

## ADMINISTRATION REVIEW OF EPCOR WATER SERVICES 2025-2027 PERFORMANCE BASED REGULATION APPLICATION FOR EPCOR WASTEWATER TREATMENT AND WASTEWATER COLLECTION

### Recommendation

1. That the proposed 2025-2027 Wastewater Performance Based Regulation application be adjusted for recommendations in Attachment 9 of the October 11, 2024, Financial and Corporate Services report FCS02677, prior to City Council approval of Wastewater rates effective April 1, 2025.
2. That the next EPCOR Performance Based Regulation application factors in findings from recommendations in Attachment 10 of the October 11, 2024, Financial and Corporate Services report FCS02677.

<b>Requested Action</b>	Committee decision required		
<b>ConnectEdmonton's Guiding Principle</b>	<b>ConnectEdmonton Strategic Goals</b>		
<b>CONNECTED</b> This unifies our work to achieve our strategic goals.	<b>N/A</b>		
<b>City Plan Values</b>	THRIVE.		
<b>City Plan Big City Move(s)</b>	N/A	<b>Relationship to Council's Strategic Priorities</b>	N/A
<b>Corporate Business Plan</b>	Managing the corporation		
<b>Council Policy, Program or Project Relationships</b>	<ul style="list-style-type: none"> <li>● Bylaw 19627 - EPCOR Drainage Services and Wastewater Treatment</li> <li>● EXT02465 - EPCOR Water Services - PBR Timeline and Guiding Principles</li> </ul>		
<b>Related Council Discussions</b>	<ul style="list-style-type: none"> <li>● October 11, 2024 Financial and Corporate Service report FCS02534, Bylaw 20865 - EPCOR Wastewater Services Bylaw - A Bylaw to Replace Bylaw 19627 - EPCOR Drainage Services and Wastewater Treatment Bylaw</li> <li>● October 11, 2024 External report EXT02684, Utility Advisor Review of EWSI 2025-2027 Performance Based Rates Application for EPCOR Wastewater Treatment and Wastewater Collection</li> <li>● June 24, 2024, External report EXT02521, EPCOR Water Services - 2025-2027</li> </ul>		

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- Performance Based Regulation Application Update
- June 24, 2024, External report EXT02464, EPCOR Water Services - 2025-2027 Performance Based Regulation Application - Stormwater Update
- June 24, 2024, External report EXT02522, EPCOR Water Services - 2025-2027 Performance Based Regulation Application - Return on Equity
- May 6, 2024, External report EXT02465, EPCOR Water Services - PBR Timeline and Guiding Principles

## Executive Summary

- This report provides Administration’s reasonableness review of EPCOR Water Services Inc.’s (EWSI) Performance Based Regulation (PBR) rate application for Wastewater Services (Treatment and Collection) for 2025-2027.
- This rate application will set wastewater utility rates for customers within the City of Edmonton for the 2025-2027 period (April 1, 2025, to December 31, 2027).
- To enable the submission of a consolidated PBR application for all three operations of EWSI (Water, Wastewater Collection, and Wastewater Treatment), the 2025-2027 PBR term has been intentionally shortened by three months ending December 31, 2027.
- The term of this future consolidated PBR application will commence on January 1, 2028, enabling EWSI to schedule future rate changes to take effect on January 1st of each year rather than April 1.
- Administration has identified specific recommendations for Utility Committee to consider for implementation for the current proposed PBR application as well as in advance of the next PBR application by EWSI in 2028.

## REPORT

### Performance Based Regulation Rate Application Process

On May 31, 2024, EWSI submitted its Performance Based Regulation (PBR) application and related appendices (Attachments 1 and 2, respectively) for Wastewater Services (Treatment and Collection) for the 2025-2027 period (April 1, 2025 to December 31, 2027) to set utility rates for customers within the City of Edmonton. In addition, EWSI has provided a PBR Readers Guide to augment its application (Attachment 3).

The PBR process is a regulatory process, governed by specific legislation and guidelines, to ensure utility rates are cost of service-based, reasonable and fair while promoting efficiency, transparency, accountability, service quality and alignment with City objectives. The review of the PBR application follows the same framework and methodology used for prior EWSI utility rate applications and is guided by a set of objectives (Attachment 4), previously presented to Utility Committee on May 6, 2024 (External report EXT02465, EPCOR Water Services - PBR Timeline and Guiding Principles), that aims to balance the interests of both the utility and customers.

To support the reasonableness review process, the City of Edmonton engaged Mooreview Management Consulting Inc. (consultant). The consultant, in partnership with Grant Thornton LLP (Cost of Capital Expert), brings extensive experience in utility rate setting and the wastewater

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services industry and provided a report with its detailed review of the PBR application (Attachment 5) along with recommendations.

As part of the PBR review process, the public, City Council and Administration are also given the opportunity to file written intervenor request (IR) questions to EWSI to clarify information within the PBR Application. These questions and responses from EWSI are in Attachments 6, 7, and 8 respectively.

Administration agrees with all the recommendations provided by the consultant. Administration's review summarizes recommendations and findings, and references sections of the consultant's report to provide further context to the recommendations being provided. The recommendations for the current 2025-2027 PBR application are summarized in Attachment 9 and the recommendations for the next PBR application are summarized in Attachment 10.

Also included on the October 11, 2024 Utility Committee agenda are:

- External report EXT02684, Utility Advisor Review of EWSI 2025-2027 Performance Based Rates Application for EPCOR Wastewater Treatment and Wastewater Collection;
- Financial and Corporate Service report FCS02534, (Bylaw 20865 - EPCOR Wastewater Services Bylaw - A Bylaw to Replace Bylaw 19627 - EPCOR Drainage Services and Wastewater Treatment Bylaw 20865), which sets the wastewater rates for April 1, 2025 to December 31, 2027 based on the proposed PBR application; and
- External report EXT02702, EPCOR Response to Review of 2025-2027 Performance Based Regulation Application for EPCOR Wastewater Treatment and Wastewater Collection.

### **PBR Application Review**

In general, Administration considers the submitted PBR application for Wastewater Services (Treatment and Collection) for the 2025-2027 PBR term to be reasonable. Administration also considers the current PBR framework, in general, to be functioning as expected in supporting the setting of utility rates.

That said, Administration has identified key issues that require further discussion to determine the appropriateness of the utility rates being proposed. These key issues are presented with analysis and recommendations under the interconnected major categories of:

- Cost of Service & Rates Design
- Cost of Capital
- Efficiency Factor
- Performance Measures

To assist Utility Committee in the decision-making process, under each of the above four categories, the recommendations are split between those to be implemented before the approval of the proposed PBR application and those to be implemented in advance of the next PBR applications in 2028. Administration appreciates that certain recommendations will take more time for EWSI to address and implement, so it is appropriate for these recommendations to be included as a part of the next PBR application.

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## Cost of Service & Rates Design

The purpose of a cost of service study is to analyze the expenses associated with providing services to various customer groups and to allocate the necessary revenue requirements based on specific cost drivers. Rate design involves the process of developing rates for each customer class of a utility. Utility rates often consist of both fixed and variable components.

