

Utilities Governance Model Review

Council Meeting
July 22, 2024





Project Team Representatives

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Outline



**Utility Background
and Current State**



**Governance Options
and Evaluation Criteria**



Analysis Summary



Recommendation

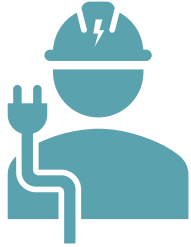


Questions



Direction

Points of Clarity



Electric Light and Power as **Electrical Utility (EU)**.

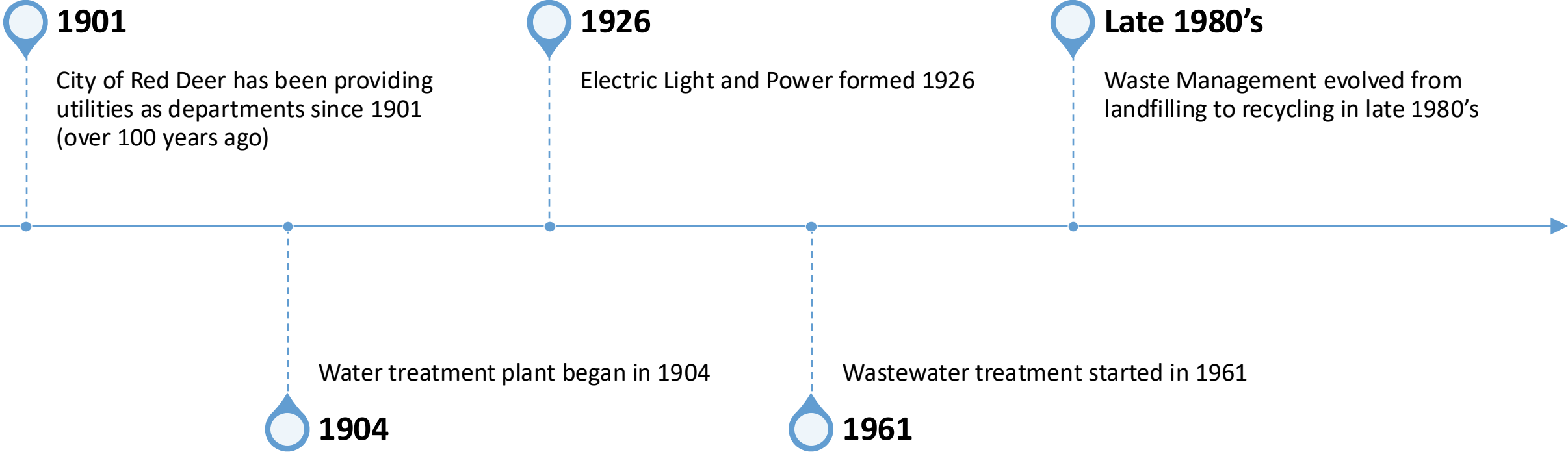


Water + Wastewater Utilities = **Water Utility (WU)**



Waste Management (WM)

Utility Background



What problem are we trying to solve?

Which governance model will best serve our community's needs for the future?





Current State

Utilities Business is Changing



Revenue from Utilities in Red Deer represents over 40% of Revenue that the City receives



Electric industry was deregulated in 1995 leading to ownership and operational changes



Currently, only four other municipalities operating EU as a department



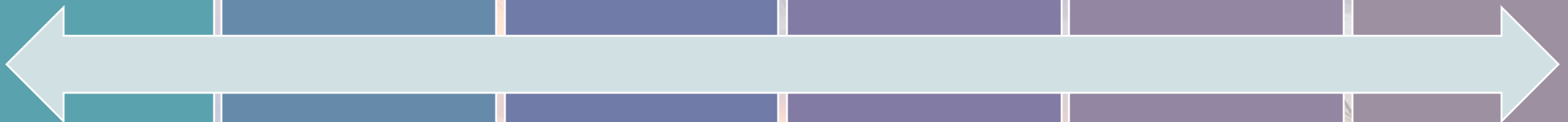
Water and Wastewater major evolutionary changes: regional water service in 2004, and regional WW service in 2008.



Waste Management shifted from solely landfilling to numerous diversion options and now is facing impacts of EPR.



