

# CUI 2017 Utility Rate Request Final Submission

## Appendix 1

December 5, 2016 Prepared Remarks

CUI CEO to Council

December 16, 2016

**CUI 2017 Utility Rate Request Presentation – December 5, 2016**

Good afternoon your Worship, members of Council, Dr. Patrick. I'm pleased to be here today supported by four members of CUI's Board of Directors. Our Chair Leslie Weekes, Brian Milne, Treasurer and Chair of our Finance & Audit Committee and Lou Dorion Director and Chestermere resident.

We understand that the people of Chestermere are unhappy with our request to raise their rates for 2017. No one likes paying more and we don't like asking them to.

As we shared with Council last year: the circumstances which have brought CUI to this point aren't going to be solved quickly. We're on a journey. We've made some great progress in the last year, but there is still much work to be done.

I don't propose to take you through all the detail contained in our request this afternoon. But would instead like to discuss some of the strategic imperatives behind the actual document.

Just a quick sidebar, for those who are interested, these remarks will be published on our website with links to some of the sources that I'll be referencing.

To the people who ask: Why are our rates so high? Why haven't you done more to reduce costs and find efficiencies I offer the following **four** simple, irrefutable facts:

**First:** Safe, reliable access to water and related services is unquestionably among the most essential of services. While notionally "free" at its source, the safe distribution of drinking water and the management of waste and storm water in a setting like Chestermere's which is both rural and urban, is a complex and costly undertaking and must be understood as such.

We need only to remember the tragic events of Walkerton, ON, North Battleford, SK, or more recently and closer to home the destructive forces of the 2015 storms to understand the impact that water has on our lives.

To reflect the importance of the safety of our water supply, policy makers in jurisdictions across North America including Alberta have adopted full cost accounting or a utility approach for setting customer rates. They agree it is important that consumers see the full costs of this vital service and, just as important that we starting to take the "politics" out of the related decision making.

Why? Because politics can't be allowed to get in the way of people having safe and reliable access to the most essential of services. I know you understand this, but I think it bears highlighting given the broader community conversations that are now underway.



As mandated by Council when it adopted the recommendations of the Stack'd report, the application of a utility approach requires that an appropriate apportionment of amortization, financing costs and a reasonable return on equity be recovered through the rates charged to our customers. The proposal as submitted by CUI meets these requirements.

A utility approach ensures that the funds are available to safely operate, maintain and renew the system without requiring huge cash infusions from the system's owners.

A utility approach also ensures long term financial sustainability and once fully adopted, it helps keep decision makers (often elected like yourselves) out of the impossibly difficult, sometimes conflicted position of where, on the one hand you understand that investment in the system is required and but on the other hand know that people who elected you won't be happy about paying more.

Yes, the transition from the prior rate making approach to this new model, has some growing pains. We're certainly feeling them now, but in the long run it is the best approach. It creates the means for stable rates and a safe, reliable system.

Council, you should be proud of your courageous leadership on this front. There are not many folks in your shoes who have been willing to take these steps, despite a 2008 Alberta Environment recommendation that they do so. (<http://bit.ly/2gPuHs3> )

As a result, (and as you've heard me say before) you can't compare our rates to anyone else in our neighbourhood. First of all, no one else in the area, other than Langdon (and only partially) is operating on a utility rate basis.

Airdrie, Black Diamond, Calgary, Strathmore, Okotoks, and Langdon all cover the entire cost of operating the storm system from property tax revenue. They also don't offer the same solid waste programs that CUI does. You don't have to take my word for it. I've provided a link to a spreadsheet maintained by an independent third party which compares all of the municipal rates in the province here in my notes. <http://bit.ly/2g1F3Eh>

While a city, Chestermere is still very small – CUI has 6,000 accounts across which the costs of operating the system must be shared. We all understand the basic principles around economies of scale. As we grow and add more accounts, the allocated cost per customer for things like overhead will go down. But first we must grow.

And, before we can grow we must address the critical deficiencies in the sanitary and storm systems to ensure that we are operating in compliance with regulatory standards and are not putting at risk our ability to provide safe and reliable service.



In 2017, addressing these system issues is going to require significant investment – \$21 million. Of this, \$9.8 million is a direct expense to the rate base. Ensuring we are operating in compliance with regulatory standards, is not optional – it's table stakes.

**Second:** Many of the expenses related to serving this community are beyond CUI's influence.

Case in point, Chestermere's beautiful topography – the one that drew people here and gives us a great view of the mountains on our way out of the City and creates the natural originating conditions for lovely Lake Chestermere makes it **expensive to efficiently operate a sanitary system.**

Mother nature (more specifically - gravity) wants to send our water downhill towards the lake but we need to send it uphill to Calgary for treatment. The low spots require lift stations be installed to move this wastewater to Calgary. Lift stations are expensive to build and maintain especially when we have 13 of them. In aggregate, power and natural gas costs to run the lift stations alone exceed \$10,000 per month.