Based on the review of the PBR application, Administration has identified the following recommendations related to cost of service and rate design.

### Recommendations for the 2025-2027 PBR Application

#### 1. Depreciation Study (Attachment 5 section 3.4.1)

EWSI conducted a depreciation study that resulted in the development of more detailed asset classes and a reduction in service lifetimes, increasing depreciation expense. EWSI proposes to use the new depreciation schedules for new assets in 2025 and beyond, setting a precedent for future PBR terms. On average, service life was reduced (current PBR term vs. the prior PBR term) to 23.4 years from 25.6 years for Wastewater Treatment and to 40.0 years from 42.6 years for Wastewater Collection. From an individual asset category, some categories saw a decrease, while some saw an increase in service life. This reduction has resulted in an increase in depreciation expense over the PBR term. As the PBR term is from 2025-2027, approval of the depreciation study before additional benchmarking is performed could potentially overcharge utility customers over the term until the next PBR application for 2028. The current study lacks benchmarking data from comparable utilities, which is crucial for the Utility Committee as regulator to review before accepting the proposed changes.

Administration recommends that:

- a. EWSI conduct a benchmarking study comparing the results of the depreciation study to asset lifetimes used by comparable wastewater and stormwater utilities in Canada and the United States. This should be reviewed by Utility Committee prior to the utility rates being approved.
- b. EWSI calculate utility rates for the PBR term using existing asset lifetimes and depreciation schedules for comparison purposes to get a better understanding of the impact to utility ratepayers.

#### 2. Capitalization of Software Costs (Attachment 5 section 3.4.2)

EWSI has proposed a change to its regulatory accounting policy related to the treatment of cloud computing costs, as they are in the process of implementing a number of cloud-based Software as a Service (SaaS) projects. In its PBR application, EWSI is proposing to capitalize these investments (with a useful life of 10 years) instead of expensing them as operating costs as typical per International Financial Reporting Standards (IFRS).

A capital business case was also not prepared as EWSI deemed this total expenditure to be 15 individual SaaS investments, which would be below the threshold for requiring a business case. Per the PBR process, business cases are generally required for projects above \$5.0 million for

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Wastewater Treatment and above \$10.0 million for Wastewater Collection. Total investment would be \$13.3 million (\$2.2 million - Treatment; \$11.1 million - Collection) over the PBR term.

EWSI supports this proposal based on a 2023 AUC decision (27675-D01-2023) to approve EPCOR's proposed capitalization treatment of 2023-2025 cloud-based SaaS costs of \$0.5M (as part of rate application for EPCOR Distribution and Transmission Inc.). Capitalization of SaaS projects would reduce the revenue requirement in the short-term and spread the impact over the useful life of the assets. This would also increase EWSI's rate base upon which they are allowed to earn a rate of return.

Given the Alberta Utilities Commission (AUC) decision and rationale provided by EWSI, the proposed accounting methodology to capitalize the SaaS investments for regulatory accounting purposes is in general considered reasonable.

Administration recommends that:

- a. EWSI prepare a business case to support its collective program of individual investments, totalling \$13.3 million, in Software as a Service (SaaS) projects across the PBR term given that the collective expenditure is above the established threshold for requiring a business case as well as the unique circumstance surrounding these projects.

### 3. Customer Consumption Forecasts (Attachment 5 section 3.6.1)

EWSI has proposed average consumption trends for customer classes for the 2025-2027 PBR term, based on historical consumption trends and subjective assumptions about future customer consumption. The Multi-Family and Commercial customer classes have clear rationales, but no specific rationale was provided for the Residential customer class.

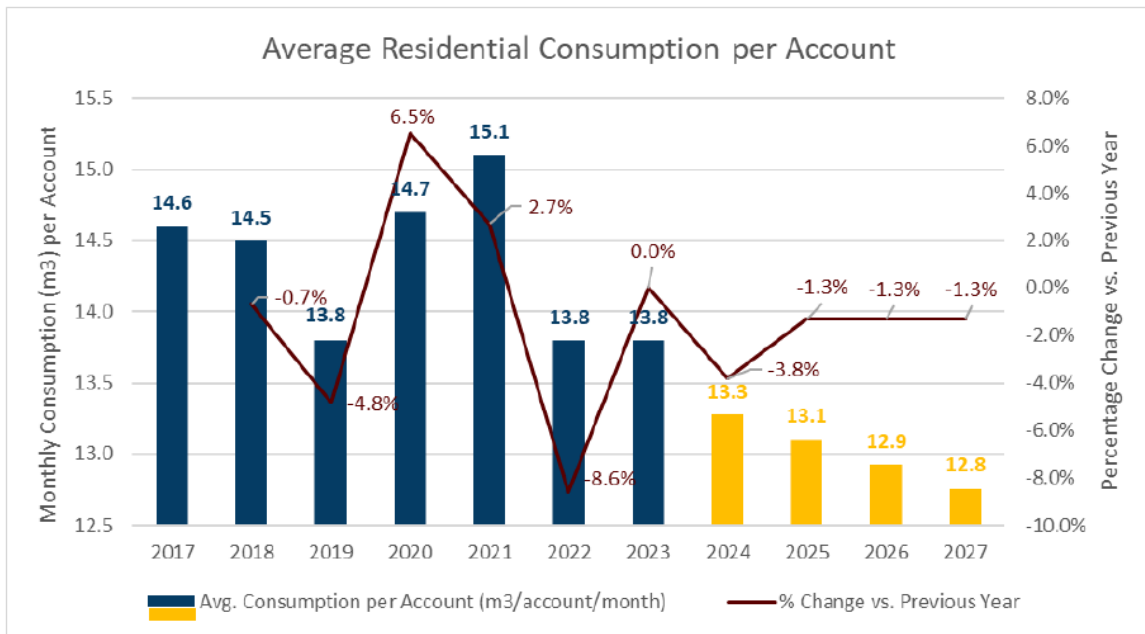
EWSI has forecasted 13.3 m<sup>3</sup>/month, a 3.8 per cent decrease from 2023, for the 2024 forecast. The average residential consumption over the PBR term uses the 2024 forecast as the starting point, with a 1.3 per cent assumed annual decline resulting in a 12.8 m<sup>3</sup>/month residential consumption in 2027. However, recent consumption data indicates that average monthly consumption has stabilized around 13.8 m<sup>3</sup>/month since the COVID-19 pandemic. This suggests that the starting average of 13.3 m<sup>3</sup>/month may be too low, which has a compounding effect over the PBR term.

While newer communities may have greater water efficiency performance and a small annual decline in residential consumption may be reasonable, the assumption of a 1.3 per cent annual decline seems overly conservative and transfers the burden of consumption volatility to the rate payer. This is because lower forecasted consumption would require higher utility rates to meet the Utility's revenue requirement. If actual consumption is higher, the Utility would collect higher revenues over the PBR term. This risk is compounded by the removal of the consumption deferral account.