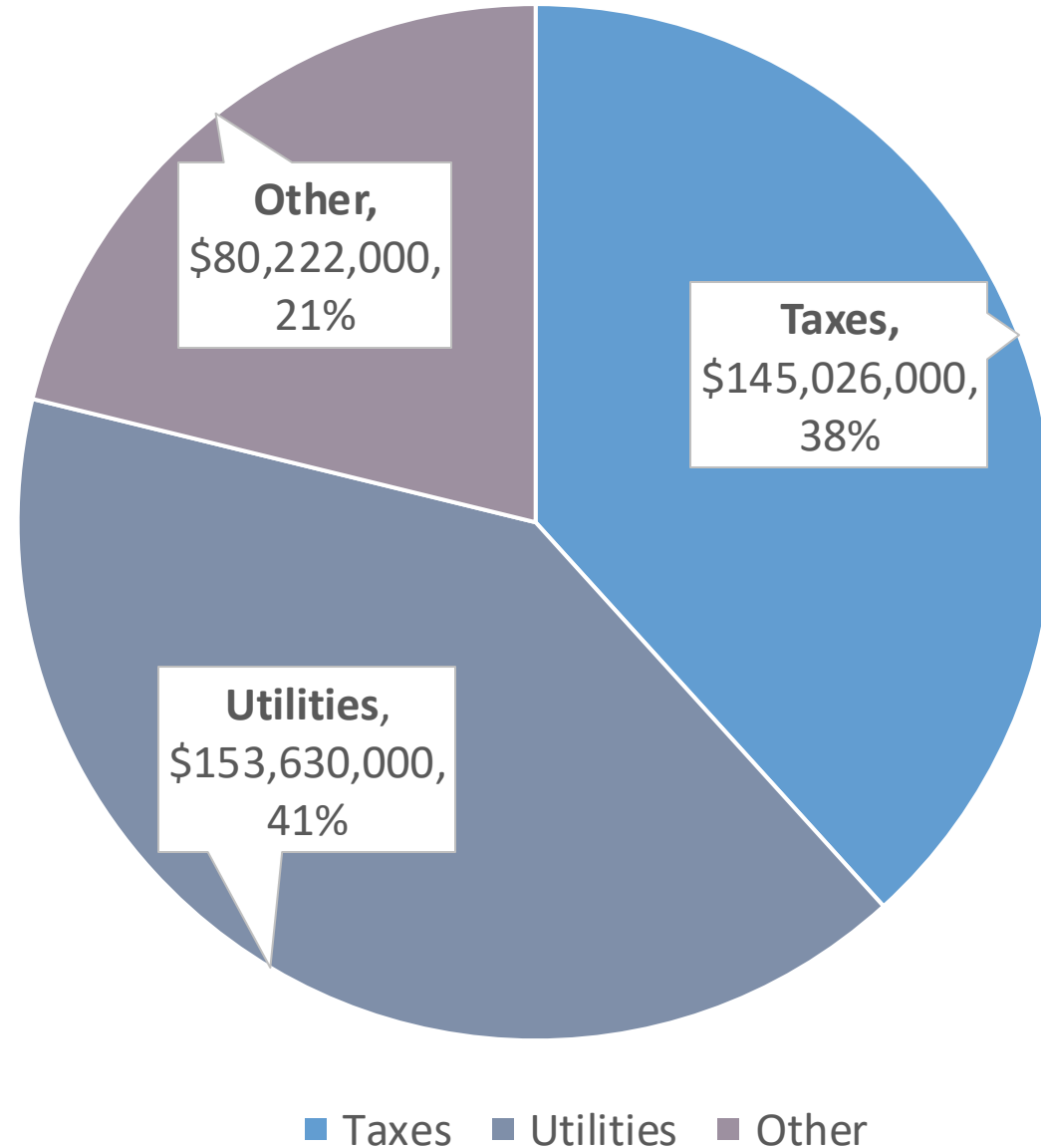
The City has not substantially changed how it governs its utilities, since formation back in 1901.



Utilities and Revenue

How significant from a revenue perspective are utilities to the City?
(Source: 2023 Financial Statements)

2023 Revenue Split



Our Current State

Constraints and Capacity:

- Alternate governance and structure could enable quicker decision-making and help ensure keeping current with constantly evolving regulations and legislation
- There are opportunities to become more future-focused and have investment strategies that address aging infrastructure.
- More focus on business development & promoting optimizations could help better position the utility for growth.
- Optimizing shared services, will generate capacity for a supportive environment

Talent Challenges:

- Other governance models have more flexibility in developing strategies to attract and retain a skilled workforce

Electric Utility Potential:

- The potential for advancements using new technology are tremendous (smart grids, renewables)
- Significant potential to enable growth through collaboration with businesses and other partners.

Our Current State

The business environment
is quickly changing

Toronto planning for doubled electricity demand by 2050

IESO to start public consultations on plan next week



[Ethan Lang](#) · CBC News · Posted: Apr 11, 2024 10:58 AM MDT | Last Updated: April 11

Alberta power market shakeup looms with restructuring on the way by 2027

AESO chief executive Mike Law confirmed his organization has been tasked by the provincial government with drafting the design for a restructured energy market by fall 2024.



CP, The Canadian Press

Published Mar 12, 2024 · Last updated Mar 12, 2024 · 4 minute read

After Calgary's water crisis, a Globe analysis finds trouble brewing in Canada's pipes

Our Current State

Our Many Hats

Private Distribution Company

Decision Making Agenda:
Utilities upgrades and rate setting


City of Red Deer

Decision Making Agenda:

Budget
Safety and Policing
Homelessness and Housing
User fees
Downtown
Utilities upgrades and rate setting
Intergovernmental relationships
Snow and ice
Etc.



**Why is this
important now?**



There are big opportunities!

