Potential Sale of the Town of Fort Macleod’s Electrical Distribution System

To help residents understand and make an informed decision on the upcoming municipal ballot the Town will be providing key information each week in this news space.

**What is an electric distribution system and who owns it?**

Did you know that the Town of Fort Macleod owns, operates and maintains its own electric distribution system?

This consists of the poles, wires, transformers and all other components designed to deliver electricity to your homes and businesses in the Town. Fort Macleod is one of only three remaining municipalities of this size in Alberta to own and operate an electric distribution system.

The Town does not generate or sell you the power you use, it simply transports it to your meter.
If the sale were to move forward, how would we be protected as consumers?

As an electricity distribution utility operating in the Province of Alberta, FortisAlberta and The Town of Fort Macleod are regulated by the Alberta Utilities Commission (AUC).

The AUC reviews FortisAlberta’s costs in detail and approves their rates for providing all aspects of electricity distribution service. For more information about the AUC and the history of utility regulation in Alberta, visit auc.ab.ca.

For more information regarding the potential sale of Fort Macleod’s electrical distribution system come to the open house September 26 at 7:00-9:00 pm at the community hall, stop by the Town Office, go to www.fortmacleod.com or check back next week. If you have any specific questions please contact Justin MacPherson Director of Operations at 403-553-4425 or by email j.macpherson@fortmacleod.com
Potential Sale of the Town of Fort Macleod’s Electrical Distribution System

To help residents understand and make an informed decision on the upcoming municipal ballot the Town will be providing key information each week in this news space.

Why Status Quo is not an option?

The 2016 Municipal Inspection report directed by Alberta Ministerial Order made the following Recommendation:

“That Fort Macleod council consider immediate options for the operations of the town’s electrical system to ensure that a dependable system exists and to minimize the risk of failure of this critical infrastructure.”

Why is the Town of Fort Macleod Considering Selling the Electrical Distribution System?

At the request of Town Council and Administration, FortisAlberta Inc. performed an assessment of the Town’s electrical utility. The results confirmed the findings from the Municipal Inspection report that the Town needs to prioritize efforts to improve system reliability, health and safety.

What is required?

The electricity industry has changed over the past 40 years, Fort Macleod’s distribution system has not kept up with the pace. The distribution system has historically been underfunded causing a backlog of critical capital projects that now require immediate attention.

To meet current standards and prepare the system for the future the following initiatives are required:

- Extensive capital infrastructure improvements – To ensure the safety and reliability of the system
- Preventative maintenance programs – To reduce power outages
- Design and Engineering standards – professional resources required
- Environmental standards – professional resources required
- Substantial financial investment:
  - $1.5 – $2 million in capital improvements
  - $100 thousand annual maintenance cost
What are our options?

The Town has two viable options; raise rates while reinvesting revenues back into the electrical system to establish maintenance and emergency reserves. Fund the capital investment required and make necessary improvements to the system, or sell the system to FortisAlberta, who owns and operates 60 percent of the electricity distribution system in Alberta, including that which surrounds Fort Macleod. FortisAlberta would in turn complete the necessary repairs and improvements.

<table>
<thead>
<tr>
<th>Keep Electric System</th>
<th>Sell Electric System to FortisAlberta</th>
</tr>
</thead>
</table>
| Town Council maintains control over system budget and with approval from the AUC electrical rates | FortisAlberta’s current electric rates are:  
  - Lower for Residential services  
  - Similar for Small General services  
  - Lower for General Services |
| Possibility for Town to increase revenues through raising electric rates | Town collects $4.77 million from sale of system |
| Freedom to prioritize capital projects | FortisAlberta performs infrastructure improvements and applies their maintenance programs. These costs as well as investments in new services are already included in their rate structure |
| Pride of ownership - the electrical distribution system was built by the rate and tax payers over the last 90 years | Transfer of all legal and regulatory responsibility for the ownership and operation of the electric system (financial, environmental and system performance) |
| Full control and decision options over electrical employees with direct communication | Current electrical employees offered a position within FortisAlberta |
|  | Town enters into Franchise Agreement with FortisAlberta that provides:  
  - Buy back option after 10 years using same valuation formula  
  - Franchise fee revenue providing estimated $318,000 annually paid to the Town  
  - Service level agreements with penalties payable to the Town |
If the sale were to move forward, how would we be protected as consumers?

