

CUI 2017 Utility Rate Request Final Submission

Appendix 4

Information Requests from Interested Parties

December 16, 2016

Question(s) from: Bryan Lissel

Date Received: December 1, 2016

During the special meeting held by Chestermere council on February 18th 2016, Mayor Matthews made the following statement: "We have also asked CUI to take additional measures to cut costs and improve efficiencies in order to make up any additional shortfall." Can you please list what measures you have taken to cut costs and improve efficiencies. In addition, can you please show the positive or negative impact these changes have made.

Response:

Regrettably, fully 75% of CUI's expenses are not within CUI's ability to manage and therefore it is not possible for CUI to fully address shortfalls through cost cutting and efficiency measures. However, we have made some progress on this front: solid waste efficiencies are described in Section 3.4, pages 22 – 24 of our submission and contribute to the proposed reduction in solid waste rates for 2017.

For additional information regarding CUI's approach to developing the 2017 rate request we refer you to our CEO's presentation to Council of December 5, 2016 which can be found here ([Link¹](#)).

We would be happy to respond to any specific questions you might have regarding the contents of our proposal once you've had an opportunity to review the materials provided.

¹ CUI's response to the interested party included a live link to the referenced materials.



Question(s) from: Kathy Poirer

Date Received: December 1, 2016

How can you justify asking us to keep paying and paying and paying more and more and more without taking into account the economic situation in Alberta? So many Albertans out of work and can't get jobs. No companies are giving wage increases in the private sector period. But notice all wages on your spreadsheets show increases year over year. Cost of living increases you might call them but the regular residents don't get them from their jobs. We only have so much we can take from everyone and every agency be it municipal, provincial, federal before we break and then can't pay anything. Find ways not to increase such a huge amount!! There is better efficiencies you all just need to take a step back and bit the bullet!!

Response:

We understand that our customers are unhappy with our proposal to change rates in 2017 and we are not happy to have to ask for it. For a more complete discussion of the issues underlying our request to change the rates for 2017 I refer you to our proposal which can be found here ([Link](#)) and our CEO's presentation to Council of December 5, 2016 which can be found here: ([Link](#)). We would be happy to respond to any specific questions you might have regarding the contents of our proposal once you've had an opportunity to review the materials.



Question(s) from: Sarah Woroniuk

Date Received: December 1, 2016

I have a question regarding the booking of Amortization expenses in your financial reporting. In your statements you have Amortization expense as part of the operating expenses included in the Rate based net income. In all financial statements I have dealt with Amortization is not included as an actual operating expense, interest on loans for new capital assets are but not amortization. I believe (please correct me if I'm wrong) that this is the amortization of the contributed assets to CUI? If so this cost is related to contributed assets and should be found in that section of the income statement not grouped in with the rate setting costs. Can you please let me know why these statements show amortization as a rate based expense?

Response:

The approach followed by CUI in preparing its 2017 submission complies with the requirements set out by the City in the Mandate and Regulatory Framework document as approved by Council on November 21, 2016 which can be found here: [\(Link\)](#) .

CUI's approach, as summarized in the introduction to the Rate Base section provided on Page 9 of 30 of our December 1, 2017 submission is supported by Alberta Environment.

Amortization of non-contributed assets is normally included in a utility approach for rate setting. As such we've included non-contributed asset (rate base) amortization as a factor for setting each of the rates. You'll see that component as the third item under expenses and the remaining amortization – related to contributed assets (non-rate base) as the second line under the rate base net income (loss) line for each statement. The asset balances at year end 2016 and for each of years in the planning period are provided in the notes to each statement for your ease of reference.

Further information regarding CUI's 2017 request is provided in our CEO's presentation to Council of December 5, 2016 which includes a link to the Alberta Environment recommendation noted above, can be found here: [\(Link\)](#).

We would be happy to respond to any additional questions you might have regarding the contents of our proposal once you've had an opportunity to review the additional materials.



Question(s) from: Denise Hansen

Date Received: December 2, 2016

I live alone in Chestermere and honestly the water sewer etc. rates are very high now. How am I to afford to continue living in Chestermere? My family lives in Calgary and their rates are not this high?

My taxes are high too.

Response:

We understand that our customers are unhappy with our proposal to change rates in 2017 and we are not happy to have to ask for it. For a discussion regarding why CUI's rates differ from that of neighbouring communities we refer you to our CEO's presentation to Council of December 5, 2016 which can be found here: [\(Link\)](#).

We would be happy to respond to any specific questions you might have regarding the contents of our proposal once you've had an opportunity to review the materials. Questions regarding your taxes need to be directed to City of Chestermere Administration.



Question(s) from: Patrick Linfoot

Date Received: December 2, 2016

What warrants a Security System for Water and Wastewater? Has there been Vandalism/Theft? If so, What were those costs?

The Storm that happened July 12th, 2015 was a rare occurrence. How do you justify immediately taking action as a result of it? And why isn't there a longer term solution that would spread the cost over many years rather than an immediate spike?

Response:

Many of CUI's remote facilities have been the target of vandalism over the years. These incidents are increasing in frequency.

Even the appearance of system tampering; whether real or a hoax at any of these locations would cause untold operational difficulties and possibly the interruption of service to customers. Making the facilities more difficult to enter and adding the ability to monitor remotely for unauthorized access is an effective means to mitigating these types of unnecessary risks.

Regarding the project to upgrade Westmere Pond, we refer you to the analysis provided in Appendix 1, Section 4.1, pages 24 and 25 of our submission.

Quite simply, we cannot predict when the next major flood event may occur. The system that is currently in place was designed to be "temporary". We've evaluated a number of technical options and have proposed a solution that will meet the needs of the community best over the long term.