Of CUI's Operating & Maintenance expenses, 47% or \$6.8 million are paid to the City of Calgary, EPCOR and the Western Irrigation District due to multi-year agreements. CUI is doing its best to manage within the terms of these contracts to find efficiencies.

However, these are legally binding agreements. They can not unilaterally be terminated or amended without the consent of the counterparty and without financial penalties – in most cases – significant ones.

Amortization expenses represents 17% or a \$2.5 million charge on CUI's income statement. Of that total, 66% or a \$1.7 million is included in the 2017 rate base revenue requirement.

CUI's amortization expense goes to planning for the eventual replacement of our assets. Just like owning and managing your home, your annual budget needs to include the costs of paying your mortgage; both principal and interest, and saving to replace the roof and the furnace when they eventually wear out.

Using the Utility approach, the amortization expense charged to rate base only recovers a portion of the original cost of CUI's assets, and that's where the need for Return on Equity comes in.

Return on equity ensures that we are able to access the funds required (through a combination of debt and equity) to replace our assets in the future at their inflated replacement cost.

**Third:** Our people costs are about 14% of CUI's total Operating & Maintenance expense. Comparators are limited, but Aquatera, who serves the people of the Grand Prairie region with a similar mandate showed salaries, wages and benefits as 36% of total expenses in 2015, even while they outsource curbside collection.



Our people are vital to providing the services you expect. We need them and we don't have enough of them. Many of our key roles have no redundancy. If someone gets sick or wins the lottery, there are things we can't do. This is not an acceptable level of risk for an essential services provider.

We've tried outsourcing; however it's proven to be expensive, inflexible and in the case of our curbside collection providers, didn't deliver the level of service people expected.

So, we have chosen to carefully and thoughtfully invest in our people, by recruiting and retaining people who are excited about our mandate and committed to our values.

CUI frontline and management employees did not receive salary increases in 2016. The typical operator earns \$25/hour compared to \$32/hour in Calgary. They work 10 -12 hours a day and are frequently subjected to harsh criticism, bullying and physical threats from customers who are unhappy when they simply do their job and collect waste in compliance with the City's solid waste bylaws.

Most people probably don't realize that in order to keep our costs down, and our ability to respond up, our solid waste operators and most of our management team members are cross trained to support our storm water operations. In the summer of 2015, some left their own homes as they were flooding to help you – their customers.

Our front line customer service people keep their cool and remain respectful in the face of being called unspeakable names on the phone just for telling a customer that the reason their organics bin wasn't collected is because we switched to the bi-weekly schedule at the beginning of the month. They've received death threats because we've disconnected people's water when they haven't paid their bills for months.

Do we perform all of our duties perfectly? No. Can we do better? Absolutely! But, it must be said, that contrary to what social media would have you believe, our team members are **NOT** lazy, callous or self-serving. They **do not** deserve the harassment they've received from some members of this community. They do deserve and in fact, it is our obligation to provide, a safe work environment. That is why we had to stop providing counter service earlier this year – it just wasn't safe.

Perhaps most importantly we should acknowledge that many of them are your neighbours and they share this burden as well.

**Finally** – we **are** making headway on managing our controllable costs. Working strategically, we've eliminated hundreds of thousand of dollars of costs in the last year and, we hope to announce in the coming weeks changes to one of our largest commercial arrangements that will provide significant financial benefits to our customers in the coming years.



We've re-scoped two of our major infrastructure projects reducing costs by millions and mitigating the associated rate impacts to our existing customers.

We're reviewing our investment policies to ensure that we **never** have another Lift Station 13. Projects that support growth will **only** proceed once there is a meaningful financial commitment from the developer community.

We've initiated an ambitious program to identify and solve our issue with water losses. In 2015, 22% of the water purchased from the City of Calgary went 'missing'. That means we paid, \$300,000 for water that was received into our system but wasn't billed to an end-user.

Now some measure of water loss is normal due to things like use for fire fighting and service breaks. An accepted rate for a relatively new urban system like Chestermere's is 10%.

We **are** focused on improving customer service in a cost effective manner. We recently launched an online appointment scheduling service for cart deliveries and meter service. We've introduced evening appointments for meter installations, repairs and replacements. We found a way to bring back credit card payment as an option for those who want it without burdening the rest of our customers with the associated fees.

We're updating our website and will be providing our customers access to a great tool which will allow you to set text message reminders for garbage and organics collection. The service also has an app that you can download on your mobile device which includes an extensive searchable database which should make sorting simple.

We're looking forward to welcoming customers back at the office in the new year having completed some retrofits to our space which will allow this interaction safely.

We will be implementing a customer satisfaction survey protocol so that we can get real time feedback as to what we're doing well and where we need to improve. The results will guide our planning priorities for future years.

In summary, these are complex matters. We've submitted a request for 2017 rates in which we've carefully balanced the priorities set out in the Mandate and Regulatory Framework approved by this Council.

We look forward to working with Council, Administration, your advisors and our customers to shed light on the substantive issues contained in this proposal and finding a way forward – together.

