



CITY POLICY

POLICY NUMBER: C597

REFERENCE:

ADOPTED BY:

City Council April 10, 2018

SUPERSEDES:

New

PREPARED BY: Integrated Infrastructure Services

DATE: March 22, 2018

TITLE: BLATCHFORD DISTRICT ENERGY UTILITY FISCAL POLICY

Policy 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.
2. Similar to private utilities, the Utility will account for the cost of service 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.
3. 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 and replacement of its capital assets.
4. The Utility is to contribute towards achieving the City's Energy Transition Strategy.

The purpose of this policy is to:

1. 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.
2. Ensure that there is a consistent approach year over year for the financial planning, budgeting, and rate setting for the City managed Utility.
3. Ensure that the Utility is financially sustainable over the long term.

This policy is subject to any specific provisions of the Municipal Government Act or other relevant legislation or Union Agreement.



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1. DEFINITIONS

- 1.1 **Cash Flow** - the ability of the Utility to meet its financial obligations as payments are due.
- 1.2 **Capital Assets** - assets of the Utility meeting the requirements defined under Public Sector Accounting Standard PS3150.
- 1.3 **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.
- 1.4 **Capital Plan** - a 4-year plan for funding capital infrastructure approved by City Council.
- 1.5 **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.
- 1.6 **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.
- 1.7 **Financial Indicators** - a set of financial measures that provide signals on the financial health of the Utility.
- 1.8 **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.
- 1.9 **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.
- 1.10 **Investment in Utility Financed Assets** - Net Book Value of Utility Financed Assets minus associated outstanding debt used to pay for the assets.
- 1.11 **Net Book Value** - acquisition costs of original costs of capital assets minus their accumulated depreciation
- 1.12 **Pay As You Go** - the amount of cash required to implement the Capital Plan; annual amount to be funded from operating revenues.
- 1.13 **Rate Revenue** - revenue generated through monthly customer rates.



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1.14 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.

1.15 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.

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

Following are financial indicators and additional general policy statements to guide the financial management of the utility.



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2. FINANCIAL INDICATORS

Financial indicators are measures that provide financial information 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.

2.1 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.
- 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, 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.

Indicator Targets:

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

2.2 Debt Financing of Capital

- 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:

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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:

Total Long Term Debt

divided by

Net book value of Non-Contributed Assets

= 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%

3.0 Financial Planning

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.

The Utility will prepare a 4-year Business Plan, to be presented annually to the Utility Committee, prior to the preparation of the multi-year operating and capital budgets or supplemental budget adjustments.

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.