



City Utilities Project Check-Point

The City of Chestermere

CUI Mandate and Rate Regulatory
Framework Development Project

October 17, 2016

Document Purpose

This document provides The City with summary recommendations for CUI's Mandate and Rate Regulatory Framework

The terms of the project were to:

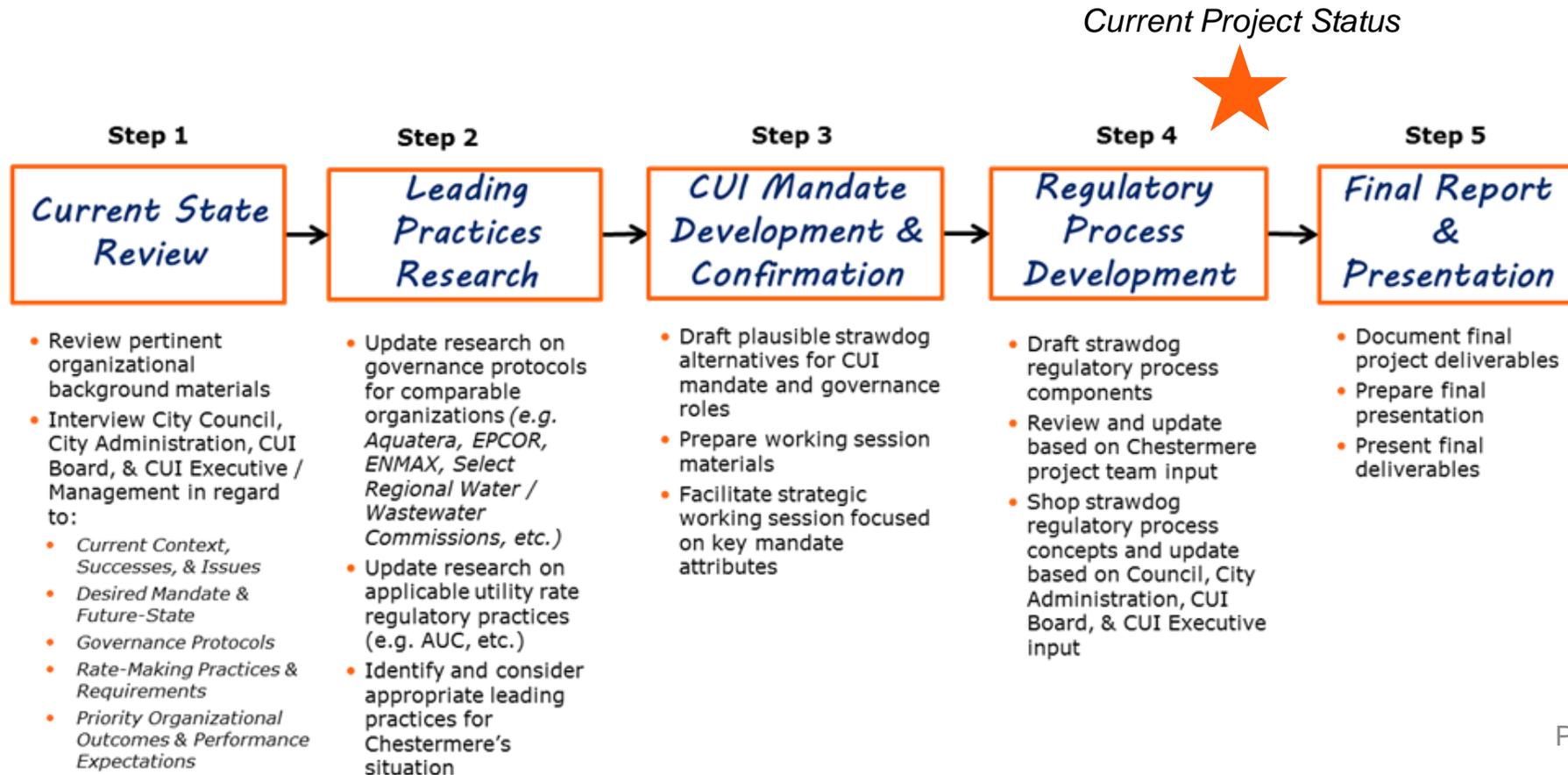
1. Develop an approved go-forward mandate for CUI, and
2. Establish a formal rate regulatory framework to guide future rate reviews.

This presentation provides:

1. A recap of the approved project work plan;
2. Summary recommendations for The City's objectives for its Utilities and CUI's Mandate;
3. Summary recommendations for Rate Regulatory Framework; and
4. Summary recommendations for subsequent implementation steps.

