practices and continued commitment to flood mitigation.
8 – All staff impacted by the proposal will be treated respectfully and their employment statuses will be maintained
9 – Additional mechanisms



Guiding Principle #3 Item
1 - Capital Savings
2 - Operational Savings
3 - Organizational Focus
4 - Incremental Dividend
5 - Commitment to Hold Rate Increase
6 - Proven Regulatory Framework
7 - Transfer of Liability
8 - Control over Municipal Development
9 - Expansion of EPCOR's Business
10 - Retained Control

# Guiding Principle 3.2 – Operational Savings

## EPCOR Commitment

*EPCOR proposed to generate operational cost savings, without any Drainage staff layoffs. Operational savings were to be achieved through reasonable opportunities, while being mindful of lost synergies.*

- A specific target for operational efficiencies was not specified within the Letter of Intent.
- 2016 GT Drainage Proposal Review included a 5% operational efficiency target: \$4.9M to \$5.9M target for operational savings.

## Guiding Principle 3.2 – Operational Savings

- EWSI achieved operational efficiencies, and met the requirements of this commitment.
- However, there are opportunities for EWSI to achieve additional operational efficiencies in the future.

	<b>EWSI Adjusted 2022F Forecast Operating Expenses (adjusted by Grant Thornton) (millions \$)</b>	<b>EWSI Adjusted 2022F Forecast Operating Expenses (unadjusted by Grant Thornton) (millions \$)</b>
Efficiency Savings Target	4.9	5.9
2022F Efficiency Savings	4.5	6.6
2022F Efficiency %	<b>3.8%</b>	<b>5.6%</b>

# Summary of Outstanding Areas for Resolution

1. Ownership of Wet Ponds
2. Stormwater Costs to the City of Edmonton
3. City Contributed Drainage Assets
4. Service Agreement Documentation and Oversight
5. Drainage Planning Roles and Responsibilities

# GT Observations and Findings Summary

Outstanding Issue	GT Suggested Course of Action
Wet Ponds	<p>EWSI to retain ownership of wet pond land parcels. The City to maintain green spaces through an SLA and Public Access Agreement (or part of the finalized Operations and Maintenance Agreement).</p> <p><b>Approximate annual costs increase/decrease to taxpayers and ratepayers: \$0</b></p>
Stormwater Costs	<p>City to begin paying stormwater costs for next PBR term (beginning in 2025).</p> <p><b>Approximate annual cost increase (decrease) to taxpayers (ratepayers): \$8.0 million</b> (based on 2022 rates).</p>
Contributed Assets	<p>EWSI to fund repair or replacement of catch basins with the neighbourhood renewal program.</p> <p><b>Approximate annual cost increase (decrease) to ratepayers (taxpayer): \$10.0 million</b></p>
Summary of approximate cost impacts to taxpayers and ratepayers	<p><b>Approximate annual cost increase to Drainage ratepayers: \$2 million</b></p> <p><b>Approximate annual cost decrease to taxpayers: \$2 million</b></p>

# Conclusion

***Overall, EWSI has substantially adhered to the guiding principles as documented in the Letter of Intent.***

- 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.
- Outstanding areas for resolution will benefit from greater clarity on path forward provided to both City and EWSI (e.g. firm understanding of wet pond ownership, clear documentation for roles and responsibilities).

# Questions



# Appendix Slides

# Current State Roles and Responsibilities

Planning Process	City of Edmonton Role	EPCOR Role
City Plan (including major sub plans of Infill Strategy, District Plans, Industrial Servicing, Rezoning)	Lead and develop long-term strategies for the City	Participate in plan development through analysis of required infrastructure to include the perspectives of all utilities
Area and Neighborhood Planning	<p>Lead the review and approval of all area and neighborhood plans</p> <p>The City of Edmonton Drainage staff funded through an SLA review these plans with the developers to ensure they are meeting the design objectives</p>	<p>Drainage staff consult on the review of the area and neighborhood plans on an <u>exception basis</u> when lift stations are involved</p> <p>Consults internally to facilitate the coordination of Water and Drainage within complex plans.</p>
Development and Infill Subdivision Reviews and Approvals	Review and approve all development and infill submission drawings submitted for the Drainage system	Provides technical input for Water and Drainage servicing for single lot infill development and for drainage infrastructure specialized development such as lift stations
Construction Inspections, CCC and FAC approvals	Issues CCC and FAC approvals after receiving confirmation from EPCOR for the water and drainage infrastructure	Completes all construction inspections for both the Water and Drainage infrastructure and recommends timing for CCC and FAC approvals back to the City

