



## **Appendix L1**

**EPCOR WATER SERVICES INC.**

**Corporate Costs Allocation Methodology**

**February 16, 2021**

## 1.0 OVERVIEW

1. EPCOR Water Services Inc. (“EWSI”) obtains corporate service from its parent corporation, EPCOR Utilities Inc. (“EUI” or “EPCOR”). Corporate services are comprised of activities that are centrally managed within the EPCOR group due to their nature and/or for the purpose of realizing economies of scale and greater effectiveness. The amounts paid by EWSI in respect of these services include Corporate Shared Service costs. The Corporate Shared Service costs are determined on a cost recovery basis in accordance with EPCOR’s Inter-Affiliate Code of Conduct and are reflected in a Service Agreement between the parties.
2. This section describes the corporate services received from EUI and the allocation process used by EUI to EWSI as well as the allocation process from EWSI to the City of Edmonton water and wastewater treatment operations. To the extent possible the same allocation methodology was used by EWSI to allocate costs to City of Edmonton water and wastewater treatment operations as those used by EUI; however, in certain cases, the methodology was changed to better reflect the cost drivers or to choose cost drivers where an equivalent cost driver was not available at the EWSI level. The process used to develop the forecast of Corporate Shared Services costs is described in Section 1.1.1. The process used to allocate Corporate Shared Services costs to the business units is described in Section 1.1.2 below.
3. Appendix N-02 describes the services and associated costs related to shared services that are provided from EWSI to the City of Edmonton water and wastewater treatment operations. These services are provided by functional groups that are part of the EWSI business unit. For some functional categories, such as Human Resources, Supply Chain and Public and Government Affairs, services are provided from both EUI and EWSI. In these instances, the services provided by EUI tend to be limited to governance, oversight and broad policy considerations, while the services provided by EWSI are more tactical and are specifically driven by the business needs of EWSI. In the case of Information Services, the EUI cost allocation is generally related to corporate applications such as the financial and human resources systems while EWSI Information Services costs are generally related to applications and technical infrastructure unique to EWSI, such as the geographic information system (GIS).

### 1.1 Corporate Service Cost Forecast Process

4. The forecast Corporate Shared Services costs for the 2021 base year are based on EUI's 2021 budget, which was prepared in Q1, 2020. In developing its budget, EUI used a "bottom up" approach to forecast expenditures based on the best available information with respect to expected work activity and cost levels.

### 1.2 Corporate Service Cost Allocation Process

5. Consistent with its approach in previous years, EUI allocates Corporate Shared Services costs to the EPCOR business units using the following five step process:

1. Categorize Corporate Shared Services costs as directly assignable or allocable.
2. Assign directly assignable costs to the appropriate business unit.
3. Review/develop/modify allocation method for allocable costs.
4. Apply allocation method to allocable costs.
5. Conduct a final review for reasonableness.

#### **Step 1 - Categorize Corporate Shared Services costs as either directly assignable or allocable.**

6. The first step in developing Corporate Service Charges was to review the components of Corporate Shared Services costs and categorize them into two defined groups:

- Directly assignable costs; and
- Allocable costs.

7. Directly assignable costs are those costs that are directly associated with a particular business unit's activity or operation. The relevant Corporate Services department and business unit work together to determine the quantum of directly assigned costs, if any, related to the Corporate Service in question.

8. Allocable costs are those costs that provide benefits to EUI business units but by their nature cannot be directly assigned and are charged to business units using an appropriate cost allocator. These costs are allocated among EPCOR business units using cost allocators that reflect the factor or factors that drive the cost of providing the Corporate Service to each business unit.

9. Directly assignable Corporate Services costs include the following:

- Certain information system operating costs that can be directly attributable to business units (e.g., support costs for business unit specific applications and databases; server costs and licensing fees that relate to business unit specific applications; and desktop support costs for desktops that are used by a business unit).
- Space Rent costs for office space in the EPCOR Tower.
- Security costs incurred directly on behalf of business units.
- Health and Safety costs incurred directly on behalf of business units to develop and implement an ergonomics program.

### **Step 2 - Assign directly assignable costs to Business Units**

10. Once the directly assignable costs are identified and determined they are charged directly to each business unit. Directly assignable costs are included in the budgets of the business units and are not included in the budgets of the respective Corporate Service departments.

### **Step 3 - Review/develop/modify allocation method for allocable costs**

11. EPCOR's cost allocation process is designed to ensure that the allocation of Corporate Shared Services costs among business units is appropriate, fair and reasonable, cost-effective, predictable, reflects the benefit received by function (i.e., cost causation), and is consistent with the transfer pricing principles in EPCOR's Inter-Affiliate Code of Conduct.

12. The costs associated with a Corporate Services department, except for the Treasury department, are allocated on one of two bases: (i) using a "functional cost causation allocator"; or (ii) using a "composite cost allocator".

13. A functional cost causation allocator has been used where the costs can be logically allocated using an identified cost causation driver, such as headcount. The composite cost causation allocator has been used where the costs cannot be allocated using a particular functional cost causation allocator. The latter types of costs tend to be related to Corporate Services that are of a governance nature, and it is appropriate that these types of costs be allocated based on a composite cost allocator which factors in the business unit's share of EPCOR's group revenues, assets, and headcount.

14. The allocation methods applicable to EUI's allocable Corporate Shared Services costs for 2021 to 2026 are summarized in Table 1.2-1 below.

**Table 1.2-1  
Allocation Methods by Department and Function**

Department and Function		A	B
		EUI – EWSI Allocators	EWSI – Edmonton water and wastewater operations Allocators
<b>Board Costs</b>			
1	All Costs	Composite - EUI Revenue, Assets, Headcount	Composite – EWSI Revenue, Assets, Headcount
<b>Executive and Executive Assistants</b>			
2	Executive & Executive Assistants	Composite - EUI Revenue, Assets, Headcount	Composite – EWSI Revenue, Assets, Headcount Headcount – (SVP Corporate Services)
<b>Corporate Finance Services</b>			
3	Corporate Finance	Composite - EUI Revenue, Assets, Headcount	Composite – EWSI Revenue, Assets, Headcount
4	Accounts Payable	Functional Cost Causation – AP Invoice Lines	Functional Cost Causation – EWSI Invoice Lines
5	Management Development Program	Composite - EUI Revenue, Assets, Headcount	Composite – EWSI Revenue, Assets, Headcount
6	Accounts Receivable	Functional Cost Causation – AR Invoice Lines	Composite – EWSI Revenue, Assets, Headcount
<b>Treasury</b>			
7	Treasurer - Corporate Finance	40% PPE, 30% Capital Expenditures, 30% Acquisitions	Composite – EWSI Revenue, Assets, Headcount
8	Treasury Operations	50% of (Net Income + Depreciation), 50% Debt	50% of (Net Income + Depreciation), 50% Debt
9	Taxation	Composite - EUI Revenue, Assets, Headcount	Composite – EWSI Revenue, Assets, Headcount
<b>Audit &amp; Risk Management</b>			
10	Internal Audit	Composite - EUI Revenue, Assets, Headcount	Composite – EWSI Revenue, Assets, Headcount
11	Risk Management	Functional Cost Causation - PP&E	Functional Cost Causation - PP&E
12	Centre of Excellence	Composite - EUI Revenue, Assets, Headcount	Composite - EUI Revenue, Assets, Headcount
<b>Human Resources</b>			
13	Total Rewards	Functional Cost Causation – Headcount	Functional Cost Causation –EWSI Headcount
14	Human Resources Consulting	Functional Cost Causation – Headcount	Functional Cost Causation –EWSI Headcount
15	Talent Management	Functional Cost Causation – Headcount	Functional Cost Causation –EWSI Headcount
16	Learning and Development	Functional Cost Causation – Headcount	Functional Cost Causation –EWSI Headcount
<b>Information Services</b>			
17	Application Services	Functional Cost Causation - Headcount	Functional Cost Causation – Total Assets
18	Infrastructure Operations	Functional Cost Causation - Direct IS Costs	Functional Cost Causation – PC Count

