COUNCIL REPORT

BLATCHFORD RENEWABLE ENERGY UTILITY FISCAL POLICY

C597A Amendment

Recommendation

That Utility Committee recommend to City Council:

That the revised Blatchford District Energy Utility Fiscal Policy C579B as set out in Attachment 1 of the Financial and Corporate Services report FCS01999 be approved.

Requested Action		Council decision required	
ConnectEdmonton's Guiding Principle		**ConnectEdmonton Strategic Goals**	
CONNECTED This unifies our work to achieve our strategic goals.		**Climate Resilience**	
City Plan Values	LIVE. THRIVE. PRESERVE. CREATE.		
City Plan Big City Move(s)	Greener as we grow	**Relationship to Council's Strategic Priorities**	Climate adaptation and energy transition
Corporate Business Plan	Transforming for the future		
Council Policy, Program or Project Relationships	• C597A - Blatchford District Energy Utility Fiscal Policy • Bylaw 17943 - Blatchford Renewable Energy Utility Bylaw		
Related Council Discussions	• June 24, 2024, IIS01945 Blatchford Renewable Energy 2024 - 2027 Business Plan • November 8, 2024, FCS02051 Blatchford Renewable Utility (BREU) 2024 Rate Filing		

Executive Summary

- Administration is recommending updates to Policy 597A - Blatchford Renewable Energy Utility Fiscal Policy. Updates to C597A incorporate lessons learned from the prior review /

preparation of fiscal policies for other City of Edmonton Utilities as well as to improve clarity and readability.

- An update on the Blatchford Renewable Energy (BRE) financial position and financial indicators is included.
- Long-term financial sustainability is contingent on the Utility receiving the non-refundable cash infusion of $69 million to fund capital. If this funding is not secured prior to 2028, when it would likely be required to fund major capital expansion, the financial sustainability of the utility is at risk. The previously reported non-refundable cash infusion requirement of $93 million has been revised to $69 million. In 2023, the City secured $23.7 million in external grant funding to support the Utility's capital plan.
- Assuming the non-refundable cash infusion is secured prior to 2028, the Utility is expected to meet its financial indicator targets for net income, cash, and debt to net assets ratio by 2066.
- Per the Utility Fiscal Policy, BRE continues to access bridge financing through the City of Edmonton's working capital to address operating and cash shortfall. The bridge financing, including interest, will be paid back as soon as BRE is financially able.

REPORT

Financial Update

Per the current Blatchford Renewable Energy Utility Fiscal Policy, C597A, BRE has the following three key financial indicators:

1. Net Income
2. Cash Flow Position
3. Debt to Net Assets Ratio

The financial indicators are assessed through utility financial modeling over a 50-year lifecycle. The 50-year term was selected to incorporate the initial capital investment required to support the planned land development in Blatchford, which is currently forecasted to be completed by 2040, as well as the initial renewal of the capital infrastructure.

BRE also continues to receive bridge financing to manage any operating and cash shortfalls through the City of Edmonton's working capital as per policy C597A:

> "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, 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."

Table 1: Financial Indicator Summary (Key Dates)

		2023	2029	2031	2052	2066
Financial Indicators	**Target**	**Actuals**	**Forecast**			
Net Income ($ millions)	Positive	(1.9)	0.0	0.8	1.5	3.7
Cash Position ($ millions)	Positive	(16.4)	(29.6)	(29.0)	0.6	1.0
Debt to Net Assets Ratio (%)	50% to 70%	82%	87%	81%	88%	69%

The financial sustainability of the utility is contingent on the Utility receiving the non-refundable cash infusion of $69 million to fund capital. If this funding is not secured prior to 2028, when significant capital expansion is expected to occur, the financial sustainability of the Utility is at risk. Achievement of the above financial indicators are based on the assumption that the non-refundable cash infusion will be secured by the City prior to 2028.

