

EPCOR Water Services Inc. - Water, Goldbar and Drainage PBR Progress Report

Recommendation

That the October 2, 2020, Financial and Corporate Services report CR_8330, be received for information.

Executive Summary

This report provides the annual update of the financial and operational results for Water, Wastewater Treatment and Drainage Services provided by EPCOR Water Services Inc. for the year ended December 31, 2019. It also provides a status update for each of the initiatives included in the 2019 Operating Plan for Water, Wastewater Services and Drainage Services.

Report

This report provides a progress update for the year ended December 31, 2019 for In-City Water (Water) and Wastewater Treatment Services, in accordance with the Performance Based Regulation (PBR) Plan approved in EPCOR Water Services and Wastewater Treatment Bylaw 17698. This report also provides a progress update for the year ended December 31, 2019 for Drainage Services, in accordance with the PBR Plan approved in the EPCOR Drainage Services Bylaw 18100.

Attachment 1 includes the progress report prepared by EPCOR Water Services Inc. (EWSI) for 2019 that includes performance measures and financial data reported on a calendar year basis. The following is a summary of the financial and operating results for Water, Wastewater Treatment and Drainage services provided by EWSI.

In-City Water Services

EWSI provides the financial and operating results for 2019 for Water Services on pages 8 to 33 of Attachment 1. The following table summarizes the actual financial results for 2019, as well as for the first three years (2017 - 2019) of the PBR plan, as compared to the PBR forecast.

Item	2019 PBR Forecast	2019 Actual	2017-2019 PBR Forecast	2017-2019 Actual
Revenue (\$Millions)	205.8	191.3	593.9	571.2
Operating Expenses (\$Millions)	108.1	99.5	314.8	295.5
Return on Equity (\$Millions)	40.8	34.4	117.1	110.2
Rate of Return on Equity (%)	10.18%	8.56%	10.18%	9.61%
	2019 PBR Forecast	2019 Actual	2017-2021 PBR Forecast	2017-2021 Current Projection
Capital Expenditures (\$Millions)	87.0	113.0	475.8	574.1

Financial Performance

The 2019 Actual Return on Equity of \$34.4 million is \$6.4 million lower than the 2019 PBR forecast of \$40.8 million. This is primarily due to lower revenues as a result of a lower than forecast inflation adjustment to rates and lower consumption partially attributable to higher than normal precipitation over the summer months. Actual operating expenditures were lower than forecast but were unable to fully offset the lower than forecast revenue.

Capital Expenditures

Capital expenditures of \$574.1 million are projected to be \$98.3 million higher than the PBR forecast of \$475.8 million over the 2017-2021 period primarily due to:

1. the E.L. Smith Solar Farm (\$35.3 million);
2. change in scope of the Water Distribution and Transmission Facility Expansion (\$8.8 million);
3. the enhanced lead mitigation program (\$25.3 million);
4. water infrastructure relocations (\$12.2 million) required due to LRT construction; and
5. the purchase of Discovery Park Reservoir and the Capital Region Southwest Services Commission water pipeline (\$9.5 million) due to the City of Edmonton’s annexation of land in Leduc County.

In 2019, the City Manager approved the costs related to the latter three projects as non-routine adjustments to water rates effective April 1, 2020. EWSI provides a table showing the actual and PBR forecast capital expenditures for each project with approved capital expenditures in excess of \$5.0 million over the PBR term, as well as detailed variance explanations, on pages 21-25 of Attachment 1.

Operational Performance

Operational performance for Water is measured by five indices each consisting of one or more metrics:

1. Water Quality Index
2. Customer Service Index
3. System Reliability and Optimization Index
4. Environment Index
5. Safety Index

While Water either met or exceeded the performance standards for all five performance measure indices in 2019, it did not meet the performance standard for two individual metrics. Details and data for the metrics for each index, as well as a discussion of 2019 highlights and areas for improvement, are provided on pages 26-32 of Attachment 1.

