

EPCOR Water Services

Performance Based Regulation 2027 Water Rates Extension

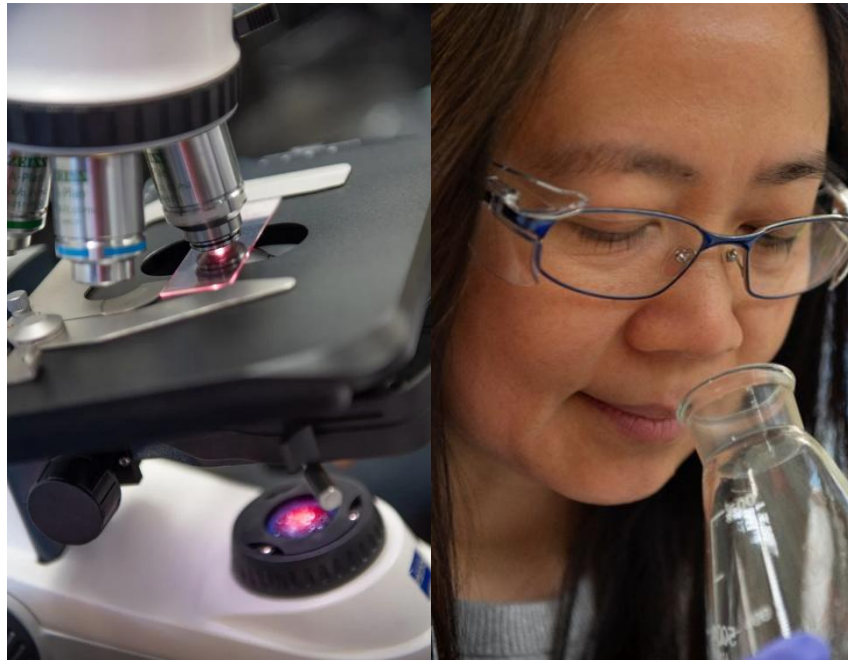


Table of Contents

| | | |
|-----|---|---|
| 1.0 | Introduction | 1 |
| 2.0 | Background..... | 1 |
| 3.0 | Alternatives Evaluated | 2 |
| 3.1 | PBR Incentives & Performance Measures | 2 |
| 3.2 | Minimizing Regulatory Cost and Burden | 3 |
| 3.3 | Reasonable Level of Rate Increase | 3 |
| 3.4 | Fairness for both Customers and the Utility | 4 |
| 4.0 | EPCOR’s Recommendations | 4 |

1.0 INTRODUCTION

1. This report provides Edmonton Utility Committee and City Council with EPCOR Water Services (“EWS”) proposed and recommended approach for establishing EWS’ water rates for the period effective April 1, 2027 to December 31, 2027.

2.0 BACKGROUND

2. Edmonton City Council regulates (“In-City Water”) in accordance with the 2022-2026 Performance Based Regulation (“PBR”) Plan approved in EPCOR Water Services Bylaw No. 19626 (“Bylaw 19626”) and Wastewater Collection and Wastewater Treatment services in accordance with the 2025-2027 PBR Plan approved in EPCOR Wastewater Services Bylaw No. 20865 (“Bylaw 20865”). EWS’ water rates for the 2022-2026 PBR term is set to expire on March 31, 2027; whereas wastewater rates are set to expire on December 31, 2027.

3. In 2023, EPCOR completed a comprehensive restructuring, integrating the water and wastewater utilities into one business unit. The primary goal of this integration was to adopt a “One Water” approach, streamlining operations and optimizing resources across the entire water cycle, while enhancing the experience of our customers. This unified strategy involves transitioning from the previous asset-based resource management structure to a more integrated cross-functional structure. To fully realize the benefits of this integration, it is vital to plan, prioritize and optimize resources by taking a holistic and comprehensive approach for the development of future PBR plans. As a result, a consolidated PBR utilizing a “One Water” approach will be introduced effective January 1, 2028.

4. During various Utility Committee meetings beginning in 2023, EWS advised Utility Committee of its plan to consolidate and align the timing of the PBR Plans for Water and Wastewater Services. EWS’ plan to consolidate the PBR Plans into a single application is expected to achieve the following:

- Offer a predictable and repeatable cycle for the approval of EWS rates
- Streamline the regulatory process to reduce the regulatory burden for both City Administration and EWS
- Allow EWS to more effectively manage each of the utilities on an integrated basis, including through integrated planning and the allocation of capital during the PBR term
- Align the timeline of the PBR review and approval with the municipal election cycle, ensuring each elected council has an opportunity to review EWS’ PBR Plan
- Provide enhanced visibility on the operations of the complete water cycle

5. As planned and communicated, EWS has commenced work to consolidate the PBR Plans into a single consolidated application for Water and Wastewater Services with rates effective January 1,

2028. Since water rates under Bylaw 19626 are set to expire on March 31, 2027, an interim mechanism is required to establish water rates for the April 1, 2027 to December 31, 2027 period.

