Council Policy
Downtown District Energy Utility Fiscal Policy

Program Impacted	Financial Sustainability *The City of Edmonton's resilient financial position enables both current and long-term service delivery and growth.*
Number	C631
Date of Approval	July 2. 2025
Approval History	n/a
Next Scheduled Review	June 2029

Statement

The Utility supports The City Plan and the Community Energy Transition Strategy by reducing greenhouse gas emissions and increasing energy resilience in the heart of Edmonton.

The purpose of this policy is to ensure:

a. The Utility is operated in a manner that reflects City Council's overall vision and philosophical objectives for the Utility.
b. There is a consistent approach year over year for the financial planning, budgeting and rate setting for the City managed Utility.
c. That the Utility is financially sustainable over the long term.

Similar to private utilities, the Utility will account for the cost of service under a full cost accounting approach. Regulated utility customer charges will be based on cost of service while factoring in the impact of "Business As Usual" (BAU) costs. BAU is, equivalent on average to, what a utility customer would pay, elsewhere in the city of Edmonton, based on estimated avoided costs on related thermal energy utility bills, annual equipment maintenance and capital renewal costs.

Through a phased approach, the Utility is expected to generate a positive net income, cash flow and rate of return that is sufficient to cover current year operating expenses, working capital requirements and to facilitate the funding, rehabilitation and replacement of capital assets. The phased approach will support the Utility in balancing the opportunity of integrating renewable energy sources while ensuring long-term financial sustainability. External funding may be required (including but not limited to tax levy support, provincial/federal grants and increases in regulated utility rates above BAU) if a decision is made to pursue more advanced GHG reduction options than economically sustainable by the Utility alone.

Guiding Principles

1. The Utility is to be operated in a manner that balances the best possible service at a fair and reasonable cost (public utility) while employing utility approaches to rate setting.
2. The Utility will explore potential grants and/or other funding opportunities to address any funding gaps to support the integration of renewable energy sources and to ensure long-term financial sustainability. External funding opportunities could include, but are not limited to, tax levy support, provincial/federal grants and increases in regulated utility rates above BAU.
3. The Utility is exempt from dividend payment to the City of Edmonton.

Utility Rate Setting Principles

1. Customer rates will be understandable, practical and cost-effective to implement.
2. Customer rates will fairly apportion the cost of providing service among customers.
3. Customer rates will be set based on both the short-term and long-term needs of the Utility to ensure they are as stable and predictable year-over-year as possible.
4. Customer rates will provide revenue stability for the Downtown District Energy Utility.
5. Customer rates will promote the efficient use of energy and be set to achieve broader social, economic and environmental goals.
6. Customer rates will be based on the forecast cost of providing Utility services.
    a. In the initial years of operation as the customer base continues to grow, a levelized approach may be used to establish rates and recover the forecast costs of providing service over a longer-term basis.
    b. The under-recovery of costs under the levelized approach in the early years of the Utility's operations will be accumulated in a regulatory deferral account to be recovered in later years when the customer base is more fully established.
7. Regulated utility customer rates, based on the forecast cost of providing service, will be assessed on a regular basis to ensure they remain competitive with other comparable thermal energy utility services options.
    a. The Utility will strive for regulated utility customers to pay at most a comparable fee equivalent on average to what they would pay elsewhere, in the city of Edmonton, based on estimated avoided costs on related thermal energy utility bills, annual equipment maintenance and capital renewal costs. This is also referred to as "Business As Usual" (BAU).
    b. The assessment will take into account the longer-term nature of utility infrastructure being used to provide services to customers, and market fluctuations that may occur annually in

the commodity price of gas and electricity relative to the stable cost of providing thermal energy utility services from the Downtown District Energy System.

Debt Financing Principles

1. Debt financing is only permitted for capital expenditures. Debt will not be utilized to finance operating expenditures.
2. Debt financing will be considered for Capital Expenditures for:
    a. Projects with long-term benefits;
    b. Major rehabilitation or upgrade of existing assets; and
    c. Emerging capital requirements to support utility priorities and strategic plans.
3. The Utility will follow the City of Edmonton's process for debt issuance in accordance with Debt Management Fiscal Policy C203D, including terms of the debt and will be consolidated with City of Edmonton debt in determining the City of Edmonton's position relative to the debt servicing limits within the policy and debt limitations arising from legislation.
4. Debt financing will be utilized in an appropriate manner to balance long-term financial sustainability and intergenerational equity for regulated utility customers.

Financial Indicators

Financial indicators are general measures that need to be interpreted collectively to appropriately assess the Utility's long-term financial sustainability. It may be desirable to have higher or lower results on a short-term basis to balance guiding and utility rate setting principles with long-term financial sustainability.

