

EPCOR Water Services Inc. Performance Based Rates

2009 Progress Report

Recommendation:

That the July 7, 2010, Finance and Treasury Department report 2010FTF008 be received for information.

Report Summary

This report provides information on the third year (April 1, 2009, to March 31, 2010) of the five-year Performance Based Rates arrangement with EPCOR Water Services Inc. (EPCOR Water).

Previous Council/Committee Action

At the July 4, 2006, City Council meeting, the following motion was passed:

That Administration provide annual reports to Council on how the EPCOR Water Services Inc. Performance Based Rates plan is progressing.

Report

The current Performance Based Rates arrangement as established under EPCOR Waterworks Bylaw 12585 covers the five-year period from April 1, 2007, to March 31, 2012. Rates were established for the first year and are adjusted for each subsequent year based upon a predefined formula. The formula is intended to provide predictable rates to the consumer, while the utility has the opportunity to earn

higher returns by finding efficiencies. Operating and financial performance targets are set, measured and reported.

Bylaw 12585 requires that an Annual Water Rate Filing be received by March 1 of the year following the reporting year. This information was received for 2009, reviewed by the City Manager and is available through EPCOR's website.

No non-routine rate adjustments were requested or processed for 2009.

City Council is in a unique situation with respect to EPCOR Water, representing customers as well as being the regulator and owner of the water utility.

The Performance Based Rates Progress Report, as prepared by EPCOR Water (Attachment 1) provides an overview and progress update from an operating and financial performance perspective. Administration has reviewed Attachment 1 for compliance with the established targets, as outlined in the EPCOR Waterworks Bylaw 12585.

Operating Performance

Operating performance standards set out under the Performance Based Rates arrangement include the following components:

- *System reliability index* includes measures related to water main breaks, water main break duration, effectiveness of planned interruptions, water pressure and water loss.
- *Water quality index* is a summary of the percentage of Edmonton water quality tests that meet EPCOR's

internal standards and regulatory measures.

- *Customer service index* consists of the post service audit, response time to confirming a water main break and a home sniffing factor.
- *Environmental index* is comprised of emergency response training exercises, environmental reporting, water conservation and vehicle fuel efficiency.
- *Safety index* includes activity based indicators in four areas of training and monitoring, including safety meetings, completion of formal safe work plans, first aid and emergency response training and work site inspections and observations, as well as incident statistics in the areas of lost time frequency, injury frequency and injury severity rate.

Overall, EPCOR Water exceeded the operating performance targets in 2009 for the third consecutive year, achieving 100.3 points compared to the Performance Based Rates standard of 100 points. As summarized within Appendix A to Attachment 1, targets were exceeded in each of the areas of system reliability, water quality and environment. Both the customer service index and safety index were slightly below the targeted performance. As a result of achieving the overall Performance Based Rates standard, no water system quality penalty is assessed.

Further explanation of each of the factors and an explanation of initiatives to improve the performance for those factors that did not meet the individual performance targets, have been outlined within pages 4 to 13 of Attachment 1.

As outlined in the 2008 Progress Report, EPCOR Water has identified a complication with the current Water Loss Factor measurement methodology. The measure outlined in the Performance Based Rates process is continuing to be used for consistency. A review will be completed prior to the next Performance Based Rates renewal term, to align more closely with the industry standard Infrastructure Leakage Index for water utilities.

Financial Performance

The 2009 actual net income of \$23.8 million was slightly lower than the Performance Based Rates forecast of \$24 million. The decrease is primarily from an increase in operating costs and franchise fees, offset by lower depreciation and interest expense and higher than forecast revenue.

The rate of return on equity approved for the five year term of the Performance Based Rates arrangement is 11.25%. Under the Performance Based Rates concept, the actual rates of return in any one year may be higher or lower, depending on the actual operating and capital costs incurred, with the average rate of return expected to be within range of the approved level over the term. Over the three-year period to date, an average return of 12.75% has been achieved, with annual rates and the change from the prior year as follows:

	Rate	Change %
2009	10.69%	(1.59)%
2008	12.28%	(3.01)%
2007	15.29%	

EPCOR Water invested \$50.8 million in capital additions compared to the 2009 Performance Based Rates forecast of

\$44.5 million. This was slightly higher than the 2008 capital additions of \$48.1 million, excluding the EL Smith Wastewater Treatment Plant Upgrade initially planned for 2007.

Next Steps

The current Performance Based Rates arrangement will end in March 2012. Administration and EPCOR Water will evaluate the Performance Based Rates approach over the next year, including review of the measures and consideration of the cost of service study results (now expected to be completed in the third quarter of 2010). A recommendation will be provided to City Council for consideration on the future methodology to be used.

Attachment 2 contains the 2009 Edmonton Water and Wastewater Performance Report provided by EPCOR Water, which outlines key activities undertaken in Edmonton to ensure the high quality of our water supply and responsible management of wastewater. The report also provides highlights of future plans.

Policy

This report provides a 2009 progress report on EPCOR Waterworks Bylaw 12585.

Focus Area

This report relates to the Healthy Ecosystem focus area of the Environment outcome area.

Public Consultation

A public hearing was held with respect to the amendments to Bylaw 12585 on July 4, 2006.

Attachments

1. EPCOR Water Services Performance Based Regulation – Edmonton Progress Report 2009
2. 2009 Edmonton Water and Wastewater Performance Report