

An aerial photograph of the Gold Bar Wastewater Treatment Plant. The image shows various industrial structures, including large rectangular tanks and buildings, situated in a valley. The background consists of rolling hills and some residential or commercial buildings. Two text boxes are overlaid on the image: a larger one at the top and a smaller one below it, both with blue borders. A thick blue horizontal bar is positioned between the two text boxes.

# Gold Bar Wastewater Treatment Plant

Transfer to EPCOR

# Process

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- Review of all previous study information
- Meetings held with Gold Bar Plant employees and surveys distributed
- Focus groups held with City of Edmonton and EPCOR staff
- Input from a number of customers and stakeholders considered
- Recommendation to transfer GBWWTP to EPCOR made to Council on Oct. 29, 2008
- Public hearing scheduled

# Different Proposal

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## 2008 Proposal

- Transfer of Gold Bar Plant only. Concerns related to planning and development and the SSSF are not relevant.
- Gold Bar Plant transfer would impact approximately 135 employees.
- Proposal includes a \$75 million transfer payment.
- EPCOR operating 19 wastewater treatment plants across Alberta and B.C.

## 2005 Proposal

- Transfer of the entire City Drainage Branch including the Gold Bar Plant, the collection system and land drainage.
- City Drainage Branch transfer would have impacted approximately 550 employees.
- No transfer payment was considered.
- EPCOR was only operating a few small wastewater treatment plants at the time.

# Different Proposal

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## 2008 Proposal

- Several large municipal and industrial wastewater opportunities currently exist for EPCOR and expertise from Gold Bar would be leveraged to access those opportunities.
- With growth and potential industrial development in the Capital Region, wastewater reuse has become a key water supply option for Edmonton and the Capital Region.

## 2005 Proposal

- No large scale wastewater operation opportunities existed at the time.
- Wastewater reuse was not considered a significant source for water supply

# Basis for Recommendation

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- Increased Revenue to the City
- Contribution toward growing EPCOR's business
- No City employees will lose their jobs as a result of the transfer
- Confidence in Environmental Stewardship
- No negative impact for Edmonton customers
- City of Edmonton retains ownership through ownership of EPCOR
- City Council continues to regulate Wastewater Treatment through bylaw

# Increase Revenue

- Transfer fee of \$75 million payable over 7 years
- Dividend from EPCOR-owned Gold Bar Plant
  - Projected based on current experience at 60% dividend rate versus existing 30% rate (40% in 2013)
  - EPCOR 's ability to pay a higher dividend is related to their ability to effectively utilize more debt than Drainage as well as other operating synergies and capital efficiencies.
- Incremental dividend from growth in operations from leveraged business opportunities as a result of the transfer – EPCOR projected total over ten years \$100 million
- Total EPCOR projected increase in revenue over ten years is \$198.5 million

# Increase Revenue

- Projected Impact on City Revenue updated since October 29, 2008

<b>Impact on City Revenue</b>										
(in 000's)										
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
EPCOR Transfer Fee	\$ 16,500	\$ 15,250	\$ 14,500	\$ 12,250	\$ 10,000	\$ 6,400	\$ 100			
Dividend from EPCOR @60%		\$ 4,625	\$ 6,074	\$ 6,191	\$ 6,742	\$ 7,906	\$ 8,808	\$ 10,103	\$ 11,053	\$ 12,395
Incremental Dividend from EPCOR				\$ 2,556	\$ 5,305	\$ 9,977	\$ 16,654	\$ 16,538	\$ 24,465	\$ 24,264
Less COE GBWWTP Dividend		\$ (2,699)	\$ (2,990)	\$ (3,183)	\$ (3,617)	\$ (5,731)	\$ (6,530)	\$ (7,541)	\$ (8,384)	\$ (9,482)
Net Increase to COE	\$ 16,500	\$ 17,176	\$ 17,584	\$ 17,814	\$ 18,430	\$ 18,552	\$ 19,032	\$ 19,100	\$ 27,134	\$ 27,177

- EPCOR commitment to minimum \$16.5 million annually in increased dividend/transfer payment associated with transfer

