

EPCOR Water and Drainage Services Performance Based Rates - Renewal

Process and Timeline Report for Utility Committee

Agenda

1. Background
2. Proposed PBR Terms
3. Application Format
4. Utility Committee Motions and Directions
5. Significant Inclusions in Application
6. Stakeholder Engagement Strategy

Background

Bylaw Expiry

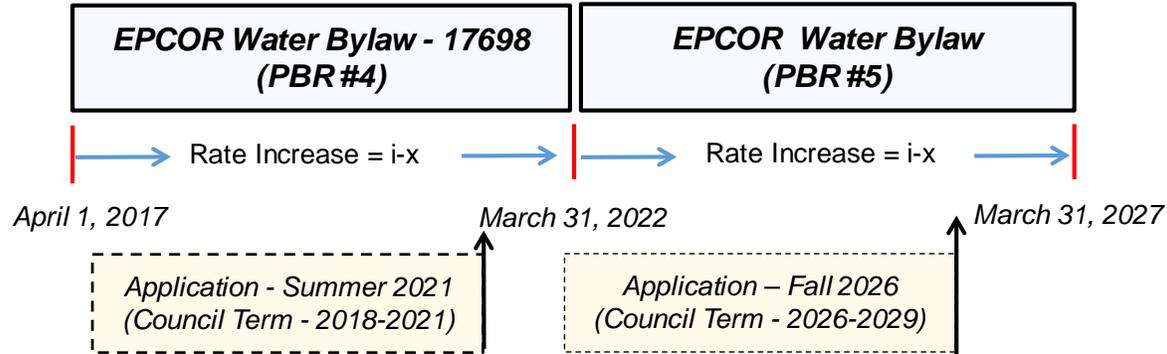
- EPCOR Water Services and Wastewater Treatment Bylaw (Bylaw 17696) - expires March 31, 2022
- EPCOR Drainage Services Bylaw (Bylaw 18100) - expires March 31, 2022.
- EPCOR intends to file Rates Notices and Rates Reports (also referred to as rate applications or applications) to seek City Council approval to set new rates commencing April 1, 2022.

Regulatory Construct – EWSI will propose:

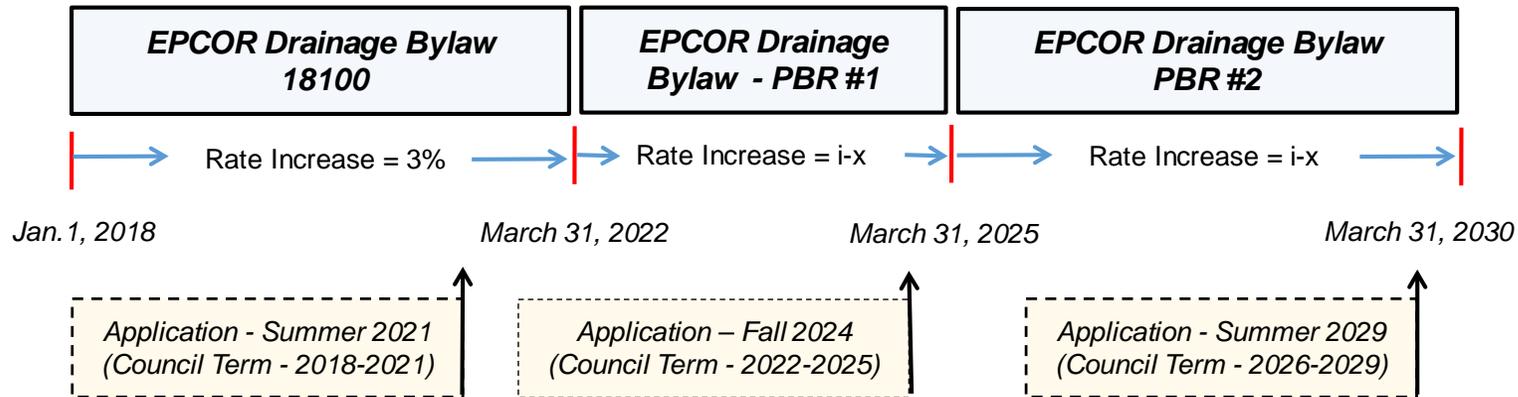
- Continuation of a Performance Based Regulation (PBR) structure (5th PBR application for water and 3rd for Wastewater)
- Introduction of a PBR structure for Drainage Services.
 - Letter of Intent obligation - “City Council will remain as regulator of drainage rates through a Performance Based Regulation, similar to water.”
- Retention of the same general terms and approaches as the current applications (2017-2021). Includes:
 - general risk/return framework,
 - inclusion of non-routine adjustments for changes beyond EWSI’s control
 - annual performance metrics with penalties to ensure a defined standard of performance.
- Fire protection services remains under a separate contract with the City of Edmonton, Fire Rescue.

