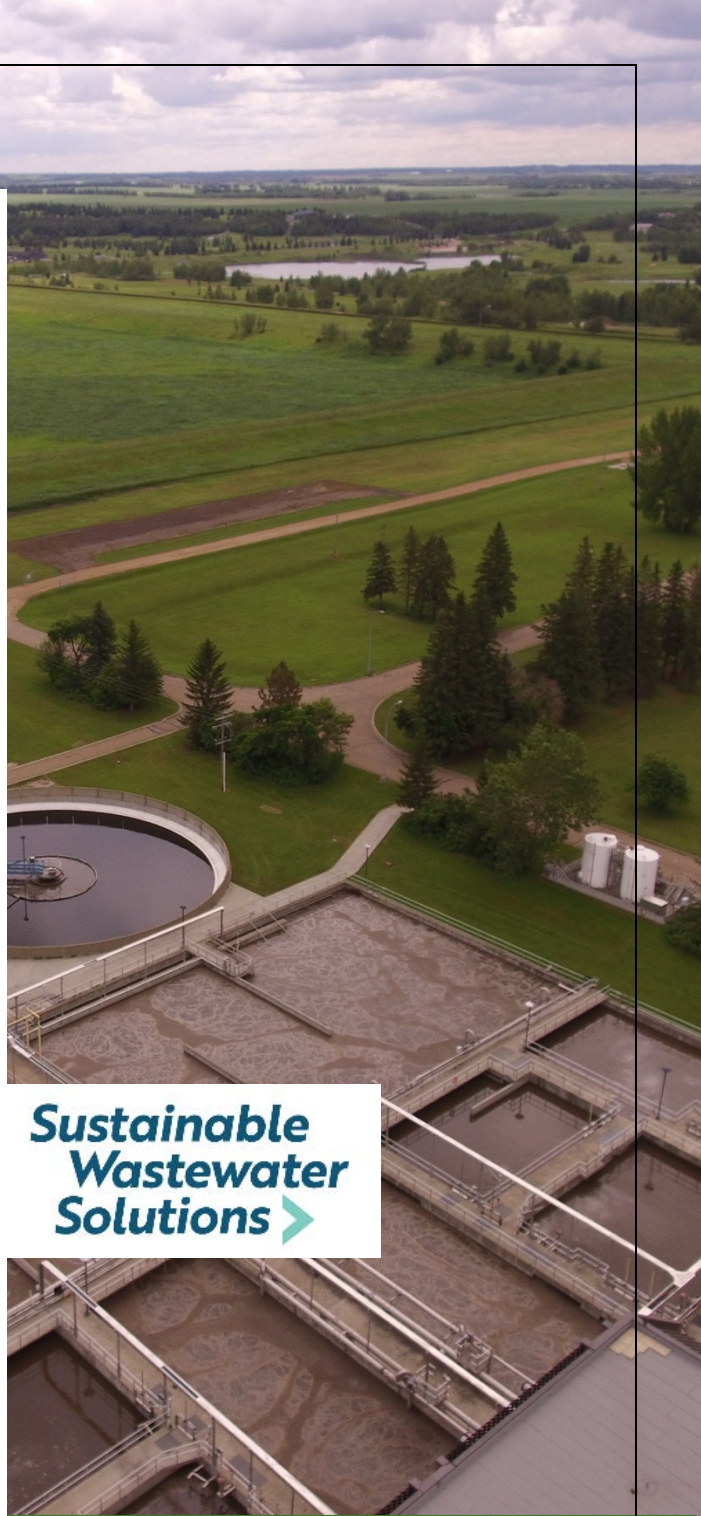


Budget Report 2024



*Sustainable
Wastewater
Solutions* >

November 24, 2023



2024 Operating Budget in (000's)

	2023 Budget	2023 Forecast	2024 Budget	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
*Revenue	54,053	55,521	67,987	74,207	90,312	94,203	95,619
**Train 4 MBR Plant Upgrade Grant			16,700	16,700	16,600		
	54,053	55,521	84,687	90,907	106,912	94,203	95,619
Operation and Maintenance							
O&M labour	3,182	3,193	3,358	3,687	4,161	4,420	4,663
Employee benefits	534	533	571	583	685	699	713
Contract maint. & materials	3,053	3,839	3,655	4,053	4,316	4,604	4,873
Electricity	2,590	2,734	3,643	4,716	4,290	4,376	4,463
Natural gas	440	277	340	347	354	421	429
Chemical	341	308	350	357	364	371	378
Biosolids mgt.	6,313	6,241	6,357	6,764	6,899	7,037	7,178
External treatment services	9,866	9,579	11,348	13,028	13,760	14,754	5,665
Other	497	423	483	493	504	515	526
	26,816	27,126	30,104	33,028	35,333	37,197	38,888
Regulatory Services	1,539	1,637	1,542	1,605	1,765	1,797	1,831
Corporate Services	1,738	1,787	1,743	1,818	1,855	1,893	1,931