6. In advance of the expiration of Bylaw 19626, EWS developed a proposal for Utility Committee review and City Council approval to establish water rates for the April 1, 2027 to December 31, 2027 period. This approach minimizes regulatory cost/burden for the City and EWS, while ensuring reasonable, affordable rates during this nine-month interim period.

3.0 ALTERNATIVES EVALUATED

7. EWS evaluated the following alternative approaches to establish rates for the interim nine-month period (April 1, 2027 to December 31, 2027):

- A. Use existing framework and extend the current PBR term by nine months
 - o Adjust 2026 approved rates using the same rate adjustment mechanism approved for the 2022-2026 PBR Plan under Bylaw 19626. In other words, adjust 2026 approved rates by inflation less the efficiency factor (i-x).
- B. Development and approval of a new application
 - o Establish rates for the nine-month period utilizing a traditional Cost of Service application, which is based on forecast capital and operating costs for the nine-month period.

8. Following an evaluation of these approaches, EWS determined that an extension of the existing rate-setting framework under the currently approved bylaw is most appropriate to establish water rates for this interim nine-month period.

9. Extension of the PBR term by a nine-month period defers the realignment of costs and revenues that normally occurs at the conclusion of a PBR term; however the proposed nine-month extension provides financial incentives for EWS to continue to manage the costs of operating the utility within the approved rate increases, which is limited by the inflation less the efficiency factor. Utilizing this approach maintains PBR incentives, minimizes regulatory costs and burden for all involved parties, maintains a reasonable level of rate increase for customers and provides the utility with a reasonable opportunity to recover its costs.

3.1 PBR Incentives & Performance Measures

10. While the PBR framework used to regulate each of EWS' utilities provides incentives for EWS to manage operating and capital costs, customers are assured that service quality is maintained through the continuation of the robust performance measures framework that is included in the PBR Plan.

11. As part of its work for the consolidated PBR Application, EWS is reviewing its performance measures framework. For the nine-month extension, EWS proposes to extend the currently approved performance measures framework, which has ensured customers continue to receive high quality water services.

3.2 Minimizing Regulatory Cost and Burden

12. EWS submits that the proposed approach for establishing rates for the nine-month period is a reasonable approach given the significant cost and investment of time associated with a traditional cost of service application, which includes the rebasing process that occurs at the conclusion of a PBR term. For example, the timeline to arrive at the recently approved 2025-2027 Wastewater Services PBR exceeded 18 months. This included the development of the application beginning in mid-2023, followed by its submission on May 31, 2024 and Council's approval of the rates in February 2025. Furthermore, EWS is currently undertaking the work required to plan and prepare its consolidated PBR Application for the Water, Wastewater Collection, and Wastewater Treatment functions, which is expected to be submitted for approval in November 2026. The consolidated PBR Application will be a comprehensive application that considers the resourcing requirements based on an integrated "One Water" approach. This application will also be informed by customer engagement results and will include an update to EWS' Cost of Service Study, a review of EWS' rate design framework, updated performance measures, and an updated depreciation study, amongst various other contributing factors. In EWS' view, completing a full cost of service application for establishing water rates (for the interim period April 1, 2027 to December 31, 2027) and simultaneously developing a consolidated PBR Application for rates effective January 1, 2028 to December 31, 2031 would result in duplication of efforts and see customers incur additional costs to establish rates for the interim nine-month period.

3.3 Reasonable Level of Rate Increase

13. The proposal to establish rates under the existing PBR framework results in a reasonable level of rate increase for customers. EWS proposes to use the same methodology as approved in the current Bylaw to escalate rates by inflation less an efficiency factor. The inflation factor is a weighted average of two Statistics Canada inflation measures (Alberta CPI for the non-labour component and Alberta Hourly Earnings (AHE) for the labour component). The annual inflation factor is calculated by applying a weighting of 60% to Alberta CPI for the non-labour component and 40% weighting to AHE Index for the labour component. The following table summarizes the PBR forecast inflation factor (inflation less efficiency factor) used to set water rates over the 2022-2025 period, along with the forecast inflation factor for 2026 and 2027. This is based on the Conference Board of Canada's most recent forecast and demonstrates that the use of the inflation factor for setting rates provides customers with a reasonable level of rate increase based on expected levels of both general and labour cost inflation.

