

Utilities Advisor Review
Edmonton Waste Services
2025 Rate Filing
October 23, 2024

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1. Purpose of this report

The purpose of this report is to provide advice to the Utilities Committee with respect to this application. The Utilities Advisor has reviewed the application and measured it against generally accepted regulatory processes. As part of the review process, the Utilities Advisor submitted Information Requests to Waste Services and reviewed their answers.

2. Executive Summary

The Utilities Advisor's review can be summarized as follows:

- This is an excellent regulatory application
- Waste Services staff were responsive to requests for meetings and information requests
- Outside of the rate reduction resulting from the provincial Extended Producer Responsibility, the utility has done a good job in holding operating and maintenance expenses to a reasonable level.
- Waste Services utility equity structure is forecast to exceed 40%. Typical equity structures range from 37-40%.

3. Application Review

The Utilities Advisor believes that this application is fully consistent with accepted regulatory practices and provides sufficient information for the Utility Committee to set 2025 rates.

The Waste Services fiscal policy sets the utility's return on equity to be equal to the next year's pay as you go capital requirements plus long-term environmental liability requirements plus working capital requirements with an allowance for operating risk. Over the last few regulatory cycles, this approach has contributed to an increase in the utility equity structure, probably because the allowance for operating risk has exceeded requirements. Waste Services has indicated in the response to IR-UA-6 that they are aware of this issue and will continue to monitor it. While in agreement with this approach, the Utilities Advisor would suggest that Utility Committee may want to review

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the Waste Services Fiscal Policy to introduce additional requirements to keep the equity ratio at reasonable levels.

4. Prospective Regulation

A key regulatory principle is that the utility should be regulated on a go-forward or prospective basis. This approach does not attempt to second guess management decisions or regulator decisions that were made in the past.

5. Capital Approval Process

One area of concern for the Utilities Advisor is the capital approval process.

There are three key approvals required for a Waste Services capital project to proceed.

- Corporate approval of the capital expenditure authorization request. This is not a role of the regulator.
- Approval to include the impact of a capital expenditure in customer rates. This is a role of the regulator, and for significant capital projects the regulator should be provided with a business case detailing the need for the project, alternative considered to meet that need, and financial analysis of the alternatives showing which of the alternatives should proceed.
- Approval to include the final capital expenditure in utility rate base. This is a role of the regulator. Typically, the regulator wants to be assured that the project was delivered at the lowest reasonable cost.

Given these key approval steps, it is not good regulatory practice to rely on a prior budget approval for a project as the regulatory justification for the project. If the regulator approves a capital budget plan, the regulator should not consider such an approval as a regulatory approval.

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Appendix A

Utilities Advisor Information Requests and Responses

**EDMONTON WASTE SERVICES
2025 RATE APPLICATION
INFORMATION REQUESTS OF THE UTILITIES ADVISOR**

IR-UA-1

Topic:	Rate Design
Reference:	Executive Summary
Background:	The table of rate impacts provided in this section of the application proposes a similar rate reduction of \$5.24/month for all sizes of waste containers. Larger waste containers imply larger waste processing costs.
Request	Would not it be appropriate to prorate the rate reduction on the same basis as the different rates charged for the different sizes of bins?

Response

The pricing structure for our waste collection services is designed to reflect the varying costs associated with processing different volumes of waste. Larger carts inherently require more resources to collect, transport, and process. This differential is considered in the current pricing scheme by maintaining different prices per cart size. In addition to reflecting the cost differential in the different size of carts, this approach also incentivizes residents to choose smaller cart sizes, promoting waste reduction and aligning with our environmental goals.

The pricing differential, in terms of dollar amount, by cart size is kept consistent. The 120L cart rate is \$5 lower than the 240L cart rate, which is \$10 lower than the 360L cart rate. A uniform dollar differential between the rates provides clarity and ease of understanding for the Utility's customers. It avoids the complexity associated with percentage-based rate changes and ensures that residents can easily see the direct impact of the rate reduction on their bills. The 120L cart serves households that produce less waste, while incentivizing households to downsize from the regular 240L cart through reduced utility rates. The 360L cart is also only available to households producing home medical waste or with seven or more people in the home, and managing the availability of this cart size helps manage waste processing costs.

The Utility believes that this approach strikes a balance between transparency, accessibility and cost recovery. It ensures that the rate structure remains aligned with the cost of service delivery while providing a clear and tangible benefit to all customers, regardless of their cart size.

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IR-UA-2

Topic:	Stable and Consistent Utility Rates
Reference:	Executive Summary
Request	In the executive summary and elsewhere in the application it references stable and consistent utility rates. Please provide your definition of the terms “stable” and “consistent” as it refers to utility rates.

Response

The Utility views the terms ‘stable and consistent’ to be taken together to set Utility Rates based on both the short-term and long-term needs of the Utility. While Stable Consistent Rate Increases was removed as a financial indicator in the current Fiscal Policy C558C, the general objective of ‘stable and consistent’ utility rates remains in the Utility Rate Setting Principle section of the Policy.

Stable and consistent utility rates would be achieved when rates are not fluctuating up and down from year to year unexpectedly, which can be managed by a smooth steady rate increase as the cost of service allows. The exception is if there are large one-time rate adjustments, such as EPR, which are industry impacting events. Such events do require a re-basing of rates and will be managed by the Utility as best as possible to minimize negative effects to the ratepayer.