Together with the City we've applied for grant funding that we hope will be approved and relieve some of rate pressure for our customers. However, whether grant funding is received or not, we estimate that the financial consequences of another flood related to the operational interruption and property damage, not to mention the heartache and inconvenience that would be experienced by the affected residents, would far exceed the costs of the project we have proposed.



Question(s) from: Olia Vavriyчук

Date Received: December 2, 2016

I am extremely unhappy with the proposed utility increase for 2017. The services you provide to the residents of Chestermere are already priced too high in comparison to Calgary provider. Needless to say the poor quality of your services and incredibly poor customer service.

The cost of your utilities increased tremendously in 2016 after you switched to monthly billing as a way to mask yet increased charges for the poor quality services. How do you justify yet another increase?

Please advise what is the benefit to the residents of Chestermere of having CUI provide these services. Given your lack of quality services and non justifiable constant increase in rates, perhaps there is no need in having you provide the services, but rather have the city outsource it at a more affordable rate.

Response:

We understand that our customers are unhappy with our proposal to change rates in 2017 and we are not happy to have to ask for it. For a discussion regarding why CUI's rates differ from that of neighbouring communities and the actions underway to improve customer service we refer you to our CEO's presentation to Council of December 5, 2016 which can be found here: [\(Link\)](#).

All of the reasons underlying CUI's request for a change to its rates in 2017 can be found here in our proposal documents here: [\(Link\)](#) and were explained in more detail by our CEO in a presentation to Council on December 5, 2016 which can be found here [\(Link\)](#).

As owner of the system, CUI already relies on the services of outsourced providers to supplement our staffing and operate the system safely and reliably. For a discussion of the merits of a utility approach to providing water and solid waste services and our experience with outsourcing we refer you to our CEO's presentation to Council of December 5, 2016 which can be found here: [\(Link\)](#).

We would be happy to respond to any specific questions you might have regarding the contents of our proposal once you've had an opportunity to review the materials.



Question(s) from: Pennie Brennan

Date Received: December 2, 2016

I can not believe what I am reading. CUI wants to raise our water bill. 25 percent was not enough last year. Chestermere will be a ghost town if you raise it again 15 percent. That would be a 40 percent increase in a year! Are you guys in sane. Do you want to ruin our city. No one can afford this type of increase. This is ridiculous and you would think a petition that had over 5000 signatures would have opened your eyes. The people are angry with CUI already and you want to do this. CUI needs to be dissolved and I will keep fighting for this.

Response:

We understand that our customers are unhappy with our proposal to change rates in 2017 and we are not happy to have to ask for it. We do note however, that rates for water and sanitary services did not increase 25% in 2016; that was CUI's request, but Council limited the 2016 rate increase to 15%.

All of the reasons underlying CUI's request for a change to its rates in 2017 can be found here ([Link](#)) and our CEO's presentation to Council of December 5, 2016 can be found here: ([Link](#)).

We would be happy to respond to any specific questions you might have regarding the contents of our proposal once you've had an opportunity to review the materials.



Question(s) from: Matt Lamirande**Date Received:** December 2, 2016

1. Does Chestermere have an alternative to CUI? Specifically the garbage/recycling. Most monopolies are illegal. This could be done at no charge for residents if they choose to do it themselves.
2. What measures have CUI taken to reduce their spending/costs? Obviously the company has not been running efficiently and the residents want some transparency. Downsizing? Lay-offs?
3. What has been the total % rate increase over the past 2 years
4. Are there currently CUI board members who are The City of Chestermere councillors? Residents have pointed out they believe there could be a conflict of interest.
5. Why are our rates so much higher than Calgary?

There are A LOT of upset residents in the City of Chestermere, as you are probably aware. Some are even seeking lawyer advice on a possible class action lawsuit. Obviously, no one wants to be in this position but it's the Chestermere residents who are ultimately paying the price for CUI not being run properly, which is not fair. Hopefully there can be some kind of solution to the issue as I know another rate increase, this time of 15%, will not be accepted by the residents.

Response:

1. The provision of water and solid waste services is governed by the Municipal Government Act and CUI (owned 100% by the City of Chestermere) has been delegated the authority to provide these services on the City's behalf through the City's Bylaw No. 029-13; Chestermere Utilities Exclusivity Bylaw ([Link](#)). There is no utility in the Province of Alberta that allows its customers to "opt out" of receiving utility services.
2. CUI has realized significant efficiencies in the delivery of its solid waste program in the last year. These efficiencies are described in Section 3.4, pages 22 – 24 of our submission and contribute to the proposed reduction in rates for 2017 which can be downloaded here: ([Link](#)). Regrettably, fully 75% of CUI's expenses are not within CUI's ability to manage and therefore it is not possible for CUI to fully address shortfalls and reduce the request rate changes through cost cutting and efficiency measures. For a more complete discussion of these challenges we refer you to our CEO's presentation to Council of December 5, 2016 which can be found here: ([Link](#)).



3. CUI's water and sanitary rates increased 15% in 2016. Storm and solid waste rates increased 25% in 2016. Proposed rate changes for 2017 can be found in Section 1, Table 1.1 page 4 of our 2017 rate proposal which can be downloaded here: [\(Link\)](#).
4. No – CUI's Board of Directors does not currently include elected officials. A complete list of CUI's Directors and their backgrounds can be found on our website here: [\(Link\)](#).
5. For a discussion regarding why CUI's rates differ from that of neighbouring communities we refer you to our CEO's presentation to Council of December 5, 2016 which can be found here: [\(Link\)](#).