Proposed PBR Terms

Water – 2022-2026 PBR



Drainage and Gold Bar - 2022-2024 PBR



- Allows the management of the risk in drainage as the condition of the assets is still be assessed and three large capital programs (SIRP, CORE and LRT relocates) are just beginning.
- Aligns with the Corrosion and Odour Reduction Strategy (CORE).
- Review of shorter term applications was conducted but were not feasible due to high rate increases

Application Format

Application Structure

- Separate applications for Water, Wastewater Treatment and Drainage
- Common over-arching sections and appendices
- Format and contents will be very similar to the 2017-2021 PBR Application

Financial Schedules

- Separate financial schedules for Water, Wastewater Treatment and Drainage
- Based on minimum filing requirements

Capital Expenditure Justifications

- Formal business cases for all projects meeting the materiality threshold of:
 - \$5 million in water and wastewater treatment
 - \$10 million in drainage
 - Represents approximately 75% of the total proposed expenditure
- Discrete project business cases will identify alternatives considered and criteria against which alternatives are evaluated.
- Program Business cases identify criteria establishing level of capital spend
- SIRP/CORe - overarching strategy documents to link business cases

Utility Committee Motions and Directions

- **Public Awareness and Stakeholder Engagement**
 - Detailed plan being presented to Utility Committee - program in process due to COVID
 - Required as per the Rates and Procedure Bylaw
- **Rate of Return/Risk Determination:**
 - 2017-2021 PBR application recognized that EPCOR's regulatory structure is inherently riskier than contemplated by the Alberta Utility Commission's generic cost of capital decision.
 - Utility Committee requested the determination of an approach to quantify this premium.
 - Administration and/or EPCOR initiated a review with external consultants to determine an approach. No workable approach could be determined due to being a non-traditional approach, lack of consistent data, etc.
 - EPCOR is currently reviewing more traditional approaches –current market conditions are impacting their viability
- **Efficiency Factor Methodology:** consistent approach to be developed based on industry efficiency measures and EPCOR's circumstances
- **Rate Structure/Design Review:** review the current rate structure and the fixed/variable split and present alternatives with benefits and drawbacks

Significant Inclusions in Application

Cost of Service Study – Drainage and Gold Bar

- Formal cost of service study underway - being lead by HDR Corporation (developed current study used in water)
- Will cover all aspects of drainage and wastewater treatment – including over-strength charges and the allocation of costs between sanitary and storm

Cost of Service Study - Water

- Update cost of service parameters where required
- No planned changes to the underlying cost allocation methodology
- Changes reviewed with the RWCG to ensure alignment

Stormwater Revenue Leakage

- Significant progress has been made ensuring accounts are appropriately coded in the billing system and ultimately charged
- City properties are currently not charged for stormwater services – proposal to begin charging with PBR

Automated Metering Infrastructure

- Introduction of AMI infrastructure
- Most cost effective solution is to “piggy-back” on existing EPCOR D&T technology

Application Timing - Current

	Activity	Date
1	Application Submission	
2	File Rates Notice and Rates Report with City Manager	February, 2021
3		
4	Initial Presentation to Utility Committee	
5	Presentation by EPCOR of proposed changes to Waterworks and Drainage Bylaws	Mid Feb. 2021
6	Utility Committee - High level review and recommendation to City Council	Mid Feb. 2021
7		
8	First Reading	
9	City Council - Review and consideration of first reading and direction to CoE Admin	Mid April , 2021
10	<i>If passed, council refers to committee for public hearing (Rates Procedure Bylaw</i>	
11	<i>requires a public hearing to occur within 60 days of passing first reading)</i>	
12		
13	Information Requests	
14	Councillor's IR's submitted to City Manager	TBD
15	Deadline for public submissions to CoE	TBD
17	Deadline for Administration/Consultant IRs to EPCOR	TBD
18	Responses to IR Complete	TBD
19		
20	Public Hearing	Mid June 2021
21	Presentation by EPCOR	
22	Administration report on reasonableness of rates and summary of submissions	
23		
24	Second and Third Readings	
25	Council Meeting - review for consideration for second and third reading	July 1, 2021
26	Bylaws passed	

