

2-Year Business Plan 2017 – 2018 Gas Distribution

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Administration | Engineering | Customer Service | Plant Services



DEPARTMENTAL OVERVIEW

Gas Distribution provides natural gas delivery services to approximately 26,650 residential, commercial, and industrial customers within Medicine Hat, Redcliff and Cypress County (the franchise area).

Gas Distribution distributes natural gas to customers in a safe and reliable manner, providing competitive rates and obtaining a financial return that is in keeping with the Alberta Utilities Commission principles enabling a 6.25% of equity dividend to the City.

SERVICES PROVIDED BY THE DEPARTMENT INCLUDE:

Plant Services: installation, maintenance and repair of gas mains and services; leak survey; cathodic protection; operation and maintenance of pressure control stations

Customer Service: measurement and regulation of gas delivery to customers

Engineering: long-term system planning; capital construction planning and project management; code compliance and risk management

Technical Assistants: customer contact; work management; Alberta One-Call; records and administration

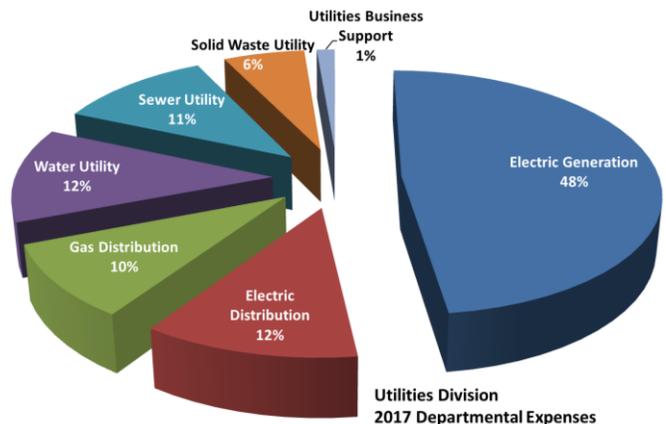


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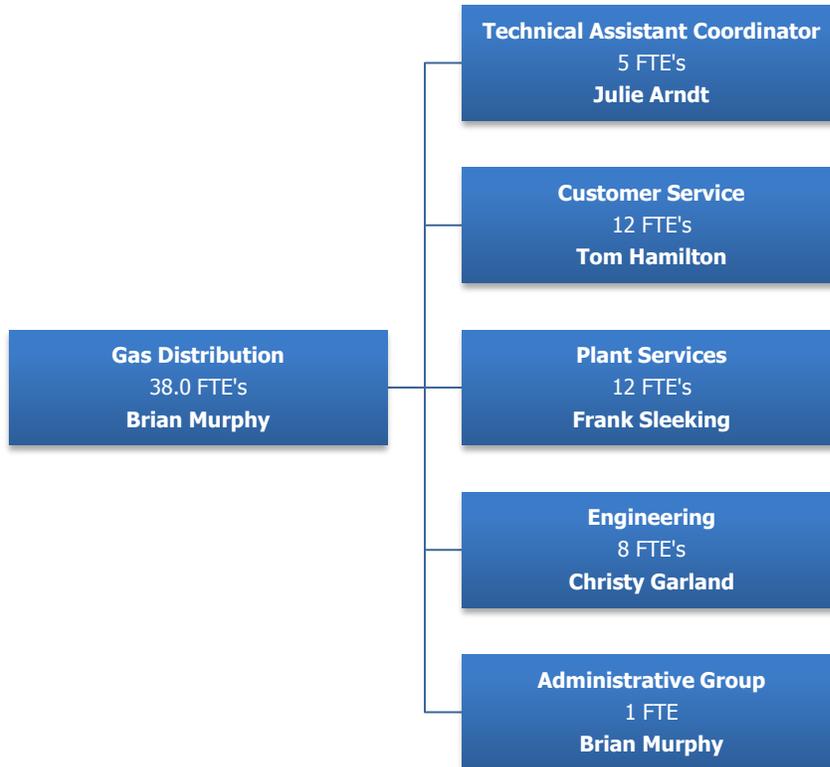
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DEPARTMENT OVERVIEW

Corporate Mission Statement

“Deliver value through exceptional public service.”