We understand that our customers are unhappy with our proposal to change rates in 2017 and we are not happy to have to ask for it. The Link provided above in response to your 5th question addresses the reasons as to why we have taken the approach we have. We would be happy to respond to any specific questions you might have regarding the contents of our proposal once you've had an opportunity to review the materials we've provided in support of our request.



Question(s) from: Penny Gair

Date Received: December 2, 2016

Good day, I believe that the setting of utility rates is a complex undertaking, one which is not well understood by customers. However this proposed increase, combined with last year's increase, is not acceptable.

An average 15% rate increase to a customer's bill is a "rate shock", not a mitigation of rate shock. Given the current adverse economic conditions this rate request is a serious concern for Chestermere utility customers. A 59% increase in Storm services is absolutely not acceptable.

Table 1 indicates a 50% total bill increase to customers over a four year period. This is totally outrageous! Please provide a comparison of customer utility customer billing for the following periods: 2014, 2015, 2016, 2017, 2018 and 2019 where Chestermere's rates are compared to Okotoks, Airdrie, Cochrane and Strathmore.

Have you considered other operating and maintenance alternatives apart from contracting to EPCOR? If so, can you provide me with the cost comparison of those alternatives?

Response:

We understand that our customers are unhappy with our proposal to change rates in 2017 and we are not happy to have to ask for it. Regrettably, fully 75% of CUI's expenses are not within CUI's ability to manage and therefore it is not possible for CUI to fully address shortfalls through cost cutting and efficiency measures.

For a more complete discussion of these challenges we refer you to our CEO's presentation to Council of December 5, 2016 which can be found here: [\(Link\)](#). This presentation also addressed your question regarding comparing CUI's rates to those of other communities (including a link to a third party website) and the EPCOR arrangements.

We would be happy to respond to any additional questions you might have regarding the contents of our proposal once you've had an opportunity to review the additional materials.



Question(s) from: Debbie Foster

Date Received: December 2, 2016

Can you please explain to me how I can shut my services off for half the year? That includes garbage and everything on my monthly bill.

Response:

CUI provides a seasonal disconnect service for customers who are leaving their premises for an extended period of time. Please contact our office for more information regarding this service and associated fees.



Question(s) from: Sarah Nicholson & Mark Wolynice

Date Received: December 3, 2016

As new homeowners in Chestermere, we would like to submit several questions for the Dec. 15th meeting.

1. Could you please explain to us why Chestermere does not have access to utility providers other than CUI? As a monopoly, it is clearly inefficient as the rates are much higher than the city of Calgary.
2. Can Chestermere reform policy and explore options to link into the Calgary system so as not to have such high water/garbage rates for residents?
3. Given that the December 19th meeting is so close to Christmas, can the date be changed to the second week of January to allow those like us who are travelling home at that time the opportunity to attend? We and many others are away on that date for Christmas with family outside of Alberta.
4. Rate increases are making it so difficult to afford to live in Chestermere that many are considering moving into Calgary. What can be done to reduce CUI and tax rates? For example, the recycling program is a waste of money and should be removed or scaled back.
5. Based on the exorbitant cost, it seems that it might be wiser to eliminate the CUI completely. Can you please investigate the cost of sub-contracting everything to Calgary?

Response:

We understand that our customers are unhappy with our proposal to change rates in 2017 and we are not happy to have to ask for it. All of the reasons underlying CUI's request for a change to its rates in 2017 can be found here ([Link](#)) and our CEO's presentation to Council of December 5, 2016 can be found here: ([Link](#)).

1. The provision of water and solid waste services is governed by the Municipal Government Act and CUI (owned 100% by the City of Chestermere) has been delegated the authority to provide these services on the City's behalf through the City's Bylaw No. 029-13: Chestermere Utilities Exclusivity Bylaw ([Link](#)).



Information regarding why CUI's rates differ from that of neighboring communities can be found in our CEO's presentation to Council of December 5, 2016 which can be found here: [\(Link\)](#).

2. CUI is aware that over the past year, the City of Chestermere has engaged the services of an expert consultant to assist them in evaluating alternatives with respect to the role of CUI in providing utility services in Chestermere. One of the recommendations of the City's consultant was that CUI should remain a separate legal structure. This recommendation was formally adopted by City Council at its September 19th meeting. Additional information regarding this process can be found on the City's website [\(Link\)](#). Any questions regarding this process should be directed to the City.
3. CUI requires that new rates be approved by January 1, 2017 and have planned our 2017 Utility Rate Request to coincide with Council's normal meeting schedule which is published at the beginning of each year. We recognize that this is a busy time for folks which is why all of our information has been made available online ([here](#)) and we have created the opportunity for people to ask questions in writing.
4. Regrettably, fully 75% of CUI's expenses are not within CUI's ability to manage and therefore it is not possible for CUI to fully address shortfalls through cost cutting and efficiency measures. Questions regarding property taxes should be directed to the City.
5. Please see response provided to question 2 above.



Question(s) from: Rod Pearce

Date Received: December 4, 2016

To whom it may concern: (perhaps to the new Customer relations manager?) Please forgive me in advance if I don't fully understand some of the financial items and the exact meaning of some of the numbers that I have reviewed in your documents as I am not an accountant. But after many hours digging up and reviewing various documents from CUI and City Council that have been posted on the internet I definitely have a few questions.

