



Council Policy

Blatchford District Energy Utility Fiscal Policy

Program Impacted	Financial Sustainability Management <i>The City of Edmonton's resilient financial position enables both current and long-term service delivery and growth.</i>
Number	C597 AB
Date of Approval	TBD December 9, 2020
Approval History	April 10, 2018 December 9, 2020
Next Scheduled Review	TBD [Must not exceed 4 years from date of approval] December 9, 2023

Statements

- ~~1. The Utility is to be operated in a manner that balances the best possible service at the lowest cost (public utility) while employing private sector approaches to rate setting.~~
 1. Similar to private utilities, the Utility will account for the cost of service under a full cost accounting approach. All customers' 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.
 2. Through a phased approach, the Utility will generate positive net income, cash flow and a rate of return sufficient to cover current year expenses, working capital requirements, and to facilitate the funding for capital infrastructure, ~~and~~ rehabilitation of capital assets and replacement of its capital assets.
 - ~~3. The Utility is to contribute towards achieving the City's Energy Transition Strategy. The utility supports The City Plan and the Community Energy Transition Strategy by reducing greenhouse gas emissions and increasing energy resilience in the heart of Edmonton.~~
- I. The purpose of this policy is to:**
- A. Ensure that the Blatchford District Energy Utility is operated in a manner that reflects City Council's overall vision and philosophical objectives for the Utility.

- B. Ensure that there is a consistent approach year over year for the financial planning, budgeting, and rate setting for the City managed Utility.
- C. Ensure that the Utility is financially sustainable over the long term.

II. Guiding Principles

- a. The Utility is to be operated in a manner that balances the best possible service at the lowest cost (public utility) while employing utility approaches to rate setting.
- b. The Utility will explore potential grants and/or other external funding opportunities to address the required non-refundable cash infusion to ensure long-term financial sustainability.
- c. The Utility is exempt from Dividend payment to the City of Edmonton.

III. Utility Rate Setting Principles

- A. Customer rates will be understandable, practical and cost-effective to implement.
- B. Customer rates will fairly apportion the cost of providing service among customers.
- C. Customer rates will be stable and predictable from year to year.
- D. Customer rates will provide revenue stability for the Blatchford Renewable Energy Utility.
- E. Customer rates will promote the efficient use of energy.
- F. Customer rates will be based on the forecast cost of providing service.
 - 1. In the initial years of operation as the customer base continues to grow, a levelized approach may be used to establish rates and recover the forecast costs of providing service over a longer-term basis.
 - 2. The under-recovery of costs under the levelized approach in the early years of the Utility's operations will be accumulated in a regulatory deferral account to be recovered in later years when the customer base is more fully established.
- G. Customer rates based on the forecast cost of providing service will be assessed annually to ensure they remain competitive with other longer-term heating and cooling options.
 - 1. The Utility will strive for customers to pay at most a comparable fee to what they would elsewhere in the City of Edmonton through their energy utility bills and maintenance costs.
 - 2. The assessment will take into account the longer-term nature of utility infrastructure being used to provide services to customers, and market fluctuations that may occur annually in the commodity price of gas and electricity relative to the stable cost of providing thermal energy from the Blatchford District Energy Sharing System.

IV. Debt Financing Principles

- A. The Utility will not utilize Debt to finance operating expenditures.
- B. Debt will be considered for Capital Expenditures for:

1. Projects with long-term benefits;
 2. Major rehabilitation or upgrade of existing assets; and
 3. Emerging requirements to support utility priorities and strategic plans.
- C. The Utility will follow the City of Edmonton's process for debt issuance in accordance with Debt Management Fiscal Policy C203D, including the term of the debt and will be consolidated with City debt in determining the City's position relative to the debt servicing limits within the policy and debt limitations arising from legislation.
- D. Debt financing will be utilized in an appropriate manner to balance long-term financial sustainability and intergenerational equity for Utility customers.

V. Financial Indicators

- A. Financial indicators are measures that, taken collectively, will provide financial information to assess the Utility's long-term financial sustainability. As such, it may be desirable to have higher or lower results on a short-term basis to balance rate setting principles and long-term financial sustainability. ~~about the sustainability of the Utility. Taken collectively, these indicators allow for periodic assessment on whether the Utility is moving towards or away from financial sustainability.~~

~~1. Rate Sufficient to Meet Expenditures and Cash Flow (Positive Net Income and Positive Cash Position)~~

- ~~a. The Utility will generate positive net income, cash flow and a rate of return sufficient to cover current year expenses, working capital requirements, and to facilitate the funding for capital infrastructure and rehabilitation and replacement of its capital assets.~~
1. Net Income
 - a. The Utility will generate ~~positive~~ sufficient net income, ~~cash flow~~ and a rate of return sufficient to cover current year expenses, working capital requirements, and to facilitate the funding for capital infrastructure and rehabilitation and replacement of its capital assets.
 2. Cash Position
 - a. The target combined Cash Position of the Utility is:
 1. Pay As You Go funding for forecasted capital expenditures as identified in the Capital Plan.
 2. Working capital requirements with an allowance for operating risk.
 - b. The management of the Utility's cash position is the responsibility of Administration, taking into consideration current borrowing rates and current and future cash requirements.
 - c. Where the Utility's cash position is insufficient to meet cash flow requirements, the Utility ~~will borrow from the City of Edmonton on a short term basis~~ will utilize bridge financing through the City of Edmonton's working capital, with the interest being paid by the Utility at an interest rate that compensates the City of Edmonton reflecting the Fund Balance

where the cash was drawn. The Utility will strive to pay the City back as soon as financially able.