Communications and Stakeholder Relations	814	954	1,242	1,333	1,541	1,573	1,605
Engineering	995	957	1,617	1,449	1,478	1,507	1,537
Board	143	202	229	159	162	165	168
Operating costs	32,045	32,663	36,477	39,392	42,134	44,132	45,960
*Financing costs	2,877	1,870	4,447	6,451	7,609	7,116	6,623
Total oper. and fin. exp.	34,922	34,534	40,924	45,843	49,743	51,248	52,583
Excess of rev. over exp.	19,131	20,987	43,763	45,064	49,743	42,955	43,036
Amortization expense	(9,400)	(9,200)	(10,000)	(10,500)	(16,000)	(16,500)	(17,000)
*Principle repayments	(5,874)	(5,056)	(7,578)	(9,800)	(11,156)	(10,943)	(10,601)
Net surplus to reserves	\$3,857	\$6,731	\$26,185	24,764	\$30,013	\$15,512	\$15,435

*The revenue, financing costs and principle repayments are presented for 2024 to 2028 based on rates and financing calculations in the revenue requirement.

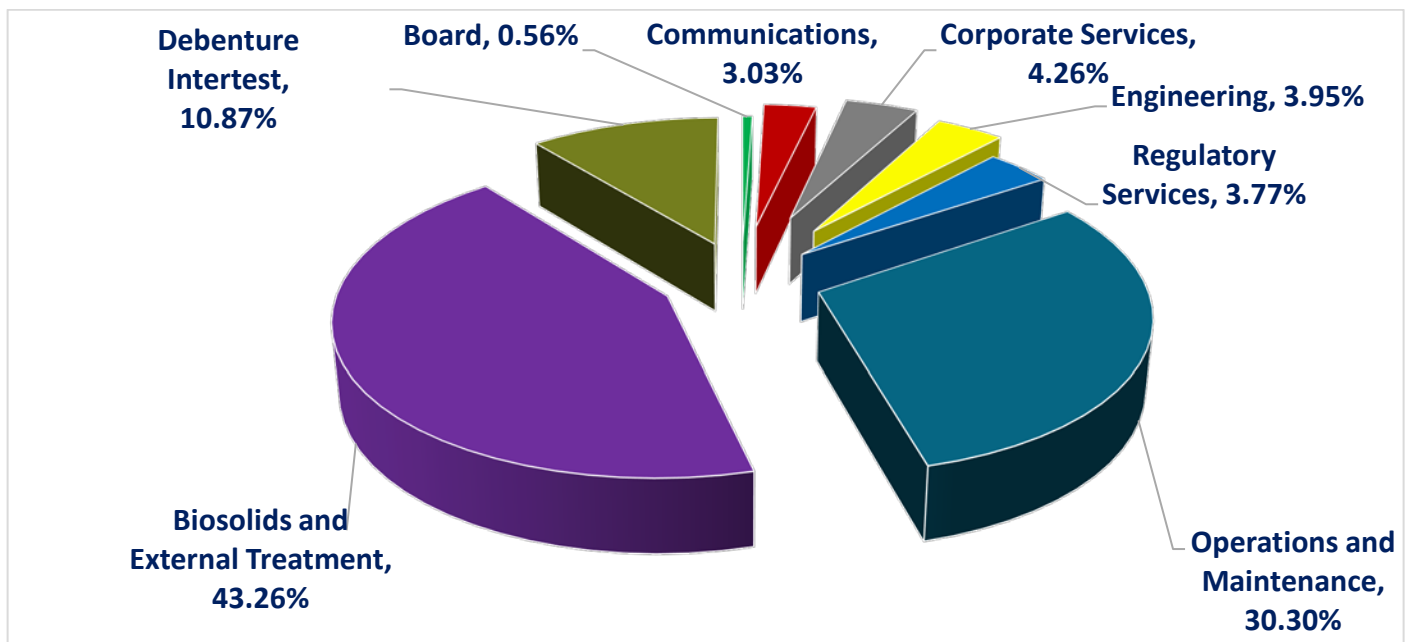
** Grant for Train 4 MBR Plant Upgrade has not been approved

Operating Budget Highlights

The 2024 operating budget is proposed at \$36.5 million which is a ~\$4.4 million (13.8%) increase in comparison to the 2023 operating budget.

