



AGENDA

GAS, POWER AND TELECOMMUNICATIONS COMMITTEE

June 21, 2018, 1:00 PM

LEGAL TRADITIONS COMMITTEE ROOM

Members

Councillor S. Chu, Chair
Councillor D. Farrell, Vice-Chair
Councillor D. Colley-Urquhart
Councillor J. Davison
Chief Financial Officer E. Sawyer
Mayor N. Nenshi, Ex-Officio

1. CALL TO ORDER
2. OPENING REMARKS
3. CONFIRMATION OF AGENDA
4. CONFIRMATION OF MINUTES
 - 4.1 Minutes of the Regular Meeting of the Gas, Power and Telecommunications Committee, Held May 17
5. POSTPONED REPORTS
(including related/supplemental reports)
6. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES
 - 6.1 Industry Update on Electricity, Natural Gas, and Telecommunications, GPT2018-0771
 - 6.2 Status of Outstanding Motions and Directions, GPT2018-0773
Attachment held confidential subject to sections 23 and 24 of the *Freedom of Information and Protection of Privacy Act*
7. ITEMS DIRECTLY TO COMMITTEE
 - 7.1 REFERRED REPORTS
 - 7.2 NOTICE(S) OF MOTION

8. URGENT BUSINESS

9. CONFIDENTIAL ITEMS

9.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

9.1.1 Gas, Power and Telecommunications Mandate, GPT2018-0770
Held Confidential subject to section 23 of the *Freedom of Information and
Protection of Privacy Act*

9.2 URGENT BUSINESS

10. ADJOURNMENT



MINUTES

GAS, POWER AND TELECOMMUNICATIONS COMMITTEE

**May 17, 2018, 1:00 PM
LEGAL TRADITIONS COMMITTEE ROOM**

PRESENT: Councillor S. Chu, Chair
Councillor D. Farrell, Vice-Chair
Chief Financial Officer E. Sawyer

ALSO PRESENT: Acting City Clerk T. Rowe
Legislative Assistant D. Williams

1. CALL TO ORDER

Councillor Chu called the Meeting to order at 1:01 p.m.

2. OPENING REMARKS

Councillor Chu provided opening remarks.

3. CONFIRMATION OF AGENDA

Moved by Chief Financial Officer Sawyer

That the Agenda for the 2018 May 17 Regular Meeting of the Gas, Power and Telecommunications Committee be confirmed.

MOTION CARRIED

4. CONFIRMATION OF MINUTES

4.1 Minutes of the Regular Meeting of the Gas, Power and Telecommunications Committee, 2018 April 19

Moved by Councillor Farrell

That the Minutes of the Gas, Power and Telecommunications Committee held on 2018 April 19, be confirmed.

MOTION CARRIED

5. POSTPONED REPORTS

None

6. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

6.1 Status of Outstanding Motions and Directions, GPT2018-0560

Moved by Councillor Farrell

That, subject to Sections 23 and 24 of the *Freedom of Information and Protection of Privacy Act*, Council now move into Closed Meeting, at 1:03 p.m., in the Legal Traditions Committee Room in order to discuss several confidential matters with respect to the following Reports:

- Item 6.1 Status of Outstanding Motions and Directions, GPT2018-0560
- Item 9.1.1 Summary of Current Proceedings, GPT2018-0559.

MOTION CARRIED

Members of Administration in attendance during the Closed Meeting Discussions with respect to Report GPT2018-0560:

Clerks: T. Rowe and D. Williams: Advice R. Holberton, B. Whyte, K. Hess, S. Russell and S. Mayer

Moved by Councillor Farrell

That with respect to GPT2018-0560 the following be approved:

That the Gas, Power and Telecommunications Committee:

1. Receive this report for information; and
2. Direct that the attachment and Close Meeting discussion remain confidential subject to subsection 23 and 24 of the *Freedom of Information and Protection of Privacy Act*, until all matters referred to in the attachment are completed or resolved.

MOTION CARRIED

7. ITEMS DIRECTLY TO COMMITTEE

7.1 REFERRED REPORTS

None.

7.2 NOTICE(S) OF MOTION

None.

8. URGENT BUSINESS

None.

9. CONFIDENTIAL ITEMS

Committee moved into Public Session at 1:37 p.m. with Councillor Chu in the Chair.

Moved by Chief Financial Officer Sawyer

That the Committee rise and report.

