

**2023-24 EDMONTON WASTE MANAGEMENT
RATE FILING
REVIEW BY THE UTILITY ADVISOR**

UTILITY ADVISOR

RESPONSE TO THE EDMONTON WASTE

MANAGEMENT

2023-2024 RATE SUBMISSIONS

November 4, 2022

2023-24 EDMONTON WASTE MANAGEMENT RATE FILING REVIEW BY THE UTILITY ADVISOR

1.0 PURPOSE OF THIS REPORT

This report is prepared to provide advice to the City of Edmonton Utility Committee and Edmonton City Council on the 2023-2024 rate submissions of Waste Management. Pursuant to the terms of reference for the Utility Advisor, the rate submission has been reviewed by the Utility Advisor, and requests for additional information were sent and received.

Currently, City Council acts as both the governor and regulator of the Waste Management Utility, approving both operating and capital budgets as well as the utility customer rates.

As noted in a City of Edmonton internal legal memo dated December 7, 2009, the Municipal Government Act (MGA) provides Council with the authority to pass bylaws and otherwise regulate municipal public Utility. The MGA does not provide for any specific guidance for Council regarding municipal utility governance. To that end, the regulation of these municipal public Utility would be subject to the same duty of good faith that applies to general municipal governance. Municipal public Utility are regulated by the municipalities which operate those Utility within the municipalities. Unlike investor-owned Utility, the shareowners of the utility, and the customers of the utility are, to a large extent, the same. However, that does not change the overall objective of regulating such Utility, the establishment of just and reasonable rates, in the public interest, and not unduly discriminatory. The major difference between investor-owned Utility and municipally-owned Utility is the determination of what makes up the public interest.

2.0 ROLE OF THE UTILITY ADVISOR

The role of the Utility Advisor (UA) is set out in the contract between the City and Beckett Consulting. Section 2.1 (Consultant Services) describes this role, and is included for convenience:

2.1 CONSULTANT SERVICES

2.2 Statement of Work

2.2.1 The Consultant will report directly to the Utility Committee and through the Committee to City Council. The Consultant will provide subject matter expertise as an advisor to the Committee and Council as they oversee, regulate and govern the utilities, alternative utility costing models, and rate-setting principles.

2.2.2 The reporting of the Consultant is subject to change depending on governance structural changes that may be made by City Council or the City Manager. In the event the Utility Committee is discontinued or corporate departments are reorganized and

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renamed, references in this agreement that refer to the standing committee or specific corporate departments will refer to the standing committee or specific corporate department that is responsible for the City's utilities.

2.2.3 The Consultant will:

2.2.3.1 Meet with Members of Utility Committee and City Council to understand their concerns and intentions relative to utility structures, financial frameworks, and setting transparent and equitable utility rates that will ensure long-term sustainability of all three utilities and EPCOR Water Services and Waste Water Treatment ("EPCOR") (Meetings for the City's three utilities are estimated at 1 to 3 private meetings with the Mayor and individual Councillors or groups of individual Councillors annually; meetings related to EPCOR are estimated at 1 or 2 private meetings with the Mayor and individual Councillors or groups of individual Councillors annually or as proposed rate changes are recommended).

2.2.3.2 Obtain necessary information and meet with the Administration and EPCOR as necessary to understand the underlying rationale and the historical methodologies and models used to set utility structures and rates in the City of Edmonton and EPCOR (Meetings for the City estimated at up to 3 meetings with the City Manager, Chief Financial Officer, Deputy City Manager of Integrated Infrastructure Services, and Utility Branch Managers and/or Directors annually).

2.2.3.3 Review the past two years' budget and rate-setting documentation packages to facilitate understanding of the City's historical practices for funding and operating each utility.

2.2.3.4 Participate in Utility Committee meetings as requested to assist and advise the Committee with establishing the principles for utility structures; governance, regulatory, and financial frameworks; budget and rate-setting approval processes; matters pertaining to the renewable energy utility model for Blatchford ("Blatchford"); and related timings as appropriate.

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3.0 EXECUTIVE SUMMARY

The 2023-2024 rate application is excellent and provides adequate information to enable the Utility Committee and Council to make an evidence-based decision on rates for 2023-2024. As this is the first time a rate application has been made for a two-year test period (rather than the previous one year test period), the Utility Advisor has focussed on the reasonableness of a two year test period.

