

Water Utility Governance

Policy Type: GOVERNANCE PROCESS | GP-F-2.9

The City of Red Deer is a regional provider of water services to citizens, and customers located inside and outside its boundaries where approved by Council.

Guiding Principles

The Water Utility provides water, wastewater services. These water services are:

Safe: water services protect the well-being of the public and the environment.

Reliable: water services provide high quality, dependable services that are secure and resilient in the face of disruption.

Financially responsible: water services focus on cost efficiency and sustainable revenue, with pricing that reflects the resources and investments required to deliver and maintain water utility services.

Affordable: water service charges are fair, equitable, and structured to ensure affordability for all income levels.

Environmentally sustainable: water services consider the long-term impacts of water management and seeks to respond to changing environmental and regulatory requirements.

Well Stewarded: water service assets and infrastructure are well-managed and forward-looking, with proactive asset management and a focus on long-term infrastructure sustainability and responsible resource use.

Adaptable: water services are flexible and able to pivot in response to emerging concerns, opportunities, and customer needs, ensuring resilience alongside reliable service.

Rates:

- 1 Rate structures for Utilities must:
 - (1) Be in alignment with the guiding principles above
 - (2) reflect usage and promote conservation; and
 - (3) be structured so that Revenue Requirements can be met within a reasonable tolerance.
- 2 Rate making:
 - (1) adheres to regulated and legislated requirements; and

Water Utility Governance

Policy Type: GOVERNANCE PROCESS | GP-F-2.9

(2) adheres to generally accepted rate making standards.

- 3 The City collects from all In-city Customers Municipal Consent and Local Access Fee(s).
- 4 The City collects fees from all Regional Customers.
- 5 Rates must be approved by Council.

Debt:

- 6 Debt may be used to fund assets (e.g., capital expenditures) and must be in alignment with Council's Debt Policy GP-F-2.2.
- 7 The debt repayment period must not exceed the life of the asset that the debt is used to fund.

Return on Rate Base:

- 8 The equity rate of return used in the financial model must be in accordance with the most recent Alberta Utilities Commission (AUC) generic cost of capital decision or AUC approved substitute thereof.
- 9 The cost of deemed debt used in the financial model will be the fifteen-year Loans to Local Authorities mid-year rolling average rate.
- 10 The cost of actual debt used in the financial model is based on actual debt rates.
- 11 Deemed debt to equity ratio is applied as follows:
 - (1) Water As established by AUC
 - (2) Wastewater As established by AUC

Municipal Consent and Local Access Fee:

- 12 The City, according to its rights under the *Municipal Government Act*, specifies the method by which the MC and AF are calculated and collected. For non-municipal Utilities operating within the city, the terms of franchise fee collection are outlined within respective franchise agreements.
- 13 The MC and AF cannot exceed 15% of total revenue unless otherwise directed by Council.

Water Utility Governance

Policy Type: GOVERNANCE PROCESS GP-F-2.9

Regular Dividend:

14 An annual dividend must be paid to The City as a return on investment.

Special Dividend:

15 Where the capital reserve has excess funds relative to the forecasted capital expenditures, The City may require a special dividend be paid.

Capital Reserve:

16 A capital reserve is intended for:

- (1) asset replacement;
- (2) asset rehabilitation; or
- (3) acquisition of future assets to allow for long term financial planning and financial management of capital assets, for the purpose of re-investing in Water assets.

17 A capital surcharge may be incorporated in rates.

Rate Stabilization and Operating Reserve (RS&O):

18 The Rate Stabilization and Operating (RS&O) Reserve established are intended to:

- (1) maintain operations;
- (2) manage unplanned changes in operating expenditures and revenues; or
- (3) mitigate the impact of significant changes in Revenue Requirements on customer rates for any particular year.

19 A working capital minimum amount equal to approximately 45 days of operations will be set aside in the RS&O Reserve at the beginning of each year to be used to fund operations through below budget revenue periods and for unplanned expenditures.

20 A maximum RS&O Reserve balance must be the working capital minimum plus 12.5% of annual operating revenues.

21 Year-end actual surplus/deficit from operations must be transferred to/from the RS&O Reserve. If this action results in the RS&O Reserve being above the maximum or below the minimum balance, a transfer to/from the capital reserve must only occur if the transfer does not result in a negative capital reserve balance.

Transitional Provisions:

Water Utility Governance

Policy Type: GOVERNANCE PROCESS | GP-F-2.9

- 22 The provisions in this Policy for rate structures, debt, reserves, dividends, and return may be phased in to mitigate 'rate shock' and allow for the management of rate changes, if required.
- 23 An annual report on the progress made towards full compliance with this Policy will be made to Council.

Definitions:

- 24 **"In-city Customer"** means customers located within the boundary of The City of Red Deer.
- 25 **"Access Fees"** or **"AF"** means fees used for City rights-of-way, including maintenance costs and costs associated with integrating rights-of-way of electric wires, gas pipelines, water and sewer lines, and roads.
- 26 **"Municipal Consent"** or **"MC"** means the fee for granting the Utility an exclusive franchise for service in the city.
- 27 **"Rate Base"** means working capital plus the depreciated value of the assets on which a Utility is permitted to earn a return in accordance with the generally accepted regulatory principles in Alberta.
- 28 **"Regional Customer"** means customers located outside of the city boundary.
- 29 **"Reserves"** has the same meaning as in Council's Reserves Policy GP-F-2.0.
- 30 **"Revenue Requirement"** means a fair and reasonable amount of revenue that is recovered in Utility rates.
- 31 **"Water services"** means refers to Water, Wastewater services provided by The City.

Document History:

Policy Adopted	May 20, 2025
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