Below you will find enough words to perhaps question if this is just a rant (the definition of which is to speak or shout at length in a wild, impassioned way) from an upset 15 year resident or some actual questions. However I don't feel that it is a rant as I am simply reflecting on facts, some of which are in your document - 2017 Utility Rates (dated December 1 2016). So regarding this document there are a few items that I find alarming. From page 19 of your document: "Over the last 16 months CUI has determined that the wastewater system serving Chestermere's customers is severely compromised. Seven of CUIs lift stations do not meet AE standards for pumping capacity and there are four sections of the collection system which are over capacity. The resulting risk of failure, property damage and environmental contamination is very high. Other than that being worrisome (Holy Crap! - literally), what is also alarming to me is the realization that it appears to be that council has not mandated that developers must pay appropriate (or any?) funds towards the upgrades to the existing sanitary waste system that are obviously required when you add 15,000 people to a community (over the past 15 years). I will try to dig up previous developers proposals to see if there is any mention of supporting existing infrastructure, but I have the feeling that they were just laughing all the way to the bank. When I look at Table 2.1 on page 6 of your document it appears that there are large sums of money (about 20 million dollars in 2017) that you are forecasting for buildings and Engineered Structures and therefore I have to conclude that this is the main reason that you are requesting this increase. So, my three questions related to this are:

1. What (how much) have past and current developers paid (if anything) to support our now over capacity waste system? And where did that money go? Note that when I look at the City Council meeting Agenda for December 19th , specifically Land use Bylaw 025-16 Schedule A (United Communities beautifully presented November 2016 proposal for "Chelsea"), item 10.2 catches my attention as I believe it is probably a good example related to the current situation that we find ourselves in. It appears that United Communities would only be responsible for servicing the proposed development area itself and not contributing to the very costly improvements and upgrades required to the existing systems. 10.2 Sanitary Servicing "Wastewater from the Chelsea lands will be discharged into the proposed sanitary sewer trunk on Rainbow Road, which



ultimately conveys the flow to Lift Station # 13, from which it will be pumped to the City of Calgary. Construction of Lift Station # 13 is underway with completion expected in 2016. The proposed sanitary trunk on Rainbow Road is part of the Offsite Levy Bylaw, with construction anticipated in 2016-2017. The Chelsea sanitary sewer collector pipes will tie to the collector pipes in the proposed adjacent development at the east boundary, which will ultimately connect to the proposed sanitary trunk on Rainbow Road.

2. Going forward what will future developers be paying to upgrade our waste system as is required to handle capacity related to the new residents? Or will this cost simply be passed onto all the existing and new residents as it appears to have been done so in the past?
3. How is it acceptable to any of us (including City Council and CUI) that the developers only build the infrastructure for the area of development and not contribute to the new lift stations and upgrades that are required due to the increased population?

On another topic, given our current economic climate I believe that next year...and this past year for that matter is not the time to be adding staff – some of which you have already done. Especially in some positions that I would consider to be non essential roles – for example a customer relations manager. Given the public outrage towards CUI I have to wonder how this position is working out for us. Yes I say “us” instead of “you” as CUI and city council is supposed to be serving us the residents (unfortunately it seems to be the norm now that government and essential service companies at perhaps all levels are simply self serving). You cannot possibly be so blind that you not realize that the vast majority of residents in Chestermere are very upset with both City council and CUI over what has been brought to our attention and what has been happening over the past year or so? No, you can't be... I guess that's why we are already paying for your Customer Relations Manager. This person should be relating to the customers' – correct? I tried to find out who they are and what their job description is or any way to contact them online but have had no luck. Maybe I should go to your office and ask... oh yeah right I can't do that unless I make an appointment from 8:30 to 4:30 Monday thru Friday - when I am at my job – you know to make money so I can pay for all of my families taxes and services (Ok, so that last bit was a bit of a rant). Anyhoo, while on this topic, I believe that closing your “storefront” was not a cost saving initiative as you have stated but that in reality this you're your response to having to deal with upset residents dropping off their payments and giving some poor person in your office a piece of their mind. I won't formally ask you to respond to this (why you really closed your storefront), unless of course you really, really want to...Anyways, now is not the time to be spending any of our money (yes, our money) for: - Hiring new employees as per Page 6 item 9 “Three new FTE's added for 2017 and creation of a pool for merit based salary increases at 2.4% consistent with the City of Chestermere 2017 budget”- Giving any sort of raises (again as per item 9). Sure 2.4% does not seem like not much but when many of us have lost our jobs or have been forced to take wage cuts to keep them... how dare you. (and your statement



that this is in line with the city of Chestermere 2017 budget just makes me upset with our City Council as well as CUI) Thanks for doing your part in these very tough times guys. - Renovating your offices (in order to allow for your new staff members I assume). So my question related to this is:

4. Will CUI introduce a hiring and wage freeze for 2017?

On a personal note when we moved here 15 years ago we thought we had made a great decision, loved the small town atmosphere and were excited to raise our children in Chestermere. It is understandable that property taxes including the cost of services would increase, but to the extent that this had occurred is mind boggling. Unfortunately with the poor decisions that Mayor Matthews and this town council (OK...now City council) have made over the past 9+ years, like so many others we feel that what Chestermere was - and even considering the inevitable growth, what Chestermere could have been has all but been destroyed. It greatly saddens us that we can now not wait to leave Chestermere. In fact the only reason we remain is that we would like our son to finish his schooling here (as I and my wife know what it's like to change schools growing up and do not want to put him through that). My wife and I used to tell people that they should move to Chestermere and how great it was. We just hope that we can even sell our home in another 3 - 4 years as Chestermere (with now the highest property tax of any city/town under 30,000 people in the entire province) is no longer somewhere that people want to, or for that matter can afford to live. I don't know if the damage that has been done can ever be recovered from (not within the next 10 – 15 years anyways). So in 4 years, maybe less – like so many other we will say so long Chestermere, we are outta here. Sincerely Rod Pearce and family"

Response:

1. Please contact the City directly for information regarding Council's past decisions on development policies.

Since inception CUI has received \$2.4 million from the developer community through the Off-site Levy funding mechanism to support the development of new infrastructure to support growth. We can also confirm that Melcor has covered the full cost of an upgrade required to LS 11 which was completed earlier this year.