Staffing levels are expected to increase by 0.5 FTE to 50.5 permanent full-time staff and 3.0 temporary equivalent FTEs. The budget for salaries, benefits, and honorariums have increased by ~\$415K (5.9%). In 2024, Administration is proposing the repurposing of 0.5 FTE and adding 0.5 FTE to allow the growth of one resources in the Transmission group to help maintain and operate our transmission and pump stations, and allow for two operators to oversee the transmission system.

2024 Operating Budget Allocated by Department



The Operations and Maintenance budget for 2024 increased by ~\$3.3M. Significant cost drivers to the change include:

- External treatment services paid to EPCOR- increase of \$1.5M. The increase is due to the flow rate increase.
- Utilities- increase of \$1.0M. ARROW has entered into a new electricity contract starting January 1, 2024. \$0.9M is attributed to the new contract price, where \$0.1M is attributed to the additional usage that is expect to be used in 2024.
- Contract Maintenance and materials- increase \$0.6 million which includes additional CCTV work, emergency repairs on the transmission line and additional costs in the plant maintenance budget.

The Regulatory Services budget for 2024 increased by ~\$3K due to inflationary adjustments and expected efficiencies found in the Lab. Administration has delayed the recommendation of adding a 0.5 FTE Lab assistant to reduce overtime, it is recommended that this is revisited in 2026.

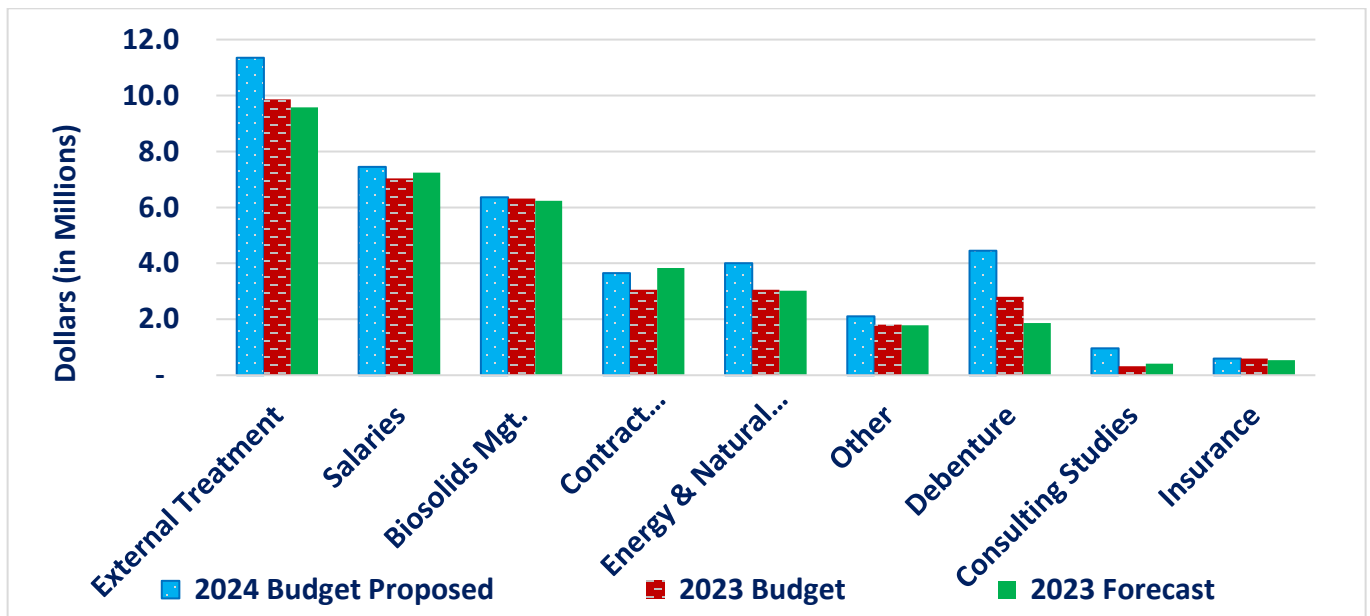
The Corporate Services budget for 2024 increased by ~\$5K to accommodate inflationary adjustments.