4.0 PROCESS

The following process was utilized by Waste Management and the Utility Advisor to review this application:

October 14, 2022	Waste sends preliminary rate filing to UA
October 18, 2022	Informal meeting - Waste and UA
October 24, 2022	Waste sends final rate filing to UA
October 27, 2022	UA submits information requests to Waste
October 31, 2022	Waste sends responses to UA
November 2, 2022	Waste sends updated Appendix B to UA
November 4, 2022	UA submits report

The Utility Advisor is very satisfied with this process, and with the responsiveness of Waste Management.

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5.0 SPECIFIC FINDINGS

5.1 Financial Indicators & Risk Allowance

In response to an information request from the Utility Advisor for the 2022 rate filing, management stated their intention to undertake a risk based review to determine the adequate cash position necessary to adequately manage future risks.

With reference to table 7 of this rate application it is noted that the utility proposes to retain a profit of \$5.56 million in 2023 and \$4.65 million in 2024. These amounts are above the revenue required to operate the utility, service debt, and to amortize regulatory assets (including a rate of return necessary to fund pay-as-you-go funding plus a risk margin). These amounts reduce significantly in future years of the forecast.

By themselves, these amounts are not particularly significant. However, they do represent an over-collection of revenue from current customers that will be used to the benefit of future customers. This creates an issue with inter-generational equity since future customers are not all current customers. In other words, current customers are subsidizing future customers (albeit to a small amount). The Utility Advisor recommends that management complete the above-mentioned risk review and strive to keep net income (or loss) as small as possible.

5.2 Multi Year Rate Application

As noted above this rate application covers the test years of 2023 and 2024. While management has, in the past, demonstrated a good track record of forecasting revenue requirements for one year in advance, it is worthwhile to investigate if their track record of forecast requirements for a second year (2024 in this case) is sufficient for the regulator to comfortably approve the second year of this rate application. To that end, the Utility Advisor requested (1. IR-UA) a comparison of forecast comparisons made one and two years in advance. The following table was provided.

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(in millions of dollars)

Line #	2022 Rate File			2023 - 2024 Rate File			Changes		
	2023 Forecast	2024 Forecast	2025 Forecast	2023 Proposed	2024 Proposed	2025 Forecast	2023 Proposed	2024 Proposed	2025 Forecast
1	\$ 184.76	\$ 188.31	\$ 193.33	\$ 189.04	\$ 193.38	\$ 197.40	\$ 4.28	\$ 5.07	\$ 4.07
2	26.00	27.36	28.57	25.81	28.47	30.79	(0.19)	1.11	2.22
3	8.07	7.97	7.75	8.21	8.53	8.76	0.14	0.56	1.01
4	(6.99)	(7.14)	(7.31)	(3.54)	(3.41)	(3.40)	3.45	3.73	3.91
5	3.91	3.91	3.91	3.91	3.91	3.91	-	-	-
	TOTAL EXPENSES			223.43	230.88	237.46	7.68	10.47	11.21
6	14.18	14.29	13.03	16.58	17.28	17.19	2.40	2.99	4.16
7	212.76	219.55	224.11	212.41	218.24	221.99	(0.35)	(1.31)	(2.12)
	TOTAL REVENUES			228.99	235.52	239.18	2.05	1.68	2.04
	NET INCOME/(LOSS)			\$ 5.56	\$ 4.65	\$ 1.72	\$ (5.63)	\$ (8.79)	\$ (9.17)

In the 2022 rate application, the forecast total expenses for 2023 were \$215.75 million. In the 2023-2024 rate application the forecast total expenses for 2023 were \$223.43 million for a difference of \$7.68 million.

In the 2022 rate application, the forecast total expenses two years out (2024) were \$220.41 million. In the 2023-2024 the forecast expenses two years out were \$230.88 million for a difference of \$10.47 million.

The difference in 2023 forecasts is 3.6%. The difference in 2024 forecasts is 4.8%. It is not surprising that the difference two years out is slightly higher than the difference one year out.

It appears to the Utility Advisor that it would be acceptable to approve the two-year rate increase. The Utility Advisor would suggest that the regulator reserve the right to call the utility back in or for the utility to request a re-opening to review 2024 rates during the next budget cycle if there appears to be a major discrepancy between the 2024 forecast contained in this rate application, and the next 2024 budget presentation.