Note: Dates to be Confirmed with City Administration and Based on 2021 Utility Committee Schedule

PBR Renewal Process

Stakeholder Engagement Plan Overview
September 2020



Objectives

Through the public participation process, we will:

- Have public and stakeholder input inform policy choices, priority-setting for operations and capital programs, performance measurement and rate design;
- Provide stakeholders with opportunities to ask questions, express concerns and raise issues with respect to the PBR renewal and their utility services;
- Maintain positive and productive relationships with the key decision makers and stakeholders on the PBR development and implementation.
- Report back to stakeholders as the PBR renewal process progresses on how their feedback was used by EPCOR.

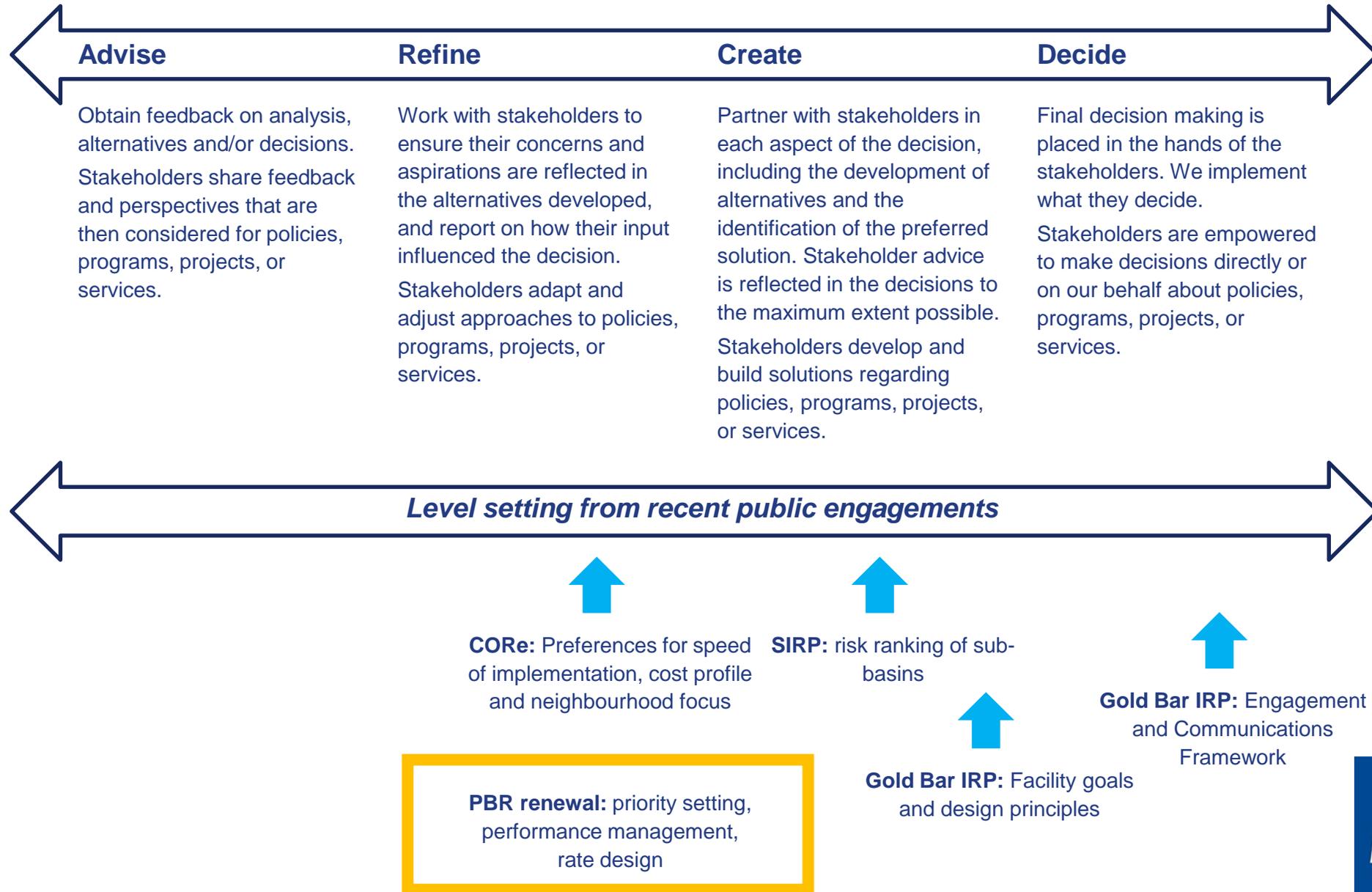
In addition, input will help inform communications and campaigns to educate customers on their water, wastewater & wastewater utilities.

