



## Staff Report

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<b>Report To:</b>	<b>General Government Committee</b>		
<b>Date of Meeting:</b>	February 5, 2024	<b>Report Number:</b>	FSD-007-24
<b>Submitted By:</b>	Trevor Pinn, Deputy CAO/Treasurer, Finance and Technology		
<b>Reviewed By:</b>	Mary-Anne Dempster, CAO	<b>Resolution#:</b>	
<b>Authored by:</b>	Trevor Pinn, Deputy CAO/Treasurer, Finance and Technology		
<b>File Number:</b>		<b>By-law Number:</b>	
<b>Report Subject:</b>	2023 Annual Commodity Hedging Report and Commodity Hedging Policy Update		

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### Recommendations:

1. That Report FSD-007-24, and any related delegations or communication items, be received;
2. That the Commodity Hedging Policy attached to Report FSD-007-24, as attachment 1, be approved;
3. That Schedule B to Report COD-054-08, as the "Commodity Price Hedging Agreements Statement of Policies and Goals" be replaced by the "Commodity Hedging Policy" and
4. That all interested parties listed in Report FSD-007-24, and any delegations be advised of Council's decision.

## Report Overview

This report complies with the annual requirements to report to Council on the status of the existing commodity hedging agreements. The Municipality hedged natural gas in 2023 to mitigate risks resulting market volatility.

This report also provides an updated, modernized, policy for Commodity Hedging replacing the previous policy statement from 2008.

## 1. Background

- 1.1 Under [Ontario Regulation 653/05](#), the Treasurer must report on an annual basis to Council regarding the status of existing commodity hedging agreements, including a comparison of the expected results to the actual use of the arrangements and confirmation that they comply with the Municipality's policies and goals.
- 1.2 As required by the *Municipal Act, 2001*, Council adopted a Commodity Price Hedging Agreement Statement of Policies and Goals in report [COD-054-08](#), on October 6, 2008. In this statement of policies and goals, the responsibilities are delegated as follows:
  - a. The Deputy CAO/Treasurer (at the time Director of Finance/Treasurer) or designate is responsible for the financial administrative matters pertaining to commodity price hedging.
  - b. The Director of Corporate Services or designate is responsible for the procurement and contractual administrative matters pertaining to commodity price hedging.
- 1.3 The designate for the Director of Corporate Services was the Purchasing Manager. Following the 2020 reorganization, this position has moved to the Finance and Technology Department and reports to the Deputy CAO/Treasurer.

## 2. 2023 Annual Reporting Matters

### Natural Gas Hedging

- 2.1 Through the Co-operative Buyers Group, Request for Proposal issued by the Region of Durham and approved through Report COD-003-20, the Municipality has an existing energy consulting agreement with Blackstone Energy Services Inc., Toronto, for the provision of consulting and related services for the supply of natural gas. Blackstone acts as an independent agent of the Municipality of Clarington to execute direct

purchase agreements. The term is for three years with an option to extend two additional one-year terms.

- 2.2 The Municipality's energy consumption trends have been studied since 2008. Detailed budget estimates are made based on these consumption trends and pricing projections of the various utilities, including natural gas, for the Municipality's operating departments. This information and the procurement strategy aimed at reducing risk and stabilizing cost continue to focus on the need for a stable natural gas supply contract.
- 2.3 Blackstone Energy Services Inc., as directed by the Municipality of Clarington, is authorized to enter into fixed-priced natural gas agreements as required, considering market conditions at any given time. Previously, natural gas was supplied from two pools – Dawn (southwestern Ontario) and Empress (western Canada). The Municipality's natural gas is now supplied from the Dawn hub.
- 2.4 The Municipality of Clarington has natural gas commodity hedging agreements up to October 2026. These agreements are consistent with the Municipality's statement of policies and goals for using financial agreements to address commodity pricing and costs. In May 2022, in consultation with Blackstone, the Municipality entered into two hedging agreements. One was from November 2022 to October 2023, where 50% of the gas supply was hedged, and a second was from November 2023 to October 2024, where 40% was hedged.
- 2.5 In December 2022, the Municipality entered into additional hedges after consultation with Blackstone. From November 2022 to March 2023, 20% of the supply is based on an anticipated colder winter season. As well as for the period November 2024 to October 2025 for 30% of the supply and for November 2025 to October 2026 for 20%.
- 2.6 Staff receive regular market intelligence and analysis on the natural gas market from Blackstone Energy Services. With the information from Blackstone, the Municipality can proactively respond to the market conditions to ensure a secure supply source and cost certainty where determined to be prudent.

