

NO: R110

COUNCIL DATE: July 13, 2020

REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **July 9, 2020**

FROM: **General Manager, Engineering**

FILE: **5514-102**

SUBJECT: **Appointment of District Energy Expert Rate Review Panel Members**

RECOMMENDATION

The Engineering Department recommends that Council:

1. Receive this report for information;
2. Appoint Fong Kwok as Chair of the District Energy Expert External Rate Review Panel for an additional three years; and
3. Approve amendments to the District Energy Rate-Setting Policy, No. H-53, as documented in Appendix "I" of this report.

INTENT

The purpose of this report is to obtain approval for the re-appointment of the District Energy Rate Review Panel Chair and approval of housekeeping amendments to the District Energy Rate-Setting Policy, No. H-53.

BACKGROUND

At its Regular Meeting on July 22, 2019, Council adopted the recommendations in Corporate Report No. R156; 2019 (Appendix "II"), and appointed Fong Kwok as Chair of the Panel for 2019. Fong Kwok worked with the two other Panel members to complete the annual rate review in 2019. The review included:

- City staff update of the financial model for Surrey City Energy ("SCE"), which included proposed rates, a rate escalation factor, and any other changes to the financial structure of SCE considered necessary by staff;
- Review of the updated financial model and proposed rates and rate structure, submission of an information request for staff, and review of staff responses to the information request; and
- Preparation of a letter of endorsement for the rates and rate structure, as proposed in the updated financial model.

Through this process, SCE has been held to a high level of accountability in its stewardship of the utility and related reporting.

DISCUSSION

The annual district energy rate review process has been successfully conducted for each year since SCE first began operations. Over this time, the Panel has been responsible for providing subject matter expert review and recommendation on rates and rate structure, which are brought forward for Council's consideration and approval.

Panel Appointment

Ms. Kwok is a Chartered Professional Accountant and Principal of Red Phoenix Consulting Services Inc., providing consulting services for the utility industry in project management, regulatory strategy, capital planning, rate forecasting along with financial evaluation and consultation. Ms. Kwok held the role of Regulatory Specialist with the BC Utilities Commission, and has served 10 years with BC Hydro in varying capacities including Business Systems Consultant, Financial Services Accountant and Project Accountant. Most recently, Ms. Fong served as Commissioner and Chair for the City of New Westminster Electric Utility Commission. In this capacity she provided oversight and guidance for the municipality's proposed District Energy System for the Sapperton neighbourhood. Ms. Kwok has served on the Panel since 2016.

Rate Setting Policy Amendments

Staff have prepared minor housekeeping amendments to the District Energy Rate-Setting Policy, No. H-53, as documented in Appendix "I" of this report, to address the following issues:

1. The TOR stipulates that the Panel will be comprised of four members. Staff have determined that having an odd number of members is more appropriate and a three-member Panel provides for a wide enough range of perspectives to effectively conduct the rate review process.
2. The TOR does not provide a limit on term length for Panel members. It has been the experience of staff that three-year terms are suitable. It is often the case that, at the end of the three-year term, Panel members have gained significant operational insight and provide additional value to the rate review process and are able to do so with a greater level of understanding of the business functions of SCE. In such cases, staff may recommend the option to appoint a Panel member be appointed to a second three-year term up to a maximum of six years.

In making recommendations for appointments to the Panel, staff seek to balance the interest of having a broad and evolving range of experience with maintaining continuity of Panel members. The housekeeping amendments to the District Energy Rate-Setting Policy, No. H-53, as documented in Appendix "I" of this report, are intended to address the issues identified above while maintaining this balance.

Next Steps

The Panel will be convened in the coming months in order to commence their 2020 review, which will be completed later this Fall and will result in a letter of endorsement to staff for the rates and rate structure. As in previous years, staff will invite customers and members of the Urban Development Institute and representatives from developers with active development applications in each Service Area within the Surrey City Centre to submit questions for the Panel's consideration. Staff will bring forward a recommended rate for Council's consideration in 2021.

