



# The Regional Municipality of Durham Information Report

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From: Commissioner of Finance  
Report: #2023-INFO-69  
Date: August 18, 2023

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**Subject:**

Annual Reporting of Commodity Price Hedging Agreements for the Region of Durham for the 2022 Fiscal Year

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**Recommendation:**

Receive for information.

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**Report:**

**1. Purpose**

- 1.1 The purpose of this report is to provide Council with the details of the Commodity Price Hedging Agreements for the Region of Durham for the year ending December 31, 2022, in accordance with the Region's Commodity Price Hedging Agreements: Statement of Policies and Goals and Ontario Regulation 653/05.

**2. Previous Reports and Decisions**

- 2.1 Staff reports to Council annually on Commodity Price Hedging Agreements. The 2021 report ([Report 2022-INFO-85](#)) was presented on October 28, 2022.

**3. Background**

- 3.1 On June 20, 2007, Regional Council approved the Commodity Price Hedging Agreements: Statement of Policies and Goals for the Region of Durham, as outlined in Report 2007-F-53. The primary purpose for the development of the Statement of Policies and Goals was to provide the Region with the appropriate framework and guidelines when considering commodity price hedging agreements which can assist in providing greater price stability and certainty during periods of price volatility.

#### 4. Reporting Requirements

- 4.1 As noted in the Statement of Policies and Goals, the Commissioner of Finance and Treasurer shall report to Council annually with respect to any and all commodity price hedging agreements that are in place. The report shall contain, as a minimum, all requirements as set out in Ontario Regulation 653/05 and will consist of:
- A summary of any contingent payment obligations under the commodity price hedging agreement that, in the opinion of the Commissioner of Finance and Treasurer, would result in a material impact for the municipality, including agreement termination provisions, equipment loss, equipment replacement options and guarantee indemnities; and
  - A summary of the assumptions applicable to any possible variations in the commodity price hedge agreement payment and contingent payment obligations.

#### 5. The Region's Current Natural Gas Consulting Agreement

- 5.1 As approved by Council through Report [2019-F-40](#) (Request for Proposals RFP #348-2019), Blackstone Energy Services Inc. was awarded the contract for the provision of consulting and related services for the supply of natural gas for the Region for a three-year term with an option to extend for up to two additional one-year terms. The new contract was made effective November 28, 2019 and the Region recently exercised the first of the two additional one-year terms.

##### The Region's Current Natural Gas Price Hedging Strategy

- 5.2 The Region currently has almost 23,900 m<sup>3</sup>/day of natural gas volumes committed to the distribution system through its Direct Purchase Agreement. The Region was billed for almost 10.5 million m<sup>3</sup> in total natural gas volumes for the 2022 calendar year at an estimated cost of almost \$5.2 million across all Enbridge accounts including DRLHC locations (and approximately \$4.4 million excluding DRLHC accounts).<sup>1</sup>
- 5.3 In the 2022 fiscal year, to hedge against seasonal volatility, the Region entered into the following fixed price transactions:

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<sup>1</sup> DRLHC accounts receive natural gas through either the Housing Services Corporation (HSC) natural gas bulk purchase program or through OEB-approved system gas rates (approved and updated on a quarterly basis).

