

CITY OF MEDICINE HAT
Office of the Energy, Land and Environment Managing Director

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September 10, 2024

Medicine Hat Utilities Ratepayer Association
Via Email: sounantha1@hotmail.com

Attention: Sounantha Boss

The Mayor's Office forwarded the Medicine Hat Utility & Ratepayer Association's inquiry, dated September 3, 2024, regarding the City of Medicine Hat's recent announcement expressing interest in the Saamis Solar Park ('SSP'). Since the announcement, and the related public applications into the Alberta Utilities Commission ('AUC'), the City of Medicine Hat ('City') has been working to provide information to the community via a news release, a variety of media interviews, release of the context-supporting Energy Business Strategy, and more. Shortly, a 'Shape Your City' page on the City's website will also offer an additional means of accessing available information. We recognize that the City's interest in utility scale solar adds a new dimension to our history of focusing almost exclusively on gas fired generation, prompting questions from our community.

Given the number of questions you have provided in your letter, for convenience, they are repeated below with respective responses.

- 1. Application - Can you please review for us the process and timelines used in making this monumental decision?**
 - a) When was the proposal presented to Council and when was it approved? Can you please provide the motion and by-law that was passed to make this purchase along with supporting documents?**
 - b) Can you please provide dates and methods used for consultation with the constituents of Medicine Hat?**
 - c) Where is this proposal/costs in the budget? Please provide all years it has been included and associated costs.**
 - d) Was there a cost/risk analysis done? If so can you please provide the report.**
 - e) In considering this option were other projects or options reviewed in comparison?**

For clarity, the City is pursuing the purchase of SSP 'as-is' representing preliminary design, AUC permit (including related approvals), together with additional conditions including, for instance, the AUC's approval of the City's request for ownership transfer. If successful, any existing permits and approvals will transfer to the City, the City will gain the ability to execute a lease with the property owner, and the City will gain other such development benefits. In essence, if the purchase and sale agreement with DP Energy closes, the City gains the right to further develop the project, but any further development will still be subject to budgetary approvals by Council, additional approvals by AUC, etc. This is not yet a build decision but is rather an important step to provide the City an option to do so.

At the April 3, 2023, Open Council meeting, Council approved a \$7M capital budget (sourced from GENCO's working capital) for a Development Project intended to enable the delivery of decarbonization solutions through time –[information located here](#). The minutes of that meeting can be found here [found here](#), including reiteration of the following motion:

(10.5.) Energy Business Development Opportunity

Councillor A. Van Dyke - Councillor R. Dumanowski moved that Council approve a capital budget of \$7M for the Development Project that will enable the delivery of, and/or directly deliver, decarbonization solution(s) over time and a funding source through GENCO's working capital of \$7M.

For: 8; Against: 0; Absent: 1
Voting Against: (None)

Carried

That approval provides the source of funds for the City's ownership interest in SSP. No other budget has been sought or confirmed at this time for any further development / equipment purchase / construction / other, as it would be premature to do so unless and until the City is able to secure ownership of the project.

Since the commercial arrangement with DP Energy is subject to legally binding confidentiality obligations due to commercial sensitivities, Council discussions related to same are protected under FOIP, and public consultation regarding the City's ownership interest has also not occurred. Similarly, analysis related to cost/risk analysis of this project and how it compares to alternate options has not been disclosed apart from much higher-level documentation included as part of Council's public decision referenced above. In circumstances where we are unable to disclose sensitive information to the public, such as this example, staff rely on Council as elected representatives of the public, charged with making decisions on behalf of the best interests of the community.

2. Timeline & Costs - *Can you please outline the timelines and costs moving forward? Please include.*

- a) *Purchase cost including the deemed value of the land to be used.***
- b) *Planned start date, timelines for phases of construction.***
- c) *Anticipated income and costs for the next 5 years.***
- d) *How have the additional conditions been addressed?***
- e) *What consideration has been made for the end of project costs and risks?***

While staff have considered and assessed a number of scenarios assuming the City successfully achieves ownership, it remains premature to discuss specifics as the project still remains under DP Energy's ownership today.

If the City successfully becomes the owner, however, the City intends to lease the property. Build cost, start dates, timelines, forecast income, etc. remain subject to the City becoming the owner, together with subsequent Council and provincial approvals for the intended rescoping of the project. Notably, the City has requested AUC's consideration of the *Electric Utilities Act's* section 95 limitation to allow for the City to consider a first phase build of up to 75 MW. Since that scope differs from the full (and immediate) 325 MW scope that has been approved with DP Energy as the owner, the City would need to pursue permit amendments with the AUC, together with requests of Council for project and related budget approval.

