

DATE: 2023-11-20**MEETING: REGULAR COUNCIL****DEPARTMENT: ENERGY, LAND & ENVIRONMENT****REPORT AUTHOR: JOEL HIGGINS, BUSINESS ANALYST & JOSH BARCLAY, ENERGY MARKETING SPECIALIST****ENERGY, LAND & ENVIRONMENT COMMODITY BASED BUSINESS UNIT 2024 BUDGET AMENDMENT****EXECUTIVE SUMMARY:**

Approval of amendments to the 2024 Operating and Tangible Capital Asset Budget for the commodity-based business unit and the natural gas bylaw amendment.

STRATEGIC ALIGNMENT:**INNOVATION****ECONOMIC EVOLUTION****SERVICE ORIENTATION****PARTNERSHIPS & GOVERNANCE****COMMUNITY WELLNESS****RESILIENCY & SUSTAINABILITY****RECOMMENDATION:**

It is recommended through the Administrative Committee that City Council approve the amendments to the 2024 Operating and Tangible Capital Asset Budgets for the commodity-based energy business unit (Comco) as per Attachment #1 & #2 and the natural gas bylaw amendment #4798 as per Attachment #3.

PREVIOUS COUNCIL MOTIONS / DIRECTIONS:

City Council passed the 2023 and 2024 budgets on December 19, 2022.

BACKGROUND / ANALYSIS:**2024 Commodity Based Business Unit Budget Update:**

Business models were reviewed and updated to reflect the most recent commodity price forecasts, emissions compliance requirements, and sustaining capital requirements. Changes in market commodity prices impact a broad category of revenue and expense due to asset optimization strategy deployed and contracts with components tied to market prices. Key changes in revenues and expenses identified include:

- \$30.6M Increase in Electric Generation sales as a result of increases to forecasted energy prices allowing for more economic opportunities to optimize Electric Generation assets.
- \$2.8M Increased carbon emission costs due to changes in legislation and most recently verified emission intensity data.
- \$5.9M Increase in Payment in Lieu of Tax (PILOT) as a result of increased taxable Electric Generation sales.
- \$400K increase in machine maintenance due to scope of work adjustments in Electric Generation
- \$690K decrease in electric energy purchases from the grid due to increased electric commodity prices allowing for more opportunities to economically optimize our assets.

- Gas Production operational costs increase is due to unbudgeted interdepartmental charges in 2023-24 submissions.
- The decrease in forecasted natural gas prices has resulted in a significant decrease in gas purchases, which results in an overall net decrease in Comco expenses of \$20.2M. Decreased natural gas prices have an adverse impact on Gas Production revenue, resulting in a decrease of \$22.1M.
- Decrease Gas Production revenues are partially offset by increased Gas Production volumes due to recompletion and optimization capital programs that were approved in 2022 and 2023 budgets.
- Interest revenue has dropped due to global economic returns and revenue generated from portfolio.

Updates to Commodity Price Forecasts:

COMMODITY	2024 APPROVED BUDGET PRICES	2024 REFORECAST	\$ CHANGES	% CHANGES
Gas	\$4.59	\$3.13	(\$1.46)	-32%
Power	\$77.66	\$90.66	\$13.01	17%

2024 Budget Amendment Impact to EBITDA:

Operating Budget in thousands (,000)	2024 APPROVED BUDGET	BUDGET AMENDMENTS	2024 AMENDED BUDGET	BUDGET CHANGES %
Revenues	\$256,163	\$8,460	\$264,622	3%
Expenses	\$196,311	(\$20,148)	\$176,163	-10%
Transfers	\$5,547	\$2,022	\$7,569	36%
EBITDA	\$54,306	\$26,375	\$80,681	49%

2024 Capital Budget Update:

Additional capital requests total \$500,000 for two sustaining capital projects. These additions are related to existing capital projects approved in the 2022 capital budget that are forecasted to exceed the original budget:

1. Unit 10 Hot Section Replacement: During the work performed in 2023 there were discoveries of equipment that required additional critical maintenance to ensure proper function and longevity of the equipment. Additional spending for these repairs is forecasted to be \$300,000.
2. Fire Protection System Upgrades: The scope of the original project was reviewed due to the age of the study and inflation of prices since the original study. Estimated additional costs of \$200,000 are forecasted as the scope and price of parts has increased since the original study.

INTERNAL AND EXTERNAL ENGAGEMENT CONSIDERATIONS:

Amendments to 2024 Operating and Capital Budgets were developed based on City Council's Strategic Priorities, most notably Resilience & Sustainability; Partnerships & Governance; Service Orientation; and Economic Evolution. Using the most recent forecasts is critical for planning to ensure the City has healthy finances and long-term financial stability, while providing safe reliable energy at affordable rates.