Project Work-Plan

We have developed, reviewed, and confirmed key concepts which will underpin CUI's Mandate and Rate Regulatory Framework



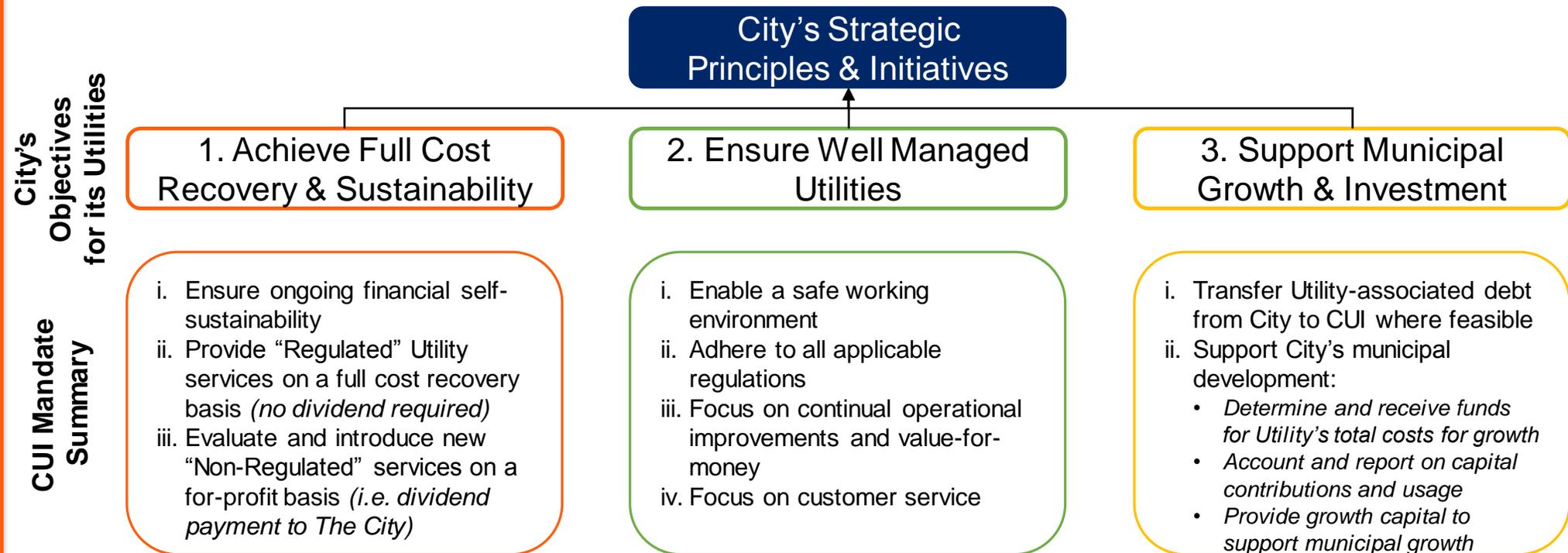
Strategic Objectives for the Utilities

The following objectives for The City’s Utilities provide a basis for developing CUI’s Mandate and Rate Regulatory Framework