Department and Function		A	B
		EUI – EWSI Allocators	EWSI – Edmonton water and wastewater operations Allocators
19	Major Capital Projects	Functional Cost Causation - Headcount	Functional Cost Causation – Total Assets
<b>Supply Chain Management</b>			
20	Corporate procurement	Functional Cost Causation - Purchase Order Lines	Functional Cost Causation - Purchase Order Lines
21	Real Estate	Composite - EUI Revenue, Assets, Headcount	Composite – EWSI Revenue, Assets, Headcount
22	Mailroom	Functional Cost Causation – Canadian Headcount	Functional Cost Causation – EWSI Headcount
23	Security	Functional Cost Causation – Canadian Headcount	Functional Cost Causation – EWSI Headcount
24	SCM Corporate Services - Tower Rent, Maintenance, Security	Composite - EUI Revenue, Assets, Headcount	Composite – EWSI Revenue, Assets, Headcount
25	Disaster Recovery Planning	Functional Cost Causation - Direct IS Costs - Canadian	Functional Cost Causation – PC Count
<b>Public and Government Affairs (“P&amp;GA”)</b>			
26	Community Relations	Functional Cost Causation - Net Income	Composite – EWSI Revenue, Assets, Headcount
27	Corporate Communications	Functional Cost Causation - Net Income	Composite – EWSI Revenue, Assets, Headcount
28	Government Relations	Composite - EUI Revenue, Assets, Headcount	Composite – EWSI Revenue, Assets, Headcount
29	Director, Public & Government Affairs	Functional Cost Causation - Weighted Average of Costs for P&GA	Functional Cost Causation - Weighted Average of Costs for P&GA
<b>Legal Services</b>			
30	All functions	Composite - EUI Revenue, Assets, Headcount	Composite – EWSI Revenue, Assets, Headcount
<b>Health, Safety and Environment</b>			
31	All Functions	Functional Cost Causation - Headcount	Functional Cost Causation - Headcount
<b>Incentive Compensation</b>			
32	All Costs	Average Corporate Cost Allocation	Average Corporate Cost Allocation
<b>Asset Usage Fees</b>			
33	Leasehold Assets	Proportional Corporate Costs.	Composite – EWSI Revenue, Assets, Headcount
34	Human Resource System	Functional Cost Causation - Headcount	Functional Cost Causation – EWSI Headcount
35	Information Systems	Direct IS Operating Costs	Average Corporate IS Costs Allocated
36	Financial System	Corporate Finance & Purchasing Cost	Corporate Finance & Purchasing Cost
37	Furniture and Fixtures	Proportional Corporate Costs	Composite – EWSI Revenue, Assets, Headcount
38	Customer Information System	Proportional Customer Sites	Proportional Customer Sites

**Step 4 – Apply allocation methods to allocable costs**

15. Once the allocation methods are determined, they are applied against EUI’s final budgeted Corporate Services costs to arrive at the amounts charged to each business unit.

**Step 5 - Final review of Corporate Service Charges for reasonableness**

16. The resulting Corporate Services charges were carefully reviewed by EUI and EWSI senior management to confirm that the process set out above was properly applied, and that the resulting charges were reasonable.

**1.3 Direct Assigned Corporate Costs**

17. Certain costs are directly assigned from EUI to its business units. These direct assigned costs include information services (“IS”) application support, IS infrastructure support (i.e., desktops, servers, network, databases, printers, etc.), space rent at EPCOR Tower, corporate security and health and safety costs.

**1.4 Allocated Corporate Costs**

18. Further details regarding the allocated corporate costs are provided for each Corporate Service department in the subsections that follow.

**1.4.1 Board Costs**

19. EUI’s Board of Directors (the “Board”) provides corporate governance functions to EWSI and other EPCOR subsidiaries. The governance functions include:

- Establishing the strategic objectives and direction of the EPCOR group.
- Maintaining and enforcing articles and corporate bylaws.
- Electing and appointing corporate officers.
- Delegating special authorities to management.
- Reviewing and approving corporate policies.
- Providing direction and oversight to safeguard and maintain the long-term value of corporate assets.
- Reviewing and approving significant financial matters.
- Making recommendations to the shareholder.

- Participating in the strategic planning process for the EPCOR group.
- Approving capital and operating budgets to meet the objectives established in the EPCOR group's strategic plan.
- Approving compensation policies and programs for employees.
- Evaluating and assessing corporate performance against strategic, operating and capital plans.
- Understanding and monitoring corporate business risks.
- Approving and monitoring compliance with all significant corporate policies and procedures.
- Directing management to ensure compliance with legal requirements.

20. Board costs include Director's fees, Director and Officer insurance costs, travel expenses, legal fees incurred at the Board level and other related expenses.

21. The Board is comprised of members that are independent from EPCOR, which ensures that there is an appropriate segregation of duties and responsibilities between the Board and CEO. This independence in oversight is a best practice in governance and is necessary to ensure that EUI and its subsidiaries meet their obligations and responsibilities free from conflicts of interest.

22. The Board members are not members of management and have no direct or indirect material relationships with EPCOR; as such, the Board members provide a third party service to EUI and its subsidiaries. Board members are appointed by the City of Edmonton in its role as shareholder of EUI, and are compensated for their services. Director compensation is regularly reviewed by the Corporate Governance & Nominating Committee, which receives independent advice from a third party compensation expert, and makes recommendations to the City of Edmonton to determine Directors' compensation.

#### **1.4.2 Executive and Executive Assistants**

23. Executives provide governance and leadership services to EWSI and other EUI subsidiaries. These activities include:

- Establishing and recommending broad corporate policies for approval by the Board of Directors.



- Reviewing and recommending significant financial matters/decisions for approval by the Board of Directors.
- Developing corporate-level strategy and plans for approval by the Board of Directors.
- Carrying out the special authorities delegated by the Board of Directors.
- Establishing and maintaining an adequate control framework in relation to internal controls over financial reporting and disclosure controls and procedures, conducive to fulfilling compliance with National Instrument 52-109, the Canadian legislation equivalent to the United States Sarbanes–Oxley Act (commonly referred to as “CSOx”).
- Establishing appropriate processes, procedures and controls to ensure the EPCOR group fulfills its statutory obligations to provide utility services and contractual obligations to service its commercial customers.
- Corporate Secretarial services include providing assistance with Board, Committee and Shareholder material submissions and preparing resolutions.

