

BLATCHFORD RENEWABLE ENERGY 2022 RATE FILING AND FALL 2021 SUPPLEMENTAL BUDGET ADJUSTMENT

RECOMMENDATION

That Utility Committee recommend to City Council:

1. That adjustments to the 2022 Operating Budget for Blatchford Renewable Energy, as outlined in Attachment 2 of the December 9, 2021, Financial and Corporate Services report FCS00807, be approved, resulting in the revised 2022 Operating Budget with revenues of \$0.173 million and expenditures of \$2.305 million.
2. That the 2022 rates and fees for Blatchford Renewable Energy, as outlined in Attachment 3 of the December 9, 2021, Financial and Corporate Services report FCS00807, be approved.

Report Purpose

Council decision required.

Council is being asked to approve adjustments to the Blatchford Renewable Energy 2022 Operating Budget and customer utility rates and fees for 2022.

Executive Summary

- Blatchford Renewable Energy was established to help achieve the City's long-term goal of 100 per cent renewable energy and carbon neutrality for the Blatchford Redevelopment and is one of the strategic actions outlined in the City of Edmonton's Corporate Business Plan 2019-2022.
- This report recommends adjustments to the Blatchford Renewable Energy approved 2022 operating budget and presents the Annual Rate Filing to establish customer rates and fees for 2022.
- The 2022 Rate Filing builds upon the principles and framework established in the 2019, 2020 and 2021 Rate Filings and recommends that customer rates and infrastructure fees for 2022 be set based on the approved 2021 customer rates and infrastructure fees escalated by 2.7 percent.
- Utility rates are prescribed under the Blatchford Renewable Energy Utility Bylaw 17943.
- Financial and Corporate Services report FCS00808 (Bylaw 19899 To Amend Bylaw 17943 Blatchford Renewable Energy Utility, Amendment No. 3), also at the December 9, 2021 Utility

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REPORT

Background

Blatchford Renewable Energy is a municipally owned utility established in 2019 to help achieve City Council's vision for the Blatchford Redevelopment, including 100 percent renewable energy and carbon neutrality.

During the first project phase, Blatchford Renewable Energy draws thermal energy from a geoexchange borefield beneath the community's stormwater pond, then uses heat pumps and a district energy sharing system to meet heating, cooling and hot water needs for all neighbourhood buildings. Blatchford's system is designed to grow with the neighbourhood, balance energy needs between buildings, and incorporate renewables on a community scale.

The 2022 Rate Filing builds on previously established principles and framework. At its November 28 to December 14, 2018 budget meeting, City Council approved the Blatchford Renewable Energy 2019-2022 Operating and Capital Budgets and the 2019 Annual Rate Filing (Financial and Corporate Services report CR_6372). The 2019 Annual Rate Filing recommended the regulatory framework, customer rates and infrastructure fees for the initial year of operation of the utility. City Council also approved the Blatchford Renewable Energy Utility Bylaw 17943, which formally established Blatchford Renewable Energy, outlined requirements for properties to receive energy service, and set the fees and charges for utility service. For the first year of utility service, fees and charges included in Schedule B of Bylaw 17943 were based on the 2019 Annual Rate Filing. As discussed further below, the fees and charges included in Bylaw 17943 have increased by 2.7 percent each year as part of the 2020 and 2021 Annual Rate Filings and Supplementary Operating Budget Adjustments.

The establishment of a new utility has required staged investments in infrastructure. The approved 2019-2022 Capital Budget for Blatchford Renewable Energy is \$25.365 million in total, including \$4.7 million for expenditures in 2023 and beyond (Attachment 1). The capital budget includes \$6.743 million for the completion of the existing geoexchange borefield and utility facility Energy Centre One (\$19.442 million in total, of which \$12.699 million of costs were budgeted to be incurred by the end of 2018; construction completion and commissioning achieved during the third quarter of 2019). It also includes \$4.972 million for the planning and design of the next stage of development of Blatchford Renewable Energy, a Sewer Heat Recovery Energy Centre approved as part of the 2019 supplementary capital budget adjustment. In addition, the capital budget includes supplementary adjustments in 2021 of \$5.0 million for the design and construction of the Energy Transfer Stations within apartment buildings that will distribute the energy from the District Energy Sharing System into the building units (December 4, 2020, Financial and Corporate Services report FCS00173, Blatchford Renewable Energy 2021 Supplementary Capital Budget Adjustment), as well as \$8.65 million over three years (2021 to 2023) to advance the design and delivery of the distribution piping system for the District Energy Sharing System for the current land development stages and the Northern Alberta Institute of Technology development in the Blatchford community (April 30, 2021 Integrated Infrastructure Services report IIS00496).

