



IN CAMERA

ADMINISTRATIVE REPORT

Report Date: September 28, 2010
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Meeting Date: October 5, 2010

TO: Vancouver City Council

FROM: General Managers of Engineering Services Group and Business Planning and Services

SUBJECT: City of Vancouver Neighbourhood Energy Utility Expert Rate Review Panel - Appointment Recommendations

IN CAMERA RATIONALE

This report is recommended for consideration by Council in the In Camera agenda as it relates to Section 165.2(1) of the *Vancouver Charter*: (a) personal information about an identifiable individual who holds or is being considered for a position as an officer, employee or agent of the city or another position appointed by the city.

RECOMMENDATION

THAT Council appoint the following individuals to the City of Vancouver Neighbourhood Energy Expert Rate Review Panel:

- Nadine Nicholls for a three-year term ending December 31, 2013 (utility pricing and regulation expert and Panel Chairperson);
- Cameron Lusztig for a two-year term ending December 31, 2012 (green energy expert); and
- Ronald Cliff for a one-year term ending December 31, 2011 (finance expert).

COUNCIL POLICY

There is no Council policy directly applicable to this report.

PURPOSE

This report recommends the appointment of three individuals to the City of Vancouver Neighbourhood Energy Expert Rate Review Panel (referred to in this report as the "Rate Review Panel").

BACKGROUND

On March 2, 2006, Council approved in principle the creation of the Southeast False Creek Neighbourhood Energy Utility (SEFC NEU), to provide space heating and domestic hot water to multi-family residential, commercial, institutional and industrial buildings in SEFC.

In March 2009, Council instructed the General Manager of Business Planning and Services and the General Manager of Engineering Services to report back to Council annually on adjustments to the Neighbourhood Energy Utility rates, and to bring a comprehensive SEFC NEU rate review to Council every five years.

On December 1, 2009, Council instructed the General Manager of Business Planning and Services and the General Manager of Engineering Services to report back to Council with the terms of reference and membership criteria for an expert panel that could enhance the transparency and provide an independent review of the annual rate-setting process for the NEU.

On July 20, 2010, Council approved the implementation of a third-party expert rate review panel to advise staff and Council on future SEFC NEU rate adjustments, as well as the Rate Review Panel Terms of Reference (Appendix A). At this time, Council instructed staff to report back to Council by December 2013 with an evaluation of the efficacy of this Panel.

DISCUSSION

Membership Criteria and Appointment Terms

The Rate Review Panel Terms of Reference (Appendix A) approved by Council in July 2010 articulated the composition and mandate of the Panel. According to these terms of reference:

- **COMPOSITION:** The Rate Review Panel is to be comprised of three individuals, each with a different focus of expertise:
 - *Utility Pricing and Regulation (Chairperson):* Demonstrated expertise and experience in the area of utility finance/pricing, ideally with past experience working for or reporting to British Columbia Utilities Commission or another similar regulatory body.
 - *Finance:* A sophisticated understanding with demonstrated expertise and experience in finance and financial modelling, ideally in the field of utility finance and pricing.
 - *Green Energy:* Demonstrated expertise in the area of renewable energy production and demand management.
- **APPOINTMENT:** Candidates will be recommended to City Council by the General Manager of Engineering Services and either of the General Manager of Business Planning and Services or the General Manager of Financial Services, and City Council will appoint members to the Panel. Staff will make recommendations to Council based on their assessment of each candidates' demonstrated expertise and objectivity, as described in the terms of reference.
- **TERM:** The term of each Expert Panel member is three years. The terms of initial members appointed to the Panel may be varied to create a schedule of staggered term renewals.

The full Terms of Reference, found in Appendix A, also address mandate, potential conflicts of interest and budget for the Rate Review Panel.

Candidates

Through professional networks, staff developed a set of potential candidates who met the criteria described in the Terms of Reference. The City Clerk’s Office issued a call for members via email and post to this initial set of potential candidates. Recipients were invited to apply themselves and/or recommend other individuals for membership. The call was open between September 3, 2010 and September 20, 2010.

The City sent this call to thirty-five people, and received submissions from eleven individuals who wished to be considered for membership (Table 1). The CVs of these eleven candidates are included in Appendix B [...] of this report.

