Utilities Advisor Review

Blatchford Renewable Energy

2026 Rate Filing

November 24, 2025

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1. Purpose of this report

The purpose of this report is to provide the Utilities Advisor's review of the Blatchford Renewable Energy 2026 Rate Filing.

2. Executive Summary

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

- It continues to be difficult to fit Blatchford Renewable Energy into the traditional utility ratemaking framework.
- This is a good regulatory application.
- Blatchford staff were responsive to requests for meetings and information requests.
- The utility has done a good job in holding operating and maintenance expenses to a reasonable level.
- The concept of Business as Usual (BAU) rates needs a thorough review as suggested in the application.
- Management of Blatchford should make an additional effort in future rate filings to include all evidence necessary for the regulator to assess rate applications as stand-alone proceedings, rather than relying on previous administration or Utilities Committee decisions.

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3. **Fitting Blatchford into the Traditional Utility Regulatory Model**

From the establishment of Blatchford, the cost of services to customers based on the typical utility regulatory model has exceeded the cost of equivalent service to non-Blatchford customers (known as Business as Usual or BAU). This results mainly from the high initial capital cost required to establish the utility. This gap has been addressed in two distinct ways.

The first method has been to recognize that significant external infusions of cash will be required. To date administration has sourced some cash infusions, and they continue to pursue options to close the funding gap. There is no guarantee that enough additional funding will be found to completely close the gap.

The second method has been the establishment of BAU as the principle for setting rates for Blatchford customers. Under BAU, Blatchford customers pay approximately the same for the services provided as non-Blatchford customers. Since inception and continuing into the future, BAU does not recover enough revenue to fund Blatchford's revenue requirements (operations and maintenance, servicing debt, depreciation, ongoing capital additions, and return on existing capital). The shortfall is covered by accessing debt from the City. The concept is that with adequate external infusion of cash, and growing customer load, the BAU rates will ultimately exceed Blatchford's regulatory cost of service, at which point the debt provided by the City can be repaid.

One can understand how this would work, and it was the basis for establishing the BAU rate making scheme. However, this approach does create an effect called intergenerational disparity. Simply put, current customers are paying less than the full cost of service, and future customers will have to pay more than the full cost of service until the debt is paid back.

4. **Review of the BAU Ratemaking Principle.**

Blatchford management makes a compelling case in the application for a thorough, expert review of BAU. The Utilities Advisor supports this course of action, to be completed before the next Blatchford Renewable Energy Rate filing for 2027.

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5. **Relying on Evidence not Included in the Rate Filing.**

   In response to the Utilities Advisor's information request IR-UA-4 it appears that the utility relied on prior written approval for the addition of the position of Engineering Project Manager.

   As the regulator of the Blatchford utility, the Utilities Committee and Council should not accept such assertions as fact, without credible backup evidence. A key regulatory principle is the regulators make decisions based on the facts presented in a rate application, and should not rely on assurances provided by the applicant that are not backed up with evidence. The Utilities Advisor recommends that future rate applications should recognize this regulatory principle.

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Appendix A

Utilities Advisor Information Requests and Responses

EDMONTON BLATCHFORD RENEWABLE ENERGY
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INFORMATION REQUESTS OF THE UTILITIES ADVISOR

IR-UA-1

Topic: Sustainability of Blatchford

Reference: 2.0 Current Situation

Background: Recovering less than the full cost of service from ratepayers, today and making up the deficit with debt (with the expectation that the debt will be repaid by future customers) creates intergenerational equity issues. Costs incurred to supply current customers will be partially recovered from future customers.

Grant funding, external funding, a non-refundable cash infusion, increasing the infrastructure connection fee, increasing customer utility rates above BAU, or accessing tax levy funding support have all be identified as alternatives.

Request Is there any opportunity to raise capital through land sales, sales of naming rights, or other opportunities which have not been discussed?

Response

- Raising capital through land sales was presented as a potential funding mechanism to the Utility Committee in March 2019, as documented in CR_6640 Blatchford Renewable Energy Utility - Updated Strategy and Financial Options.

- Based on discussion with the Utility Committee in 2019, utilizing Blatchford Land Development Retained Earnings (net proceeds from land sales) was not the preferred approach to satisfy the non-refundable cash infusion. The preference was to preserve the projected retained earnings of the Blatchford Land Development for utilization in other strategic initiatives. The potential application of these retained earnings for the non-refundable cash infusion would necessitate a careful assessment against the associated opportunity cost.