Key Decisions for Input

In order to conduct stakeholder engagement, we need to clearly articulate the **decisions** on which the public can provide input, and our **ability to act** on the input:

- 1. Values.** Understanding the values held by stakeholders, and using these to guide the evolution of the utilities including the weighting of performance measures in the PBR, and the performance categories.
- 2. Performance Priorities.** Understanding the types of performance most valued by stakeholders, and the level of performance they are seeking, to inform our prioritization of capital and operating programs.
- 3. Cost and Risk Sharing.** Understanding stakeholder views on how costs and risks should be shared between ratepayers, service recipients, insurers, government and the utilities, and using these views as an input to guide rate design and future communications.
- 4. Rates.** Understanding stakeholder views on the cost and benefit tradeoffs from different levels of investment in their utility services, and their preferences for future rates.

Our Work within the Public Participation Spectrum



Stakeholders

Below are the major groups we will engage through this process:

Ratepayers:

- Residential customers
- Commercial customers (incl. large water users)
- Multi-residential

City of Edmonton:

- City Administration (e.g. Urban Form, Facility Services, Infrastructure Services)

Indigenous nations & community relations:

- Metis Nation of Alberta and Confederacy of Treaty Six Nations with significant presence within Edmonton

Community / special interest groups:

- Community leagues / EFCL
- Business associations
- Chamber of Commerce
- Developers & property managers (through associations that represent them)
- EPCOR engaged community groups (e.g. Water CAPs, Drainage groups engaged in projects)

Engagement Approach

Initial Consultation

- Research to identify public values, and validate topics of interest/concern for engagement

Detailed Consultation

- Public engagement to identify preferences for specific options to inform final recommendation

October Utility Committee Meeting

- Present overall PBR plan and engagement plan.
- Public engagement progress report summarizing stakeholder input received to-date.

Early 2021 PBR Filing

- Validation and report back to stakeholders on what we heard, how input was used & how we will move forward.

First Wave Approach



1. Top of mind (or 'unaided') concerns.

This allowed us to explore customer's own language and any issues they felt were important about their water, water treatment, and drainage services that may not have been identified in the existing PBR.



2. Importance of prompted concerns and performance areas for each line of business

A list of potential impact areas (concerns) as well as performance areas were identified through past research, customer listening tools, and secondary sources. The lists were then tailored for each line of business and presented for customers to rate importance (i.e. prompted ratings).



3. A sorting task of PBR performance areas and Thurstone analysis to identify *degree of importance*

Finally, customers were asked to conduct a ranking of potential future areas of performance for each line of business in terms of what mattered to them most. This was followed up by a direct question asking if there are any other areas EPCOR should be considering.

Engagement Tactics

Phase	Key Tactics
Phase 1: Visioning & framing <i>Dimensions of performance & values</i>	<ul style="list-style-type: none">• Quantitative research — survey of residential ratepayers• Qualitative research — one-on-one (virtual) interviews with commercial/large water users
Phase 2: Detailed consultation <i>Options for performance areas & rate design</i>	<ul style="list-style-type: none">• Greater focus on face-to-face stakeholder outreach, using primarily virtual means to hold one-on-one meetings, workshops, etc.• Broader input from surveys or online engagement tools, including open survey via epcor.com
Phase 3: Validation <i>Confirm final preferences & recommendations</i>	<ul style="list-style-type: none">• Simple validation survey• Loop back with stakeholders — detail “what we heard”

What We've Heard So Far

Preliminary observations:

- 1. Customer priorities are about maintaining safety, quality, and infrastructure in the future.**
 - Many customers indicate that protecting quality, safety, and managing costs are important. Across all lines of business, protecting infrastructure matters.
- 2. Current performance areas and EPCOR priorities generally align with customer values, suggesting the performance metrics in the next PBR should be similar, although possibly re-weighted.**
 - Through both unaided and prompted questions, customers identified performance areas already covered by the current PBR model.
- 3. Most Edmontonians support reasonable investment in infrastructure to allow for longer-term benefits and efficiencies.**





Questions?