- ✓ Our product is in hot demand
- ✓ We are one of the few municipalities who own their infrastructure and have these opportunities
- ✓ Opportunity to optimize and leverage this infrastructure
- ✓ Utilities in general and electricity hook up and distribution are draws for economic development



**What are the
governance options?**

What governance models are available?

- Department of Municipality
- Regional Services Commission
- Municipal Controlled Corporation
- Companies Act - Part 9
- Societies Act
- Rural Utilities Act
- Divest Ownership and Franchise

Narrowing the governance models options

- Department of Municipality
- Regional Services Commission
- Municipal Controlled Corporation
- Companies Act - Part 9
- Societies Act
- Rural Utilities Act
- Divest Ownership and Franchise

- Department of Municipality
- Municipal Controlled Corporation
- Divest Ownership and Franchise

Narrowing the governance models options

- Department of Municipality
- Municipal Controlled Corporation
- Divest Ownership and Franchise

Provincial Process Requirements

Department:

- Existing Model




MCC:

- business plan, public hearing, passing authorization resolution, notify Minister, AUC Consultation, unanimous shareholder agreement (if >1 partner)

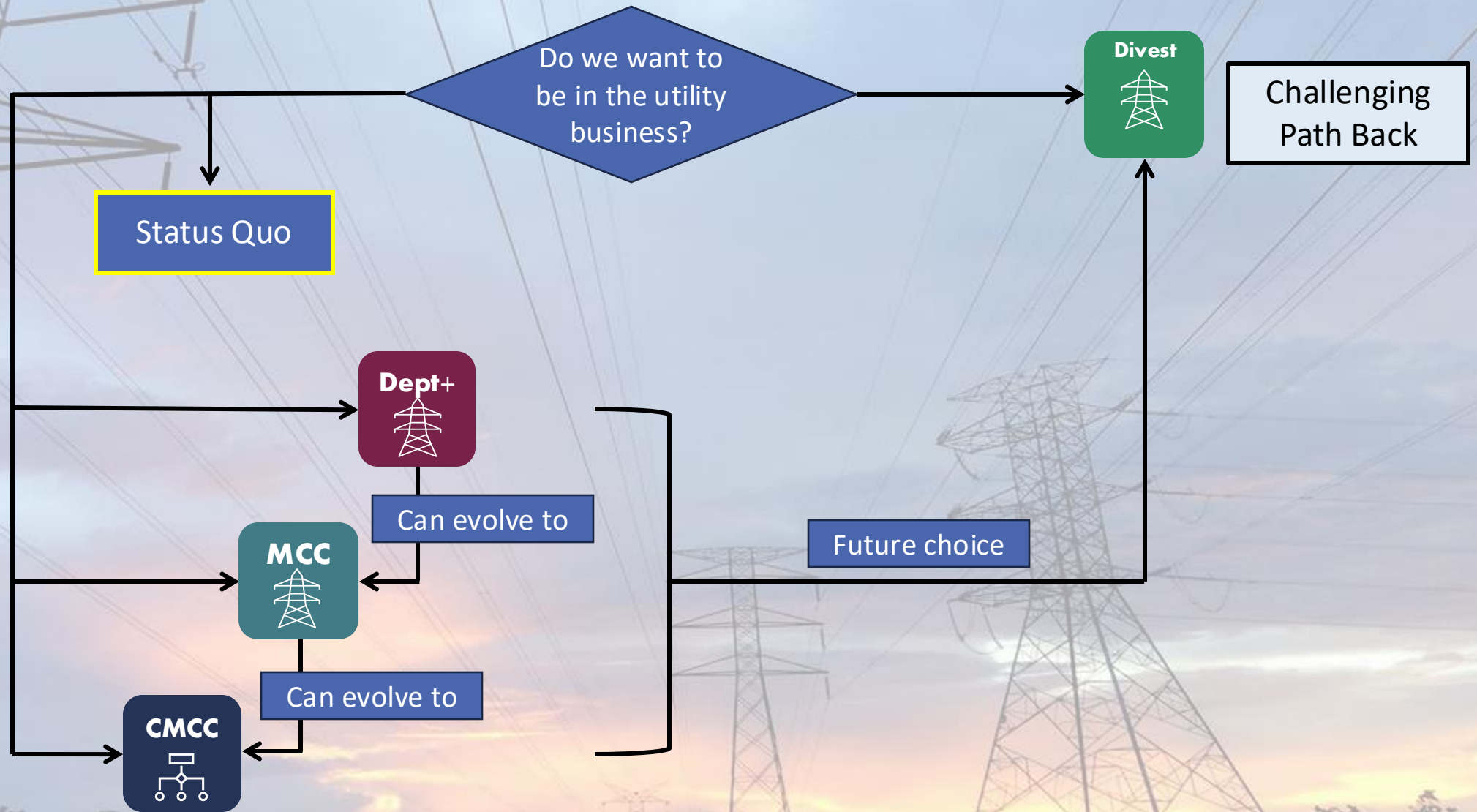
Divest:

- Negotiations, bylaw assigning franchise rights, AUC approval required, can refer purchase price to AUC.

