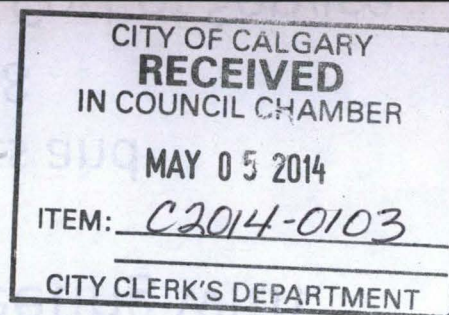




THE CITY OF
CALGARY

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2015-2018 Utilities Indicative Rates

C2014-0103

2014 May 5

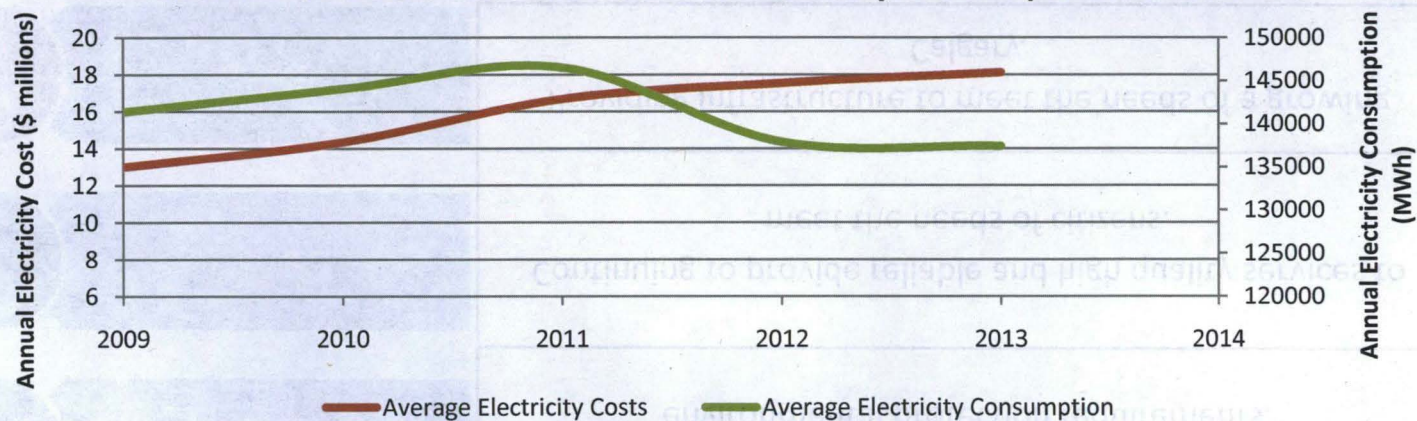
Previous Council Direction

- At the 2014 February 26 meeting, SPC on UCS received the Water and Wastewater Utilities 2012-2017 Financial Plan Update for information and forwarded it to the March 17 Strategic Meeting.
- At the 2014 March 17 meeting, Council adopted the 2015-2018 Utilities Rate Scenarios Report and directed Administration to return to the May 5 meeting with indicative rates based on:
 - Operating and capital budget requirements and
 - Appropriate financial targets for 2015-2018
 - The findings and recommendations of the Cost of Service Study regarding Utility financial policies.

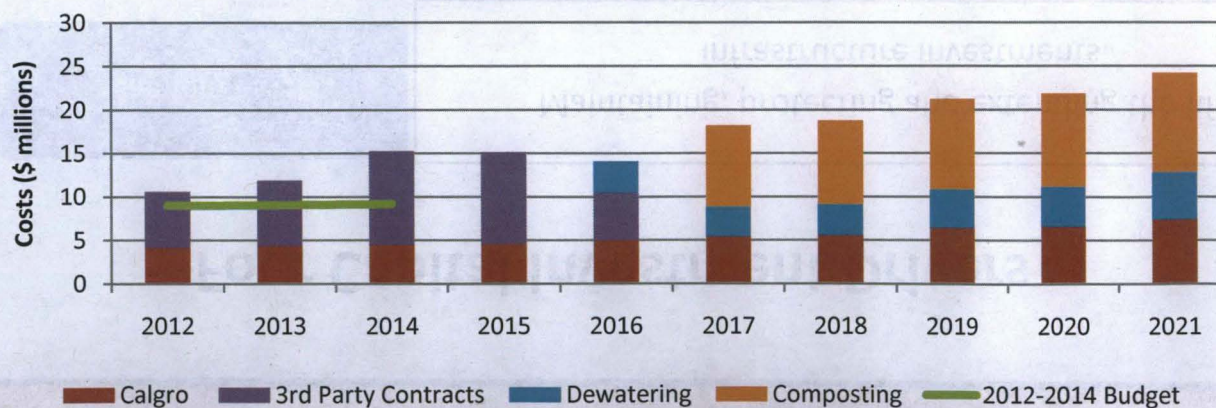
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Operating Requirements

Water Resources and Water Services Electricity Consumption and Costs



Biosolids Management Costs



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Four Capital Investment Drivers



Maintain Assets

Maintaining, protecting and extending the life of infrastructure investments.