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Appendix A
Information Requests from the Utility Advisor

Edmonton Waste Services 2023-2024 Utility Rate Filing Information Requests of the Utility Advisor

1. IR-UA

Topic: Utility Summary Table

Reference: Page 25, Section 7

Request: Please provide a table similar to the table included in this section, comparing the forecast amounts for 2023, 2024 and 2025 with the forecast amounts included in the Waste Services 2022 Utility Rate Filing. Include a line by line explanation of variations between the forecast produced for the 2022 Rate Filing and this 2023-2024 Utility Rate Filing.

Response

The table below compares the forecast amounts for 2023, 2024 and 2025 as shown in the 2022 Utility Rate Filing compared to the amounts shown in the 2023-2024 Utility Rate Filing. Following the table is a line by line explanation of the changes.

(in millions of dollars)

Line #	2022 Rate File			2023 - 2024 Rate File			Changes			
	2023 Forecast	2024 Forecast	2025 Forecast	2023 Proposed	2024 Proposed	2025 Forecast	2023 Proposed	2024 Proposed	2025 Forecast	
1	Operations and Maintenance	\$ 184.76	\$ 188.31	\$ 193.33	\$ 189.04	\$ 193.38	\$ 197.40	\$ 4.28	\$ 5.07	\$ 4.07
2	Amortization of Non-Contributed Assets	26.00	27.36	28.57	25.81	28.47	30.79	(0.19)	1.11	2.22
3	Debt Interest	8.07	7.97	7.75	8.21	8.53	8.76	0.14	0.56	1.01
4	Intra-municipal Recoveries	(6.99)	(7.14)	(7.31)	(3.54)	(3.41)	(3.40)	3.45	3.73	3.91
5	Amortization of Regulatory Asset	3.91	3.91	3.91	3.91	3.91	3.91	-	-	-
	TOTAL EXPENSES	215.75	220.41	226.25	223.43	230.88	237.46	7.68	10.47	11.21
6	Non-Rate Revenue	14.18	14.29	13.03	16.58	17.28	17.19	2.40	2.99	4.16
7	Rate Revenue	212.76	219.55	224.11	212.41	218.24	221.99	(0.35)	(1.31)	(2.12)
	TOTAL REVENUES	226.94	233.84	237.14	228.99	235.52	239.18	2.05	1.68	2.04
	NET INCOME/(LOSS)	\$ 11.19	\$ 13.43	\$ 10.89	\$ 5.56	\$ 4.65	\$ 1.72	\$ (5.63)	\$ (8.79)	\$ (9.17)

Edmonton Waste Services 2023-2024 Utility Rate Filing

Information Requests of the Utility Advisor

Line 1 - Operations and Maintenance

- The City has experienced higher than expected inflation in 2022 due to ongoing global supply chain issues. In addition, the City's Corporate Economist is forecasting inflation of 3.3%, 1.9% and 2.1% for 2023 to 2025, respectively, compared to the estimates of inflation of 1.8%, 2.2% and 2.4%, respectively, for 2023 to 2025 that were included in the 2022 Rate Filing. The 2023-2024 Rate Filing also includes expected price increases for Power, Natural Gas and Fuel which were not known or anticipated in the 2022 Rate Filing.
- The 2023-2024 Rate Filing includes the addition of the Communal Collection program budget. The City will be phasing in mandatory three-stream collection for approximately 167,000 residential households that receive communal collection at almost 3,400 properties. The budget was not included in the 2022 Rate Filing as it had not yet been approved.

Line 2 - Amortization of Non-Contributed Assets

Overall, the increase in Amortization of Non-Contributed Assets is due to higher mobile equipment purchases projected in the 2023-2024 Rate Filing which resulted from a detailed review of asset replacement requirements. Procurements for the three-stream Communal Collection program, including vehicles and waste containers to support the program, are also slightly expedited from those projected in the 2022 Rate Filing. Increases in mobile equipment and container projections have a larger impact on amortization expenses due to their relatively shorter lifespan.

Line 3 - Debt Interest

The increase in Debt Interest is primarily due to the current rise in interest rates. Rates projected in the 2023-2024 Rate Filing for new borrowings in 2023-2025 are on average 2.3% higher than those projected in the 2022 Rate Filing.

Line 4 - Intra-municipal Recoveries

The decrease in Intra-municipal Recoveries from the 2022 Rate Filing primarily reflects the reclassification of the Commercial Collection program and reduced internal aggregate sales. Commercial Collection revenue has been added to Non-Rate Revenue (Line 6).

