



# **EPCOR WATER SERVICES**

**Response to the PBR Review Reports  
2025-2027 Wastewater Collection and Treatment**

# EPCOR's Response Report in Context



EPCOR files 2025-2027 Wastewater Collection and Wastewater Treatment PBRs

Administration conducts a reasonableness review informed by an independent consultant (Mooreview) and the Utility Advisor's report.

- **Recommended amendments to the 2025-2027 Application**
- Information requests
- Considerations for future PBR cycles

**EPCOR responds to Administration's recommended changes to the 2025-2027 Application, and supplies additional information**

**Utility Committee directs any amendments** that must be made to the 2025-2027 Application before it advances to City Council for approval (the "Compliance Filing")

Utility Committee directs actions that should be taken for future PBR cycles (if applicable)

# EPCOR's Response Report in Context

**EPCOR agrees with most of the changes Administration has recommended to the 2025-2027 Wastewater PBR (listed in Administration's Attachment 9).**

- EPCOR's response report summarizes areas of agreement, as well as reasons for why some of the proposed amendments should not be made
- For several items, the Administration report requested additional information be filed. EPCOR has supplied most of this additional information in the response report

# Overview of EPCOR's Response (1 of 2)

## EPCOR appreciates the work of Administration to consolidate the list of information requests and potential amendments

### EPCOR Has Filed Additional Information

*EPCOR has provided information in response to the following Administration report items:*

- ✓ 1(b) Impact of depreciation schedule changes on rates
- ✓ 3(a) Residential water forecast
- ✓ 11(a) Cost of debt background
- ✓ 15(a)(b) Performance measures background

*As a result of the information in 3(a), no rate recalculations are proposed for 3(b) or 3(c)*

### EPCOR Recommends Not Making the Following Changes

*EPCOR has provided information in the response report for why the following proposed changes should not be made to the 2025-2027 PBR:*

- 1(a) Conduct a Depreciation Study
- 16(a) Move two metrics from the Reliability Index to the Customer Service Index
- 17(a) Change flood inspections measure
- 17(b) Add measures to the Reliability Index

# Overview of EPCOR's Response (2 of 2)

## EPCOR supports Utility Committee directing the following amendments to the PBR Application

Item	Topic	That EPCOR reflect the following changes in its Compliance Filing:
2(a)	Software Capitalization	<ul style="list-style-type: none"><li>• Include an aggregated list of Software as a Service (SaaS) project over the PBR term, with explanations of the rationale for choosing cloud-based solutions</li></ul>
10	Return on Equity	<ul style="list-style-type: none"><li>• Amend the 2025-2027 ROE for Wastewater Treatment to [<i>number between 10.5% to 10.8%</i>]</li><li>• Amend the 2027 ROE for Wastewater Collection to [<i>number between 10.5% to 10.8%</i>]</li></ul>
13(a)	Efficiency Factor	<ul style="list-style-type: none"><li>• Amend the Efficiency Factor for Wastewater Collection to 0.50%</li></ul>
19(a)	Biosolids Management Metric	<ul style="list-style-type: none"><li>• Amend the Biosolids Management performance measure to redefine the Beneficial Re-Use of Biosolids measure to be a ratio</li></ul>

# Cost of Service and Rate Design

Topic	Recommendation	EPCOR Response
<p><b>Depreciation Study</b></p>	<p>1(a). Conduct a benchmarking study comparing results of depreciation study to asset lifetimes by comparable utilities</p>	<p>Disagree because the study would not provide a material benefit to customers, and customers would bear the cost of conducting the study. A depreciation benchmark study would not change the total revenue collected over the life of the asset.</p>
	<p>1(b). Calculate utility rates for the PBR term using existing asset lifetimes and depreciation schedules for comparison purposes for a better understanding of impact to ratepayers</p>	<p><b>COMPLETE.</b> This calculation is included in EPCOR's response report (page 16). Using the historic depreciation rates would reduce the average residential bill by 10-cents per month in 2025, 22-cents in 2026 and 33-cents in 2027. EPCOR recommends using the updated depreciation schedule in the Application.</p>

# Cost of Service and Rate Design

Topic	Recommendation	EPCOR Response
<b>Capitalization of Software Costs</b>	2(a). Prepare a business case to support a collection program of individual investments, totaling \$13.3 million in SaaS projects, across the PBR term	<p><b>AGREE WITH COMMENTS.</b> In EPCOR's compliance filing, will provide an aggregated project list and explanation overviews for these projects.</p> <p>Most projects are too small to have individual business cases, but EPCOR can consolidate information on the overall list of initiatives and provide an overview of the rationale for cloud-based solutions versus on-premise hardware solutions.</p>