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Historical average residential consumption is shown below:

Figure 1: Historical Average Residential Consumption



Administration recommends that:

- a. EWSI provides specific analysis to support the decline of average residential account consumption of 1.3 per cent annually, with specific responses to why this is reasonable given average consumption since 2019.
  - o If the analysis provided above to support the 1.3 per cent annual decline is not considered satisfactory, EWSI calculates a revised and reasonable trend estimate for the PBR term.
- b. EWSI calculates a revised and reasonable 2024 forecast estimate (used as a starting point for the PBR term) with support.
- c. EWSI calculates updated utility rates for the PBR term using the updated average consumption for residential customers based on the above steps.

## Recommendations for the Next PBR Application

### 4. Historical Financial Results (Attachment 5 section 3.1)

The 2025-2027 PBR application provided only 2022 actual financial results, falling short of best practices for PBR applications, which require at least four years of historical actual results encompassing operating, capital expenditures, depreciation and return on rate base. EWSI

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acknowledged the difficulty in providing historical actual results due to recent organizational restructuring. However, relying solely on 2022 values and the 2024 decision values as the basis for future projections poses a challenge for regulators to assess the appropriateness of those projections.

Administration recommends that:

- a. EWSI ensures that the minimum amount of historical actual financial results are provided for future PBR applications as per the existing MFR.

### 5. Ratio of Direct vs. Indirect Administrative Operating Costs (Attachment 5 section 3.3.5)

EWSI developed detailed models and methods for allocating shared services and corporate shared services costs to each utility service. These drivers allocate individual shared services to each service using a combination of staffing headcount, revenues and infrastructure costs. However, these shared services administrative costs are a significant portion of total operating costs, particularly for Wastewater Collection. For 2027, the combined forecast represents 37.2 per cent of the total operating costs for Wastewater Collection (after adding back capitalized overhead transfers), while this ratio for Wastewater Treatment was only 19.4 per cent. Many of these EWSI shared services appear to be indirect and overhead in nature. For Wastewater Collection, this results in a significant portion of its operating costs being comprised of these indirect costs, making it potentially challenging to charge reasonable and cost-efficient rates.

Administration recommends that:

- a. EWSI evaluates and reports on the amount of and types of indirect, overhead administration costs it allocates into customer rates, including a comparison to industry practices and benchmarks.
- b. Based on this analysis, EWSI describes how these shared services provide additional value-for-money for City of Edmonton utility customers and how EWSI can efficiently manage these costs to ensure reasonable rates.

### 6. Depreciation Study (Attachment 5 section 3.4.1)

The depreciation study, conducted by EWSI's external consultant with extensive industry experience, should include comparisons of asset lifespans to those of other utility organizations. These comparisons and the subsequent analysis would enhance the review process and provide valuable insights.

Administration recommends that:

- a. EWSI updates the PBR minimum filing requirements to include benchmarking data versus comparable water, wastewater and stormwater utilities across Canada and the United States when completing a depreciation study.

### 7. Cost of Service Methodology (Rate Design) (Attachment 5 section 3.5)

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To evaluate the fairness and equitability of allocating service costs to customer classes, EWSI engaged HDR Engineering Inc. to conduct a cost of service analysis for wastewater treatment and collection. This analysis aligned with generally accepted wastewater rate-setting methodologies and principles established by the Water Environment Federation (WEF) and outlined in Manual of Practice No. 27, Financing and Charges for Wastewater Systems, which is an industry standard. The study appears to leverage the principles suggested by the WEF.

However, defining customer classes in wastewater systems is challenging because many treatment costs involve removing contaminants from discharged wastewater. Only a few customers have industrial strength monitoring, allowing charges for overstrength discharges. Most customers in residential, multi-family and commercial classes do not have such monitoring.

The cost of service studies did not provide specific information regarding typical considerations for wastewater treatment and collection systems.

Administration recommends that:

- a. EWSI addresses the following identified cost of service issues to better align with leading practices:
  - o The calculation of wastewater return factors for each of the residential, multi-family, and commercial customer classes was not performed. This calculates the percentage of billed water which returns to the sanitary system per customer class. It is also typically distinctly different from the ratios of billed consumption across these three customer classes, directly impacting the distribution of volume-related costs to these classes based on their relative volume.
  - o The Wastewater Treatment service does not appear to include or distribute cost of service to Hauled Wastewater customers (i.e. customers who truck and dump wastewater loads at EWSI's wastewater receiving stations). Without the inclusion of this unique customer class, an evaluation of hauled wastewater non-regulated rate revenues vs. costs as well as the resulting impact to any cost allocation modifications appropriate for the City's collection (retail) customers was not possible. In addition, it would be expected that some of the Wastewater Treatment costs incurred to support treatment of pollutant strengths and internal plant wastewater volumes should be allocated to this class. This analysis was also not provided.
  - o The Wastewater Collection cost of service did not define the costs of service required for the University of Alberta (U of A), which operates its own collection mains. It uses a historical discount factor received from the City when Drainage was transferred.
  - o The Wastewater Treatment and Collection Service cost of service did not analyze the differences in transmission and treatment costs involved with ARROW's (formerly the Alberta Capital Region Wastewater Commission) wastewater "swaps". It was indicated that the strength of wastewater is not sampled for either incoming wastewater received by EWSI nor outflowing wastewater transmitted to ARROW.
  - o The impacts of inflow and infiltration (I/I) were not considered in detail, other than high-level allocations to customer classes based on their billed water consumption. More detailed analysis typically considers how I/I should be allocated between inside-city retail



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wastewater collection customers versus wholesale customers (such as U of A and ARROW potentially), how it should be allocated to inside-city customers based on the number of connections versus discharged wastewater volumes, and how its strengths of the contaminants within the I/I treated by the plant are allocated to customer classes.

- There was only high-level analysis of operating costs regarding how they should be allocated to cost drivers, as it was assumed that the distribution of net book value of assets across cost drivers should also direct the allocation of operating costs. Typically, a cost of service study provides a detailed analysis on manpower allocations, power, chemicals, and external contractor expenditures to allocate costs to cost drivers based on their own merits and cost drivers.
- One of the primary outputs of a cost of service report is the supporting rationale for how costs are functionalized, allocated into cost drivers, and distributed across customer classes. The rationale provided to allocate functional costs to cost drivers was only high-level and did not detail the specific cost allocation rationale used per function or asset-type. Without this detail, it is not possible to review methods or cost allocation calculations.

### 8. Customer Consumption Forecasts (Attachment 5 section 3.6)

The current practices for estimating future customer consumption habits based on historical billing data and expert judgment lack standardized norms and guidelines. These projections serve as the basis for calculating rates, and thus, inconsistencies in the methodologies used to develop these projections can lead to potential risks for customers. To mitigate this issue, it is imperative to establish clear and robust statistical methods for developing these projections in a standardized manner. This will ensure that the consumption estimates provided by EWSI align with statistical analysis and protect customers from potential underestimation.

Administration recommends that:

- a. EWSI review, revise, and formalize the statistical analysis used as the basis for projecting future average consumption trends per account as part of the PBR regulatory process.
- b. EWSI analyze residential and multi-family indoor usage relative to outdoor irrigation usage trends when completing the analysis above.