Line 5 - Amortization of Regulatory Asset

Amortization of the Regulatory Asset represents the annual amount of the deferral account balance recovered through utility rates in a given period. There are no additions to the previously approved deferral account balances in the 2023-2024 Rate Filing.

Edmonton Waste Services 2023-2024 Utility Rate Filing Information Requests of the Utility Advisor

Line 6 - Non-Rate Revenue

The increase in Non-Rate Revenue is related to the reclassification of Commercial Collection revenue, which was reflected as an interdepartmental recovery in the 2022 Rate Filing (Line 4), to Non-Rate Revenue in the 2023-2024 Rate Filing. Other increases to Non-Rate Revenue include higher expected investment earnings due to changes in the current interest rate environment, higher Materials Recovery Facility revenues following enhancements to the facility, and revenue from the sale of renewable natural gas following completion of the Landfill Gas to Renewable Natural Gas conversion project.

Line 7 - Rate Revenue

The reduction in Rate Revenue is primarily related to the reduction in the rate increases for 2023 to 2025 of 1.2%, 1.2% and 1.0%, respectively, included in the 2022 Rate Filing compared to the lower rate increases of 0.9% annually in the 2023-2024 Rate Filing. A slight reduction in the number of housing starts forecasted by the City's Corporate Economist also contributes to the lower Rate Revenue. The utility continues to put an emphasis on stable and consistent year over year increases.

Edmonton Waste Services 2023-2024 Utility Rate Filing Information Requests of the Utility Advisor

2. IR-UA

Topic: Personnel

Reference: Page 28, Section 8.1

Request: Please explain why a portion of collection services is being transferred from contractors to city staff.

Response

The Waste Services utility operates two collection services. Curbside Collection where waste is collected in carts from over 250,000 households, and Communal Collection where waste is collected from shared containers from approximately 167,000 households. Approximate resource allocation between City staff and contractors is outlined in the table below.

Service Type / Provider	City Staff*	Contractors*
Curbside Collection	50%	50%
Communal Collection	35%	65%

*Per cent of customers served.

The Waste Services utility intends to align the Communal Collection resource allocation with that of Curbside Collection, specifically by replacing contractor-serviced areas with City staff. A financial analysis was completed comparing the costs associated with contractor and City staff for the Communal Collection service. Based on this analysis, the costs were determined to be largely comparable. The rationale to transfer a portion of the Communal Collection service from contractors to City staff includes the following:

- Risk reduction related to increased cost and future cost uncertainty in the private sector, the result of inflation projections and supply chain interruptions influenced by the COVID-19 pandemic.
- Risk reduction related to potential interruptions of service related to contractor challenges. In 2021, a contractor servicing issue resulted in a significant increase in missed and incomplete collections, requiring City staff to service the contractor collections with overtime hours. In 2019, a collection contractor filed for bankruptcy which required City staff to service the contractor collections with overtime hours until a new contractor could be procured.

Edmonton Waste Services 2023-2024 Utility Rate Filing Information Requests of the Utility Advisor

3. IR-UA

Topic: Communication and Public Engagement

Reference: Page 33, Section 8.5

Request: The explanation for this cost forecasts includes a reference to reorganization of Customer Information Services. How did this reorganization affect the costs of providing the services?

Response

The Communications and Engagement department has realigned resources to adjust to evolving communication and engagement needs throughout the City. In its current form, the Customer Information Services branch no longer exists. There are now three distinct branches that provide communications and engagement services to Edmontonians and civic departments.

- Relationships and Customer Access (including 311)
- Reputation and Brand
- Research, Engagement and Communications

Although resources have been reallocated and redeployed within the department, there has been no net growth in resources over the previous and currently proposed budget cycle. Therefore, the reorganization in itself has not impacted overall costs of providing communication and engagement services to the Waste Services utility.

The projected cost of service increase is primarily attributable to Waste Services' increasing use of communication and engagement services. The shared service cost allocation model measures the service use through various cost drivers, which vary by service area. As an example, call volumes are used as a cost driver to measure cost allocations for 311 services.

As noted on page 34 of the 2023-2024 Rate Filing, higher call volumes are expected for this service and have impacted the charge from the 311 area to the Waste Services utility. This trend accounts for over 50 per cent of the overall increase from the department. During this period, 311 expertly and empathetically supported Edmontonians in their inquiries and understanding of the Edmonton Cart Rollout, which transformed how over 250,000 single unit homes manage and sort their waste. Although the 311 program budget did not increase, Waste Services' draw of those resources has significantly increased.