24. The costs are made up of salaries and related costs for four senior EUI Executives and their respective Executive Assistants (“EAs”). The four senior Executives include:

- President and Chief Executive Officer (“CEO”);
- Senior Vice President and Chief Financial Officer (“CFO”)
- Senior Vice President, General Counsel and Corporate Secretary; and
- Senior Vice President Corporate Services.

25. Four EAs provide administrative support for the four Executives’ activities.

26. Executive leadership and related support is needed to provide corporate governance and oversight over EPCOR group business operations; to develop policies and provide strategic direction for EUI and its subsidiaries; to make strategic-level decisions on significant financial matters; to manage the enterprise risk of EUI and its subsidiaries; and to ensure that the EPCOR group has the overall resources necessary to enable it to meet the group’s duties and obligations.

### **1.4.3 Corporate Finance**

27. The Corporate Finance department provides services to EWSI and other EUI subsidiaries in the areas of:

- Accounts Payable;
- Corporate Accounting;
- Consolidated Reporting and Analysis;
- Management Development Program;
- Audit Fees; and
- Accounts Receivable.

#### **1.4.3.1 Accounts Payable**

28. The Accounts Payable function maintains vendor master files that are used for various purchasing, contract management and vendor payment functions. In addition, the Accounts Payable department is responsible for the management of procurement cards and processes all vendor invoices, credit notes and adjustments for payment on a periodic basis. The Accounts Payable function also develops and maintains all of the accounts payable related forms, policies, procedures and controls to be applied by all EPCOR's activities.

29. Accounts Payable is necessary for EWSI and other EUI subsidiaries to provide utility service as each utility incurs costs from external parties related to utility service and these costs require payment. Accounts Payable classifies costs for management reporting and analysis purposes and ensures that invoices are paid on time. In doing so, Accounts Payable can take advantage of cash discount terms where appropriate.

#### **1.4.3.2 Corporate Accounting**

30. The Corporate Accounting function provides accounting support for corporate operating and capital costs incurred by EPCOR's shared services. Corporate Accounting also includes accounting activities in support of the financing provided to EUI subsidiaries as well as calculating the allocation of corporate costs to each of the EPCOR subsidiaries and maintaining and reviewing the allocation methodologies applied to those corporate costs to ensure they are fair, reasonable and reflective of services provided. In connection with these activities, the Corporate Accounting group assists with the preparation of all regulatory related documentation and filings involving the allocation of corporate costs.

### 1.4.3.3 Consolidated Reporting and Analysis

- The Consolidated Reporting and Analysis group is responsible for the preparation of consolidated financial statements and analysis and discussion of the results. More specifically, this includes:
  - Ensuring appropriate accounting policies are developed and the relevant accounting standards are properly and consistently applied by all EPCOR subsidiaries;
  - Ensuring appropriate internal controls over financial reporting are developed and consistently applied by all EPCOR subsidiaries to ensure that EUI interim and annual consolidated financial statements accurately and fairly present the financial results of the company;
  - Preparing EUI interim and annual consolidated financial statements and management discussion and analysis as required under securities regulation;
  - Preparing internal consolidated financial statements and analysis for executives.
  - Reviewing audited financial statements prepared by EUI subsidiaries to ensure they are prepared in accordance with accounting standards and consistent presentation and disclosure with the audited consolidated financial statements of EUI;
  - Providing the executive with profitability, cost-effectiveness and other analyses as required; and
  - Managing the annual budgeting and quarterly re-forecasting processes for all of EPCOR including performing various ad hoc analyses as required by EUI and its various subsidiaries.

### 1.4.3.4 Management Development Program

31. The Management Development Program develops junior level finance, accounting and business management employees for mid-level roles across the EPCOR group. The program was designed to internally develop trainees in EPCOR's processes and its systems, policies and procedures with the aim of developing employees with greater familiarity with EPCOR businesses as an alternative to hiring external candidates to fill vacancies. The program increases the retention of talent, knowledge and the continuation of good practices and departmental policies. Finally, program trainees form a pool of resources to draw from as necessary as an alternative to using higher cost temporary workers and contractors to assist with special projects.

**1.4.3.5 Audit Fees**

32. Audit Fees relate to the outsourced function of performing audits and quarterly reviews of EUI's annual and quarterly interim consolidated financial statements.

33. External financial statement audit services are necessary for EWSI to provide utility service. In order to access capital, EWSI relies on EUI to meet the financial reporting requirements set by creditors. If EUI's financial statements are not audited, access to capital could be restricted, which could in turn limit the utilities' ability to make infrastructure investments.

34. By statute, financial statement audits can only be provided by chartered accounting firms. Therefore, the Audit fees function is solely comprised of external resources.

**1.4.3.6 Accounts Receivable**

35. The Accounts Receivable function established January 1, 2021 is responsible for the management and processing of all customer invoices (excluding customer utility billings), credit notes and adjustments on a periodic basis. The Accounts Receivable function also develops and maintains all of the accounts receivable related forms, policies, procedures and controls to be applied by all EPCOR's activities.

36. Accounts Receivable is necessary for EWSI and other EUI subsidiaries to provide utility service as each utility has commercial and intercompany activities that require invoicing to external and intercompany parties to ensure timely collection.

**1.4.3.7 Treasury**

37. The Treasury department provides the following services to EWSI and other EUI subsidiaries:

- Treasurer – Corporate Finance;
- Treasury Operations; and
- Taxation.

**1.4.3.8 Treasurer – Corporate Finance**

38. The Treasurer – Corporate Finance function performs the services associated with raising capital, primarily through the issuance of debt, necessary to finance EWSI's and other EPCOR

subsidiaries' capital expenditures and working capital requirements. The activities within this service include:

- Arranging and maintaining operating credit facilities with lenders.
- Preparing prospectuses for EUI's issuance of public debt for the benefit of EWSI and other EPCOR subsidiaries.
- Raising capital in the public and private markets for EUI and its subsidiaries.
- Meeting with credit rating agencies and providing the information required by the rating agencies to provide credit ratings.
- Preparing short-term and long-term loan arrangements between EUI and the subsidiaries.
- Performing credit reviews and analysis of commercial counterparties for EUI and its subsidiaries.
- Providing subsidiaries with financing and capital structuring advice for capital projects and acquisitions.
- Managing the strategic planning process and developing EUI's corporate strategy and annually refreshing its five year long-term plan; assisting EUI subsidiaries in developing their long-term plans; developing and maintaining the EPCOR groups' long-term planning model; providing financial and analytical support to EUI subsidiaries in relation to long-term planning; and completing an annual valuation of EUI and its subsidiaries.
- Providing financial projections that underlie the strategic plan and preparing other long range financial forecasts.
- Providing business development support to EUI and its subsidiaries.

39. The Treasurer – Corporate Finance function's activities are necessary for EWSI to provide utility service. The ability to raise capital is fundamental to the sustainability of utility operations and the Treasurer – Corporate Finance function lowers costs by optimizing borrowings and negotiating cost-effective terms and conditions.

#### **1.4.3.9 Treasury Operations**

40. Treasury Operations provides banking and cash management services to EWSI and other EPCOR subsidiaries. The activities within this service include:

- opening and closing bank accounts;
- cash forecasting and processing;
- accounting for all of the treasury transactions and loans between EPCOR entities; and
- managing exposure to foreign currency and interest rate fluctuations on behalf of all EPCOR entities.

