

Blatchford Utility Fiscal Policy

Recommendation

That Utility Committee recommend to City Council:

That City Policy C597 Blatchford Renewable Energy Policy, as set out in Attachment 1 of the March 22, 2018, Integrated Infrastructure Services report CR_5452, be approved.

Executive Summary

This report builds on a motion by City Council from December 8, 2016, CR_3889 (*Procurement Strategy and Framework for Renewable Energy Utility for Blatchford*) requesting Administration draft a Bylaw for Council's consideration to establish a Renewable Energy Utility for Blatchford as a municipal public utility. This report provides the Fiscal Policy for the Utility prior to the presentation of the Bylaw in April 2018. The Fiscal Policy is the prerequisite needed in support of the Bylaw and the annual rate filing. It provides the financial background document for the Utility and establishes the key parameters for its long term financial sustainability.

Report

Background

In December 2016, City Council directed the creation of the Blatchford Renewable Energy Utility on the basis of a District Energy Sharing System. This included creation of a draft Bylaw for Council's consideration to establish the Blatchford Renewable Energy Utility as a municipal public utility. This system was to have the flexibility to expand, as appropriate, through the application of concepts such as pooled renewables and/or new technologies.

Attachment 1, Blatchford Renewable Energy Utility Fiscal Policy, provides the framework needed to draft the Bylaw to establish the Utility for Blatchford and the annual rate filing to set customer rates. The Blatchford Renewable Energy Utility Fiscal Policy also provides the financial background document for the Utility and establishes the key parameters for its long-term financial sustainability.

Administration is also developing a Bylaw for Council to fully establish the Renewable Energy Utility as a municipal utility for Blatchford. Administration will be presenting the Blatchford Renewable Energy Utility, Bylaw 17943 at the April 23, 2018, Utility

Committee meeting. A rate filing will be presented to Utility Committee on an annual basis with the first filing taking place in Q3 of 2018.

Framework for the Fiscal Policy

The proposed policy is mirrored after the existing City of Edmonton policies for comparable municipal utilities, including Waste Management and the former Drainage Services, incorporating components specific to Blatchford. The policy reflects current Utility principles and the goals of the City's Environmental Transition Strategy that "Edmonton's sources and uses of energy are sustainable, Edmonton is resilient to disturbances that could affect its energy supplies and distribution systems and that Edmonton is a carbon- neutral City". Blatchford's vision is to be a carbon-neutral community, powered by 100 percent renewable energy. The policy incorporates best practices by the Government Finance Officers Association, adapted for Utility operations.

At the March 16, 2016, City Council meeting, the business case for developing the District Energy Sharing System at Blatchford was reviewed (Sustainable Development report CR_2977 *District Energy Sharing System - Business Case and Detailed Rate Setting Analysis*). The business case identified the need for a non-refundable cash infusion for the initial years of operation to offset the capital investment required to establish the utility and allow it to grow over time to achieve financial sustainability.

The business case provided two scenarios for the full build-out of the system. Scenario A was based on renewable energy sources being used to meet both base and peak demand for thermal energy, and required a non-refundable cash infusion of \$207 million. Scenario B was based on renewable energy sources being used to meet base demand with transitional natural gas boilers and cooling towers being used to meet peaking thermal energy demand, and required a non-refundable cash infusion of \$98 million. The non-refundable cash infusions projected in Scenarios A and B were considered conservative based on the assumptions used in the business case and would likely reduce further through experience with actual construction prices, greater understanding of the effectiveness and operational costs for the system, and other technological advances.

Both Scenarios A and B were modelled to achieve two main criteria: (1) ensure that the utility becomes financially sustainable in the long run without any ongoing subsidy, and (2) ensure customers pay a comparable fee to what they would elsewhere in the City through their energy utility bills and annual maintenance costs. Three financial indicators were used to define financial sustainability for the Blatchford Utility in the business case which have also been incorporated into the proposed Blatchford Utility fiscal policy, consistent with the Waste Management and former Drainage Services fiscal policies: positive net income, positive cash position, and debt financing of capital.

Positive Net Income represents the ability of the utility to be able to collect sufficient revenue to cover current year expenses and future replacement and rehabilitation of infrastructure.

Positive Cash Position represents the ability of the utility to, at a minimum, have sufficient cash on hand to cover the forecasted cash financing of capital expenditures in the following year.

Debt Financing of Capital represents the ability of the utility to maintain an appropriate level of debt relative to the net book value of the utility financed assets.

Attachment 2 provides a summary of the projected timelines and key milestones under Scenario B for the Blatchford Utility to achieve long term financial sustainability as defined by the three financial indicators. The assumptions in Scenario B have been updated since the March 16, 2016, City Council meeting, resulting in a reduction in the projected non-refundable cash infusion from \$98 million to \$93 million (still considered conservative).

Policy

The Policy provides an overarching framework that outlines the financial parameters that will guide the long term sustainability of the Utility. The Policy provides general guidance statements, purpose as well as an overview of financial indicators and financial planning principles of the Utility.

Public Engagement

Key stakeholders and the general public were engaged in the Blatchford development, including the concept of a renewable energy system. At this stage of the project, the focus is on creating a policy and bylaw that reflects best practice, achieves the City's goals, and is financially sustainable. Consideration will be given to future public engagement as the bylaw is finalized and implemented.

Corporate Outcomes and Performance Management

| Corporate Outcome(s): The City of Edmonton has a resilient financial position | | | |
|---|---|-------------|-------------|
| Outcome(s) | Measure(s) | Result(s) | Target(s) |
| The City of Edmonton has a resilient financial position | City Asset Sustainability (actual expenditure on capital infrastructure divided by required expenditure). | 0.91 (2016) | 1.00 (2018) |

Risk Assessment

| Risk Element | Risk Description | Likelihood | Impact | Risk Score | Current Mitigations | Potential Future Mitigations |
|--------------------|---|--------------|-----------|------------|--|---|
| Financial | Blatchford Utility is financially not sustainable | 2 - Unlikely | 3 - Minor | 6 - Low | Proper financial planning steps in place, support and review from external experts. | Adjustment of capital and operating costs based on adjusted development scenario. |
| Legal/Regulatory | Blatchford Utility is not properly set up | 1 - Rare | 3 - Minor | 3 - Low | Proper legal and financial review and planning. | |
| Project Management | Operation of the Utility is impacted | 1 - Rare | 3 - Minor | 3 - Low | Ensure rigorous and planning steps are followed in developing the Utility and prepare for Operation. | |

Attachments

1. Blatchford District Energy Utility Fiscal Policy C597
2. Key Financial Indicators - Scenario B

Others Reviewing this Report

- C. Campbell, Deputy City Manager, Communications and Engagement
- G. Cebryk, Acting Deputy City Manager, City Operations
- R. G. Klassen, Deputy City Manager, Regional and Economic Development