2. As described in our proposal Appendix 1, Section 3.1 & 3.2; pages 7 - 10, Lift Station 13 forcemain and Rainbow Road Gravity Trunk costs will be shared between existing customers and the developers (including United Communities) on the basis of the % of asset utilization.



3. As described in our request documentation and in our CEO's comments to Council on December 5th ([Link](#)), CUIs 2017 capital plan and future capital planning activities will ensure that the cost for projects will be appropriately allocated to those who will benefit.

4. We understand that our customers are unhappy with our proposal to change rates in 2017 and we are not happy to have to ask for it. Regrettably, fully 75% of CUI's expenses are not within CUI's ability to manage and therefore it is not possible for CUI to fully address shortfalls through cost cutting and efficiency measures, nor are we able to commit to a hiring and wage freeze for 2017. For a more complete discussion of these challenges, including recent changes to our customer service practices we refer you to our CEO's presentation to Council of December 5, 2016 which can be found here: ([Link](#)).

We would be happy to respond to any additional questions you might have regarding the contents of our proposal once you've had an opportunity to review the additional materials.



Question(s) from: Scott Newell

Date Received: December 4, 2016

I want to see the exact reasons why you need to raise rates. What exactly are you gong to do with the money. Sent from my iPad"

Response:

All of the reasons underlying CUI's request for a change to its rates in 2017 can be found here in our proposal documents ([Link](#)) and were explained in more detail by our CEO in a presentation to Council on December 5, 2016 which can be found here: ([Link](#)).

We would be happy to respond to any specific questions you might have regarding the contents of our proposal once you've had an opportunity to review the materials provided.



Question(s) from: Emma & Trevor Ebl

Date Received: December 4, 2016

The CUI proposed 2017 15% rate increase is completely unacceptable. This rate increase is inappropriate and unjustified after a review of your December 1, 2016 2017 Utility Rates letter and associated supporting documents.

A 15% utility rate increase is significant, but understandable in some situations. This situation is not one of those. The proposed 2017 increase comes on the heels of the 2016 15%/25% increase. There is also future considered rate increases of 10% in both 2018 and 2019. These individual annual rate increases results in an accumulated rate increase of 60% to 74% in 2019 from 2015 rates. Thats a 60% to 74% increase in 4 years! This shows no regard for 'Minimizing rate shock for customers' as suggested in your 2017 Utility Rates letter.

Annual Increase % Accumulated Increase

Water/Sanitary Storm/Solid Water/Sanitary Storm/Solid

2015 1 1

2016 15% 25% 1.15 1.25

2017 15% 15% 1.32 1.44

2018 10% 10% 1.45 1.58

2019 10% 10% 1.60 1.74

With a review of your 2017 Rate Increase letter and associated Appendix, there is ample opportunity to improve the management of CUI and drive more realistic and palatable rate increases in 2017. I have limited my questions to four areas in an effort to be targeted with my feedback, however please be aware that I could easily send 50+ questions.

Please note further to the

1) Lifecycle Costs & Financial Sustainability: Lifecycle plans typically outline the business plans and financial performance of an entity for several years going into the future. They are formed around a set of assumptions that are almost certainly not going to be realized as originally contemplated. My core question on this topic is - How have you satisfied yourself with estimating the lifecycle costs to ensure that you are not unfairly saddling CUI rate payers of today with your 'guesses' of what will transpire in the future? Other supporting questions I have on this topic are:



- How many years does your lifecycle costs cover?
- What is the accuracy of your lifecycle costs and plans?
- What asset management framework do you use? Do you leverage industry codes and standards related to asset management (i.e. ISO55000)?
- What assumptions have you used to underpin your lifecycle plans/costs?
- What is the confidence you have in your lifecycle costs/plans? How have you calculated this confidence?
- What sensitivity analysis and/or scenario analysis have you completed (i.e. Monte Carlo)?

2) Development and Offsite Levies Revenue: How much of the revenue drop off in 2017 is related to the LCF, OSL and DCA? Development and Offsite Levies represented ~37% of revenue in 2016. In 2017 it drops to ~1%. I understand this is associated to removal of the LCF, OSL and DCA. I fully understand and support the removal of the DCA. I am less clear on the basis for the removal of the LCF and OSL. I implore you to provide more background on this.

3) Return on Equity:

- Can the 1.8% RoE be adopted on a graduated scale to smooth the transition from a 0.0% RoE (i.e. over 2 or 3 years)?
- What is the intent and purpose of the 1.8% RoE? i.e. what is the philosophy, guidelines, rules for the appropriation for these funds to CUI or Chestermere?
- Who was consulted beyond the city of Calgary in developing the RoE? Was consideration given to other city owned utilities?

4) Sanitary Capital Improvements: The capital spend profile is very lumpy ranging from \$18M in 2017 to \$0M in 2020. Are there options to pursue a more flat capital spend profile? Are there alternative options for capital projects such as increased monitoring, preventative maintenance, etc that can be done to either eliminate or defer capital projects? Are all alternatives considered before a capital project is settled upon to ensure the most cost effective solution is selected? What is the capital project evaluation and approval process? Is capital prioritization performed? Is capital optimization performed? Are use risk assessments used to ensure that compliance and operations risks are managed to the appropriate level and that things aren't 'overkill'?



