



**Reference:** Rates Report, pages 1 and 2

**Issue/Sub-Issue:** Rate Classes for Water and Wastewater

**Quote:**

“EWSI’s water customers are categorized into three rate classes for the purpose of determining which specific water rate applies to each customer. The water rate classes include: Residential, Multi-residential and Commercial.

Wastewater treatment customers are categorized into two rate classes for the purpose of determining which specific wastewater treatment rate applies. The wastewater treatment rate classes include: Residential and Commercial.”

**Request:**

Please explain the rationale for there are two different water and wastewater treatment rate classes (ie. For water - residential, multi-residential and commercial and for wastewater – residential and commercial).

**Response:**

For water rates, EWSI proposes to maintain its existing water rate classes with residential, multi-residential and commercial rates. Multi-residential water customers are a separate customer class as the cost to provide water to multi-residential customers differs from residential or commercial customers. For example, multi-residential customers do not significantly change their consumption patterns seasonally, while residential customers do have a significant lawn watering component in their summer water usage. At the same time, multi-residential customers do not use the same volume of water or have the same infrastructure requirements as many commercial customers.

For wastewater treatment rates, EWSI proposes to adopt the rate classes for residential and commercial customers consistent with The City of Edmonton sanitary sewer utility rate classes



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as outlined in Bylaw 9675 - Sewers Use Bylaw. Multi-residential customers have very similar sewage flow characteristics as residential customers for wastewater treatment and sanitary sewer utility purposes since higher summer water use by residential customers for lawn watering does not reach the sanitary sewer system. On this basis, there is not sufficient justification to apply different rates to the residential and multi-residential customers from a cost of service point of view. For wastewater treatment and sanitary sewer utility rates, the rates are the same for all customers using less than 10,000 cubic meters (m<sup>3</sup>) of water per month. As residential and multi-residential customers generally use less than 10,000 m<sup>3</sup> of water per month and there is no distinction in rates between customer classes at this level of consumption, the proposed Bylaw 15816 – EPCOR Water Services and Wastewater Treatment Bylaw does not provide a separate customer class for multi-residential customers for wastewater treatment services. The proposed Bylaw 15816 makes a distinction between residential and commercial as there are certain commercial customers who exceed 10,000 m<sup>3</sup> of water.



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**Reference:** Rates Report, page 2

**Issue/Sub-Issue:** Rate Riders

**Quote:**

“...Rate Riders, which are primarily used to refund those customers who privately own and operate a substantial underground water distribution system and those customers who receive water through more than one water service and, as a result, more than one water meter.”

**Request:**

If customers have their own water systems (i.e. wells) and wastewater systems (i.e. septic tanks) do rate riders apply?

**Response:**

There are no rate riders applicable for customers with their own water systems (i.e. wells) and wastewater systems (i.e. septic tanks).

The water services rate riders, as described in the proposed Bylaw 15816 (Schedule 1, Part II) are applicable to customers who privately own and operate a substantial underground distribution system through a Distribution System Rider and to customers who receive water through more than one water service and, as a result, more than one water meter through a Multi-Meter Rider.

It should be noted that customers are only charged water rates under Bylaw 15816 if they receive water services supplied from EWSI within the City of Edmonton.



**Reference:** Rates Report, page 4

**Issue/Sub-Issue:** Accelerated Water Main Renewal Program

**Quote:**

“In addition, EWSI will apply an adjustment to water rates in each year (2012 to 2016) related specifically to the Accelerated Water Main Renewal program, which accelerates EWSI’s current program for the replacement of corroding cast iron water mains and allows for coordination with the City’s road and neighbourhood rehabilitation programs.”

**Request:**

How much faster is the proposed Accelerated Water Main Renewal than currently planned?

**Response:**

The Accelerated Water Main Renewal (AWMR) program was developed in response to requests from The City of Edmonton (the City) Transportation Department to increase the amount of coordination between the City’s paving programs and EPCOR’s existing water main renewal programs. The primary objective of this increased coordination was to reduce the number of times an exemption to the City’s 3-year no cut policy was required.

