

Blatchford Renewable Energy 2021 Supplementary Operating Budget and Annual Rate Filing

Recommendation

That Utility Committee recommend to the December 9/11, 2020, City Council meeting:

1. That adjustments to the 2021 Operating Budget for Blatchford Renewable Energy, as outlined in Attachment 1 of the December 4, 2020, Financial and Corporate Services report FCS00126, be approved, resulting in the revised 2021 Operating Budget with revenues of \$0.138 million and expenditures of \$2.410 million.
2. That the 2021 rates and fees for Blatchford Renewable Energy, as outlined in Attachment 2 of the December 4, 2020, Financial and Corporate Services report FCS00126, be approved.

Executive Summary

Blatchford Renewable Energy has been established to help achieve the City's long-term goal of 100 percent renewable energy and carbon neutrality for the Blatchford Development and is one of the strategic actions outlined in the City of Edmonton's Corporate Business Plan 2019-2022. Blatchford Renewable Energy will help the City achieve transformational impacts in the community toward the goal of Climate Resilience: Edmonton is a city transitioning to a low-carbon future, has clean air and water and is adapting to a changing climate.

This report recommends adjustments to the Blatchford Renewable Energy approved 2021 operating budget and presents the Annual Rate Filing to establish customer rates and fees for 2021. The 2021 Rate Filing builds upon the principles and framework established in the 2019 and 2020 Rate Filings and recommends customer rates and infrastructure fees for 2021 be set based on the approved 2020 customer rates and infrastructure fees escalated by 2.7 percent. Utility rates are prescribed under the Blatchford Renewable Energy Utility Bylaw 17943. Financial and Corporate Services report FCS00139 (Bylaw 19494 To Amend Bylaw 17943 Blatchford Renewable Energy Utility, Amendment No. 2), also at the December 4, 2020 Utility Committee meeting, recommends amendments to Bylaw 17943 to reflect the proposed new fees and charges effective January 1, 2021.

Report

Background

In December 2018, City Council approved the Blatchford Renewable Energy 2019-2022 Operating and Capital Budgets and the 2019 Annual Rate Filing. The 2019 Annual Rate Filing recommended the regulatory framework, customer rates and infrastructure fees for the initial year of operation of the utility. City Council also approved the Blatchford Renewable Energy Utility Bylaw 17943, which established Blatchford Renewable Energy, outlined the requirements for properties to receive energy service through the utility, and set the fees and charges for utility service. The fees and charges included in Schedule B of Bylaw 17943 were based on the 2019 Annual Rate Filing.

At the March 22, 2019, Utility Committee meeting, Administration presented proposed adjustments to the Blatchford Renewable Energy 2019-2022 operating and capital budgets (Financial and Corporate Services report CR_6640) to provide funding for the preliminary planning and schematic design of the next stage of the development of the utility. These adjustments were subsequently approved by City Council in June 2019 as part of the Spring 2019 Supplemental Capital Budget Adjustment for the City of Edmonton.

In November 2019, City Council approved amendments to Schedule B of Bylaw 17943 to reflect the new fees and charges effective January 1, 2020, that were included in the Blatchford Renewable Energy 2020 Rate Filing (Bylaw 19062 To Amend Bylaw 17943 Blatchford Renewable Energy Utility, Amendment No. 1).

2021 Supplementary Operating Budget

The table below provides the revenue and expenditure amounts included in the approved 2019-2022 operating budget for Blatchford Renewable Energy.

	2019	2020	2021	2022
Revenues (\$ millions)	\$0.536	\$0.161	\$0.445	\$0.747
Expenditures (\$ millions)	\$2.115	\$2.690	\$2.634	\$2.822
Net Operating Requirement (\$ millions)	(\$1.579)	(\$2.529)	(\$2.189)	(\$2.129)

As discussed in the 2021-2024 Business Plan presented to Utility Committee on October 2, 2020 (Financial and Corporate Services report CR_8340), several key

milestones have been achieved for the development and operation of Blatchford Renewable Energy. These include commissioning Energy Centre One in the fall of 2019, connecting the first customer in July 2020, starting utility operation, building a utility brand, and advancing the planning and design of the next utility stages.