Note: It is fairly easy to start poking holes in individual projects. For example, the \$453k water meter project includes exchanging ~25% of the overall meters based on a general statement that they are over 10 years old. Questions this poses include:

- What is the meter failure history? i.e. Mean Time Between Failure?
- What preventative maintenance and corrective maintenance suggest is needed?
- What do calibration records show?
- Are the meters still supported through vendors (either the OEM or 3rd party) - parts, service, etc.?
- Shouldn't a basic assessment be completed to identify problem meters rather than simply replace?
- Are there PM's, testing, calibration alternatives?
- New meters might only improve the accuracy of readings. This intervention is a monitoring step rather than a true solution. It won't actually reduce system water losses. The water meter data (even the current data) needs to be leveraged into analysis and decisions to reduce system water losses. If this isn't being done today with the current meters, why would this change with new meters? Sounds like a "make work" project. Not something to do in a fiscally challenged year.

Another statement that caught my eye was the Sanitation truck storage and a comment that stated, "Safe and reliable operations of refuse trucks with air systems (brakes and other hydraulic equipment) requires that trucks be stored indoors.". Please provide the basis for this statement. Do you have the refuse truck manufacturers recommendations that this is a requirement in order to be compliant with the OEM recommendations? I ask because this statement has so many inaccuracies it is actually amusing. It highlights a complete lack of understanding of basic operations and lack of proper capital management. It is entirely normal for heavy duty equipment with air brake systems and complex hydraulic controls to operate and be stored outside. With some basic knowledge winter operation of the equipment can be performed with no adverse safety or reliability implications. This statement suggests that every piece of heavy duty equipment needs to be stored indoors to be safe and reliable, which is ridiculous. Agreed that storing indoors can be beneficial, however to say it is a requirement is inaccurate. Furthermore, in a fiscally challenged year proceeding with a \$755k building is excessive. Continuing with a rental/leased structure in another year to delay capital spending seems like a very reasonable solution.

As homeowners and renters in 10 different geographic locations over the last 18 years, my husband and I have never written nor complained to utility rate provider before. As residents of Chestermere we value the well being of our community and had the compelling need to express our disagreement with the CUI



proposed rates. We look forward to a prompt reply by December 15th as per your website. We expect a confirmation of receipt of this email as well as a thorough reply to each question/statement above.

Response:

We understand that our customers are unhappy with our proposal to change rates in 2017 and we are not happy to have to ask for it. Regrettably, fully 75% of CUI's expenses are not within CUI's ability to manage and therefore it is not possible for CUI to fully address shortfalls through cost cutting and efficiency measures.

- 1) In CUI's proposal the Lifecycle Fund refers to the special rate levy that was approved and applied as a new charge to customer's bills in 2015. Information regarding this charge can be found on our website here [\(Link\)](#).

In the December 5, 2016 presentation to Council, CUI's CEO also responded to questions from Mayor Matthews regarding the Lifecycle fund, the information provided can be found on pages 12 and 13 of the Transcript which is posted here [\(Link\)](#).

The operations and maintenance of CUI's water and sanitary assets is provided by EPCOR under the terms of a 20 year Operations, Maintenance and Capital Works Agreement entered into by the City (then Town) in 2007. EPCOR has more than 100 years of experience managing systems like CUI's.

In developing its 2017 Utility Rate Request and Capital Plan CUI management worked very closely with EPCOR and other experts to ensure that the priority needs of the system were addressed. CUI has relied on its advisors' vast expertise regarding water and sanitary systems in general as well as incorporating historical information on the specific systems conditions in Chestermere to develop operations, maintenance, repair and replacement programs (and related budgets) which ensure that CUI's system will operate safely, reliably, in compliance with industry best practice and regulatory standards.

- 2) Lifecycle Fund revenue has not been removed from the calculation of the rate base revenue requirement or rate base income statements. Please see page 20 of 30 of CUI's December 1, 2016 2017 Utility Rate Request, it is the second item under Revenue.

CUI has included Off-site Levy (OSL) revenue as part of the financial statements provided with our rate request. As described in the notes to the statements we have only included revenue which relates to signed development agreements. If and when new development agreements are signed by the City of Chestermere and funds are committed for projects within CUI's purview, CUI



will record the revenue in accordance with IFRS requirements on our financial statements. However, since OSL revenue is required by the Municipal Government Act to be held strictly for the purposes for which it has been collected it is not appropriate to include these revenues and related expenses in the determination of utility rates. The funds must be preserved for their intended purpose, that being the construction of water, sanitary and storm infrastructure required to support growth.

- 3) The inclusion of Return on Equity is a well established practice in utilities across North America. The approach followed by CUI in preparing its 2017 submission complies with the requirements set out by the City in the Mandate and Regulatory Framework document as approved by Council on November 21, 2016 which can be found here: [\(Link\)](#).

CUI's approach, as summarized in the introduction to the Rate Base section provided on Page 9 of 30 of our December 1, 2017 submission is recommended by Alberta Environment.

Further information regarding CUI's 2017 request is provided in our CEO's presentation to Council of December 5, 2016 which includes a link to the Alberta Environment recommendation noted above, can be found here: [\(Link\)](#).

In our December 5, 2016 presentation to Council, CUI's CEO also responded to questions from Mayor Matthews regarding the ability to stagger (or phase) the implementation of ROE, the information provided can be found on page 17 of the December 5, 2016 transcript which is posted here: [\(Link\)](#).

- 4) CUI's major capital projects relating to the safe and reliable operation of the water, storm and sanitary systems has been described in Appendix 1 to our 2017 Utility Rate Request. As described in our response to question 1, we can confirm that we have relied heavily on the expertise of EPCOR and other consultants to determine which programs are required to be completed in 2017.

CUI's capital plan is presented by the CEO to the Board of Directors in its entirety on an annual basis. As the year progresses, each project requires a detailed project charter which is prepared by management and requires the signoff of the CEO. If the CEO is satisfied that the project is necessary, is proceeding in the most cost effective manner and is within the budget envelop approved by the Board of Directors, it is approved. If the cost estimate exceeds the amount approved by the Board of Directors it returned to the Board for further review.



