



COUNTY OF WELLINGTON

COMMITTEE REPORT

To: Chair and Members of the Administration, Finance and Human Resources Committee
From: Ken DeHart, County Treasurer
Date: Tuesday, September 20, 2022
Subject: **Commodity Price Hedging Agreements**

Background:

Section 7(1) of the Ontario Regulation 653/05, as amended states that if a municipality has commodity price hedging agreements in place, the Treasurer of the municipality must prepare and present to Council once every fiscal year a detailed report on those agreements. The report must contain the following information:

1. A statement about the status of the agreements during the period of the report, including a comparison of the expected actual results of using the agreements.
2. A statement by the Treasurer that those agreements are consistent with the municipality's statement of policies and goals related to the use of financial agreements to address commodity pricing and costs.

The County entered into hedging agreement for natural gas and electricity procurement through the Local Authority Services Limited (LAS), a wholly owned subsidiary of the Association of Municipalities of Ontario (AMO). County Council approved the Commodity Price Hedging Policy through adoption of By-law 4858-06 dated September 26, 2006.

Purpose of Hedging

Hedging allows the County to purchase electricity at a fixed price for a fixed term providing budgeting security. Although this strategy does not benefit directly from falls in the electricity prices which may be passed along to customers it provides long-term stability in keeping prices as low as possible.

LAS Electricity

The County along with 135+ municipalities are members in the LAS Electricity Procurement Programme whereby LAS removes the electricity account from the government rate plan and enrolls it into their programme.

LAS allows a maximum hedge level of 75% and the County's hedge level is 65%. The balance of electricity is calculated using spot market electricity rates. Streetlight accounts are billed using Time of Use (TOU) electricity rates to capitalize on off-peak electricity prices.

LAS Natural Gas

LAS has maintained lower natural gas rates than Enbridge since 2018 to present. LAS collects more revenue through the set programme rate than is required to run the programme and rebates it back to participating municipalities.

Over the last 20 years the LAS Natural Gas Procurement Programme has used Edison Energy to execute a four-year natural gas hedging strategy using an aggregated tender process which combines fixed and indexed pricing contracts.

Financial Implications

LAS Electricity Procurement Programme

LAS provided a detailed Electricity Commodity Cost Review for 2020 and 2021 summarized in the table below. The total actual annual electricity savings in 2020 is 2 % or \$54,154 and in 2021 is 5 % or \$91,905 when compared the prevailing rates applied by government rate plan.

	2020			2021		
Programme	RPP Cost*	LAS Cost	\$/%** Saving/Loss	RPP Cost	LAS Cost	\$/%** Saving/Loss
Hedge Accounts	\$2,170,281	\$2,119,502	\$50,779 / 2%	\$1,717,442	\$1,629,933	\$87,509 / 5%
Streetlights	\$28,694	\$25,319	\$3,375 / 12%	\$25,039	\$20,642	\$4,397 / 8%
Total	\$2,198,975	\$2,144,821	\$54,154 / 2%	\$1,742,481	\$1,650,575	\$91,905 / 5%

*2020 RPP/TOU does not reflect COVID-19 relief rates as these were implemented by OEB exclusively for residential, farm and small businesses.

** % rounded to nearest whole number.

LAS Natural Gas Procurement Programme

The table below provides a comparison of Enbridge (South Region) rates to LAS Procurement Programme rates from 2018 to 2021. County facilities (excluding rent-geared-to-income “RGI” properties) are enrolled in the LAS programme. RGI properties are automatically placed on the Housing Services Corporation (HSC) natural gas contract as provincially mandated. Note: natural gas rates are typically published every quarter (LAS/Enbridge) and the table below shows the average annual rate.

LAS	Effective Price (¢/m ³)	Enbridge (South Region)	Price (+/-)
2021 Annual Avg. rate	10.42	14.29	3.87
2020 Annual Avg. rate	9.54	12.66	3.12
2019 Annual Avg. rate	10.60	16.20	5.60
2018 Annual Avg. rate	11.90	15.00	3.10

LAS Benefits

- Fixed annual pricing.
- Leveraged purchasing power with aggregated requirements of participating municipalities.
- Annual rebates (forecast vs actual prices) calculated on a percentage of each members usage.

Concluding Statement

All commodity price hedging agreements are consistent with the County’s statement of policies and goals. Financial agreements are administered by Local Authority Services (LAS) and address commodity pricing and reported results for the fiscal years 2020 and 2021.

Recommendation:

That the Commodity Price Hedging Agreements report for fiscal years 2020 and 2021 be received for information.

Respectfully submitted,



Ken DeHart, CPA, CGA
County Treasurer