41. Treasury Operations services are activities that are necessary for EWSI to provide utility service. This function ensures that the EPCOR group's short-term working capital requirements are met and that there is an availability of cash on a day-to-day basis.

#### **1.4.3.10 Taxation Services**

42. Taxation Services include all reporting and compliance related to taxes, inclusive of property taxes and linear taxes related to business unit property and utility assets, Goods and Services Taxes ("GST") and harmonized Sales taxes ("HST") related to business unit operations, Provincial Sales Taxes ("PST") related to business unit operations, Canadian and U.S. federal, provincial and state income taxes in relation to taxable business units, non-resident withholding taxes ("NRWT") on services performed on behalf of the business units by non-resident corporations, contractors and consultants, and customs duties related to materials and equipment imported by the business units.

43. The activities performed by the Taxation group include:

- Preparing and filing returns and remittances related to GST, HST, PST, income taxes, property and linear taxes, and NRWT.
- Reviewing the appropriateness and accuracy of assessments and reassessments issued by tax authorities in relation to all forms of tax, including the preparation and filing of any required notices of objection.
- Performing research and generally maintaining a current level of knowledge related to all present and proposed forms of tax to ensure compliance with related rules and regulations conducive to minimizing interest and penalties on assessment and reassessment.
- Planning and executing system and process changes required to implement new and revised taxes and tax rates (e.g., changes in HST and GST rates).
- Performing employee training sessions on the various forms of tax to ensure compliance at the business unit level.

- Providing advice to Corporate and business unit management on the development of policies and procedures that may be affected by any form of tax.
- Performing acquisition due diligence.
- Liaising with federal, provincial, state, municipal and county auditors on behalf of the business units in relation to audits performed of any form of tax.
- Providing tax planning services to minimize tax expenses.

44. The Taxation group ensures that EWSI is compliant with all tax legislation. This group also devises tax strategies to ensure that EWSI has minimized its GST, PST, and NRWT, property tax, linear tax and income tax liabilities.

#### **1.4.4 Audit and Risk Management**

45. The Audit and Risk Management department provides the following services to EDTI and other EUI subsidiaries:

- Internal Audit;
- Risk Management; and
- Centre of Excellence.

##### **1.4.4.1 Internal Audit**

46. The Internal Audit (“IA”) department, formerly referred to as Risk Assurance and Advisory Services (“RAAS”), provides services to EWSI and other EUI subsidiaries in the areas of:

- Administration of the EPCOR group’s internal program that ensures compliance with National Instrument 52-109, the Canadian legislation equivalent to the United States’ Sarbanes-Oxley Act (commonly referred to as “CSOx”), including:
  - Providing administration, oversight, advisory and testing services to assist management in meeting its reporting obligations with respect to Disclosure Controls and Procedures (“DC&P”) and Internal Controls over Financial Reporting (“ICoFR”).
  - Coordinating quarterly CSOx sub-certifications with internal business process owners on the design and effectiveness of the key controls mitigating financial reporting risk.

- Continuing to improve and align internal business processes and accompanying controls with the external auditor to effectively meet the objectives of this program and improve overall internal and external audit efficiencies.
- Providing assurance and advisory services under the EPCOR group’s annual risk based audit plan to independently examine, evaluate and report on the adequacy, effectiveness and efficiency of the systems of internal controls across EPCOR’s operations. Specific types of services include operational audits, information systems audits, environmental, health and safety audits, fraud detection and prevention, and audit advisory services.
- Managing the follow-up of open audit items, including reporting to Senior Management and the Audit Committee, to ensure audit items are remediated in a timely manner.

47. The activities performed by IA are necessary for EWSI to provide utility service. These activities serve to reduce risks by evaluating the design and/or effectiveness of systems of internal controls in addition to risk mitigation strategies that provide management and the Board with assurance information needed to fulfill their managerial and governance responsibilities. They also serve to reduce or avoid costs, especially through the performance of operational audits.

#### **1.4.4.2 Risk Management**

48. Risk Management provides insurance and enterprise risk management (“ERM”) services to EWSI and other EUI subsidiaries. The activities within this service include:

- Managing all EPCOR business units’ insurance requirements with overall responsibility for EPCOR’s corporate insurance program. This includes coverage determination, negotiation and placement of insurance contracts as well as surety bonds, facilitating insurer loss control activities, negotiating and settling insured losses and insurance contract/legal review including risk identification.
- Developing and maintaining an ERM framework and risk management process standard for all EPCOR business units and facilitating operational risk assessments across EPCOR. This program includes the integrated identification, analysis and monitoring of the top risks across EPCOR, including strategic and operational activities, with quarterly reporting to the Board of Directors.



49. Risk Management activities are necessary for EWSI to provide utility service. The Risk Management group manages the risk of damage to or caused by physical assets owned by EWSI. This service ensures that all EPCOR group operations are protected by the broadest coverage available in the insurance market. Having the appropriate amount of insurance is commonly required for debt issuances that might be secured by physical assets.

#### **1.4.4.3 Centre of Excellence**

50. The Centre of Excellence has been established to provide leadership, best practices, research, support and training for the Oracle Financial suite of products and the Adaptive budgeting and forecasting tool, as well as leading other efficiency and effectiveness initiatives for EPCOR's Finance function. As part of the Finance Optimization Program EPCOR has taken the opportunity to standardize its processes and procedures across the company where possible. EPCOR is also planning to develop and provide finance specific training and support of its ERP system across the company. The Centre of Excellence will foster a culture of process improvement while ensuring that existing processes are maintained.

51. The activities performed by the Centre of Excellence group include:

- Identification and analysis of issues that impact operational performance and lead the implementation of any new improvements across EPCOR.
- Leading groups of knowledgeable employees that are assigned to contribute to specific group objectives on a part time basis (Communities of Practice).
- Delivery of training and support utilizing multiple methods of delivery such as eLearning, face-to face instruction, on the job support tools and knowledge portals.
- Performing conversion and training related to acquisition integration.

52. The Centre of Excellence group ensures that EWSI staff are properly trained and following consistent EPCOR wide processes and procedures. The focus on process improvement and a consistent approach fosters best practices and allows the finance groups across EPCOR to rotate staff with minimal disruption.

**1.4.5 Human Resources Services** The functions in the HR department include the administration and management of employee compensation and benefits programs, support of recruitment efforts, job and organizational design, coaching and conflict resolution, succession and workforce planning and performance management for corporate shared service departments and the continued delivery of professional

development courses. The Human Resources (“HR”) department provides the following services to EWSI and other EUI business units:

- Total Rewards;
- Human Resources Consulting;
- Talent Management; and
- Learning and Development

#### **1.4.5.1 Total Rewards**

54. Total Rewards provides services related to the planning, design and administration of the EPCOR groups’ compensation, pension and savings plans and employee benefits to attract, retain and engage employees. These services include absentee and leave of absence management and wellness initiatives and programs for all employees. The compensation planning and administration is provided for professional, management and executive positions.

55. Human Resources Information System (“HRIS”) support is also included in the Total Rewards area. This involves managing the development, ongoing enhancements and maintenance of the Oracle-based HRIS application. HRIS activities include data management and analysis, troubleshooting, and managing system enhancements.

