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ELECTRICITY PROCUREMENT STRATEGY UPDATE

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report dated October 8, 2009, from the Commissioner of Corporate Services.

1. RECOMMENDATION

It is recommended that Council receive this report for information purposes.

2. PURPOSE

This report provides Council with an update on the York Region Electricity Procurement Strategy, specifically with respect to securing a Program Manager to assist the Region in developing and implementing a forward price hedging strategy.

3. BACKGROUND

Electricity costs are a significant expense for the Region

According to the Corporate Energy Report 2008, approved by Council in June 2009, total energy costs for the Region were $37.3 million in 2008. Of this, $11.1 million or 30% was spent on electricity. (The bulk of the rest was spent on vehicle fuel.) The Environmental Services Department was the largest user of electricity, consuming $6.5 million.

The evolving electricity market warrants new risk mitigation strategies

The Province of Ontario has advised that municipalities will no longer be able to purchase electricity under the Regulated Price Plan (RPP) by November 1, 2009 for most electricity accounts. The loss of price smoothing under the RPP increases the Region's exposure to the spot market and to the associated risk of increased price volatility. In consequence, Council previously approved the issuance of a Request for Proposal (RFP) for fixed-price hedge contracts to stabilize the price for a portion of the Region's electricity needs. This is analogous to hedging the forward price for vehicle fuel. However, the electricity market is significantly more complicated, requiring outside program management support.

Other components of the Electricity Procurement Strategy are already yielding benefits

In alignment with the Region's Sustainability Strategy, and as approved by Council in May 2007, green power was procured via RFP from Bullfrog Power starting in early 2008. The power is sourced from emissions-free wind and low-impact hydro generators in Ontario. This covers the Household Hazardous Waste depot in East Gwillimbury and a portion of the Administrative Centre, and more recently includes the new Stouffville Zone 2 Pumping Station. Annual greenhouse gas mitigation is 520 tonnes CO_2 equivalent, or 0.6% of the Corporation's total emissions, at a cost of $73,800. The Region's CAO appears in a video on the Bullfrog website with a number of mayors from other municipalities, to describe the benefits of supporting green power.

A number of electricity accounts were pre-emptively moved from the RPP to the spot market starting in 2007. These accounts were identified to have substantial off-hours consumption and could take advantage of cheaper off-peak prices. This resulted in a favourable one-time RPP exit credit of $123,000 plus ongoing savings of approximately $215,000 per year.

As reported to Council in October 2008, electricity demand response using emergency generators at the Aurora Sewage Pumping Station should be available soon, producing revenue of at least $18,000 annually. Expanded demand response capability is being assessed at this and other Regional facilities, and will be incorporated into a report in late 2010 or early 2011.

4. ANALYSIS AND OPTIONS

A Program Manager for the electricity contracts has been selected

An RFP was issued with the following key deliverables:

- i) Develop a Hedging Strategy
- ii) Establish Supplier Relationships
- iii) Tender Commodity Contracts
- iv) Track and Report Ongoing Results

Fourteen firms received the bid documents, six firms provided submissions for evaluation (including AMO/LAS), and two met the minimum technical score. The proposal from WattsWorth Analysis Inc. was chosen on the basis of technical and financial merit for a term of three years.

WattsWorth currently provides similar program management services to other municipalities including Halton Region, Durham Region, City of Burlington, City of London, City of Mississauga, City of Oshawa, Town of Markham, and the Town of Richmond Hill. WattsWorth has made available skilled and experienced staff, well versed in municipal government, for this project.

The electricity hedging strategy is now being developed

With the Program Manager in place, the hedging strategy is now in the early stages of being developed, in adherence with the Region's approved Commodity Price Hedging Policy. Steps in the process are summarized below (note that some steps are concurrent and some will be ongoing):

1. Know the customer – meet with stakeholders to establish objectives and processes
2. Know the market – gather market data and negotiate enabling agreements with suppliers
3. Define the baseline – gather Region's electricity data
4. Analyze – assimilate objectives, market data, electricity data to develop procurement strategies
5. Model and test – quantify risks and rewards from each possible strategy
6. Choose the best option – secure consensus, report to Council
7. Aggregate and transact – conduct competitive tender for hedge volumes
8. Evaluate – ensure smooth start-up and monitor / report results
9. Communicate – stay current on market developments, address ad hoc inquiries

Step 6, the report to Council is expected in the first quarter of 2010.

5. FINANCIAL IMPLICATIONS

The recent RFP No. P-09-53 for Program Management - Forward Fixed Price Electricity Contracts was awarded to WattsWorth Analysis Inc. at a total cost over three years of $62,370 inclusive of GST.

Annual electricity cost for the Region is approximately $11 million. Regulated charges represent about one-third, and the more volatile commodity cost accounts for the rest. The Province already has a measure of commodity price levelling in place, so possibly 30% ($2 million) of our commodity cost will be hedged with forward fixed price contracts. To further limit risk and achieve the best price possible, multiple contracts are likely to be used with expected durations from six months to three years.

Savings could be achieved as a result of entering into forward fixed price electricity contracts however the main goal of these financial instruments is to mitigate financial risk from price volatility.

6. LOCAL MUNICIPAL IMPACT

There are no local municipal implications associated with this report.

7. CONCLUSION

WattsWorth Analysis Inc. was awarded Program Management – Forward Fixed Price Electricity Contracts. The Region is now positioned to develop strategies and processes for establishing hedges to reduce electricity price volatility. Staff will report back to Regional Council at that time, in early 2010, prior to implementing the hedge strategy.

For more information on this report, please contact Michael Lithgow, Manager Corporate Energy Services at ext. 1743.

The Senior Management Group has reviewed this report.