



MANAGEMENT REPORT

Date: September 17, 2024
To: Finance and Labour Relations Sub-committee
From: Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer
Report Number: FIN24-028
Attachments: None

Title: Update of Natural Gas and Electricity Procurement

Objective: To provide information on the City's electricity and natural gas agreements with Local Authority Services (LAS).

Background: In 2000 and 2006 the City entered into agreements with Local Authority Services (LAS) to purchase electricity and natural gas in hedge and fixed price purchasing agreements respectively.

LAS developed the electricity hedge program to purchase blocks of commodities with the intent of price-fixing some of the annual consumption. It has the effect of ensuring that some of the City's annual procurement is controlled, which can be important in volatile and rising commodity markets. In stable or decreasing commodity markets, the value of a hedge program is less about savings compared to market and more about maintaining the pricing predictability.

Electricity

The LAS Electricity Program allows municipalities to choose between two distinct approaches to electricity procurement – a hedge purchase alongside 135+ other Ontario municipalities, or 100% Spot Market Billing. In both scenarios the Global Adjustment (GA) charge is applied to the monthly usage, with LAS playing no role in determining the monthly GA rate.

1. **Hedge Purchase:** A hedge purchase allows municipalities to purchase **up to 75%** of their annual electricity consumption at a fixed price, with the balance falling at the prevailing average monthly spot market rate. Going to market with the combined volumes of 135+ municipalities allows LAS to secure the best price possible for the program members. This approach adds an element of stability to commodity costs.

2. **100% Spot Market Billing:** Under this option LAS does not make any hedge purchases for the municipality. Instead, municipal accounts ride the ebbs and flows of the electricity (spot) market, meaning the commodity cost will fluctuate from one month to the next based on changes in external market factors (i.e. supply, demand, weather, etc.). This approach provides the biggest opportunity for cost savings over a 12-month period. However, it is also quite volatile and there can be large swings in prices from one month to the next, meaning this approach may not be for every municipality.

Natural Gas

The natural gas program is a bit different and is not a hedge but a fixed price contract per cubic metre. By committing to pooled volumes early in the year, LAS secures the pricing with a discount from the price at that point in time. LAS developed the program to provide municipalities with stable and predictable natural gas prices. Under this agreement, LAS acts as the City’s agent related to advice and purchasing activities for its natural gas requirements, which also assists in volatile commodity markets.

Analysis: Annually, LAS provides the City with some reporting information for both commodities.

Electricity

As noted in the table below, the bottom-line financial benefit varies year-over-year when compared to time-of-use pricing. One of the more significant considerations is that the hedge program does stabilize fluctuations so that in years of significant price swings, the City does not experience similar significant variations in costs. Alternatively in years where the market is declining or stable, the savings are less to the City while maintaining stability. The savings presented in the table below compare the City’s 50% hedge to the regular Time-of-Use costs.

4 Year Cost Summary						
Year	2020 * with COVID relief rates	2020 * without COVID relief rate changes	2021	2022	2023	Average
% Savings	0%	4%	7%	6%	3%	4%
\$ Savings	-\$3,964.32	\$59,599.63	\$80,583.23	\$70,135.46	\$37,630.96	\$184,385.34

Early indicators project 2024 around 13% savings (or \$170,000), which has allowed the estimated 2025 budgeted costs for hydro to remain flat, except in cases where consumption has increased or been previously estimated too low.

This information will be used in part to comply with the energy reporting requirements under Ontario’s broader public sector (BPS) energy reporting program. This reporting is currently compiled, tracked and remitted by the Infrastructure Services (IS) Department.