MOTION CARRIED

9.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

9.1.1 Summary of Current Proceedings, GPT2018-0559

Members of Administration in attendance during the Closed Meeting
Discussions with respect to Report GPT2018-0559:

Clerks: T. Rowe and D. Williams: Advice R. Holberton, B. Whyte, K.
Hess, S. Russell and S. Mayer

Moved by Chief Financial Officer Sawyer

That with respect to Report GPT2018-0559, the following be approved:

That the Gas, Power and Telecommunications Committee:

1. Receive this report for information; and
2. Direct that the report, attachment and Closed Meeting discussion remain confidential subject to Sections 23 and 24 of the *Freedom of Information and Protection of Privacy Act*, until three years after the proceedings and any related proceedings are complete.

MOTION CARRIED

9.2 URGENT BUSINESS

None.

10. ADJOURNMENT

Moved by Councillor Farrell

That this meeting adjourn at 1:39 p.m.

MOTION CARRIED

The next Regular Meeting of the Gas, Power and Telecommunications Committee has been scheduled for 2018 June 21.

CONFIRMED BY COMMITTEE ON

CHAIR

ACTING CITY CLERK

**Chief Financial Officer's Report to
Gas, Power and Telecommunications
2018 June 21**

**ISC: Unrestricted
GPT2018-0771
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Industry Update on Electricity, Natural Gas, and Telecommunications

EXECUTIVE SUMMARY

This report summarizes key developments in the electricity, natural gas, and telecommunications industries since 2018 April 19.

ADMINISTRATION RECOMMENDATION:

That the Gas, Power and Telecommunications Committee:

1. Receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

The Gas, Power and Telecommunications Committee has requested that this report be prepared every second month.

BACKGROUND

This report, with its attachment, provides a summary of relevant industry developments and policy issues.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Recent developments in the Alberta utilities industry are detailed in the attachment. Natural gas and electricity markets are analyzed to provide an understanding of energy prices which affect The City's utility costs and franchise fee revenue.

Policy issues in Alberta's regulated utilities and general utility industry developments that could have an impact on The City's interests are reviewed to keep committee members informed of issues that may require future regulatory intervention or impact The City's operations.

Stakeholder Engagement, Research and Communication

N/A

Strategic Alignment

This report is in alignment with the mandate of the Gas, Power and Telecommunications Committee.

Social, Environmental, Economic (External)

This report has been reviewed for alignment with The City of Calgary's Triple Bottom Line Policy Framework. No implications were identified.

Financial Capacity

Current and Future Operating Budget:

This report does not propose a decision and there is no direct budget or business plan implication.

Chief Financial Officer's Report to
Gas, Power and Telecommunications
2018 June 21

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Industry Update on Electricity, Natural Gas, and Telecommunications

Current and Future Capital Budget:

There are no budget or business plan implications arising from this report.

Risk Assessment

No specific risks are associated with this report. Any risks arising from energy utility developments reviewed in the attachment will be addressed in a separate report if required.

REASON(S) FOR RECOMMENDATION(S):

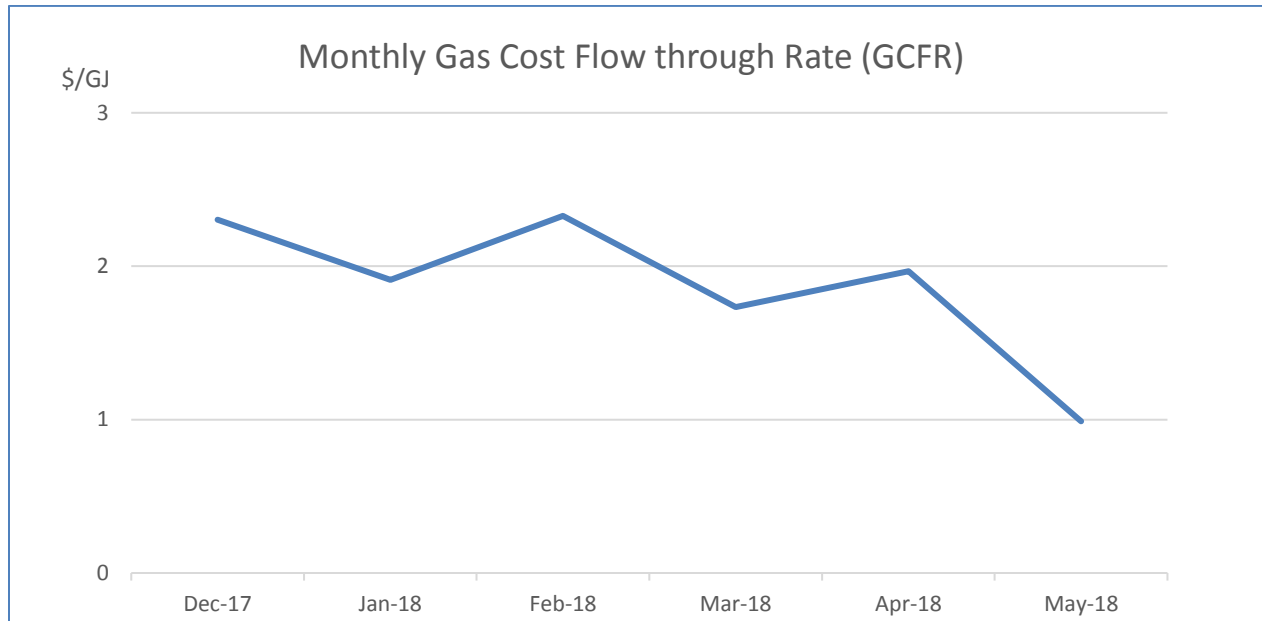
This report provides information to GPT Committee members to assist them in their understanding of regulatory issues that affect The City's interests.