Gas Distribution Organizational Chart (2017)



Core Services & Customers

Gas Distribution's core services include:

- Engineering Design and Construction
- Drafting, Mapping and Record Keeping
- Planning, Maintenance, Operations
- Standards and Specifications
- Pressure Control and Regulation
- SCADA Monitoring, Metering and Measurement
- Odourization, Gas Leakage Detection, Cathodic Protection, Material Specifications
- Customer Contact, Administration, and 24-Hour Emergency Response

Our primary customers are:

1. Residential, Commercial and Industrial customers within the franchise areas of the City of Medicine Hat, Town of Redcliff and Cypress County

Active Customers in 2015 for City of Medicine Hat Gas Distribution:

- Residential Customers – 24,000
- Commercial Customers – 2,694
- Industrial Customers – 2

2015/2016 Gas Distribution Service Highlights & Achievements

Report on Business Plan Goals

The following summarizes Gas Distribution's achievements on the 2015 – 2016 Business Plan Goals.

1. Health and Safety

- No Lost Time Injuries (LTI's) in 2015 or 2016 (Q3)
- Regular Health and Safety Meetings and job-site safety inspections completed

2. Work Efficiencies:

- Gas Distribution met its financial objectives in 2015, is on track for controllable expenses in 2016, and has funded capital projects from Working Capital for 2015 and 2016.
- Capital project funding from Working Capital will reduce interest expense in current and future years.
- In 2015-2016, Gas Distribution utilized both internal and external candidates to fill vacancies created by retirements and positions added.
- Gas Distribution has maintained a cost of delivery service that has been less than that of other gas distribution utilities across Alberta.

3. System Development:

- Gas Distribution's capital projects for 2015 and 2016 were completed as planned.
- New SCADA software for continuous monitoring of the gas distribution system has been successfully implemented.
- Gas Distribution completed a low pressure renewal project in Riverside in 2016. The low pressure system is the oldest infrastructure in the gas distribution system and is being upgraded for reliability and safety. At the current pace, there is approximately twenty years of work remaining to fully complete the conversion of the low pressure systems that remain.
- Station 7 (2016) increases medium pressure gas supply in SW Medicine Hat to meet additional system demand including hospital expansion.
- Station 51 (Redcliff) (2016) modifications allow the area to be fed by one station instead of two, improving operational efficiency over time.
- All capital projects were substantially complete for construction at Q3 2016.
- Gas Distribution is complete for work on the AMI project with the exception of the 900GM meter class which is a Measurement Canada approval issue outside the control of the department.
- Routine system maintenance, new services and mains, and response to customer contact have been completed as planned in 2015 and 2016.

- There was an over-odourization event on the system in June 2015 resulting from an electronic instrumentation fault. Programming limits have been put in place to ensure that this specific fault does not repeat in the future.
- No significant operations incidents have occurred in Q1-Q3 2016 and the system has been operating within normal parameters.
- AMI refusal and avoidance customers have been addressed in conjunction with the other utilities and as directed by City Council (2016).

Significant Issues and Trends – Gas Distribution

- **Health and Safety:** Gas Distribution works to maintain and enhance a culture of safe work in the department.
- **Succession Planning:** It is challenging to plan for an efficient staffing level while retirement timelines for senior staff are uncertain.
- **Recruitment of Qualified Staff:** Recruitment of qualified staff with gas distribution experience at the technician, engineering and management levels has been an ongoing challenge.
- **Emergency Response:** Gas Distribution is required to maintain an appropriate staffing and skill level to respond to and manage major incidents that can be unpredictable and arise without warning.
- **Aging Infrastructure:** Gas Distribution maintains a long term asset management plan and a prudent renewal program for upgrading the system to ensure continued safe and reliable operations.
- **Distribution Tariff:** the revenues received from the Distribution Tariff are unpredictable year-to-year as gas delivery volumes are directly correlated to weather patterns.
- **Capital Planning:** Investments in system expansions are dependent on builder / developer activity in the franchise area.
- **Customer Rates:** Customer rates are determined in accordance with Alberta Utilities Commission (AUC) principles. Gas Distribution works to provide competitive rates to the ratepayers as compared to the other gas distribution utilities in Alberta.
- **Code Compliance:** City of Medicine Hat Gas Distribution is subject to regulatory requirements as a pipeline system operator.
- **Business Processes:** City of Medicine Hat Gas Distribution depends on access to external knowledge of best practices from other utilities across Canada in order to meet code requirements and provide optimal service to its customers.
- **New Technology:** City of Medicine Hat Gas Distribution makes efforts to stay current with advancements in gas distribution technology, equipment, and processes.

CURRENT STRATEGIES & ACTION PLANS

FINANCIAL MANAGEMENT

1. To achieve sustainable fiscal management for Gas Distribution.

Gas Distribution will manage controllable O&M expenses for 2017 at 2016 levels. Non-controllable expenses such as the tariff flow-through for gas delivery charges from TransCanada Pipelines, necessary gas delivery volume adjustments (ie. variable sales of natural gas to customers on the City of Medicine Hat system which are dependent on weather), and other non-controllable expense increases will be transferred to the Distribution Tariff and will have an impact on customer rates.

