

Recommendations for the Next Performance Based Regulation Application (Administration)

The following tables summarize recommendations either for the next PBR application (for 2028) or for improving PBR Application requirements on an ongoing basis. These have been organized by the Cost of Service and Rates Design, Cost of Capital, Efficiency Factor and Performance Measures. The references align to the recommendation numbers in the report.

Ref.	Cost of Service and Rate Design
<u>Historical Financial Results</u>	
4. a.	EWSI ensures that the minimum amount of historical actual financial results are provided for future PBR applications as per the existing MFR.
<u>Ration of Direct vs. Indirect Administrative Costs</u>	
5. 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.
5. 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.
<u>Depreciation Study</u>	
6. 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.
<u>Cost of Service Methodology (Rate Design)</u>	
7. a.	EWSI addresses the following identified cost of service issues to better align with leading practices: <ul style="list-style-type: none"> 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.

- 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.
- 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.
- The Wastewater Treatment and Collection Service cost of service did not analyze the differences in transmission and treatment costs involved with the ARROW Utilities 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.
- 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 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

	<p>this detail, it is not possible to review methods or cost allocation calculations.</p>
<p><u>Customer Consumption Forecast</u></p>	
8. a.	<p>ESWI review, revise and formulate the statistical analysis used as the basis for projecting future average consumption trends per account as part of the PBR regulatory process.</p>
8. b.	<p>ESWI analyze residential and multi-family indoor usage relative to outdoor irrigation usage trends when completing the analysis above.</p>
<p><u>Billing Comparisons</u></p>	
9. a.	<p>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.</p>
9. b.	<p>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.</p>
9. c.	<p>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:</p> <ul style="list-style-type: none"> ● Initiatives it will target to continue the achievement of efficiencies to manage future rate increases. ● How it will provide Edmonton's customers with increased value for money relative to other jurisdictions.
<p>Cost of Capital</p>	
<p><u>Credit Rating Analysis</u></p>	
12. a.	<p>ESWI 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.</p>
<p>Efficiency Factor</p>	
<p><u>Report on Progress of Realizing Efficiencies</u></p>	

14. a.	EWSI to 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	
<u>Role of Regulator in Establishing Performance Measures</u>	
20. a.	A review of the regulatory process for establishing and directing performance measures, including the roles of the parties involved (Council, Administration, EWSI) and factor in leading practice considerations from applicable regulatory agencies (e.g., AUC, OFWAT, IPART, or others).
<u>Historical Performance vs. Performance Measures</u>	
21. 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.
<u>Performance Measures Related to the Capital Program</u>	
22. 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.
<u>Wastewater Treatment – Wastewater Effluent Performance Limit</u>	
23. 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.
<u>Performance Measures Framework and Benchmarking</u>	
24. a.	<p>The appropriate party review the suite of performance measures, and adjust them as required, to:</p> <ul style="list-style-type: none"> ● Reflect that the PBR process is a financial regulatory process with an objective to ensure customers are receiving value for the rates they pay ● Measure EWSI’s progress towards meeting prescribed commitments ● Include an appropriate number of outcome-based measures (lagging indicators)

Attachment 10

	<ul style="list-style-type: none">• Include measures that can be benchmarked against comparative utilities.
<u>Performance Measures Methodology</u>	
25. 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.
<u>Wastewater Collection – Environmental Index</u>	
26. 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.
<u>Wastewater Collection – Customer Service Index</u>	
27. 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.