

EPCOR WATER SERVICES INC. - 2025-2027 DRAINAGE AND WASTEWATER TREATMENT PERFORMANCE BASED REGULATION RENEWAL - PROCESS AND TIMELINE REPORT

RECOMMENDATION

That the May 9, 2023, Financial and Corporate Services report FCS01845, be received for information.

Requested Council Action	Information only		
ConnectEdmonton's Guiding Principle	ConnectEdmonton Strategic Goals		
CONNECTED This unifies our work to achieve our strategic goals.	n/a		
City Plan Values	LIVE		
City Plan Big City Move(s)	n/a	Relationship to Council's Strategic Priorities	Conditions for service success
Corporate Business Plan	Managing the Corporation		
Council Policy, Program or Project Relationships	<ul style="list-style-type: none"> Bylaw 19626 - EPCOR Water Services Bylaw Bylaw 19627 - EPCOR Drainage Services and Wastewater Treatment Bylaw 		
Related Council Discussions	<ul style="list-style-type: none"> FCS00624, EPCOR PBR Applications - Reasonableness Review by Administration, Utility Committee, June 25, 2021 FCS01533, EPCOR Water Services Inc. Proposed Improvements To Financial and Regulatory Reporting, Utility Committee, November 4, 2022 		

Executive Summary

- This report provides the process and timeline, as proposed by EPCOR Water Services Inc. (EWSI), for the upcoming 2025-2027 Performance Based Rates Applications for the Drainage Services and Wastewater Treatment utilities.
- With the current effective wastewater treatment and drainage services rates expiring on March 31, 2025, EWSI will submit rate applications by June 2024 seeking City Council approval

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of new wastewater treatment and drainage services rates and terms and conditions commencing April 1, 2025.

- EWSI's report, included in Attachment 1, provides details of the proposed regulatory structure, review timeline and format/content for the upcoming rate applications. Through the report, EWSI seeks Utility Committee feedback and early direction for any issues or concerns to inform the development of the applications.
- EWSI also provides details of a number of separate reports that it plans on submitting for Utility Committee review and discussion prior to the formal submission of the wastewater treatment and drainage services rate applications.

REPORT

The rates, fees and charges for Drainage Services and Wastewater Treatment Services provided by EPCOR, as set out in the EPCOR Drainage Services and Wastewater Treatment Bylaw (Bylaw 19627), expire on March 31, 2025. EPCOR Water Services Inc. (EWSI) intends to file Performance Based Rates (PBR) applications by June 2024 to seek City Council approval to set new rates and terms and conditions of service commencing April 1, 2025. In Attachment 1, EWSI provides an overview of its proposed approach to develop the applications, the planned content and supplemental reports and the general timing of the various steps in the approval process.

This report includes information with respect to the following items:

1. the PBR regulatory structure;
2. the approach to be taken in the PBR applications;
3. the timing of the application review by Utility Committee; and
4. the application format.

Performance Based Rates Regulatory Structure

EWSI proposes that the upcoming drainage and wastewater applications continue under a PBR structure and retain the same general terms and conditions as are currently in place, including:

- the general risk/return framework,
- annual rate increases at inflation less an efficiency factor,
- utilization of special rate adjustments for costs increases above inflation,
- the inclusion of non-routine adjustments for changes beyond EWSI's control and
- annual performance metrics.

The current PBR term for Wastewater and Drainage is three years (April 1, 2022 to March 31, 2025) while the term for Water is five years (April 1, 2022 to March 31, 2027). EWSI proposes that the term for the upcoming Drainage and Wastewater PBR applications be set at three years, with rates effective April 1, 2025 to March 31, 2028.

One of the reasons for the difference in term length is as a result of a Utility Committee direction to stagger the terms to lessen the workload for all parties and allow for a more comprehensive review of the applications. EPCOR is currently implementing a unified strategy of integrating the

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Water and Drainage operations into a single unit, which is expected to realize operating and capital efficiencies.

Approach for 2025-2027 Performance Based Rates Applications

EWSI proposes to continue the approach established in the 2022-2025/27 PBR proceedings, of bringing forward discussion papers on particular topics to Utility Committee prior to the submission of the next drainage services and wastewater treatment PBR applications. EWSI states that this approach allows for a more in-depth discussion of the particular topics and affords Utility Committee the opportunity to provide initial feedback as to what would be included in the final application. EWSI proposes to bring forward the following discussion papers, as detailed starting on page 3 of Attachment 1, over the next 12 to 14 months:

1. Stakeholder Engagement Strategy
2. Rate Structure and Design Review (including a review of inconsistencies in applying certain charges to some City of Edmonton accounts, such as golf courses and sports fields)
3. Deferral Account Analysis (Utility Committee motion)
4. Developer Funding Review
5. Cost of Capital (Return on Equity) Review
6. Equity (just and fair inclusion) Review
7. Metrics Review (Utility Committee motion)
8. Sanitary and Wastewater Integrated Resource Plans

Timing of Application Review

EWSI proposes to submit both the Drainage and Wastewater PBR applications by June 2024 with new drainage and wastewater rates in effect on April 1, 2025. EWSI provides a proposed schedule and timeline of the review process, based on a June 2024 application submission date, on page 12 of Attachment 1.

Administration considers the proposed submission date and schedule to be acceptable as it allows for an appropriate amount of time to review the applications; a range of approximately 240 to 270 days from application submission date to the anticipated third reading by City Council, as compared to approximately 190 days from the February 22, 2021, application submission date to City Council's third reading date of August 20, 2021, for EWSI's 2022-2025/27 PBR applications.

Application Format

Unless otherwise advised by Utility Committee, EWSI intends to provide a similar structure and format in the 2025-2027 PBR applications as has been provided previously. In Attachment 1, EWSI provides details of the content and structure currently expected to be included in the applications: (pages 12-13 include the application format and Appendix B shows the table of contents from the 2022-2024 application's table of contents).

Administration considers that EWSI's proposed application structure and content is satisfactory, subject to any changes or additions required as a result of the discussions stemming from EWSI's forthcoming reports to Utility Committee, as discussed above.

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EWSI includes an overview of Performance Based Regulation to explain the various components of PBR in Appendix A of Attachment 1.

COMMUNITY INSIGHT

The general public was engaged during the review and approval of the most recent EWSI PBR applications to set new utility rates for Water, Wastewater Treatment and Drainage Services effective April 1, 2022, including providing feedback at the June 25, 2021, Utility Committee meeting. The PBR applications form the foundation upon which all regulatory reporting will be developed.

In terms of future community insight efforts, EWSI provides details of their Stakeholder Engagement Strategy, to be undertaken prior to submitting the PBR applications, on page 3 of Attachment 1. EWSI plans to present its public awareness and engagement plan for the upcoming PBR applications to Utility Committee in September 2023.

GBA+

GBA+ specific to this report was not conducted by Administration, as the information is regarding EWSI's upcoming PBR applications. EWSI intends to bring a discussion paper regarding its equity review for PBR applications to Utility Committee within 14 months.

ATTACHMENT

1. EPCOR Water Services Inc. - 2025-2027 Drainage and Wastewater Treatment Performance Base Regulation Renewal Process and Timeline Report