ATTACHMENT(S)

1. Industry Update on Electricity, Natural Gas and Telecommunications.

ENERGY PRICES AND MARKETS**Natural Gas**

The May gas cost flow-through rate (GCFR) was \$0.989/GJ.



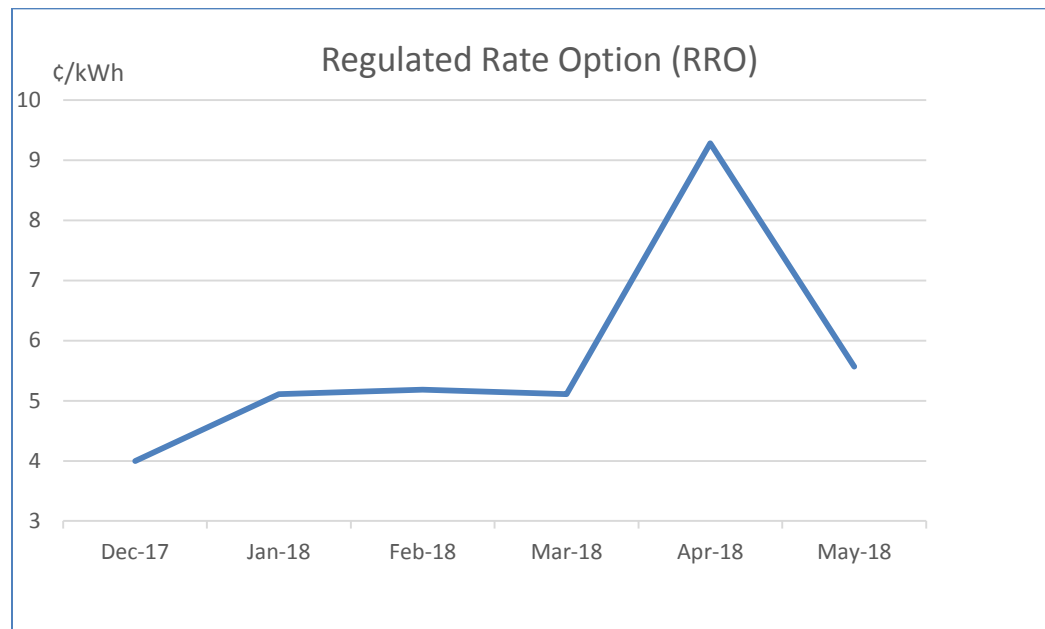
The GCFR price is made up of essentially four components;

1. Deferred Gas Account (DGA) carryover – the variance from the previous month.
May 2018 – \$0.096/GJ
2. Cost of Gas – the weighted average price of gas purchased.
May 2018 – \$0.835/GJ
3. Forecast charge – the approved amount for administration costs.
Fixed at \$0.023/GJ.
4. Return margin – this is essentially the profit for providing the GCFR product.
Fixed at \$0.035/GJ.

The natural gas forward strip shows prices remaining near \$1 all summer.

Electricity

The regulated rate option (RRO) in May was \$55.658/MWh (5.556¢ per kWh).



