

**MINUTES OF THE REGULAR MEETING OF COUNCIL, HELD IN THE CAO MEETING ROOM, CITY HALL, 141 WEST 14TH STREET, NORTH VANCOUVER, BC, ON
MONDAY, JUNE 1, 2020**

REPORT

13. 2020 Rate Freeze Proposal – File 11-5500-06-0001/1

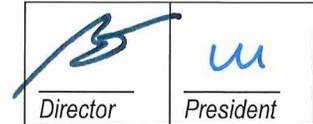
Report: Director, Lonsdale Energy Corp., May 21, 2020

Moved by Councillor Valente, seconded by Councillor Girard

PURSUANT to the report of the Director, Lonsdale Energy Corp., dated May 21, 2020, entitled “2020 Rate Freeze Proposal”:

THAT the Lonsdale Energy Corp. Capacity and Meter Charges remain unchanged until November 1, 2021.

CARRIED UNANIMOUSLY



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REPORT

To: Mayor Linda Buchanan and Members of Council
From: Ben Themens, Director, LEC
SUBJECT: 2020 RATE FREEZE PROPOSAL
Date: May 21, 2020

RECOMMENDATION

PURSUANT to the report of the Director of Lonsdale Energy Corp., dated May 21, 2020 entitled "2020 Rate Freeze Proposal":

THAT the Lonsdale Energy Corp. Capacity and Meter Charges remain unchanged until November 1, 2021.

PURPOSE

This report recommends and provides the rationale for a rate freeze to the company's Meter and Capacity Charges. Lonsdale Energy Corp. (LEC) is seeking Council's support to maintain the rates in place since November 2019 until November 1, 2021. This measure aims to provide stability and certainty to customers in response to the COVID-19 outbreak and the resulting financial impact.

The rate of LEC's Commodity Charge is treated differently from the Meter or Capacity Charge as it is directly associated with the company's cost of purchasing natural gas. The rate is adjusted to follow FortisBC Rate 3 pricing fluctuations.

BACKGROUND

Company History

LEC has been in operation since 2003 following the enactment of Bylaw No. 7575, creating the energy service. LEC currently provides heating and cooling services to 91 buildings, totaling more than 7 million square feet of building area including approximately 6,000 residential units. The four LEC service areas were interconnected during 2019. Interconnection provides LEC with greater flexibility and redundancy for energy service and ability to maximize use of alternative energy sources.

On October 5, 2017, LEC secured a significant source of sustainable energy by entering into an agreement with Greater Vancouver Sewerage & Drainage District to purchase thermal energy by recovering heat from the treated sewage at North Shore Wastewater Treatment Plant (NSWWTP). The plant is currently under construction at Pemberton Avenue and West 1st Street and heat delivery was scheduled for 2020. However, construction delays have postponed the delivery of heat.

Historical Customer Rate Reviews

Since the start of its operations, LEC has endeavored to provide competitive rates to its customers. For the past three years LEC has adjusted both the Meter and Capacity Charges by the Consumer Price Index (CPI) rate of inflation to account for general increases in purchasing costs. Additionally, LEC has increased annually the Capacity Charge by 5% as part of a five-year plan. These increases aim to provide funding to cover the operating costs of recovering heat from the NSWWTP, as well as reimburse the principal of LEC's loans to the City of North Vancouver (the City), including the capital costs to connect to the NSWWTP. A 5% increase to the Capacity Charge is an approximate 3% net increase to the total amount invoiced to customers per year and 15% above the rate of inflation over five years. In consideration of delayed construction and the recent outbreak, the company intended to postpone the increase this year and to resume increasing rates above the rate of inflation once more information is available regarding the commissioning of the NSWWTP.

LEC adjusts its rates on an annual basis on November 1st of each year. The 2019 rate adjustment implemented a rate increase of 2.2% to the Meter and Capacity Charges based on the past year's CPI rate of inflation from Statistics Canada, as well as the 5% increase to the Capacity Charge.

COVID-19 Outbreak

On March 18, 2020 the Provincial government declared a state of emergency in response to the outbreak of COVID-19 and initiated emergency measures in response to the outbreak. The financial impacts of the outbreak and subsequent emergency measures have been significant and far reaching. Many City residents and businesses, including LEC customers, have experienced job loss, income loss or have been forced to suspend or close their business.

In response to the COVID-19 outbreak, FortisBC has offered a relief program to customers, but has yet to indicate any rate changes as a result of the outbreak. BC Hydro has also implemented a relief program for small businesses. The Provincial government has announced that the Carbon Tax increase for April 1, 2020 is postponed

until further notice in response to COVID-19. This increase would have resulted in an increase to LEC's Commodity Charge.

DISCUSSION

Pre-COVID-19 Rate Setting

Before the outbreak LEC was considering an adjustment for the rate of inflation on November 1, 2020, while postponing the planned 5% increase to the Capacity Charge. Based on the change in the CPI All-items index, inflation would have been considered at a rate of 2.2% (the same rate as the previous year). With the delay in construction of the NSWWTP, staff planned to recommend delaying the 5% Capacity Charge increase to another year.