SUSTAINABILITY CONSIDERATIONS

The operation of a District Energy system in the City Centre supports the objectives of the City's Sustainability Charter 2.0. In particular, these recommendations relate to the Sustainability Charter 2.0 themes of Built Environment and Neighbourhoods, and Infrastructure. Specifically, these recommendations support the following Desired Outcomes ("DO") and Strategic Direction ("SD"):

- Buildings and Sites DO11: Surrey is at the forefront of sustainable and restorative building design and technology;
- Buildings and Sites DO13: Buildings are healthy and energy and resource efficient;
- Buildings and Sites SD13: Continue to support low carbon district energy networks; and
- Energy and Climate DO9: Energy is produced locally, using distributed and renewable sources when economically feasible.

CONCLUSION

Based on the above discussion, the Engineering Department recommends that Council approve Fong Kwok as Chair of the District Energy Expert External Rate Review Panel for an additional three years and approve amendments to the District Energy Rate-Setting Policy, No. H-53, as documented in Appendix "I" of this report.

Scott Neuman, P.Eng.
General Manager, Engineering

JO/cc

Appendix "I" – Proposed Amendments to the District Energy Rate-Setting Policy, No. H-53
Appendix "II" - Corporate Report No. R156; 2019



City of Surrey Policy

No. H-53

Policy Title:	DISTRICT ENERGY (DE) RATE-SETTING POLICY
Approval Date:	2013 DEC 16 (RES. 13-2605)
History:	NEW
Department:	ENGINEERING FINANCE & TECHNOLOGY

TITLE: District Energy (DE) Rate-Setting Policy

Utility rates for thermal energy provided by the City of Surrey (the "City") are regulated under the District Energy System By-law, 2012, No. 17667, as amended. This policy forms the basis for the establishment and adjustment of the City's thermal energy utility rates.

EXPERT EXTERNAL RATE REVIEW PANEL

The City will establish an Expert External Rate Review Panel (the "Panel") in accordance with the Terms of Reference attached as Schedule 1 to this policy. Information on the District Energy Utility (the "Utility") rates and rate structure is to be reviewed by the Panel who will provide objective, expert advice to the City to ensure that the rates and rate structure are consistent with the following principles.

RATE STRUCTURE AND RATE-SETTING PRINCIPLES:

1. COST RECOVERY

The cost-of-service model is the accounting structure that will be used to establish the rates and rate structure for the Utility and will take into account all costs associated with financing, operating, and administering the utility.

2. RATE COMPETITIVENESS

Rates will be established and maintained such that they are competitive with the costs that Utility customers would incur if they were using other thermal energy options that are available in the market, such as electricity and natural gas.

3. ***RETURN ON INVESTMENT***

The rates over time will be set to include a rate of return on investment. In this regard, the rate of return on the City's investment over time will be no less than the City's cost of borrowing to finance the development of the Utility and no more than the rate of return established for private utilities regulated by the British Columbia Utilities Commission.

4. ***SHORTFALL RECOVERY***

If by virtue of the rates and rate structure that emanates from this policy, the Utility incurs a shortfall in any year including debt servicing, operations, administration and capital replacement, such a shortfall will be recognized as debt against the Utility and will be taken into account in relation to future rate adjustments.

5. ***LOW-CARBON / RENEWABLE ENERGY SOURCES***

The Utility will seek to maximize the proportion of low-carbon, renewable heat sources within its energy supply mix as early as possible while ensuring that the other rate-setting principles are respected.

6. ***FAIRNESS***

Utility rates will be structured such that the rates charged to different user types are fair and equitable. The Utility will not charge one user type a higher rate as a means to charge a different user type a lower rate that is not commensurate with the cost of providing utility service to that user type (i.e., cross-subsidization will not occur across user types).

Terms of Reference

District Energy Utility Expert External Rate Review Panel

DRAFT

BACKGROUND

Surrey City Energy (SCE) is a municipally-owned utility and, as such, is exempt from the regulatory oversight of the British Columbia Utilities Commission (BCUC). Similar to the City's water, sewer, drainage and solid waste utilities, Council is tasked with the responsibility of regulating the pricing of services being delivered under the utility and ensuring that the public interest is served.

Where SCE differs from the City's other utilities is that it is a new utility providing a new service in the City, it is relatively complex and there are private utility operators who offer similar service under the regulation of BCUC.

