

A wide-angle photograph of a black metal truss bridge spanning a river. The bridge has stone pillars on either side and is surrounded by lush green reeds and trees. In the background, residential houses and a clear blue sky are visible.

EPCOR WATER SERVICES

2025-2027 Wastewater Collection and Treatment PBR
Return on Equity



Agenda

- Fair Return Standard
- Utility Rates and Return on Equity
- Return on Equity & Equity Thickness
- Wastewater Collection & Treatment
PBR Return on Equity Proposal
- Proposed Return on Equity in Context
- Questions

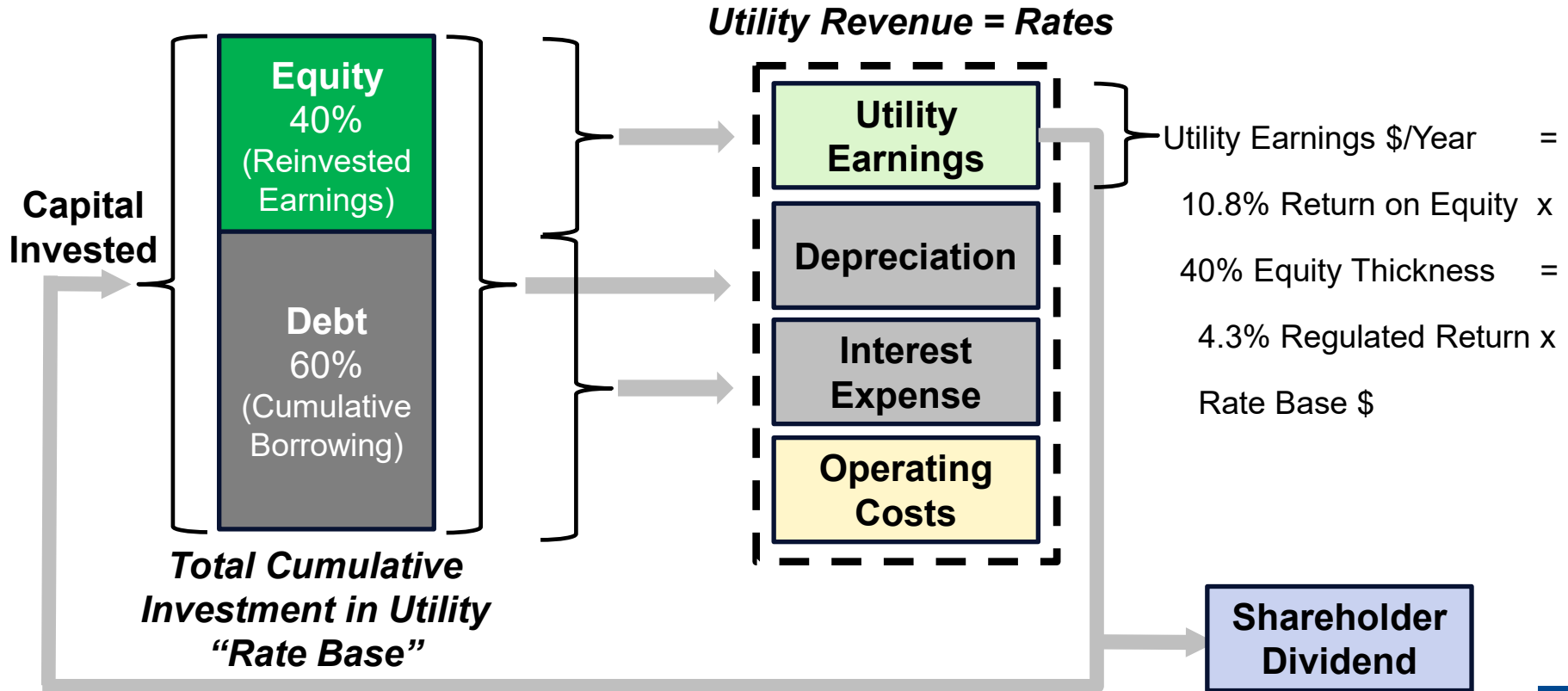
The Fair Return Standard

- Utility regulation seeks to provide utilities with the opportunity to earn a “fair return” – balancing needs of customers and utilities
- Principles for defining a fair return include:
 - The utility is able to maintain its long-term financial health
 - The utility can attract capital on reasonable terms
 - Utility investors will earn a return equal to what they would earn on other investments of comparable risk
- Needs to consider both an allowed % return (return on equity) and the % of the total capital invested for which the % return applies (equity thickness)
- Ultimately, a fair return takes into account the risks the utility faces