Indicator Targets:

- ~~a. Positive Net Income~~
- ~~b. The target combined Cash Position of the Utility is the Pay As You Go funding required as identified in the Capital Plan.~~
- ~~c. Stable consistent rate increases.~~

3. Debt Financing of Capital Debt Service Coverage Ratio

- a. The debt service coverage ratio measures the ability of the Utility to meet its debt servicing obligations using annual revenues and is calculated as follows:

$$\text{Debt Service Coverage Ratio} = \frac{\text{Annual Net Operating Income (Net Income excluding interest expense \& Depreciation/Non-Cash Items)}}{\text{Annual Total Debt Servicing (Principal + Interest)}}$$

- b. The minimum baseline target is recommended to be 1.5. Meeting the baseline will ensure that the Utility is earning enough to cover annual debt servicing costs.

4. Debt to Net Assets Ratio

- a. The Debt to Net Assets ratio is a measure of the extent that capital investment is financed through debt and is calculated as follows:

$$\text{Debt to Net Assets Ratio (Non-Contributed)} = \frac{\text{Total Long-Term Debt for Non-Contributed Capital Assets}}{\text{Net Book Value of Capital Assets (Non-Contributed)}}$$

- b. The Utility will aim to maintain a Debt to Net Assets Ratio between 50 percent and 70 percent by balancing long-term financial sustainability with intergenerational equity.

- ~~a. The Utility will not utilize Debt to finance current operating expenditures.~~
- ~~b. Debt will be considered for Capital Expenditures for:

 - ~~a. projects with long-term benefits;~~
 - ~~b. major rehabilitation or upgrade of existing assets; and~~
 - ~~c. emerging requirements to support corporate priorities and strategic plans.~~~~
- ~~c. The Utility will follow the City of Edmonton's process for debt issuance, including the term of the debt and will be consolidated with City debt in determining the City's position relative to the legislated debt limits.~~

Indicator Target:

The Debt to Net Assets Ratio is a measure of the extent that capital investment is financed through debt, presented on a combined basis and calculated as follows:

$$\frac{\text{Total Long Term Debt}}{\text{Net book value of Non-Contributed Assets}} = \text{Debt to Net Assets Ratio}$$

The target for the Debt to Net Assets Ratio may vary between 50% and 70%, taking into consideration borrowing rates. Incremental targets, by year, are as follows:

~~2030 - 98% 2040 - 85% 2050 - 70% 2060 - 60%~~

VI. Financial Planning

- A. Budget and financial planning follow the general principles of budget, long range planning, and management of capital assets as established by the City of Edmonton and in accordance with Public Sector Accounting Standards defined by the Public Sector Accounting Board.
- B. The Utility will prepare a 4-year Business Plan, to be presented annually to the Utility Committee, aligned with the Corporate budgeting and planning process, which will be used to support the Utility's rate filings. ~~prior to the preparation of the multi-year operating and capital budgets or supplemental budget adjustments.~~
- C. The Utility Committee shall recommend annually to City Council the customer rates for the upcoming year, based on review of an annual rate filing prepared by the Utility. ~~subsequent to the preparation and presentation of the 4-year Business Plan.~~

VII. Definitions

Cash Flow - the ability of the Utility to meet its financial obligations as payments are due.

Capital Assets - ~~tangible capital~~ assets of the Utility meeting the requirements defined under Public Sector Accounting Standard PS3150.

~~**Capital Investment Outlook** - a 10-year forecast of capital required to ensure that appropriate infrastructure are in place to meet service needs, including the replacement of Contributed Assets.~~

Capital Plan - a 4-year plan for funding capital infrastructure approved by City Council.

~~**Debt Service Coverage Ratio** - is a measure of the annual available cash flow for debt servicing of interest and principal payments.~~

Debt Servicing - annual required debt repayments including interest and principal.

~~**Contributed Assets** - capital assets of the Utility for which funding was provided from non-rate sources. Examples may include infrastructure constructed by the Blatchford Development, partnership funding, grants, etc.~~

Debt to Net Assets Ratio - is a measure of the extent to which the net book value of non-contributed assets is being financed by debt.

Financial Indicators - a set of financial measures that provide signals on the financial health of the Utility.

Financial Sustainability - financial sustainability is achieved when all targets set for the Financial Indicators (as recommended by the Utility Committee and approved by City Council) are attained.

Full Cost Accounting - shall include cost allocation from services provided by City Administration and may include administration costs, and other shared services such as Communication, Human Resources, Information Technology, Law, Corporate Procurement and Supply Services, Financial Services, Fleet and Facility Maintenance, and general corporate overhead.

~~**Investment in Utility Financed Assets** - Net Book Value of Utility Financed Assets minus associated outstanding debt used to pay for the assets.~~

Net Assets - The net book value of the Utility's non-contributed capital assets.

Net Book Value - acquisition costs of original costs of capital assets minus their accumulated depreciation.

Pay As You Go - the amount of cash required to implement the Capital Plan; annual amount to be funded from operating revenues.

Rate Revenue - revenue generated through monthly customer rates.

Regulated Activities - are activities that are core to the services provided by the Utility. Examples include, the provision of energy for heating and cooling and domestic hot water.

Utility - refers to the Blatchford District Energy Utility, a self-funded operation that provides energy services for heating, cooling and domestic hot water to customers on a fee for service basis at rates regulated by City Council.

~~**Utility Financed Assets** - assets of the Utility for which funding has been provided from rates either through debt or Pay As You Go funding.~~