While the City is exempt from the regulatory oversight of BCUC, an external rate review panel is being established to assist Council in the oversight of SCE's rates and rate structure.

Expert Rate-Review Panel Structure and Selection Process

The Panel will be comprised of 3 members that are appointed by Council. Council will appoint one member as the Chair. The Panel will provide objective, expert advice to the City regarding SCE utility rate structure and rates consistent with the rate-setting principles articulated in this policy.

The initial term of each Panel member appointment shall be no more than three years, with an option at the City's discretion to extend for up to another three years. .

SCOPE OF WORK

Staff proposes that a full rate review would be conducted once every 3 years or more frequently if the Panel deems such a more frequent review as being necessary. The rate review process will include:

1. The updating by City staff of the financial model for SCE including proposed rates, rate escalation factor and any other changes to the financial structure of SCE considered necessary by staff;
2. The Panel will review the updated financial model and the proposed rates and rate structure;
3. The Panel will prepare a report that either approves the revised rates and rate structure as proposed in the updated financial model or recommend revisions to the model and/or rates and/or the rate structure; and
4. With the Panel's report as background staff will prepare a report to Council recommending the financial model for SCE including any proposed rate or rate structure changes.

Through this process, SCE will be held to a high level of accountability in its stewardship of the utility and related reporting. The approval of the SCE rates and rate structure will be conducted in a fully transparent manner.

The Panel's review will include consideration of the following factors:

- a) Long-term forecasted cost of inputs, including forecasted fuel costs and the utility's cost of capital, including debt charges and return on equity premiums;
- b) Revenue forecasts;
- c) Rate stabilization reserve requirements; and
- d) Comparisons of the rates and rate structure to other energy benchmarks.

PANEL EXPERTISE

The Panel should have within its membership a variety of expertise to ensure a balanced review process. Expertise in the following areas is considered desirable:

- 1. Utility Pricing and Regulation: Demonstrated expertise and experience in the area of utility finance/pricing, ideally with past experience working for or reporting to British Columbia Utilities Commission or another similar regulatory body;
- 2. Finance: A professional understanding with demonstrated expertise and experience in finance and financial modelling, ideally in the field of utility finance and pricing; and
- 3. Renewable, Low-Carbon Energy: Demonstrated expertise in the area of renewable energy production and demand management.

Each Panel member should be able to carry out the work objectively, have the demonstrated ability to make complex decisions that equitably balance the interests of various stakeholders, and be perceived as a credible, objective expert by SCE stakeholders.

In the interest of avoiding any conflicts of interest, Panel members should not be:

- a) an employee of the City of Surrey;
- b) an elected official for the City of Surrey;
- c) a customer of SCE;
- d) an employee or major shareholder of a competing energy utility; or
- e) in any position or role that would be perceived as being in a conflict of interest in relation to the responsibilities described in these Terms of Reference.

CORPORATE REPORT

NO: R156

COUNCIL DATE: July 22, 2019

REGULAR COUNCIL

TO: Mayor & Council

DATE: July 16, 2019

FROM: Acting General Manager, Engineering

FILE: 5514-102

SUBJECT: Appointment of District Energy Expert Rate Review Panel Members

RECOMMENDATION

The Engineering Department recommends that Council:

1. Receive this report for information;
2. Appoint Fong Kwok as Chair of the District Energy Expert External Rate Review Panel for one year; and
3. Appoint Melissa Davies as a member of the District Energy Expert External Rate Review Panel for three years.

INTENT

The purpose of this report is to obtain approval for the appointment of the District Energy Expert Rate Review Panel Chair and the appointment of a new Panel member.

BACKGROUND

At its Regular meeting on December 16, 2013, Council adopted the recommendations in Corporate Report No. R246; 2013 (Resolution R13-2605), attached as Appendix "I". The recommendations in the report included that a District Energy Expert Rate Review Panel (the "Panel") be formed and the Panel be made up of four members appointed by Council, with one member being appointed as the Chair. The Panel members would have expertise in the context of the Panel's responsibilities. The Panel would be tasked with providing objective, expert advice to the City regarding the rates that should be charged by Surrey City Energy ("SCE") in relation to a set of Council-approved rate-setting principles for SCE.