Gas Distribution will continue to work to provide a rate structure which is competitive compared to the other gas distribution utilities in Alberta.

- a) 2017-2018 Gas Distribution Budget approval by Council
- b) Regular financial reporting and variance explanations
- c) Agresso / ERP implementation (2016 – 2017)
- d) Shallow Utilities Business Model (2017)

CORPORATE MISSION

2. To deliver services to citizens / customers within the context of the City's Corporate Vision, Mission and Values.

Gas Distribution interfaces with customers on a daily basis and will work to professionally and respectfully manage customer issues as they arise. Gas Distribution will respond to customer requests as directed by City Council in accordance with the established processes.

Gas Distribution works to maintain a safe and reliable system by utilizing trained, experienced, and competent personnel in the provision of customer service, engineering, construction, administration, health and safety, and operations and maintenance.

- a) Annual employee training program (ongoing) and evaluation of a pilot program to train field employees to standards established by ATCO Gas under its formal training and certification program (2017-2018)
- b) CityWorks work management system – potential implementation (2017 – 2018)
- c) Standard Practices Review – update of internal standards and work procedures (ongoing)
- d) Integrity Management / Safety and Loss Management System – development of a management system for Gas Distribution (2017 – 2018)

IMAGE AND PROFILE

3. To demonstrate a high performance culture with clear accountabilities.

Gas Distribution will continue to develop and progress internal candidates for more senior roles and future supervisory roles. Gas Distribution will also seek out experienced external candidates to fill specific vacancies when this will provide balanced perspective and insight from best practices from other organizations and utilities.

- a) Succession planning and selective recruitment in advance of potential retirements
- b) Employee Engagement Action Plan for the department

INFRASTRUCTURE

4. To make prudent capital investments for system growth, infrastructure renewal and for upgrades to maintain safe and reliable operations.

Gas Distribution will prioritize, evaluate and make determinations on the annual capital investment program for mains and stations upgrades in order to service new developments and to expand system capacity, safety, and reliability.

- a) Multi-year capital plan
- b) Annual capital construction projects completed on schedule / on budget

Category	2017	2018
New Services	Residential Services Commercial Services	Residential Services Commercial Services
Low Pressure Renewal Projects	Riverside Area 2	Riverside Area1
Mains Replacement	Hospital to Station 7 Tower Estates Infrastructure Replacement Plan	1st Street SW Division Ave to 2 Ave SW 1st Ave SW - 1 St to 2 St SW
Subdivisions / Main Extensions	Ranchlands 3C Subdivision Hamptons 2C Subdivision	Hamptons 2D Subdivision Ranchlands 3C Subdivision
Regulating Stations Upgrades	Station 50 Alterations Station 54 SCADA Replacement CFI North & South Stations	NOVA Header Valve Re-configuration Methanex Station Station 44 Removal

HEALTH AND SAFETY

5. To maintain a strong commitment to the health and safety of our employees by supporting the City's Health & Safety Policy Statement.

Gas Distribution works to maintain and enhance a culture of safe work within the department, with a focus on hazard identification and mitigation, the proper training for employees, regular job site inspections, EH&S committee involvement, defined roles, and providing the proper tools and resources for completing job tasks.

- a) Annual employee training program
- b) Formal job-site inspections
- c) Incident investigations and follow-up actions
- d) Health and Safety Specialist; co-ordination with Health & Safety Department on City-wide initiatives
- e) EH&S committee meetings for Gas Distribution

Strategy & Action Plans:

#	SP Ref	KR Ref	Strategic Priority & Key Result & Action Plans	Who	When
1	5	5.1 5.2	<p>Fiscal Management: To achieve sustainable fiscal management for Gas Distribution.</p> <p>a) 2017-2018 Gas Distribution Budget approval by Council b) Regular financial reporting and variance explanations c) Agresso / ERP implementation (2016 – 2017) d) Shallow Utilities Business Model (2017)</p>	Gas Distribution Manager	2016 - 2018
2	5 6	5.2 6.3	<p>Corporate Mission: To deliver services to citizens / customers within the context of the City’s Corporate Vision, Mission and Values.</p> <p>a) Annual employee training program b) CityWorks work management system – potential implementation (2017) c) Standard Practices Review – update of internal standards and work procedures (ongoing) d) Safety and Loss Management System – development of management system for Gas Distribution (code requirement) (2017 – 2018)</p>	Gas Distribution Manager, Gas Distribution Department	2016 - 2018
3	4 6	4.4 6.1 6.4	<p>Image and Profile: To demonstrate a high performance culture with clear accountabilities.</p> <p>a) Succession planning and selective recruitment in advance of potential retirements b) Employee Engagement Action Plan for department</p>	Gas Distribution Manager	2016 - 2018
4	2	2.1	<p>Infrastructure: To make prudent capital investments for system growth, infrastructure renewal and upgrades to maintain safe and reliable operations.</p> <p>a) Multi-year capital plan b) Annual capital construction projects completed on schedule / on budget</p>	Gas Distribution Manager, and Engineering	2016 - 2018
5	5 6	5.2 6.1	<p>Health and Safety: To maintain a strong commitment to the health and safety of our employees by supporting the City’s Health & Safety Policy Statement.</p> <p>a) Annual employee training program b) Formal job-site inspections c) Incident investigations and follow-up actions d) Health and Safety Specialist; co-ordination with Health & Safety Department on City-wide initiatives e) EH&S committee meetings for Gas Distribution</p>	Gas Distribution Manager, Gas Distribution Department	2016 - 2018

FINANCIAL PLAN SUMMARY & HIGHLIGHTS

Departmental Operating Revenues & Expenses Summary:

Revenues	Prior Year Actuals 2015	Current Year Budget 2016	2017 Operating Budget	2016-2017 Change	2018 Operating Budget	2017-2018 Change	2019 Operating Forecast	2020 Operating Forecast
Distribution Tariff	10,777	11,878	13,015	1,136	14,075	1,060	14,876	15,642
Transportation	757	949	845	(104)	902	57	910	969
Internal Recovery	635	330	315	(15)	315	0	320	323
Other	108	44	40	(4)	40	0	40	40
Total Revenues	12,726	13,571	14,385	815	15,496	1,111	16,222	17,054
Expenses								
Salaries & benefits	3,949	3,871	3,855	(16)	4,077	222	4,378	4,422
Contracted services	1,977	2,396	820	(1,576)	874	54	827	836
Materials & Supplies	353	356	309	(47)	309	1	308	309
Interest & Debt	523	519	530	11	553	23	571	617
Amortization	1,847	2,005	1,924	(81)	2,058	134	2,171	2,283
Internal Charges & Transfers	3,113	3,245	5,616	2,371	5,938	322	6,377	6,743
Other	96	83	81	(2)	85	4	89	94
Total Expenses	11,858	12,475	13,134	659	13,894	760	14,721	15,305
Net Earnings (Loss)	869	1,096	1,251	155	1,602	351	1,501	1,749
Permanent Positions		38.0	38.0	0.0	38.0	0.0	38.0	38.0
Dividend Contribution	1,251	1,238	1,305	67	1,302	(3)	1,320	1,332

Increases in the 2016-2017 operating expenses are primarily due to the following factors:

1. Internal Charges & Transfers:

- a. Gas Marketing: Increasing fees of 20% over the 2016 budget (\$343K). Includes a 10% increase on TCPL delivery charges as well as a reduction in fixed delivery commitments that can be mitigated going forward due to a tightening market.
- b. Interdepartmental Charges: Increases of \$260K in interdepartmental charges from 2016 to 2017.

Note: Budget for Nova and Tenaska charges has been moved from Contracted Services in 2016 to Internal Charges and Transfers in 2017-2018.

Increases in the 2017-2018 operating expenses are primarily due to the following factors:

Internal Charges & Transfers:

- Gas Marketing: additional increase of 10% over the 2017 budget due to anticipated increases in TCPL delivery charges (\$290K)

Salaries & Benefits:

- Vacancies to be filled, as well as increasing salaries and wages (\$222K)

Amortization:

- Increasing amortization expenses due to projected capital spending in 2017 (\$134K)

TCA DECISION PACKAGE SUMMARY

Refer to Attachment A for detailed information on each decision package.

The following table is a summary of the 2017-2018 Gas Distribution TCA Decision Packages.