Regulatory and Environmental Protection

Continuing to meet increasingly stringent regulatory and environmental protection requirements.



Service

Continuing to provide reliable and high quality services to meet the needs of citizens.

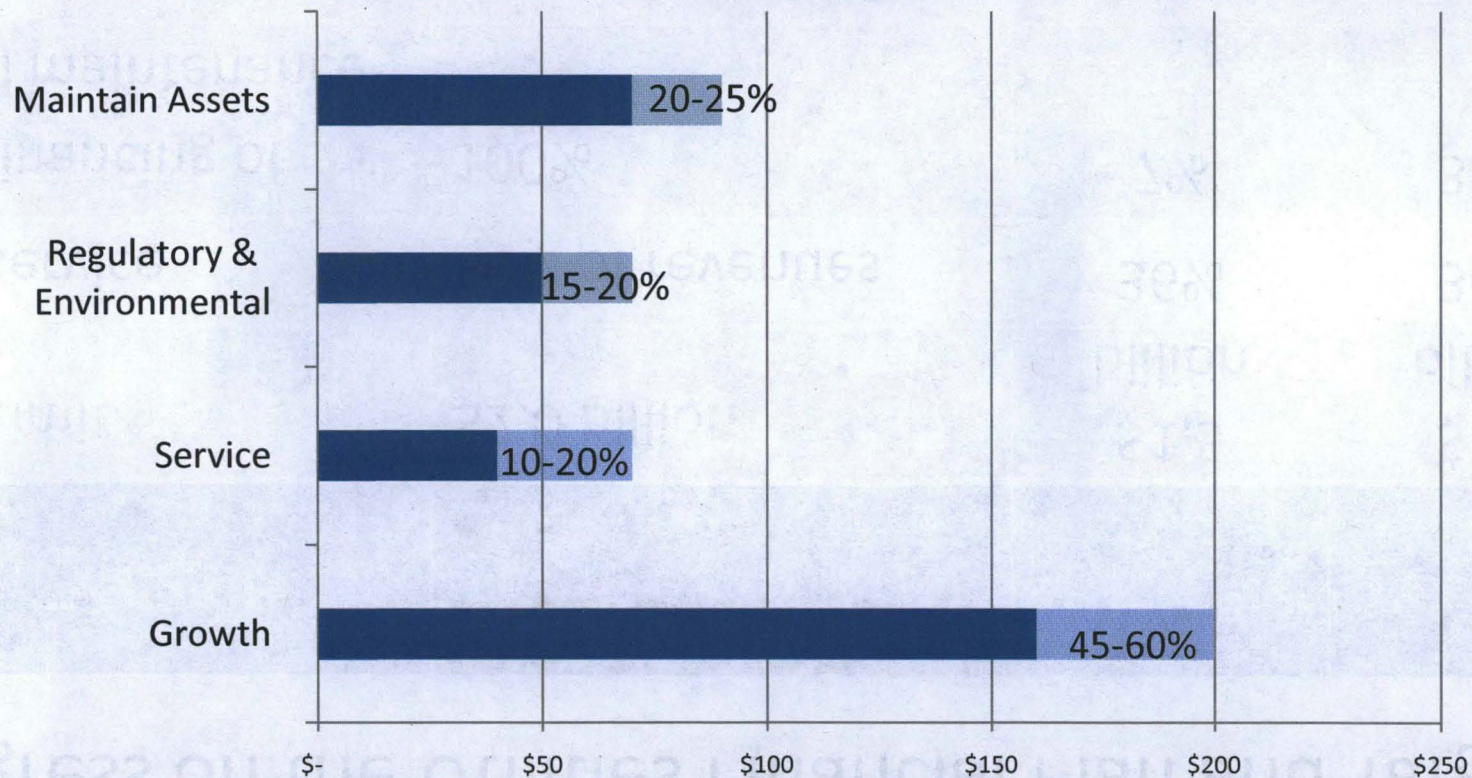


Growth

Providing infrastructure to meet the needs of a growing Calgary.