Corporate Report No. R246; 2013 (Appendix "I") Resolution R13-2605 authorized the principles and a related methodology to regulate the rates and the rate structure to be used by SCE and the City's District Energy ("DE") utility in relation to its business operations. Staff were also authorized to proceed with a public Request for Expressions of Interest for the purpose of establishing the Panel.

At its Regular meeting on September 17, 2018, Council adopted the recommendations in Corporate Report No. R190; 2018, and by resolution R18-1852, appointed Fong Kwok as a member of the Panel for a two-year period and appointed Christopher Oakley as a member of the Panel for a three-year period.

These Panel members completed an annual rate review in 2018. The review included:

- City staff update of the financial model for SCE, which included proposed rates, a rate escalation factor, and any other changes to the financial structure of SCE considered necessary by staff;
- Review of the updated financial model and proposed rates and rate structure, submission of an information request for staff, and review of staff responses to the information request; and
- Preparation of a letter of endorsement for the rates and rate structure, as proposed in the updated financial model.

Through this process, SCE has been held to a high level of accountability in its stewardship of the utility and related reporting.

DISCUSSION

The previous Panel Chair's three-year term was complete in 2018, and as such, a new Chair is required before the Panel's first meeting convenes in September 2019. In addition, a new Panel member will be appointed to a three-year term each year from 2019 onwards. Current Panel members are eligible to re-apply when their term is completed.

Panel Review and Selection

In May 2019, Request for Expressions of Interest and Statement of Qualifications ("RFEOI") No. 1220-050-2019-007 was issued seeking submissions for consideration as a Panel member. In total, four submissions were received from strong candidates with extensive relevant experience. All four of the submissions received were from individuals who have not yet served on the Panel.

In making recommendations for appointments to the Panel, staff are seeking to balance the interest of having a broad and evolving range of experience with maintaining continuity of Panel members. Based on the objectives of the Panel and the response to the RFEOI, the following appointments are recommended:

- Fong Kwok, CPA, CGA, as Chair of the Panel for the remaining year of her two-year term; and
- Melissa Davies as a member of the Panel for a three-year term.

A brief summary of each of the recommended appointees' qualifications and experience is attached as Appendix "II".

Panel Compensation

Given the unique qualifications and experience of Panel members, it is recommended that an honorarium be provided, consistent with the honorarium provided to Panel members since 2014. It is recommended that the Chair be compensated \$3,000.00 per year, and the remaining members be compensated \$2,000.00 per year.

Next Steps

The Panel will be convened in the coming months in order to commence their review, which will be completed later this Fall and will result in a letter of endorsement for the rates and rate structure. As in previous years, staff will invite members of the Urban Development Institute and representatives from developers with active development applications in each Service Area within the Surrey City Centre to submit questions for the Panel's consideration.

FUNDING

Funding for these appointments is available within the Utility's Operating Budget in the 5-Year (2019-2023) Financial Plan.

SUSTAINABILITY CONSIDERATIONS

The operation of a DE system in the City Centre supports the objectives of the City's Sustainability Charter 2.0. In particular, these appointments relate to the Sustainability Charter 2.0 themes of Built Environment and Neighbourhoods, and Infrastructure. Specifically, these appointments support the following Desired Outcomes ("DO") and Strategic Direction ("SD"):

- Buildings and Sites DO11: Surrey is at the forefront of sustainable and restorative building design and technology;
- Buildings and Sites DO13: Buildings are healthy and energy and resource efficient;
- Buildings and Sites SD13: Continue to support low carbon district energy networks; and
- Energy and Climate DO9: Energy is produced locally, using distributed and renewable sources when economically feasible.

CONCLUSION

Based on the above discussion, the Engineering Department recommends that Council endorse the appointment of Fong Kwok as Chair of the Panel for one year and the appointment of Melissa Davies as a member of the Panel for three years.



Scott Neuman, P.Eng.
Acting General Manager, Engineering

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Appendix "I" – Corporate Report No. R246; 2013

Appendix "II" - Biographical Information on Recommended Panel Appointees