A detailed report was presented to the City’s Transportation and Public Works Committee on April 20, 2010 proposing the concept of an Accelerated Water Main Renewal Program. This report is attached as Leibovici-EWSI-03 Attachment 1.

The primary difference between EWSI’s water main renewal programs in place since 1986 and the new AWMR program is the acceleration of the replacement criteria to include the replacement of any water main beneath a paving project planned by the City’s Transportation Department if that main has experienced a water main break in the previous five years. EWSI’s current water main renewal programs only replace a pipe if the break frequency has been at least five breaks per kilometre per year or if there is a paving project then a pipe is replaced when the break frequency is three breaks per kilometre per year.



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This change in the replacement criteria will result in approximately 50 kilometers (km) of additional water main replacement through the 2012-2016 PBR period. The total projected amount of water main replacement in the 2012-2016 PBR period, including the traditional water main replacement program and the new AWMR program, will result in a total replacement of 85 km of water main.



**Reference:** Rates Report, page 5

**Issue/Sub-Issue:** Wastewater Treatment Rates

**Quote:**

“A special rate adjustment above inflation will be applied in each year (2012 to 2016) to recover costs during this period associated with both past investments made to develop the wastewater treatment infrastructure to its current state, as well as planned infrastructure investments during 2012 to 2016. Past wastewater treatment rates have not been sufficient to recover the full cost of operations and services provided by the wastewater treatment plant including a fair return.”

**Request:**

Please explain what the previous wastewater rates should have been to recover the full cost of operations and services? What was the previous rate of return?

**Response:**

Since EWSI. assumed the operations, assets and liabilities of the Gold Bar Wastewater Treatment Plant from the City on April 1, 2009, City Council has approved wastewater treatment rates for 2010 and 2011.

For 2010, City Council approved a rate increase of 8% that resulted in a rate of return of 6.68% (compared to forecast of 5.96%). For the wastewater treatment plant to recover the full cost of its operations and services, a rate increase of 14% would have been required to achieve a rate of return of 9.0% if one were to apply the generic 2010 rate of return for utilities under the jurisdiction of the Alberta Utilities Commission (AUC).

For 2011, City Council approved a rate increase of 8% with a projected rate of return of 5.45%. A rate increase of 17.2% would have been required to achieve the 2011 generic rate of return of 9% for utilities regulated by the AUC.



**Reference:** Rates Report, Attachment 1, pages 5 and 6

**Issue/Sub-Issue:** Rate of Return on Equity for Water and Wastewater Operations

**Quote:**

“An independent cost of capital expert, with considerable expertise in determining fair rates of return for utilities, recommended a ROE of 10.875% for EWSI for the 2012-2016 PBR term. This reflects a 0.375% reduction from the 11.25% ROE approved for EWSI for the 2007-2011 PBR term.” (page 5)

“While the PBR plan provides for EWSI’s water services to earn an ROE of 10.875%, for wastewater treatment services EWSI will earn an average ROE of only 6.6% over 2012-2016 to provide for a gradual increase in its rate of return to reach the recommended return of 10.875% in 2016.” (page 6)

**Request:**

Was the 2007-2011 ROE 11.25%? Is the proposed 2012-2016 ROE 10.875% yet only 6.6% ROE is expected?

**Response:**

For EWSI’s water operations during the 2007-2011 PBR term, the forecast average rate of return on equity is expected to be 11.25%, the approved rate of return on equity for 2007-2011.

For EWSI’s wastewater treatment operations during the 2012-2016 PBR term, EWSI expects to achieve an average rate of return on equity of only 7.8% (updated from the 6.6% originally provided in the Rates Report based on new information arising since the Rates Report was issued in June 2011) over the five years, well below the recommended return of 10.875% for EWSI for 2012-2016.



**Reference:** Rates Report, Attachment 1, page 9

**Issue/Sub-Issue:** Vehicle Fuel Efficiency Measures

**Quote:**

“Environmental – a Watershed Management Activity measure is proposed to replace the current Vehicle Fuel Efficiency measure, as much of the gains in the latter have been achieved over the last 5 years.”