- The Blatchford Renewable Energy Utility has not, to date, undertaken an assessment of the potential for naming rights revenue derived from its infrastructure. Administration will evaluate the feasibility of naming rights, in alignment with the overarching corporate strategy regarding naming rights for municipal infrastructure.

- Given the projected increase in the required non-refundable cash infusion, it is likely that alternative financial strategies will be required to ensure the utility's sustained financial viability. These options include Blatchford Utility self-liquidating debt (to be financed through customer utility rates), Blatchford Land Retained Earnings, tax-supported debt, and potential partnership arrangements with other utility providers. Furthermore, a reconsideration of the business-as-usual (BAU) principle will be necessary. A fundamental principle during the utility's establishment was that it should be financially self-sustaining and independent of the general tax levy. This principle warrants reassessment in light of the current financial challenges confronting the utility.

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IR-UA-2

Topic: Business as Usual (BAU)

Reference: 3.0 Methodology & Key Assumptions

Request

a) Do Utility Management have a good models of typical (non-Blatchford) electricity consumption, natural gas consumption, and equipment maintenance costs for each type of Blatchford residence?
b) Does Blatchford purchase natural gas on the spot market, or are purchases hedged to provide price predictability over the term of the rate application?
c) If natural gas purchases are hedged, is the uncertainty around government policies shifted from Blatchford to the supplier of the natural gas?
d) If natural gas purchases are not hedged, why not?
e) In calculating the cost of electricity for BAU purposes, could Blatchford rely on competitively available rate offerings by electric retailers in Alberta?
f) Does Blatchford management agree that under-forecasting BAU results in incurring additional debt, while over-forecasting BAU results in incurring less debt?

Response

a.) The Utility developed the current models, including inputs and associated costs, with the support of consultants. The model reviews different building types (e.g. townhouse, strata, multi unit condo) that were planned to be constructed in Blatchford and their equivalent homes outside of Blatchford (i.e. BAU homes). The comparison is done individually for each building type. The prices of commodities, power and natural gas are being updated frequently based on major retailers and industry forecasts.

Similar to cost of service, review and updates will be needed over time to ensure that the models/process continues to work as intended given overall changes over time. This was highlighted in the 2025 Utility Rate Filing and given the number of legislative changes that occurred in 2025, Administration plans to review and if necessary update the current model prior to the next utility rate filing.

b.) Yes, the Blatchford Utility purchases natural gas through the City of Edmonton, where a hedging strategy is employed for natural gas purchases to provide price certainty.

c.) No. While the Utility does benefit from an expense perspective due to energy purchases that are hedged (natural gas and electricity), this would not mitigate the majority of the financial impact being incurred by the Utility through the government policy changes.

The main issue is that the removal of the consumer carbon tax lowers overall BAU costs increasing the gap between the Utility's revenue requirement and what the Utility can charge Blatchford utility customers.

This is further impacted as heat pumps in Blatchford result in ratepayers paying proportionally higher electricity costs (estimated costs that are external to the Blatchford Utility) which are more expensive (and conservatively estimated) than natural gas compared to a combination of primarily natural gas and electricity in BAU. To maintain BAU, the Utility's only option is to to reduce utility rates (thermal energy only) to Blatchford customers which are already below what is currently required to recover Utility operating and capital expense requirements to provide utility services.

d.) See response to IR-UA-2(b).

e.) Yes, based on preliminary analysis, there does seem to be merit to consider the usage of contract rates from energy retailers as a basis of calculating BAU compared to using regulated rates.

With the establishment of the ROLR (fixed regulated rate with limits on increases every 2 years), the uncertainty between what ratepayers could be potentially paying on contract rates compared to regulated rates appears could potentially be less of an issue compared to when regulated rates were variable and could widely fluctuate over the course of the year.

This is a key reason that supports the rationale that performing a review/update of the current BAU process would be appropriate at this time to factor in these changes as well as many potential economic/market variable input changes that have occurred since the model was originally developed.

f.) Yes, in general, underforecasting BAU can result in additional debt being incurred and the opposite is true that overforecasting BAU can result in less debt being incurred.

That said, the decision whether or not to debt finance capital expenditures is also dependent on how the Utility's financial indicators are tracking and what is required to achieve them to ensure long-term financial sustainability. The financial indicators are measures that will need to be considered collectively to assess and ensure the Utility's long-term financial sustainability.

For example, higher debt balances (whether long-term debt or bridge financing from the City of Edmonton) would result in higher future interest expenses which would put downward pressure on net income. Also, how capital expenditures are financed (i.e. debt or cash) will also affect the debt to net assets ratio and remaining cash balances.