Rationale for the Proposed Rate Freeze

Many LEC customers face significant financial pressures and economic uncertainty in the face of the COVID-19 outbreak. By freezing its rates, LEC can provide some financial certainty and stability to customers for the next 18 months. The company services approximately 6,000 households and 240 businesses in the City who have been affected to varying degrees by the outbreak.

The rate freeze impact on LEC revenue will be absorbed from the NSWWTP related revenue received during the construction delay. A proactive approach was taken by increasing rates evenly over a five year period to reduce the impact on customers. This incremental increase has been implemented over the past three years. While construction costs of the NSWWTP project will increase due to project delay, part of the additional revenue can be used to help absorb the inflationary costs during this rate freeze.

Cost of Service – LEC's Competitiveness in the Lower Mainland

In addition to providing the proposed rate freeze to its customers, LEC continues to provide competitive pricing when compared to other energy providers. The following table provides a comparison of the cost of services of other Lower Mainland district energy providers with LEC, as well as an estimated equivalent cost of natural gas and electricity used for heating purposes.

From May 1, 2019 to Apr. 30, 2020 LEC delivered 66,373,285 kWh of thermal energy and invoiced \$5,476,588 for heating services. This translates into an average energy cost of \$83 / MWh. The table shows LEC as the lowest cost provider of hot water based district energy in the Lower Mainland per megawatt hour. Also, LEC rates are significantly more economical (42%) than using baseboard electric heat (BC Hydro). With a rate freeze LEC will maintain pricing below electricity and other district energy providers.

LEC endeavors to have rates that are fair to both LEC users as well as municipal residents considering the City has invested in LEC and is funding some of its capital costs.

Comparison of LEC rate with other Energy Providers
as at Apr. 30, 2020

Energy Provider	Type of Service	Year of rate	Rate (\$ / MWh)	Difference with LEC
LEC	Hot Water	2020	\$83	-
BC Hydro	Electricity	2020	\$117	42%
Fortis BC	Stand-alone NG Boiler	2019	\$87	5%
UBC Neighbourhood DEU	Hot Water	2020	\$109	32%
River District Energy (East Fraserlands)	Hot Water	2020	\$106	28%
South East False Creek (SEFC/NEU)	Hot Water	2020	\$117	42%
SFU UniverCity Energy	Hot Water	2020	\$125	51%
Richmond Oval Village District Energy	Hot Water	2020	\$100	21%
Surrey City Energy	Hot Water	2020	\$117	42%
PCI Marine Gateway (Heating & Cooling)	Hot Water	2020	\$123	49%

Notes:

- LEC rate is based on revenue and heat delivered for the 12 months ended Apr. 30, 2020.
- BC Hydro cost based on purchase of 50% residential step 1 and 50% residential step 2 electricity price as of April 1, 2020 and includes a rate rider and basic charge. Based on these assumptions the 2020 electric cost would be \$117 / MWh.hr.
- Cost of FortisBC, UBC Neighbourhood DEU, River District Energy, SEFC, SFU UniverCity, Richmond Oval, Surrey City Energy and PCI Marine Gateway were taken from City of Vancouver report dated November 19, 2019.
- Creative Energy Ltd. has been omitted as their systems has historically been steam based.

Forecasted Revenue Losses of a Rate Freeze

LEC estimates revenue losses of approximately \$88,000 by freezing rates. This figure was determined by forecasting revenue with and without an adjustment of 2.2% over the period of November 1, 2020 to October 31, 2021.

LEC has considered this figure in the context of lost income and reduced cash flow and has deemed the impact as affordable for the company.

Outlook: CPI Rate of Inflation

As previously discussed, LEC's rates are adjusted annually at the CPI rate of inflation as reported by Statistics Canada to allow the company to protect its purchasing power. Additionally, revenue generated by the Meter and Capacity Charges is used to help reimburse LEC's debt to the City. The rate freeze will keep LEC's current rates in place until November 1, 2021, however the company will continue to monitor inflation and its impact. A future rate increase will consider the rate of inflation over a period of two years including potential inflation stabilization/deflation resulting from the COVID-19 crisis. The first quarter of 2020 only saw a marginal 0.1% increase in the All-item CPI for

Canada and an annual decrease of 0.2% in April. Based on the economic impact of the COVID-19 outbreak, it is possible that 2020 inflation will be negligible.

Customer Notification

LEC will inform customers in the coming weeks by letter to their elected billing or email address, as well as an information campaign through the company’s website and newspaper advertisements.

FINANCIAL IMPLICATIONS

The financial implications are addressed throughout the report.

SUMMARY

LEC has proposed to freeze its rates to provide stability and certainty to customers in response to the financial and economic impacts of the COVID-19 outbreak. The losses of a rate freeze to the company have been forecasted and deemed to be manageable. On this basis, LEC considers it reasonable to recommend a freezing of its rates until November 1, 2021.

RESPECTFULLY SUBMITTED BY:



Ben Themens, MBA, P.Eng., CGA
Director, LEC