# Increase Revenue

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- Independent valuation by Grant Thornton
  - differences in model from EPCOR
- Grant Thornton model at October 31, 2008
- EPCOR model includes known transactions to December 31, 2008
- Grant Thornton utilized a more conservative discount value in NPV calculations to reflect their uncertainty around increased dividends

# Increase Revenue

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- Despite model differences, Grant Thornton report still recognizes a premium to market value
- NPV of total consideration:
  - Low - \$300.2 million
  - Mid-point - \$329.7 million
  - High - \$370.6 million

# Growing EPCOR's Business

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- EPCOR is a significant contributor to City revenues
  - Dividends & franchise fees paid to the City in 2007 totalled \$166 million
  - This is equivalent to 25% of the City's 2007 total taxation revenue
  - Since 1996 EPCOR has paid \$1.8 billion in dividends, taxes and franchise fees to the City
- Working with EPCOR to grow their business is in the City's best interests

# Environmental Stewardship

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- EPCOR's environmental reputation is excellent
  - In 2008 EPCOR was one of only 10 companies named as Canada's Most Earth-Friendly Employers
  - Corporate Knights magazine named EPCOR one of Canada's 50 Best Corporate Citizens of 2008
  - The E.L. Smith Water Treatment Plant upgrade received three awards in 2008, including an Alberta Emerald Award for Environmental Innovation
  - EPCOR's facilities were also recognized by the Alberta Government with an EnviroVista Leadership Award. To win this recognition a facility must have at least a five-year history of going beyond the requirements of their approvals to operate.

# Environmental Stewardship

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- EPCOR has a record of installing new technology and processes well in advance of legislative requirements
- EPCOR is a leader in water quality standards and water quality testing. Water test results for the Edmonton region are published daily
- EPCOR was the first large North American water utility to introduce ultra-violet technology into the treatment process to safeguard drinking water

# No Negative Customer Impact

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- EPCOR funding requirements for wastewater treatment would be approved together with Drainage Services' funding requirements for collection and transmission
- There would still be only one charge to the customer for sanitary utility fees
- Under the proposed model, the rates charged to the customer will not change as a result of the transfer

# City Retains Ownership

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- EPCOR is 100% owned by the City of Edmonton
- The recommended transfer of the Gold Bar Wastewater Treatment Plant allows the City to retain the plant as part of its asset base

# City Retains Ownership

City Council

## City of Edmonton Assets

### City Operations

Other Dept's  
& Services

Sanitary Drainage  
Utility

Collection &  
Transmission  
Assets

Gold Bar  
WWTP

### City Investments

**EPCOR**

Non-Profit  
Housing Corp.

# City Retains Ownership

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- If Council approves the transfer of the Gold Bar Plant to EPCOR, Administration will ensure that an appropriate mechanism is included within the transfer agreement that would allow for the transfer of the asset back to City operations

# Regulatory Process

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- EPCOR Water Systems Inc.
  - Operates under a Performance Based Regulation under City Bylaw 12585
    - Standards for System Reliability, Water Quality, Customer Service, Environment and Safety
    - Water rate changes limited to less than inflation
  - EPCOR has met these audited performance targets for seven consecutive years (2001 – 2007)

# Regulatory Process

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- In the event of a transfer, that portion of the Sanitary Utility relating to the Gold Bar Plant could move towards the Performance Based Rate model that EPCOR uses for the potable water utility
- As the regulator, Council has the authority to set the rates and to determine any performance criteria that would need to be met

# Council's Priorities

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## ■ 10-Year Strategic Goals:

- Ensure Edmonton's Financial Sustainability
- Diversify Edmonton's Economy

## ■ 3-Year Priority Goals:

- Increase revenue sources and reduce reliance on residential property tax to meet strategic infrastructure and service needs
- Work with both public and private sector partners to improve the favourable business and investment climate for:
  - Eco-industrial based economy;
  - Logistics and servicing for the needs of the North and Asia
  - Green technology development and commercialization; and
  - Entrepreneurs

# Council's Priorities

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- The recommended transfer of the Gold Bar Wastewater Treatment Plant to EPCOR contributes significantly to Council's priorities by providing additional revenue from a non-property tax source and by assisting with the diversification of EPCOR's business which is a substantial contributor to City revenue