



City of
Peterborough

TO: Members of the Committee of the Whole

FROM: Sandra Clancy, Director of Corporate Services

MEETING DATE: December 5, 2011

**SUBJECT: Report CPFS11-047
Electricity Price Hedging**

PURPOSE

A report to recommend approval of a Commodity Price Hedging Policy and participation in the Electricity Procurement Program with Local Authority Services Limited.

RECOMMENDATIONS

That Council approve the recommendations outlined in Report CPFS11-047 dated December 5, 2011, of the Director of Corporate Services, as follows;

- a) That the Commodity Price Hedging Policy, as set out in Appendix A to report CPFS11-047, be approved;
- b) That the Electricity Procurement Program in partnership with Local Authority Services Limited, a wholly owned subsidiary company of the Association of Municipalities of Ontario, be approved;
- c) That the execution of an Agency Appointment Agreement between the City of Peterborough and Local Authority Services Limited, for a minimum term of two years, be approved, recognizing that as an agent, Local Authority Services Limited negotiates all required electrical purchases on behalf of procurement program members and communicates the details of the contracts to the program members;

- d) That Local Authority Services Limited be authorized to have access to electricity consumption data from the local utility on an as needed basis, in order to compile load profile information for the procurement program;
- e) That the Mayor and City Clerk be authorized to execute authorizing by-laws on behalf of the Corporation with respect to commodity price hedging agreements;
- f) That the Property and Energy Manager be authorized to execute and sign documents on behalf of the Corporation and manage program-related decisions in accordance with this Policy and the *Municipal Act, 2001*.

BUDGET AND FINANCIAL IMPLICATIONS

It is estimated that there will be at least a 5% savings for the supply of electricity for all City facilities. This would equate to approximately \$175,000. The decision to purchase electricity through Local Authority Services Limited does not affect the operating results of the Peterborough Utilities Group as their revenue is generated from the distribution of power and that would remain the same.

BACKGROUND

Current Electricity Procurement Process

Ontario municipalities can choose one of three ways for the supply of electricity:

1. The Regulated Price Plan (RPP) is based on a fixed price set by the Province that is reset semi-annually. For larger volume accounts, greater than 250,000 kWh, the RPP ended in November 2009. (The City pays RPP for all its smaller accounts.)
2. Market pricing for interval metered accounts and larger volume municipal accounts started in November 2009: Weighted Average Hourly Price (WAP) will apply to conventional meters; and Hourly Ontario Electricity Pricing (HOEP) will apply to interval meters. (The City has some larger volume accounts such as Arenas and Waste Water Treatment Plant.)
3. A Retail Contract where the price is set at a point in time for the future supply of electricity. (i.e. the program with Local Authorities Services Limited (LAS) being recommended in this report.)

The City of Peterborough currently purchases electricity under the Province's Regulated Price Plan (RPP), which is delivered by Peterborough Utilities Group (PUG), our local distribution company (LDC) and Hydro One. The RPP was created to provide some predictability for designated users, including residential, municipalities, universities,

schools and hospitals. The RPP is a two-tiered price structure based on consumption, meaning that municipalities subsidize universities and schools by paying the same fixed rates during off-peak hours (i.e. late evening and overnight) for streetlights and other items despite the much lower actual market cost of electricity during these times.

Ontario is progressively adopting time based electricity pricing. Large volume businesses have been paying an hourly price for electricity since 2002. Homeowners will be paying time-of-use rates with the proposed implementation of smart meters in July 2012 and hourly prices now apply to municipal facilities that use more than 250,000 kWh annually, as of November 2009. The current government is committed to ensuring energy conservation through the true cost of electrical power and has instructed related regulatory agencies to ensure this is the case.

Municipalities leaving the RPP, as is proposed the City do in this report, must settle the variance account. Municipalities exiting the program typically receive a small credit based on their consumption (called the Variance Settlement Factor) as a way of reconciling their account overpayment to the RPP. In calculating the final RPP Variance Settlement amount, the distributor applies the Factor that is in effect on the date of the consumer's final meter read against total consumption for the last 12 months.