TABLE 1. CANDIDATES FOR MEMBERSHIP,
CITY OF VANCOUVER NEIGHBOURHOOD ENERGY UTILITY EXPERT RATE REVIEW PANEL

CANDIDATE	EXPERTISE
1. [...]	Utility Pricing and Regulation
2. Nadine Nicholls	Utility Pricing and Regulation
3. [...]	Utility Pricing and Regulation
4. [...]	Utility Pricing and Regulation
5. [...]	Finance
6. Ronald Cliff	Finance
7. [...]	Finance
8. [...]	Finance
9. [...]	Green Energy
10. [...]	Green Energy
11. Cameron Lusztiq	Green Energy/Finance

* Late submission.

Recommended Appointments

Staff assessed each candidates’ experience and expertise, based on their CVs and in some cases, on third party references, and recommends that Council appoint the following individuals to the Rate Review Panel: Nadine Nicholls, Cameron Lusztiq and Ronald Cliff. All three candidates live in the Greater Vancouver region, and all three have indicated that they have no conflict of interest per the terms of reference.

Table 2 summarises the recommended appointment terms and associated rationale. It is noted that staff is recommending that going forward, all appointments be three-year terms. These

initial terms are varied to allow for staggered turnover in the Panel membership, in order to ensure some continuity in membership and knowledge transfer over time.

Table 2

[...]

Rate Review Panel Stipends and Budget

Staff estimates the following annual budget for the Rate Review Panel, to be recovered through SEFC NEU customer fees.

TABLE 3. ESTIMATED ANNUAL BUDGET FOR THE
 CITY OF VANCOUVER NEIGHBOURHOOD ENERGY UTILITY EXPERT RATE REVIEW PANEL

COST	ESTIMATED ANNUAL AMOUNT	NOTES
Member Stipends	\$7,000	\$3,000 for the Chair and \$2,000 for others
Reimbursements	\$500	Reimbursement of members' direct expenses
Meeting Expenses	\$500	Estimated four meeting per year
Contingency	\$2,000	
Total Annual Budget	\$10,000	To be recovered through SEFC NEU customer fees

FINANCIAL IMPLICATIONS

The cost of operating the Rate Review Panel described in this report is estimated to be \$10,000 annually. These costs will be funded through SEFC NEU customer fees, and as such will not impact the City's operating budget.

CONCLUSION

Staff recommends Nadine Nicholls, Cameron Lusztig and Ronald Cliff be appointed to the City of Vancouver Neighbourhood Energy Utility Expert Rate Review Panel, for three-year, two-year and one-year terms respectively. All three candidates have extensive experience and expertise in the utility industry, and meet the criteria established in the Council-approved Terms of Reference for this Panel.

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**APPENDIX A
CITY OF VANCOUVER NEIGHBOURHOOD ENERGY UTILITY
EXPERT RATE REVIEW PANEL TERMS OF REFERENCE
APPROVED BY VANCOUVER CITY COUNCIL: JULY 20, 2010**

1. Objective and Scope

This Neighbourhood Energy Utility (NEU) Expert Rate Review Panel (referred to as the “Expert Panel” in these Terms of Reference) is established by Vancouver City Council, with the objective of advising City staff and City Council on the annual establishment of user rates for the NEU in Southeast False Creek and for any other areas of the City where City managed neighbourhood energy utility services are be provided.

This Expert Panel provides objective, expert advice to the City to ensure that the rate structure and annual rates for the NEU are consistent with Council’s approved rate setting principles (reference Section 8), within the long-term levelised rate structure established by City Council for the NEU (reference Council report on NEU Rates March 2009, RTS7292).

The scope of the Expert Panel’s rate review would include the following factors used to establish annual rates for the NEU:

- long-term forecasted cost inputs, including forecasted fuel costs and the NEU’s cost of capital, including debt charges and return on equity premiums,
- revenue forecasts,
- the rate escalation factor that underlie the levelised rate structure, and annual inflationary rate increases,
- rate stabilization reserve requirements, and
- comparisons of the NEU rates to other appropriate energy benchmarks to evaluate competitiveness.

The Expert Panel will also review staff’s recommendations concerning any changes to the fundamental rate structure and design that may arise out of the comprehensive rate review Council has instructed staff to undertake every five-years.

Upon completion of the rate setting process each year, the chair of the Expert Panel will deliver a letter to communicate the Panel’s objective opinion on the proposed rate adjustments, attached to the appropriate staff report to Council. The chair of the Expert Panel may also attend the annual City Council meeting at which the NEU rates are approved.