# 1. Scope of Drainage Transfer Review

# Scope of Drainage Transfer Review

## Review of the Drainage Utility Transfer (occurred September 1, 2017):

- Actual happenings of the Transfer as compared to the principles noted in Letter of Intent document.
- Realized benefits for the City (taxpayer) and the ratepayer compared to EWSI's 2016 proposal.
- State of additional areas identified by the City, which may need further resolution between the City and EPCOR.

# Overall Assessment of LOI Commitments

**Summary: EWSI has substantially adhered to the guiding principles as documented in the Letter of Intent.**

- Grant Thornton has noted additional areas of consideration and other suggested areas to be monitored (in yellow).

Legend		
<b>Category 1:</b> EWSI appears to have fully achieved its commitment as per the Letter of Intent.	<b>Category 2:</b> 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.	<b>Category 3:</b> EWSI did not achieve its commitment as per the Letter of Intent.

# **3. High-Level Review of Findings from Letter of Intent Commitments**

# High-Level Review of Findings from Letter of Intent Commitments

Guiding Principle Number
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# Guiding Principle 3.5 – Hold Rate Increases

## EPCOR Commitment

*EWSI committed to hold annual rate increases at 3% between the years of 2017-2021 followed by a Performance Based Regulation application for new rates.*

*A mechanism for non-routine rate adjustments (NRAs), 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 Bylaw.*

- A annual rate of 3% rate increases was upheld throughout the period, however the introductions of NRA's for SIRP, CORE and the LRT expansion project in 2020 increased rates above 3%.



# Guiding Principle 3.5 – Hold Rate Increases

- The combined annual rate increase for an average residential customer of 3.02% without NRAs, and 4.40% with NRAs.

	Average Rate Increases for <u>Excluding</u> NRAs (2018 to March 31, 2022)	Average Rate Increases for <u>Including</u> NRAs (2018 to March 31, 2022)
Stormwater Rate	4.4%	<b>6.2%</b>
Sanitary Flat Charge (all)	3.0%	3.0%
Sanitary Variable Rate	1.9%	<b>3.9%</b>
Large Wholesale Rate	2.1%	<b>4.1%</b>

- EWSI maintained its commitment to hold annual rate increases at 3% between the years of 2017 to 2021 for residential and large wholesale customer classes (NRAs used for major initiatives not contemplated by the City prior to the transfer).

## Guiding Principle 3.5 – Hold Rate Increases

- EWSI complied with the requirements of a new submitting a new PBR Application following the commitment period.

Average Rate Increases for Including SRAs for SIRP and CORE (2022F to 2024F)	2022F	2023F	2024F	Average
Stormwater Rate	8.7%	9.6%	8.7%	9.0%
Sanitary Flat Charge (16 mm meter)	(1.7%)	1.8%	3.9%	1.3%
Sanitary Variable Rate	8.3%	0.8%	10.7%	6.6%
Large Wholesale Rate <sup>1</sup>	8.3%	0.8%	10.7%	6.6%

- Average combined rate increase for an average residential customer is forecast as 6.0% with SRAs.

# Guiding Principle 3.5 – Hold Rate Increases

## Average Residential Bill Increases

- Letter of Intent does not indicate a requirement to maintain a specified average customer bill increase, only an average annual rate increase.
  - Given declines in overall consumption, 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
<b>Unadjusted consumption forecast<sup>32</sup></b>						
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%
<b>Adjusted Consumption Forecast<sup>33</sup></b>						
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%

# Guiding Principle 3.9 – Expansion of EPCOR’s Business

## EPCOR Commitment

*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.*

- EWSI has applied for different projects in attempt to leverage a full water cycle opportunity for the business.
- While EPCOR has demonstrated its capabilities and has generated interest, no opportunities have been won, and thus there has been no increased dividend to the City as a result of these efforts.
- Suggested that EPCOR report on further business development initiatives as part of its shareholder meetings with the City to further monitor this principle.