Governance Model Options- The Shortlist

EU Department+ Model	EU Municipally Controlled Corporation (MCC)	EU Divest
		
<p>The EU operates as a department of the City and is regulated by Council, with added improvements and structure changes.</p>	<p>The EU legally separates from the City and becomes its own entity, able to operate under a dedicated Board.</p>	<p>The City sells all EU assets to a third-party company and becomes hands off Many sub-options</p>

Paths To The Future





**How do the governance
options compare?**

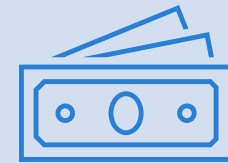
THE COMPARISON FACTORS



CONTROL



PRINCIPLES



FINANCIALS



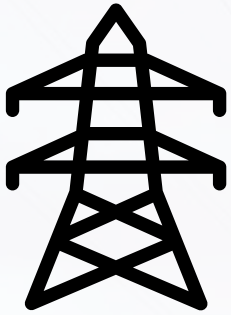
The Control Factor

Structure Impacts Enterprise Capacity and Control



Control and Regulation

Distribution Entity



Decision Maker

- Sets rates
- Plans for infrastructure investments



Regulator

- Approves the rates and infrastructure plans submitted by the Decision Makers



Control and Regulation within EU Models





The Principles

Step B: Define Evaluation Methodology and Framework (continued)

Driven by the City's 2023-2026 Strategic Plan and other City existing relevant policies to the Engagement, five (5) key Principles (themes) were identified to guide the qualitative evaluation process of the options.

Step 2: Defining evaluation Principles

Combining the City team members' experience (working with Council, the community, and operating the utility) with outcomes from *Step 1: Understanding Current State*, five (5) Principles were selected and further refined by Deloitte based on experience with similar projects with other municipalities to derive the evaluation criteria.

STRATEGIC PLAN PRINCIPLES

The following key principles guide the work The City of Red Deer does to implement the 2023-2026 Strategic Plan and City Council's approach to governing the community.

- RESPECT**: Council is committed to creating a working environment where respect is shown to one another, and the citizens served. Building relationships that are grounded in respect, mutual trust and shared goals is needed to work towards a common vision.
- CITIZEN-CENTRIC SERVICE**: Citizens are at the heart of local government. Citizens are confident they receive value for City services. The City is committed to service excellence and efficiency, effectiveness and alignment of services to citizens' needs.
- NEW WAYS OF DOING**: A continued culture of innovation underscores The City's work. Finding new, creative, and efficient ways to serve the public is paramount, which includes exploring new technologies and, in some cases, adapting existing programs and services. It means creating and efficiency.
- FINANCIAL SUSTAINABILITY**: The City takes good care of public dollars. Sound fiscal management is demonstrated in all areas of the organization. The City shows the value the community places on public dollars spent. Financially resilient decision-making.
- FUTURE-FOCUSED**: Council embraces opportunities and challenges while maintaining resilience in the face of difficulties. The organization learns from the community. Constructive criticism is spark inspiration and solutions for today.

INTEGRATED RISK MANAGEMENT FRAMEWORK
MARCH 2017

MARSH RISK CONSULTING

- A Citizen-centric services + respect:** Having a strong socio-economic status in the City is assumed to be key in driving a good quality of life for the City's citizens.
 - Principle 1: Maintaining the socio-economic well-being in the City.** The City's ability to maintain the environmental, cultural, economic, and social well being for its citizens. Such is reflected in the City's Social Policy framework and strategic directions.
- B New ways of doing + future focused:** These two (2) Principles translate to the City's ability to adapt and to proactively manage future requirements under each option.
 - Principle 2: Adapting to future requirements.** The City's ability to manage economic risks and to proactively respond to the industry changes/trends e.g., regulatory changes, technology changes, and innovation.
- C Financial sustainability:** Having a sustainable financial position is assumed to be driven by strong financial decisions leading to stable utilities' rates, and a financially resilient City.
 - Principle 3: Rate competitiveness and resilient decision-making.** The City's ability to make effective financial decisions, manage public funds, and ensure strong fiscal management is demonstrated. This will enable the City to manage current and future needs through strong and sound financial decisions.
 - Principle 4: Ensuring a financially resilient organization.** The impact to the City's financial position and returns as measured through cash flow returns (e.g., annual dividends or lump-sum proceeds from a divestment), realization of potential cost efficiencies, and other revenue opportunities.
- D Integrated Risk Management Framework:** Risk management is an important aspect of every decision-making process.
 - Principle 5: Maintaining a risk resilient organization.** The City's ability to understand and manage risks related to finance, operations, regulatory/compliance, reputation, and strategic considerations; as well as the ability to assess uncertainty and make effective decisions.

Step B: Define Evaluation Methodology and Framework (continued)

Fourteen (14) evaluation criteria across the four (4) Principles were identified to assess the options and determine the potential long-term value to the City. The criteria are designed to reflect the extent to which an option serves each of the Principles.