**Request:**

Outline the gains achieved by the Vehicle Fuel Efficiency measures

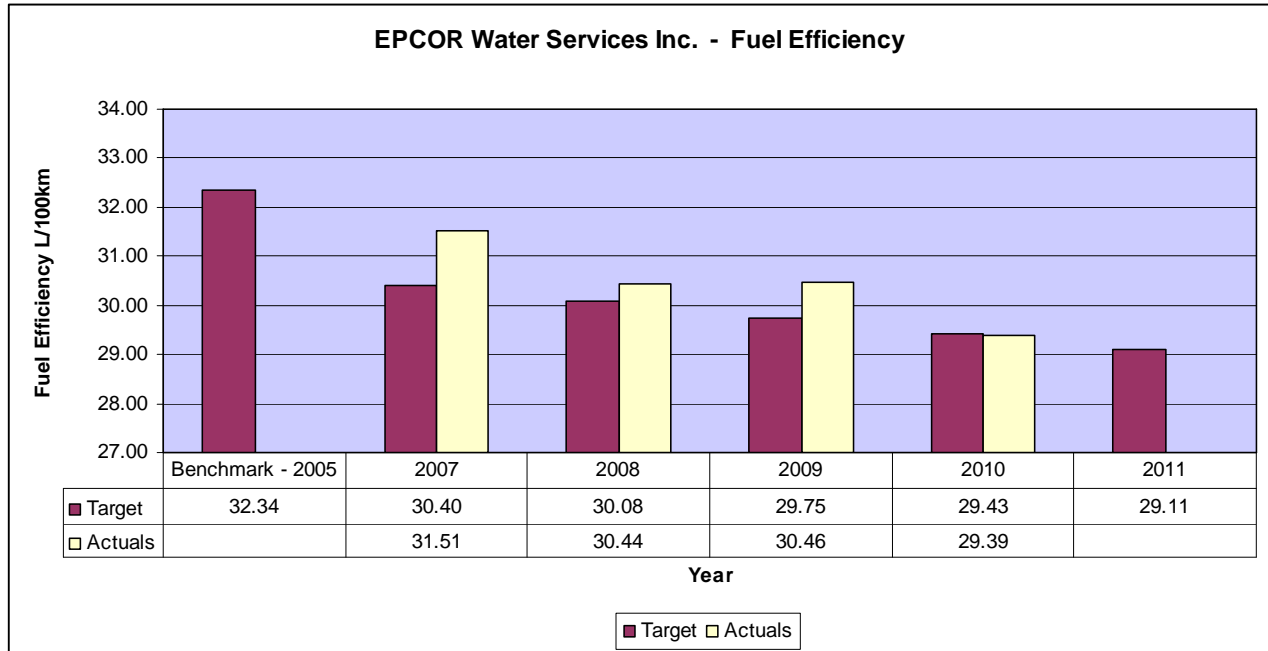
**Response:**

The objective of EWSI’s Vehicle Fuel Efficiency program was to reduce fuel usage rates (in terms of litres/100 km) by 10% over the five year period 2007 – 2011. The graph provided below illustrates the targeted and actual L/100 km for the Vehicle Fuel Efficiency measure.

Fuel usage has declined 9% from the benchmark of 32.34 L/100 km in 2005 to 29.39 in 2010.

The Vehicle Fuel Efficiency measure provided a focus for reviewing vehicle fuel usage and modifying practices related to fleet management. Since the initiatives contemplated by the Vehicle Fuel Efficiency program during 2007 to 2011 have been successfully implemented and incorporated into standard operating and capital procurement processes, further gains are expected in 2011 and future years as a result of the initiatives.