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**Utilities Capital Investment Allocation by Driver
(\$ millions)**



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Progress on the Utilities Financial Plan and Targets

Policy Area	6 Year Financial Plan Target	2011 Actual	2013 Actual
Debt Limit	\$2.0 billion	\$1.5 billion	\$1.5 billion
Debt service	40% of revenues	36%	30%
Cash financing of capital maintenance	100%	7%	35%
Sustainment reserve	10% of revenues	0.8%	0.9%
Debt to equity ratio	60/40	71/29	70/30

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Recommended Rate Scenario

	Increased Operating Costs	Increased Capital Program	Franchise Fee	Financial Policy			Estimated Total
				100% Cash Financing & 10% Reserves	Debt Limit Debt Servicing Limit	60/40 Debt/Equity	
Budget Requirement	\$29M	\$100M	10% of revenues	Compliance By 2018	\$2B max 40% max	Compliance By 2018	
Estimated Rate Impact (\$ increase to average monthly household bill)	2.0% (\$1.67)	1.6% (\$1.34)	0.8% (\$0.67)	1.5% (\$1.26)	2.4% (\$2.01)	0% (\$0.00)	8.3% (\$6.95)

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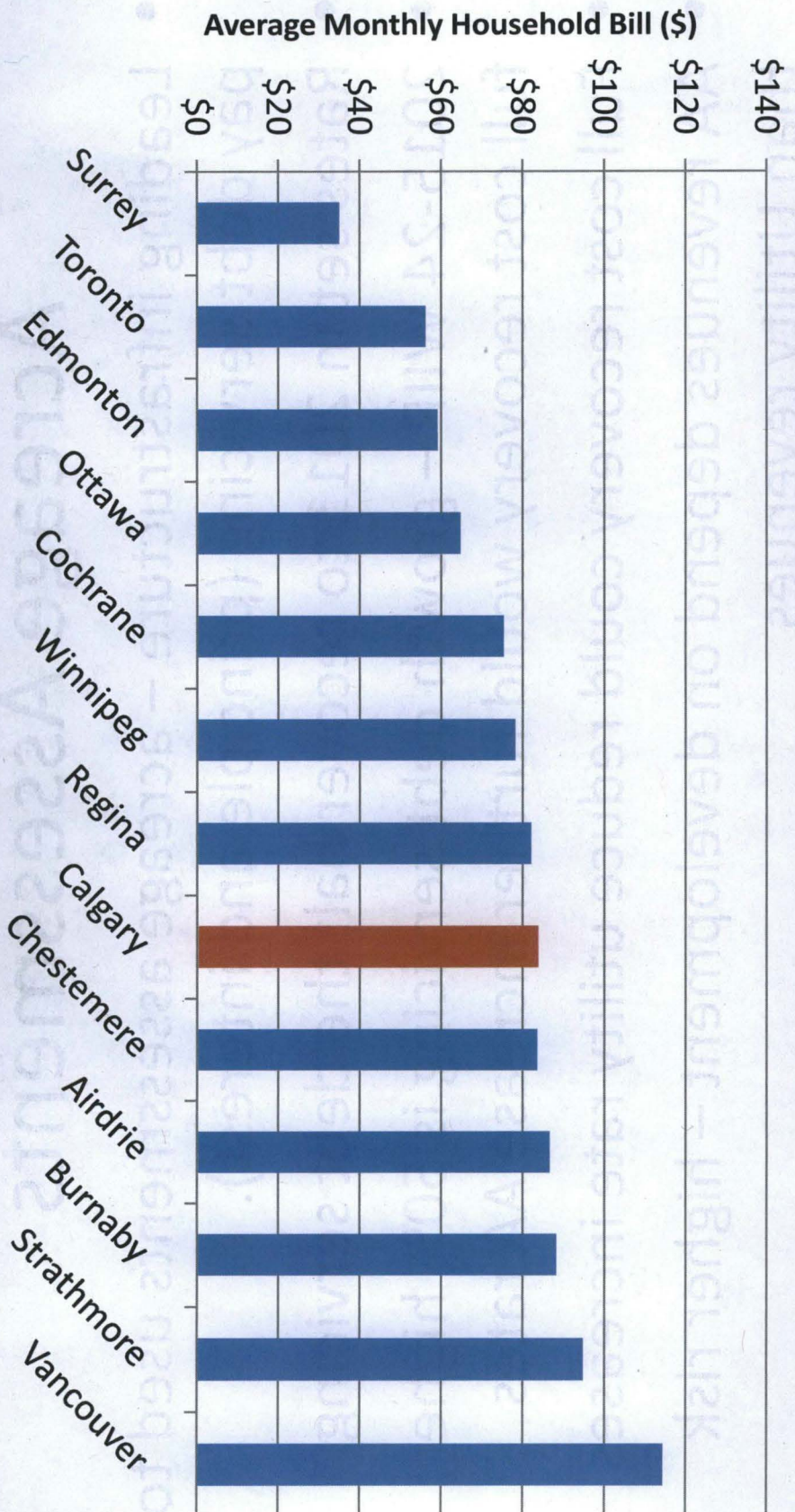
Recommended Annual Indicative Utility Rate Increases