Ref.	Year	Name	\$ Capital Cost	\$ Operating Impact**	Status
6.3	2017	New Services	293,000	(6,000)	Recommended
2.1	2017	Mains Extension & Replacement	2,342,000	(98,000)	Recommended
2.1	2017	Transmission Mains	240,000	(5,000)	Recommended
2.1	2017	Regulating Stations	218,000	(4,000)	Recommended
6.3	2017	Meters	407,000	(20,000)	Recommended
2.1	2017	Cathodic Protection	230,000	(19,000)	Recommended
6.3	2017	Machinery & Equipment	185,000	(22,000)	Recommended
5.2	2017	Communication & Management Systems	509,000	(51,000)	Recommended
6.3	2018	New Services	298,000	(6,000)	Recommended
2.1	2018	Mains Extension & Replacement	2,038,000	(89,000)	Recommended
2.1	2018	Transmission Mains	650,000	(13,000)	Recommended
2.1	2018	Regulating Stations	372,000	(7,000)	Recommended
6.3	2018	Meters	407,000	(20,000)	Recommended
2.1	2018	Cathodic Protection	230,000	(19,000)	Recommended
6.3	2018	Machinery & Equipment	130,000	(15,000)	Recommended
5.2	2018	Communication and Management Systems	110,000	(11,000)	Recommended
Total			\$8,659,000	\$ (405,000)	

2014-2018 COUNCIL STRATEGIC PRIORITIES AND KEY RESULTS

Strategic Priority 1:

Economic Development: We foster a sustainable, growing and diverse economy with a strong industrial base and a vibrant downtown.

Strategic Priority 2:

Infrastructure and Amenities: We have high quality, sustainable infrastructure and amenities, and a reputation for excellent management and maintenance.

Strategic Priority 3:

Social Wellness: A safe community that welcomes diversity and supports all citizens with high quality and accessible cultural, recreational and public services.

Strategic Priority 4:

Image and Profile: We promote our distinctive community and excellent quality of life to our citizens and the world.

Strategic Priority 5:

Fiscal Management: Responsible financial management focused on the long term ensures a sustainable city.

Strategic Priority 6:

City Government: The City increasingly stands out as a well-governed and well-organized municipal corporation with a positive corporate culture.

Strategic Priority 1: Economic Development Key Results

- **KR 1.1:** At least one more heavy industrial operator or major expansion of existing heavy industry occurs by December 2018.
- **KR 1.2:** A cohesive economic development strategy is completed and being implemented by December 2014.
- **KR 1.3:** The Downtown Revitalization Plan is funded and being implemented by June 2018.
- **KR 1.4:** Value added manufacturing and processing is increased by December 2016.

Strategic Priority 2: Infrastructure and Amenities Key Results

- **KR 2.1:** Improve and implement an asset management plan with attention to our deep utilities and transportation network by December 2016.
- **KR 2.2:** The flood mitigation plan is fully implemented by April 2016.
- **KR 2.3:** The percentage of renewable energy production and consumption increases relative to other business growth by September 2015 and thereafter

Strategic Priority 3: Social Wellness Key Results

- **KR 3.1:** The river valley is developed as an aesthetic, recreational feature and as a tourist attraction by December 2018 and thereafter.
- **KR 3.2:** Appropriate river valley commercial development increases by December 2018 and thereafter.
- **KR 3.3:** Meaningful engagement opportunities for youth are developed and implemented by December 2015 and thereafter.
- **KR 3.4:** Opportunities to enhance existing green space are identified and implemented by December 2016 and thereafter.
- **KR 3.5:** Increased recreational opportunities in the south side of the city are identified and developed by December 2018.

Strategic Priority 4: Image and Profile Key Results

- **KR 4.1:** Medicine Hat promotional agencies align behind a strong external brand and promote Medicine Hat with a unified external voice by December 2015 and thereafter.
- **KR 4.2:** Visitors increasingly choose Medicine Hat as a destination, and increasingly leave with a positive impression of the city by December 2014 and thereafter.
- **KR 4.3:** Citizens are increasingly positive ambassadors for Medicine Hat by December 2014 and thereafter.
- **KR 4.4:** Medicine Hat is increasingly viewed as a choice community and a great place to work, live and play by December 2016 and thereafter.

Strategic Priority 5: Key Results

- **KR 5.1:** The City's healthy balance sheet provides flexibility for the future by March 2015 and thereafter.
- **KR 5.2:** A risk tolerance framework is articulated and adopted by Council by September, 2014.
- **KR 5.3:** The City's sustainable equity pool continues to produce dividends by March 2014 and thereafter.

Strategic Priority 6: City Government Key Results

- **KR 6.1:** A high performance culture with clear accountabilities is in place in the City by December 2014.
- **KR 6.2:** Councilors are role models for excellence in governance by December 2014 and thereafter.
- **KR 6.3:** Increasingly efficient and effective customer-oriented service delivery is implemented in the City by December 2014 and thereafter.
- **KR 6.4:** Employee turnover is reduced and measurable increases in employee satisfaction are recorded by September 2014 and thereafter.
- **KR 6.5:** Council is a resource for strategic direction and advice to the CAO by September 2014 and thereafter.
- **KR 6.6:** The best organization structure for the City to move forward into the future is determined and implemented by December 2016.