

DATE: 2023-12-04**MEETING: REGULAR COUNCIL****DEPARTMENT: ENERGY, LAND & ENVIRONMENT
MANAGING DIRECTOR'S OFFICE****REPORT AUTHOR: ROCHELLE PANCOAST,
MANAGING DIRECTOR, ENERGY, LAND &
ENVIRONMENT****COMCO STRATEGIC REVIEW****EXECUTIVE SUMMARY:**

An update related to the COMCO Strategic Review RFP CMH23-113.

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

It is recommended through the Administrative Committee that City Council receives this Briefing Note for information.

PREVIOUS COUNCIL MOTIONS / DIRECTIONS:

At the September 5, 2023 City Council Meeting, Council approved a recommendation directing staff to convene an independent (third-party) review of the City of Medicine Hat (CMH) COMCO business unit to confirm overall strategic approach to ensure best value for the community, with a milestone check-in by December 4, 2023.

BACKGROUND / ANALYSIS:

In November 2022, staff presented slightly modified and expanded options for City of Medicine Hat retail energy products for Council's consideration. In addition to usual revisit and review, the adjustments were intended to allow greater customer choice, and also more frequent fixed price product 'resets' (to avoid the widening gap that had been experienced between fixed price products and the provincial market, just prior to the change). Those options were later approved and embedded into the respective utility bylaws, effective January 1, 2023.

In the summer of 2023, many customers became exposed to record level electricity prices after earlier fixed price contracts expired. Although the prices were the same as what the rest of the province was facing, the local price shock created both significant frustration and affordability issues for a material share of the electrical customers. The concerns also sparked questions from the community surrounding the growing profits being collected by the City's commodity business (COMCO).

In response, on September 5th, Council approved a 3-step approach:

- Immediate approval of a \$33 million cost pressure relief program for residents and small businesses, with payouts starting September 18th, 2023 and continuing into November 2023.

- Direction to establish ‘best of market’ interim electricity rates; first reading of the bylaw effecting the new rates occurred on October 3, and was subsequently passed with rates effective November 1, 2023.
- Direction to revisit the ‘behave as a business’ philosophy of the energy business (COMCO), with a focus on electricity (GENCO) – as specifically noted under the Previous Council Motions/Directions above.

The approach was meant to address the immediate affordability need, provide a compromise approach to rates in the short to medium term and to complete the due diligence necessary to inform any change to the business philosophy with implications for longer term direction.

The first two steps have been implemented. The remaining step, the COMCO review (with a focus on GENCO), is now underway starting with the search for a 3rd party vendor.

The COMCO review will require:

- Vendor selection through an extended Request For Proposal (RFP) procurement process (more details below).
- Vendor completes the required work and provides recommendations.
- Council direction on preferred philosophy/related approaches.

That being said, it is anticipated that further but currently undefined steps will be required in order to fully implement any change to the COMCO philosophy, including:

- Further design / analytics and recommendations for specific elements within the preferred philosophy (e.g. dividend policy, energy rate design, etc.).
- Full implementation to effect the phased Council direction.

The scope of this briefing note pertains to the selection process and the related vendor scope of work needed to satisfy Council direction from September 5, 2023.

Vendor timeline:

The RFP was posted on November 10, 2023.

The following deliverables were included in the RFP:

- November 27, 2023 – Virtual Presentation and Q&A (not usually required but offered in this case given additional complexity of the scope of work).
- December 21, 2023 – RFP Closes (extended beyond the standard 3 weeks given the additional complexity of the scope of work).
- January 4, 2024 – Top 3 Proposals Selected for Presentations (not usually required but included in this case given additional complexity and degree of multi-disciplinary expertise required).
- January 25, 2024 – Award notices issued and Consulting Agreements signed.
- February 2, 2024 – Work to commence.
- December 31, 2024 – All deliverables completed, or earlier based on submission timelines.

The proposed scope and process is as follows:

- Current state confirmation
- PESTLE/SWOT analysis (of key trends)
- Identify model options (across ownership, governance, financial, rate design, etc.) and related pros/cons, backed by appropriate analytics
- Identify logically consistent groupings of the various options within business model categories
- City specific analysis of the groupings
- Recommendation including preliminary implementation plan – provided in a report, and council presentations (including a confidential report and in camera presentation if appropriate in accordance with *Freedom of Information and Protection of Privacy Act*).

The City has proposed the above approach but is open to learning about any alternate approaches that the vendor(s) may have had past success with. Similarly, the City has proposed that the process includes a kick-off meeting, review of each of the above stages for quality assurance, delivery of a final report, plus delivery of a presentation(s) to City Council but is open to learning about any alternate approaches that the vendor(s) may have had past success with.

Staff have proposed a multi-disciplinary internal team to assist with review of the RFP submissions, to provide City data and information to the selected vendor, and to support quality assurance reviews.

RFP evaluation is proposed to be based on:

- 65% competency, split cross a variety of expertise areas
- 20% pricing
- 15% timeline (the faster the better, all else equal / without compromising quality)

INTERNAL AND EXTERNAL ENGAGEMENT CONSIDERATIONS:

The RFP was posted on November 10, 2023 and closes on December 21, 2023.

POTENTIAL RISKS / IMPACTS:

Financial:

Funding Request:	N/A	If yes, amount: N/A
Budgeted Item:	N/A	Funding Source: N/A
Funding Explanation:	N/A	
Budget Amendment Form?	N/A	

The amount of funding required to complete this initial COMCO review is not yet known and won't be known until completion of the Vendor procurement process. Staff anticipate being able to access an existing strategic / contingency fund to complete this work. If those funds are insufficient, a budget amendment will be required before proceeding.

Health, Safety and Environmental:

There are no impacts as this is an administrative matter.

Legal / Legislative / Policy:

The RFP was issued in accordance with the CMH Procurement Policy No. 0173.

PUBLIC PARTICIPATION REQUIRED FOR IMPLEMENTATION:

The RFP was issued in accordance with the CMH Procurement Policy No. 0173.

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:

N/A

IMPLEMENTATION PLAN:

As described in the Background / Analysis section in this report.

APPROVED BY & DATE:	Rochelle Pancoast Managing Director, Energy, Land & Environment	2023-11-27
ATTACHMENTS:	None	