Step 3: Defining evaluation criteria to evaluate proposed options

Criteria	Qualitative evaluation
Maintaining the socio-economic well-being in the City	<ul style="list-style-type: none"> • Equitable services and access: The City’s ability to provide fair and high-quality service to all citizens. • Resilience: The City’s ability to respond and recover from hazards, emergencies, and crises which impact citizens. • Jobs and wages: The City’s ability to create a range of employment opportunities to provide economic mobility and sufficient wages to citizens. • Economic stability: The City’s ability to provide sufficient capital to support and secure long-term economic stability. • Access to talent (including experienced Board members and management): The City’s ability to attract and retain talent (could include Board). • Citizen accountability and transparency: The City’s ability to ensure the City acts in the citizens’ best interests and maintains transparency with its citizens.
Adapting to future requirement	<ul style="list-style-type: none"> • Responding to industry trends: The City’s ability to respond to current and anticipated industry changes. Continued culture of innovation, finding new, creative, and efficient ways to serve the public, which includes exploring new technologies and adapting delivery of programs and services as required.
Risk resilient organization	<ul style="list-style-type: none"> • Accountability and transparency: The City’s ability to ensure responsibilities are identified and assigned to individuals to measure and manage risk. • Operational risks: The City’s ability to operate/ continue to operate given industry changes, City’s strategic requirements, and the community demands. • Ability to account for risks in decision-making: The City’s ability to embed risk management into the decision-making process while allowing for advancement and innovation.
Rate competitiveness and resilient decision-making	<ul style="list-style-type: none"> • Diversification: The City’s ability to diversify its customer base and scale, and its impact on the utilities bottom line. • Impact on customer rates: The City’s ability to manage the impact to current distribution and transmission rates. • Rate stability and affordability: The extent City will have control over rate setting and its related policy to address affordability concerns. • Financial risks: The City’s ability to manage risks in relation to demand, investment making decisions (investments risks), and financing (financing risks).
Ensuring a financial resilient organization	<ul style="list-style-type: none"> • Access to capital: The City’s ability to raise capital for future investments (e.g., replacement of ageing infrastructure, investments to address industry challenges, etc.) • Cash proceeds to the City: Cash proceeds as measured through dividends or potential sale proceeds (divest only). Consider ongoing and lump sum payment differences as well as potential utilization of any upfront proceeds by the City. • Other revenue/cost consideration: Impact on existing and future revenue/costs to the City from other factors, e.g. shared services or other municipalities.

Options are qualitatively evaluated using the following legend and detailed on slide 33-34:



Step C: Assess Options (4/4)

The Business Models have been ranked according to the criteria and considerations for the City’s Strategic Plan. City to confirm weighting for each criteria to complete overall evaluation of Business Models to proceed.

Evaluation criteria	Maintaining the socio-economic well-being in the City	Adapting to future requirement	Risk resilient organization	Rate competitiveness and resilient decision-making	Ensuring a financial resilient organization
Department Model					
MCC Model					
Divest Ownership					
Consolidated MCC Model					¹

Evaluated on EU only

Evaluation legend²

Relative ability to achieve criteria:

Low High

1. Assessment is limited to preliminary qualitative review at this stage. Further analysis is required to assess the quantitative impact of the model.

2. Ratings were evaluated from the City’s perspective.

Principle Alignment for Analysis

Deloitte Criteria	Concepts Covered	Council EU Principles
Maintaining the socio-economic well-being in the City	<ul style="list-style-type: none"> Equitable services and access, resilience, jobs and wages, economic stability, access to talent, citizen accountability and transparency 	<ul style="list-style-type: none"> Reliable Marketable
Adapting to future requirement	<ul style="list-style-type: none"> Responding to industry trends 	<ul style="list-style-type: none"> Adaptable Responsive
Risk resilient organization	<ul style="list-style-type: none"> Accountability and transparent, operational risks, ability to account for risks in decision making 	
Rate competitiveness and resilient decision-making	<ul style="list-style-type: none"> Diversification, impacts on customer rates, rate stability and affordability, financial risks 	<ul style="list-style-type: none"> Affordable
Ensuring a financial resilient organization	<ul style="list-style-type: none"> Access to capital, cash proceeds to the City, other revenue/cost considerations 	<ul style="list-style-type: none"> Financial Benefit






Weighted Evaluation according to Council Principles for EU

Deloitte Criteria	Maintain Socio-economic Well-being	Adapting to future requirement	Risk resilient organization	Rate competitiveness and resilient decision-making	Ensuring a financial resilient organization	Final Weighted Score
Council Principles	Reliable Marketable	Adaptable Responsive		Affordable	Financial Benefit	
Department Model						5
MCC Model						7.5
Divest Ownership						6
Consolidated MCC Model						6.75



Financial Factors

Governance Options – Impact on City Finances

	Department+	EU MCC	EU Divest
			
Change to Debt	--	↓	↓
Change to Debt Limit	--	↓	↓ 
Final Debt/Debt Limit	--	↑	↑
Change to Annual Dividend Income	--	↑	↓
Change to Annual Shared Services	--	↓	↓ 
Change to Total Annual Revenue	--	↑	↓

