

The City of Red Deer is the provider of water, wastewater, solid waste and electric utilities within City boundaries. The City of Red Deer is also a regional provider of services for the water, wastewater and solid waste utilities to customers and citizens located outside its boundaries where approved by Council.

Rates:

- 1 Rate structures must balance the following principles:
 - (1) Consumer rates should reflect usage and promote conservation.
 - (2) Consumer rates should be structured so that revenue requirements can be met within a reasonable tolerance.
- 2 Rates will be:
 - (1) Fair and equitable, ensuring customers are contributing equitably in proportion to the cost of the systems;
 - (2) Defensible, able to demonstrate that data is available to support the assumptions used in the rate; and the assumptions follow the industry acceptable practices;
 - (3) Clear, understandable and logical.
- 3 Rate making will:
 - (1) Adhere to regulated and/or legislated requirements;
 - (2) Adhere to generally accepted rate making standards.
- 4 The City will collect, from all in-City utility customers and electric service area customers, municipal consent and local access fee(s) and all other legitimate charges as defined within this policy.
- 5 The City will collect from all regional customers all legitimate charges.
- 6 Rates will be presented to Council for approval, at minimum, on an annual basis.

Debt:

- 7 Debt may be used to fund utility assets (i.e. capital expenditures).
- 8 The debt repayment period will not exceed the life of the asset that the debt is used to fund.
- 9 Utility debt limit and debt servicing will be in accordance with the Municipal Government Act, regulations and/or associated Council policy.

10 The debt forecast will align with the ten year capital plan and revenue forecasts.

Return on Rate Base:

11 The equity rate of return used in the financial model will be in accordance with the most recent Alberta Utilities Commission (AUC) generic cost of capital decision or AUC approved substitute thereof.

12 The cost of deemed debt used in the financial model will be the fifteen year Alberta Capital Finance Authority (ACFA) mid - year rolling average rate.

13 The cost of actual debt used in the financial model will be based on actual debt rates.

14 Deemed debt / equity ratio will be applied as follows:

- | | |
|-----------------------|-----------------------|
| (1) EL&P Transmission | As established by AUC |
| (2) EL&P Distribution | 60/40 |
| (3) Water | 60/40 |
| (4) Wastewater | 60/40 |
| (5) Waste Management | 60/40 |

Municipal Consent (MC) /Local Access Fee (AF):

15 The City, according to its rights under the Municipal Government Act, specifies the method by which the MCAF is calculated and collected by the utility. For non-municipal utilities operating within the City, the terms of franchise fee collection are outlined within respective franchise agreements.

16 The MCAF cannot exceed 15% of total revenue unless otherwise directed by Council.

Regular Dividend:

17 An annual dividend will be paid by the utility as a return on investment.

Special Dividend:

18 Where the Capital Reserve has excess funds relative to the forecasted capital expenditures, a special dividend payment may be recommended.

Capital Reserve:

- 19 A Capital Reserve for each utility will be established for:
- (1) Asset replacement and/or;
 - (2) Asset rehabilitation and/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 the utility's assets.
- 20 A capital surcharge may be incorporated in rates.

Rate Stabilization and Operating Reserve (RS&O):

- 21 A Rate Stabilization and Operating (RS&O) Reserve will be established for each utility to:
- (1) maintain operations and/or;
 - (2) manage unplanned changes in operating expenditures and revenues and;
 - (3) mitigate the impact of significant changes in revenue requirements on customer rates for any particular year.
- 22 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.
- 23 A maximum RS&O Reserve balance will be the Working Capital minimum plus 12.5% of annual operating revenues.
- 24 Year-end actual surplus/deficit from operations will 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 will only occur if the transfer does not result in a negative Capital Reserve balance.

General Reserve Statements:

- 25 Transfers, in accordance with policy and financial limitations placed on the City Manager, may occur between Capital and RS&O Reserves within each utility.
- 26 The Capital and RS&O Reserves will be reported to Council within the Year End Reserve Report.

Transitional Provisions:

- 27 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.
- 28 An annual report on the progress made towards full compliance with this policy will be made to Council.

Scope/Application:

- 1 Development Services Division

Policy Monitoring and Evaluation:

- 1 The Utility Policy will be reviewed in five years, from date of approval or anytime prior to the five year review date.

Authority/Responsibility to Implement:

- 1 The City Manager has authority and responsibility to ensure council's policy statements are implemented.

References/Links:

- 1 Municipal Government Act
- 2 Capitalization of Interest Council Policy
- 3 Capital Budget - Council Policy
- 4 Alberta Utilities Commission
- 5 Public Utilities Act
- 6 Electric Utilities Act
- 7 AUC Decision 2011-474 or most recent decision of AUC on Generic Cost of Capital
- 8 Operating Budget Policy – Council Policy
- 9 Utility Bylaw
- 10 Electric Utility Bylaw

Inquiries/Contact Person:

- 1 Environmental Services Manager
- 2 Electric, Light & Power Manager

Definitions:

- 1 Local Access Fees: Fees for the use of City right-of-ways, including maintenance costs and costs associated with integrating right-of-ways of electric wires, gas pipelines, water and sewer lines, and roads.
- 2 Electrical Service Area Customers: Electrical service customers located within the service boundary as determined by AUC.
- 3 In-City Customer: The customers located within the boundary of The City of Red Deer.
- 4 Legitimate Charges: Include, but are not limited to: contributions to, or withdrawals from reserves and/or the use of debt, operating and capital costs, corporate support costs and any reasonable return.
- 5 Municipal Consent: The fee for granting the utility an exclusive franchise for service in the City.
- 6 Rate Base: 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.
- 7 Regional Customer: Customers located outside of The City of Red Deer boundary, excluding Electrical Utility customers that may be in the Service Boundary, but outside of City of Red Deer boundary.
- 8 Reserves: Utility reserves are held for a specific and identifiable future purpose.
- 9 Revenue Requirement: A fair and reasonable amount of revenue that should be recovered in utility rates.
- 10 Utilities: Means the City's Water, Wastewater, Waste Management and Electric, Light and Power Utilities.

Document History:

Policy Adopted	October 15, 2012
Policy Revised	July 20, 2015
Policy Revised	September 16, 2019

Administrative Revisions:

Date:	Description:
October 17, 2017	Updated to current format.