Local Authority Services Program

LAS, a wholly owned subsidiary of the Association of Municipalities of Ontario, has developed an electricity procurement program to assist municipalities in the post-RPP era to achieve cost savings on electricity purchases by leveraging savings through group purchasing. By joining together in a pooled purchase, municipalities leverage economies-of-scale when they approach the market as larger tenders and attract better pricing from suppliers.

As the City's LDC does not earn its revenue based on where electricity is purchased, purchasing electricity from LAS or any other retailer will not affect their operating results of the organization. The City would still receive their distribution of power from the LDC.

The LAS program takes a blended approach to purchasing electricity. They purchase up to 75% of the electricity requirements from the forward market (fixed for terms from 6 months up to 1.5 years) and the remaining 25% (or more) is left to the spot market. LAS will acquire blocks of electricity based on the requirements of the program load profile for each program purchasing tool. All LAS program tenders are competitive and involve as many as four pre-qualified suppliers.

The balance of the load requirements will be purchased on the spot market at the Hourly Ontario Energy Price (HOEP). Members can choose their desired hedging level. LAS does not allow for a hedging level of more than 75%, however, members may customize their own lower hedge level if desired – a 75% hedge ensures that there is no over-buying for any program members and leaving at least 25% of usage to the spot market provides flexibility and avoids claims of speculation.

The LAS Program also provides flexibility in that unique purchasing options can be examined for interval meters within any municipality – if interval meters exist.

Street lighting and traffic signal accounts are treated differently in the LAS program, as there is more opportunity for savings on the spot market for these accounts because most consumption is during “off-peak” hours. After a municipality enrolls, LAS will move their street lighting and traffic signal accounts to the spot market and they will charge a \$6 per account fee for this service. The City has 6 street lighting and traffic signal accounts.

Pricing realized in LAS’s most recent tender for 2012 (including 96 municipalities) was 3.43 cents per kWh (fees included) for all hedged accounts. This should translate into savings of approximately 0.5 cents/kWh against current RPP rates even with the Global Adjustment factored in. RPP prices, as of November 2011, are 7.1 cents/kWh (for the first 750 kWh), and 8.3 cents/kWh for all additional usage. The rates represent a 4.8% increase from the previous RPP prices of 6.8 and 7.9 cents/kWh, respectively.

Presently, 96 municipalities, urban and rural, large and small, participate in the program. Collectively the LAS represents an annual hedge volume of approximately 360,000 MWh across 6,000 enrolled accounts. Current LAS program members are realizing cost savings compared to available government Regulated Price Plan (RPP) rates. 2011 average commodity savings were 5% compared to available RPP rates for hedged accounts and 15% for streetlights and traffic lights.

LAS is paid a fee of 0.15 cents/kWh for all electricity hedged on behalf of the municipality for required billing and settlement services. LAS uses this fee to cover the cost of billing and settlement software purchased to manage the administration of this program. Any consumption left to the spot market is not charged an administration fee. For further clarity, the fees are as follows:

- 0.15 cents/kWh for any electricity under a hedge agreement (max 75% of total consumption)
- \$6 per month for the billing and settlement of each street light and traffic signal account

While there is no guarantee that the LAS hedged price will be less than the RPP rates over the full period of the contract, entering into a retailer contract such as that being offered by LAS would provide budget stability rather than continuing to be subject to the volatility of market prices. Unlike other retailers, LAS is committed to acting in the best interest of all AMO members. If we choose to enter into a contract on our own we will have to undertake a contract development process with retailers/suppliers that are often lengthy, arduous and costly.

The objectives of the hedging program are generally synonymous with municipal objectives:

1. Facilitates Budgeting – purchasing blocks of electricity will produce stable prices for budgeting;
2. Competitive Pricing – provide savings on required purchases; and
3. Maximize Purchasing Power – pooling requirements can leverage better pricing than individually.

The LAS program provides strategic advice related to purchases, effective program oversight, and ongoing accountability. Regular program oversight is provided by the LAS Energy Advisory Committee and LAS Board of Directors, both of which are comprised of municipal representatives. Presently the City of Peterborough's Property and Energy Manager is a member of the LAS Energy Advisory Committee. LAS functions as a retailer for electricity in Ontario and offers their service only to Ontario municipalities and they do not operate under the same expectations for profit as other retailers. In addition, the LAS Energy Services Division offers a range of conservation and demand management services to members of the LAS procurement programs.