1. Net Income
    a. The Utility is to generate sufficient revenue to cover annual operating costs, including debt repayment, generally resulting in a positive net income to ensure sufficient retained earnings to support capital growth & renewal needs.
    b. Where net income is not sufficient to ensure long-term financial sustainability, external funding is required to support the financial sustainability of the utility (including but not limited to tax levy support, provincial/federal grants and increases in regulated utility rates above BAU).

2. Cash Position
    a. The minimum cash position required will need to be sufficient to cover:
        i. Pay As You Go funding for forecasted capital expenditures as identified in the Capital Plan.
        ii. Working capital requirements with an allowance for operating risk.

b. The management of the Utility's cash position is the responsibility of Administration, taking into consideration many variables including, but not limited to, current borrowing rates, current and future cash requirements, and the planned capital financing structure (including Pay As You Go funding requirements).
c. Where the Utility's cash position is temporarily insufficient to meet cash flow requirements, the Utility may utilize bridge financing through the City of Edmonton's working capital, with the Utility paying interest at a rate that compensates the City of Edmonton reflecting the Fund Balance from where the cash was drawn. If the Utility does not generate sufficient cash to sustain operations on a permanent basis, external funding is required to ensure the financial sustainability of the utility (including but not limited to tax levy support, provincial/federal grants and increases in regulated utility rates above BAU).

3. Debt Service Coverage Ratio
   a. The Debt Service Coverage Ratio measures the ability of the Utility to meet its debt servicing obligations using annual revenues and is calculated as follows:

$$\text{Debt Service Coverage Ratio} = \frac{\text{Annual Net Operating Income (Net Income excluding interest expense \& Depreciation/Non-Cash Items)}}{\text{Annual Total Debt Servicing (Principal + Interest)}}$$

   b. The minimum baseline target is recommended to be 1.5. Meeting the baseline will ensure that the Utility is earning enough revenue to cover annual debt servicing costs.

4. Debt to Net Assets Ratio
   a. The Debt to Net Assets ratio is a measure of the extent that capital investment is financed through debt and is calculated as follows:

$$\text{Debt to Net Assets Ratio (Non-Contributed)} = \frac{\text{Total Long-Term Debt for Non-Contributed Capital Assets}}{\text{Net Book Value of Capital Assets (Non-Contributed)}}$$

   b. The Utility will aim to maintain a Debt to Net Assets Ratio between 50 per cent and 70 per cent by balancing long-term financial sustainability with intergenerational equity.

Financial Planning

Budget and financial planning will incorporate industry best practices and will 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. The Utility will prepare business plans aligned with the Corporate budgeting and planning process, which will be used to support the Utility's rate filings. The Utility Committee shall recommend to City Council the regulated utility customer rates for the upcoming year(s), based on a long-term planning horizon with budgets that are prepared based on current year forecast, business plan implementation and financial sustainability.

Definitions

Business As Usual (BAU) - equivalent on average to, what a utility customer would pay, elsewhere in the city of Edmonton, based on estimated avoided costs on related thermal energy utility bills, annual equipment maintenance and capital renewal costs.

Capital Assets - tangible capital assets of the Utility meeting the requirements defined under Public Sector Accounting Standard PS3150.

Cash Flow - the ability of the Utility to meet its financial obligations as payments are due.

Capital Plan - a 4-year plan for funding capital infrastructure approved by City Council.

Debt Service Coverage Ratio - a measure of the annual available cash flow for debt servicing of interest and principal payments.

Debt Servicing - annual required debt repayments including interest and principal.

Debt to Net Assets Ratio - a measure of the extent the Utility is financing its net assets through debt.

Dividend - an amount that is payable to the City of Edmonton from the actual net income of the Utility, payable in the following year.

Financial Indicators - a set of financial measures that provide signals on the financial health of the Utility.

Financial Sustainability - achieved when all targets set for the Financial Indicators (as recommended by the Utility Committee and approved by City Council) are attained.

Full Cost Accounting - shall include cost allocation from services provided by the City of Edmonton and may include administration costs, and other shared services such as communications, human resources, information technology, legal, procurement, customer support, fleet, financial services, facility maintenance, custodial services and real estate) and general corporate overhead.

Net Assets - net book value of the Utility's non-contributed capital assets.

Net Book Value - original acquisition costs of capital assets minus accumulated depreciation.

Pay As You Go - the amount of cash required to implement the Capital Plan; annual amount to be funded from operating revenues.

Rate Revenue - revenue generated through monthly customer rates.

Regulated Activities - services provided by the Utility with utility rates that are regulated by City Council.

Retained Earnings - accumulated net operating surplus of the Utility used to support long-term financial sustainability of the Utility, including managing operating risks, long-term liabilities, and capital growth and renewal needs.

Utility - refers to the Downtown District Energy Utility.

References

Public Sector Accounting Standard PS3150 - Tangible Capital Assets