56. The payroll processing function performs the following activities in connection with paying employees’ wages:

- Maintains the employee master files, which form the foundation for all human resources and payroll functions including new-hire, life event changes, transfers, promotions, termination, and wage rate changes.
- Performs pension administration.
- Performs full payroll services, including bi-weekly payroll processing.
- Preparation of all statutory filings and source deduction and other remittances including workers compensation remittances.
- Develops and maintains appropriate payroll policies, procedures and controls for all EPCOR subsidiaries and assists in developing employee benefit policies.

57. The services provided by Total Rewards are required to enable EWSI to provide utility service to customers. Total Rewards provides EWSI and other EUI subsidiaries with compensation programs, benefit and retirement programs, maintains employee records and provides all payroll

and pension administration services, including any payroll-related compliance requirements. Total Rewards performs a key strategic function in developing a compensation program that positions EWSI and other EUI subsidiaries to successfully attract and retain employees and ensuring that employees are paid for the work performed.

#### **1.4.5.2 Human Resources Consulting**

58. Human Resources Consulting (“HR Consulting”) provides services such as recruitment and selection, job and organizational design, coaching and conflict resolution, succession and workforce planning, performance management, engagement action planning and labour relations activities including working with the EPCOR groups’ unionized workforce and labour unions to support the dispute resolution processes.

59. The services provided by HR Consulting are required to ensure that each department is staffed appropriately to provide the services they deliver. HR Consulting provides recruitment services and labour relations expertise for managing grievances and disputes that arise related to the administration and application of collective agreements. HR Consulting also conducts succession planning, and provides advice and support to managers regarding EPCOR’s corporate policies and legislative and regulatory requirements for employee performance management. HR Consulting provides support to managers to develop and implement action plans to improve employee engagement based on employee responses to EPCOR’s engagement survey. HR Consulting also ensures that the recruiting process enables EPCOR to attract qualified candidates, while adhering to corporate standards and policies and the requirements of collective agreements in place for unionized employees. These services are necessary for the recruitment, training and retention of high quality staff with technical and operational knowledge and experience for EWSI and other EUI subsidiaries. .

#### **1.4.5.3 Talent Management**

60. Talent Management provides services related to the provision of programs and tools that support the attraction and development of highly qualified employees through the creation and presentation of employee development and leadership courses. This area is also responsible for new employee orientations that contribute to the success of integrating new hires into EPCOR and training for managers as they move into more senior leadership positions. In addition, Talent Management also engages in position succession planning, employee engagement, as well as talent planning to meet the overall business needs within EUI and its subsidiaries.

61. The services provided by Talent Management are required to enable EWSI to provide utility service to customers. Talent Management provides EWSI and other EUI subsidiaries with training and professional development opportunities to ensure their workforces are properly trained and engaged in their work. Talent Management provides vital leadership and assistance in developing well-trained, skilled and knowledgeable personnel, positioning EWSI to successfully operate and manage their businesses.

#### **1.4.5.4 Learning and Development**

62. The Learning and Development group within Corporate Services was established in early 2019 to provide the processes, programs, systems, and structures to ensure that each business unit is able to meet its legislated training requirements. The Corporate Services Learning and Development group is focused on the following activities:

- Developing core curriculum that can be augmented and delivered by embedded business unit teams.
- Delivering training programs that are generic across the company (e.g., First Aid, Contractor Management, and Ethics training).
- Developing the learning systems and processes required to support records administration, course hosting, and tracking information related to competency-based assessments.
- Developing and maintaining processes, standards, tools and templates to enable the work of embedded business unit teams (e.g., competency framework).
- Developing, delivering and tracking legislatively mandated compliance training (i.e., Workplace Hazard Materials Information System (“WHMIS”), Transportation of Dangerous Goods (“TDG”), and legislation awareness training about key sections of Alberta’s OH&S Act, Regulation and Code).
- Developing, delivering and tracking conformance training (i.e., Alcohol and Drug Standard training, Life Saving Rules, and driving training).

63. The services provided by Corporate Services Learning and Development are required to enable EWSI to provide utility service to customers. Corporate Services Learning and Development provides EWSI and other EUI subsidiaries with effective, consistent and efficient training services. The various activities carried out by the Corporate Services Learning and Development group outlined earlier in this section are all required to enable EWSI to provide utility service.

#### **1.4.6 Information Services**

64. The IS department provides the following services to EWSI and other EUI subsidiaries:

- Major Capital Projects;
- Application Services; and
- Infrastructure Operations.

##### **1.4.6.1 Major Capital Projects**

65. Major Capital Projects manages the implementation of major applications and the installation of major computer hardware devices. In addition, project management services may extend to managing major projects of a non-IT nature for EPCOR subsidiaries, such as constructing leasehold improvements in the EPCOR Tower. Major Capital Projects services include:

- Planning and architecture services, including the creation and continuing maintenance of EPCOR's information services strategic plan, 5-year tactical business system plans (including 5-year and annual capital planning), IT architectural design services, as well as the elicitation and completion of all business requirements related to information technology projects.
- Development of business cases to support utilities' requirements and the regulatory process, as well as the post-implementation review process.
- Overall program and project execution management, including a governance and approval structure. Services include: management and oversight of all IT projects and project management services such as project integration, scope, time, cost, quality, human resource, communications, risk, and procurement management.
- Project planning and architecture services such as data analysis and database design to integrate data.
- Project Management Office services, including progress reporting, cost forecasting, training, scheduling and continuous improvement.

66. Major Capital Project services are required for EWSI to provide utility service. EWSI is heavily dependent on IS infrastructure in providing utility services. The activities outlined above performed by the Major Capital Projects team are generally required by most major corporations that have a significant IS capital project budget. It is a prudent practice for organizations to take

a hands-on role in large Capital IT projects and to have in place capital project processes and governance to manage both the delivery of and capital expenditures for each project.

#### **1.4.6.2 Application Services**

67. Application Services provides user support services related to shared business system applications such as the various Oracle modules (Financials, Human Resources Information System, Projects, Assets, Time and Labour) as well the various EWSI specific business systems such as the GIS systems, internet and intranet user support and database administration support.

68. Application Services are required for EWSI to provide utility services. EWSI is heavily dependent on IS infrastructure in providing utility services. The activities as outlined above, performed by the Application Services function are required to support the corporate Enterprise Resource Planning (“ERP”) application used by Corporate Services staff and staff within EWSI. These systems provide the core finance and HR system functions to the organization. These systems must be maintained, and occasionally upgraded to meet vendor and other stakeholder requirements (e.g., regulatory change).

69. In addition to the important role this team plays in supporting and maintaining the critical Finance and HR applications used by EWSI, the Application Services team provides both Database and Web design services. Both of these services increase the quality of the systems implemented at EUI and in the case of the Web designer team they also enhance the customer contact experience with EWSI.

#### **1.4.6.3 Infrastructure Operations**

70. Infrastructure Operations provides the following services:

- Manages the operation and maintenance of the computer hardware platforms (i.e., servers, networks, etc.) and operating systems that shared applications (i.e., Oracle business system) and EWSI and other EUI subsidiaries specific systems applications (i.e., CIS retail utility billing and information system).
- Supports telecommunications services and desktop applications (i.e., all Microsoft applications including electronic mail) for EWSI and other EUI subsidiaries.
- Conducts cyber security threat and risk analysis and delivers IT security planning and services. The group ensures that data which is stored cannot be compromised and provides mitigation plans for threats or vulnerabilities that may jeopardize the systems.