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2022 Operating Budget

The table below provides the revenues and expenditures included in the approved 2019-2022 Operating Budget for Blatchford Renewable Energy, as updated as part of the 2021 Annual Rate Filing and Supplemental Operating Budget Adjustment approved by Council in December 2020 (December 4, 2020 Financial and Corporate Services report FCS00126, Blatchford Renewable Energy 2021 Supplementary Operating Budget and Annual Rate Filing).

\$ millions	2019 Approved	2020 Approved	2021 Approved	2022 Approved	2022 Proposed
Revenues	\$0.536	\$0.161	\$0.138	\$0.747	\$0.173
Expenditures	\$2.115	\$2.690	\$2.410	\$2.822	\$2.305
Net Operating Requirement	(\$1.579)	(\$2.529)	(\$2.272)	(\$2.075)	(\$2.132)

As shown in Attachment 2, Administration is recommending that the revenues and expenditures included in the approved 2022 Operating Budget be reduced by \$0.574 million and \$0.517 million respectively, resulting in the revised 2022 Operating Budget with revenues of \$0.173 million and expenditures of \$2.305 million. The updated revenues and expenditure amounts have been incorporated into the 2022 Rate Filing with further details being provided in Section 5.0 of Attachment 3 for the following changes:

- based on the most recent update, fewer utility customers are now projected in 2022 resulting in a decrease in the forecasted infrastructure fee and customer rate revenues;
- with fewer utility customers, operating costs (including billing services) are also forecasted to decrease in 2022 from the previously approved budget; and
- long-term debt and interest expense have been adjusted based on updated interest rates, debt borrowings and capital expenditures.

As discussed in the 2022-2025 Business Plan presented to Utility Committee on August 27, 2021 (Integrated Infrastructure Services report IIS00715), the development of the utility has progressed in several ways, including the nearly year-long operation of thermal energy services for the first residents in Blatchford, the planning and design of future utility infrastructure and an update of the utility's master plan.

The growth of Blatchford Renewable Energy is closely connected to the land development activities in Blatchford. Based on the most recent land development update for the Blatchford community, a total of 40 customer accounts are forecast to be connected to the utility system by the end of 2021, with a further 66 customer accounts expected to connect in 2022.

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2022 Annual Rate Filing

The 2022 Annual Rate Filing (Attachment 3) provides details of the proposed customer fees and charges effective January 1, 2022, for Blatchford Renewable Energy. As discussed in Section 6.2 of Attachment 3, the 2022 fees and charges build upon the regulatory framework and customer rates established in the 2019, 2020 and 2021 Annual Rate Filings.

The 2019 Rate Filing was guided by the overarching Policy Statement contained in the Blatchford Renewable Energy Utility Fiscal Policy:

“Similar to private utilities, the Utility will account for the cost of services under a full cost accounting approach. All customer charges will be based upon cost of service with the end user (customer) paying, at most, a comparable fee to what they would elsewhere in the City of Edmonton through their energy utility bills and annual maintenance costs.”

Under a traditional cost of service approach, customer rates are established each year to allow the utility to recover its annual operating costs. However, given the small number of utility customers in the initial years of Blatchford’s operation, a cost of service approach would result in significantly higher utility fees than those paid elsewhere in Edmonton and what Blatchford utility customers could reasonably be expected to incur. Therefore, an alternative method was implemented to initially establish 2019 customer rates based on a “pegged approach”, whereby Blatchford utility customer bills were set, or “pegged”, based on Edmonton’s typical 2019 utility bills for heating, cooling, and hot water.

Having initially set customer rates for 2019 based on the pegged approach, 2020 and 2021 rates used a “levelized approach”, consistent with the rate setting methodology in the business case presented to City Council on March 15, 2016 (CR_2977 District Energy Sharing System - Business Case and Detailed Rate Setting Analysis), for the development of the District Energy Sharing System at Blatchford. Under the levelized approach, customer rates in the business case are increased by 2.7 percent on average each year over the initial 50 years to ensure rate increases are stable and predictable. Rates under-recover costs in the early years of the utility’s operation when the customer base is small, but gradually recover past costs in the later years when the customer base is fully established. In line with the levelized approach, customer rates recommended in each of the 2020 and 2021 Annual Rate Filings and approved by City Council increased the previous year’s customer rates by 2.7 percent.