POTENTIAL RISKS / IMPACTS:
Financial:

Funding Request:	No	If yes, amount: N/A
Budgeted Item:	Yes	Funding Source: Working Capital
Funding Explanation:	TCA adjustments are for sustaining capital and will be funded by overall net increase to earnings from proposed 2024 Operating Budget Amendments.	
Budget Amendment Form?	No	

The City of Medicine Hat operates within the commodity business; as such, Council accepts there is a higher risk associated with operating an oil, natural gas, and power enterprise versus the standard *Municipal Government Act's* risk parameters.

Health, Safety and Environmental:

No HSE impacts have been identified as a result of requested 2024 Budget Amendments.

Legal / Legislative / Policy:

The City of Medicine Hat as an operator is subject to the following Acts and Regulations:

- *Oil and Gas Conservation Act*
- *Electric Utilities Act*
- Technology Innovation and Emissions Reduction Regulation (TIER)
- City of Medicine Hat Payment in Lieu of Tax Regulation (PILOT)

PUBLIC PARTICIPATION REQUIRED FOR IMPLEMENTATION:

Public will be informed of 2024 budget update through Council deliberations and final approval of the budget.

INFORM	CONSULT	INVOLVE	COLLABORATE	EMPOWER
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

ALTERNATIVE OPTIONS / PROS AND CONS:

Do not request a 2024 Commodity Based Business budget update and rely on the original approved 2024 budget. This is not recommended as the original budget will not reflect the changing market conditions or updated assumptions.

IMPLEMENTATION PLAN:

Subject to Council approval, the 2024 Commodity Based Business budget update will be implemented with the required changes.

REVIEWED BY & DATE:	Joel Higgins Business Analyst	2023-10-03
APPROVED BY & DATE:	Rochelle Pancoast Managing Director, Energy Land & Environment	2023-10-03
ATTACHMENTS:	1: 2024 Amended Comco Operating Budget 2: 2024 Amended Comco Capital Budget 3: Natural Gas Bylaw Amendment No. #4798	

ATTACHMENT #1
OPERATING BUDGET AMENDMENTS

Operating Budget in thousands (,000)	2024 APPROVED BUDGET	BUDGET AMENDMENTS	2024 AMENDED BUDGET	BUDGET % CHANGES
Revenue				
Electric Generation	171,909	30,610	202,519	18%
Gas Production	84,254	(22,150)	62,104	-26%
Total Revenues	256,163	8,460	264,622	3%
Expenses				
Electric Generation	112,472	(3,760)	108,712	-3%
Gas Production	83,839	(16,387)	67,452	-20%
Total Expenses	196,311	(20,148)	176,163	-10%
Transfers (to)/from Gas Retail	1	104	104	18913%
Transfers (to)/from Electric Retail	(5,546)	(2,127)	(7,673)	38%
Earnings Before Interest, Taxes and Amortization	54,306	26,584	80,890	49%
Interest Revenue	7,327	(1,080)	6,247	-15%
Interest Expenses	(3,606)	190	(3,416)	-5%
Amortization	(18,300)	-	(18,300)	0%
Depreciation/Depletion/Accretion	(9,025)	(270)	(9,295)	3%
Net Earnings/ (Loss)	30,702	25,424	56,126	83%

CAPITAL BUDGET AMENDMENTS

Tangible Capital Asset Budget in thousands (,000)	2024 APPROVED BUDGET	BUDGET AMENDMENTS	2024 AMENDED BUDGET	BUDGET % CHANGES
Sustaining Capital	\$11,150	\$500	\$11,650	4%
Tangible Capital Assets	\$11,150	\$500	\$11,650	4%

BYLAW NO. 4798

A BYLAW OF THE CITY OF MEDICINE HAT to amend Bylaw No. 2489, the Gas Utility Bylaw.

WHEREAS Council considers it advisable to amend Bylaw No. 2489;

NOW THEREFORE THE MUNICIPAL CORPORATION OF THE CITY OF MEDICINE HAT, IN COUNCIL ASSEMBLED, ENACTS AS FOLLOWS:

1. Bylaw No. 2489 is amended as follows:
 - (a) Schedule "A" is repealed and replaced with Schedule "A" attached hereto.
2. This Bylaw will come into force on January 1, 2024.