The Communications and Stakeholder Relations budget for 2024 increased by ~\$428K to accommodate Public Relations costs including rebranding (\$131K), IT software and hardware cost increases and major IT server upgrades (\$235K). IT costs included within the department include software centralization that are generally within a 3-year budgetary cycle, future budgetary years will amortize the costs of software over the window of the license to mitigate fluctuations to the budgetary line item. Administration has delayed the recommendation of a 0.5 FTE within IT that would be focused on the CMMS that has finally achieved implementation, this FTE is recommended to be revisited within the 3-year window. Administration has additionally delayed a recommendation of re-establishing a 1.0 FTE Executive Assistant position that was in place 8 years ago, to support the additional communication aspects and management of member municipalities. It is recommended to revisit this FTE need within the 3-year window.

The Engineering budget for 2024 increase by ~\$622K accommodate an increase in consulting studies. Administration is recommending the completion of a comprehensive utility master plan inclusive of asset management and growth needs to support both the transmission system and plant site.

The Board of Directors budget for 2024 has increased by ~\$86K, the budget has incorporated advanced grant advocacy through 2024.

2024 Operating Budget Allocated by Costs Drivers



Capital Budget in (000's)

Capital Projects	Carry Fwd. Budget	2024 Capital Budget	Est Capital Expense Dec 31, 2023	2024 Spending	Project Completion	Total Capital Program
Transmission System						
PSTS Replace/ Upgrade	16,400	3,450	13,600	6,250	Ph.1- 2024	19,850
SERTS North Twinning	10,400	700	9,600	1,500	2024	11,100
Morinville Forcemain River Crossing	130		130		2027	130
PSTS Twinning					Phase 2/3 -2027	
SERTS North- Yellowhead Crossing					2028	
SERTS South- Henday Crossing					2029	
SERTS South- BMT Twinning Ext.					2026	
START Rehab- Additional Phases					2030	
PSTS Rehab					Phase 2- 2028	
Combination Chamber Upgrade					2027	
START- River Crossing					2029	
Wet Weather System						
Spruce Grove WWF Storage Facility					Ph.2/3- 2029	
Pump Stations						
Ft Sask. Generator System Upgrade	4,500	250	2,925	1,800	2024	4,750
Plant						
Waste Gas Burner Piping Upgrade	250		50	200	2023	250
Train 4 Plant MBR Upgrade	90,300	75,600	10,400	73,600	2025	165,900
5Kv Breaker Replacement	2,550		150	2,300	2024	2,550
Biogas Pipeline Replace	3,100		600	2,200	2024	3,100
Biosolids Parallel Digester Upgrade	125		125		2026	125
Maintenance Storage and Office	200		200		2028	200
Clarifier Gate Replacement	600				2026	600
Plant Blower Breaker Replacement					2027	
Plant Electrical Upgrader Phase 3/4					2028	
Headworks Upgrade					2027	
Plant Emergency Generator Upgrade					2026	
Other						
Unplanned Line Replacement		4,000		4,000		4,000
Minor Capital		550		550		550
Total Capital Requirements	128,425	84,550	37,780	92,400		213,105
Current						
Paused						
Future						