The growth of Blatchford Renewable Energy is closely connected to the land development activities in Blatchford. Based on the most recent land development update for the Blatchford community, a total of 17 customers are forecast to be connected to the utility system by the end of 2020 with a further 58 customers connecting in 2021.

As shown in Attachment 1, Administration is recommending that the revenues and expenditures included in the approved 2021 operating budget be reduced by \$0.307 million and \$0.224 million, respectively. The updated revenues and expenditure amounts have been incorporated into the 2021 Rate Filing with further details being provided in Section 5.0 of Attachment 2 for the following changes:

- Based on the most recent update, fewer utility customers are now projected in 2021 resulting in a decrease in the forecasted infrastructure fee and customer rate revenues.
- With fewer utility customers, operating costs (including billing services) are also forecasted to decrease in 2021 from the previously approved budget.

2021 Annual Rate Filing

The 2021 Annual Rate Filing (Attachment 2) provides details of the proposed customer fees and charges effective January 1, 2021, for Blatchford Renewable Energy. As discussed in Section 6.2 of Attachment 2, the 2021 fees and charges build upon the regulatory framework and customer rates established in the 2019 and 2020 Annual Rate Filings.

The 2019 Rate Filing was guided by the overarching Policy Statement contained in the Blatchford Renewable Energy Utility Fiscal Policy:

“Similar to private utilities, the Utility will account for the cost of services under a full cost accounting approach. All customer 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.”

Under a traditional cost of service approach, customer rates are established each year to allow the utility to recover its annual operating costs. However, given the small number of utility customers in the initial years of Blatchford’s operation, a cost of

service approach would result in significantly higher utility fees than those paid elsewhere in Edmonton and what Blatchford utility customers could reasonably be expected to incur. Therefore, an alternative method was implemented to initially establish 2019 customer rates based on a “pegged approach”, whereby Blatchford utility customer bills were set, or “pegged”, based on Edmonton’s typical 2019 utility bills for heating, cooling, and hot water.

Having initially set customer rates for 2019 based on the pegged approach, 2020 rates used a “levelized approach”, consistent with the rate setting methodology in the business case presented to City Council on March 16, 2016, for the development of the District Energy Sharing System at Blatchford. Under the levelized approach, customer rates in the business case are increased by 2.7 percent on average each year over the initial 50 years to ensure stable and consistent rate increases. Rates under-recover costs in the early years of the utility’s operation when the customer base is small, but gradually recover past costs in the later years when the customer base is fully established. In line with the levelized approach, customer rates recommended in the 2020 Annual Rate Filing and approved by City Council in November 2019 (Bylaw 19062 To Amend Bylaw 17943 Blatchford Renewable Energy Utility) increased the 2019 approved customer rates by 2.7 percent.

2021 Customer Rates

Administration is recommending that the levelized approach continue to be used to establish customer rates for 2021, based on the approved 2020 customer rates escalated by 2.7 percent. This approach results in customer rates for 2021 that are:

- comparable to the 2021 rates determined in the updated business case upon which the \$93 million non-refundable cash infusion and the Blatchford Utility Fiscal Policy key financial indicators were established;
- consistent with the Blatchford Utility Fiscal Policy that requires stable, consistent rate increases;
- relatively simple to understand and implement; and
- lower than rates based on the pegged approach and therefore in accordance with the Blatchford Utility Fiscal Policy that customers pay at most a comparable fee to what they would elsewhere in the City of Edmonton through their energy utility bills and annual maintenance costs.

The table below shows the 2020 approved customer fees and charges and the recommended 2021 rates based on a 2.7 percent escalation rate.