The net income financial indicator is expected to be achieved in 2029 based on current Blatchford land development forecasts. Due to BRE earning an expected positive net income starting in 2029, if achieved payback of the bridge financing will begin in 2031.

As of 2023, the Utility has accessed $16.4 million of the bridge financing. The Utility will continue to make use of the City's working capital as needed and is currently expected to reach a maximum balance of $32.5 million by 2035. The cash position financial indicator is expected to be achieved in 2052, when the bridge financing is being forecasted to be fully paid back to the City.

The Debt to Net Assets ratio financial indicator is expected to be achieved in 2066 as the Utility is forecasted to be able to finance more capital expenditures through pay-as-you-go financing due to higher annual net income and cash flows. This will be the last financial indicator to be achieved as Blatchford land development will not be complete until 2040 and paying back the bridge financing to the City has been prioritized.

Administration considers the 2066 achievement of the Debt to Net Assets ratio to be reasonable given the relative size of the potential Utility customer base, the amount of capital investment required, and transformative nature of the project given its use of centralized heat pumps, geo-exchange and sewer heat recovery technology.

As the assessment of the Utility's long-term financial sustainability is heavily influenced by the required capital investment to support land development, achievement of the financial indicators later in the 50-year life cycle is supported by the fact that land development is forecasted to be completed in 2040. Table 2 below presents the Utility's progression towards achieving the financial indicators by highlighting results from 2030 to 2060 in incremental annual snapshots. The last year reflects the results as of 2066 (the end of the 50 year life-cycle).

Table 2: Financial Indicator Summary (Trend Forecast from 2030 to 2066)

		2030	2035	2040	2045	2050	2055	2060	2066
Financial Indicators	**Target**	**Forecast**							
Net Income ($ millions)	Positive	0.4	0.0	3.3	2.6	2.0	2.3	1.0	3.7
Cash Position ($ millions)	Positive	(29.5)	(31.0)	(25.6)	(17.2)	(4.1)	11.3	0.9	1.0
Debt to Net Assets Ratio (%)	50% to 70%	87%	83%	81%	79%	87%	92%	82%	69%

Per the table above, financial sustainability gradually improves over the life cycle of the utility. After 2040, the Utility is able to leverage higher annual net income to draw down short-term bridge financing to the City and improve cash position. The Debt to Net Assets ratio also improves from 2030 to 2045 as well, in conjunction with improved annual net incomes and cash position.

The ratio increases after 2045 to coincide with the final capital investments to support the completion of the Blatchford land development and improves afterwards as additional cash is freed up for use as pay-as-you-go financing once bridge financing from the City is paid back in 2052.

Required Non-Refundable Cash Infusion

One of the critical elements in ensuring the financial sustainability of the Utility is the requirement of a non-refundable cash infusion (i.e. grant funding) to ensure long-term financial sustainability.

In 2023, Administration received approval for grant funding of $23.7 million. Inclusive of the successful receipt of the entire $23.7 million grant, this would leave a requirement of approximately $69 million (previously reported to be $93 million). While there are no major opportunities currently available, Administration will continue to explore options to bridge this remaining gap.

Current financial modeling is based on the assumption that the majority of the remaining required cash infusion will be secured before the construction of the next major capital expansion of the next energy centre, currently forecasted to be in 2028. Per Table 3 below, the average forecasted annual spend from 2024 to 2027 is $10.7 million, which increases to $34.3 million from 2028 to 2029.

Table 3: Capital Spending Forecast (2024 to 2029)

		Total	Annual Average
Capital Forecast	**Period**	**(in $ millions)**	
2024 to 2027	4 Years	42.9	10.7
2028 to 2029	2 Years	68.5	34.3

This would mean that the majority of the remainder of the non-refundable cash infusion would likely need to be secured before 2028 otherwise the long-term financial sustainability of the utility would be potentially at risk. If the non-refundable cash infusion is not secured before 2028 other financial alternatives may be required such as higher utility rates compared to BAU and/or tax levy support to ensure the Utility remains financially sustainable. One of the original principles discussed when the utility was established was the need for it to be self-sustaining with no support from the general tax-levy.