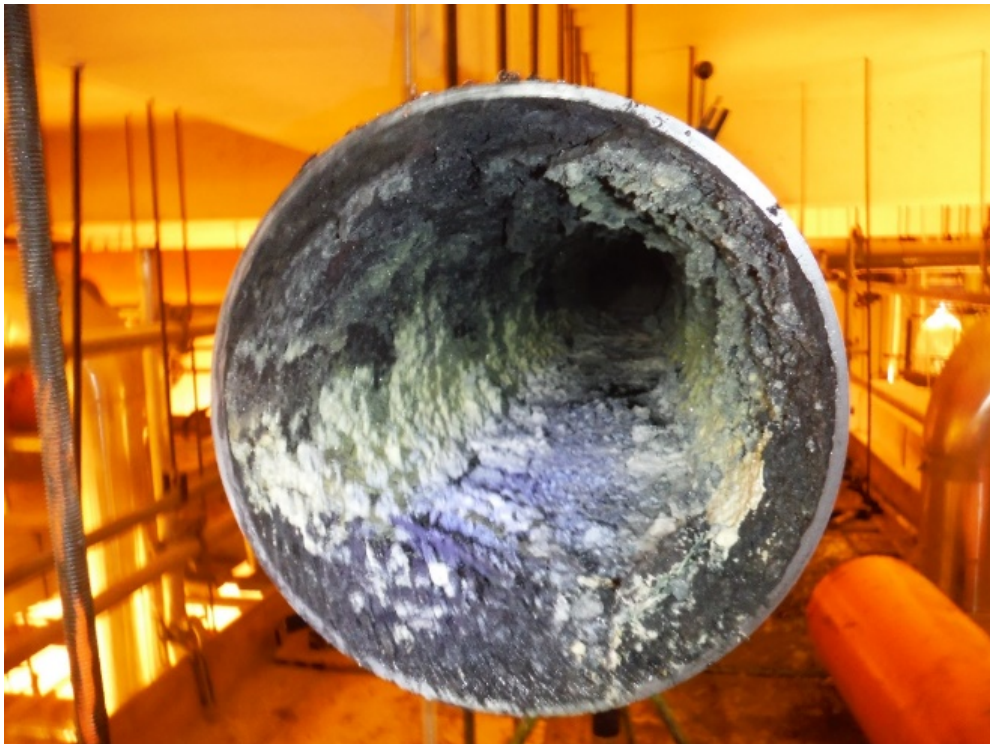
Capital Budget Review

In 2024, the capital spending requirements are anticipated at \$92.4 million to be financed internally from reserves, surplus from operations, grants and externally through debentures. With the increased cost of the Train 4 Plant MBR upgrade (\$75.6 million), ARROW may need to get approval from the Minister of Municipal Affairs to go over our 200% debt capacity in 2024 depending on cash flow throughout the year. Administration will continue to advocate with both provincial and federal governments to help provide funding for plant upgrades which will allow industrial growth in the Capital Region.

The Capital Program has a carry forward approved budget of \$128.4 million. Administration is estimating that \$37.8 million to be spent by December 31, 2023, from the current carry forward budget. Administration is proposing an additional \$84.55 million in new capital additions to a total capital budget of \$213.1M. The major addition includes \$75.6M for the Train 4 Plant Upgrade. From 2025 to 2028 ARROW is expecting to spend approximately \$187.2 million including projects to be approved in future years.

2024 Capital Spending-

- Plant- \$78.3M
- Transmission- \$11.8M
- Pumpstation- \$1.8M
- Minor Capital- \$0.5M



2024 Revenue Requirement in (000's)

	2023 Budget	2023 Forecast	2024 Budget	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Operating Expenses	32,045	32,663	36,477	39,392	42,134	44,132	45,960
Debt Interest Payment	2,871	1,870	4,447	6,451	7,609	7,116	6,623
Debt Principle Payment	5,874	5,056	7,578	9,800	11,156	10,943	10,601
Capital Requirements *	69,700	49,150	92,400	88,700	38,500	31,500	32,500
Total Cash Requirement	110,490	88,740	140,902	144,343	99,399	93,691	95,684
a) From (To) Reserves	16,437	(4,781)	24,965	(64)	(7,512)	(512)	65
b) Other Revenues**	9,203	9,813	28,794	28,833	42,683	28,157	27,548
c) Debentures	40,000	38,000	31,250	53,500	-	-	-
Treatment Charge by Member	44,850	45,708	55,893	62,074	64,228	66,046	68,071
Annual Throughput in 1000 m ³	29,900	30,108	30,213	30,280	31,331	31,601	31,809
Actual/ Proposed Unit Rate (\$/m³)	1.50	1.50	1.85	2.05	2.05	2.09	2.14
Actual % Rate Increase,	5.6%	5.3%	23.3%	10.8%	0%	2.0%	2.4%
Ratio of Debt Service to Revenue	17%	14%	22%	24%	25%	20%	19%
Ratio of Debt to Revenue	174%	170%	200%	228%	194%	147%	132%

*Construction Inflation included

**Includes Grants that have not been approved

Revenue Requirements and Rates

Revenue requirements for 2024 were derived from our cash-based model. The model was updated with information from our utility master plan and projected operating costs. The proposed flow rate for 2024 is \$1.85 per cubic meter.

