

NO: R176

COUNCIL DATE: July 25, 2016

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## REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **July 14, 2016**

FROM: **General Manager, Engineering**

FILE: **5514-102**

SUBJECT: **District Energy System Utility (Surrey City Energy)  
Appointment of Expert External Rate Review Panel**

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## RECOMMENDATION

The Engineering Department recommends that Council:

1. Receive this report as information;
2. Appoint Alison Rhodes as the Chair of the Expert External Rate Review Panel for three years; and
3. Appoint both Michael Wilson and Fong Kwok as members to the Expert External Rate Review Panel for two years.

## INTENT

The purpose of this report is to obtain approval for the appointment of three individuals to the district energy Expert Rate Review Panel (the "Panel").

## BACKGROUND

At its Regular meeting on December 12, 2013, Council adopted the recommendations of Corporate Report No. R246; 2013 that authorized the principles and a related methodology to regulate the rates and the rate structure that will be used by Surrey City Energy (SCE), the City's district energy (DE) utility, in relation to its business operations and further authorized staff to proceed with a public Request for Expressions of Interest for the purpose of establishing an Expert Rate Review Panel.

At its Regular meeting on July 7, 2014, Council appointed Robert Hobbs as Chair of the Expert External Rate Review Panel for three years and Alison Rhodes and Michael Wilson as members to the Expert External Rate Review Panel for two years.

The Panel has completed an annual rate review in 2014 and 2015. Each review has included:

- The updating by City staff of the financial model for SCE including proposed rates, rate escalation factor and any other changes to the financial structure of SCE considered necessary by staff;

- The Panel reviewing the updated financial model and the proposed rates and rate structure, submitting an information request for staff and reviewing staff responses to the information request; and
- The Panel preparing a letter of endorsement for the rates and rate structure as proposed in the updated financial model.

Through this process, SCE has been held to a high level of accountability in its stewardship of the utility and related reporting.

## **DISCUSSION**

Although the Chair was originally appointed to the Panel for a term of three years ending in 2017, Robert Hobbs has resigned as Chair citing a potential conflict due to his recent appointment as the president of a private district energy utility operating in the City of Vancouver.

The two-year terms of the two other Panel members have ended.

### **Panel Review and Selection**

Staff issued a public Request for Expressions of Interest which concluded on July 5, 2016. In total, three submissions were received. Two of the three submissions received are from the Panel members whose terms just concluded.

Based on the objectives of the Panel and based on the Expressions of Interest received it is recommended that the following individuals be appointed to the Panel:

- Alison Rhodes, LLB, MBA(as Chair);
- Michael Wilson, P.Eng.; and
- Fong Kwok, CPA, CGA.

A brief summary of each of the recommended appointees' qualifications and experience is attached as Appendix "I".

### **Panel Duration**

In an effort to have a broad and evolving range of experience on appointed panels, a common practice is to stagger the terms of appointments in the formative years of the panel, before commencing an annual rotation of one panel member. It is, therefore, recommended that the Chair be appointed for three years, and the other two members be appointed for two years.

At the end of the term of the two members initially appointed for two years, it is recommended that one new member be appointed for two years, and that all subsequent members are appointed for three years, thereby providing for an annual rotation of one Panel member following the third year of the Panel appointments.

### **Panel Compensation**

Given the unique qualifications and experience of Panel members, it is recommended that a small honorarium be provided. It is recommended that the Chair be compensated \$3,000 per year, and the remaining members be compensated \$2,000 per year. This is consistent with the honorarium provided to Panel members in 2014 and 2015.

## **Surrey City Energy Update**

SCE has made significant progress towards its objectives of developing an integrated DE system focused in City Centre. As the utility grows, there will be opportunities to expand its reach to other neighbourhoods; however, by focusing initial investment in City Centre, risks to the City are minimized.

In April 2014, Council approved the award of the construction of a temporary natural gas boiler plant located at 10357 – 133 Street. The plant has been in operation since late 2014, providing thermal energy service to new buildings in the area west of City Hall. The first building to be serviced by this plant is Rize Alliance’s Wave Project at 13303 - 103A Avenue. Construction is currently underway to extend the DE network to provide thermal energy services to Bosa’s University District development at 13388 - 104 Avenue. Subsequent to completion of this project, the DE network will be further extended to connect Century Group’s 3 Civic Plaza development at 13483 - 103 Avenue and the DE network will be integrated with the City Hall geexchange system, providing renewable low-carbon heat from the ground under the City Hall parkade.

With King George Development’s The Prime development at 13438 - 103 Avenue and Weststone’s Evolve development at 10322 - 133 Street under construction, demand on the DE system will soon exceed the capacity of the temporary energy plant located at 10357 –133 Street. As such, the City is currently engaged in the detailed design of the West Village Energy Centre which will be a permanent facility that will serve as the backbone of the DE system. The West Village District Energy Centre will be constructed on the site of the existing temporary energy plant located at 10357 –133 Street which, upon completion of the permanent facility in 2018, will be relocated to another location within the City Centre to support future growth of the DE system.

