

## Assistance with 2019 Hedge Options

The below examples are intended to assist municipalities with the selection of their hedge level for 2019. These examples demonstrate expected average commodity costs from January 1, 2019 – December 31, 2019 and are in no way a guarantee or prediction for month-to-month pricing over this timeframe. Instead, they are intended to lay out the cost components and benefits for each option so the municipality can choose which is best suited to their needs.

### Option 1 – The LAS Hedge

135 Ontario municipalities make use of the LAS Hedge to secure a portion of their energy consumption at a fixed cost, making it the most popular of the two options available. Municipalities choose this option to add an element of “insurance” to their electricity consumption. The portion of electricity that is ‘hedged’ is sheltered from the month-to-month variance in spot market rates.

If in the past your municipality has chosen to hedge a percentage of your electricity requirements through the LAS Program and decides to remain at that current hedge level with market trends and rates remaining similar to those seen in 2018, the following shows how the average month would play out in 2019. Currently in 2018 the LAS hedge price is below the average Spot Market price. This leads to those municipalities that selected a higher hedge level having the lowest total cost. *Note that the LAS fee of 0.15 ¢/kWh is included in the 2.14 ¢/kWh rate of the LAS Hedge price.*

### Hedge Level Billing Highlighted Example (common Hedge Ratios versus the 100% Spot Market for 2018)

Cost Component	Unit Price	Spot 100%	Hedged 20%	Hedged 25%	Hedged 50%	Hedged 60%	Hedged 65%	Hedged 75%
LAS Hedge* ¢/kWh	2.14	0.00	0.43	0.54	1.07	1.28	1.39	1.61
Spot Market** ¢/kWh	2.38	2.38	1.90	1.79	1.19	0.95	0.83	0.60
Global Adjustment*** ¢/kWh	5.10	5.10	5.10	5.10	5.10	5.10	5.10	5.10
<b>Total Cost ¢/kWh</b>		<b>7.48</b>	<b>7.43</b>	<b>7.42</b>	<b>7.36</b>	<b>7.33</b>	<b>7.32</b>	<b>7.30</b>

#### Pricing based on the following assumptions:

\* Reflects the current 2018 hedge price available incl. LAS fees (at September 2018)

\*\* Spot cost is the average from January 2018 to September 2018

\*\*\* GA is the average from January 2018 to September 2018 plus the Global Adjustment Modifier (-3.29 ¢/kWh from Jan.1,2018 to Apr.30,2018 and -4.44 ¢/kWh from May 1,2018 to Apr.30,2019)

### Option 2 – 100% Spot Market Billing

Currently only 7 Ontario municipalities use the 100% spot market billing option. Municipalities who choose this option do so because prior to 2018 it offered greater potential for savings over Option 1. But be careful, this option is slightly riskier than the hedge and currently for 2018 the LAS Hedge price is less than the Spot Market average price. With the volatility of the spot market from one month to the next, the municipality may end up paying a premium for its electricity during some months of the year. As such, this option may not be for everyone. Municipalities with a large number of accounts with low annual usage should be wary of taking this approach, as the corresponding fee for this option is \$11/month/account. However, if your municipality has a large number of higher volume accounts (>45,000 kWh annually) then this approach may provide you with further savings over a hedged approach.

### Spot Market Billing Highlighted Example (versus the other common Hedged options)

Cost Component	Unit Price	Spot 100%	Hedged 20%	Hedged 25%	Hedged 50%	Hedged 60%	Hedged 65%	Hedged 75%
LAS Hedge* ¢/kWh	2.14	0.00	0.43	0.54	1.07	1.28	1.39	1.61
Spot Market** ¢/kWh	2.38	2.38	1.90	1.79	1.19	0.95	0.83	0.60
Global Adjustment*** ¢/kWh	5.10	5.10	5.10	5.10	5.10	5.10	5.10	5.10
<b>Total Cost ¢/kWh</b>		<b>7.48</b>	<b>7.43</b>	<b>7.42</b>	<b>7.36</b>	<b>7.33</b>	<b>7.32</b>	<b>7.30</b>

***Pricing based on the assumptions noted in the prior table***

Based on the two examples above, an LAS Program member choosing to bill accounts at spot market rates would see a commodity cost (inclusive of the GA charge) that is 2% higher than a member who would hedge at a 65% level. However, as noted above, that is exclusive of the \$11 LAS fee (per account/month) to facilitate this type of billing\*, so the cost would be higher than the amount in the example.

*\* This fee covers LAS' cost to bill accounts, support program members, and maintain all member billing data.*