

**April 28, 2021****EPCOR Water Services Inc.
2022-2024 and 2022-2026 PBR Applications
(COE Councillor) CC-EWSI-1****Page 1 of 1****Request: CC-EWSI-1****Topic: Service Charges**

Please provide more detail on the changes to services charges mentioned in the PBR?

EWSI RESPONSE:

EWSI provides a number of services to rate payers where the cost of providing those services are not included in rates. Rate charges are intended to recoup costs related to the provision of services that are uniformly required by all customers. For services that are directly attributable to a single customer, Service Charges related to the provision of that service are charged to that customer in order to prevent subsidization by other customers. As such, EWSI proposes to recover the costs of providing the service from the customer using the service. This approach aligns with EWSI's cost of service methodology and practices used to calculate rates and assigns cost responsibility to the customer as end user.

EWSI determines Service Charges based on the average cost of providing those services with no additional markups. As part of the PBR application process, each Service Charge is reviewed and the costs related to providing the service are updated. Where costs have not increased markedly, EWSI maintains the Service Charge from the prior PBR term. Other services see an update to existing charges to better reflect EWSI's costs of providing the service.

Historically, EWSI has not adjusted Service Charges annually for inflation. EWSI is proposing to introduce an annual update of Service Charges for inflation commencing in the 2022-2024/2026 PBR term in order to ensure costs remain appropriately allocated. This inflation adjustment will be determined on the same basis as for rates (that is, inflation less the productivity factor).



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Request: CC-EWSI-2**Topic: Customer Growth**

Preamble: *On page 3 and 4 of the Drainage Application it is noted that "EWSI is also supporting the City's LRT expansion by investing \$48.5 million to relocate sanitary and stormwater infrastructure to facilitate the City's planned West Valley Light Rail Transit (LRT) extension."*

If growth stagnates, or we see negative growth, how does this impact EPCOR's budget? What are the contingencies? What is the risk?

EWSI RESPONSE:

EWSI is forecasting stagnated growth and a slow recovery in the Commercial rate classes, due not only to the COVID-19 pandemic but also the underlying economic conditions that preceded the pandemic. The top 2% of EWSI's commercial customers account for half of the consumption in the commercial rate class. Thus, the forecast risk of this rate class is mainly driven by the largest customers. In the event that EWSI loses one or more of its largest customers, or that one of the largest customers implements process improvements that significantly reduce water use, EWSI would be at risk of collecting less revenue than anticipated when setting rates. As a result, EWSI could effectively earn a lower ROE than approved. No contingency measures are built into the PBR process. EWSI accepts the full risk of consumption variances from forecast under the PBR framework, in order to provide rate stability and predictability for customers.



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Topic: Edmonton Economic Recovery Rebate

Preamble: *EPCOR has mentioned an Edmonton Economic Recovery Rebate with \$66M in savings over 3 years.*

What does this mean for the average ratepayer and what is the difference between commercial and residential ratepayers?

EWSI RESPONSE:

The Edmonton Economic Recovery Rebate refers to the return on equity foregone by EWSI Drainage Services over the 2022-2024 PBR term. In the Drainage PBR Application, rather than using the applied for rate of return on equity ("ROE") of 9.95%, EWSI proposes to "ramp up" the rate of return on equity on Sanitary Utility and Stormwater Utility services, excluding SIRP and CORe (referred to as "base" services) from 5.5% in 2022 to the applied for ROE over a 5 year period, so that ROE on base services is 5.5% in 2022, 6.6125% in 2023 and 7.725% in 2024. EWSI has calculated that the foregone returns amount to \$66.1 million over the 2022-2024 PBR period. Table CC-EWSI-3-1 shows that the foregone returns provide substantial benefits to rate payers: reducing average annual bill increases from 6.5% to 0.7%, providing savings of \$167.85 to the average residential customer; and reducing average annual bill increase from 10.1% to 4.1%, providing savings of \$1,258.82 to the average commercial customer over the 2022-2024 PBR term.