### 9. Billing Comparisons (Attachment 5 section 3.7)

EWSI provided monthly billing projections for 2025 and 2027 compared to select Canadian jurisdictions. However, comparing monthly bills across jurisdictions may not accurately reflect cost efficiencies, as utilities have unique circumstances such as customer count, infrastructure density, service levels, infrastructure age, rates objectives and weather.

The analysis reveals that Winnipeg is the only city with a higher projected residential monthly wastewater bill than Edmonton, while Edmonton's residential monthly stormwater bill is expected to be higher than all others.

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The review of EWSI's billing comparisons emphasizes the need for separate assessments of wastewater and stormwater rates and a focus on comparable utilities. Regulators typically assess wastewater and stormwater rates separately due to their distinct services. It is important to split out these services and demonstrate bill comparisons, including how EWSI's monthly bills compare to the average of others in the sample. Additionally, it is beneficial for regulators to evaluate bills across the most comparable utilities, excluding significantly smaller, less dense and rural municipal utilities.

While cautious interpretation is necessary, utility management should be willing to analyze opportunities for improving future efficiencies, service levels and value-for-money if their rates are demonstrably larger than their peers.

Administration recommends that:

- a. EWSI develop rate benchmarking reports separately for Water, Wastewater, and Stormwater. Improvements in EWSI's billing comparisons analysis are also suggested, including separating wastewater and stormwater rates to better represent appropriate utility rates based on the services provided.
- b. EWSI review and update the jurisdictional peer group used for the purposes of comparing utility rates, focusing on similarly sized cities with their own water and wastewater treatment plants. Further, address unusual abnormalities across this peer group based on unique billing structures.
- c. EWSI's Stormwater residential monthly bills across the PBR term are projected to be larger than other jurisdictions included in the billing comparisons. Based on this, EWSI should further analyze this situation and report back regarding:
  - o Initiatives it will target to continue the achievement of efficiencies to manage future rate increases.
  - o How it will provide Edmonton's customers with increased value for money relative to other jurisdictions.

### **Cost of Capital**

A utility's cost of capital is the weighted average cost of debt and equity to finance its utility capital investments. The cost of debt reflects the overall rate being paid by a company to raise capital using traditional debt facilities. The cost of equity represents the return that a company requires to proceed with a project/capital investment.

From a utility perspective, the capital financial structure is based on the proportion of financing allowed for debt and equity to fund operations. EWSI's current financial structure is based on a combined 60 per cent for debt financing and 40 per cent for equity financing. The proportion of equity financing is also commonly referred to as "equity thickness."

Moorview Consulting engaged Grant Thornton to review the capital structure and cost of capital (return on equity) proposed by EWSI in the PBR application. The Grant Thornton report is included as Appendix A in the Mooreview consultant report (Attachment 5) and provides detailed information to support Administration's position.

Based on a jurisdictional review and the current higher interest rate environment, it is deemed

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appropriate for EWSI to maintain its equity structure at 40 per cent. In such an environment, most companies would seek to carry higher levels of equity to meet debt service obligations. While reducing equity levels in the future may be advantageous as interest rates decline, 40 per cent is deemed suitable for the current period.

Based on the review of the PBR application, Administration has identified the following recommendations related to cost of capital.

### **Recommendations for the 2025-2027 PBR Application**

#### **10. Return on Equity (Attachment 5 sections 4.4 and 4.5)**

From a Utility perspective, the cost of equity (or return on equity) is the amount of return the Utility is allowed to earn on their invested capital (rate base). Return on equity (ROE) for a utility is essentially based on the business risk that a utility has based on the services it provides and the environment that the Utility operates in.

The 2025-2027 PBR application proposed a ROE of 10.8 per cent for both Wastewater Treatment and Collection. The proposed ROE of 10.8 per cent is only being proposed immediately for Wastewater Treatment. The ROE for Wastewater Collection is being proposed to gradually increase to 10.8 per cent over the PBR term, from 9.0 per cent in 2025 to the full 10.8 per cent by 2027. This approach is reasonable as the integration of Wastewater Collection assets and operations and the achievement of desired efficiencies is not yet fully complete.

EWSI has engaged a cost of capital expert from ScottMadden to determine an appropriate ROE. ScottMadden compared the risk profile of EWSI to a proxy group of water utilities in Canada and the United States. The Canadian group consisted of publicly traded Canadian utility companies, while the U.S. group focused on publicly traded U.S. water utilities. Due to limited data availability for Canadian water utilities, the Canadian proxy group included a broader range of utilities. ScottMadden assigned more weight to the results based on the U.S. water utility proxy group as they believed these utilities better represented the operational risks faced by water utilities. This resulted in a range of ROE rates from 10.5 per cent to 12.2 per cent.

To determine the ROE range, ScottMadden incorporated a variety of traditional calculation methodologies to determine the appropriate ROE [including the discounted cash flow (DCF), the risk premium model (RPM), and the capital asset pricing model (CAPM)]. However, the calculation also included a variation of CAPM called ECAPM (Empirical Capital Asset Pricing Model). Upon review, it was determined that no recent Canadian regulatory decisions have been identified where the ECAPM method was accepted in the calculation of ROE. It is therefore recommended to remove the average ECAPM in determining the cost of equity and use the results of the average CAPM instead. This reduces the proposed cost of equity by 0.09 per cent from 10.80 to 10.71 per cent.

The Alberta Utilities Commission (AUC) also acknowledges that U.S. companies have higher business risks than Alberta utilities. U.S. companies were included in the proxy group for establishing comparables due to limited publicly traded Canadian utility companies, many Canadian utilities having U.S. business operations, and investors considering both U.S. and Canadian utility investment opportunities. However, judgment must be applied when interpreting data from proxy utilities to

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determine the ROE.

The 2025-2027 PBR application suggests increasing the return on equity from 9.89 per cent to 10.80 per cent. This proposed change represents a 0.91 per cent increase compared to the previous application. The AUC has increased their approved ROE to 9.28 per cent from the previously approved ROE of 8.50 per cent, an increase of 0.78 per cent.

In the prior PBR application the EWSI ROE was 1.39 per cent greater than the AUC approved ROE (risk spread). This difference has increased 1.52 per cent in the current PRB, an increase of 0.13 per cent. Based on a review of business and financial risks, no additional risks or considerations have been identified by EWSI that warrant this increase. It is therefore recommended to apply the approved risk spread from the prior PBR of 1.39 per cent to the current AUC Approved ROE of 9.28 per cent resulting in an ROE of 10.67 per cent.

A summary of the differences in ROE is shown in the table below:

*Table 1 : Return on Equity (ROE) Comparison - Current vs. Prior PBR*

	<b>Current PBR 2025-2027 (Proposed)</b>	<b>Prior PBR 2022-2024 (Approved)</b>	<b>Difference</b>
<b>EWSI ROE</b>	10.80%	9.89%	0.91%
<b>AUC Approved ROE</b>	9.28%	8.50%	0.78%
<b>Difference</b>	1.52%	1.39%	0.13%

In addition, in evaluating ROE, the financial structure needs to be considered. The AUC approved ROE is supplemented by an approved capital structure including a 37 per cent equity component. EWSI's allowable equity is 40 per cent meaning effectively EWSI already has a higher allowable return in isolation compared to AUC regulated utilities notwithstanding the approved ROE and risk spread.