During 2022, there was a strategic board direction to move towards water reuse. Administration is currently working to provide industry water reuse in 2025. The planned MBR plant upgrade has started construction in 2024 and is anticipated to be completed in 2025. The first industrial customer anticipates the need for water as early as mid 2025, and will be using effluent blended with potable water. Reuse water is anticipated to be conveyed by the end of 2025. Administration has started noticing the escalating costs in construction projects. The rates allow ARROW to fund capital plant upgrade and to replace our transmission assets, while maintaining and operating our facilities.

The flow rate revenues are estimated at \$64.9 million including the EPCOR (City of Edmonton) revenues which is an increase of ~\$12.5M. Our investment income is expected to increase to \$1.2M as the capital funds will be available early and the interest rates has increased significantly over the year.

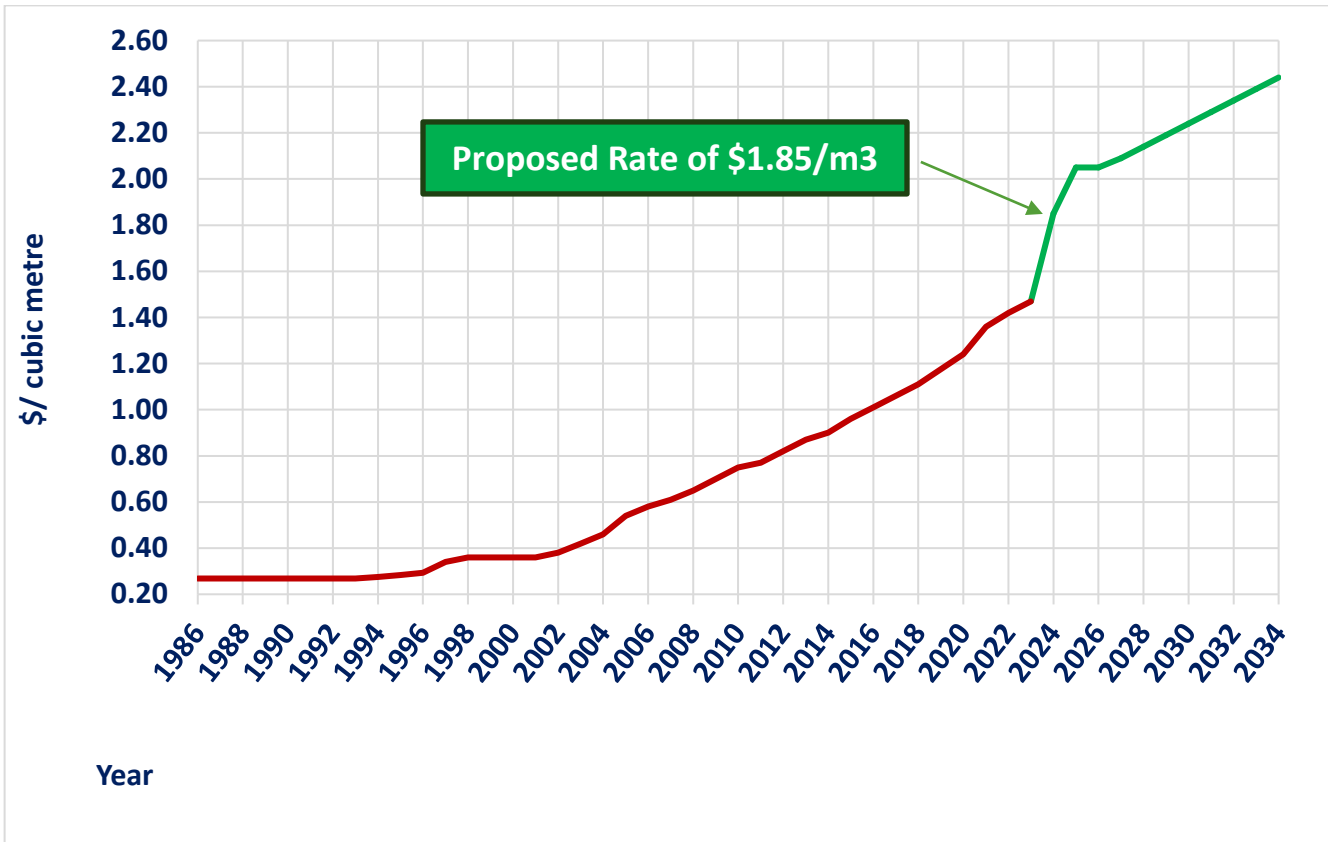


The load-based rates are proposed from an increase of 0.3% to 10% depending on the parameter. These rates are calculated by taking the operating budget, the average flow and parameter influent results from the last five years, to calculate the cost to treat one kilogram of each individual parameters. Administration is anticipating collecting \$1.85 million in revenues in 2024 which is an \$0.35M increase from 2023.

Proposed Load Based Charges

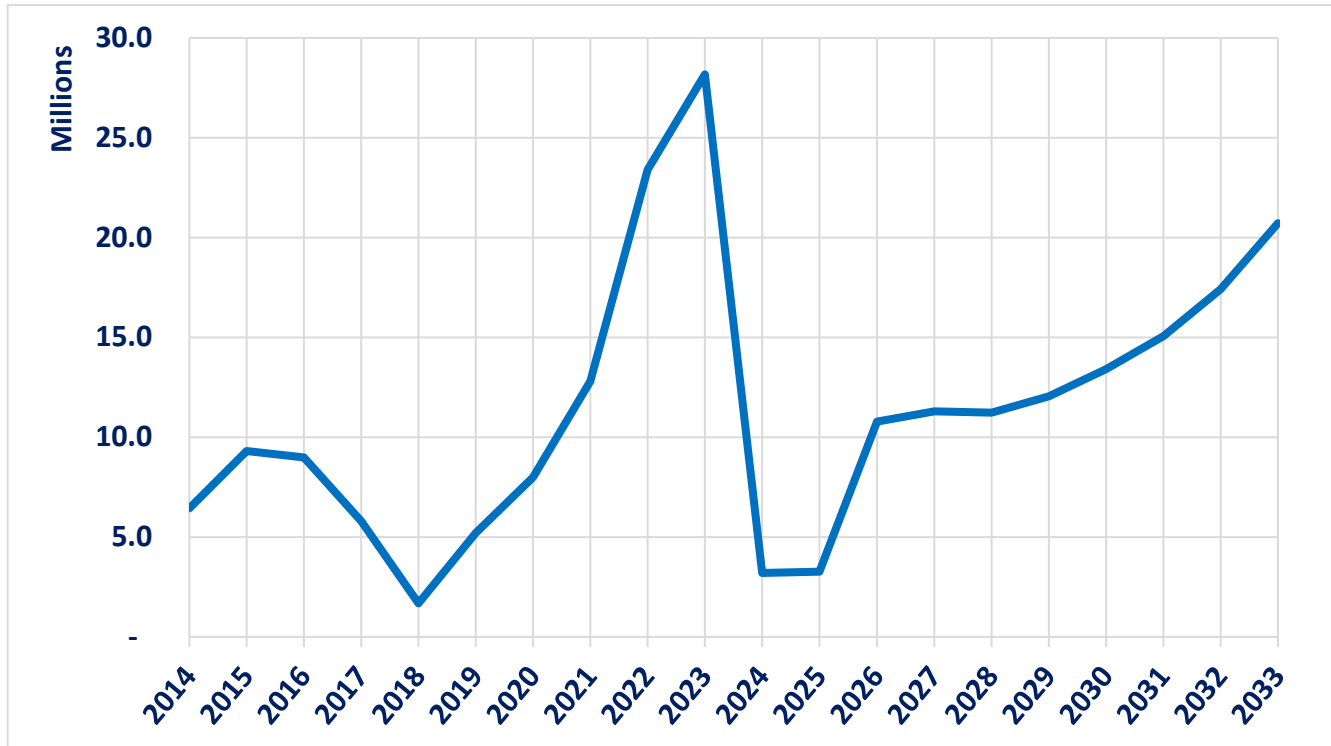
- Chemical Oxygen Demand (COD)- \$0.4756/kg- Increase 10.0%
- Biological Oxygen Demand (BOD)- \$0.4756/kg- Increase 10.0%
- Total Suspended Solids (TSS)- \$0.3783/kg- Increase 10.0%
- Total Kjeldahl Nitrogen (TKN)- \$2.0630/kg- Increase 0.3%
- Total Phosphorus (TP)- \$15.1885/kg- Increase 1.6%
- Oil and Grease (O&G)- \$0.3281/kg- Increase 10.0%