As an electricity distribution utility operating in the Province of Alberta, FortisAlberta and The Town of Fort Macleod are regulated by the Alberta Utilities Commission (AUC).

The Alberta Utilities Commission (AUC) oversees the pricing model for electrical distribution assets. The approved model, uses the type, quantity and age of components to determine the price this is called Replacement Costs New minus Depreciation (RCN-D).

Using this calculation FortisAlberta has determined Fort Macleod’s electric assets to be valued at $4.77 million. If Council sells the electrical system, the AUC reviews and approves the transfer.

For more information about the AUC and the history of utility regulation in Alberta, visit auc.ab.ca.

For more information regarding the potential sale of Fort Macleod’s electrical distribution system come to the

**OPEN HOUSE Tuesday, Sept 26 at 7 to 9 pm. at the community hall**

stop by the Town Office, go to www.fortmacleod.com or check back next week.

If you have any specific questions please contact Justin MacPherson Director of Operations at 403-553-4425 or by email j.macpherson@fortmacleod.com
Potential Sale of the Town of Fort Macleod’s Electrical Distribution System

To help residents understand and make an informed decision on the upcoming municipal ballot the Town will be providing key information each week in this news space.

Historical Financial Information:

Electrical distribution systems generate revenue and Fort Macleod’s has been profitable in the past. Those profits were transferred to general revenues where they were used to supplement operational costs and to keep property tax rates low. The transfer of profits from the electrical distribution system was done at the detriment of annual maintenance, capital projects, system improvements, and the establishment of reserve funds. Now maintenance and capital projects are behind so the revenues need to be used for system upgrades and maintenance.

2017 Budgeted Expenses

Electrical distribution budgets are complex and profits are difficult to forecast. Equipment failures, line contacts, forces of nature, technology and design changes, and evolving environmental requirements.

Outside financial influences also impact the financial well-being of the Town’s system. The most impactful outside influences on the Electrical distribution budget are the Transmission Rider, and the AESO Balancing Pool Allocation Rider, which are used to manage and operate the Alberta power grid.

From 2012 to 2015 the AESO Balancing Pool was a credit of $5.50 / MWh, which meant the Town collected on average $132,000 per year. The Town used that revenue to offset
utility rates. In 2016 the credit decreased to $3.25 / MWh, causing the revenue to decrease to $75,300. This year the Balancing Pool Rider has reversed into a cost of $1.10 / MWh causing estimated expense to the Town of $26,000.

Since 2014, the Town had been over-collecting on the Transmission Rider with the excess going into a deferral account. Subsequent increases in transmission costs have drained the account. Council will need to adjust the Transmission Rider rates going forward.

“Electrical revenues can be volatile and hard to budget for. With the offer from Fortis the Town Council can implement a franchise fee that is guaranteed and consistent revenue. Town Council could set the rate of the franchise fee, the average among neighbouring communities is 15%.”

<table>
<thead>
<tr>
<th>Keep Electric System</th>
<th>Sell Electric System to FortisAlberta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requires an estimated $1.5 to $2.0 million of pending capital upgrades – funded by the Town</td>
<td>Town collects $4.77 million from sale of system</td>
</tr>
</tbody>
</table>
| Requires an establishment of an annual maintenance reserve – funded by an increase in utility rates | Town can collect annual Franchise fees of an estimated $318,000  
  - The Franchise fee is a flow-through cost collected by FortisAlberta payable to the Town of Fort Macleod |
| Requires an establishment of an emergency storm reserve – funded by an increase in utility rates | |
| Requires professional resources – for Engineering, Design and Environmental standards | |
If the sale were to move forward, how would we be protected as consumers?

As an electrical distribution utility operating in the Province of Alberta, FortisAlberta and the Town of Fort Macleod are regulated by the Alberta Utilities Commission (AUC).

The AUC oversees all service area transfers in Alberta and requires community engagement as part of that process. The municipal election provides a unique opportunity for the Town to capitalize on the election process to solicit public opinion. The vote is part of the community engagement program and is a non-binding vote.

For more information about the AUC and the history of utility regulation in Alberta, visit auc.ab.ca.

For more information regarding the potential sale of Fort Macleod’s electrical distribution system come to the Town Office, go to www.fortmacleod.com or check back next week.