EWSI has not considered the varying risk profiles of Water, Wastewater Treatment and Wastewater Collection. While it is agreed that some of EWSI services have a higher level or risk than reflected in the AUC Approved ROE, the risk is not consistent across all of EWSI's services.

For example, because water is a consumable product, Water Services would carry a higher business risk than Wastewater Treatment or Wastewater Collection. Since Water has a higher risk profile, it would be reasonable to consider applying a lower ROE to Wastewater Treatment and Wastewater Collection in comparison to the ROE for Water. Additionally, the impact of unbilled Stormwater customers is unknown and will be determined over the proposed PBR term. The unbilled Stormwater customer count and consumption impact is not currently included in the PBR application. As a result EWSI will likely collect stormwater revenue greater than forecasted and therefore the proposed utility rates would be higher than required, which further reduces the risk to EWSI. This further supports a decrease in the ROE for Wastewater Services. Considering all of this, Grant Thornton has calculated a potential range of adjusted ROE rates from 10.49 per cent to 10.67 per cent to reflect this change in

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risk. It is therefore recommended to further reduce the ROE to 10.49 per cent.

Based on the entirety of observations and considerations from this review, Administration recommends that the proposed ROE be adjusted as follows:

- a. Direct EWSI to reduce the proposed return on equity by from 10.80 per cent to 10.67 per cent to adjust for the removal of ECAPM from the EWSI consultant ROE calculation and to normalize for overall business risk relative to the AUC Approved ROE.
- b. Further reduce the ROE to 10.49 per cent from 10.67 per cent to reflect the unique weighted average of business risk for Wastewater Treatment and Collection. This is to factor in the varying risk profiles of water, wastewater treatment and wastewater collection as water is inherently riskier.
- c. Direct EWSI to continue with the proposed ROE ramp-up approach for Wastewater Collection across the 2025-2027 PBR term with the adjusted ROE calculated above as the end point.

For a breakdown of the calculation please see the table below:

*Table 2: Calculation of Recommended Return on Equity*

	<b>Return on Equity</b>
<b>Proposed</b>	<b>10.80%</b>
Adjust for removal of ECAPM methodology	(0.09)%
<b>Revised</b>	<b>10.71%</b>
Reduction to align with prior AUC risk spread consistent with 2021 PBR	(0.04)%
<b>Revised (Starting Point)</b>	<b>10.67%</b>
Adjust for lower risk premium for Wastewater Collection and Treatment compared to Water	(0.18)%
<b>Recommended</b>	<b>10.49%</b>

11. Cost of Debt (Attachment 5 section 4.3)

EWSI's 2025-2027 Wastewater Services PBR proposes a 1.15 per cent increase in its cost of debt compared to the prior PBR application resulting in a 4.65 per cent cost of debt in the proposed PBR application. This primarily results from a 1.34 per cent increase in the 30-year Government of Canada bonds rate since the previous 2022-2024 PBR, partially offset by a reduction in the risk premium charged by EPCOR Utilities Inc. ("EUI") to EWSI on intercompany debt.

Credit rating agencies have declined to provide EWSI with one-time stand-alone credit ratings to support its regulatory filings. While there is no indication that EWSI's proposed cost of debt is unreasonable, it is challenging to determine if the suggested rate reflects market pricing. This is

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because EWSI has not engaged in a more traditional negotiation of financial terms with multiple lenders.

Administration recommends that:

- a. EWSI provides further information to support that the cost of debt included in its PBR application reflects the current actual cost of borrowing to the EPCOR parent company.

### **Recommendations for the Next PBR Application**

#### 12. Credit Rating Analysis (Attachment 5 section 4.3)

Due to the lack of one-time standalone credit ratings from credit rating agencies to support regulatory filings, EWSI lacks the necessary external validation. In the absence of third-party credit rating reports for regulatory review, it is customary for regulators to expect utilities to supplement their PBR applications with internally prepared analyses. Such analyses should address various risk factors, including business risk, financial risk, liquidity considerations and other relevant risks. By conducting these internal assessments, the utility organization can provide valuable insights into their cost of debt and overall financial standing, enhancing the credibility and reliability of their regulatory filings.

Administration recommends that:

- a. EWSI provide alternative internally prepared analysis to justify their proposed cost of debt within the PBR application process in the future if credit rating reports are no longer available.

### **Efficiency Factor**

The efficiency factor is a reduction to the inflation factor applied to the rates on an annual basis. The efficiency factor reduces the increase in rates to customers. It recognizes that as a business grows, it should become more efficient and the efficiency factor therefore represents the minimum amount by which EWSI must improve operational efficiency to maintain its net income.

EWSI has proposed an efficiency factor of 0.25 per cent for Wastewater Treatment and Wastewater Collection, which is the same as the previous PBR term. Administration considers the efficiency factor of 0.25 per cent for Wastewater Treatment to be appropriate given historical performance and maturity of the service line.

Looking ahead to the period between 2025 and 2027, it is evident that efforts are still underway to continue the integration of Wastewater Collection as part of the "One-Water" approach. Full integration is not expected until at least 2028 as part of an expected future consolidated PBR application.

These combined factors indicate that there are efficiencies yet to still be realized. There is rationale to increase the efficiency factor for Wastewater Collection until EWSI can demonstrate, through regular performance reporting and implementing many of the recommendations in this PBR review, that the integration of Wastewater Collection is complete and operational efficiencies have been realized.

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Additional rationale for this includes:

- Due to a recent reorganization, EWSI was unable to provide the necessary four years of historical financial results as required. Only 2022 values were restated, which does not meet the best practices for PBR applications. It would be expected that this information should be readily available for regulators to conduct a thorough review of historical results and determine if the utility is meeting their forecast targets and realizing efficiencies.
- EWSI has yet to analyze or create comprehensive rates across Water, Wastewater and Stormwater. The rate structures proposed in the 2025-2027 PBR are identical to those assumed when taking over assets and operations from the City. This indicates that EWSI is still in the process of integrating and managing the utilities' financials. Furthermore, additional cost of service details must be addressed to develop a holistic set of rates across the utilities for 2028.
- The proposed rates within the PBR for existing Stormwater customers are inflated due to EWSI's plan to introduce additional stormwater-only customer billing accounts from 2025 to 2027. These accounts are not factored into the rates proposal despite the apparent absence of any additional costs associated with servicing these customers. Consequently, the proposed rates do not reflect the true cost of providing Stormwater services and result in a surplus for the utility.
- Wastewater Collection's operating cost structure has a higher allocation of EWSI shared services and corporate shared services costs compared to Wastewater Treatment. This suggests potential opportunities to review and further enhance administrative efficiencies.
- The consistent exceedance of multiple performance standards suggests that EWSI has consistently met existing standards and may have incurred incremental costs to do so. This indicates a need for further integration of Wastewater Collection and a comprehensive understanding of the incremental capital and operating cost investments required to attain additional performance levels.
- Based on the jurisdictional billing comparison analysis, it is predicted that EWSI will have higher-than-average rates for both Wastewater and Stormwater services, especially for Stormwater. EWSI's ongoing efforts to integrate Wastewater Collection into its "One-Water" approach have identified opportunities for further development and planning between 2025 and 2027. This includes updating the Stormwater Integrated Resource Plan (SIRP). EWSI's relatively short ownership of Wastewater Collection, compared to its longer tenure with Wastewater Treatment (since 2009), presents a significant opportunity for efficiency improvements. EWSI noted in a response to an information request (Attachment 7 MV-EWS-28 Part v) that further efficiencies in this area are highly likely given references to industry leading practices. A PBR approach can create a mechanism to drive efficiency and effectiveness gains for ratepayers. The efficiency factor reduces annual inflationary increases, incentivizing the utility to continuously seek cost improvement opportunities.

Based on the review of the PBR application, Administration has identified the following recommendations related to the efficiency factor.

### **Recommendations for the 2025-2027 PBR Application**

#### **13. Integration of Wastewater Collection (Attachment 5 section 5.2)**

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Administration recommends that:

- a. An increase to the efficiency factor to 0.50 per cent for Wastewater Collection to be maintained over the PBR term while integration towards “One-Water” continues. As a result of this increase, EWSI would be required to recalculate the impact to utility rates.

### Recommendations for the Next PBR Application

#### 14. Report on Progress of Realizing Efficiencies (Attachment 5 section 5.2)

Administration recommends that:

- a. EWSI provide updated analysis regarding capital and operating efficiencies gained through the “One-Water” integration over the PBR term. This will support the future evaluation of the efficiency factor in advance of the 2028 PBR application.

### Performance Measures

A comprehensive performance measurement framework is included as a part of the PBR process to define the critical areas of operational performance that must be met by EWSI to deliver safe and reliable utility services. This framework has been adopted by both Wastewater Collection and Wastewater Treatment.

Based on the review of the PBR application, Administration has identified the following recommendations related to performance measures.

In addition, the recommendations are further broken down between those recommendations to be implemented by:

- EWSI as the Utility Operator
- Utility Committee (with support from Administration) as the Utility Regulator
- EWSI or Utility Committee (with support from Administration), depending on the responsibilities assigned as decided by Utility Committee.

### Recommendations for the 2025-2027 PBR Application

#### ***Recommendation for Action by EWSI***

#### 15. Approach to Establishing Performance Measures vs. Overall Objectives and Customer Priorities (Attachment 5 section 5.4)

The PBR Performance Measures Framework aims to provide a balanced overview of a wastewater utility's performance. The framework focuses on strategic objectives and areas of service important to customers and stakeholders.

The PBR process aims to ensure customers receive sufficient value for the rates customers pay. The Performance measures framework should focus on measuring progress towards achieving strategic outcomes.



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A description of how the proposed performance measures, standards and weightings either reflect how EWSI will progress against its strategic objectives or customer priorities (per the stakeholder engagement observations) is not provided.

Administration recommends that:

- a. EWSI provide a comprehensive description of how the proposed suite of performance measures provides a balanced view of EWSI's overall performance and how the company is progressing towards achieving its strategic objectives
- b. EWSI provide a comprehensive description of how the proposed suite of performance measures reflects the customer priorities derived from stakeholder engagement.

### 16. Wastewater Collection – Customer Service Index (Attachment 5 section 5.5.2)

Current response time measurements (Service Maintenance Calls and Emergency Dig Ups) can be consolidated/modified for benchmarking purposes. EWSI suggests including these measures in the System Reliability Index, even though they are response time measures that belong in the Customer Service Index.

Service Maintenance Calls and Emergency Dig Ups are response time measures currently in the Customer Service Index. However, the PBR application suggests moving them to the System Reliability Index, aligning with Water performance indicators. While response times differ for emergency dig-ups and service maintenance calls (24 and 48 hours, respectively), the customer impact of an interruption is likely similar, regardless of the resolution method. To align with customer expectations and available benchmarking, there is an opportunity to consolidate and modify these measures.

Administration recommends that:

- a. EWSI retain response time measures (such as Service Maintenance Calls and Emergency Dig Ups or suitable alternatives) in the Customer Service Index.

### 17. Wastewater Collection – System Reliability and Optimization Index (Attachment 5 section 5.5.3)

The Enhanced Building Flood Proofing program aims to identify and implement flood-proofing measures for properties at high and medium-high risk of basement flooding. However, the current performance measure only reflects the number of properties inspected, not the program's effectiveness in reducing flood risk. A more effective measure could be the reduction in the number of properties at high and medium-high risk of flooding, relative to a planned target. In response to an information request (MV-EWS-23) on this measure, EWSI indicated that removing properties from higher flood risk categories takes time due to infrastructure installation and risk assessment cycles. However, the impact of each infrastructure project is likely established as part of its business case and that establishing a lagging indicator that recognizes the timeframes involved (such as measuring against a planned target) would be appropriate.

The Sewer Renewal and Infrastructure Condition Rating performance measures are proposed to be removed from the 2025-2027 PBR period as they do not reflect EWSI's risk-based approach to

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investment and do not change appreciably over time. Alternative measures that reflect the reduction in risk and the improvement in infrastructure condition could be considered for the PBR term or for separate tracking and reporting outside the PBR performance measures program. As the PBR process is a financial regulatory framework, performance indicators that measure the return on the significant capital investment in reliability and life-cycle replacements would be appropriate for the 2025-27 period.

Administration recommends that:

- a. EWSI evaluate whether the Full Property Flood Inspections measure should be replaced by a lagging indicator that reflects the effectiveness of the Enhance Building Flood Proofing program, such as a reduction in the number of properties at high and medium-high risk of flooding, relative to a planned target.
- b. EWSI consider measures within the System Reliability Index that reflect the impact of the proposed reliability and life-cycle investments, such as reduction in infrastructure risk or improvement in infrastructure condition, relative to planned targets associated with the proposed investments.

### **18. Wastewater Treatment – H2S 1-hour and 24-hour Exceedances (Attachment 5 section 5.6)**

Measurements of hydrogen sulfide (H<sub>2</sub>S) at two sites near the Gold Bar Wastewater Treatment Plant are intended to reflect instances of odour detection by neighbors. However, averaging the results may mask exceedances at one site by measurements below the odour threshold at the other. To better represent actual performance experienced by residents, a measure providing individual exceedances rather than an average would be more appropriate. EWSI uses the average to provide a broader understanding of performance over the larger area surrounding the plant, but it may not accurately reflect individual odour events experienced by residents.

Administration recommends that:

- a. For the H<sub>2</sub>S 1-hour and 24-hour Exceedances measures, EWSI evaluate if measures reporting individual exceedances at the monitoring sites, rather than an average of the two sites, would better represent actual performance and potential odour incidents.

### **19. Wastewater Treatment – Biosolids Management (Attachment 5 section 5.6)**

The proposed Biosolids Management measure intends to reflect the amount of biosolids beneficially reused by EWSI each year. However, without considering the total quantity of biosolids generated, the proposed standard may not accurately represent the performance of EWSI's biosolids management program. Additionally, the Biosolids Inventory Reduction Factor, which reflects the ratio of biosolids removed from lagoons to those deposited is proposed for removal as a performance measure.

