



The Regional Municipality of Durham Information Report

From: Commissioner of Finance
Report: #2024-INFO-68
Date: October 25, 2024

Subject:

Annual Reporting of Commodity Price Hedging Agreements for the Region of Durham for the 2023 Fiscal Year

Recommendation:

Receive for information.

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, 2023, 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 On June 20, 2007, Regional Council approved the Commodity Price Hedging Agreements: Statement of Policies and Goals for the Region of Durham ([Report #2007-F-53](#)). This policy provides 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.

2.2 On September 27, 2023 Regional Council through [Report #2023-F-18](#), approved amendments to the Region's Statement of Policies and Goals which modernized the policy including allowing for a wider range of risk control measures for particular commodity price hedging policy agreements.

2.3 Staff reports to Council annually on Commodity Price Hedging Agreements. The 2022 report ([Report #2023-INFO-69](#)) was presented on August 18, 2023.

3. Reporting Requirements

3.1 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.

4. The Region's Current Natural Gas Consulting Agreement

4.1 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 last of the two additional one-year terms and is currently undertaking a competitive procurement process to ensure the Region has a vendor in place for when the current contract ends.

The Region's Current Natural Gas Price Hedging Strategy

- 4.2 The Region currently has almost 25,500 m³/day of natural gas volumes committed to the distribution system through its Direct Purchase Agreement. The Region was billed for almost 10.8 million m³ in total natural gas volumes for the 2023 calendar year at an estimated cost of almost \$6.2 million (including all applicable taxes) across all Enbridge accounts including DRLHC locations (approximately \$5.3 million excluding DRLHC accounts).¹
- 4.3 In the 2023 fiscal year, to hedge against seasonal volatility, the Region entered into the following fixed price transactions:

¹ 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).

2023 Fixed Block Transactions for Natural Gas Supply for Regional Managed Pools

Start Date	End Date	GJ/day	Cost per Unit	
11/01/2022	10/31/2023	50	\$6.65/GJ	\$0.256/m ³
11/01/2022	10/31/2023	100	\$6.97/GJ	\$0.268/m ³
11/01/2022	10/31/2023	45	\$7.33/GJ	\$0.282/m ³
11/01/2022	10/31/2023	40	\$7.55/GJ	\$0.290/m ³
11/01/2022	10/31/2023	40	\$8.84/GJ	\$0.340/m ³
11/01/2022	10/31/2023	100	\$7.69/GJ	\$0.296/m ³
11/01/2022	10/31/2023	125	\$6.08/GJ	\$0.234/m ³
11/01/2022	10/31/2024	125	\$6.57/GJ	\$0.253/m ³
11/01/2022	10/31/2024	65	\$6.21/GJ	\$0.234/m ³
11/01/2022	10/31/2024	60	\$6.42/GJ	\$0.247/m ³
11/01/2023	03/31/2024	100	\$4.61/GJ	\$0.177/m ³
11/01/2023	03/31/2024	50	\$4.82/GJ	\$0.185/m ³
11/01/2023	03/31/2024	95	\$4.33/GJ	\$0.167/m ³
11/01/2023	03/31/2024	50	\$4.93/GJ	\$0.190/m ³
11/01/2023	10/31/2024	50	\$4.42/GJ	\$0.170/m ³
11/01/2023	10/31/2024	50	\$4.53/GJ	\$0.174/m ³
11/01/2023	10/31/2024	100	\$4.29/GJ	\$0.165/m ³

Notes: Costs are landed, not including local tolls from CDA Enbridge to Union Dawn. Gigajoule (GJ) conversion to cubic metres (m³) assumes 1 GJ = 26 m³.

- 4.4 Overall, through the execution of the hedges for 2023, it is estimated that the Region's hedging activity resulted in costs that were approximately \$0.14/m³ higher than otherwise would have been incurred securing supply at prevailing index/spot market pricing under the Region's Direct Purchase Agreement (for applicable hedged volumes).
- 4.5 For the 2023 fiscal year overall, it is estimated that the Region's natural gas acquisition costs were approximately \$0.221/m³ (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 (2023 estimated simple average of \$0.166/m³, including rate rider adjustments, and \$0.211/m³, including transportation);
 - Local Authority Services (LAS) Natural Gas Program price of \$0.141/m³ (not including transportation and priced at western Canada hub) for the 2022-23

program year and \$0.136/m³ for the 2023-24 program year.² With transportation to Union Dawn ranging between approximately \$0.043/m³ to \$0.05/m³ during 2023, the total all-in cost was estimated to be in the range of \$0.181/m³ and \$0.191/m³ during 2023; and

- Housing Services Corporation (HSC) Bulk Purchase Program (2023 program commodity price of almost \$0.238/m³ plus transportation rate of \$0.069/m³ for total landed price of \$0.31/m³).³

4.6 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.

5. The Region's Current Electricity Consulting Agreement

- 5.1 From February 2021, following award through a competitive bid process (RFP #529-2020), the Region utilized 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 exercised. Among the services provided by Jupiter Energy was 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.
- 5.2 Effective March 1, 2024, following a competitive bid process (RFP #529-2023) and with the expiry of the prior agreement, the Region has contracted with ECNG Energy Group to provide similar strategic electricity procurement and account management services to the Region for a three-year term with a right to extend the contract for up to two additional one-year terms.
- 5.3 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 195 million kWh of electricity in 2023 (metered and not adjusted for losses), at an estimated total cost of over \$24 million across almost

² The LAS program year starts on November 1st and concludes on October 31st 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.

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

700 individual end-use accounts (including applicable taxes).⁴

The Region's Current Electricity Price Hedging Strategy

- 5.4 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.
- 5.5 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 prior years, no Regional accounts were enrolled in such services in 2023.
- 5.6 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). From July 2015 to May 2024 (inclusive), it is estimated that the Region's Class A accounts have avoided over \$36.7 million in Global Adjustment charges as a result of being Class A accounts and reducing peak demand during system-wide peak periods.

6. Potential Variations in Commodity Price Hedge Agreement Payment and Contingent Payment Obligations

- 6.1 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).
- 6.2 Given the Region transacts with natural gas suppliers on a regular basis, it has in place active base supply agreements with five (5) natural gas suppliers (Direct Energy, EDF Trading, BP Corporation North America, Suncor Energy and Shell Energy) which ensures a competitive process for all supply transactions. Where possible, 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.
- 6.3 For electricity-related transactions, while options are often reviewed, the Region does not currently have any active base agreements with any electricity suppliers

⁴ 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.

although the Region is currently working with its current electricity advisor, ECNG Energy Group, to onboard prequalified electricity suppliers to allow for future transacting, should such market opportunities deem it financially beneficial to do so.

7. Relationship to Strategic Plan

7.1 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.

8. Conclusion

8.1 For the 2023 fiscal year, while there were no hedges in place for the Region's electricity accounts, the Region did enter into a number of fixed price transactions for its natural gas accounts for the purposes of providing enhanced price stability and overall cost certainty during a notably volatile period in natural gas markets which spanned from 2022 and into 2023. While the resultant transacted volumes were secured at a price premium in contrast to the prevailing spot market pricing that may have otherwise been available, the final weighted average cost of transacted natural gas for the year was still within a price range comparable to other natural gas pricing options and programs.

8.2 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