

Electric Utility Governance

Policy Type: GOVERNANCE PROCESS | GP-F-2.8

The City of Red Deer is the provider of electric distribution and transmission system within city boundaries, and to Council-approved customers and citizens outside of city limits.

Guiding Principles

- I The City's Electricity Services is:
 - (1) **Reliable:** It provides high quality, dependable power and service to customers. It has the capacity to provide resilient, secure services and to respond to outages with minimal disruption or downtime.
 - (2) **Responsive:** It responds to customer needs.
 - (3) **Affordable:** The cost to provide Electricity Service considers customer accessibility.
 - (4) **Marketable:** It contributes to economic development.
 - (5) **Adaptable:** It enables citizens to adapt to emerging opportunities (e.g., energy technologies, environmental issues).
 - (6) **Financially Beneficial:** It provides a favourable revenue stream for The City.

Rates

- 2 Rate structures must:
 - (1) be in alignment with the guiding principles listed above;
 - (2) reflect usage and promote conservation; and
 - (3) be structured so that Revenue Requirements are met within a reasonable tolerance.
- 3 Rate making:
 - (1) adheres to regulated and legislated requirements; and
 - (2) adheres to generally accepted rate making standards.
- 4 The City collects, from all Electric Service Area Customers Municipal Consent and Local Access Fee(s).
- 5 Rates must be approved by Council.

Debt

- 6 Debt may be used to fund utility assets (e.g., capital expenditures) and must be in alignment with Council's Debt Policy GP-F-2.2.

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- 7 The debt repayment period must not exceed the life of the asset that the debt is used to fund.

Return on Rate Base

- 8 The equity rate of return used in the financial model must be in accordance with the most recent Alberta Utilities Commission (AUC) generic cost of capital decision or AUC approved substitute thereof.
- 9 The cost of deemed debt used in the financial model must be the fifteen-year Loans to Local Authorities (LoLA) mid-year rolling average rate.
- 10 The cost of actual debt used in the financial model must be based on actual debt rates.
- 11 Deemed debt / equity ratio must be applied as follows:
- (1) Transmission As established by AUC
 - (2) Distribution As established by AUC

Municipal Consent (MC) and Local Access Fee (AF)

- 12 The City, according to its rights under the *Municipal Government Act*, specifies the method by which the MC and AF are calculated and collected by the utility. For non-municipal utilities operating within the city, the terms of franchise fee collection are outlined within respective franchise agreements.
- 13 The MC and AF cannot exceed 15% of total revenue unless otherwise directed by Council.

Regular Dividend

- 14 An annual dividend will be paid by the utility as a return on investment.

Special Dividend

- 15 Where the Capital Reserve has excess funds relative to the forecasted capital expenditures, a special dividend payment may be recommended.

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Capital Reserve

- 16 A Capital Reserve for the Electricity Services is established for:
- (1) asset replacement;
 - (2) asset rehabilitation; or
 - (3) acquisition of future assets to allow for long term financial planning and financial management of capital assets, for the purpose of re-investing in the utility's assets.
- 17 A capital surcharge may be incorporated in rates.

Rate Stabilization and Operating Reserve (RS&O)

- 18 A Rate Stabilization and Operating (RS&O) Reserve for the Electricity Services must be established to:
- (1) maintain operations;
 - (2) manage unplanned changes in operating expenditures and revenues; and
 - (3) mitigate the impact of significant changes in Revenue Requirements on customer rates for any particular year.
- 19 A working capital minimum amount equal to approximately 45 days of operations must be set aside in the RS&O Reserve at the beginning of each year to be used to fund operations through below budget revenue periods and for unplanned expenditures.
- 20 The maximum RS&O Reserve balance must be the working capital minimum plus 12.5% of annual operating revenues.
- 21 Year-end actual surplus/deficit from operations will be transferred to/from the RS&O Reserve. If this action results in the RS&O Reserve being above the maximum or below the minimum balance, a transfer to / from the Capital Reserve will only occur if the transfer does not result in a negative Capital Reserve balance.

Transitional Provisions

- 22 The provisions in this Policy for rate structures, debt, Reserves, dividends, and return may be phased in to mitigate 'rate shock' and allow for the management of rate changes, if required.

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- 23 An annual report on the progress made towards full compliance with this Policy must be made to Council.

Definitions:

- 24 “**Local Access Fees**” means fees intended for City right of ways, including maintenance costs and costs associated with integrating right of ways of electric wires, gas pipelines, water and sewer lines, and roads.
- 25 “**Electric Service Area Customers**” means Electric Utility Service customers located within the service boundary as determined by AUC.
- 26 “**Electricity Services**” has the same meaning as in the *Electric Utilities Act*.
- 27 “**Municipal Consent**” means the fee for granting the Electricity Services an exclusive franchise for service in the City.
- 28 “**Rate Base**” means working capital plus the depreciated value of the assets on which a utility is permitted to earn a return in accordance with the generally accepted regulatory principles in Alberta.
- 29 “**Reserves**” has the same meaning as in Council’s Reserves Policy GP-F-2.0.
- 30 “**Revenue Requirement**” means a fair and reasonable amount of revenue that is recovered in utility rates.

Document History:

Policy Adopted	November 14, 2023
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