2. Selection Criteria for the Expert Panel

The Expert Panel has three members. The selection criteria for the Expert Panel are:

EXPERTISE: The Expert Panel shall have within its membership a variety of expertise to ensure a balanced review process. Expertise should be divided amongst Expert Panel members as follows:

- Utility Pricing and Regulation (Chairperson): Demonstrated expertise and experience in the area of utility finance/pricing, ideally with past experience working for or reporting to British Columbia Utilities Commission or another similar regulatory body.
- Finance: A sophisticated understanding with demonstrated expertise and experience in finance and financial modelling, ideally in the field of utility finance and pricing.
- Green Energy: Demonstrated expertise in the area of renewable energy production and demand management.

OBJECTIVITY: Each Expert Panel member must be able to carry out the work objectively, have the demonstrated ability to make complex decisions that equitably balance the interests of various stakeholders, and be perceived as a credible, objective expert. In the interest of avoiding any conflicts of interest, Expert Panel members should not be:

- an employee of the City of Vancouver,
- an elected official for the City of Vancouver,
- a customer of the NEU,
- an employee or major shareholder of a competing energy utility, or
- in any position or role that would be perceived as a conflict of interest as related to
- the responsibilities described in these Terms of Reference.

3. Selection Process and Membership Term

Candidates for Expert Panel Membership will be recommended to City Council by the General Manager of Engineering Services and either of the General Manager of Business Planning and Services or the General Manager of Financial Services. Recommendations will be made based on each individual's demonstrated expertise and objectivity, as described in Section 2. City Council is responsible for appointing members to the Expert Panel.

The term of each Expert Panel member is three years. The terms of initial members appointed to the Panel may be varied to create a schedule of staggered term renewals.

4. Primary Liaison with City Staff

The City of Vancouver's NEU Manager will be the primary liaison between City staff and the Expert Panel, and will provide administrative support to the Expert Panel as needed.

While the primary liaison will be with City staff, the Expert Panel's final recommendation letter goes direct to City Council attached to the annual staff rate report.

5. Budget

At the time of Expert Panel appointment, Council also approves the budget and stipend for the Expert Panel. All expenses submitted by the Expert Panel members will be reviewed and

approved by the General Manager of Engineering Services, or designate, provided that the expenses are within the approved budget.

6. Approved Rate Setting Principles

On December 14, 2006, Council approved the following rate-setting principles for the NEU. These principles are used as guidelines for further rate adjustments.

1. That NEU rates are structured so as to recover the following costs incurred by the City, based on forecasted costs:
 - i. all direct operating costs associated with the NEU,
 - ii. all debt service and repayment costs associated with the NEU,
 - iii. the share of City administrative overheads that are attributable to the NEU,
 - iv. property taxes and/or payments-in-lieu of property taxes, as appropriate,
 - v. a reserve fund for NEU rate stabilization,
 - vi. an appropriate level of compensation for the risks and liabilities assumed by the City associated with the ownership and operation of the NEU, and
 - vii. credits for any benefits provided by the NEU to City taxpayers (e.g., contribution to corporate GHG reductions goals), as determined by Council.
2. That NEU rates fairly apportion the aforementioned costs among customers of the NEU.
3. That NEU rates be understandable to customers, practical and cost-effective to implement.
4. That at least two separate rate classes (commercial and residential) be established to distinguish different types of NEU customers, with rates reflecting each class's proportional contribution to total costs.
5. That, where feasible, NEU rates provide price signals that encourage energy conservation by NEU customers.
6. That the methodology for calculating NEU rates provides year-to-year rate stability for NEU customers to the greatest extent possible.
7. That the methodology for calculating NEU rates provide year-to-year revenue stability for the City to the greatest extent possible, and include the use of a rate stabilization reserve similar to that used by the City for other utility operations.
8. That rates be updated by Council annually based on forecasted costs, and adjusted to reflect any deviation from target levels of reserves, with annual rate changes requiring review and approval by Council followed by enactment of the necessary amendments to the NEU by-law.

APPENDIX B

CITY OF VANCOUVER NEIGHBOURHOOD ENERGY UTILITY
SEPTEMBER 2010 APPOINTMENTS

CANDIDATE	EXPERTISE
1. [...]	Utility Pricing and Regulation
2. Nadine Nicholls	Utility Pricing and Regulation
3. [...]	Utility Pricing and Regulation
4. [...]	Utility Pricing and Regulation
5. [...]	Finance
6. Ronald Cliff	Finance
7. [...]	Finance
8. [...]	Finance
9. [...]	Green Energy
10. [...]	Green Energy
11. Cameron Lusztiq	Green Energy/Finance

CANDIDATES' CVs

[...]