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**Table CC-EWSI-3-1
Edmonton Economic Recovery Rebase
(\$)**

	Average Monthly Residential Bill				Average Monthly Commercial Bill			
	A 2022	B 2023	C 2024	D 2022-2024	E 2022	F 2023	G 2024	H 2022-2024
Ramped ROE								
1 Base Drainage Services	36.94	38.15	39.38		271.86	285.15	298.69	
2 <i>Monthly bill increase - \$</i>	(1.58)	1.21	1.23		7.31	13.29	13.54	
3 <i>Monthly bill increase - %</i>	-4.1%	3.3%	3.2%	0.7%	2.8%	4.9%	4.7%	4.1%
9.95% ROE								
4 Base Drainage Services	39.17	42.72	46.57		288.14	319.31	353.14	
5 <i>Monthly bill increase - \$</i>	0.65	3.56	3.84		23.59	31.18	33.83	
6 <i>Monthly bill increase - %</i>	1.7%	9.1%	9.0%	6.5%	8.9%	10.8%	10.6%	10.1%
7 Monthly Rebate	2.23	4.58	7.19		16.28	34.16	54.46	
8 Annual Rebate	26.72	54.90	86.23	167.85	195.37	409.96	653.49	1,258.82



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Topic: Fixed and Variable Water Rates

Preamble: *EPCOR also mentions a shift in billing between fixed and variable costs, with more emphasis on fixed costs.*

How does this address one of the principles of the PBR process (fairness)? What will this look like on utility bills? Also, how does this incentivize consumers to change their own habits?

EWSI RESPONSE:

Utility rates are primarily intended to recover the revenue requirement, while rate structure and design are typically used to achieve additional aims beyond simply collecting money. Many utilities use rate structure and design to address a wide variety of issues including social issues, conservation, business incentives, comparability with other municipalities, etc. Often declining consumption is addressed within these considerations with adjustments to the fixed/variable components of the rate structure as part of an overall rate strategy.

There is a need to balance the somewhat conflicting goals of fixed and variable rates, in addition to other considerations. Higher levels of fixed rates provide an increased level of revenue stability for the utility and support its longer-term financial viability. Conversely, higher levels of variable charges are often used to incent conservation, particularly when combined with an inclining block structure to provide ratepayers an adequate price signal.

In the PBR application, EWSI is applying for Special Rate Adjustments to increase the monthly fixed service connection fee for water (but not wastewater or drainage) to approximately 25% of revenue from the current level of approximately 15%, with a corresponding decrease to variable rates. From a fairness perspective, this increase is seen as balancing the needs of both ratepayers and the utility.

This level of increase is seen as having minimal change to residential medium/average consumption customers (14m³ to 16m³/month) and would decrease variability on customers' bills (similar bill month to month). Generally, the average bill for low volume customers would increase (approximately \$3.40/month) while it would decrease for high volume customers (approximately

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\$9.30/month). Cost of Service principles would imply that charging higher fixed charges to the lower volume customers (and lower fixed charges to high volume customers) is a better reflection of the cost of providing service to those customers given the large majority of the cost is fixed. This would present a fairer situation overall as charges would be more aligned with the actual costs required to provide the differing levels of service. In effect, it reduces the current cross subsidization from one group of customers to other customers. Note, low volume customers cannot be construed to be low income customers, as many of the factors leading to lower consumption (such as efficient appliances, smaller lot sizes, etc.) tend to be more prevalent at higher income levels. Lastly, as the fixed portion of water rates still remains relatively, the impact on conservation programs is seen as very limited.

From the utility perspective, the increased fixed rate would decrease the seasonal variability in revenue (to a degree) while providing increased comparability to surrounding communities. (EWSI completed a comparison of residential water bills for ten communities in western Canada. For these communities - fixed service charges make up between 0% and 46% of an average residential bill, with most communities in the 30% to 40% range.) As capital-intensive businesses with a high level of fixed costs, most utilities including EWSI cannot adequately adjust their costs to meet revenue variations, at least in the short term. To compensate for this, a higher portion of revenue for fixed rates generates more revenue stability and supports the utility's longer term financial viability.



Request: CC-EWSI-5

Topic: Watermain Cathodic Protection

What would be the cost of maintaining the current rate of 30 km? Is there a risk in deferring this work?

EWSI RESPONSE:

The cost of maintaining the current rate of 30 km as opposed to the recommended rate of 15 km would be double, or \$30.16 million as opposed to the proposed \$15.08 million.

The risk of reducing the scope of the program is a reduction in the expected useful life of the water main assets. However, this is a long term, manageable risk. EWSI intends to return to normal levels of investment in cathodic protection beyond 2026, so that the future impacts will be mitigated.