If you have any specific questions please contact Justin MacPherson Director of Operations at 403-553-4425 or by email j.macpherson@fortmacleod.com
Potential Sale of the Town of Fort Macleod’s Electrical Distribution System

To help residents understand and make an informed decision on the upcoming municipal ballot the Town will be providing key information each week in this news space.

What would the impacts to Residents be if a sale to FortisAlberta were to proceed?

1. What will happen to my electrical rates?

Residents of Fort Macleod have historically been paying more for their electrical distribution than FortisAlberta’s customers. The most notable reason for this is FortisAlberta has the benefit of economies of scale.

Fort Macleod last adjusted their distribution rates in 2014, Town Administration has completed a rate adjustment analysis which has determined that rates will need to increase by approximately 37% to establish a maintenance reserve fund and recapture the increasing costs for the Town.

If the sale to FortisAlberta proceeds, the Town plans on implementing a 15% franchise fee. The franchise fee is a flow-through fee that will be added to the rates increasing the distribution portion of the customer’s bill and will become a stable revenue stream for the Town. The current FortisAlberta rate including the proposed franchise fee is lower than the current Fort Macleod rate and this trend is forecasted to continue in 2018.

It is also important to note that FortisAlberta’s distribution rate includes investment in new services, this means that customers have fewer upfront costs when setting up new electrical services.
2. **Who will I get my bill from?**

Fort Macleod residents receive their electricity bill from an electrical retailer today and will continue to have the same choices in who they purchase electricity from regardless if FortisAlberta owns the distribution system.

3. **Where would the $4.77 million dollars received from the sale go?**

Once the sale is finalized the Town of Fort Macleod will receive the proceeds in a lump sum. Council deliberation will take place prior to any final budget decisions being made regarding this income.

4. **What happens to the local electrical jobs?**

As part of the sale, the current electrical department employees will be offered jobs with FortisAlberta. There will be no job losses within our community.

5. **Will there be reliability improvement?**

Council chose to request an offer to purchase from FortisAlberta because they have been providing electrical distribution service in Southern Alberta for several decades and are very familiar with the ownership and operation of utility assets in this region. FortisAlberta owns all the distribution infrastructure surrounding the Town and commercial customers in the southwest corner of the Town are already being served by them. Due to their vast infrastructure, they can tie a powerline into a separate substation not located in Town providing electrical supply from another source in the event of an outage. FortisAlberta offers additional grid connectivity to the Town’s system thereby improving reliability.

6. **What are the steps required for a potential sale?**

To implement the actions required for a potential sale there are several steps including formal engagement of FortisAlberta, public consultation, council deliberations and approval. The sale is also subject to certain regulatory approvals from the Alberta Utilities Commission (AUC). If all approvals are received, Fort Macleod electric utility customers will become customers of FortisAlberta in 2018.

**If the sale were to move forward, how would we be protected as consumers?**

As an electrical distribution utility operating in the Province of Alberta, FortisAlberta and the Town of Fort Macleod are regulated by the Alberta Utilities Commission (AUC).

To finalize the transfer of electrical assets, an application to the AUC is made. The AUC is responsible to review all aspects of the sale including adequate communication with
impacted customers and stakeholders as well as the pricing method used to value the Town’s assets.

For more information about the AUC and the history of utility regulation in Alberta, visit auc.ab.ca.

For more information regarding the potential sale of Fort Macleod’s electrical distribution system come to the Town Office,

go to www.fortmacleod.com or check back next week.

If you have any specific questions please contact Justin MacPherson Director of Operations at 403-553-4425 or by email j.macpherson@fortmacleod.com
Frequently Asked Questions about the Potential Sale of the Town of Fort Macleod’s Electrical Distribution System

What will happen to my electrical rates?
Residents of Fort Macleod have historically been paying more for their electrical distribution than FortisAlberta’s customers. The most notable reason for this is FortisAlberta has the benefit of economies of scale.

Fort Macleod last adjusted their distribution rates in 2014, Town Administration has completed a rate adjustment analysis which has determined that rates will need to increase by approximately 37% to establish a maintenance reserve fund and recapture the increasing costs for the Town.

If the sale to FortisAlberta proceeds, the Town plans on implementing a 15% franchise fee. The franchise fee is a flow-through fee that will be added to the rates increasing the distribution portion of the customer’s bill and will become a stable revenue stream for the Town. The current FortisAlberta rate including the proposed franchise fee is lower than the current Fort Macleod rate and this trend is forecasted to continue in 2018.