And one time payout

¹ Using 2022 FY

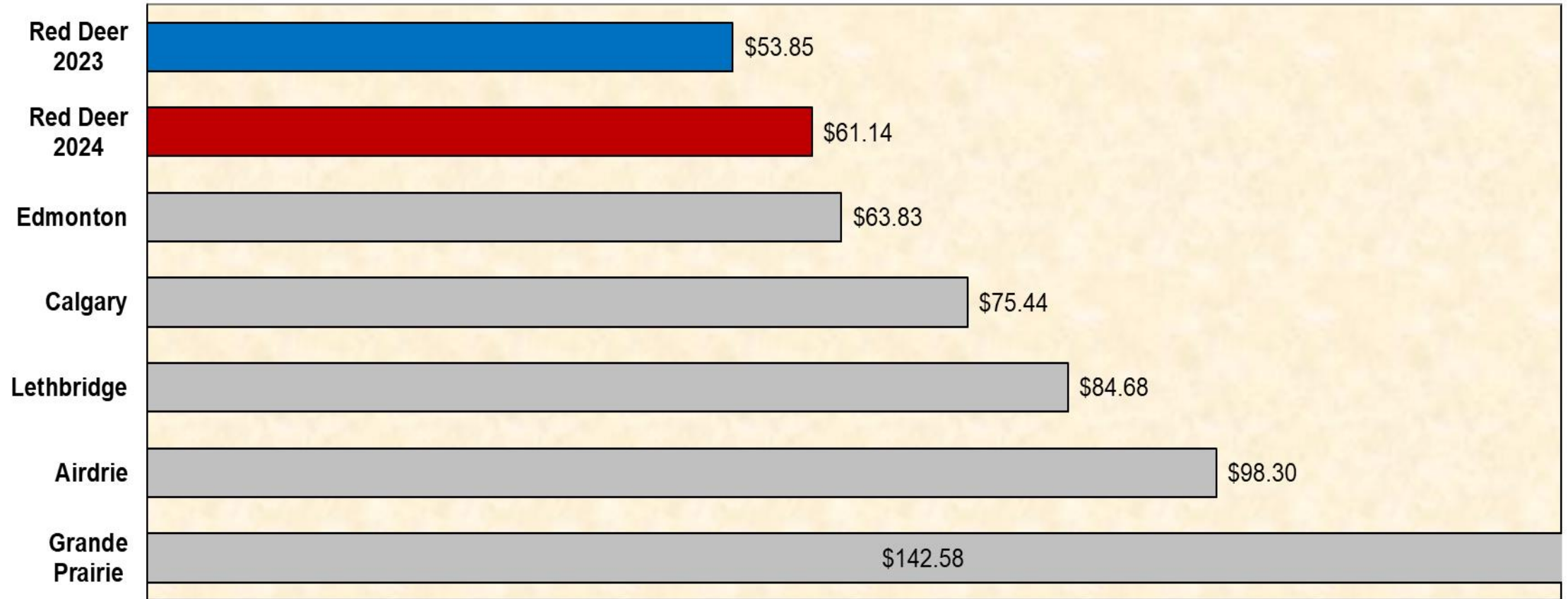
² Using Council Debt limit 75% of MGA limit

³ Impact if EU, W & WM utilities debt and revenue moved to MCC

⁴ Debt limit decreases due to utility revenue move to MCC, increases due to dividend, support costs, and MCAF now revenue not internal transfer

Current Representative Residential Rates

Residential (600 kWh)





**What have we heard
from others?**



The Research: What They Shared



Innovative and Diverse Approaches to Fund Utility Projects



Additional Opportunities to Generate Revenue



Ability to Maintain Political Independence



MCC's are set up in many different ways

MCCs are Set Up in Many Ways



	Epcor	Enmax	Aquatera	Peace Hills	Claystone	Rural Connect	Kingston U	Innisfil U
Council on Board				✓		✓	✓	✓
Municipal staff on Board				✓			✓	✓
Independent BOD	✓	✓	✓	✓	✓	✓	✓	✓
Council Appts BOD	✓	✓	✓	✓	✓	✓	✓	✓
Private Partner BOD				✓		✓		
Board Skill Matrix	✓	✓	✓				✓	✓
Notes	W, WW, Elect	Elect	W, WW, WM	W, WW	WM	Fibre	WW, W,E	W,WW,E

Key Findings from Discussions



Other mid-sized Alberta municipalities are feeling similar tensions.



There will be private sector interest.



