Utilities Advisor Review

Blatchford Renewable Energy

2025 Rate Filing

October 23, 2024

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1. **Purpose of this report**

   The purpose of this report is to provide advice to the Utilities Committee with respect to this application. The Utilities Advisor has reviewed the application and measured it against generally accepted regulatory processes. As part of the review process, the Utilities Advisor submitted Information Requests to Blatchford Renewable Energy and reviewed their answers.

2. **Executive Summary**

   The Utilities Advisor's review can be summarized as follows:

   - The application meets regulatory requirements
   - BRE staff were responsive to requests for meetings and information requests
   - The long-term viability of BRE remains a concern

   Given the above, the Utilities Advisor believes that the Utilities Committee has adequate information available to set the BRE 2025 rates.

3. **Application Review**

   The Utilities Advisor believes that this application is fully consistent with accepted regulatory practices and provides sufficient information for the Utility Committee to set 2025 rates.

4. **Long-Term Viability**

   In response to IR-UA-1, BRE states that if the non-refundable cash infusion of $70 million is not received before 2028, alternative financial options may need to be explored. The Utilities Advisor would restate this as "if the non-refundable cash infusion of $70 million is not received before 2028, there will be no choice but to find alternative financial options."

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Appendix A

Utilities Advisor Information Requests and Responses

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IR-UA-1

Topic:	**Other Funding Opportunities**
Reference:	**Section 2.0 Current Situation**
Background:	BRE is still $70 million in non-refundable funding short in cash infusion. Other alternatives suggested include increasing the infrastructure connection fee, increasing rates, or accessing tax levy funding support.
Request	Have any other alternatives, such as land sales, sale of BRE to a third party, or any other options been considered?

Response

On June 4, 2019, CR 6640 Blatchford Utility – Updated Strategy and Financial Options as presented to City Council. This report discussed potential options to fund the non-refundable cash infusion including:

- Federal and provincial grant funding
- Self-liquidating debt
- Blatchford Land Development retained earnings
- Tax supported debt
- Partnerships with other utility providers

It was decided that the optimal method to fund the non-refundable cash infusion was federal and provincial grant funding, to allow the utility to reach a positive cash position and long-term sustainability, with no impact to future utility rates.

In June 2024, an update was presented to Utility Committee, through FCS01999 Blatchford Renewable Energy Utility Fiscal Policy and IIS01945 Blatchford Renewable Energy Utility Annual Business Plan. This update highlighted that financial sustainability was based on the majority of the remaining cash infusion being secured before the construction of the next major capital expansion of the next energy center, currently projected for 2028.

If the non-refundable cash infusion is not secured before 2028, alternative financial options may need to be explored to ensure the long-term financial sustainability of the utility. These options could include higher utility rates compared to the business-as-usual scenario and/or tax levy support. One of the original principles when establishing

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the utility was also that it should be self-sustaining without relying on general tax levy support.

The timing of any third-party interest is coupled with the establishment and growth of the utility and its customer base. The utility is still considered “young” and likely will need to be more established until a potential third party would have market interest. Administration will prepare for that process from an operational, financial and legal perspective. Current focus is also on addressing a motion from Utility Committee to potentially integrate a change of operating philosophy from a supply only to a shared utility approach.

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IR-UA-2

Topic:	**Rate Increases**
Reference:	**Section 4.0 Proposed Utility Rates**
Request	The rationale for a 2.7% increase in the infrastructure fee is to maintain consistency with other proposed rate increases. Why is this considered to be a reasonable rate design criteria, particularly given the possibility that a future increase to this fee my be necessary if non-refundable funding continues to be elusive.

Response

In alignment with the original business case, updated business cases and fiscal policy, a consistent rate increase of 2.7% per year was deemed reasonable in the initial years of utility operation. This information was presented during the 2023 - 2026 Budget deliberations and the 2025 Rate File has continued with this rate increase to maintain this consistency and to ensure that marketability of the development is supported at the same time given the Utility is still in the early stages of development.

In accordance with the June 2024 presentation of FCS01999 Blatchford Renewable Energy Utility Fiscal Policy and IIS01945 Blatchford Renewable Energy Utility Annual Business Plan to Utility Committee, Administration provided an update on funding requirements and timelines. This update reinforced that the Utility is currently financially sustainable with the current rate structure and planned utility rate increases.

As such, the Utility is continuing to monitor land development, construction pace and energy demand in advance of the future required timing for the next Energy Center. The Utility is committed to bringing forward updates prior to this to address any changes to funding requirements, rate structures, and utility rates before proceeding.

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IR-UA-3

Topic: **Operating Budget and Forecast**

Reference: **Section 6.1 Utilities**

Request Utilities represent a significant portion of expenses, with electricity making up a large portion. Has any consideration been given to on-site production of electricity through solar or wind projects? Are there any legal impediments to BRE considering such opportunities.

Response

Yes, there is a solar array on the actual Energy Center today, however its production does not offset the actual electricity needed for operation. The utility will explore broader opportunities for renewable electricity generation on site, when more Energy Centers are operational, capacity and demand grows further. This will also include the opportunity to participate in the overall City's power purchase agreement for renewable electricity. All these potential future investments will be analyzed under the triple bottom line and the legal authority for the utility.

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IR-UA-4

Topic: **Operating and Maintenance Variation Explanations**

Reference: **Section 6.2**

Request

i. No variance explanation if provided for the increase in personnel costs. Please provide an explanation

ii. Why does EPCOR charge $40,000 in 2025 for the cost programming new BRE rate customers

Response (IR-UA-4i)

The increase in personnel costs from the 2024 Forecast to 2025 Proposed Budget include a 2% increase based on wage escalation of current staff. Prior period settlement adjustments for union and management positions were not included in the 2024 Forecast as the settlements were not finalized until the Spring of 2024 and so those have been incorporated into this rate filing.

Response (IR-UA-4ii)

In 2023, EPCOR set up a new utility rate class into their billing system for multi-unit customers (Phase 1). Phase 2 is to program the system to accept new multi-unit BRE customers as they come online in the future. This is scheduled to be completed in 2025. Both phases of this programming activity are separate one-time changes to set up the billing system. EPCOR is forecasting $40,000 in 2025 for the cost of these services.