

## **A G E N D A**

### **SPECIAL MEETING OF COUNCIL MONDAY, FEBRUARY 16, 2015 AT 3:00 PM IN THE CITY HALL COUNCIL CHAMBERS**

#### **PRESENT:**

#### **A. APPROVAL OF AGENDA**

1. Call to Order and Adoption of Agenda.

#### **B. DELEGATION**

1. **Stephen Salter, Farallon Consultants Ltd.**

In attendance to provide an update on the proposed District Energy Project.

A report from the Economic Development Manager dated February 16, 2015 is also provided summarizing progress to date and outlining options and a recommendation for Council's consideration.

#### **C. OTHER COMPETENT BUSINESS**

#### **D. ADJOURNMENT**

*That the meeting adjourn at      pm.*



## CITY OF PORT ALBERNI

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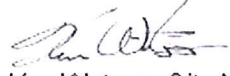
### ECONOMIC DEVELOPMENT MANAGER REPORT

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TO: Ken Watson, City Manager  
FROM: Pat Deakin, Economic Development Manager  
DATE: February 16, 2015

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I concur, forward to next  
Regular Council Meeting  
for Consideration:

  
Ken Watson, City Manager

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**SUBJECT: DISTRICT ENERGY PROJECT UPDATE**

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**Issue:**

A status report on the District Energy System is provided herein to Council. The update summarizes progress to date, identifies aspects of the project that have been considered, and the key decisions which Council is being asked to make regarding the System.

**Background:**

In 2010, an Integrated Resource Recovery Feasibility Study concluded that a wood biomass based District Energy System was the most feasible opportunity from among several energy recovery options explored by the City at that time.

The potential customers for the system fell into three roughly equal categories: the hospital; the City's buildings in the Roger and Wallace Street corridors; and a collection of private buildings and senior's facilities on 10<sup>th</sup> Avenue.

The expected benefits of the District Energy System were identified as follows:

- 1) Diverting wood community waste away from open burning and into a biomass boiler with a modern pollution control system will improve air quality in the Alberni Valley. On a tonne for tonne basis, this will reduce particulate emissions from uncontrolled burning by 99%, and so will support one of the community's objectives to improve air quality in the Alberni Valley. Diverting wood waste from open burning will also reduce the frequency and cost of Fire Department responses to back-yard fires, from current levels of over 100 responses per year.
- 2) Diverting wood waste away from the landfill will reduce greenhouse gas emissions and extend the life of the landfill.
- 3) Local expenditures for energy of about \$1 million per year will "stay home" in the community.
- 4) The system would cover its own costs, and provide modest non-tax revenues to the City
- 5) Greenhouse gas offsets which are currently paid by the City and other public organizations to the Province will also remain in the community.
- 6) Greenhouse gas emissions will be reduced by approximately 5,000 tonnes per year, equivalent to permanently removing 1,000 cars from the City of Port Alberni.
- 7) Employment will be created for personnel involved in operations, maintenance, and administration of the District Energy System.
- 8) Employment will be supported in firms that collect and process wood waste into a suitable fuel for the biomass boiler.

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- 9) Wood waste that is currently disposed of through uncontrolled burning can be diverted to the Energy Centre.
  - 10) Dependence on fossil fuels will be reduced and energy security will be improved in key Port Alberni buildings, including the regional West Coast General Hospital.
  - 11) The system can be expanded to serve new developments.
  - 12) The City's reputation as an innovative and progressive community will be enhanced.

In 2011, the City and Catalyst signed a Memorandum of Understanding (MOU) to pursue the creation of the district energy system and a couple of grant applications were made before Catalyst underwent its financial restructuring at which time the MOU was terminated at Catalyst's request.

The feasibility study was then revised for a 'stand-alone municipal utility'. The capital cost of the System was estimated at \$10 million. The system was expected to earn gross annual revenues of approximately \$1.3 million, and after annual operating costs (inclusive of loan repayments) of approximately \$1 million was expected to provide approximately \$270,000 in net annual non-tax revenues to the City.

The City was subsequently successful in obtaining a \$1.5 million grant from the Gas Tax Innovation Fund for the System in 2012. In late 2013 we were also successful in obtaining a \$430,000 grant and approval for a \$4.3 million loan from the Federation of Canadian Municipalities (FCM) Green Municipal Fund. Those amounts were the maximum allowable under the FCM formula, the interest rate offered was either 2.25% (for a ten year term) or 3.35% (for a twenty year term) and the grant was contingent on the loan.