Non-Routine Adjustments and Customer Bill Impacts

Bylaw 17698 (Schedule 3, section 5.0) allows for EWSI to request adjustments to Water and Wastewater rates from City Council or the City Manager (depending on the size of the revenue requirement impact) to recover costs related to items that are unusual, significant in size or nature, and beyond the scope of control of EWSI. In 2019, EWSI applied for, and received City Manager approval of, non-routine adjustments for the following three projects:

1. Lead mitigation strategy - costs of a new strategy to meet new Health Canada Guidelines that reduce the maximum concentration of lead in drinking water. The increase in the monthly bill for an average residential customer is \$0.40 per month and was effective April 1, 2020.
2. Leduc County annexation - costs related to the purchase of water infrastructure as a result of the annexation of certain lands in Leduc County by the City of Edmonton. The increase in the monthly bill for an average residential customer is \$0.26 per month and was effective April 1, 2020.
3. Relocation of water infrastructure due to LRT construction - the cost of work related to the relocation of water infrastructure for the West Valley Line and Metro Line Northwest Phase I projects. The increase in the monthly bill for an average residential customer is \$0.17 per month and was effective April 1, 2020.

Wastewater Treatment Services

EWSI provides the financial and operating results for 2019 for Wastewater Treatment services on pages 34 to 53 of Attachment 1. The following table summarizes the actual

financial results for 2019, as well as for the first three years (2017 - 2019) of the PBR plan, as compared to the PBR forecast.

Item	2019 PBR Forecast	2019 Actual	2017-2019 PBR Forecast	2017-2019 Actual
Revenue (\$ Millions)	105.6	99.1	297.4	286.0
Operating Expenses (\$Millions)	57.1	50.3	166.7	146.6
Return on Equity (\$ Millions)	19.2	19.3	53.0	58.5
Rate of Return on Equity (%)	10.18%	10.93%	10.18%	11.84%
	2019 PBR Forecast	2019 Actual	2017-2021 PBR Forecast	2017-2021 Current Projection
Capital Expenditures (\$ Millions)	53.3	49.3	235.4	238.6

Financial Performance

The 2019 actual Return on Equity of \$19.3 million was \$0.1 million higher than the 2019 PBR forecast of \$19.2 million primarily due to lower than forecast operating expenses that offset the lower than forecast revenues due to the same factors as Water (lower than forecast inflation adjustment to rates and consumption).

Capital Expenditures

Actual capital expenditures for 2019 of \$49.3 million were \$4.0 million lower than the PBR forecast of \$53.3 million and are currently projected to be \$3.2 million higher than the PBR forecast over the 2017-2021 period (\$238.6 million versus \$235.4 million). EWSI provides a table showing the actual and PBR forecast capital expenditures for each project with approved capital expenditures in excess of \$5.0 million over the PBR term, as well as detailed variance explanations, on pages 42 to 47 of Attachment 1.

Operational Performance

Operational performance for Wastewater is measured by four indices each consisting of one or more metrics:

1. Water Quality and Environmental Index
2. Customer Service Index
3. System Reliability and Optimization Index
4. Safety Index

Wastewater Treatment services either met or exceeded the performance standards for all metrics and all four performance measure indices in 2019. Details and data for the metrics for each index, as well as a discussion of 2019 highlights and areas for improvement, are provided on pages 47-51 of Attachment 1.

Drainage Services

City Council approved the transfer of the Drainage Utility assets and liabilities to EWSI effective September 1, 2017. EPCOR identified operating and capital cost efficiencies as per its commitments leading to the transfer of Drainage from the City of Edmonton. EWSI discusses the work it has completed to date on realizing the operating and capital efficiencies on pages 54 and 55 of Attachment 1.

EWSI provides the financial and operating results for 2019 for Drainage Services on pages 54 to 72 of Attachment 1. EWSI does not currently have a City of Edmonton approved PBR forecast to serve as the basis for financial performance, so its financial performance for 2019 has been compared to its 2019 EPCOR drainage (adjusted) budget. The following table summarizes the actual financial results for 2019 as well as for 2018/2019.

Item	2019 Forecast	2019 Actual	2018-2019 Forecast	2018-2019 Actual
Revenue (\$ millions)	202.4	199.0	399.0	393.6
Return on Equity (\$ millions)	22.8	28.5	58.9	61.4
Rate of Return on Equity (%)	3.98%	4.76%	5.21%	5.21%
	2019 Forecast	2019 Actual	2018-2021 Forecast	2018-2021 Current Projection
Capital Expenditures (\$ millions)	169.1	141.9	667.4	711.6

Financial Performance

The 2019 actual Return on Equity of \$28.5 million is \$5.7 million higher than the 2019 budget of \$22.8 million primarily due to lower than forecast operating expenses, depreciation and financing costs, which more than offset lower than forecast revenue due to lower than normal consumption.