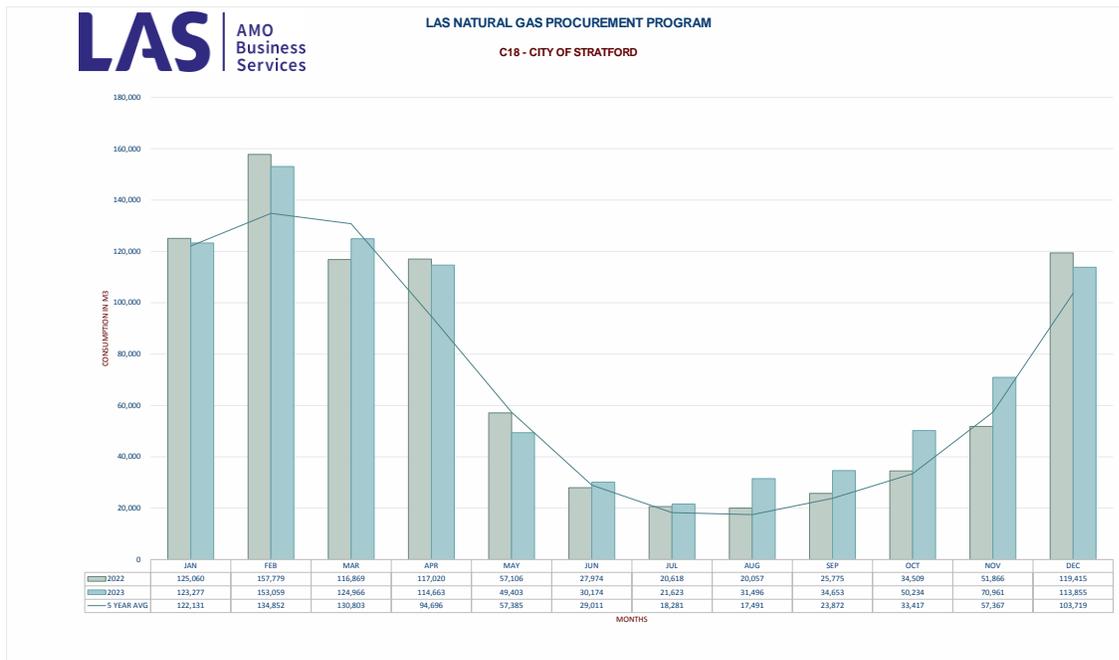
This data will also help meet objectives identified in the Corporate Energy and Emissions Plan (CEEP) to track the City’s decarbonization efforts (e.g., electrification of corporate operations) and gauge progress towards achieving GHG emission reduction targets. Efforts to accelerate the shift towards electrification will support mitigating the financial implications of carbon pricing that is anticipated to increase the cost of fossil fuels including natural gas annually at a rate of \$65 per tonne to \$170 per tonne from 2023-2030.

The current hedge agreement for electricity applies to 50% of the City’s electricity consumption. Annually each fall, the City is offered the option of 0% up to 75% hedge pricing. Based on an analysis done in 2024 and in discussion with LAS, the City has maintained the current hedge at 50%.

This hedging agreement is entered into annually in late August for the coming fiscal year, and as such has been entered into for 50%, like previous years. This level balances cost savings with pricing stability. With spot market pricing being favourable, this level of hedge provides stability, while still taking advantage of the favourable, yet more volatile spot market. This will continue to be reviewed annually.

Natural Gas

Based on a review of facilities included in the program and the budget and actual costs over the past few years, the program’s main value is pricing control in volatile and increasing markets. The chart below shows consumption data only for the City facilities that participate in the natural gas pricing program.



Similarly, to noted uses of the electricity data, the information captured for the natural gas program will better inform and support the initiatives identified in the City's climate priorities. The current agreement was entered into July 2021 and has renewed annually based on analytic review of the reporting.

The natural gas reporting is for City-owned properties. The housing properties owned and managed by Perth Stratford Housing Corporation, are managed under a separate procurement arrangement with Housing Services Corporation (HSC). The Housing Services Act (HSA) mandates that HSC must establish and manage a joint purchase program for natural gas for housing providers prescribed under the Act. The Act further mandates that all local housing corporations must participate in the joint purchase program of natural gas. The HSC program performs similarly to that of LAS.

Commodity consumption costs do require active monitoring and management and changes to expected consumption levels and costs are reflected in the budgeting process, although given the timing of information availability, this does sometimes lag a year or two. The buying agreements for both electricity and natural gas continue to provide value to the City in terms of savings compared to regular rates as well as pricing stability.

Financial Implications:

Financial impact to current year operating budget:

Electricity: As this information is provided for information purposes, there is no direct financial impact in the current year. It can be noted that budgeted hydro costs across the City's various departments in 2024 are \$2,414,850, down slightly from the previous year.

Natural gas: heat costs continue to rise – in 2024 the costs were estimated at \$543,950, compared to 2023 of \$429,345.

There are no direct impacts, however because of this report.

Financial impact on future year operating budget:

Electricity: The 2025 draft budget is seeing a very small increase in only a few departments resulting in budgeted hydro costs of \$2,447,500.

Natural gas: The 2025 draft budget is anticipating a 15% increase, or \$86,000. This is due in part to the significant reductions in consumption that occurred during the pandemic, and budgets are being readjusted as services have resumed to pre-pandemic levels.

Alignment with Strategic Priorities:

Enhance Our Infrastructure

This report aligns with this priority as regular reporting provides supporting information to meet the City’s climate action goals.

Alignment with One Planet Principles:

Zero Waste

Reducing consumption, reusing and recycling to achieve zero waste and zero pollution.

Zero Carbon Energy

Making buildings and manufacturing energy efficient and supplying all energy with renewables.

Staff Recommendation: THAT the report titled, “Update of Natural Gas and Electricity Procurement” (FIN24-028), dated September 17, 2024, be received for information.

Prepared by: Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer

Recommended by: Karmen Krueger, CPA, CA, Director of Corporate Services/Treasurer
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