Examples of the Vehicle Fuel Efficiency initiatives successfully completed during 2007 to 2011 which have reduced fuel usage (L/100 km) and will continue to have future benefits to fuel use reduction include:

- *Driver training and education* – considered to be the single most important component of improving fuel efficiency, EWSI’s drivers have been provided idle management training and guidelines, and have taken Fuel Sense training on how to operate vehicles in the most fuel efficient manner course. The course will be included in new hire orientation training.
- *Tires and tire inflation* – training and procedures were implemented to ensure correct tire air pressure is maintained and monitored, and use nitrogen for filling vehicle tires has been implemented.
- *Vehicle fuel and power sources* – vehicle purchases are made with fuel type and engine size in mind. When specifying vehicles, EWSI pushes vendors to provide engines that surpass environmental emission requirements. EWSI continues to monitor hybrid and electric vehicle options in future as they become more commercially viable.
- *Use of auxiliary power sources* – other sources of power are being used to reduce requirements to run vehicles as a power source. For example, modified cabooses and maintenance trucks allow cabooses to be charged when towing.
- *Non-priority work is organized by geographic area* to reduce windshield time in vehicle.



**Reference:** Rates Report, Attachment 1, page 24

**Issue/Sub-Issue:** Non-Routine Adjustment

**Quote:**

“Costs resulting in an annual adjustment to EWSI’s revenue requirement up to \$500,000 are not eligible for approval as a non-routine adjustment. Costs resulting in either an annual adjustment to EWSI’s revenue requirement greater than \$500,000 or a cumulative adjustment to EWSI’s revenue requirement of greater than \$1 million but less than \$3 million are eligible for consideration and approval by the City Manager as a non-routine adjustment. Costs resulting in an annual adjustment to EWSI’s revenue requirement equal to or greater than \$3 million are eligible for consideration and approval by City Council. Review of the non-routine adjustment application will consider the projected return on equity of EWSI.”

**Request:**

What are the implications to the customer of a non-routine adjustment of a value greater than 1 million or less than 3 million as this will be potentially approved by the City Manager?

**Response:**

For a non-routine adjustment that results in a \$1 million increase in revenue requirement, the monthly fixed service charge to a residential customer will increase by \$0.29 per month (based on a 5/8” or 16 mm meter). Therefore, a \$2 million and a \$3 million increase in revenue requirement will result in an increase of \$0.59 per month and \$0.88 per month, respectively, to a residential customer.



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**Reference:** Rates Report, Attachment 3, page 8

**Issue/Sub-Issue:** Adjustment Deferral Account

**Quote:**

“In the event of termination of the performance-based regulation, it is necessary to wind-down the plan. Any balance of the Adjustment Deferral Account must be cleared within a one-year period from the date of termination.”

**Request:**

Is there currently an Adjustment Deferral Account? What is the balance?

**Response:**

There is currently no Adjustment Deferral Account.



**Reference:** Rates Report, Attachment 4, page 1

**Issue/Sub-Issue:** Performance Categories

**Quote:**

“Consistent with the framework established since the inception of PBR in 2002, the operational performance of EWSI will be assessed under five categories:

- System Reliability
- Water Quality
- Customer Service
- Environment
- Safety”

**Request:**

Have any other organizations established a performance category of corporate responsibility?

**Response:**

EWSI is not aware of any other organizations which use a performance category of corporate responsibility in their PBR plans. EWSI considers that the performance category measures it has proposed for the 2012-2016 PBR (system reliability, water quality, wastewater effluent quality, customer service, environmental stewardship and safety) represent appropriate measures of EPCOR’s corporate responsibility.



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**Reference:** Rates Report

**Issue/Sub-Issue:** Performance Measures

**Request:**

How are the performance indicators audited and is there any independent verification?

**Response:**

The performance indicators will be audited annually by an independent accounting firm supported by an Auditor's Report as part of the annual water and wastewater rates filing submission process. The rates filing submission process includes rates for the upcoming year and the results from the prior year for the water system and wastewater treatment service quality measures or performance indicators. Each of the service quality measures compares actual results to the performance standards as approved in the proposed Bylaw 15816.

The audit is conducted in accordance with Canadian generally accepted auditing standards. These standards will ensure the audit will be planned and performed to obtain reasonable assurance that there is no material misstatement. The audit will include examining, on a test basis, evidence supporting the amounts and disclosures in the rates filing submission, which includes the results of the water system and wastewater treatment service quality measures for the most recent year.