Most are satisfied



Regularly evaluating continuous improvement efforts



Summary Risks & Opportunities

Governance Model Options – Opportunities

Department+



Opportunities

- ✓ Lower transition demands
- ✓ The City retains maximum control and remains out of AUC regulatory authority
- ✓ Rates and policy decisions stay with Council

EU MCC



Opportunities

- ✓ Organizational capacity increased
- ✓ Independent, qualification based, utility focused board
- ✓ Decision making stays in the community and can advance according to a *local* board
- ✓ Control via formation documents
- ✓ Increased opportunities to use electricity as a lever for economic growth
- ✓ Potential for greater financial benefit
- ✓ City debt decrease

Divest EU



Opportunities

- ✓ Organizational capacity increased
- ✓ One time cash contribution
- ✓ City debt decrease

Governance Model Options – Risks

Department+



Risks

- × Challenging to keep up with industry sophistication given capacity constraints
- × Struggle to develop business acumen, regulatory awareness, and political independence within board and org structure

EU MCC



Risks

- × Lower City control
- × Requires intensive implementation resources
- × EU MCC would have limited ability to scale which could hamper profitability
- × City debt limit decreased

Divest EU



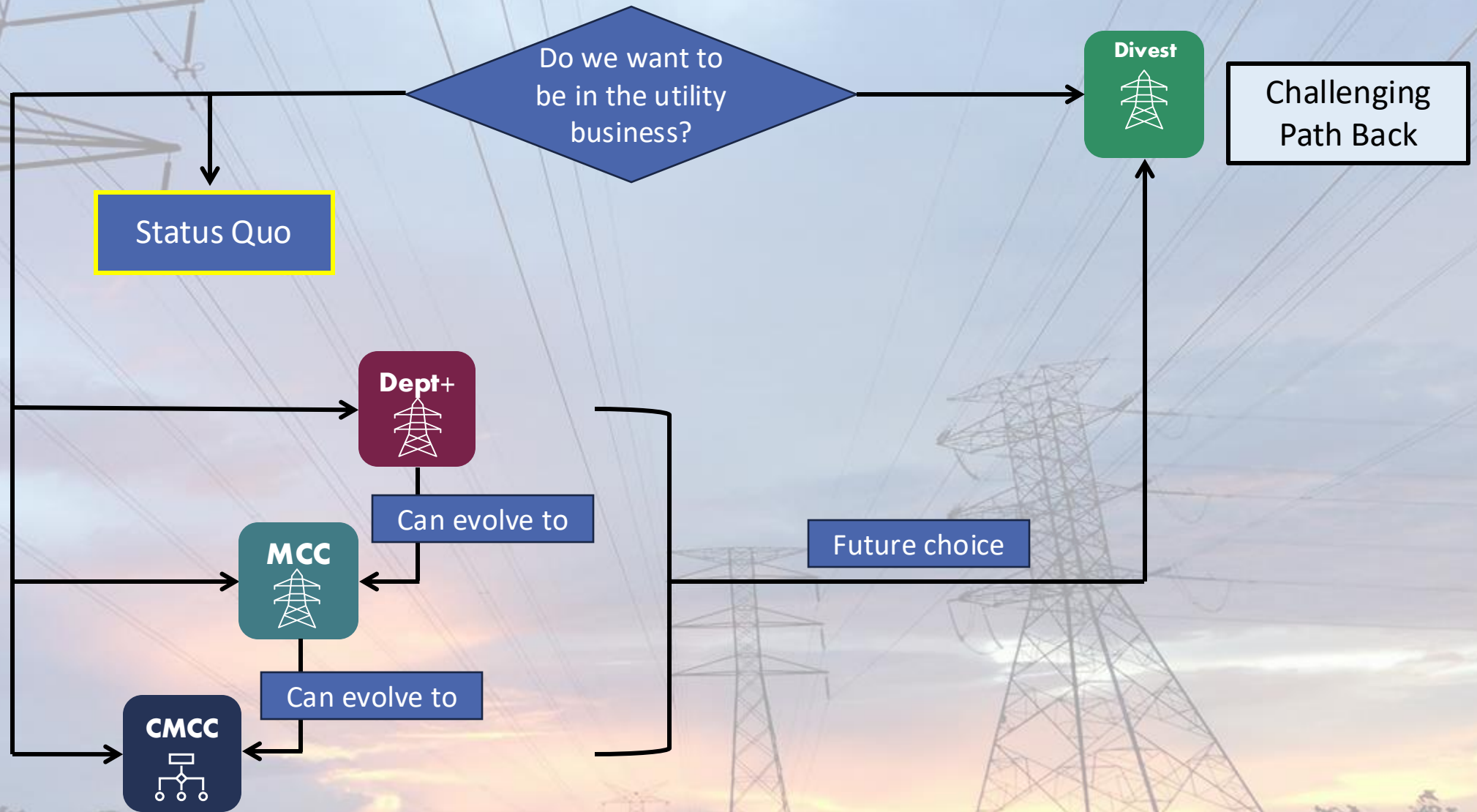
Risks

- × Lowest City control
- × City loses long term dividend income and service sharing
- × We lose localized decision making for electrical distribution and distribution priorities
- × City debt limit decreased
- × Rates dependent on AUC and Owner



Recommendation

Paths To The Future



Recommendation

Council directs Administration to create a transition plan and necessary supporting budget requirements for the establishment of a Municipally Controlled Corporation as a means of further exploring modernization of The City's utility governance models to be presented to Council before the end of 2024.

Why is this the Administrative recommendation?