Inflation Factor for EWS Water Rates under Current PBR Plan

| | 2022 | 2023 | 2024 | 2025 Forecast | 2026* Forecast | 2027* Forecast |
|---------------------------|---------|-------|-------|------------------|-------------------|-------------------|
| PBR Inflation | 2.27% | 2.91% | 2.37% | 1.71% | 1.73% | 1.75% |
| Inflation with True-up | 2.27%** | 6.42% | 1.78% | 2.24% | - | - |

*Based on forecast from the Conference Board of Canada

**No prior year forecast vs actual inflation true-up adjustment applicable for the first year of a new PBR term

3.4 Fairness for both Customers and the Utility

14. Although the rates do not reflect the forecast cost of service based on a bottom-up forecast (which is the approach used at the conclusion of each PBR term), EWS' proposed method to set rates for the nine-month term is fair for both EWS' customers and for EWS. Customer rates will be set on a basis no different than what had been utilized for the preceding five years, and EWS will be provided with sufficient revenue to ensure the safe and reliable operation of its water utility. Furthermore, rates developed for the consolidated PBR Application will be based on a bottom-up forecast, resulting in rebasing of rates effective January 1, 2028.

4.0 EPCOR'S RECOMMENDATIONS

15. EWS recommends that the 2022-2026 PBR term be extended by nine months and that the water rates for the nine-month period effective April 1, 2027 to December 31, 2027 be set by adjusting 2026 approved rates by inflation less the efficiency factor. Applying the existing rate adjustment mechanisms approved under Bylaw 19626 would result in a streamlined approach and would be most appropriate for the purposes of establishing water rates for the nine-month period.

16. A proposed schedule for approval of the nine-month extension is provided below:

EPCOR Water Services Bylaw Extension Timeline

| Date | Description |
|---------------------------|--|
| June 23, 2025 | Review of EWS Proposal by Utility Committee |
| July 2 or August 19, 2025 | Approval of Updates to Bylaw 19626 by City Council |
| Before March 1, 2027 | Submission of Updated Rate Schedule |
| March 15, 2027 | Approval of Rates by City Manager |

17. A summary of revisions to the currently approved Bylaw 19626 is included below.

5.0 SUMMARY OF PROPOSED BYLAW CHANGES

EWS proposes to make minor modifications to EPCOR Water Services Bylaw 19626 (“**Bylaw**”) to account for a nine-month extension of the PBR term. In addition, EWS proposes to make minor modifications to the Bylaw to align with existing practices.

These changes are summarized in the chart below and EWS will work with Administration to amend Bylaw 19626 and submit for Council approval.

| | |
|------------|---|
| Reference: | Throughout Bylaw and Schedules |
| Current: | March 31, 2027 |
| Proposed: | December 31, 2027 |
| Rationale: | Throughout the Bylaw and its schedules, EWS proposes that references to March 31, 2027 be changed to December 31, 2027 to reflect the nine-month extension of the PBR term. |

| | |
|------------|---|
| Reference: | Schedule 1, Part III – Service Charges |
| Current: | <p>Non-Standard Meter Read Charge</p> <p>Applicable To all customers who decline the installation of a Standard Meter.</p> <p>Rate \$49.03 per month</p> |
| Proposed: | <p>Non-Standard Meter Read Charge</p> <p>Applicable To all customers who decline the installation of a Standard Meter.</p> <p>Rate \$49.03 \$25.00 per month</p> |
| Rationale: | With the transition of EWS’ meters to advanced metering infrastructure (“ AMI ”) meters and customer concerns related to same, EWS has lowered the non-standard meter read charge for customers requesting non-standard meters (non-AMI meters). |

| | |
|------------|---|
| Reference: | Schedule 1, Part IV – Late Payment Charges |
| Current: | A late payment charge of 2.5% per month, not compounded, is applied to all charges on a Customer’s Account, if the Customer’s payment has not been received by EWSI in full by the payment date specified on the bill. If considered to be interest payable for credit advanced, then the late payment charge is equivalent to a maximum yearly rate of 45.6%. A dishonoured cheque charge of \$25.00 is applied for each cheque returned for insufficient funds. |

| | |
|------------|--|
| Proposed: | A late payment charge of 2.5% per month, not compounded, is applied to all charges on a Customer's Account, if the Customer's payment has not been received by EWSI in full by the payment date specified on the bill. If considered to be interest payable for credit advanced, then the late payment charge is equivalent to a maximum yearly rate of 45.6%. A dishonoured cheque charge of \$25.00 is applied for each cheque returned for insufficient funds. |
| Rationale: | In order to comply with EWS' existing practice and the changes to the Criminal Interest Rate Regulations SOR/2024-114, EWS proposes to delete this language from Part IV of Schedule 1. Currently, EWS only charges 2.5% per month, not compounded, and does charge customers a late payment charge equal to a yearly rate of 45.6%. |

| | |
|------------|---|
| Reference: | Schedule 3, Section 2.3 Special Rate Adjustments for Water Services |
| Current: | N/A |
| Proposed: | The Special Rate Adjustment for Re-Basing applied to the Consumption Charges for each customer class and the Fixed Monthly Service Charges (based on meter size) for the period April 1, 2027 to December 31, 2027 will be determined by applying the inflation adjustment factors set out in subsections 2.1 and 2.2 to the 2026 Special Rate Adjustment published in the above table. |
| Rationale: | In order to reflect the Special Rate Adjustment for the additional nine-month period, EWS proposes to include the above language. |