# Cost of Service and Rate Design

Topic	Recommendation	EPCOR response
<p><b>Customer Consumption Forecasts</b></p>	<p>3(a). Provide specific analysis to support the decline of average residential account consumption of 1.3% annually, with specific responses to why this is reasonable given average consumption since 2019</p>	<p><b>COMPLETE.</b> EPCOR has provided detail and analysis in our response to the review reports (pages 3 – 7), giving more background on how the decline in residential average consumption is forecast (including sub-forecasts for developing, established, mature, core and planned groups of residential customers).</p>
	<p>3(b). Calculate a revised and reasonable 2024 Forecast estimate (used as a starting point for the PBR term) with support</p>	<p>Based on the additional information provided, the forecast decline in residential consumption per customer of 1.3% for the 2025-2027 PBR term is reasonable. EPCOR recommends calculating rates based on this forecast.</p>
	<p>3(c). Calculate updated utility rates for the PBR term using the updated average consumption for residential customers based on the above steps.</p>	



# Cost of Capital

Topic	Recommendation	EPCOR response
<b>Return on Equity (ROE)</b>	10(a). Reduce the proposed ROE from 10.80% to 10.67%	<p><b>AGREE IN PART.</b> EPCOR's Application proposed an ROE of 10.8% based on an expert recommendation.</p>
	10(b). Further reduce the ROE to 10.49% from 10.67% to reflect the unique weighted average of business risk for Wastewater Treatment and Collection	<p><b>Amending ROE is reasonable, as long as the amended ROE is within the range of the original expert report (10.5% to 12.2%).</b> A number within this range would meet the Fair Return Standard.</p> <p>The mid-point between the Application and the Administration recommendation is 10.65%.</p>
	10(c). Continue with the proposed ROE ramp-up approach for Wastewater Collection across the PBR term with adjusted ROE calculated above as the end point.	<p><b>AGREE.</b> EPCOR agrees and will continue to phase in the ROE for the Wastewater Collection utility (no change required; already in the Application).</p>

## Return on Equity

EPCOR Application

Independent Reviews

EPCOR Response

ROE of

**10.8%**

Based on an independent expert report recommending

**10.5% - 12.2%**

*Plus* EPCOR would phase-in the ROE for the Wastewater Collection utility

City of Edmonton Finance

**10.49%**

Utility Advisor ROE

**10.5%**

Mooreview ROE

**10.67%**

**Amend the Application**

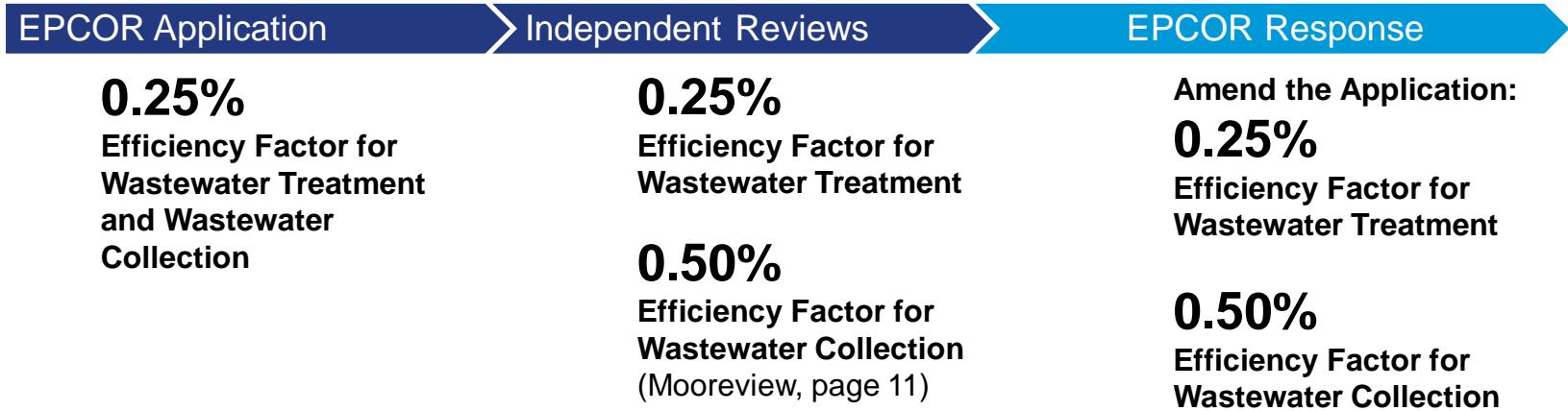
- **Wastewater Treatment (Gold Bar):** Reduce the ROE from 10.8% during 2025-2027, to a new number between 10.5% and 10.8%
- **Wastewater Collection:** Reduce the 2027 ROE from 10.8% to a new number between 10.5% and 10.8%. Maintain the 2025 ROE at 9% and 2026 ROE at 9.9%