- Provides governance services such as oversight, management compliance monitoring of EPCOR's internal information services governance and control policies and procedures and oversight.
- Manages EPCOR's internal system recovery for contingency planning testing such as disaster recovery and pandemic planning.

71. Infrastructure Operations services are required for EWSI to provide utility service. EWSI is heavily dependent on IS infrastructure in providing utility services. The Infrastructure Operations service is by nature a critical operational role, in that it provides oversight as well as strategic infrastructure and governance activities. This team provides governance and control services, including the development and maintenance of internal policies, procedures and controls for the outsourced services that provide the infrastructure backbone that EUI and its subsidiaries rely on. The infrastructure they support provides the base for the corporate and business specific applications and the communication network used by EWSI and is sourced through this group to external service providers. As such, this group relies heavily on third party service providers. Infrastructure Operations' use of third party service providers is appropriate and fiscally prudent.

#### **1.4.7 Supply Chain Management Services**

72. The services in Corporate Supply Chain Management are:

- Mailroom;
- Disaster Recovery Planning;
- Corporate procurement;
- Corporate security;
- Facilities management; and
- Supply Chain Management Corporate Services.

##### **1.4.7.1 Mailroom**

73. Mailroom services are provided to EPCOR locations and include processing incoming and outgoing internal mail between all EPCOR locations as well as external mail through outsourced couriers and Canada Post.

**1.4.7.2 Disaster Recovery Planning Facilities**

74. Disaster Recovery Planning Facilities provides services for maintaining continuity of the critical information systems of EUI, EWSI, and other members of the EPCOR group in the event of a disaster, including the operation and maintenance of an off-site data centre for IT infrastructure.

75. Disaster Recovery Planning Facilities services are a core competency for a utility such as EWSI. It is vital to ensure that the information systems critical to the utility's operations are maintained without disruption in the event of a disaster. Given the vital role of this function, it would not be reasonable for EWSI to entrust this function to an outsource provider.

**1.4.7.3 Procurement**

76. The Corporate Procurement group works to maintain policy and procedures; ensure compliance with legislation; manage vendors; manage / develop vendor contract terms and conditions; provide training and support of procurement processes; and conduct vendor contract negotiations, ensuring standardization and mitigation of contract risk exposures as required by EUI's remaining Corporate Services departments. Procurement will perform market analysis, develop procurement strategies and manage the end to end procurement processes to ensure that Corporate Services departments obtain the best pricing available for their required goods and services.

**1.4.7.4 Facilities**

77. The Facilities department maintains and operates EPCOR's Corporate facilities including budgeting and administration; planning, design, space and project management and move coordination; and tenant services such as managing of landscaping and snow removal at buildings. The services also include negotiating and managing facility leases; and paying the rent and operating costs associated with premises leased by members of the EPCOR group.

78. Real Estate services are required to ensure the staff and contractors operating within EWSI and other EUI subsidiaries have a safe, clean environment to work in, and that those facilities are leased or purchased at a reasonable price.



#### **1.4.7.5 Security**

79. Security provides continuous threat and risk analysis of all physical security respecting EPCOR's businesses and facilities, including those arising from criminals, terrorists and employees. Other services provided by this function include conducting training exercises, awareness sessions, and providing guidance to prepare EWSI and other EUI subsidiaries to prevent and minimize losses during an emergency or disaster. Security guard protection services are entirely outsourced across EPCOR.

#### **1.4.7.6 Supply Chain Management Corporate Services**

80. Supply Chain Management Corporate Services is comprised of space rent and security associated with EPCOR's Corporate Services departments that are located in EPCOR Tower. These costs support for the various Corporate Service departments and allow them to supply the shared services to EWSI and other EUI subsidiaries.

#### **1.4.8 Public and Government Affairs**

81. Public and Government Affairs ("P&GA") provides the following services to EWSI and other EUI subsidiaries:

- Director – Corporate Communications;
- Corporate Communications;
- Government Relations; and
- Community Relations.

##### **1.4.8.1 Corporate Communications and Director Corporate Communications**

82. Corporate Communications provides services related to external communications, which includes corporate profile and reputation management, reporting of quarterly and annual financial results, issues management, and online communications for customers and the general public. Corporate Communications provides strategic advice in responding to customer or other issues that may arise in relation to the EPCOR group's business activities, or broader industry developments. Corporate Communications also provides internal communication support services to the Corporate Services departments and manages issues of corporate wide interest and impact.

83. Corporate Communications services are required for EWSI and other EUI subsidiaries to provide utility services to customers through facilitating timely and relevant communications and providing access to information.

84. The Director Corporate Communications is the director responsible for the Corporate Public and Government Affairs department.

#### **1.4.8.2 Government Relations**

85. Government Relations provides liaison services and briefing support in relation to all three levels of government (federal, provincial, and municipal), as well as government agencies and staff, with respect to existing or proposed policies and legislation. Government Relations also provides analysis and advice to EPCOR businesses respecting the impact of current or contemplated government policy and legislation.

86. Government Relations services are required to enable EWSI to provide utility services to customers by ensuring that government at all three levels are aware of issues that could impact EWSI and its customers. Government Relations staff work directly with elected officials and their key staff on behalf of EWSI on a regular basis to influence policy development and regulation change to minimize any potential negative impact on EWSI's customers.

#### **1.4.8.3 Community Relations**

87. Community Relations services utilizes community engagement tools, processes and investment strategies to support EPCOR's reputation and relationship objectives. This includes establishing the brand design and creative guidelines for all EPCOR communications productions, developing and delivering education programs such as public safety awareness and school electrical safety awareness and developing on-line educational materials about electricity, water and energy conservation. The Community Relations group is also responsible for advancing the achievement of EPCOR's long-term plans by implementing strategies that enhance the profile, reputation, and image of EPCOR with key audiences and providing strategic advice on the most effective means to interface with customers to ensure consistent, clear and proper messaging.

88. Services are also provided by this group to EPCOR Human Resources in support of employee recruiting, retention and engagement. This includes planning and delivering recruiting materials and planning and executing employee events.

89. Services provided by Community Relations are required to enable EWSI and other EUI subsidiaries to provide utility services to customers. Community Relations is EPCOR's face in the community and ensures customers are aware as to who is providing utility services. Community Relations also makes items such as conservation, customer service and safety matters accessible and understandable to the general public.

#### **1.4.9 Legal Services**

90. Legal Services is responsible for providing legal, governance, corporate secretarial and compliance related activities to EWSI and other EUI business units and subsidiaries.

91. Legal Services include:

- Managing all claims and litigation affecting EUI and its business units and subsidiaries.
- Negotiating, drafting and monitoring material contracts and contractual matters with employees, vendors and other parties.
- Creating and updating EUI and its business units and subsidiaries' standard form contracts and other precedent documents to reflect changes in law or business context.
- Providing advice with respect to contracts entered into by EUI and its business units and subsidiaries with its suppliers and customers.
- Providing legal research, advice, drafting of various documents and agreements and services on capital projects, mergers and acquisitions and other transactions undertaken by EUI and its business units and subsidiaries.
- Analyzing legal risks and providing advice to project teams regarding all legal issues which may affect the viability of a business initiative and/or project.
- Providing legal research, advice and services on numerous other corporate/commercial, financing and securities matters.
- Providing advice, research and assistance on regulatory law matters, including regulatory applications.