Recommended 2015-2018 Annual Indicative Rate Increase

	2015	2016	2017	2018
Blended	8.3%	8.3%	8.3%	8.3%
Water	2.0%	2.0%	2.0%	2.0%
Wastewater	16.9%	15.8%	14.9%	14.2%

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2014 Water & Wastewater Bill



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Acreage Assessments

- Leading infrastructure – acreage assessments used to pay debt servicing (principle and interest).
- Rates set in 2011 to recover half the debt servicing.
- 2015-24 WIIP – growth debt servicing is 50% higher; full cost recovery would further increase AA rates
- Full cost recovery could reduce utility rate increases
- AA revenues depend on development – higher risk than Utility revenues

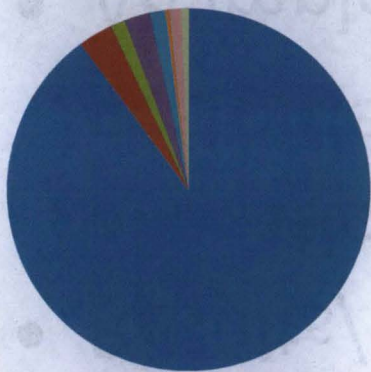
Cost of Service Study

- Study reviews the equitable allocation of costs among customer classes
- Results/recommendations on the cost allocation could impact the rates of each customer class
- An implementation plan for the cost allocation recommendations will be developed

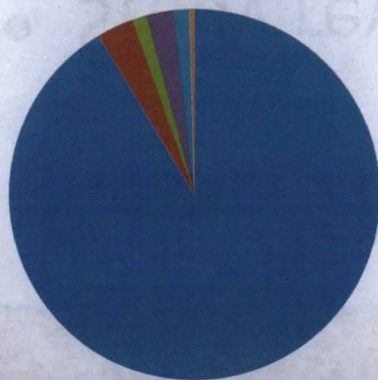
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Customer Class Summary for Water

Customer Class
Summary for Water




Customer Class
Summary for
Wastewater







Water Customer Class	Wastewater Customer Class
Residential (Metered)	Residential (Metered)
Residential (Flat)	Residential (Flat)
Multi-Family	Multi-Family
General Service (Small, Medium, Large and Sewer Exempt)	General Service (Small, Medium, and Large)
Irrigation (residential, GS, municipal)	Effluent Metered
Bulk Water	Over-strength Wastewater
Lake Community	Hauled Wastewater
Fire Protection	Groundwater
Calgary Municipal	Calgary Municipal
Regional	Regional

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Cost of Service Study Review of Reserve Policy

-  2015-2018
 - Operating reserve to meet short term variability in revenues and expenses
 - Expressed as number of days of O&M expenses
 - Ranging from 30 to 90 days

-  2015-2018
 - Capital reserve to meet unexpected emergency capital outlays and/or overruns
-  2019-2022
 - Expressed as a percentage of utility system assets
 - Ranging from 1-2% (\$54 - \$108M)

-  2015-2018
 - Rate stabilization reserve to manage the level of rates despite variability in water usage, weather, economic cycles, etc.
-  2019-2022
 - Not recommended by consultant at this time.

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2015-2018 Action Plan to include:

A focus on continual improvement:

- More frequent cost of service studies to ensure costs are allocated equitably
- Improvements to revenue forecasting
- A review of appropriate metrics to monitor financial health and performance for 2019-2022
 - Financial targets and policies required
 - Further review of industry best practices
- Implementation of findings from the Water Services' Zero-Based Review
- Water Resources' Zero-Based Review

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Recommendations

That Council:

1. Direct Administration to prepare the 2015-2018 Action Plan based on:
 - a. The Indicative Utility Rates in Attachment 2
 - b. The Utility financial targets for 2015-2018 in Attachment 2
 - c. An implementation plan for the cost allocation recommendations of the Cost of Service Study
2. Direct Administration to incorporate a Cost of Service Study and an evaluation of financial policies and targets for 2019-2022 in the 2015-2018 Action Plan;
3. Direct Administration to report back no later than 2016 June with an update on the Utilities Financial Plan progress and any necessary Utility rate adjustments including any adjustments to reflect the new Standard Development Agreement; and
4. Direct that this report is kept confidential until rise and report; and that the in camera presentations and discussions remain confidential under Sections 23(1)(b), 24(1)(a) and (b) of the Freedom of Information and Protection of Privacy Act or until directed otherwise.