**2022 Fixed Block Transactions for Natural Gas Supply for Regional Managed Pools**

Start Date	End Date	GJ/day	Cost per Unit	
11/01/2021	10/31/2022	214	\$3.34/GJ	\$0.128/m <sup>3</sup>
02/01/2022	03/31/2022	250	\$4.48/GJ	\$0.172/m <sup>3</sup>
11/01/2022	10/31/2024	125	\$6.57/GJ	\$0.253/m <sup>3</sup>
11/01/2022	10/31/2023	100	\$7.69/GJ	\$0.296/m <sup>3</sup>
11/01/2022	10/31/2023	100	\$6.97/GJ	\$0.268/m <sup>3</sup>
11/01/2022	10/31/2023	50	\$6.65/GJ	\$0.256/m <sup>3</sup>
11/01/2022	10/31/2024	65	\$6.21/GJ	\$0.239/m <sup>3</sup>
11/01/2022	10/31/2023	125	\$6.08/GJ	\$0.234/m <sup>3</sup>
11/01/2022	10/31/2024	60	\$6.42/GJ	\$0.247/m <sup>3</sup>
11/01/2022	10/31/2023	40	\$7.55/GJ	\$0.290/m <sup>3</sup>
11/01/2022	10/31/2023	40	\$8.84/GJ	\$0.340/m <sup>3</sup>
11/01/2022	10/31/2023	45	\$7.33/GJ	\$0.282/m <sup>3</sup>

**Notes:** Costs are landed, not including local tolls from CDA Enbridge to Union Dawn. Gigajoule (GJ) conversion to cubic metres (m<sup>3</sup>) assumes 1 GJ = 26 m<sup>3</sup>.

- 5.4 Overall, through the execution of the hedges for 2022, it is estimated that the Region's hedging activity resulted in costs that were approximately \$129,500 lower than otherwise would have been incurred securing supply at prevailing index/spot market pricing under the Region's Direct Purchase Agreement (approximately \$0.04/m<sup>3</sup> lower for applicable hedged volumes).
- 5.5 For the 2022 fiscal year overall, it is estimated that the Region's natural gas acquisition costs were approximately \$0.261/m<sup>3</sup> (weighted average), inclusive of transportation costs for its Ontario landed natural gas including all index and balancing transactions as well as fixed-block purchases. The Region's weighted average cost of gas was comparable to other natural gas pricing options and programs such as:
- Default Enbridge system gas rate as approved by the Ontario Energy Board (2022 estimated simple average of \$0.218/m<sup>3</sup>, including rate rider adjustments, and \$0.261/m<sup>3</sup>, including transportation);
  - Local Authority Services (LAS) Natural Gas Program price of \$0.117/m<sup>3</sup> (not including transportation and priced at western Canada hub) for the 2021-22 program year and \$0.141/m<sup>3</sup> for the 2022-23 program year.<sup>2</sup> With transportation to Union Dawn ranging between approximately \$0.038/m<sup>3</sup> to \$0.051/m<sup>3</sup> during 2022, the total all-in cost was estimated to be in the range of \$0.155/m<sup>3</sup> and \$0.192/m<sup>3</sup> during 2022; and

<sup>2</sup> The LAS program year starts on November 1<sup>st</sup> and concludes on October 31<sup>st</sup> of the following year. Estimates assume transportation to Dawn at OEB-approved Rate 6 transportation rates although LAS may also secure its own transportation component for associated natural gas volumes.

- Housing Services Corporation (HSC) Bulk Purchase Program (2022 program commodity price of almost \$0.156/m<sup>3</sup> plus transportation rate of \$0.031/m<sup>3</sup> for total landed price of \$0.187/m<sup>3</sup>).<sup>3</sup>
- 5.6 With supporting market intelligence and analysis as provided by Blackstone Energy Services, Regional staff are kept up-to-date regarding market conditions and proactively secure natural gas supply for Regional accounts where deemed financially beneficial to do so. Any price hedge is incurred primarily to ensure a secure source of supply and cost certainty given supply constraints are more often experienced over the winter heating season.