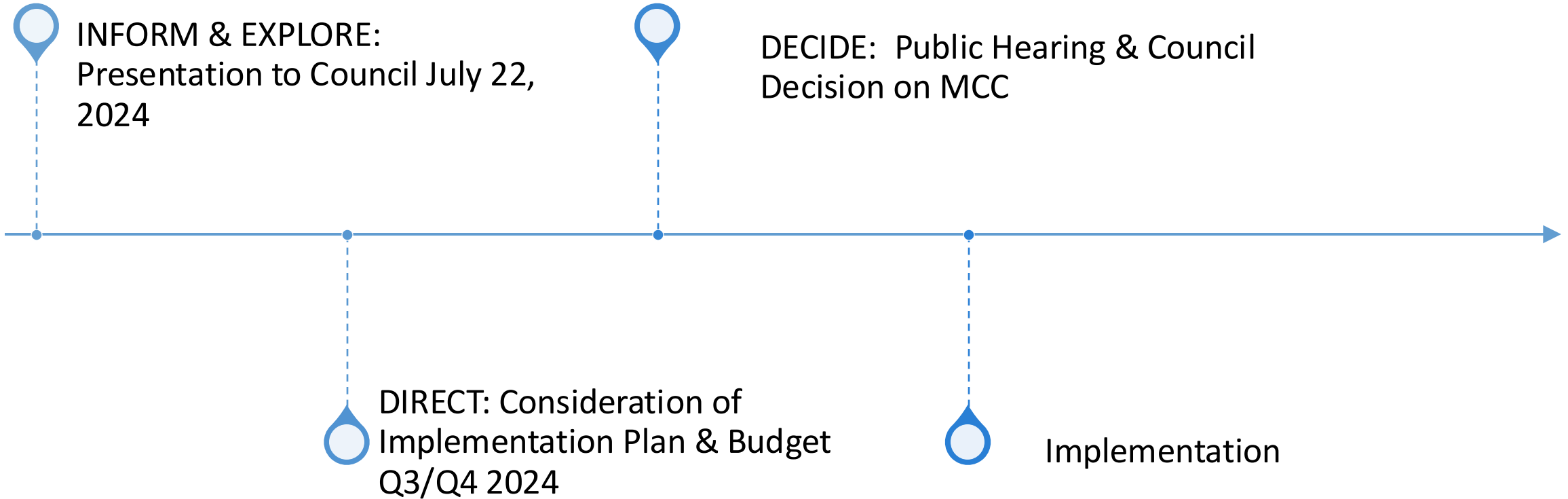
MCC best balances the ability to optimize the Opportunities and lower the Risks.

Moving to MCC provides community control while generating decision-making capacity and expertise.



MCC leaves the most flexibility to adapt to future governance and ownership choices.

Next Steps





Questions?

Electricity Bill



ELECTRICITY

Provided by

DAYS BILLED: 28

RATE
ERFD3

PREVIOUS
READING DATE
47890.000 SEP 16

PRESENT
READING DATE
48452.000 OCT 13

READ TYPE
Actual

SITE ID:
MULT
1.00000

USE(kWh)
562.000

METER #:

New Charges

Electric Energy Charges

Energy Charge

(Sep 16 to Oct 13)

Administration Charge

(Sep 16 to Oct 13)

Delivery Charges - RED DEER

(Sep 16 to Oct 13)

Distribution Charge

Transmission Charge

Balancing Pool Allocation

Rate Riders

Local access fee paid to RED DEER

Summary

562.000 kWh @ \$ 0.066900 / kWh \$ 37.60*

\$ 6.54*

\$ 19.16*

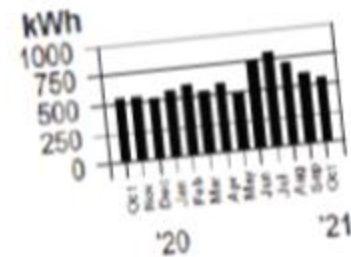
\$ 25.21*

\$ 1.34*

\$ 2.06* CR

\$ 6.20*

\$ 93.99



AV COST / DAY \$3.36

Utility Bill



UTILITY BILL

ACCT NUMBER:
ACCESS CODE:
DUE DATE: Dec 15, 2021

BILLING PERIOD: Oct 16, 2021
TO: Nov 12, 2021
BILLING DATE: Nov 24, 2021



ROUTE: 202

NAME:
FOR SERVICE AT:
ACCOUNT TYPE:

DATE	METER NO.	NO. OF DAYS	CURRENT READING	PREV READING	CONSUMPTION	AMOUNT
Nov 12, 2021		29	560	549	11 M3	98.11
Nov 12, 2021						22.50
Nov 12, 2021						17.60
Nov 12, 2021						19.25
Nov 12, 2021						15.84
Nov 12, 2021						22.92
Nov 15, 2021						-98.11
						98.11

PREVIOUS BILL AMOUNT

- RES 19MM WATER FIXED
- RES WATER USAGE \$1.60/m3 (A)
- RES 19MM WASTEWATER FIXED
- RES WASTEWATER USAGE \$1.60/90% m3 (A)
- RES GREEN & BLUE CARTS.MED BLACK CART (Waste Collection)
- AUTO DEBIT

AMOUNT TO BE WITHDRAWN: