



**DRAINAGE AND WASTEWATER TREATMENT  
PERFORMANCE BASED REGULATION RENEWAL  
PROCESS AND TIMELINE REPORT**

**JANUARY 30, 2023**

# Background and Purpose

## Bylaw Expiry

- EPCOR Drainage Services and Wastewater Treatment Bylaw (Bylaw 19627) expires March 31, 2025
- EWSI to file Rates Notices and Rates Reports (also known as rate applications) for City Council approval to set new rates and terms and conditions of service starting April 1, 2025
- EPCOR Water Services Bylaw (Bylaw 19626) - expires March 31, 2027

## Purpose:

- The Process and Timeline Report details:
  - EWSI's proposed approach to the applications
  - Planned content and format as well as supplemental reports
  - Timeline options
- Intended to ensure alignment with Utility Committee expectations and to receive early direction for any issues or concerns to inform the application's development

# PBR Alignment and Objectives

## Alignment

- The Performance Based Rate (PBR) model has been used since 2002 and aligns with previous Utility Committee objectives, focused on:
  - Customers receiving stable, predictable rates;
  - EPCOR – not customers – bearing the risk for potential cost increases;
  - EPCOR having an incentive to seek efficiencies and cost savings; and
  - EPCOR accountable for meeting customer service, reliability, quality, environmental, and safety performance standards.



# Performance Based Regulatory Structure

## Regulatory Construct

- Continue a Performance Based Regulation (PBR) structure (2nd PBR application for Drainage and 4th for Wastewater)
- Retain the same financial terms and approaches as the current applications (2022-2024)
  - General risk/return framework
  - Rate increases at inflation, less an efficiency factor (i-x), with special rate adjustments for increases above inflation
  - Non-routine adjustments for changes beyond EWSI's control
  - Annual performance metrics with penalties to ensure defined standards of performance

## Application Terms

- 5-year term (2025-2029) for both Drainage and Wastewater Treatment
- Allows a staggered submission with Water Application to reduce workload on all parties
- Water's current term is 2022-2026 (next application would be 2027-2031)

# Application Format

## Application Structure

- Separate applications for Drainage and Wastewater Treatment
- Common over-arching sections and appendices
- Format and content very similar to the 2022-2024 PBR Applications

## Financial Schedules

- Separate financial schedules for Drainage and Wastewater Treatment
- Based on minimum filing requirements

## Capital Expenditure Justifications

- Formal business cases for all projects exceeding the threshold of:
  - \$5 million in wastewater treatment
  - \$10 million in drainage
- Discrete project business cases will identify alternatives considered and evaluation criteria
- Program business cases identify criteria establishing level of capital spend
- SIRP/CORe - overarching strategy documents to link business cases

# Considerations and Approach for Applications

## Over-arching Considerations

- Affordability
- Alignment with City goals (in-fill/densification, climate change, etc.)
- Equity
- Applications reflect the combined water/drainage business unit

## Utility Committee Discussions

- Prior applications followed typical regulatory application process with limited discussions (prior to submission) on several complex topics
- For 2025-2029 - EWSI proposes to bring a number of single issue discussion papers to Utility Committee prior to application submission for more in-depth review of the topics
- Formal approval will not be sought for these discussion topics as approval remains with City Council



# PBR Development – Utility Committee Discussion Topics

| Topic                                   | Description  |
|---|--|
| <b>Stakeholder Engagement Strategy</b>  | <ul style="list-style-type: none"><li>• Defines the scope and approach to the Public Awareness and Engagement research that will be conducted during the application’s development.</li><li>• Stakeholder engagement provides an opportunity to consider and incorporate rate-payer and stakeholder expectations into the recommendations brought forward in the application.</li></ul>  |
| <b>Rate Structure and Design Review</b> | <ul style="list-style-type: none"><li>• Review of the current rate designs for all three utilities to ensure they continue to be cost-based, meet utility and customer requirements and achieve policy goals. The analysis will include:<ul style="list-style-type: none"><li>➤ Determination of any cross-subsidization across customer classes,</li><li>➤ Review of current rate designs against both contemporary approaches used by other utilities and broader policy objectives (e.g. conservation),</li><li>➤ Known administrative challenges - unverified agreements exempting some customers from paying, inconsistencies in charges across customer classes, City of Edmonton stormwater billing, etc.</li></ul></li></ul> |

# PBR Development – Utility Committee Discussion Topics

| Topic  | Description   |
|--|---|
| <b>Deferral Account Analysis</b>                 | <ul style="list-style-type: none"> <li>Assess the implications of deferral accounts used in response to pandemic uncertainty</li> <li>Respond to Council motion for the use of “<i>deferral accounts and other adjustments mechanisms to deal with variations in usage.</i>”</li> </ul>                             |
| <b>Developer Funding Review</b>                  | <ul style="list-style-type: none"> <li>Review all levels of developer funding across the three utilities to determine sustainability and equity across both the utilities and within development types (Infill vs. Greenfield).</li> </ul>  |
| <b>Cost of Capital (Return on Equity) Review</b> | <ul style="list-style-type: none"> <li>Review approaches to determining return on equity rates to ensure regulator alignment with application proposal.</li> <li>Discuss the ways that EWSI assumes greater operational and financial risk than utilities regulated by the Alberta Utilities Commission.</li> </ul> |
| <b>Equity</b>                                    | <ul style="list-style-type: none"> <li>Review the current operational programs/services and capital programs from an equity perspective.</li> <li>Intended to ensure alignment with City goals and objectives for sustainability, social responsibility and affordability.</li> </ul>                               |



# PBR Development – Utility Committee Discussion Topics

| Topic  | Description   |
|--|---|
| <b>Metrics Review</b>                            | <ul style="list-style-type: none"><li>• Determine approaches to establishing a performance measures program that achieves the appropriate outcomes in a performance based regulation context.</li><li>• Respond to the Council motion: <i>“A review of the performance measures to ensure they are increasingly stringent and challenging over time.”</i></li></ul>                                     |
| <b>Sanitary IRP and Wastewater Treatment IRP</b> | <ul style="list-style-type: none"><li>• Provide the integrated resource plans for the sanitary and wastewater treatment utilities.</li><li>• Define the infrastructure needs over a long-term time frame (20-40 years) as well as the underlying drivers of those requirements (population growth, consumption trends, policy choices for managing growth, technological advancements, etc.).</li></ul> |

# PBR Schedule - Options

|  | Option #1<br>Proposed Timing |                  | Option #2<br>Advanced Timing |                  | Notes                            |
|--|------------------------------|------------------|------------------------------|------------------|----------------------------------|
|  | Start                        | Finish           | Start                        | Finish           |                                  |
| 1 <b>Rate Report (Application) Submission</b>    | n/a                          | <b>1-Jun-24</b>  | n/a                          | <b>1-Mar-24</b>  |                                  |
| 2 Councillor Information Requests (IR's)         | 7-Jun-24                     | 15-Jul-24        | 8-Mar-24                     | 15-Apr-24        | 38 days for Information Requests |
| 3 Administration/Utility Advisors IRs            | 7-Jun-24                     | 15-Jul-24        | 8-Mar-24                     | 15-Apr-24        | 38 days for Information Requests |
| 4 Information Request Responses by EWSI          | 7-Jul-24                     | 21-Jul-24        | 8-Apr-24                     | 22-Apr-24        | 14 days                          |
| 5 Public Submissions                             | 7-Jun-24                     | 31-Jul-24        | 8-Mar-24                     | 30-Apr-24        | Open for 45 days                 |
| 6 Reports of Reasonableness Complete             | 1-Jun-24                     | 31-Jul-24        | 1-Mar-24                     | 30-Apr-24        | 60 days to complete              |
| 7 EWSI Response to Reports of Reasonableness     | 1-Aug-24                     | 31-Aug-24        | 1-May-24                     | 31-May-24        | 30 days to complete              |
| 8 Contingency                                    | 1-Sep-24                     | 30-Sep-24        | 1-Jun-24                     | 30-Jun-24        |                                  |
| 9 <b>Hearing (Non Regular Committee Meeting)</b> | <b>1-Oct-24</b>              | <b>31-Oct-24</b> | <b>1-Jul-24</b>              | <b>31-Jul-24</b> | Within these dates               |
| 10 Compliance Filing                             | 1-Nov-24                     | 30-Nov-24        | 1-Aug-24                     | 31-Aug-24        | 30 days to complete              |
| 11 Contingency                                   | 1-Dec-24                     | 31-Dec-24        | 1-Sep-24                     | 30-Sep-24        |                                  |
| 12 First/Second/Third Reading                    | 1-Jan-25                     | 15-Feb-25        | 1-Oct-24                     | 15-Nov-24        | 45 days for schedule             |
| 13 Rates Implementation                          | 1-Apr-25                     | 1-Apr-25         | 1-Apr-25                     | 1-Apr-25         |                                  |

**Proposed Timing** – aligns with prior, non-election year timing and is EWSI’s preferred approach

# Questions/Discussion