BRE will only pursue further capital expansion as required by land development and construction activities. As energy load requirements are heavily influenced by the land development plan, builder pace, and market conditions, any resulting material changes will affect utility infrastructure planning.

Energy Centre One is forecasted to be able to meet energy load requirements for the next few years, likely until 2027, for expected construction activities on site. As such, the decision to determine the timing for the next energy centre construction will heavily depend on that progress. Administration will continue to monitor the progress of land development and construction activities to decide when to invest in capital infrastructure. This will be augmented by further financial modeling. Any changes in timing would also affect when grant funding will need to be secured to address the required non-refundable cash infusion.

Additional financial analysis factoring in updated economic assumptions, future capital and land development planning, the impact of the bridge financing from the City, and the required non-refundable cash infusion will be completed as part of the BREU 2025 Rate Filing. This is currently scheduled to be presented at the November 8, 2024 Utility Committee meeting.

Utility Rates Based on Business As Usual (BAU)

In accordance with the Utility Fiscal Policy 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. Current utility rates continue to be below BAU and have historically been below BAU, by an annual average of 6 to 7 per cent, since the inception of the BRE in 2019. In the 2024 Rate Filing the Utility continued with 10 per cent rate increases throughout the approved 2023-2026 budget period to ensure utility rates for townhouses get closer to meeting BAU on an average long-term basis.

BAU is currently set as an estimate of what an average rate payer outside of Blatchford would pay for heating, cooling and utility maintenance, factoring in energy usage and energy rates. Within Blatchford, homeowners pay the cost of heating and cooling energy to the BRE Utility while electricity and utility maintenance costs are paid to external providers. Heating and cooling is also regulated in Blatchford by efficient heat pumps which are powered by electricity instead of heating being provided by a furnace, utilizing natural gas, in traditional homes. These nuances as well as the unique mixture of regulated and non-regulated rates for different energy sources being paid by ratepayers in the current BAU process introduces complexities in comparing Blatchford utility rates and BAU.

As discussed in the 2024 Rate Filing, there is no immediate need to change the definition of BAU at this time. There however may be a need to revisit BAU in the future, especially if there are additional financial pressures on the Utility based on other financial circumstances, such as not receiving the full non-refundable cash infusion. One aspect to evaluate is the potential to implement a BAU that provides more clarity and better supports long-term financial sustainability. To determine if a more appropriate BAU should be used, considering the complexities discussed above, Administration would likely need the services of external subject matter experts and resources.

Additional financial analysis on proposed utility rates, comparison to BAU and the overall BAU process will be completed as part of the BREU 2025 Rate Filing scheduled to be presented at the November 2024 Utility Committee.

Utility Fiscal Policy Update

Based on review of Blatchford District Energy Utility Fiscal Policy C597A, Administration proposes approval of the updated Blatchford District Energy Utility Fiscal Policy C597B (Attachment 1). Attachment 2 outlines the changes to Policy 597A.

Updates to C597A incorporate lessons learned from the prior review / preparation of fiscal policies for other City of Edmonton Utilities as well as to improve clarity and readability.

Community Insight

Through engagement for ConnectEdmonton and The City Plan, residents advised that the City of Edmonton must take a leadership role in climate resilience and energy transition. The Blatchford Renewable Energy Utility is aligned with that expectation.

GBA+

Blatchford Renewable Energy customer utility rates are guided by the policy statements, applicable industry best practice and utility rate design principles in Blatchford District Energy Utility Fiscal Policy C597A. Utility rates and fees 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.

Attachments

1. Council Policy - Blatchford District Energy Utility Fiscal Policy C597B
2. Blatchford District Energy Utility Fiscal Policy C597A - Red Line Version