Rate Component	2020 Approved Rates	2021 Rates (2020 Escalated 2.7%)
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Blatchford Renewable Energy 2021 Supplementary Operating Budget and Annual Rate Filing

Variable Charge (\$/kWh):	0.0255	0.0262
Fixed Charge (\$/day):		
Townhouses	1.47	1.51
Apartments	1.15	1.18
Infrastructure Fee (\$):		
Residential (\$/unit)	\$1,750.00	\$1,797.25
Commercial (\$/m2)	\$20.00	\$20.54

2021 Customer Rates - Comparison to Market

As discussed above, the Blatchford Renewable Energy Utility Fiscal Policy requires that customers pay at most a comparable fee to what they would elsewhere in the City of Edmonton through their energy utility bills and annual maintenance costs. In accordance with this requirement, the 2021 Annual Rate Filing (Attachment 2) includes a comparison of the total utility costs for customers of Blatchford Renewable Energy against the typical utility costs for other residents within the City of Edmonton.

Consistent with the rate setting principles approved by City Council on October 19, 2020 (Financial and Corporate Services report CR_7760), multiple years have been used for comparison of Blatchford Renewable Energy customer rates to ensure they remain competitive. As shown in the table below, the annual utility costs for Blatchford Renewable Energy customers are projected to be lower than the costs for comparable residents elsewhere in the City of Edmonton (“Business as Usual”), based on the five year average utility bills and maintenance costs from 2019 to 2023.

	Blatchford Renewable Energy Customers	Business as Usual
Annual Utility Costs <i>(five year average 2019-2023)</i>		
Townhouse	\$1,780 per year	\$1,853 per year
Apartment	\$1,475 per year	\$1,498 per year

Public Engagement

Key stakeholders and the general public were engaged in the Blatchford development, including the concept of Blatchford Renewable Energy. Regular updates are provided to City Council's Energy Transition Climate Resilience Committee.

Corporate Outcomes and Performance Management

Corporate Outcome(s): Edmonton is an environmentally sustainable and resilient city.			
Outcome(s)	Measure(s)	Result(s)	Target(s)
Edmonton is an environmentally sustainable and resilient city.	Community greenhouse gas emissions (million tonnes of carbon dioxide equivalents)	18.73 (2018)	11.0 by 2035 (35% below 2005 levels by 2035)

Corporate Outcome(s): The City of Edmonton has a resilient financial position.			
Outcome(s)	Measure(s)	Result(s)	Target(s)
The City of Edmonton has a resilient financial position.	Customer rates generate sufficient revenue to recover the annual cost (revenue requirement) to operate the Utility and begin to recover the under-recovery of costs under the levelized approach in the early years.	Operating loss: 2019 actual = \$(0.8) million 2020 forecast = \$(1.0) million	Operating profit projected to begin in 2025

Risk Assessment

Risk Element	Risk Description	Likelihood	Impact	Risk Score (with current mitigations)	Current Mitigations	Potential Future Mitigations
Financial	Blatchford Utility is financially not sustainable. Substantial external investment is needed.	3 - Possibly	3 - Major	9 - Medium	Communicate and lobby government for external funding, update financial model forecast frequently and engage with Council for any changes.	Adjustment of capital and operating costs based on adjusted development scenario.

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Legal/ Regulatory	Blatchford Utility is not properly set up.	1 - Rare	1 - Minor	1 - Low	Proper legal and financial review and planning.	
Project Management	Operation of the Utility is impacted.	2 - Unlikely	1 - Minor	2 - Low	Ensure rigorous and planning steps are followed in developing the Utility and prepare for Operation.	

Attachments

1. Blatchford Renewable Energy - 2021 Operating Budget Adjustment
2. Blatchford Renewable Energy - 2021 Annual Rate Filing

Others Reviewing this Report

- C. Owen, Deputy City Manager, Communications and Engagement
- G. Cebryk, Deputy City Manager, City Operations
- J. Meliefste, Acting Deputy City Manager, Integrated Infrastructure Services
- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- B. Andriachuk, City Solicitor