



EPCOR Water Services  
2025-2027 PBR Application  
(Public Submission – D. Raudebaugh) DR-EWS-1

Request: DR-EWS-1

Preamble: In Report EXT02465, Page3, EPCOR provides an overview of PBR methodology as follows.

“Under a PBR approach, customer rates are determined for the first year of the term based on the cost of service two phase approach...”

EPCOR's first year of the 2025-2027 PBR term is based on a Cost-of-Service Forecast. This method varies from other utilities in Alberta operating under a PBR framework, where the first year is based on a 5-year average of historical costs, indexed for growth and inflation.

- i) During the previous PBR term, EPCOR has had incentive to find efficiencies by being able to retain any earnings benefit derived from these efficiencies over the PBR term. Please discuss how these past efficiencies and resultant savings are passed on to customers in the upcoming PBR term, specifically regarding EPCOR use of a cost-of-service forecast for the first year of the term? Please discuss to what extent historical expenditures have informed the Cost-of-Service forecast in this application.
- ii) What would the impact on 2025 and subsequent years revenue requirement be if EPCOR were to use a three, or five-year historical average of actual operating and capital costs indexed for growth and inflation in place of its forecast for the opening year in this application?

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EWS RESPONSE:

- i) The bottom-up forecast methodology is informed by actual results experienced during the current as well as previous PBR terms. Any efficiencies realized over the course of the current and previous PBR terms are therefore reflected in the development of the forecasts utilized for future PBR terms. Permanent efficiencies and savings realized during the previous PBR term reduces future costs incurred by the utility and forms the new baseline when developing budgets and forecasts. See response to UA-EWS-1-vi summarizing the efficiencies and savings passed onto customers.



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- ii) EWS is unable to quantify the impact on revenue requirement using the suggested methodology as it is not quantifiable in the timeframe available.

EWS' PBR framework is based on developing a bottom-up forecast of its upcoming capital and operating costs and this framework has been in place since the introduction of PBR for Water in 2001. EWS is not supportive of a simplistic, mechanistic approach for developing its revenue requirement for the upcoming PBR period as the revenue requirement applied for reflects the anticipated costs to manage the wastewater system over the 2025-2027 term, including the forecast capital additions. The use of a mechanistic approach to developing costs forecasts implies that the changes in forecast costs over time are relatively easy to predict, in contrast to the development of a forecast which is based on planned activities. As there can be considerable variation in capital additions from year-to-year, a mechanistic approach would not allow for consideration of unique or one-time capital projects.



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Request: DR-EWS-2

Preamble: In its 2022-2026 Performance Based Rates Water Application, EPCOR discusses an appropriate rate of return on equity and considers it reasonable to apply a risk premium of 1.83% compared to AUC regulated utilities partly due to the public health risk of a consumable product. In its 2025-2027 PBR application, EPCOR Wastewater is proposing a similar rate of return as Water Services.

- i) Is there a risk premium relative to AUC regulated utilities considered in EPCOR's proposed ROE for Wastewater in this application? If so, how does this premium consider the differences between Water and Wastewater with its non-consumable nature?

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EWS RESPONSE:

- i) No. The recommended ROE is based on the "traditional approach" or the application of multiple analytical models to the market data of companies of comparable risk, consistent with the fair return standard. As an integrated utility, EWS manages its risk across the entire water cycle, similar to other integrated water and wastewater utilities included in the proxy group. The differences in risk between the three operations were not considered separately because the publicly traded proxy groups would have all three operations and the differences in risk profiles would be reflected in the market data.



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Request: DR-EWS-3

Preamble: EPCOR's rate of return considers a 0.5% component for flotation costs.

- i) Please discuss the reasonableness of including flotation costs in its ROE, given EPCOR is not publicly traded on any securities exchange, and therefore does not issue any securities and its sole shareholder is the City of Edmonton?

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EWS RESPONSE:

- i) While EPCOR does not directly issue equity, equity capital is infused by its shareholder, the City of Edmonton through paid up capital contributions for operations transferred from the City to EPCOR (for example, when Drainage Operations was transferred to EWS). The City's costs to access that capital is not reflected in the models used to determine the cost of equity and needs to be recovered through an adjustment to the required rate of return, as discussed in Mr. D'Ascendis' cost of capital report at pages 58-59.

Furthermore, regulatory jurisdictions in North America, including the Alberta Utilities Commission, the Ontario Energy Board, and the Florida Public Service Commission have recognized the need to recover flotation costs through an adjustment to the required rate of return on common equity. As such, it is reasonable for EPCOR to include an adjustment for flotation costs in its ROE in this proceeding.