Underforecasting or overforecasting BAU will also impact the amount of revenue collected and the amount of cash that is available which will also affect the ability to successfully meet financial indicators in the long-term.

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IR-UA-3

Topic:	Cost of Utilities
Reference:	6.1 Utilities
Request	The reconciliation of 2024 and 2025 actual costs identified additional non BRE accounts were charged to Blatchford. Please elaborate on how this could happen and steps taken to ensure it doesn't happen in the future.

Response

- Utility services management for power, natural gas, water and wastewater at the City of Edmonton, including Blatchford Renewable Energy (BRE), are centralized in the Economic and Environmental Sustainability (EES) branch. Each department does not manage their own utility accounts.
- In 2024 and 2025, additional non-utility Blatchford areas began operations which required new utility accounts to be established. These accounts were inadvertently set up to be coded to the Utility, not realizing they were separate lines of business. In 2024, the impact was immaterial and not identified. For 2025, the over allocation of power costs for three accounts was identified through increased analysis during monthly variance reporting.
- At the time of preparation of the BRE 2026 Rate Filing, EES has identified two of the utility accounts and the costs were reallocated out of BRE. The third account was still being investigated. This rate filing was produced assuming all three accounts were removed from BRE.
- To improve oversight, the Financial Services team supporting BRE has expanded, which provides more capacity for the monitoring work which has been more difficult to complete historically. In addition, the EES team is aware of who is the appropriate requester for any future BRE accounts and all future requests will be approved appropriately or they will not be coded to this section.

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IR-UA-4

Topic: Personnel

Reference: 6.2 Operations & Maintenance

Request The application identifies the addition of a Project Manager – Blatchford Renewable Energy Operations but gives no other description supporting this addition. Please provide the supporting rationale for this addition.

Response

- The Engineering Project Manager, Blatchford Renewable Energy Operations is a new, critical role essential for managing the growing complexity and scale of the Blatchford Renewable Energy Utility infrastructure.This is driven by increasing thermal energy generation and demand, the integration of new Energy Centers, and the connection of numerous multi-unit buildings within the community, all of which significantly increase operational complexity.
- This new position is critical to providing dedicated maintenance, operational, and troubleshooting oversight for the growing and complex infrastructure and ensures that new assets are built for optimal long-term maintainability and operational efficiency, thereby guaranteeing an uninterrupted service delivery record.
- Another core function will be analyzing operational data from all equipment to develop, implement, and optimize proactive maintenance and troubleshooting plans.
- Written approval for this position along with a position description will be an attachment to the 2026 Rate Filing when presented to Council.

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IR-UA-5

Topic: Customer Billing Services

Reference: 6.3 Customer Billing Costs

Request Please provide the process management uses to ensure that EPCOR billing costs are reasonable and in the best interest of customers.

Response

- Blatchford Renewable Energy has entered into a Service Level Agreement (SLA) with EPCOR to provide billing services on behalf of the Utility. The SLA currently runs for 2 years, expiring in 2026. EPCOR and BRE meet quarterly to review processes, provide updates on the service delivery and customer feedback.

- The EPCOR SLA outlines services provided including:
    - customer services,
    - contract account management,
    - revenue management,
    - receivables management,
    - financial management,
    - information services and
    - administrative services.

  EPCOR provides these services to many utilities, commonly called the “one bill model”, where residents receive various services such as electricity, thermal energy, waste services, etc. together on one bill.

- The billing services are charged on a cost recovery model and are delivered under a regulated framework through the SLA agreement. EPCOR submits a cost of service application to the Alberta Utilities Commission for approval of rates for their regulated rate payers. The charges for these services are subject to thorough review and approval by EPCOR's regulator through a formal regulatory filing process. This process ensures costs are reasonable, transparent, and aligned with industry standards.

- The Blatchford Renewable Energy Utility is constantly reviewing billing models by other District Energy Utilities. Given the current service model and service delivery EPCOR is well positioned to provide these. The Utility in the future might look at alternatives in the market to provide these services. A full justification for a change would need to be developed and presented.

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IR-UA-6

Topic:	Corporate Shared Services Costs
Reference:	6.4 Corporate Administration
Request	The Utilities Advisor expected a variance description would address the difference between the 2025 Budget and 2025 Forecast for Corporate Shared Services Costs, and the rationale for carrying such a significant increase over historical trends forward. Please provide this detailed variance description and rationale.

Response

Shared services include a number of corporately provided services including, but not limited to, facility maintenance, financial services, human resources, communications, and legal services. The variance between 2025 Budget and the 2025 Forecast was for additional financial services resources which were not in place at the time of the preparation of the 2025 Budget.