In response to an inquiry, EWSI explained that the Biosolids Inventory Reduction measure was a three-year rolling average of this ratio. They stated that the measure was being removed because

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increasing biosolids inventory is no longer an issue and that settling rate issues in the lagoons are affecting their ability to harvest thickened biosolids.

It is suggested that a measure reflecting the ratio of beneficial reuse of biosolids to the total amount generated, calculated annually or as a rolling average, would better assess the effectiveness of EWSI's biosolids management program. This measure is commonly reported in the AWWA Utility Benchmarking Survey and the Canadian Benchmarking Initiative.

Administration recommends that:

- a. EWSI consider adjusting the Biosolids Management measure to one that reflects the ratio of beneficial reuse of biosolids to the total amount of biosolids generated, on an annual or rolling average basis, to better reflect the effectiveness of EWSI's biosolids management program and enable benchmarking against comparator utilities.

### **Recommendations for the Next Application**

#### ***Recommendation for Action by Utility Committee (supported by Administration)***

##### **20. Role of Regulator in Establishing Performance Measures (Attachment 5 section 5.4.2)**

The PBR process for establishing performance measures is currently based on EWSI proposing a suite of performance measures and standards to the Utility Committee for its review. In other jurisdictions, the regulatory authority takes a lead role in establishing the performance measures.

Establishing an appropriate performance measure methodology/process and the resulting performance measures helps support the determination of appropriate service levels. This helps set the framework on the associated level of business risk, how much should be spent in delivering services, and therefore more appropriate utility rate setting.

Administration recommends:

- a. A review of the regulatory process for establishing and directing performance measures, including the roles of the parties involved (Utility Committee, Administration, EWSI) and factor in leading practice considerations from applicable regulatory agencies (e.g., AUC, OFWAT, IPART, or others).

#### ***Recommendation for Action by EWSI***

##### **21. Historical Performance vs. Performance Measures (Attachment 5 section 5.4.3)**

On average, EWSI's performance measures show historical performance significantly exceeding standards, indicating that either the standards are set too low or there is a level of investment of resources beyond what is required.

Measures that significantly exceed the standard may mask underperformance in other areas, particularly when determining financial incentives and penalties.

Administration recommends that:

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- a. EWSI undertake an evaluation of the performance measures where EWSI has consistently exceeded the standard to evaluate the costs and benefits for ratepayers of exceeding performance standards and/or to determine if the standards should be adjusted.

### 22. Performance Measures Related to the Capital Program (Attachment 5 section 5.4.6)

EWSI forecasts \$888 million in capital expenditure for 2025-2027. Business cases are provided for significant Wastewater Treatment and Collection projects. These cases follow a standard format but lack the impact of proposed capital projects on performance measures. Without this linkage, it is difficult to assess the appropriate capital expenditure level and ensure cost containment. Connecting investments to performance measures establishes a link between customer priorities, infrastructure investments, and the company's performance commitments.

Administration recommends that:

- a. EWSI update its capital business cases to include a section that outlines how the proposed capital investment supports or impacts the relevant performance measures, including clear impacts to performance, to better align capital decision making.

### 23. Wastewater Treatment – Wastewater Effluent Performance Limit (Attachment 5 section 5.6)

This measure represents the quality of wastewater effluent discharged to the North Saskatchewan River relative to that allowed by EWSI's Approval to Operate from Alberta Environment. The proposed standard of 26 per cent indicates that EWSI intends to consistently treat effluent to a level well below (i.e. better than) that allowed in its Approval to Operate and actual performance has been increasing with a 10-year average of 21 per cent.

While this aligns with the customer priority of reducing contaminants to the river, it likely also requires a higher level of investment of resources than if EWSI operated closer to its Approval limits, which in turn results in increased costs being borne by ratepayers.

Setting stricter performance standards may not be warranted from a customer service or cost-benefit perspective. EWSI should assess the cost of treating wastewater to a level below the allowed limit and determine if it is justified. EWSI has informally assessed the cost of meeting the 26 per cent standard using management judgment and experience.

Administration recommends that:

- a. EWSI evaluate the costs and benefits for ratepayers of treating wastewater to a level well below the level allowed in its Approval to Operate and if the standard is set at a level that is warranted from a customer service or cost/benefit perspective.

***Recommendation for Action by either Utility Committee (supported by Administration) or EWSI [depending on the outcome of recommendation #20A above]***

### 24. Performance Measures Framework and Benchmarking (Attachment 5 section 5.4)

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In reviewing the PBR as a financial regulatory process, it is critical to ensure that customers are receiving sufficient value for the rates they pay.

It is not clear, however, if the proposed suite of performance measures supports the objective of evaluating progress towards specific commitments related to the proposed operating and capital investments in the PBR application. There is an opportunity to include more outcome-based performance measures (lagging indicators) that measure progress towards specific commitments.

The PBR application states that available benchmarking was reviewed, but it is challenging to find suitable comparators. It also states that proposed standards align with industry benchmarks where possible, but no comparators are provided.

A review of the American Water Works Association (AWWA) Benchmarking Survey, which includes 2022 benchmarking data for 69 key performance indicators, indicates some benchmarking is either available, available by modifying proposed measures, or available if other measures are adopted (such as service interruption measures).

Administration recommends that:

- a. The appropriate party review the suite of performance measures, and adjust them as required, to:
  - o Reflect that the PBR process is a financial regulatory process with an objective to ensure customers are receiving value for the rates they pay
  - o Measure EWSI's progress towards meeting prescribed commitments
  - o Include an appropriate number of outcome-based measures (lagging indicators)
  - o Include measures that can be benchmarked against comparative utilities.

### 25. Performance Measures Methodology (Attachment 5 section 5.4)

In the performance evaluation framework points are awarded for each measure based on EWSI's performance relative to the standard. Measures for which EWSI has historically significantly, or even moderately, exceeded the standard may mask underperformance in other areas when evaluating EWSI's overall performance, particularly when determining bonus points and financial penalties. This "distortion" may occur within or across indices.

To address this "distortion effect", the previous PBR review (EPCOR Water Services Inc – Performance Based Regulation Review, May 31, 2021) recommended that EWSI conduct a performance measure methodology benchmarking assessment. EWSI provided a report on performance measures to the Utility Committee on May 6, 2024, but it didn't cover the mechanics of the performance measures framework.

Administration recommends that:

- a. The appropriate party to undertake a review of the performance measures methodology, including benchmarking against other comparable regulatory regimes to address how base and bonus points are allocated and the review of financial incentives and penalties, including the relevant implications.

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### 26. Wastewater Collection – Environmental Index (Attachment 5 section 5.5.1)

Monitoring of stormwater discharges is an important, basic function of a stormwater utility. It is not clear, however, how the inclusion of this performance measure contributes to a balanced overview of utility performance. Stormwater flow monitoring contributes to the Total Loadings Plan and evaluating the Stormwater Integrated Resource Plan's effectiveness. However, a measure that better reflects customer priorities, such as total loadings to the river or a reduction relative to a target, could be considered.