# Cost of Capital

Topic	Recommendation	EPCOR response
<b>Cost of Debt</b>	11(a). Provide further information to support that the cost of debt in the Application reflects current actual cost of borrowing to EPCOR's parent company	<p><b>COMPLETE.</b> There is limited additional information to supply about the cost of debt calculation, and EPCOR's response report confirms:</p> <ul style="list-style-type: none"><li>• There are no changes to the method for calculating the cost of debt, and no changes to EPCOR's credit rating, since the last application.</li><li>• EPCOR Water Services and EPCOR Utilities Inc. have the same cost of debt (no difference in credit rating).</li></ul> <p>We note Administration's review agrees the proposed Cost of Debt is reasonable, and does not recommend amending the Application.</p>

## Efficiency Factor

Topic	Recommendation	EPCOR Response
<b>Integration of Wastewater Collection</b>	13(a). Increase the efficiency factor to 0.50% for Wastewater Collection and maintain this factor 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.	<b>AGREE.</b> We agree and recommend that Utility Committee direct a change to the Efficiency Factor for Wastewater Collection, as outlined below.



# Performance Measures

Topic	Recommendation	EPCOR response
<p><b>Approach to establishing measures vs. overall objectives and customer priorities</b></p>	<p>15(a). Provide comprehensive description of how proposed suite of measures provides balanced view of overall performance and progress towards achieving strategic objectives</p>	<p><b>COMPLETE.</b> These additional descriptions are included in EPCOR's response report (page 9). The Stakeholder Engagement Report (Appendix H in our Application) also provides a summary of our process and results of our public engagement objectives.</p>
	<p>15(b). Provide comprehensive description of how proposed suite of measures reflects customer priorities derived from stakeholder engagement</p>	
<p><b>Wastewater Collection – Customer Service Index</b></p>	<p>16(a). Retain response time measures, such as Service Maintenance Calls and Emergency Dig Ups, in the Customer Service Index</p>	<p>EPCOR proposed three new performance measures in the Customer Service Index.</p> <p>As such, proposed to move the two measures mentioned in the recommendation from the Customer Service Index to the System Reliability and Optimization Index to ensure indices remain balanced.</p>

# Performance Measures

Topic	Recommendation	EPCOR response
<b>Wastewater Collection – System Reliability and Optimization Index</b>	17(a). Evaluate whether Full Property Flood Inspections should be replaced by lagging indicator that reflects the effectiveness of the Enhance Building Flood Proofing program, relative to a planned target	<p>The lagging indicator as recommended would be largely outside EPCOR's control as to whether the customer decides to implement flood-proofing activities.</p> <p>The proposed measure of inspections completed is within the utility's control and an appropriate leading measure for improving customer awareness of opportunities to reduce their flood risk.</p>
	17(b). Consider measures within the System Reliability Index that reflect the impact of the proposed reliability and life-cycle investments, relative to planned targets associated with the proposed investments	Removed the Infrastructure Condition Rating as it does not change appreciably over time, but we continue to measure and track it. The measures in the System Reliability Index do reflect EPCOR's ability to respond to system issues in a timely manner. The number of customer calls is related to the overall health of the system.

# Performance Measures

Topic	Recommendation	EPCOR response
<b>Wastewater Treatment – H2S 1-hour and 24-hour Exceedances</b>	18(a). 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	<b>AGREE.</b> EPCOR agrees to evaluate this metric and consider amending the metric in future PBR applications.
<b>Wastewater Treatment – Biosolids Management</b>	19(a). Consider adjusting the Biosolids Management measure to one that reflects the ratio of beneficial reuse of biosolids to the total amount of biosolids generated	<b>AGREE.</b> EPCOR agrees, and recommends that Utility Committee direct a change to definition of the Biosolids Performance Measure, as outlined below

EPCOR Application

Independent Reviews

EPCOR Amendment

Beneficial re-use of 25,000 Dry Tonnes of biosolids per year

Beneficial re-use of 25,000 Dry Tonnes of biosolids per year

*Either*

Redefine the Beneficial Re-use of Biosolids measure to be a ratio

*Or*

Direct the measure remain as filed, but the ratio data be included in the annual PBR performance report

# Proposed amendments to the Application

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**QUESTIONS?**