The RRO is not a flow-through product. RRO products are provided in accordance with an Energy Price Setting Plan (EPSP) which is approved by the AUC. The RRO price is made up essentially of the following bundle of costs;

1. Portfolio price – Essentially a mix of flat and peak priced power procured for the month.
May 2018 - \$51.54/MWh
2. Regulatory Costs – Costs incurred by interveners and the independent advisor in EPSP applications and filings
May 2018 - \$0.148/MWh
3. Various Risk Compensation – RRO providers get compensated for a number of administrative, settlement and market risks
May 2018 - \$0.629/MWh
4. Return Margin and Payment in Lieu of Tax Regulation (PILOT) – PILOT is paid on the Return Margin
May 2018 - \$3.34/MWh

Alberta saw higher prices for the first part of the month as a market response to two TransAlta coal plants being mothballed and a few temporary outages with Genesee and Shepard.

During the first half of May, prices reached triple digits over multiple hours, and for the first time since the Government of Alberta placed the 6.8 cents price ceiling on the RRO, we saw the RRO hit and surpass the cap. RRO customers were protected at the 6.8 cents per KWh with the difference paid by the provincial government.

Alberta Internal Load, averaged 9,925 MW ranging from 8,032 MW to 11,567 MW which is a 5% increase from load in April 2017 and a decrease of 7% from last month.

UTILITY REGULATION

Mothballing

On March 16, 2018, the Market Surveillance Administrator (MSA) filed a complaint about the Alberta Electric System Operators' independent system operator rules Section 306.7, Mothball Outage Reporting.

The Mothball Rule was implemented by the Alberta Electric System Operator (AESO) in 2016 and sets out how and when generators report temporary closures of generating facilities of more than five megawatts for periods up to two years. Sundance #3 (368 MW) and Sundance #5 (406 MW) were mothballed at the end of 2018 March.

In the MSA complaint filed under the Electric Utilities Act, the MSA said it believes the AESO's Mothball Rule does not support the fair, efficient and openly competitive operation of the electricity market, is not in the public interest, and may have an adverse effect on the structure and performance of the market. The concern is that a large generator, with multiple generation facilities, could mothball some generation facilities in an effort to create a supply shortage and thereby manipulate an increase in the market price.

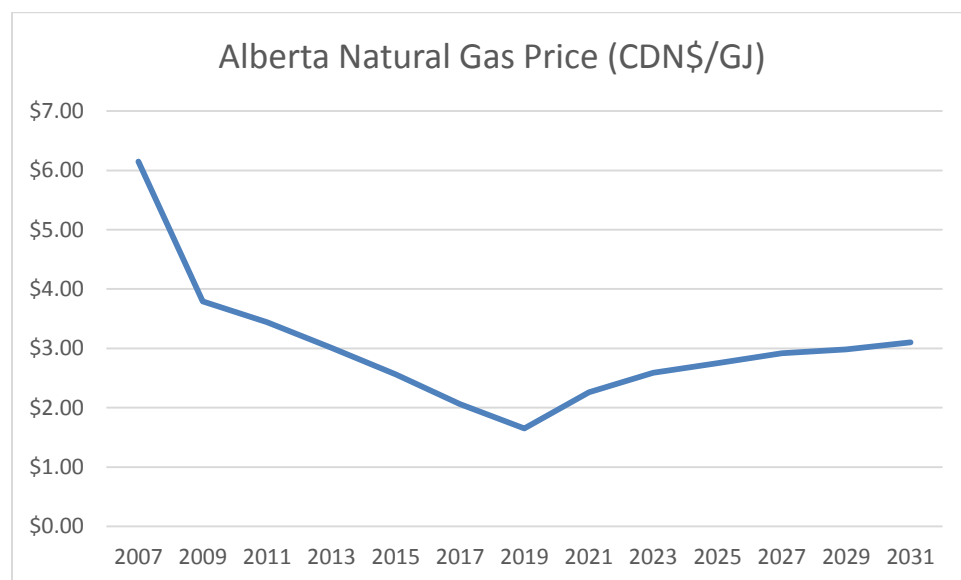
The MSA has asked the AUC to consider the Mothball Rule, and if it is found to contravene the Electric Utilities Act, to either require the rule to be removed, or to amend it to address adverse effects on the structure and performance of the market and to address the public interest.

Interesting not only because of the policy issues involved, but also because the AESO and the MSA are both provincial agencies. The only implications for The City would be the market distortion (high electricity prices) which could occur due to the strategic mothballing by large generators.

Natural Gas Price Woes

Pipeline constraints, seasonal maintenance issues and surging output in Western Canada are all contributing to a compounding problem of low prices for natural gas.

Canadian natural gas producers have been hammered by volatile markets since last summer, with prices in Alberta falling into negative territory at one point due to transportation bottlenecks. Gas pipelines are essentially full and while operators such as TransCanada have proposed expansions to increase shipping capacity out of the province, major additions are at least two years away. The lack of pipeline access and high levels of supply likely mean prices are going to stay low for the foreseeable future. The below forecast price data is from the EDC Associates – 2018 Second Quarter update.



