

3

ELECTRICITY PROCUREMENT STRATEGY UPDATE

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report, September 10, 2008, from the Commissioner of Corporate Services:

1. RECOMMENDATIONS

It is recommended that:

1. Regional Council adopts the revised electricity procurement strategy as outlined in this report and approves the issuing of a Request For Proposal (RFP) to secure a fixed price contract with an active participant in the Ontario wholesale energy marketplace.
2. Staff report back to Council on the results of the RFP, early 2009.

2. PURPOSE

This report provides Council with an update on the York Region Corporate Electricity Procurement Strategy as well as a revision to the procurement method for electricity fixed price contracts.

3. BACKGROUND

Historical perspective as to why a Procurement Strategy is required

The Province of Ontario has indicated that Municipalities, Universities, Schools, and Hospitals (referred to as the MUSH sector), will no longer be able to purchase electricity under the Regulated Price Plan (RPP) by April 1, 2010. By adopting the proposed Electricity Procurement Strategy the Region will mitigate financial risk and realize cost reduction while demonstrating environmental stewardship.

The proposed strategy has been developed in adherence with the Region's approved Commodity Price Hedging Policy. The commodities to which this Policy relates are those typically purchased by the Region in the market place at the current price at time of purchase, also referred to as the spot market. Commodities purchased in the spot market are often subject to considerable price volatility—witness hydrocarbon fuels and electricity.

Previous Council decision

In May 2007, Regional Council approved the following:

1. The adoption of an interim Electricity Procurement Strategy that includes a combination of the Regulated Price Plan, the Wholesale/Spot Market, and a Fixed Price Contract.
2. Authorization to negotiate a contract with the Association of Municipalities of Ontario (AMO)/ Local Authority Services (LAS) as part of their electricity services program.
3. The adoption and implementation of the purchase of Green Power for two facilities within the property portfolio.

Council requested Staff to report back with a further refinement to the Procurement Strategy.

Significant savings have been realized

All fourteen (14) of the Region's non residential interval metered electricity accounts have been successfully removed from the Regulated Price Plan (RPP) and placed on the wholesale/spot market. The removal of these accounts from the RPP has resulted in the favourable one-time RPP exit credit payment of \$123,000. This one-time credit is in addition to an estimated annual cost savings of \$600,000 for these accounts which reflects the difference between the RPP and spot market rates where real time consumption is measured by the interval meters. While the annual cost savings will fluctuate yearly due to future facility operation practices, the future supply mix to produce electricity in Ontario (local and import) and the demand for that same electricity, significant savings will be gained on an on-going basis.

Analysis of options is ongoing

Prior to implementing Council's direction to enter into an agreement with AMO/LAS, staff exercised further due diligence and hired a consultant to conduct an electricity fixed price contract procurement analysis with the goal of providing a thorough analysis and recommendation for the blocking and hedging of York's electricity requirements as well as a review of existing procurement models including AMO/LAS. The recommended custom blocking and partial hedge option takes full advantage of the inexpensive power that is available through the Provincial Benefit and Ontario Power Generation (OPG) rebate while protecting the exposed portion of York's load from the extreme volatility of the Ontario power market.

Green Power option secured

In alignment with York Region's Sustainability Strategy, a joint green power RFP was issued with the Town of Aurora, resulting in Bullfrog Power being selected as the preferred vendor to supply Green Power to two Regional owned facilities and the Aurora Town Hall. The York Region green powered facilities are: the Administrative Centre and the Household Hazardous Recycling Depot located in East Gwillimbury. The annual cost in addition to the regular hydro bill to purchase 2,447,826 kWh of green power for the above two facilities is \$73,112 or 12% of the combined annual electricity bill in 2007.

4. ANALYSIS AND OPTIONS

Protects the Region

York Region would enter into Electricity Fixed Price Contracts by issuing a Request For Proposal (RFP) to secure a full service supply management relationship with an active participant in the Ontario wholesale energy marketplace. The AMO/LAS Electricity Services Program will be asked to respond to this RFP.

The strategic program goal is to establish three year contracts that match the Region's business planning and reporting cycle. It is recommended that the Region utilize a custom blocking solution in a combination of blocks of power that match its consumption profile.

The unique benefit of this option is that it provides an ideal balance between price certainty and cost effectiveness for the unique power requirements of the Region's operational areas, while ensuring that budget certainty is planned and managed effectively.

The RFP procurement method provides a useful vehicle to gather competitive pricing from a list of pre-qualified bidders and allows for the comparison of similar programs, including the existing AMO/LAS model, to ensure that the Region secures the best price for the following deliverables:

- i. Active account management
- ii. Monthly & quarterly reviews and proactive recommendations on the effect of regulatory changes and market opportunities
- iii. Procurement and management of fixed price electricity contracts
- iv. Monthly and quarterly customized market and verification reports
- v. On-going consulting services to adjust the strategy to reflect changes in future consumption

5. FINANCIAL IMPLICATIONS

The Region has successfully removed fourteen (14) interval metered electricity accounts from the Regulated Price Plan (RPP) and placed them on the wholesale/spot market. This has resulted in a favourable one-time RPP exit credit payable to the Region in the amount of \$123,000. This one time credit is in addition to estimated annual cost savings of \$600,000 of being on the spot market.

York Region staff issued a joint green power RFP with the Town of Aurora resulting in Bullfrog Power being selected as the preferred vendor to supply Green Power to two Region owned facilities as well as the Aurora Town Hall. The two York Region green powered facilities are the Administrative Centre and the Household Hazardous Recycling Depot located in East Gwillimbury which incur an annual cost in addition to the regular hydro bill of \$73,112.

By issuing a RFP for the prescribed custom blocking recommendation and procuring electricity at a 40% hedge until May 2009 and a 60% hedge for an additional two years, the Region will utilize the most cost effective means of procuring power while ensuring that budget certainty is planned into each budget cycle and the corporation's future goals and changing regulatory requirements are taken into account.

6. LOCAL MUNICIPAL IMPACT

There are no local municipal implications associated with this report.

7. CONCLUSION

It is recommended that York refine the entering into Electricity Fixed Price Contracts by issuing a Request For Proposal (RFP) to secure a full service supply management relationship with an active participant in the Ontario wholesale energy marketplace to incorporate York Region's custom blocking and hedging strategy. This RFP procurement method provides a useful vehicle to gather competitive pricing from a list of pre-qualified bidders and allow the comparison of their programs including the existing AMO/LAS model to ensure that the Region secures the best price for its program deliverables. Staff plan to report back to Regional Council early 2009, with the results of the RFP.

For more information on this report, please contact Barry Crowe at Ext. 1684.

The Senior Management Group has reviewed this report.