

**Administration Review of EPCOR Wastewater Services 2025-2027 Compliance Filing Response to October 11, 2024 Recommendations**

The following table summarizes the outstanding recommendations from the 2025-2027 PBR application presented at Utility Committee on October 11, 2024, organized by Cost of Service and Rate Design, Cost of Capital, Efficiency Factor and Performance Measures. The references align to the recommendation numbers included in Administration’s report (FCS02677 - Amended Attachment 9 Recommendations for the 2025-2027 Wastewater Services Performance Based Regulation Application). The table below also includes Administration’s identification of how these items were addressed in the EPCOR Wastewater Services 2025-2027 Compliance Filing.

Ref.	Cost of Service and Rate Design	Per EXT02788 EPCOR 2025-2027 Compliance Filing Attachment 1 - Administration Review December 13, 2024
<u>Depreciation Study</u>		
1. b.	That EWSI employs historical depreciation rates for the purpose of the rate filing.	Item 1.1 page 2  Historical depreciation rates have been applied and the revised schedules submitted in the Compliance Filing
<u>Capitalization of Software Costs</u>		
2. 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.	Item 1.2 page 2  An aggregate list of of the cloud-based software projects included in the 2025-2027 PBR application, including additional information, has been provided in EXT02788 EPCOR Water Services 2025-2027 Waster Services PBR Compliance Filing Attachment 3 of EPCOR’s report EXT02788  Administration considers the response reasonable.

<u>Customer Consumption Forecasts</u>		
3. b.	EWSI use a reduction of consumption rate of 1.3% in 2024, unless a replacement rate can be offered in the compliance filing, which is less than 3.8%	Item 1.3 page 2  EPCOR has adjusted the increase to forecast residential customer consumption from 3.8% to 2.4% for 2024 and updated utility rates.  Administration considers the response reasonable.
3. c.	EWSI calculates updated utility rates for the PBR term using the updated average consumption for residential customers based on the above steps.	Item 1.3 page 2 to 5  See response to 3.b. above.
<b>Cost of Capital</b>		
<u>Return on Equity</u>		
10. a.	Direct EWSI to reduce the proposed rate of return on equity from 10.8% to 10.5%.	Item 1.4 page 5  EPCOR decreased the return on equity to 10.5% for Wastewater Treatment as directed.
10. 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.	Item 1.4 page 5  Return on Equity for Wastewater Collection has been adjusted to reflect a ramp up to 10.5% as directed (9.0% - 2025, 9.9% - 2026 and 10.5% - 2027).

<u>Cost of Debt</u>		
<b>Efficiency Factor</b>		
<u>Integration of Wastewater Collection</u>		
13. a.	Recommend an increase to 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.	Item 1.5 page 5  The efficiency factor has been revised to 0.50%.
<b>Performance Measures</b>		
<u>Wastewater Treatment – H2S 1-hour and 24-hour Exceedances</u>		
18. a.	EWSI revise the H2S exceedances monitoring to be done on a discrete station basis and not an averaging basis.	Item 1.6 and 1.6.1 page 6 and 7  EWS has revised Wastewater Treatment’s H2S exceedance performance measures to be calculated on a discrete station basis.
<u>Wastewater Treatment – Biosolids Management</u>		
19. 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.	Item 1.6 and 1.6.2 page 6 and 7  EPCOR has adjusted the performance measure for Biosolids Management to be a ratio of beneficial removed from Clover Bar Biosolids Resource Recovery Facility (CBR) relative to biosolids transferred into to relative to biosolids transferred to CBR.

<u>Other Changes - Late Payment Charges</u>		
		<p>Item 2.0 page 8</p> <p>In addition to EPCOR's response to the motions, a revision to Late Payment Charges was made to ensure customers are only receiving late payment charges on an outstanding billed amount once as opposed to compounding interest on outstanding balances. This rate is proposed to be set at 2.5% per year.</p>