Findings

City staff have reviewed and monitored the program since early 2009. With the upcoming implementation of smart meters (in approximately July 2012), staff recommends pursuing the LAS Electricity Procurement Program.

Section 6(1) of the Ontario Regulation 653/05 of the *Municipal Act, 2001* requires a municipality to adopt a statement of policies and goals relating to the use of financial agreements to address commodity pricing and costs prior to approving a by-law authorizing a commodity price hedging agreement. Such a policy is attached as Appendix A.

Staff recommends that the City of Peterborough enter into an Electricity Appointment and Retainer Agreement with LAS. The initial agreement would be for a term of two years and thereafter automatically renew until terminated by either Party.

SUMMARY

There are several vendors in the de-regulated marketplace selling fixed price contracts. The Municipal/MUSH sector is large enough to support its own dedicated approach to ensure the best program. The needs among members are quite similar, usage by time of day is similar but volumes will vary. The proposed LAS program recognizes these similarities and volume variances by providing the same benefit per kWh to every member.

Submitted by,

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Director of Corporate Services

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Property and Energy Manager

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Attachments:
Appendix A - Commodity Price Hedging Policy

Appendix A
Commodity Price Hedging Policy



DRAFT POLICY

COMMODITY PRICE HEDGING

Policy Type:	Administration	Effective Date:	
Department:	Corporate Services	Approval Level:	Council
Division:	Financial Services	Policy #:	
Section/Facility:	Property Maintenance	Revision #:	N/A

1.0 PURPOSE

- 1.1 The purpose of this policy is to ensure compliance with sections 5, 6, and 7 of Ontario Regulation 653/05, made under the Municipal Act, 2001, which provides a mandatory framework to be followed by a municipality regarding commodity price hedging agreements.

2.0 APPLICATION

- 2.1 This policy and its related procedure applies to all persons responsible for overseeing, developing, administering, processing, and/or entering into commodity price hedging agreements on behalf of the City, its agencies, boards, or commissions.
- 2.2 This policy applies to any commodity, as defined in this policy.

3.0 DEFINITIONS/ACRONYMS (As Required)

City - The Corporation of the City of Peterborough, its agencies, boards and commissions.

Commodity - "Commodity", as defined in Ontario Regulation 653/05 (the "Regulation"), under the Municipal Act, 2001, means,

whether in the original or a processed state, an agricultural product, a forest product, a product of the sea, a mineral, a metal, a hydrocarbon fuel, electricity, a precious stone or other gem and other physical goods but does not include chattel paper, a document of title, an instrument, money or securities.



DRAFT POLICY

COMMODITY PRICE HEDGING

3.0 DEFINITIONS/ACRONYMS (As Required)

Commodity Price Hedging Agreement - "Commodity price hedging agreement", as described in Section 5 of the Regulation, which essentially states that it is a financial agreement that:

- (a) A municipality has entered into, or plans to enter into, for the supply of a commodity required for a municipal system, to minimize the cost or financial risk associated with incurring debt for the commodity.
- (b) Fixes, directly or indirectly, or enables the municipality to fix the price or range of prices to be paid by the municipality for the future delivery of some or all of the commodity or the future cost to the municipality of an equivalent quantity of the commodity.

4.0 POLICY STATEMENT(S)

- 4.1 The City shall consider a commodity price hedging agreement when such an agreement is demonstrated to be advantageous for the City. Such an agreement shall be assessed, entered into, and administered in accordance with sections 5, 6, and 7 of the Regulation, as outlined in the related procedure.



DRAFT POLICY

COMMODITY PRICE HEDGING

5.0 APPENDIX, RELATED POLICIES, PROCEDURES & LINKS

5.1 Pertinent Resources

Ontario Regulation 653/05, made under the [Municipal Act, 2001](#)
http://www.e-laws.gov.on.ca/html/regs/english/elaws_regs_050653_e.htm

5.2 Related Policies

N/A

5.3 Related Procedures

Commodity Price Hedging Procedure

5.4 Related Forms

N/A

5.5 Miscellaneous

N/A

6.0 AMENDMENTS/ REVIEWS

Next Review Date	
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Date (yyyy-mm-dd)	Section(s) Amended	Comments
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