EWSI is required to monitor flow in its Approval to Operate. Alternative measures related to the Total Loadings Plan have been proposed and will be considered if approved by the regulator. The objectives of the two regulatory processes differ, with the PBR process focused on ensuring customers receive value for rates paid to EWSI. An outcome-based, lagging indicator would be appropriate for this purpose.

Administration recommends that:

- a. The appropriate party to review the measures comprising the Wastewater Collection Environmental Index to ensure the proposed measures are meaningful indicators of performance and reflect progress towards achievement of strategic objectives and a return on investment for customers, particularly Stormwater Flow Monitoring and Stormwater Rebate Projects.

### 27. Wastewater Collection – Customer Service Index (Attachment 5 section 5.5.2)

The current response time measures (Service Maintenance Calls and Emergency Dig Ups) could be consolidated/modified to enable benchmarking.

EWSI is proposing to move Service Maintenance Calls and Emergency Dig Ups to the System Reliability Index, even though they are response time measures that should be in the Customer Service Index.

Wastewater service interruption is a prevalent measure across North America (AWWA) and internationally (Ofwat, IPART), but is not proposed in the application.

Other common customer service measures are call center performance indicators and customer experience measures, none of which are proposed in the application.

Administration recommends that:

- a. The appropriate party to review and modify the measures comprising the Wastewater Collection Customer Service Index to ensure they reflect the most important customer priorities. Customer service interruption frequency, duration and response time measures are prevalent measures that should be included in alignment with those indicators in the AWWA Utility Benchmarking Survey. Also consider customer service/call center measures and customer experience measures.

## **Next Steps**

In advance of City Council's approval of the wastewater services rates applications and proposed bylaws, which is required before April 1, 2025, when the new wastewater rates would come into

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effect, EWSI will prepare “Compliance Filings” (updated rates applications for wastewater services rates from 2025-2027) that incorporate directions received from the Utility Committee on October 11, 2024. Administration recommends that Utility Committee consider recommendations included in Attachment 9 related to the cost of service and rates design, cost of capital (return on equity), efficiency factor for wastewater collection, and performance measures.

Additionally, Administration recommends that EWSI consider recommendations related to cost of service and rates design, cost of capital, efficiency factor and performance measures that should be considered before the next PBR application in 2028. These are included in Attachment 10.

### Budget/Financial Implications

The table below presents the average monthly bills for residential, multi-residential, and commercial customers based on the proposed 2025-2027 Wastewater Services PBR application.

Table 3: Wastewater Services Customer Bill Impacts

	2025	2026	2027	Total (\$)/ Average (%)
<b>Wastewater Services Bill Impacts on the Average Residential Customer</b>				
Annual Combined Average Monthly Bill - \$	74.55	76.91	79.44	
Change in Bill - \$	1.70	2.36	2.53	6.59
Change in Bill - %	2.3%	3.1%	3.2%	2.9%
<b>Wastewater Services Bill Impacts on the Average Multi-Residential Customer</b>				
Annual Combined Average Monthly Bill - \$	1,298.59	1,342.02	1,383.12	
Change in Bill - \$	(63.86)	43.43	41.10	20.67
Change in Bill - %	-4.7%	3.2%	2.9%	0.5%
<b>Wastewater Services Bill Impacts on the Average Commercial Customer</b>				
Annual Combined Average Monthly Bill - \$	546.19	570.14	593.91	
Change in Bill - \$	(29.07)	23.95	23.77	18.65
Change in Bill - %	-5.1%	4.0%	3.8%	0.9%

This is a summary of Tables 1.8-1 to 1.8-3 included in Attachment 1 (2025-2027 Wastewater Services Performance Based Regulation Application). Those tables include more detailed information and explain the factors contributing to annual rate increases on customer bills for Wastewater Collection and Wastewater Treatment. The total and average figures presented in the table above may differ slightly from the Tables 1.8-1 to 1.8-3 in the PBR application due to rounding differences.

### Legal Implications

Public utilities owned or operated by municipalities providing service within that municipality are generally regulated by their municipal councils, as they are exempt from Alberta Utilities Commission regulation pursuant to s. 78.2 of the *Public Utilities Act*, RSA 2000, H-16. Public utilities that are not owned or operated by municipalities and that supply water, heat, light or power are regulated by the Alberta Utilities Commission. Public utilities that are owned or operated by a

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municipally controlled corporation and provide a utility service within the boundaries of the municipality are exempt from regulation by the Alberta Utilities Commission pursuant to s. 75.4 of the *Municipal Government Act*. EPCOR Drainage and Wastewater Treatment Bylaw 19627 set out a mechanism for setting and adjusting fees, rates and charges for wastewater treatment and drainage services for a period that expires March 31, 2025. Therefore, Bylaw 20865 EPCOR Wastewater Services Bylaw, also being discussed at the October 11, 2024 Utility Committee meeting, is required to set fees, rates and charges to be effective April 1, 2025.

### **Community Insight**

The public has an opportunity to register to speak at the Utility Committee meeting held on October 11, 2024 regarding the EWSI performance based rates applications, including submissions from Administration and the public. The process for the review and approval of the EWSI rates applications was advertised in the Edmonton Journal and the Edmonton Sun on June 12, 2024 and June 28, 2024. EWSI also completed a stakeholder engagement process as part of the PBR application development to ensure that programs and initiatives aligned with stakeholder expectations. Further details on EWSI's stakeholder engagement process are included in section 1.9 of the PBR application (Attachment 1).

### **GBA+**

GBA+ considerations for EWSI's PBR applications are outlined in the October 11, 2024 external report EXT02702, EPCOR Water Services Response to Review of 2025-2027 Performance Based Regulation Application for EPCOR Wastewater Treatment and Wastewater Collection.

### **Environment and Climate Review**

Environment and climate review considerations for EWSI's PBR applications are outlined in the October 11, 2024 external report EXT02702, EPCOR Water Services Response to Review of 2025-2027 Performance Based Regulation Application for EPCOR Wastewater Treatment and Wastewater Collection.

### **Attachments**

1. EPCOR Water Services 2025-2027 Performance Based Regulation Application - Wastewater Services
2. EPCOR Water Services 2025-2027 Wastewater Services - Summary of Bylaw and Key Changes
3. EPCOR Water Services Performance Based Regulation Reader's Guide
4. EPCOR Water Services 2025-2027 Performance Based Regulation Rates Applications Wastewater Collection and Treatment - Regulatory Schedule and Guiding Objectives
5. EPCOR Wastewater Services Performance Based Regulation Application - Application Analysis (Mooreview Management Consulting)
6. EPCOR Water Services 2025-2027 Performance Based Regulation Application - Public Intervenor Requests and EWSI Response
7. EPCOR Water Services 2025-2027 Performance Based Regulation Application - City Council
8. EPCOR Water Services 2025-2027 Performance Based Regulation Application - Mooreview



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9. Recommendations for the 2025-2027 Wastewater Services Performance Based Regulation Application (Administration)
10. Recommendations for the Next Performance Based Regulation Application (Administration)