2022 Customer Rates

Administration is recommending that the levelized approach continues to establish customer rates for 2022, based on the approved 2021 customer rates escalated by 2.7 percent. This approach results in customer rates for 2022 that are:

- comparable to the 2022 rates determined in the updated business case upon which the \$93 million non-refundable cash infusion and the Blatchford Utility Fiscal Policy key financial indicators were established;

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- consistent with the Blatchford Utility Fiscal Policy that requires stable, consistent rate increases;
- relatively simple to understand and implement; and
- lower than rates based on the pegged approach, and therefore in accordance with the Blatchford Utility Fiscal Policy that customers pay at most a comparable fee to what they would elsewhere in the City of Edmonton through their energy utility bills and annual maintenance costs.

The table below shows the 2021 approved customer fees and charges and the recommended 2022 rates based on a 2.7 per cent escalation rate.

Rate Component	2021 Approved Rates	2022 Proposed Rates (2021 Escalated 2.7%)
Variable Charge (\$/kWh):	\$0.0262	\$0.0269
Fixed Charge (\$/day):		
Townhouses	\$1.51	\$1.55
Apartments	\$1.18	\$1.21
Infrastructure Fee (\$):		
Residential (\$/unit)	\$1,797.25	\$1,845.78
Commercial (\$/m2)	\$20.54	\$21.09

2022 Customer Rates - Comparison to Market

As discussed above, the Blatchford Renewable Energy Utility Fiscal Policy requires that customers pay, at most, a comparable fee to what they would elsewhere in Edmonton through their energy utility bills and annual maintenance costs. In accordance with this requirement, the 2022 Annual Rate Filing (Attachment 3) includes a comparison of the total utility costs for customers of Blatchford Renewable Energy against the typical utility costs for other residents within the City of Edmonton.

Consistent with the rate setting principles approved by City Council on October 19, 2020 (Financial and Corporate Services report CR_7760), multiple years have been used for comparison of Blatchford Renewable Energy customer rates to ensure they remain competitive. As shown in the table below, the annual utility costs for Blatchford Renewable Energy customers are projected to be lower than the costs for comparable residents elsewhere in Edmonton ("Business as Usual"), based on the five year average utility bills and maintenance costs from 2019 to 2023.

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Annual Utility Costs <i>(five year average 2019-2023)</i>	Blatchford Renewable Energy Customers	Business as Usual (BAU)	Blatchford vs BAU Customers (% Difference)
Townhouse	\$1,808 per year	\$1,924 per year	6.0% lower
Apartment	\$1,500 per year	\$1,580 per year	5.1% lower

Next Steps

In 2022, as part of the preparation of the 2023-2026 capital and operating budgets and 2023 annual rate filing, Administration will be updating the long-term financial model for Blatchford Renewable Energy. Based on the recently updated Master Plan for the ongoing development and operation of the utility in addition to other financial assumptions (e.g., interest rates, gas and electricity commodity prices, carbon tax), the revised financial model will provide an update to the non-refundable cash infusions (currently \$93 million) and ongoing customer rate increases (currently 2.7 percent per year) required to ensure the Utility is financially sustainable over the long-term with customer fees remaining comparable to elsewhere in the City of Edmonton.

COMMUNITY INSIGHT

Key stakeholders and the general public were engaged in the Blatchford development, including the concept of Blatchford Renewable Energy. Regular updates are provided to City Council's Energy Transition Climate Resilience Committee.

GBA+

The cost of providing utility service for Blatchford Renewable Energy is equitably allocated to customers. Customer rates are guided by the policy statements and applicable, industry best practice, utility rate design principles included in Blatchford District Energy Fiscal Policy C597A. Utility fees and charges are based on a cost of service methodology whereby rates are designed to fairly apportion the cost of providing utility service to individual customer classes based on the cost of providing service among customers (Policy C597A, Rate Setting Principle No. 2).

ATTACHMENTS

1. Blatchford Renewable Energy - 2019-2022 Approved Capital Budget
2. Blatchford Renewable Energy - 2022 Proposed Operating Budget Adjustment
3. Blatchford Renewable Energy - 2022 Annual Rate Filing