

Assistance with 2020 Hedge Options

The below examples are intended to assist municipalities with the selection of their hedge level for 2020. These examples demonstrate expected average commodity costs from January 1, 2020 – December 31, 2020 and are in no way a guarantee 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 2019, the following shows how the average month would play out in 2020. *Note that the LAS fee of 0.15 ¢/kWh is included in the 2.30 ¢/kWh rate of the LAS Hedge price.*

75% Hedge Level Billing Example

Cost Component	Unit Price	Ratio	Total Cost
LAS Hedge*	2.30 ¢/kWh	75%	1.7250 ¢/kWh
Spot Market**	1.85 ¢/kWh	25%	0.463 ¢/kWh
Global Adjustment***	5.54 ¢/kWh	100%	5.54 ¢/kWh
Total (January 1 - August 31, 2019)			7.7275 ¢/kWh
Average Total for 2019			7.7275 ¢/kWh

Pricing based on the following assumptions:

* Reflects the current 2019 hedge price available incl. LAS fees (at September 2019)

** Spot cost is the average from January 2019 to August 2019

*** GA is the average from January 2019 to August 2019 plus the Global Adjustment Modifier (-4.438 ¢/kWh from May 1, 2018 to Apr. 30, 2019 and -4.149 ¢/kWh from May 1, 2019 to Oct. 31, 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. 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 \$10/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.

Cost Component	Unit Price
Spot Market**	1.85 ¢/kWh
Global Adjustment***	5.54 ¢/kWh
Total (January 1 - August 31, 2019)	7.39 ¢/kWh
Average Total for 2019	7.39 ¢/kWh

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 4% lower than a member who would hedge at a 75% level. As commodity rates fluctuate, you will see changes in costs. However, as noted above, that is exclusive of the \$10 LAS fee (per account/month) to facilitate this type of billing.

** This fee covers LAS' cost to bill accounts, support program members, maintain all member billing data and provide monthly/annual reporting to members.*