Utility Asset Disposition and Bill 13

Utility asset disposition (UAD) broadly refers to situations where a regulated asset is sold, destroyed or no longer used to provide utility service. The Supreme Court stipulated in a case known as *Stores Block: ATCO Gas & Pipelines Ltd. v Alberta (Energy & Utilities Board)*, that the regulator could not direct that the upside on the sale of land be shared between shareholders and ratepayers.

Stores Block dealt with the power of Alberta's utility regulator (then the Alberta Energy and Utilities Board (AEUB), now the AUC) to direct the disposition of the proceeds received on the sale of utility assets that were no longer required by the utility to provide service. The case involved a non-depreciable asset, land, which ATCO originally acquired in 1922. When it was sold in 2001 there was a significant difference between the value at which the asset was carried on ATCO's books (\$225,000) and the price ATCO received (\$6.25 million). The majority of the Supreme Court of Canada ruled that neither the *Gas Utilities Act*, nor the more general provisions of the *Alberta Energy and Utilities Board Act*, gave the regulator any authority to deal with that upside. The asset was the property of ATCO and the fact that it had been a utility asset did not change that fundamental principle. The AEUB had no authority to direct that the upside be shared between shareholders and utility customers.

The AUC has adopted the logic of *Stores Block* for losses, suggesting that if gains associated with the disposition of utility assets accrue to the utility owner and not customers, then the losses that occur when an asset becomes stranded or is no longer required for utility purposes before it has been fully depreciated, should also accrue to the utility owner.

The utilities do not agree with the AUC interpretation of the UAD issue and have been lobbying the Alberta government to change the legislation. The changes wanted by the utilities would revise the current position that ratepayers are not required to keep the utility whole in the case of assets no longer required to provide utility service. The proposed changes to Bill 13 are not yet complete. On May 23 the Alberta government notified stakeholders that the legislation changes regarding UAD were being removed from Bill 13. The indication from the Alberta

government was that it is unlikely that there will be more discussion on this issue prior to the next election.

**Chief Financial Officer's Report to
Gas, Power and Telecommunications
2018 June 21**

**ISC: UNRESTRICTED
GPT2018-0773
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Status of Outstanding Motions and Directions

EXECUTIVE SUMMARY

This report details the outstanding items for the Gas, Power and Telecommunications (GPT) Committee from the meeting of 2018 May 17.

ADMINISTRATION RECOMMENDATION:

That the Gas, Power and Telecommunications Committee:

1. Receive this report for information; and
2. Direct that the attachment be heard in a closed meeting pursuant to subsection 23(1)(b) of the *Freedom of Information and Protection of Privacy Act*, and remain confidential under 24(1)(a) of the *Freedom of Information and Protection of Privacy Act*, until all matters referred to in the attachment are completed or resolved.

PREVIOUS COUNCIL DIRECTION / POLICY

The GPT Committee has directed that this report be prepared for each meeting.

BACKGROUND

The background to each item listed on the attachment will be provided in a future report or other requested action dealing with that specific issue.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

This report, with attachment, provides a summary of outstanding items for the GPT Committee. There are no alternatives or analyses required.

Stakeholder Engagement, Research and Communication

This report, with attachment, provides a summary of outstanding items for the GPT Committee. There is no stakeholder engagement, research or communication required.

Strategic Alignment

This report is in alignment with the mandate of the Gas, Power and Telecommunications Committee.

Social, Environmental, Economic (External)

This report has been reviewed for alignment with The City of Calgary's Triple Bottom Line (TBL) Policy Framework. No implications are identified.

Financial Capacity

Current and Future Operating Budget:

As the report does not propose a decision, there is no direct budget or business plan impacts.

Chief Financial Officer's Report to
Gas, Power and Telecommunications
2018 June 21

ISC: UNRESTRICTED
GPT2018-0773
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Status of Outstanding Motions and Directions

Current and Future Capital Budget:

As the report does not propose a decision, there is no direct budget or business plan impacts.

Risk Assessment

This report tracks outstanding motions and directions from the GPT Committee to Administration. No specific risks are associated with this report. Any risks associated with a specific direction or motion will be dealt with in the context of a report on that direction or motion.

REASON(S) FOR RECOMMENDATION(S):

This report assists the Committee in tracking the regulatory work of the GPT Committee.

ATTACHMENT

1. Status of Outstanding Motions and Directions