



Administrative Report

Office of the Director, Financial Services/Treasurer

To: Warden MacDonald and Members of Essex County Council

From: Melissa Ryan, CPA
Director, Financial Services/Treasurer

Date: Wednesday, October 04, 2023

Subject: Electricity and Natural Gas Update – Commodity Price Hedging Strategy

Report #: 2023-1004-FIN-R20-MR

Purpose

The purpose of this report is to provide Council with an update on the Corporation's utilization of commodity price hedging and recommend continued participation with the Association of Municipalities of Ontario / Local Authority Services Ltd (AMO/LAS) Procurement Programs, to procure, in bulk, electricity and natural gas in the open market on behalf of partnering municipalities.

Background

In accordance with the Municipal Act, 2001, regulation 653/05, and the County of Essex Commodity Price Hedging Policy (Policy 06-11), the Treasurer is required to report annually on all commodity price hedging agreements in place. The goal of the commodity price hedging policy is to allow the Treasurer to enter into fixed price agreements for the future delivery of all or any portion of a commodity when deemed advantageous to do so.

The County continues to utilize the services of AMO/LAS Procurement Programs. As part of the strategy, a hedging contract is used to minimize potential risk of spot market fluctuations.

A hedge is a financial agreement that fixes the price to be paid by the municipality for future delivery of a commodity. A hedge is typically used to reduce cost fluctuations and provide cost certainty.

The County's current agreement with LAS includes a hedge of 50% of its total electricity requirements. This hedging level has been in place since the last report to County Council in October of 2022. The hedge is applicable to all electricity purchased by the Corporation with the exception of street light usage which is kept on the spot market. Because street light energy demand typically occurs during off-peak/lower cost times, the benefit of hedging is low.

For natural gas, LAS purchases incremental gas contracts at various points each year with a goal of building a total hedge portfolio of 80-90% of program requirements for the current year, with the remaining consumption settling at prevailing market rates.

Discussion

Electricity

The Corporation's electricity bills consist of a number of cost components:

- Energy Charge (based on actual usage and set by retailer)
- Global Adjustment Charge (set by province)
- Delivery Charge (set by regulation)
- Regulatory Charges (set by regulation)

The only component of the bill that is eligible for hedging is the energy charge. All other components of the bill are regulated and ineligible for hedge protection.

Appendix A illustrates the hedging results for the Corporation for the period January 1, 2022 to December 31, 2022. Overall, the hedge program returned net savings of approximately \$3,171 over time of use (TOU) rates when combining the Corporation's hedged and streetlight accounts.

Natural Gas

The hedging program for natural gas includes a rebate feature that returns program savings back to participating municipalities. In 2022, the Corporation received a rebate payment in the amount of \$5,262 for the savings earned in 2021.

In terms of the components of the natural gas bill that are eligible for hedging, the program offers pricing stability for the commodity charge well as the deregulated transportation charges. All other components of the natural gas bill are regulated and ineligible for hedging.

The program is designed to provide rate stability rather than guarantee rate savings.

The LAS Natural Gas Program offers a favorable price for its members, considering the volatility of the natural gas market. The program provides protection against unpredictable market conditions and is expected to support gradually rising prices in the second half of 2023. The program has also secured all of its transportation obligations. Lastly, it is important to note that the carbon tax on natural gas has increased as of April 1, 2023.

Administration will continue to monitor the benefit of rate stability compared to lower spot market prices.

Financial Implications

The goal of participating in the LAS hedging programs is to ensure stable commodity rates to assist in annual budgeting. The high level of regulation in the commodity markets does admittedly have a limiting effect on any hedging program.

Rebates received from the natural gas program are recorded in miscellaneous revenue as they are received. The Corporation's Budget reflects the anticipated costs of hydro and natural gas based on the hedge prices obtained through participation in LAS Commodity programs.

Consultations

Local Authority Services – Energy Billing & Settlement Division

Recommendation

That Essex County Council receive report number 2023-1004-FIN-R20-MR the Electricity and Natural Gas Hedging Strategy – 2022 report for information.

Approvals

Respectfully Submitted,

Melissa Ryan

Melissa Ryan, CPA, Director, Financial Services/Treasurer

Concurred With,

Sandra Zwiers

Sandra Zwiers, MAcc, CPA, CA, Chief Administrative Officer

Appendix	Title
A	Electricity Program Results 2022