
UTILITY ADVISOR
RESPONSE TO THE 2024 BLATCHFORD
RENEWABLE ENERGY UTILITY
RATE FILING

OCTOBER 25, 2023

1.0 PURPOSE OF THIS REPORT

This report is prepared to provide advice to the City of Edmonton Utility Committee and Edmonton City Council on the 2024 Blatchford Renewable Energy Utility (BREU) Rate Filing. Pursuant to the terms of reference for the Utility Advisor, the rate submission has been reviewed by the Utility Advisor, and requests for additional information were sent and received.

2.0 ROLE OF THE UTILITY ADVISOR

The role of the Utility Advisor (UA) is set out in the contract between the City and Beckett Consulting. For rate applications such as this, The Consultant will report directly to the Utility Committee and through the Committee to City Council. The Consultant will provide subject matter expertise as an advisor to the Committee and Council as they oversee, regulate, and govern the utilities, alternative utility costing models, and rate-setting principles.

3.0 EXECUTIVE SUMMARY

The 2024 BREU rate application is excellent and provides adequate information to enable the Utility Committee and Council to make an evidence-based decision on rates for 2024.

4.0 PROCESS

Prior to submitting the rate application to the UA, the UA and City management had informal discussions about the key issues to be addressed in the rate application. A draft version of the application was provided to the UA, and the UA issued Information Requests to management. On receipt of the Information Responses, the UA prepared this report.

The UA appreciates the helpfulness and responsiveness of City management through this process.

5.0 SPECIFIC FINDINGS

Magnitude of Rate Increase

One of many regulatory principles that must be balanced in developing a rate application is concern for rate shock; i.e., increases in rates that exceed normally acceptable cost increases to customers. There are no generally accepted criteria for maximum rate increases, but the proposed BREU rate increase of 10% in some cases does suggest that some additional scrutiny should be applied to the proposal.

Because BREU uses the Business as Usual (BAU) approach to rate setting, the calculation of equivalent costs to BREU customers includes a comparison of regulated electricity costs (transmission and distribution), non-regulated electricity costs (energy), regulated natural gas costs (pipes), and non-regulated natural gas costs (energy). Because electric and natural gas energy costs are non-regulated, the BAU approach mixes traditional rate setting and market-based energy costs.

While it seems counter-intuitive that a renewable energy utility such as BREU has rates that are tied to non-renewable electricity and natural gas supplies, the BAU approach continues to make sense in the short term. Without BAU, Blatchford rates would be higher than comparable costs incurred by non-BREU customers, making Blatchford commercially unattractive. Until BREU can transition to cost of service rates that are competitive with BAU, the only alternative to this pricing approach would be some form of subsidy to BREU.

The UA favours cost of service regulation, but recognizes that as a start-up utility, BREU would probably not be viable without the support of BAU or a subsidy.

It would be helpful in future applications to provide a BAU comparison which looks at comparable electricity and natural gas costs associated with fixed price commodity prices offered by energy retailers, rather than a single electricity rate (the Regulated Rate Option), and a single natural gas rate.

Rate of Development of Blatchford

In response to UA-IR-3 (attached), management provided a table which compares last year's rate application forecast to the forecast contained in this application.

In the 2023 application the utility forecast 217 customers in 2024 and 291 customers in 2025. In this application, the utility forecast 181 customers in 2024 and 292 customers in 2025.

In the 2023 application, the utility forecast a revenue shortfall of \$163,300 in 2024 and a revenue surplus of \$1,166,200 in 2025. In this application, the utility forecast a revenue shortfall of \$1,324,700 in 2024, and a revenue shortfall of \$863,600 in 2025.

As described in the Information Response, these differences are a result of reduced customer connections.

The customer count for 2024 appears reasonable. However, it is becoming increasingly clear that the viability of the utility rides on increasing customers as quickly as possible. Reaching an actual customer count of 292 in 2025 will be a significant challenge.

2024 Revenue Requirement

As stated above the UA believes that this rate application and the Information Responses provided by management provide a reasonable basis on which to set 2024 BREU rates.