##### **1.4.9.1 Governance oversight services include:**

- Reporting all material claims and litigation affecting EUI and its business units and subsidiaries.

- Providing oversight, advice and reports on transactions undertaken by EUI and its business units and subsidiaries.
- Providing advice regarding corporate governance matters, including information on company structure, ownership and directors' and officers' information.
- Providing input into annual reports and filings as well as numerous corporate policies.
- Maintaining corporate records including registrations and preparation of supporting documentation of applications as it relates to changes to directors, officers and/or shareholders to comply with legislation.
- Preparing corporate documentation including supporting annual resolutions for all subsidiary corporations in order to comply with legislation. For example, appointing or dispensing with an auditor is requirement of business corporation legislation.

92. Corporate Secretarial services include providing assistance with Board, Committee and Shareholder material submissions, preparing resolutions, attending and recording meeting minutes of all Board, Committee and Shareholder meetings.

93. Legal Services provides records management services, which include developing, implementing and overseeing hardcopy and electronic document retention policies and practices.

94. Legal Services also provides internal oversight, advice and corporate governance respecting: legal matters related to company structure and ownership; claims and litigation affecting EUI and its subsidiaries; compliance with statutes (e.g., privacy legislation); and administration and compliance with the Code of Conduct Regulation, EPCOR Inter-Affiliate Code of Conduct and EPCOR's Ethics Policy. Legal Services also includes corporate secretarial services required to assist the Board, Board Committees and EUI's shareholder. Performing these oversight, governance and corporate secretarial services internally ensures that there is an appropriate level of control in EUI and its subsidiaries and is consistent with best practices in industry.

#### **1.4.10 Health, Safety and Environment**

95. The Health, Safety and Environment ("HSE") department functions include:

- Maintenance and ongoing implementation of the Integrated Health, Safety and Environment Management System, which conforms to ISO 14001 (Environment) and

OHSAS 18001 (Health and Safety) requirements and is implemented across all business units within EPCOR.

- Trend analysis, evaluation, and reporting for the EPCOR group to assist business units in ensuring that regulatory monitoring and reporting requirements are met.

96. EWSI has an obligation to ensure that its employees can perform their duties in a safe environment. Corporate HSE reduces potential costs associated with operational and litigation risk by creating corporate policies that minimize workplace and environmental incidents. These services are necessary to enable EWSI to provide utility service to its customers, and the costs of providing these services are reasonable.

#### **1.4.11 Incentive Compensation**

97. Corporate incentive compensation is paid to Corporate Services employees based on individual performance ratings and EUI's overall annual corporate targets. The EPCOR groups' structure for compensating its non-union employees has four components: base compensation (annual salary), employer paid benefits, Short Term Incentive ("STI"), and Mid Term Incentive ("MTI") for participating Directors, VPs and Executives. EPCOR's structure for compensating unionized employees has three components: base compensation (hourly wages / annual salaries), employer paid benefits and STI. The compensation was designed to bring employee total compensation to a level which is at par with comparable positions in the market from which EPCOR must draw employees (i.e., to market value).

### **1.5 Asset Usage Fees**

#### **1.5.1 Overview of Allocated Corporate Asset Usage Fees**

98. EUI charges fees relating to general plant assets owned by EUI that are used in providing Corporate Services to EPCOR business units. These fees are referred to as Corporate Asset Usage Fees. The categories of assets for which Corporate Asset Usage Fees are charged include the following:

- Leasehold Assets;
- Human Resources Information System ("HRIS");
- Information System ("IS") Infrastructure;
- Financial System
- Furniture and Fixtures; and

- Customer Information System (“CIS”).

99. The forecast Asset Usage Fee for each category of corporate assets comprises both a “return of” capital (or depreciation expense) and a “return on” capital. The return on capital component is calculated using EWSI’s weighted average cost of capital

### **1.5.2 Leasehold Assets**

100. Leasehold Assets include:

- Disaster Recovery Leasehold; and
- EPCOR Tower Leasehold Improvements.

### **1.5.3 Human Resources Information System**

101. The HRIS is a software application that is used by EUI’s HR department to manage the employees of the EPCOR group, including such things as recruiting, hiring, managing and paying employees (including the calculation of pensions, CPP, UIC, income tax and other payroll deductions).

### **1.5.4 Information Systems Infrastructure**

102. The Information System’s assets include servers, electronic storage devices, information system networks, desktops and Information System Applications used by Corporate Services departments to provide services to EWSI and other EUI subsidiaries.

### **1.5.5 Financial System**

103. The Financial System costs represent the current financial application that is used to pay invoices, record and report financial information, prepare financial statements, calculate depreciation, purchase goods and services and manage project costs. The software application, Oracle Financials, uses modules that include Accounts Payable, Accounts Receivable, General Ledger, Purchasing, Projects and Fixed Assets.

### **1.5.6 Furniture and Fixtures**

104. These asset costs represent furniture such as offices, workstations, chairs, tables, file cabinets and shelves used by employees in Corporate Services departments.

**1.5.7 Customer Information System (“CIS”)**

105. The Customer Information System (“CIS”) is a single, integrated CIS that replaces EEA’s existing customer billing application and relationship management systems to ensure that EPCOR continues to be able to respond to customer account inquiries, set up or remove services, maintain customer accounts and transaction history, calculate and generate bills, and receive payments.



## **Appendix L2**

**EPCOR WATER SERVICES INC.**

**Shared Service Charges Allocation Methodology**

**February 16, 2021**



## **1.0 OVERVIEW**

1. EWSI provides various Shared Service functions to the regulated Water, Wastewater Treatment and Drainage operations and to EWSI's other businesses which are held within the EWSI legal entity or as subsidiaries of EWSI. The services provided by EWSI include Shared Services, which are financial, administrative and other services are provided on a shared basis in order to achieve cost efficiencies within the businesses supported by EWSI.

2. Appendix L-01 describes the services and associated costs related to services that are provided from EUI to EWSI. These services are provided by functional groups that are part of the EUI corporate group while Shared Services are provided by functional groups from within EWSI. For some functional categories, such as Human Resources, Health, Safety & Environment, Supply Chain and Public and Government Affairs, services are provided from both EUI and EWSI. In these instances, the services provided by EUI tend to be limited to governance, oversight and broad policy considerations, while the services provided by EWSI are more tactical and are specifically driven by the business needs of EWSI. In the case of Information Services, the EUI cost allocation is generally related to corporate applications such as the financial and human resources systems while EWSI Information Services costs are generally related to applications and technical infrastructure unique to EWSI

3. The specific shared services that EWSI provides, including the methodologies used to determine the inter-corporate service charges, are described below.

## **2.0 SHARED SERVICES PROVIDED BY EWSI**

4. Sections 2.1 to 2.10 below sets out the allocated Shared Services provided by EWSI to the regulated Water, Wastewater Treatment and Drainage operations and to the other business supported within EWSI.