Staff's recommendation for this phase, and any future phase, will stem from detailed analyses of project economics inclusive of capital outlay, any available Incentive Tax Credit, estimates for greenhouse gas credit value, production forecasts and related sales revenue, operating and maintenance cost, sustaining capital, and more. To the extent they are known, end of life project costs are included as part of the financial analysis prior to determining the net present value, internal rate of return and other typical financial health metrics. This analysis is further supported by use of third-party expertise where warranted to ensure best information is factored into an optimized approach.

While the precision of the analysis improves the further along the development of the project (with improving definition of the price for supplies, construction costs and more), there is always a level of risk that the energy business will face (related to commodity price uncertainty, regulatory uncertainty, and more) that will also factor into the decision that Council will be faced with.

3. Relationship to Energy Business Review

MHURA's membership is also asking how a decision to forge ahead with applying for approval from AUC for transfer of ownership of the project fits in with the Energy Business Review? Was this purchase with present and future costs/revenues part of the Review? If decisions of this magnitude do not require presentation of the Review or is not considered important enough to await the Energy Business Review, why is the Review necessary? Please justify why the minor request by MHURA for cancellation of the MCAF Fee (a mere \$5 M yearly intake from its utility accounts) was delayed pending the outcome of the Review?

As noted above, this step for SSP is for the City to achieve ownership of SSP, and to secure the project rights and ultimately the option to pursue the project further, at a scale and pace that makes sense for the City, subject to further regulatory and Council approvals.

The SSP lands represent the best opportunity to place utility scale renewable energy within the City of Medicine Hat (franchise or municipal) boundary. Wind energy requires significant setbacks from the turbines, and solar energy consumes significant space; both are difficult to achieve within an urban setting. These lands represent the primary, if not only, means for the City of Medicine Hat to directly have the option to enter into renewable energy at scale. (It is also worth noting that utility scale solar is materially less expensive per installed MW than rooftop or even community solar).

While it would have been preferable to have the Energy Business Review completed with a decision of Council confirming the direction from here, the City needed to act more urgently to have the opportunity to gain control of the SSP site. Regardless, it is staff's view that successful ownership of the project will not conflict with any of the options being considered by KPMG, nor with Council's ultimate determination regarding those options. The project has value as is and can complement any of the possible scenarios under consideration, and staff believe the same is true with a future construction/operation decision.

KPMG is now aware of the City's ownership interest in the project and of its request for the AUC to consider a first phase build out of up to 75MW. How they choose to incorporate that information at this early stage of our interest in the SSP project remains to be seen; their report and recommendation is expected to come before Council before the end of the year.

You are likely fully aware, but the Energy Business Review stemmed from a combined challenge of both complexity of issues, and a lack of trust from certain stakeholders. The concerns raised during a period of unprecedented electricity prices asked decision makers to respond, but it was important that any decisions be properly informed with a thoroughness of understanding of the complex issues. To achieve public trust in the recommendation, an independent source that was sufficiently equipped to make recommendations on such complex issues was deemed to be the best approach. The interim (best of market) rate was established at that time and remains in place. It is anticipated that rate related decisions will continue to hold until sometime after Council considers KPMG's pending recommendation.

Finally, I'd like to highlight that late last week the Energy Strategy was shared at an open Energy, Land and Environment Committee, and it is scheduled to be presented at an upcoming Council meeting. That Strategy provides important context for past and future City Energy Business, and it also informs why the City is interested in pursuing clean energy. That being said, the City also remains wholly committed to its thermal generating assets, so long as they remain economically viable and compliant with decarbonization requirements. Our Energy Strategy confirms that our objective is to drive value for our community by (1) ensuring delivery of cost competitive, reliable and compliant energy; (2) providing sustainable profits from the Energy Business back to the City, and if not viable, transition to external sources (to achieve #1), and (3) managing the transition risk to protect our taxpayers from shouldering any unintended transition liability.

We trust the enclosed information is helpful in understanding the context of the purchase of the SSP and the next steps should the City be successful in the ownership transfer.

Sincerely,



Rochelle Pancoast
Managing Director, Energy, Land and Environment

copy: Medicine Hat City Council Members
Ms. Ann Mitchell, City Manager, City of Medicine Hat