Utility Rates and Fair Return

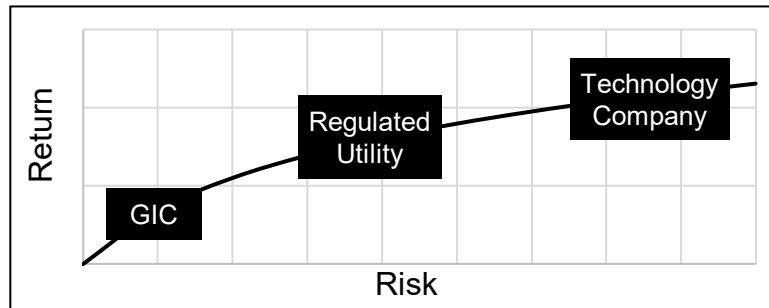
- Utility rates are designed to allow the utility to recover the costs of providing safe, reliable service and provide an opportunity to earn a fair return
- A fair return is required to maintain the long-term financial health and sustainability of the utility while providing investors an appropriate return
- The following components are included in rates for this PBR:
 - Operating costs, estimated for the first year of the PBR, and escalated at inflation less an efficiency offset yearly
 - Capital costs estimated over the PBR period, which are recovered over time, and include the cost of the assets and related financing costs
 - Capital costs are recovered through depreciation, debt financing costs and equity financing costs

Investment, Return and Utility Earnings



Return on Equity and Equity Thickness

- Both the Equity Thickness and Return on Equity are used to reflect utility risk profile and established through the Regulatory process
- Risk profiles vary by investment and industry - expected returns reflect that risk
 - Normally, an investor would expect a higher return for an investment that carried more risk (GIC vs Utility Investment vs Technology Investment)



As investors in EPCOR's Water Services' utilities, the Shareholder should be compensated for the inherent risks

- Utility earnings are used for two purposes:
 1. Re-investment in Utility to ensure it continues to operate safely and reliably
 2. Paying a return to the Shareholder

Wastewater Collection and Treatment PBR

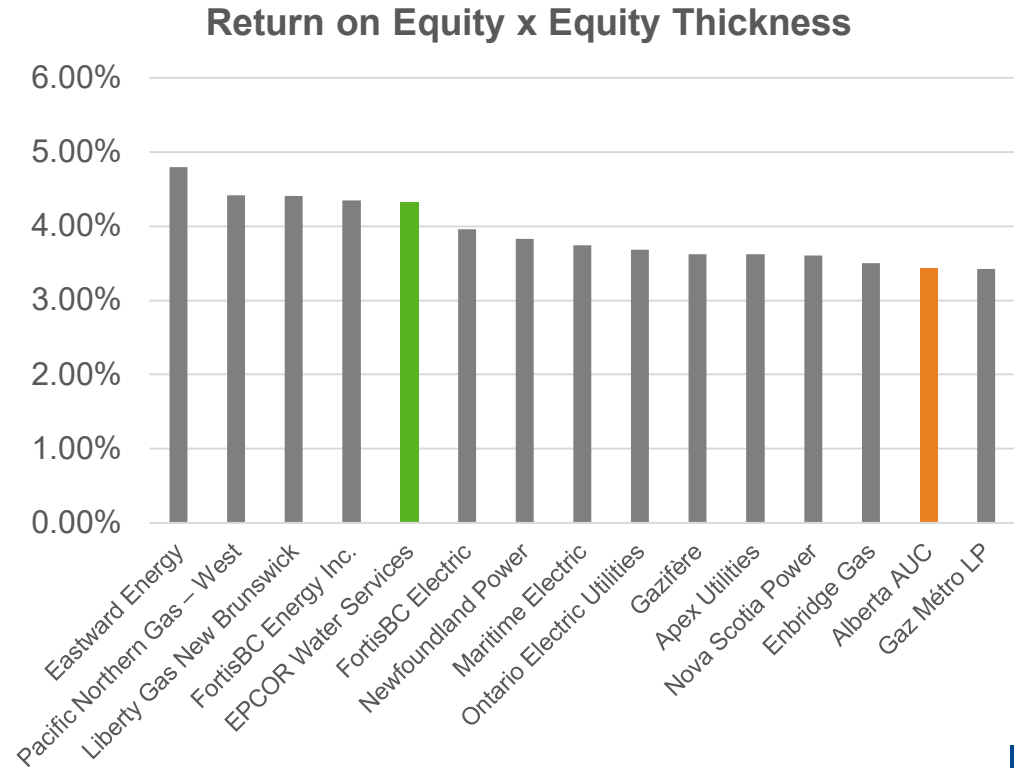
- 2025-2027 PBR Application reflects industry standard, rigorous and bottom-up approach to establishing Return on Equity:
 - EPCOR engaged a Return on Equity expert to develop proposal
 - Assessment of market conditions and returns for utilities with similar business risks
- EPCOR's PBR Application: **10.8%** Return on Equity and **40%** Equity Thickness
 - Wastewater Collection Return gradually increased to 10.8% by 2027 (2025: 9.0%, 2026: 9.9%, 2027: 10.8%), forgoing \$25.6 M in revenue
 - Wastewater Treatment Return is fixed at 10.8% for the PBR term
- Prior PBR approved Return on Equity 9.89% and 40% Equity Thickness
- Higher Return in this PBR due to higher interest rate environment