As described in Section 3.7 and 3.8 of Appendix 1 these projects are currently being assessed, if there is an opportunity to defer spending to future years (without risking the safe and reliable operations of the system) CUI will avail itself of that opportunity.

Meter replacement program - Appendix 1, Section 2.1, Page 4 of 25, Scope CUI specifically notes that meter replacements will only occur after the meter has been investigated and determined to be faulty. Actual program costs will vary based on program findings and will be reflected in future rate filings.

CUI has simplified the analysis of each of its capital programs for the purpose of developing the 2017 Utility Rate Request. For instance, statements regarding the need for a storage facility to ensure the safe and reliable operation of equipment takes into consideration many factors and reflects the expertise provided manufacturers, by our solid waste management colleagues at the City of Calgary, other industry specialists and our own operators first hand knowledge of how equipment performs under different conditions. As noted, in Appendix 1, Section 3.4 page 23 of 30, CUI's analysis has determined that constructing a facility is more cost effective (less expensive) than leasing space.



Question(s) from: Gord Couldwell

Date Received: December 4, 2016

it appears to me that the -9% decrease in Solid Waste Collection from \$29.87 to \$23.03 has been offset by a new Recycle Center item that costs \$4.09 per month.

1. under the heading Solid Waste Operations & Capital it says ""operates the community recycle depot ("the Depot") seven days a week, 365 days per year with 71 operating hours per week"". Is this statement true? If it is true I suggest council cut the days of operation both in summer and winter months. This would save money in wages and it's really not necessary to be open 365 days a year, I know the Calgary Landfill sites don't.
2. what do some of the other towns and cities around us consider a reasonable % for ""Water Losses""? 22% appears to me as a total waste of an essential resource that we as users are paying for
3. I understand EPCOR is financing LS 13 Forcemain, is that correct?
4. on page 19 of 30 there is the following statement: ""Seven of CUIs lift stations do not meet AE standards for pumping capacity and there are four sections of the collection system which are over capacity The resulting risk of failure, property damage and environmental contamination is very high"". My question is why did this happen in the first place? All the original existing utilities must have been approved by AE and the Town or now City of Chestermere in the first place, is this not correct? If it is correct, then again the present uses of these utilities are asked to pay for mistakes by someone in the past and of course the developers are long gone.

Response:

As you note, the Solid Waste Collection fee proposed by CUI for 2017 reflects a 23% decrease from 2016. This decrease is offset by the introduction of the proposed Recycle Centre fee of \$4.09 brings the total monthly charge for solid waste services \$27.12, a 9% decrease from the 2016 monthly fee of \$29.87.

1. CUI's Recycle Depot is located on the grounds of the City's public works yard. As such, hours of operation are determined by the City's hours for its operations at that site. While CUI does not have an operator stationed at the site for all its operating hours, the safe and reliable operation of the site requires that our employees do not leave the site unattended for long periods of time.
2. Water losses vary greatly from community to community. Some level of water losses are normal due to use for firefighting and breaks. Typical water losses for a community the size and age of



Chestermere are about 10%. Accordingly, CUI has set a goal to reduce water losses to 10% by 2020.

3. In 2017 the City (then Town) entered into a 20 year Operations, Maintenance and Capital Works Agreement with EPCOR. Under the terms of this Agreement EPCOR has the right to finance all capital project over \$50,000. Therefore, for the purposes of developing the 2017 Utility Rate Proposal CUI has assumed that EPCOR will continue in its role (as defined by that Agreement) and will finance Lift Station 13. Furthermore, CUI has allocated these costs based on 20% to rate base customers and 80% to be recovered from developers through the City's Off-site Levy mechanism. This is the same approach that is proposed for the projects described in Appendix 1, Section 3.1 and 3.2, pages 7 – 10 which can be found here [\(Link\)](#).
4. CUI, as an entity has only been in existence since 2012 and as such has limited ability to comment specifically on events that occurred prior to it having taken on the operating responsibility for the system. It is important to note that Alberta Environment's role is limited to providing design standards and guidelines for water, sanitary and storm infrastructure. AE does not approve designs or inspect once constructed, that is the responsibility of the system owner.

Chestermere's system currently relies on infrastructure that has been in place since it was a summer village. At that time these older system components were constructed and put into service, we expect that the design was appropriate to the needs of the system as they were then. However, Chestermere has grown very rapidly and as the population grew the needs of the system changed. Elements of the system have been upgraded over the years, but in parallel the population continued to grow (exponentially). The larger the population, the more complex the system requirements and the higher the regulatory standard becomes.

In developing is 2017 Utility Rate Request and Capital Plan CUI worked very closely with EPCOR and other experts to ensure that the priority needs of the system were addressed. CUI has relied on its advisors' vast expertise regarding water and sanitary systems in general as well as incorporating historical information on the specific system conditions in Chestermere to develop operations, maintenance, repair and replacement programs (and related budgets) which ensure that CUI's system will operate safely, reliably, in compliance with industry best practice and regulatory standards.



Question(s) from: Patrick Lindfoot

Date Received: December 6, 2016

You've failed to answer the following: What warrants a Security System for Water and Wastewater? Has there been Vandalism/Theft? If so, What were those costs?

Response:

We apologize for the oversight. CUI has not tracked the costs of repairing the vandalism at its facilities over the years separately from its other repair and maintenance costs.

This matter was also addressed in our CEO's presentation to Council on December 5, 2016 during the questions posed by members of Council. A transcript of this discussion can be found here ([Link](#)).