Although FCM has guaranteed the City a low cost loan of \$4.3 million, a total of \$7.8 million would have to be borrowed. The figure of \$7.8 million comes from taking the total estimated cost of the system (\$10 million) and subtracting the two grants received (\$1.93 million) and the in-kind allocation recognized by the funding agencies (\$0.25 million). This sum could be borrowed by the City from the Municipal Finance Authority (although a referendum on the borrowing would have to take place).

### **Discussion:**

The project has taken much longer than anyone had anticipated getting to this point. Over the last two years:

- The City has invested in energy conservation in some of its facilities which reduced its projected consumption of the system's output thus increasing the hospital's share to 40%.
- In March 2014, former Catalyst Mill Manager Fred Chin asked that we revisit the feasibility of having them provide steam for the system. This was being done when Fred was moved to Powell River. In the summer of 2014 Catalyst provided the City with their expectations for the price of heat supplied by them. Those prices were much higher than anticipated and would have made the economic feasibility of the system challenging. As negotiations continued, Catalyst indicated that other operational priorities were more pressing and that the relatively small amount of revenue from the system had resulted in less corporate interest in providing heat for the project.
- While this was being done, FCM advised that if we proceeded with the approach of having Catalyst provide the heat, they would withdraw their grant and loan offer as it would be their opinion that the system would then lack the innovative aspects that had secured funding approval.

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- Island Health advised that one of their requirements, as the system's largest customer, would be that the price they paid for heat could never be more than that of natural gas.
  - Island Health also advised they had decided to keep their existing boilers and utility personnel after connecting to the District Energy System, which reduces the amount they would be willing to pay for heat from the system.
  - The price of natural gas has fallen, something that had not been anticipated.
  - Taken together, these last three changes have reduced our estimated net annual revenue from \$270,000 to approximately \$100,000 per year.
  - The City's borrowing has increased to a point which now necessitates a referendum on any further borrowing.
  - Interest rates have gone down.

If the City owned the District Energy System entirely, the total borrowing/repayment costs on a loan or loans of \$7.8 million would be ~ \$470,000 per year. Again, the annual repayment cost for the loan is included in the operating costs for the system, however as pointed out above, the net annual revenues are now projected at approximately \$100,000.

If the system was wholly-owned by the City, it could either be run by our existing engineering and public works department, or could be operated as a wholly owned subsidiary of the City similar to the Community Forest.

If the City is partnering with the private sector, a limited partnership company similar to the UPNIT Corporation could be created. In that case the City would likely receive a small annual royalty for its equity contribution. However our equity would be reduced from \$1.93 million to \$1.5 million as we would not be eligible for the FCM Green Municipal Fund grant of \$430,000 unless we were also borrowing from them for the project.

This situation now requires a decision from Council about how to proceed.

**Options (3 are presented):**

1. Develop the District Energy System as a 'stand-alone' municipal utility project.  
Pro: Retain all revenues, GHG credits and carbon tax offsets  
Pro: Gain positive publicity for venture  
Pro: Create a non-tax revenue producer for the City  
Pro: Receive \$1.93 million in grants towards the system.  
Con: Have to go to referendum to borrow \$7.8 million on a project sometimes difficult to explain to citizens  
Con: Take on risk in a venture the City has no experience in
2. Issue a Request for Proposal for a private sector partner for the project  
Pro: Bring private sector expertise into venture  
Pro: Leave room for borrowing for other projects  
Pro: Have \$1.5 million in equity in project via Gas Tax Innovation Fund grant and presumably see some non-tax revenue  
Con: Forego opportunity for full amount of non-tax revenue from project  
Con: Forego GMF grant of \$430,000 and loan of \$4.3 million
3. Terminate the project.  
Pro: Enable focus on other priorities

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Con: Forego all revenues, environmental benefits, employment benefits, and other benefits of the system

Con: Possibly jeopardize federal and provincial receptivity towards Port Alberni projects

**Option 2 is recommended.** However if Council wishes to pursue Option 1, it is recommended that a pre-design study be done to give greater confidence in the projected numbers. This cost is estimated at \$60,000. The most likely source of funding for that would have been the Business Development Budget however all but \$5,000 of that allocation is proposed to be cut based on a recent recommendation by the Economic Development Manager.

Proposed Motion:

*That Council for the City of Port Alberni issue a Request for Proposal for a private sector partner to design, finance, build and operate a District Energy System.*

Before a Request for Proposal is issued, it is recommended that the City:

- Confirm Island Health's commitment to the project in writing
- Meet with Island Health's public health officials and representatives of the Air Quality Advisory Council to discuss the project, solicit and address any concerns or interests
- Complete the business case for siting the District Energy plant at each of four different locations in the community and include that in the RFP

None of these steps have a cost attached to them.

Sincerely,



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Pat Deakin, Economic Development Manager