

Blatchford Renewable Energy Utility Model

Memorandum of Understanding

Recommendation:

That Executive Committee recommend to City Council:

That the framework for a memorandum of understanding between the City of Edmonton and EPCOR, as outlined in Attachment 1 of the July 6, 2016, Sustainable Development report CR_3541, be approved, and that the City Manager be granted authority to enter into a final memorandum of understanding with EPCOR in form and content acceptable to the City Manager.

Report Summary

City Council expressed interest in engaging with EPCOR Utilities Inc. (EPCOR) for the potential development of a renewable energy utility. This report provides the general framework and conditions of the Memorandum of Understanding between the City of Edmonton and EPCOR.

Previous Council/Committee Action

At the March 15/16/17, 2016, City Council meeting, the following motion was passed:

2. That Administration work with EPCOR to advance development of a Memorandum of Understanding for the regulatory, technical, financial and operational framework for the provision of a renewable energy utility model for Blatchford, one that is consistent with Council's vision and return to City Council through Executive Committee for further direction.

Report

The establishment of a renewable energy utility in Blatchford will be carried out through two distinct phases:

Phase 1 - Development of potential options for a renewable energy system and a recommendation as to the preferred option. This work will specify the technology, operating and regulatory framework and the associated financial model. The MOU with EPCOR will apply to Phase 1.

Phase 2 - Procurement of the Renewable Energy Provider either through a fully open or limited call for proposals. City Council will determine the procurement process, including EPCOR's involvement (if any) depending on the recommendations and outcomes from Phase 1. Phase 2 is expected to start immediately upon completion of Phase 1.

The Blatchford Redevelopment Advisory Group (BRAG) advises that the renewable energy system for Blatchford should be created through an open and competitive process, to the greatest extent possible. Phase 2 will allow for this.

Memoranda of Understanding are typically non-binding documents; however they do provide value in outlining the key parameters under which two parties will work cooperatively to achieve a common goal. In the case of the Blatchford renewable energy utility, the objective will be to fulfil Council's Vision for Blatchford:

“Blatchford will be home to 30,000 Edmontonians living, working and learning in a sustainable community that uses 100% renewable energy, is carbon neutral, significantly reduces its ecological footprint, and empowers residents to pursue a range of sustainable lifestyle choices.”

Administration and EPCOR have developed a framework by which a detailed memorandum of understanding will be developed. This framework or “Heads of Agreement” outlines the key aspects to be addressed in the memorandum, namely:

- Intent of the memorandum
- Services to be provided by a potential renewable energy utility
- Guiding Principles
- Key Deliverables and Timelines
- Roles and Responsibilities
- Oversight and governance of the memorandum
- Relevant legislation and regulations
- Recovery of costs
- Exclusivity
- Term of the memorandum
- Termination and confidentiality provisions

The Heads of Agreement for the memorandum of understanding is provided in Attachment 1.

The objective is to develop a solution that provides a 100 percent renewable energy solution to the Blatchford development through some combination of on-site district energy system and/or an on or off-site renewable generation project. The goal is for the system to be carbon neutral and align with Council's Vision for Blatchford. The assessment will include a detailed risk analysis for each option.

It is understood that EPCOR's participation will be on commercial terms which would allow them to retain the right to manage the technology and performance risk of the technology chosen and earn a rate of return on their investment commensurate with their risk. For the district energy system, user rates would be regulated in a manner similar to those established by City Council for water and wastewater services also managed by EPCOR.

Both the City and EPCOR will make efforts to minimize the degree to which the development related risks are incurred by the renewable energy utility. If the financial performance of the renewable energy utility is materially impacted and the pace of development does fall within agreed-to thresholds, the memorandum of understanding contemplates a trigger payment from the Blatchford project to the renewable energy utility.

The City will lead the development of a final report on the Renewable Energy Utility in the 4 quarter of 2016. If the parties disagree on any position or conclusion, the report will provide an opportunity to present both perspectives to City Council. The memorandum of understanding will reference that the parties will cooperate in the development of communications and government relations initiatives. It should be noted that Council has explicitly directed Administration to develop an advocacy strategy and that the Mayor advocate this initiative to both the Provincial and Federal Governments. Should Council support the concept of a renewable energy utility in conjunction with EPCOR, City Council will be presented with a more definitive and binding agreement to replace the memorandum of understanding.

EPCOR and the City have signed a two-way confidentiality agreement pertaining to this project.

Policy

Two Utility Fiscal Policies currently exist, one each for the Drainage and Waste Management. There may be a need to develop a fiscal policy for a renewable energy utility should the City be the operator of such a utility in the future.

Corporate Outcomes

This report supports the corporate outcomes “The City of Edmonton has sustainable and accessible infrastructure” and “Edmonton is an environmentally sustainable and resilient city” by providing the framework under which the City and EPCOR can investigate in further detail the opportunities, risks and implications of developing a renewable energy utility for the Blatchford development.

Budget/Financial Implications

The memorandum of understanding will identify that each party is responsible for its internal expenses. These costs are expected to be nominal for the City of Edmonton. Third party costs incurred by EPCOR will require approval by the City in advance and could be recovered from the City should EPCOR not be involved in a future equity or financing role. Similarly, should EPCOR assume the responsibility of operating the renewable energy utility, EPCOR would pay for all design costs incurred to date for the utility by the Blatchford project

The results of the detailed financial assessment will be provided to City Council as part of the final report in the 4th quarter of 2016.

Legal Implications

Although most provisions of the memorandum of understanding will be non-binding, the provisions relating to exclusivity, termination and recovery of expenses will be binding on the City and EPCOR.

Justification of Recommendation

The framework for a memorandum of understanding as outlined in Attachment 1 provides reasonable parameters by which the City of Edmonton and EPCOR can work under in order to effectively evaluate the regulatory, technical, financial and operational aspects of a potential renewable energy utility.

Attachments

1. Framework for a Memorandum of Understanding between the City of Edmonton and EPCOR

Others Reviewing this Report

- T. Burge, Chief Financial Officer and Deputy City Manager, Financial and Corporate Services