It is also important to note that FortisAlberta’s distribution rate includes investment in new services, this means that customers have fewer upfront costs when setting up new electrical services.

<table>
<thead>
<tr>
<th>Residential Bill Comparisons (Distribution Only)</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Graph showing residential bill comparisons" /></td>
</tr>
</tbody>
</table>

*Distribution rate comparison based on monthly consumption of 600kWh

What is an electric distribution system and who owns it in Fort Macleod?
Town of Fort Macleod owns, operates and maintains its own electric distribution system.
This consists of the poles, wires, transformers and all other components designed to deliver electricity to your homes and businesses in the Town. Fort Macleod is one of only three remaining municipalities of this size in Alberta to own and operate an electric distribution system.

The Town does not generate or sell you the power you use, it simply transports it to your meter.

Why is the Town of Fort Macleod Considering Selling the Electrical Distribution System?

At the request of Town Council and Administration, FortisAlberta Inc. performed an assessment of the Town’s electrical utility. The results confirmed the findings of the Municipal Inspection report that the Town needs to prioritize efforts to improve system reliability, health and safety.

Why is Status Quo not an option?

The 2016 Municipal Inspection report directed by Alberta Ministerial Order made the following Recommendation:

“That Fort Macleod council consider immediate options for the operations of the town’s electrical system to ensure that a dependable system exists and to minimize the risk of failure of this critical infrastructure.”
What is required?

The electricity industry has changed over the past 40 years, Fort Macleod’s distribution system has not kept up with the pace. The distribution system has historically been underfunded causing a backlog of critical capital projects that now require immediate attention.

To meet current standards and prepare the system for the future the following initiatives are required:

- Extensive capital infrastructure improvements – To ensure the safety and reliability of the system
- Preventative maintenance programs – To reduce power outages
- Design and Engineering standards – professional resources required
- Environmental standards – professional resources required
- Substantial financial investment:
  - $1.5 – $2 million in capital improvements
  - $100 thousand annual maintenance cost
  - $500 thousand emergency storm reserve

What are our options?

The Town has two viable options; raise rates while reinvesting revenues back into the electrical system to establish maintenance and emergency reserves. Fund the capital investment required and make necessary improvements to the system, or sell the system to FortisAlberta, who owns and operates 60 percent of the electricity distribution system in Alberta, including that which surrounds Fort Macleod. FortisAlberta would in turn complete the necessary repairs and improvements.

<table>
<thead>
<tr>
<th>Keep Electric System</th>
<th>Sell Electric System to FortisAlberta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town Council maintains control over system budget and electrical rates with oversight from the AUC.</td>
<td>FortisAlberta’s current electric rates are:</td>
</tr>
<tr>
<td></td>
<td>- Lower for Residential services</td>
</tr>
<tr>
<td></td>
<td>- Similar for Small General services</td>
</tr>
<tr>
<td></td>
<td>- Lower for General Services</td>
</tr>
<tr>
<td>Possibility for Town to increase revenues through raising electric rates</td>
<td>Town collects $4.77 million from sale of system</td>
</tr>
<tr>
<td>Freedom to prioritize capital projects</td>
<td>FortisAlberta performs infrastructure improvements and applies their maintenance programs. These costs as well as investments in new services are already included in their rate structure</td>
</tr>
</tbody>
</table>
What is a Franchise Fee?

If the sale to FortisAlberta proceeds, the Town plans on implementing a 15% franchise fee. The franchise fee is a flow-through fee that will be added to the rates increasing the distribution portion of the customer’s bill and will become a stable revenue stream for the Town. The current FortisAlberta rate including the proposed franchise fee is lower than the current Fort Macleod rate and this trend is forecasted to continue in 2018.

Franchise fees are typical throughout all municipalities on Gas and Electricity utilities.

If the sale were to move forward, how would we be protected as consumers?

If the sale were to move forward, how would we be protected as consumers?

As an electricity distribution utility operating in the Province of Alberta, FortisAlberta and The Town of Fort Macleod are regulated by the Alberta Utilities Commission (AUC).

The AUC reviews FortisAlberta’s costs in detail and approves their rates for providing all aspects of electricity distribution service. For more information about the AUC and the history of utility regulation in Alberta, visit auc.ab.ca.

If you have any specific questions please contact Justin MacPherson Director of Operations at 403-553-4425 or by email j.macpherson@fortmacleod.com