Capital Expenditures

The capital program for Drainage Services is based on the long term plan for 2018 to 2021 that was used in the independent third party (Grant Thornton) report assessing the transition of the drainage utility to EPCOR. Actual capital expenditures for 2019 of \$141.9 million were \$27.2 million lower than the 2019 Budget of \$169.1 million. The 2018-21 projected capital expenditures of \$711.6 million are \$44.2 million higher than the long term plan of \$667.4 million primarily due to the Water Distribution and Transmission facility, a joint project with Water Services, mentioned above.

EWSI provides a table showing the actual and budget capital expenditures for each project with approved capital expenditures in excess of \$10.0 million over the 2018-2021 term, as well as detailed variance explanations, on pages 63-69 of Attachment 1.

Operational Performance

As part of the transfer of the Drainage Utility to EWSI, EWSI adopted the performance measures previously used by Drainage Services within the City of Edmonton for the first two years of the PBR term (2018/2019). EWSI brought forward new performance measures, scoring and penalties for 2020 and 2021 as part of City Council's approval of amendments to Bylaw 18100 on February 19, 2020. EWSI will report on these new performance measures starting in 2020.

EWSI has provided details and data for various metrics, categorized into the following four indices, patterned after previous Drainage Utility service quality metrics as prescribed in Schedule 3 of Bylaw 18100:

1. Water Quality and Environmental Index
2. Customer Service Index
3. Reliability and Optimization Index
4. Safety Index

In 2019, Drainage met or exceeded performance standards for 10 of 13 performance measures included in the four performance measure indices. Details and data for the metrics for each index, as well as a discussion of 2019 highlights, has been provided on pages 69-71 of Attachment 1.

Non-Routine Adjustments and Customer Bill Impacts

Bylaw 18100 (Schedule 3, Article 4.1) allows for EWSI to request adjustments to Drainage rates from City Council or the City Manager (depending on the size of the revenue requirement impact) to recover costs related to items that are unusual, significant in size or nature, and beyond the scope of control of EWSI. In 2019, EWSI applied for, and received City Manager or City Council approval of, non-routine adjustments for the following three projects:

1. Stormwater Integrated Resource Plan - costs related to capital and operating investments required to mitigate flood risks across the City. The increase in the monthly bill for an average residential customer is \$0.51 per month effective January 1, 2020, with an additional \$0.15 per month effective January 1, 2021, and a further \$0.03 per month effective January 1, 2022. City Council approved this non-routine adjustment to rates on November 26, 2019.
2. Corrosion and Odour Reduction Strategy - costs related to reducing community odour impacts and corrosion of drainage pipes. The increase in the monthly bill for an average residential customer is \$0.53 per month effective January 1, 2020, with an additional \$0.42 per month effective January 1, 2021, and a further \$0.06 per month effective January 1, 2022. City Council approved this non-routine adjustment to rates on November 26, 2019.
3. Relocation of drainage infrastructure due to LRT construction - the cost of work related to the relocation of drainage infrastructure for the West Valley Line and Metro Line Northwest Phase I projects. The increase in the monthly bill for an average residential customer is \$0.14 per month effective January 1, 2020, with an additional \$0.37 per month effective January 1, 2021, and a further \$0.31 per month effective January 1, 2022. The City Manager approved this non-routine adjustment to rates on November 7, 2019.

Corporate Outcomes and Performance Management

Corporate Outcome(s): The City of Edmonton has sustainable and accessible infrastructure			
Outcome(s)	Measure(s)	Results (2020)	Targets
Ongoing monitoring and reporting of EPCOR utility services regulated by City Council	Water Performance Index	Water Quality - 25.0 Customer Service - 21.0 System Reliability - 28.5 Environmental - 16.5 Safety - 16.5	Water Quality - 25.0 Customer Service - 20.0 System Reliability - 25.0 Environmental - 15.0 Safety - 15.0
	Waste Water Performance Index	Water Quality - 60.0 Customer Service - 16.5 System Reliability - 16.5 Safety - 16.5	Water Quality - 55.0 Customer Service - 15.0 System Reliability - 15.0 Safety - 15.0

Attachments

1. EPCOR 2019 PBR Progress Report

Others Reviewing this Report

- G. Cebryk, Deputy City Manager, City Operations
- J. Meliefste, Acting Deputy City Manager, Integrated Infrastructure Services

- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- B. Andriachuk, City Solicitor