## **6. The Region's Current Electricity Consulting Agreement**

- 6.1 Since February 2021, following award through a competitive bid process (RFP #529-2020), the Region has been utilizing Jupiter Energy to provide strategic electricity procurement and account management services to the Region for a two-year term with the right to extend the contract for an additional one-year term, which the Region has exercised. Among the services provided by Jupiter Energy is support and input to annual electricity budgets and forecasts, peak demand monitoring and curtailment notifications, and the development of procurement strategies through obtaining competitive bids for the supply of electricity to the Region's facilities using commodity price hedging agreements, where deemed appropriate.
- 6.2 The Region's facilities, including Duffin Creek Water Pollution Control Plant and Durham Regional Local Housing Corporation (DRLHC) properties, are estimated to have consumed almost 189 million kWh of electricity in 2022 (metered and not adjusted for losses), at an estimated total cost of over \$24 million across almost 700 individual end-use accounts (including applicable taxes).<sup>4</sup>

### The Region's Current Electricity Price Hedging Strategy

- 6.3 There are currently no fixed price hedging arrangements in place for any of the Region's electricity accounts as spot market electricity pricing has not reached a consistent level that would pose a significant risk to the Region.
- 6.4 In addition to facilitating hedges (where required), the Region's electricity advisor also provides services such as strategic advice in account structures, pricing and exiting the Regulated Price Plan (RPP, either tiered or Time-of-Use) and shifts to spot market pricing. While the Region has used such retail billing agent services in

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<sup>3</sup> Annual HSC program price is a function of term selected at time of program enrolment. Program price above indicative of one year term.

<sup>4</sup> Duffin Creek WPCP consumption and cost values are total for the plant. Duffin Creek WPCP is jointly owned by the Regional Municipality of Durham and the Regional Municipality of York.

prior years, no Regional accounts were enrolled in such services in 2022.

- 6.5 The Region's electricity advisor also provides support for load curtailment events to allow the Region to undertake peak shifting and/or reduction activities during grid-wide high electricity demand peak periods which benefits accounts which are deemed eligible for Class A designation under the Industrial Conservation Initiative (ICI) program with the IESO (generally classified as 1MW average demand or greater). Since 2015 to June 2023 (inclusive), it is estimated that the Region's Class A accounts have avoided over \$32.5 million in Global Adjustment charges as a result of being Class A accounts and reducing peak demand during system-wide peak periods.

## **7. Potential Variations in Commodity Price Hedge Agreement Payment and Contingent Payment Obligations**

- 7.1 Hedging arrangements provide for fixed commodity pricing and the Region only contracts with credit-worthy counterparties which adhere to the requirements of the Region's Commodity Hedging Policy. Given this, there are no reasonably expected variations in the price payment of related contingent payment obligations related to commodity hedge transactions(s).
- 7.2 Given the Region transacts with natural gas suppliers on a regular basis, it has in place base supply agreements with six (6) natural gas suppliers (Direct Energy, EDF Trading, BP Corporation North America, Suncor Energy, RBC and Shell Energy) which ensures a competitive process for all supply transactions. Regional staff continues to work with Blackstone for the purposes of onboarding additional credit-worthy counterparties to further enhance competitiveness among the Region's natural gas suppliers.
- 7.3 For electricity-related transactions, while options are often reviewed, the Region does not currently have any active base agreements with any electricity suppliers although the Region is currently working with its electricity advisor, Jupiter Energy, to onboard prequalified electricity suppliers to allow for future transacting, should such market opportunities deem it financially beneficial to do so.

## **8. Relationship to Strategic Plan**

- 8.1 This report aligns with/addresses the following strategic goals and priorities in the Durham Region Strategic Plan:
- Goal 5.1 Service Excellence – to provide exceptional value to Durham taxpayers through responsive, effective and financially sustainable service delivery.

**9. Conclusion**

- 9.1 For the 2022 fiscal year, while there were no hedges in place for the Region's electricity accounts, the Region did enter into several fixed price transactions for its natural gas accounts for the purposes of providing enhanced price stability and overall cost certainty.
- 9.2 Regional staff continue to work collaboratively with the Region's respective energy advisors and, with evaluation of market conditions and supporting price and account analysis, will consider opportunities for additional commodity price hedging arrangements, where appropriate and where considered financially beneficial to do so.

Respectfully submitted,

Original Signed By

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Commissioner of Finance