In May 2015, Council approved the award of the construction of a second temporary natural gas boiler plant located at 9804 Whalley Boulevard. This plant is required to service new developments in the area around the King George SkyTrain station. A separate DE network has been established in the area and thermal energy services are now being provided to Concord Pacific’s Park Avenue development at 13750 - 100 Avenue. It is anticipated that this plant will be in operation for approximately four years before it is replaced by a piped connection to the West Village Energy Centre.

While the initial phase of the DE system has relied on natural gas, staff are working on plans to integrate various sources of renewable energy over time including Renewable Natural Gas from Surrey’s ReThink Waste Program, heat extracted from the ground using the City Hall geexchange system, heat generated from clean waste wood, and waste heat from buildings and our wastewater collection system. The City’s Sustainability Charter 2.0 includes targets for the amount of carbon based fuel used to heat the DE network and staff are actively working to meet these targets.

## **Next Steps**

The Panel will be convened in the coming months to commence their review which will be completed later this Fall, and will result in a letter of endorsement of the rates and rate structure.

As was done in previous years, staff will be inviting members of the Urban Development Institute and representatives of developers who have active development applications in each Service Area within the Surrey City Centre area to submit questions for the Panel’s consideration.

## **Financial Services Review**

This report has been reviewed by the Finance & Technology Department.

## **SUSTAINABILITY CONSIDERATIONS**

The operation of a DE system in the City Centre supports the objectives of the City's Sustainability Charter. In particular, these acquisitions relate to the Sustainability Charter themes of Built Environment and Neighbourhoods and Infrastructure. Specifically, these actions support the following Desired Outcomes:

- Buildings and Sites DO 11: Surrey is at the forefront of sustainable and restorative building design and technology;
- Buildings and Sites DO 13: Buildings are healthy and energy and resource efficient;
- Buildings and Sites SD 13: Continue to support low carbon district energy networks; and
- Energy and Climate DO9: Energy is produced locally, using distributed and renewable sources when economically feasible.

## **CONCLUSION**

Based on the above discussion, the Engineering Department recommends that Council:

- Receive this report as information;
- Appoint Alison Rhodes as the Chair of the Expert External Rate Review Panel for three years; and
- Appoint both Michael Wilson and Fong Kwok as members to the Expert External Rate Review Panel for two years.

Fraser Smith, P.Eng., MBA  
General Manager, Engineering

JA/JO/clr

Appendix "I" - Biographical Information on Recommended Panel Appointees

## APPENDIX “I”

### **Biographical Information on Appointees to the District Energy System Utility (Surrey City Energy) Appointment of Expert External Rate Review Panel**

#### **Alison Rhodes, LLB, MBA**

Ms. Rhodes has a Bachelor of Arts degree with a major in economics from UBC and a Law degree and MBA from the University of Western Ontario. Ms. Rhodes practiced law for 20 years in Vancouver, specializing in the defence of professionals.

Ms. Rhodes served two three-year Order-in-Council appointments with the BC Utilities Commission (BCUC). Ms. Rhodes chaired or was a member of numerous panels dealing with issues relating to utility applications for Certificates of Public Convenience and Necessity, revenue requirements, rate design, commercial disputes, service agreements and other issues.

Ms. Rhodes served on Surrey City Energy’s Expert External Rate Review Panel in 2014 and 2015. Ms. Rhodes is also currently a member of a three-person panel providing independent advice to the DE utility that services development in the City of Vancouver’s Southeast False Creek community.

#### **Michael Wilson, P.Eng.**

Mr. Wilson is a Professional Engineer with the Association of Professional Engineers and Geoscientists of British Columbia and a LEED Accredited Professional.

Mr. Wilson is Principal of Enerficiency Consulting, providing consulting services in energy and greenhouse gas planning. He has been involved in energy management for over 25 years. Mr. Wilson’s experience includes energy engineering, demand side management, and community energy planning for both municipalities and First Nations.

Mr. Wilson served on Surrey City Energy’s Expert External Rate Review Panel in 2014 and 2015.

#### **Fong Kwok, CPA, CGA**

Ms. Kwok is a Chartered Accountant and Principal of Red Phoenix Consulting Services Inc., providing consulting services for the utility industry in project management, regulatory strategy, capital planning, rate forecasting along with financial evaluation and consultation.

Ms. Kwok held the role of Regulatory Specialist with the BC Utilities Commission, and has served 10 years with BC Hydro in varying capacities including Business Systems Consultant, Financial Services Accountant and Project Accountant.

Most recently, Ms. Fong served as Commissioner and Chair for the City of New Westminster Electric Utility Commission. In this capacity she provided oversight and guidance for the municipality’s proposed District Energy System for the Sapperton neighbourhood.