Historical and Projected Rates



Reserves

Total Reserves Projections

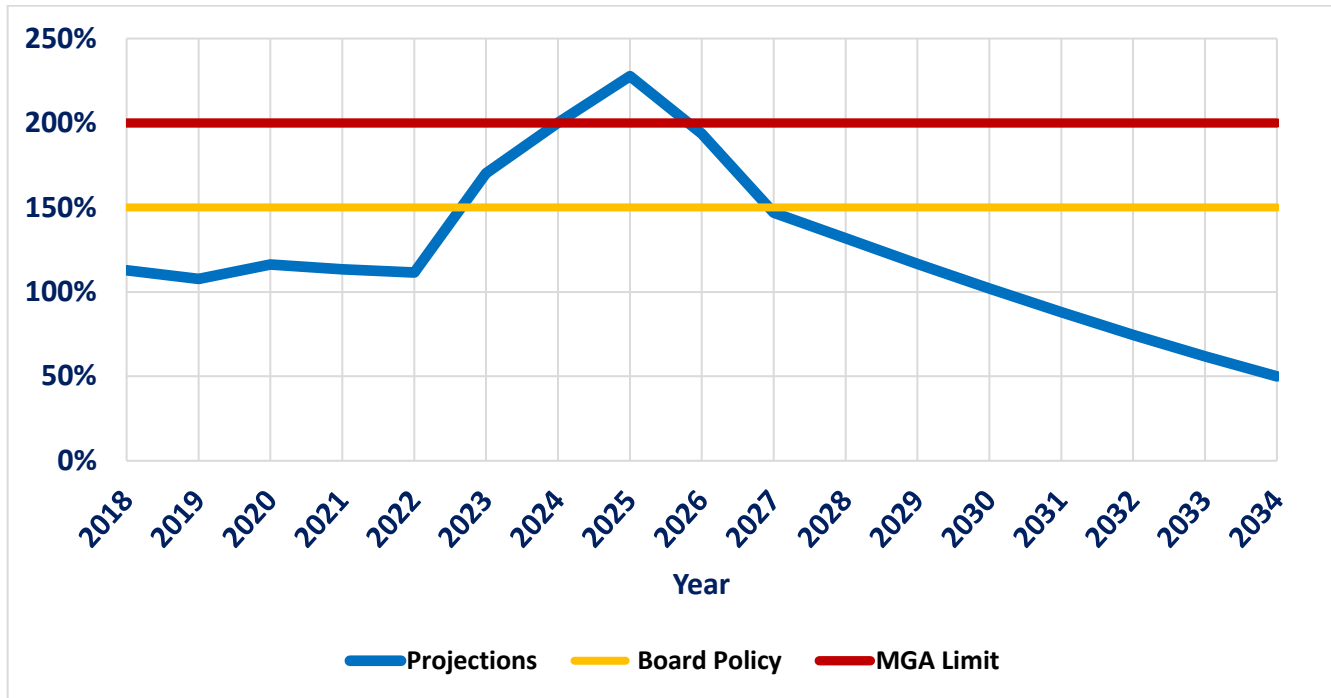


Beyond meeting operational and debt financing costs, the main cost driver on the rate projection is the capital program. With the planned expansion to an MBR technology, we expect our operating reserve level to fall below the board policy minimum level of 5% in 2024 (4.7%) and 2025 (4.3%). By the end of 2026, the operating reserve is expected to be back within the Board approved range.



Debentures

Debt Limit



Financing costs for 2024 will be increased by ~\$1.6 million. The Commission is expecting to issue \$31.25 million in debentures in 2024 to fund the capital program. The debt will be increasing from \$87 million in 2023 to a high of \$155 million in 2025 and then decrease back down to \$66 million by 2033. There will be a need to continue to advocate to the provincial and federal governments to access grants to help cover capital costs. These projections include grant funding, of \$50 million over three years, that has not been approved. If no grants are received in 2024, ARROW will have to look to ascertain a ministerial order to increase the debt limit to meet the capital financial obligations.