The stable and consistent rates principle provides a revenue stream allowing a full cost recovery with minimal unexpected changes that adversely affect customers, essentially minimizing rate shock in any one particular year as much as possible.

**EDMONTON WASTE SERVICES
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IR-UA-3

Topic:	EPR Revenue
Reference:	Table 3.5
Request	The application states that the 2026 revenue is prorated, but the footnote to the table and the preceding information state that the 2026 revenue is a forecast of total year revenue. Is the 2026 revenue prorated, and if so, how was the prorating done?

Response

2026 revenue is not prorated and the wording in the final rate filing has been modified to avoid this confusion.

Total EPR revenue included in the 2025 Revenue Requirement is an estimated prorated placeholder of \$24 million based on an annual estimated total of \$32 million. EPR contracts have not been finalized and EPR takes effect April 1, 2025. The Utility included the nine-month prorated amount of \$24 million in 2025. 2026 includes the additional \$8 million for the \$32 million total in the 2026 Forecast for EPR revenue.

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IR-UA-4

Topic:	Communications and Public Engagement
Reference:	Schedule 8.6
Request	Please provide details on the increase in costs for Communication and Public Engagement.

Response

The cost increase for Communications and Public Engagement is for additional corporate Geographic Information System (GIS) support.

Waste Services (WS) requires corporate GIS support for work WS GIS analysts cannot do because it's not part of the business area's authority, role or expertise. Corporate staff manage and maintain the corporate GIS systems and road networks, which WS staff use to manage its collection services. The corporate GIS support will increase operational efficiency and improve the customer and employee experience.

This cost has been reclassified from Line 6 to Line 7 - 'Other' in the final 2025 Rate Filing application with a variance explanation added.

**EDMONTON WASTE SERVICES
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IR-UA-5

Topic:	Supply of Aggregate to other City Departments
Reference:	8.8
Request	Please explain why Waste has stopped supplying aggregate to other City Departments.

Response

As part of the 25-year Waste Strategy approved in 2019, Waste Services began to exit non-regulated lines of business, like the aggregate recycling program. At the August 29, 2022 City Council meeting, this program wind-down was paused to analyse how it would impact the City's corporate environmental and waste reduction goals, and Administration was to prepare a report for information at the November 25, 2022 Utility Committee meeting.

Analysis in [CO01474 Aggregate Recycling Program \(Attachment 1 - Business Case\)](#) identified that there was sufficient private industry competition for aggregate, City prices would need to increase to remain viable, and that waste diversion goals would not be significantly impacted by the program's end as the City would maintain the requirement to use recycled aggregate in appropriate projects. The report was accepted for information and the wind-down restarted. Aggregate is still available to other City departments by request. This wind-down is forecasted to take one to two years, based on the amount of aggregate still available at recycling facilities.

This inaccuracy has been edited for clarity in Section 8.8. Internal sales of aggregate continue, but due to their immateriality these are included in Section 10.1, Line 7 - Other as the program winds down.

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IR-UA-6

Topic:	Utility Equity Structure
Reference:	Schedule 10.3
Background	Typically utility equity structure varies between 37-40%. This table shows Waste equity above 40% and forecast to increase. Equity increases are derived from customer rates.
Request	Does Waste plan to address this issue in future rate filings?

Response

Yes, the Utility plans to address this issue. One factor that contributed to the higher equity structure was the use of one-time equity financing in 2023 & 2024 to utilize the high cash balance (which saved the Utility interest cost). Although the Equity structure is not included in the Fiscal Policy C558C as a financial indicator, this ratio is monitored by the Utility and will continue to be monitored in the 2026 Rate Filing and moving forward.

From a customer rate perspective, Waste Services is committed to only charge a return on equity at a level that is needed to ensure operations are sustainable. This is evidenced by the low return on equity rates being forecasted for 2025 (2.5%) and 2026 (3.1%).

As mentioned above, the Utility will continue to monitor this ratio while balancing the Utility's cash requirements, debt financing, and risk management needs while ensuring utility rate increases are minimized as much as possible.

With respect to debt financing, as shown in Schedule 11.2 (page 49 of the Rate Filing), the financing structure is forecast to use more debt starting in 2025 and onward which will assist in moving the capital equity structure downwards in the future.

**EDMONTON WASTE SERVICES
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IR-UA-7

Topic:	Greenhouse Gas Mitigation Energy Transition Portfolio
Reference:	Capital Profile Report
Request	This capital profile report indicates that a detailed business case has been prepared for Utility Committee. Why was the business case not included as part of the application? Please provide the business case.

Response

Waste Services is bringing forward the business case for its climate action plan in a separate Council report, CO02507 Waste Services Climate Action Plan. This Council report is being presented to Utility Committee at the November 8 meeting, just before the rate filing. At the time of this response, the report and business case are being finalized. The business case includes appendices which include detailed costing for individual facilities and a third-party report with similar financial detail. Because of this, Administration recommends keeping the business case private to not jeopardize the bidding process. The CO02507 Council report will be a public document.

If the business case for the climate action plan were to be appended to the rate filing, the rate filing would either need to be a private document, or be redacted. To keep the rate filing a public document, Administration is attaching the capital profile report in lieu of the full business case. The private business case will be shared with the Utility Advisor and Utility Committee in advance of November 8 and attached to CO02507.