**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.**

### **EPCOR Commitment**

*New Drainage bylaws are to include service quality metrics approved by Council for the Drainage Utility.*

- Following the Transfer, EWSI maintained the City's 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.
- As of January 1, 2020, EWSI began reporting its actual performance measures as part of its PBR Progress Report.

## **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.**

- Although new performance metrics have been created with a reasonable amount of experience and expertise from EWSI's other utilities, it is suggested that they incorporate the recommendations in the Grant Thornton PBR Application Review Report:
  - 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.

# Summary of Outstanding Areas for Resolution

1. Ownership of Wet Ponds
2. Stormwater Costs to the City of Edmonton
3. City Contributed Drainage Assets
4. Service Agreement Documentation and Oversight
5. Drainage Planning Roles and Responsibilities

# Ownership of Wet Ponds

## Current State

- Over 200 wet ponds have been transferred to EWSI since the Drainage Transfer in 2017.
- 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 subdivide the “land up to the high-water mark”.
- EWSI is the legal land owner, and is responsible for any insurance and liabilities associated.
  - EPCOR’s insurance is intended to respond to EPCOR’s negligence causing bodily injury and property damage regardless of who owns the land parcels.
  - EPCOR’s insurance does not provide direct coverage for the City’s negligence or other actions.



# Ownership of Wet Ponds

## Benefits and Potential Issues of Current State

### Benefits

- Ownership of the wet ponds and their land parcels remain with the EWSI, the operator and manager of the Drainage Utility

### Issues

- Roles and responsibilities are ambiguous
- EWSI does not have the equipment needed to maintain greenspaces
- Transfer Agreement does not address the value, if any, that EWSI should pay for the ownership of wet ponds
- The purpose of the land parcels includes the purposes of both Drainage and park land for citizen recreation

# Ownership of Wet Ponds

## GT Observations and Findings

*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.*

- Green space maintenance should continue to be funded by City/taxpayers.
- SLA and Public Access Agreement can form part of the yet to be finalized Operations and Maintenance Agreement.
- Allows the continued ownership of wet ponds to remain as an asset with the Drainage Utility.
- Important to fully clarify and document the roles and responsibilities of each party to ensure that they are able to be operationalized successfully.
- **No corresponding cost increase/decrease to taxpayers or ratepayers.**

# Stormwater Costs to the City of Edmonton

## Current State

- City currently pays ~\$88,000/month in stormwater charges
- A review was performed by EWSI indicated that not all land parcels were being billed.
- EWSI is proposing a raise of fees to \$692,000/month to be consistent with Bylaw 12294: equivalent to ~\$9.1 million in total City stormwater costs using 2022 rates (an increase of \$8.0 million).
- Proposed implementation to begin during the next PBR term in 2025.

# Stormwater Costs to the City of Edmonton

## Benefits and Potential Issues of Current State

### Benefits

- City 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

### Issues

- Does not follow accepted regulatory principles of charging users based on their cost of service and Drainage Bylaw
- Results in potential cross subsidization by other rate payers
- Presents an inequitable situation for privately owned properties that are the same as City properties
- EWSI may remain unsure of the manner to treat new properties in some accounts

# Stormwater Costs to the City of Edmonton

## GT Observations and Findings

*City to pay stormwater costs for City land parcels beginning during next PBR term in 2025.*

- Limit cross subsidization from other ratepayers.
- Create greater equity with similar privately-owned operations (e.g. golf courses).
- EWSI intends to complete both a cost of service review as well as a review of best practices prior to the next PBR (including EWSI owned properties).
- As EWSI uses City zoning classification to categorize the land parcels for stormwater costs, it may need to consider potential changes to the City's zoning bylaw.

**Approximate annual cost increase (decrease) to taxpayers (ratepayers): \$8.0 million (based on 2022 rates).**

# City Contributed Drainage Assets

## Current State

- Through neighbourhood renewals the City informs EWSI of assets to inspect. When EWSI deems an asset not damaged or in need of repair, but the City replaces it through neighbourhood renewals, it is funded by the City (taxpayers) and recorded as a contributed asset.
- 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”.
- Focus of this scope was on catch basins, manholes, and catch basin leads associated with neighbourhood renewal.