Returns and Equity Thickness in Context

- Range of approved Returns and Equity Thickness for regulated utilities in North America have considerable variability
- Range for US Water / Wastewater Regulated Utilities:
 - Approved Returns on Equity range from 8.70% to 10.27%
 - Approved Equity Thickness range from 40% to 57%
- Range for Canadian Gas / Electric Regulated Utilities:
 - Approved Returns on Equity range from 8.50% to 10.65%
 - Approved Equity Thickness range from 37% to 46.5%

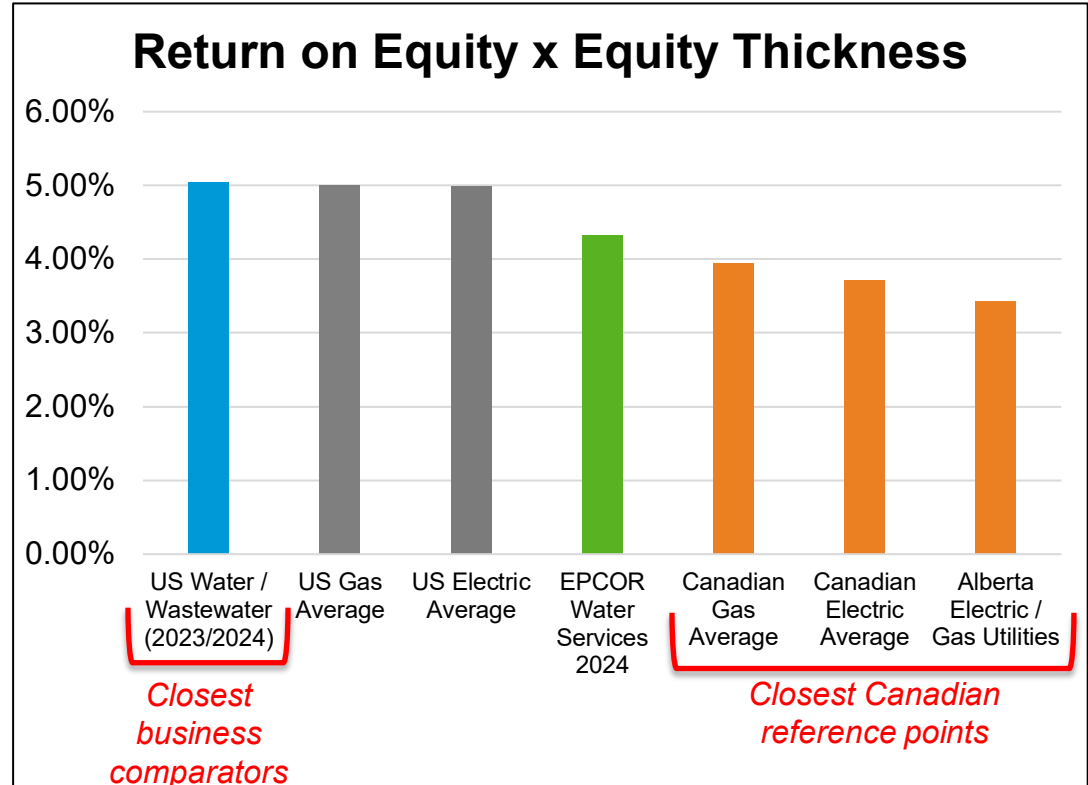
Proposed Return in Canadian Context

- Combination of 10.8% Return and 40% Equity Thickness results in a Regulated Return of 4.32%
- Recognizing different risks for Gas and Electric versus Water / Wastewater utilities, proposed Return on Equity x Equity Thickness is reasonable vs Canadian utilities