### **2.1 Executive Administration**

5. Executive Administration includes compensation of the Senior Vice President of EWSI and resources together with associated ancillary costs required to provide administrative and management oversight on operational and business related matters. As well, Executive Administration includes the compensation of the Divisional Vice President of EWSI Shared Services and resources together with associated ancillary costs required to provide

administrative and management oversight of the embedded shared services that provide support to operations within EWSI.

## **2.2 Controller**

6. Controller includes the compensation together with associated ancillary costs related to the EWSI Controller required to provide financial oversight and accounting services. Controller includes the following functions:

- financial oversight;
- preparation of financial reports and analysis;
- administration of the financial reporting services;
- asset accounting administration;
- budget administration;
- development and maintenance of corporate accounting policies and procedures;
- financial support for regulatory applications; and
- costs associated with maintaining office space in EPCOR Tower.

## **2.3 Health, Safety & Environment**

7. Health, Safety and Environment includes the compensation together with associated ancillary costs related to the EWSI Health, Safety and Environment required to maintain appropriate health and safety practices that are in compliance with legislation. Specific functions include:

- ensuring that existing Health and Safety practices and procedures are well designed and in compliance with legislation and compatible with Service Provider Safety Management Policies;
- business services including internal loss management, safety and training and related support staff;
- Health, Safety and Environment Audit and Inspections;
- Environmental Issues Management; and
- Health, Safety, Environment and Training, Legal Compliance and Reporting.

## **2.4 Information Services**

8. Information Services includes charges related to EWSI's unique applications as well as costs associated with desktops, printers and network support. Specific functions include:

- application support;
- relationship management; and
- license fees, desktop support and server support.

## **2.5 Public & Government Affairs**

9. Public & Government Affairs includes compensation together with associated ancillary costs of EWSI Public & Government Affairs required to provide stakeholder and public consultation requirements. Specific functions include:

- stakeholder relations and public consultation services;
- internal communications (related to business unit matters); and
- external communications (includes coordination of business' unit considerations such as public safety notices, performance reports, public addresses and presentations, print collateral, operational issues management, etc.).

## **2.6 Technical Training**

10. Technical Training includes the compensation together with associated ancillary costs of EWSI Technical Training required to design, develop and deliver technical training to operations staff and monitor that the operating staff are compliant with regulatory requirements to maintain continuous and current health, safety and technical training.

## **2.7 Human Resources**

11. Human Resources includes the compensation together with associated ancillary costs of EWSI Human Resources, which includes human resources management; human resources consulting, talent management, facilitating the management of return to work scenarios for short-term disability, long-term disability as well as Workers' Compensation Board and non-supported claims management.

## **2.8 Regulatory & Operational Excellence**

12. Regulatory & Operational Excellence includes the compensation together with associated ancillary costs of EWSI Regulatory & Operational Excellence related to the regulated Water, Wastewater Treatment and Drainage operation's regulatory applications and associated requirements. Specific functions include:

- applications development: regulatory proceeding participation, relationship management, and regulatory research;
- develop and co-ordinate business unit strategic plans on behalf of the SVP;
- monitor and coordinate responses to regulatory and policy activities or initiatives within various government ministries, departments and/or agencies which may affect the business;
- manage regulatory interfaces with government, regulatory and market agencies, and other industry participants;
- manage and co-ordinate tariff and facility applications with business units;
- facilitate and manage process improvement projects to drive operational efficiencies and achieve strategic objectives;
- ensure the equitable and accurate application of the stormwater utility to all properties in Edmonton;
- coordinate and manage the Management of Change (MOC) program for Drainage Services; and
- track, coordinate and report on Performance Based Reporting (PBR), Short-term Incentive Plan (STIP) and Shareholder and Operational Metrics.

## 2.9 Supply Chain Management

13. Supply Chain Management includes the compensation together with associated ancillary costs of EWSI Supply Chain Management required to provide services for warehousing, inventory, reverse logistics, purchasing and strategic sourcing including management of the end-to-end procurement process for the goods required by the regulated Water, Wastewater Treatment, Drainage operations and to the other business supported within EWSI. Specific functions include:

- administration of procurement services, including but not limited to competitive bidding, PO creation resulting from the competitive bidding process, issuing requests for quotations and requests for proposals, contract negotiation and execution, contract administration and Supplier Relationship management;
- administration of the Warehousing and Materials Management Services; and
- administration of Facility Services for building related activities such as administration of the operations and maintenance of buildings and surrounding land and also lease agreement management.

## **2.10 Incentive Compensation**

14. Incentive Compensation is paid to EWSI employees based on individual performance ratings and overall annual corporate targets. The EPCOR group's structure for compensating its non-union employees has four components: base compensation (annual salary), employer paid benefits, Short Term Incentive (STI), and Mid-Term Incentive (MTI) for participating Directors, VPs and Executives. EPCOR's structure for compensating unionized employees has three components: base compensation (hourly wages / annual salaries), employer paid benefits and STI. The compensation was designed to bring employee total compensation to a level which is at par with comparable positions in the market from which EPCOR must draw employees (i.e., to market value).

## **3.0 DRAINAGE OPERATIONS ALLOCATION**

15. Prior to the allocation of Shared Services costs to the EWSI's Water, Wastewater Treatment operations and to the other business supported within EWSI, there is an allocation of specific shared services costs to Drainage operations only for those functional areas where support is provided.

16. For these specific functional areas noted below and described in Section 2.0 above, an equal allocation of the costs of these functional areas is allocated to drainage operations:

- (a) Regulatory & Operational Excellence – 100% of all costs of the functional area are shared equally with Drainage Services;
- (b) Supply Chain Management - 100% of Facility Operations and Contract Management / Procurement are shared equally with Drainage Services;
- (c) Executive Administration – costs associated only with the Divisional Vice President of Water Services and resources together with associated ancillary costs are shared equally with Drainage Services; and
- (d) Incentive Compensation – only the Incentive Compensation directly associated with the employees in the functional areas noted in paragraphs (a) to (c) immediately above are allocated to Drainage Services.

17. The remaining amounts associated with these functional areas are then allocated in accordance with the equivalent allocator noted in Table 4.0-1.

#### 4.0 SHARED SERVICES ALLOCATION

18. Table 4.0-1 below provides information on the cost allocators used to allocate Shared Services costs to the regulated Water and Wastewater Treatment operations and to the other business supported within EWSI. The allocation methodologies have been designed to ensure that the allocation of EWSI's shared service costs are fair and reasonable, cost-effective, predictable and reflect the benefit received by function or cost causation.

**Table 4.0-1**  
**Allocation of EWSI Financial and Administrative Costs**  
**Cost Allocators**

Responsibility Centre and Function	A Allocator
1 Executive Administration	Composite – EWSI Revenue, Assets, Headcount
2 Controller	Composite - EWSI Revenue, Assets, Headcount
3 Health, Safety & Environment	Functional Cost Causation – EWSI Headcount
4 Information Services	Functional Cost Causation – EWSI Total Assets
5 Public & Government Affairs	Composite – EWSI Revenue, Assets, Headcount
6 Technical Training	Functional Cost Causation – EWSI Headcount
7 Human Resources	Functional Cost Causation – EWSI Headcount
8 Regulatory & Operational Excellence	Functional Cost Causation –EWSI Regulated Assets
9 Supply Chain Management	Composite - EWSI Revenue, Assets, Headcount
10 Incentive Compensation	Average based on allocated costs above