READ A FIRST TIME in open Council on _____

READ A SECOND TIME in open Council on _____

READ A THIRD TIME in open Council on _____

SIGNED AND PASSED on _____

MAYOR: Linnsie Clark

CITY CLERK: Larry Randle

SCHEDULE "A" TO BYLAW 2489
AS AMENDED BY BYLAW NO. 4798
(Effective January 1, 2024)
GENERAL SERVICE NATURAL GAS RATES (ALL CLASSES)

1. RATE CLASSES

RATE CLASS A - General Service – Core market distribution Consumers using up to 5,000 Gigajoules in one year.

RATE CLASS B - Large Use General Service – Core market distribution Consumers using more than 5,000 Gigajoules in one year.

RATE CLASS C - High Pressure Service – Consumers or third parties who utilize the City's high pressure Gas Distribution System to transport natural gas to their premises.

RATE CLASS D - Wheeling High Pressure Service – Consumers or third parties who utilize the City's high pressure Gas Distribution System to transport natural gas to the Trans Canada Pipeline system.

2. RATES AND CHARGES

The 2024 rates and charges for services provided by the Gas Utility are as follows:

Rate Class	Administration Charge	Distribution Tariff		Commodity Charge	Environmental Conservation Charge	Municipal Consent & Access Fee (MCAF)
		Service Charge	Delivery Charge			
Rate Class A - Residential	\$0.0920 / day	\$0.7650 / day	\$1.399 / Gj	See Note (1)	\$0.90 / Gj - additional charge for gas in excess of 19 Gjs / Mth	See Note (2)
Rate Class A - Commercial, Industrial and other Non-Residential	\$0.0920 / day	\$0.7650 / day	\$1.399 / Gj	See Note (1)	-----	See Note (2)
Rate Class B - Commercial, Industrial and other Non-Residential	\$2.7230 / day	\$18.82 / day	\$0.637 / Gj	See Note (1)	-----	See Note (2)
Rate Class C - High Pressure Service	-----	\$52.13 / day	\$0.261 / Gj	-----	-----	See Note (2)
Rate Class D - Wheeling High Pressure Service	-----	-----	\$0.261 / Gj	-----	-----	See Note (2)

NOTES:

(1) The Commodity Charge payable for the supply of natural gas shall be a per gigajoule (Gj) charge, adjusted monthly, that is equal to the Market Reference Price, which is the weighted average cost of the City's natural gas purchases for the month of consumption, as determined by the CAO or delegate, plus \$0.07/GJ which represents energy procurement charges and a return margin. The Commodity Charge will be published monthly on the City's website.

(a) A Consumer who has elected a contract option (ESPF (firm) or Variable) will be automatically defaulted to the Market Reference Price commencing January 1, 2024. However, prior to February 1, 2024, a Consumer may elect to return to their contract option that was in force immediately prior to January 1, 2024, and shall remain subject to the terms of that contract until the contract term expires. Upon expiry of the contract the Consumer will be subject to the Market Reference Price.

A Consumer is responsible to pay all rates and charges applicable to the Consumer's rate classification.

- (2) The MCAF is a franchise charge set by the City of Medicine Hat to access municipal land to construct, operate and maintain distribution systems serving City customers. The 2024 MCAF is 24.00% of the monthly Distribution Tariff Charge.
- (3) Multiple Unit Residential Development (e.g. fourplex, apartment building, condominium building) served by a single meter will be deemed to be Commercial for purposes of determining the applicable Rate Class.
- (4) Each year prior to December 31, the Gas Utility will determine the Rate Class that will be applicable for the following year. In the case of Rate Class A and Rate Class B, the determination will be based on the total volume of gas consumed by the Consumer from November 1 of the previous year to October 31 of the current year.

In the case of

- (a) a new Consumer who has not consumed gas from the Gas Utility, or
- (b) a Consumer who has consumed gas from the Gas Utility for a period of time less than November 1 of the previous year to October 31 of the current year,

the Gas Utility will decide whether to apply Rate Class A or Rate Class B based on the Gas Utility's estimate of the anticipated customer load.

3. COUNCIL APPROVED RATE ADJUSTMENTS

- 3.1 Notwithstanding any other provision of this Bylaw, Council may pass resolutions from time to time to adjust the rates and charges payable pursuant to Section 2 of this Schedule, in response to changing conditions in the natural gas market.
- 3.2 Without limiting the generality of Subsection 3.1, the requirements of Section 32 of this Bylaw shall not apply to resolutions passed pursuant to Subsection 3.1.

NOTE: WHEREVER APPLICABLE, THE GOODS AND SERVICES TAX SHALL BE ADDED TO THE FEES, RATES, CHARGES OR OTHER AMOUNTS PAYABLE TO THE CITY PURSUANT TO THIS BYLAW (SEE BYLAW NO. 2716).