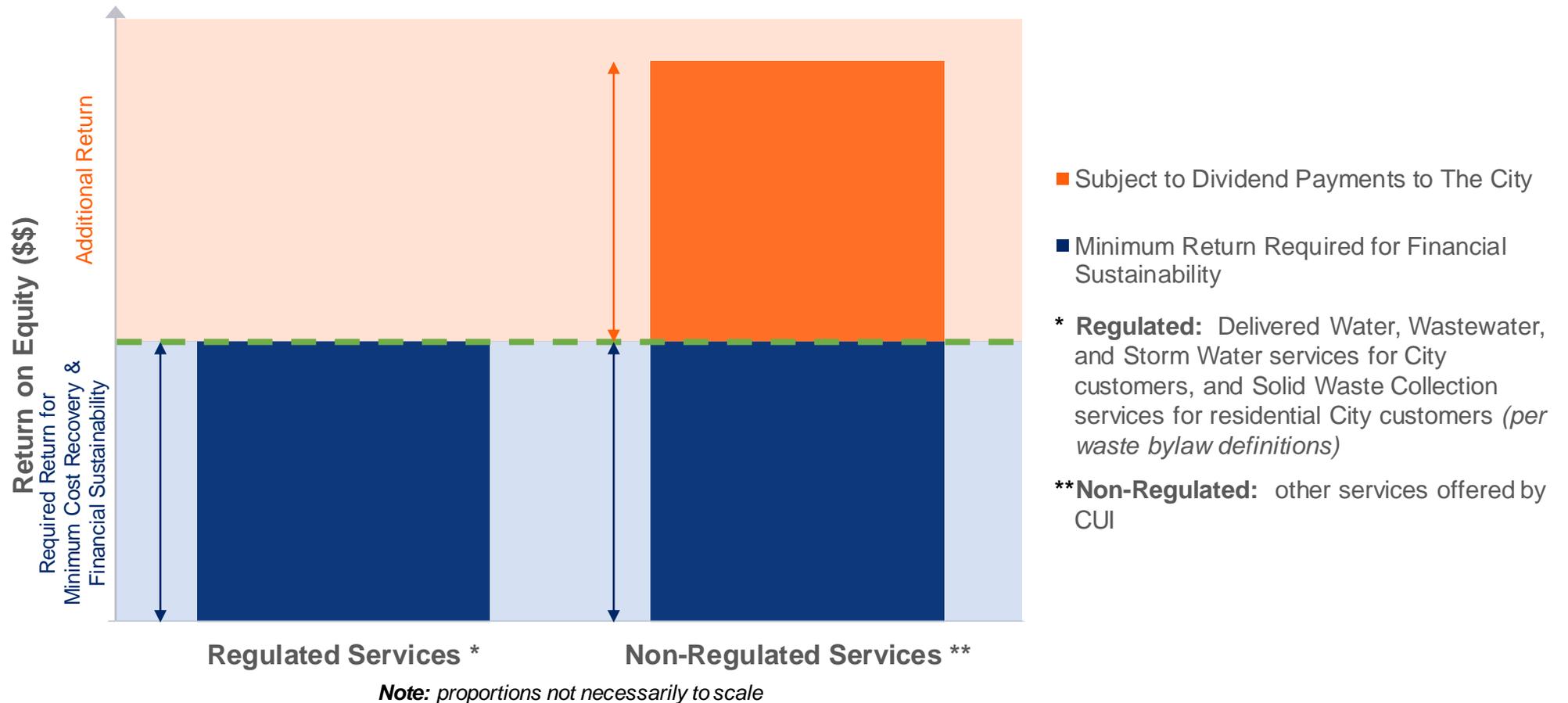
#	Objective	Supporting Characteristics	Alignment to City’s Strategic Plan
1	Achieve Full Cost Recovery & Financial Sustainability	<ul style="list-style-type: none"> • <i>Ensure sufficient financial management and cash position to ensure future operational and capital sustainability;</i> • <i>Rates reflect total costs of service and are not subsidized by municipal taxes;</i> • <i>Dividend payment not required for “Regulated” utility services (i.e. water, sewer, storm, and residential waste collection) to customers within Chestermere; and,</i> • Longer-term – <i>City directs received profits (derived from new business “Non-Regulated” opportunities) for approved municipal purposes</i> 	<p>Principle #2: User Pay Principle #4: Economic Sustainability Initiative #4: Increase the non-residential tax base and non-standard revenue</p>
2	Ensure Well Managed Utilities	<ul style="list-style-type: none"> • <i>Provide safe, reliable, and consistent utility services;</i> • <i>Pursue ongoing operational and value-for-money improvements; and,</i> • <i>Focus on customer service and customer satisfaction outcomes.</i> 	<p>Principle #4: Environmental & Social Sustainability Principle #6: Fiscally Conservative</p>
3	Support Municipal Growth & Investment	<ul style="list-style-type: none"> • <i>Support The City make future investments to achieve its vision as “Alberta’s Oasis: The Recreation and Relaxation Capital”; and,</i> • <i>Support municipal growth.</i> 	<p>Principle #4: Sustainability Initiative #5: Create infrastructure and operational capabilities</p>

CUI – Summary Mandate

Based on The City's desired objectives for its Utilities, CUI's supporting mandate is summarized as follows



Utility Services Return on Equity Expectations



Summary Rate Regulatory Framework

Rates shall be determined based on methods aligned with the Alberta Utilities Commission (AUC)

1. CUI shall use the “Full Utility Basis” to identify rate revenue requirements, i.e.:
 - i. Operating and Maintenance Expenditures (with focus on external vs. internal costs)*
 - ii. Depreciation Expense (not including amortization for contributed assets)*
 - iii. Return on Rate Base to support:*
 - i. Debt Interest Charges*
 - ii. Required Cash Position to achieve financial self-sustainability*
2. As Shareholder, The City shall receive appropriate organizational reporting and forward-looking plans and forecasts from CUI
3. As Regulator, Council will retain final rate approval decision-making accountabilities
4. A “to-be” rate-setting process and schedule will guide future year’s rate-setting activities

Implementation Requirements

The following implementation steps have been identified:

1. Updates to applicable, overarching policy documents to ensure consistency (e.g. Unanimous Shareholder's Agreement)
2. Establishment of appropriate communication and reporting protocols respecting Council's role as both "Shareholder" and "Rate Regulator"
3. Development of an "Interim" Rate-Setting Process to support 2017 rate-setting and evolution towards the desired "to-be" process
4. Review, updates, and confirmation of key administrative and operational processes supported by both CUI and The City, with focus on key interdependencies



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