Question(s) from: Bea Germain

Date Received: December 7, 2016

Can anyone explain in LAYMAN terms a shortened version of why we are having to swallow another rate increase of double digits for water and garbage in an economy such as we're living in?

Response:

We understand that our customers are unhappy with our proposal to change rates in 2017 and we are not happy to have to ask for it. All of the reasons underlying CUI's request for a change to its rates in 2017, can be found here: [\(Link\)](#).

These are complex matters and CUI has done its best to provide the information in as straightforward a manner as possible. Perhaps you might find our CEO's presentation to Council of December 5, 2016 can be found here: [\(Link\)](#) helpful. Members of Council asked questions like yours following formal presentation. A transcript of that discussion can be found here: [\(Link\)](#).

We would be happy to respond to any specific questions you might have regarding the contents of our proposal and supporting documents once you've had an opportunity to review the materials.



Question(s) from: Bev Howitt

Date Received: December 7, 2016

1. Why is this rate increase necessary?
2. Is it for future use?
3. How much profit did you make Last year?
4. Did your CEO and all employees receive a bonus, what was the percentage?
5. We are senior citizens, it is becoming increasingly difficult to pay all these increases on a fixed income.....especially when no proven justification has been shared.
6. It was supposed to cost less when recycling started in the city.....what happened?
7. How many people work in the CUI Building?
8. Why was the new lift station built, only to sit there?

I am very concerned the management of CUI is not qualified to run this operation. I would like to see a copy of your balance sheet and budget.

Response:

We understand that our customers are unhappy with our proposal to change rates in 2017 and we are not happy to have to ask for it. All of the reasons underlying CUI's request for a change to its rates in 2017 can be found here: [\(Link\)](#) and our CEO's presentation to Council of December 5, 2016 can be found here: [\(Link\)](#). The information you've requested in questions 1, 2, 3, 4, 5, 7 and your concluding remarks has been provided in those materials.

4. In addition to the general information provided above, executive compensation is disclosed as part of our annual financial reporting process. Our 2015 audited financial statements can be found here: [\(Link\)](#) and information regarding executive compensation can be found in note 15, page 18 of 22.
6. As discussed when CUI made it's 2016 rate request, we now know that the implementation of the recycling program was not cost neutral as planned. However, CUI's diversion programs, while not cost neutral, help to keep the cost of managing Chestermere's solid waste lower than it would otherwise be.
8. It is regrettable that the construction of Lift Station 13 was not better coordinated with the construction of the required interconnecting pipelines. CUI expects to remedy this situation in 2017. Those projects are described in Appendix 1, Section 3.1 and 3.2 of our 2017 Utility Rate Request which can be found here: [\(Link\)](#).



We would be happy to respond to any specific questions you might have regarding the contents of our proposal and supporting documents once you've had an opportunity to review the materials.



Question(s) from: Sarah Woroniuk

Date Received: December 7, 2016

- 1) Can you tell me what expenses comprise the Admin and board Expense line that totals 1.3Mil?
- 2) What factors do you use in your forecast to project that there will be a need for further 10% rate increases in the following 2 years?
- 3) Does the rate increase factor in the development costs needed to service the new industrial area purchased by the city?

Response:

- 1) Administration and board expense are described in Section 3.1, pages 10 – 14 of CUI's 2017 Utility Rate Request.
- 2) Please see Section 2 – Financial Statements, Notes 1 – 14, pages 5 and 6 of CUI's 2017 Utility Rate Request.
- 3) No, as described in Appendix 1, Sections 3.11 and 3.12, pages 21-23 projects which are required to support growth, including the development of the new industrial lands, are expected to be funded through the Off-site Levy mechanism.



Question(s) from: Leslie Kenny

Date Received: December 8, 2016

The proposed rate increase is unacceptable. The people of Chestermere flat out can't afford these increases year after year when people are unemployed or have taken serious pay cuts. CUI needs to be looking at being more efficient and only spending what is essential in times like these. There are several expenditures that don't seem necessary in these current economic times for example truck storage and meter exchanges. Why is there a rush to spend so much capital now and then none 3 years from now?

Please explain to me how CUI thinks it is acceptable to increase our rates by 15%/25%, then 15% then potentially 10% for the two consecutive years following that?

Hard economic times or not this is no way to run a business. Since we have no options for services I would be shocked that our City, who should be representing our interests, would approve such excessive increases.

Response:

We understand that our customers are unhappy with our proposal to change rates in 2017 and we are not happy to have to ask for it. All of the reasons underlying CUI's request for a change to its rates in 2017, including the rationale for the 2017 capital program can be found here: [\(Link\)](#) and our CEO's presentation to Council of December 5, 2016 can be found here: [\(Link\)](#).

Regrettably, fully 75% of CUI's expenses are not within CUI's ability to manage and therefore it is not possible for CUI to fully address shortfalls through cost cutting and efficiency measures.

We would be happy to respond to any specific questions you might have regarding the contents of our proposal and supporting documents once you've had an opportunity to review the materials.



Question(s) from: Scott Newell

Date Received: December 8, 2016

Considering the fact thousands are out of work and Jan 1 the ndp are introducing another new tax how do you think anybody has extra cash just laying around to send to another utility. How about waiting maybe 2 years and see what's left of this province Sent from my iPad

Response:

We understand that our customers are unhappy with our proposal to change rates in 2017 and we are not happy to have to ask for it. All of the reasons underlying CUI's request for a change to its rates in 2017, including the rationale for the 2017 capital program can be found here: [\(Link\)](#) and our CEO's presentation to Council of December 5, 2016 can be found here: [\(Link\)](#).

We would be happy to respond to any specific questions you might have regarding the contents of our proposal and supporting documents once you've had an opportunity to review the materials.