# City Contributed Drainage Assets

## Benefits and Potential Issues of Current State

### Benefits

- The current approach allows for flexibility between parties
- There are less disruptions making the process efficient and less costly

### Issues

- Section 9 of the Franchise Agreement does not address neighbourhood renewal specifically
- Many administrative tasks arise through communications related to assets
- High costs associated with neighbourhood renewals have a material impact on the party that ultimately funds the projects

# City Contributed Drainage Assets

## GT Observations and Findings

*Modify Section 9 of the Drainage Franchise Agreement to explicitly document the circumstances whereby EWSI would fund catch-base replacement/repair works for City neighbourhood renewal projects.*

- Where catch basin repair/replacement is required as part of a neighbourhood renewal project, it is reasonable for EWSI to fund these costs from ratepayers.
- Approach is consistent with other City directed capital projects that ratepayers fund (e.g. drainage relocation as a result of LRT) and aligns with Policy C624.
- Deliver services to residents at the lowest cost and with least disruption to public.
- City and EWSI to further quantify the impacts and address potential changes required to the Drainage Franchise Agreement.

**Approximate annual cost increase (decrease) to ratepayers (taxpayer): \$10.0 million.**



# Service Agreement Documentation and Oversight

## Current State

- Service agreements were used for Water and Wastewater were used as a precedent in create new SLAs for the Drainage Utility.

### Finalized Agreements

1. Biosolids Service Level Agreement
2. Customer Contact Centre Services Agreement
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 Agreement

### Outstanding Agreements

1. City Operations Service Agreement (Operations and Maintenance Agreement)
2. Restricted Covenant Service Level Agreement
3. All Utility URW Service Level Agreement
4. Clarification Services Agreement

- Steering Committee of City of Edmonton Branch Managers and EPCOR Directors meet quarterly to discuss and resolve issues of mutual interest.

# Service Agreement Documentation and Oversight

## Benefits and Potential Issues of Current State

### Benefits

- Documentation precedents have been set through previous water cycle utility transfers

### Issues

- The language in some agreements can be interpreted differently
- Senior leadership committees may lack connection between confirmed directions and operations
- Shared responsibilities may not have been clarified

# Service Agreement Documentation and Oversight

## GT Observations and Findings

*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.*

- City and EPCOR have taken positive steps to collaborate in order to provide services for the delivery of Utility and other City services.
- Considering the size of both organizations and the complexity of their interrelations, it is important to keep a strong focus on documentation in terms of governance and oversight.
- 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.

# Drainage Planning Roles and Responsibilities

## Current State

- Both the City and EWSI have roles and responsibilities through various stages of the drainage planning process.
- City leads long-term development plans (e.g. City plan, area and Neighbourhood plans).
  - Drainage is one of several disciplines (e.g. transportation, landscaping, etc.) that is be considered in an integrated fashion at this stage of planning.
  - EWSI is consulted to provide general input and specialized technical knowledge for drainage.
- 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.

# Drainage Planning Roles and Responsibilities

## Benefits and Potential Issues of 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

### Issues

- Unclear priorities between the City and EWSI surrounding roles and responsibilities
- Transition of knowledge through the Transfer may not have been sufficiently documented
- Questions surrounding the technical expertise of each party (i.e. lift station review)
- Challenges associated with planning major infrastructure due to historical design standards

# Drainage Planning Roles and Responsibilities

## GT Observations and Findings

*Further clarification and coordination between municipal and utility planning areas may be required.*

- 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 (e.g. multi-level review of plans and ensure agreement from both EWSI and the City).
- Adding formalized documentation (e.g. SLA) of the roles and responsibilities of each party should ensure that planning functions run more smoothly.

# Conclusion

***Overall, EWSI has substantially adhered to the guiding principles as documented in the Letter of Intent.***

- 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.
- Outstanding areas for resolution will benefit from greater clarity on path forward provided to both City and EWSI (e.g. firm understanding of wet pond ownership, clear documentation for roles and responsibilities).
- As the City and EWSI continue to collaborate to resolve issues, the following are some criteria brought forward during consultation to support future discussions: legal constraints and implications; each party's desire for the authority over the issue at hand; where the technical expertise on the subject matter resides; value and equity for both taxpayers and ratepayers; cost efficiency/minimization; appropriate risk allocation.