2.7 Based on the recommendation of Blackstone Energy Services, the Municipality entered into the hedging agreements, all via the Dawn hub, shown in the following chart:

Date Range	Price (\$/GJ)	Cost (\$/m <sup>3</sup> )	Percentage of Portfolio (%)	Comments
November 1, 2022 to October 31, 2023	7.650	0.294	50	Fixed
November 1, 2022 to March 31, 2023	7.435	0.286	20	Fixed
November 1, 2023 to October 31, 2024	5.350	0.206	40	Fixed
November 1, 2024 to October 31, 2025	5.595	0.215	30	Fixed
November 1, 2025 to October 31, 2026	5.575	0.214	20	Fixed

Notes: Costs are landed and do not include local toles from CDA Enbridge to Union Dawn. Gigajoules (GJ) conversion to cubic meters (m<sup>3</sup>) assume 1 GJ = 26 m<sup>3</sup>.

2.8 The following chart shows the Enbridge natural gas rates, including transportation.

Period	Cost of Gas (including transportation)
October 1 to December 31, 2022	\$0.3311/m <sup>3</sup>
January 1 to March 31, 2023	\$0.2813/m <sup>3</sup>
April 1 to June 30, 2023	\$0.1956/m <sup>3</sup>

Period	Cost of Gas (including transportation)
July 1 to September 30, 2023	\$0.2014/m <sup>3</sup>
October 1 to December 31, 2023	\$0.2124/m <sup>3</sup>
January 1 to March 31, 2024	\$0.1853

- 2.9 In May and December of 2022, there was much uncertainty in the natural gas market due to several factors, including the Ukraine-Russia conflict. The Municipality entered into the hedges to maintain some budgetary stability. The Municipality is well positioned in the future with the current hedges for the next few years.
- 2.9 Another element of natural gas purchasing is that the Municipality sets the price on the bill (POB). The POB is developed to estimate the average cost of the gas, factoring in transportation costs. Setting the price on bill reduces the fluctuations over the year, similar to the concept behind consumer “equal billing” plans. The POB was reviewed in 2022 and adjusted upwards to \$0.45/m<sup>3</sup> to compensate for increasing natural gas prices. In 2023, the POB was reduced to \$0.35/m<sup>3</sup> from March 2023 to June 2023. In July 2023 the POB was reduced to \$0.20/m<sup>3</sup> and will remain at this point for 2024. This will be reviewed later in 2024.
- 2.10 The natural gas year is from November 1 to October 31. During this period the Municipality may use more gas than estimated during the heating season and less during the cooling season. These differences are settled in the Municipality’s account at Blackstone with the gas suppliers. As of October 31, there may be a balance of gas owing or a supply of gas to be sold in the market based on the gas supply obligation from the estimate required versus actual usage. Blackstone advises the best time to settle the gas account for the best price (or hedge price if applicable), which is settled in the account.
- 2.11 The contracts met the procurement goal of reducing the risk and stabilizing the cost, as we have a fixed source of supply for most of the estimated requirement during the winter months at a fixed price with a reasonable consumption estimate.

### Electricity Hedging

- 2.12 To date, the Municipality has not hedged electricity. The structure of electricity hedging is different from natural gas. A significant portion of the large electricity accounts is the Global Adjustment. Only the electricity commodity can be hedged, typically done in

strips during peak use periods such as summer cooling. Hedging of the electricity commodity does not reduce the Global Adjustment charges. Blackstone does provide market updates on the electricity market. Electricity hedging could be explored in the future, but it is not anticipated that the Municipality will be hedging electricity in 2024.

### **3. Commodity Hedging Policy**

- 3.1 The last policy statement on Commodity Hedging was approved by Council in 2008. As part of continuous improvement and updating policy formats to a consistent model, staff felt it appropriate to bring an updated policy to Council for consideration. Changes to the organizational structure since the initial policy also necessitated modernization of the statement of policy and goals to reflect current responsibilities.
- 3.2 The Draft Commodity Hedging Policy, see Attachment #1, is based on research from other municipalities, including the City of London. Adjustments have been made to suit Clarington's needs and policy framework.

### **4. Financial Considerations**

- 4.1 Natural gas hedging is used to reduce risk in the volatility of pricing in our natural gas needs. Hedging provides consistent pricing on the commodity, which provides budgetary certainty. The Municipality enters into hedging agreements where it makes financial sense and only after consultation with commodity advisors.
- 4.2 The Municipality will enter into commodity hedging arrangements where there is a financial benefit to the Municipality. These benefits could include long-term financial and budgetary stability.

### **5. Strategic Plan**

- 5.1 Creating a Commodity Hedging Policy supports priority L.2.5 Maintain, protect and invest in Municipal infrastructure and assets. Specifically, the policy will be used in developing the funding strategy for future capital investments and continued service delivery.

### **6. Concurrence**

Not Applicable.

### **7. Conclusion**

It is respectfully recommended that the Report be received to meet the reporting requirements and that the new draft Commodity Hedging Policy be approved.

Staff Contact: Catherine Carr, Project Manager, Financial Systems and Policy, 905-623-3379 ext 2606 or ccarr@clarington.net.

Attachments:

Attachment 1 – Draft Commodity Hedging Policy

Interested Parties:

There are no interested parties to be notified of Council's decision.