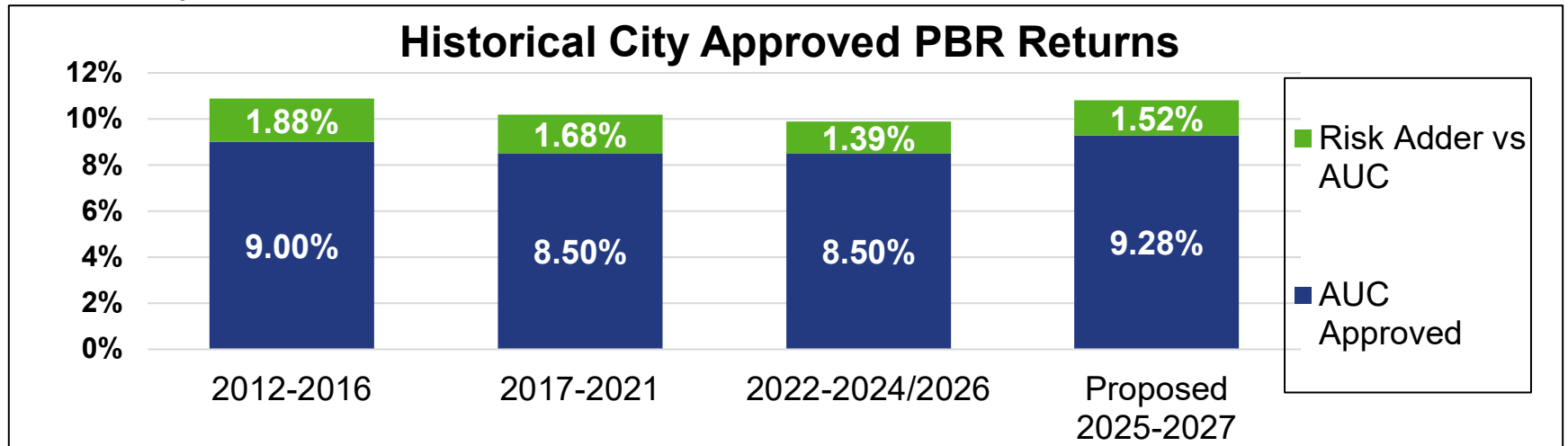
Proposed Return in N. American Context

- PBR application proposed Regulated Return within a reasonable range between US - Canadian comparators
- Regulators, including AUC, have accepted the use of both US and Canadian comparators
- Water and Wastewater comparators important due to unique and differing business risks vs Gas and Electric utilities



Historical PBR Returns on Equity

- City of Edmonton has historically approved a higher Return on Equity vs AUC. In 2017-2021 PBR, City's return on equity expert proposed a return for EPCOR between 1.54% to 2.12% higher than the AUC approved Return on Equity
- Difference between AUC approved and proposed Return on Equity is in line with past City approvals



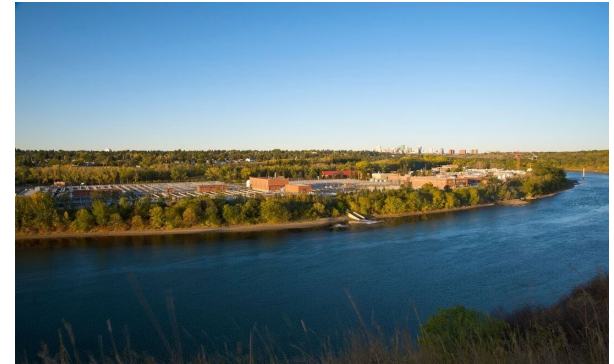
Return on Equity Summary

- Wastewater Collection and Treatment risks are higher relative to AUC regulated Gas and Electric utilities - AUC does not consider Water / Wastewater Utilities in setting Return on Equity for Alberta Utilities
- EPCOR's Water and Wastewater utilities risks include:
 - Full Water Cycle
Water Production – Distribution – Wastewater Collection – Wastewater Treatment
 - Public Health & Environmental Risks
Ingestible product, flooding risk, treatment of wastewater and stormwater returned to river, stewardship of region's water supply, impacts of climate change



Return on Equity Summary

- EPCOR's Water and Wastewater utilities risks include:
 - **Contributed Assets Risks**
Higher proportion of contributed assets versus Gas and Electric utilities for which EPCOR bears operational, maintenance, and replacement risks however does not earn a return of these assets
 - **Capital Recovery Risk**
Longer asset lives means higher risk that capital investments may not be recovered and higher risk of unexpected maintenance and replacement costs



Return on Equity in Context: Customer Bill Forecast

The recommended Return on Equity and Equity Thickness for the next PBR are only one element of calculating customer rates for the next PBR term

Overall, the PBR applications provide a fair rate of return for the utility, capital investment to maintain reliability, and bill changes that are expected to be lower than inflation

2.9%

Average annual
residential bill change
(2025 – 2027)

1.1%

Average annual
commercial bill
change (2025 – 2027)

\$887M

Capital investment in
wastewater utilities
(2025 – 2027)

Questions