

LAS Electricity Program – SAMPLE REPORT

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| SUBJECT: | LAS Electricity Procurement Program |
| TO: | Xxx |
| FROM: | Xxx |
| DATE: | Xxx, 20__ |

RECOMMENDED MOTION (amend as required)

1. That the Council for the **MUNICIPALITY** endorse the Electricity Procurement Program in partnership with **Local Authority Services (LAS)**, a wholly owned subsidiary company of the Association of Municipalities of Ontario;
2. That the execution of an Agency Appointment Agreement with LAS be approved, recognizing that as agent, LAS will negotiate all required electrical purchases on behalf of all procurement program members and that the details of all contracts will be communicated to all program members;
3. That Council authorize Local Authority Services to have access to electricity consumption data from the local electrical utility on an as needed basis;
4. That **POSITION(S)** be authorized to execute authorizing bylaws on behalf of the Corporation with respect to commodity price hedging agreements.
5. That **NAME(S)/TITLE(S)** be authorized to execute and sign documents on behalf of the Corporation and manage program-related decisions in accordance with this Policy and the Municipal Act.

PURPOSE

To recommend to Council that the Municipality participate in the LAS Electricity Procurement Program.

BACKGROUND

Ontario municipalities can choose to be served in one of three ways for the supply of electricity:

1. The Regulated Price Plan (RPP) or Time-of-Use (TOU) rates; the rates we currently pay for all accounts with annual consumption of <250,000kWh.
2. Market pricing for larger volume municipal accounts since November 2009: the weighted spot market price will apply to conventional meters; and Hourly Ontario Electricity Pricing (HOEP) will apply to interval meters.
3. A Retail Contract: where the price for a portion of our usage is set for the future supply of electricity (i.e. the LAS program), with some usage still being billed at market rates.

The **MUNICIPALITY** currently purchases electricity under the Province's Regulated Price Plan (RPP) or Time-of-Use (TOU) rates, which are delivered by **UTILITY NAME**, our local distribution company.

- RPP TOU rates were designed to help all customers (incl. municipalities) pay the true cost of power. The rates include a high 'on-peak' and 'mid-peak' rate for electricity and a lower 'off-peak' period rate.

- The RPP is a two-tiered price structure based on consumption. Under this model municipalities pay the same fixed rates during off-peak hours (i.e. late evening and overnight) for streetlights and other accounts.

Municipal energy costs continue to increase at an incremental rate, but the cost under TOU rates is typically higher for municipalities than the two-tier RPP rates.

LAS, a wholly owned subsidiary of the Association of Municipalities of Ontario (AMO), developed an electricity procurement program in 2007, to help municipalities ensure budget stability, overall cost savings on electricity purchases, and to remove the potential impact of TOU pricing for municipalities.

(If applicable) As our local distribution company (LDC) does not earn its revenue based on where electricity is purchased, purchasing electricity from LAS, or any other retailer, will not affect the financial operating results of the LDC. We will still receive our distribution of power from the LDC.

(If applicable) This LAS program operates in a similar fashion to the LAS Natural Gas Program. As a point of information, the **MUNICIPALITY** is currently is part of an agreement with LAS for the purchase of natural gas. LAS has offered the Natural Gas Program since 1992 and has consistently provided budgetable gas pricing and overall savings for program members. The LAS Program is currently providing member savings compared to standard utility gas rates.

ANALYSIS

The LAS program takes a blended approach to purchasing electricity. They purchase up to 75% of our electricity requirements from the forward market (fixed for terms of up to 1.5 years) and the remaining 25% (or more) is left to the spot market. LAS will acquire blocks of electricity based on the requirements of the program load profile for each program purchasing pool. All LAS program tenders are competitive and involve four pre-qualified suppliers.

The balance of the load requirements will be purchased at prevailing spot market rates. Members can choose their desired hedging level. LAS does not allow for a hedging level of more than 75%, however members are encouraged to adopt a lower hedge level if desired – for example, a 65% hedge ensures that there is no over-buying for any program members and leaving at least 35% of usage to the spot market provides flexibility and avoids claims of speculation. Unique purchasing options can be examined for interval meters within any municipality – if interval meters exist.

Street lighting accounts are treated differently in the LAS program, as there is more opportunity for savings on the spot market for these accounts because most consumption is during “off-peak” hours. After we enroll, LAS will move our street lighting accounts to the spot market (we cannot do this on our own) and they will charge a \$6 per account fee for this service if a hedge is also put in place with LAS.

By joining together in a pooled purchase, municipalities leverage economies-of-scale when they approach the market as larger tenders attract better pricing from suppliers. Pricing realized by LAS in their calendar year 2013 purchase for 104 municipalities is approx. 3.05 cents per kWh (fees included). This translates into saving of approximately 8% against TOU rates, with the Global Adjustment charge factored in.

- Current RPP prices (as of May 1, 2015): 9.4 cents/kWh (for 750 kWh), and 11.0 cents/kWh for all additional usage.
 - Rates represent a 6.5% increase from the November 2014 rates.
- Current TOU rates (at May 1, 2015):
 - On-peak (7-11am and 5-7pm) = 16.1 cents/kWh
 - Mid-peak (11am-5pm) = 12.2 cents/kWh
 - Off-peak (7pm – 7am) = 8.0 cents/kWh
 - Rates represent a 8.6% increase over Nov 2014 rates
 - 22.5% on-peak, 22.5% mid-peak, 55% off-peak = 9.95 ¢/kWh

For all larger volume accounts (i.e. >250,000kWh) within the municipality (if applicable), the rate currently paid for electricity is the HOEP or spot market rate. There is a lack of budget stability with this rate as it is 100% dependent on the supply and demand of electricity within the province. By hedging a portion of our electricity demand for these accounts through LAS, the municipality can ensure that a portion of the energy commodity costs for these high-volume accounts is at a fixed cost, which is desirable from a budget stability perspective.

The LAS program charges a fixed fee of 0.15¢/kWh for all electricity hedged on behalf of the municipality (max 75% of consumption). LAS uses this fee to cover all program administration costs, including: administration, software, contract development. LAS does not charge a fee for any consumption billed at the spot market rate as the majority of LAS' work is tied to the hedge contracts.

For accounts billed at spot market rates with no hedge applied, the LAS fee is \$6 or \$15 per account/month, depending on the account type, and whether LAS has a hedge in place with the municipality for other accounts.

While there is no guarantee that the LAS hedge price will always be less than RPP or TOU rates over the full period of the contract, entering into a retailer contract such as that being offered by LAS would provide budget stability for the municipality.

If we do not join the LAS procurement program, we will continue to be subject to the volatility of market prices for our larger volume accounts and higher-cost TOU pricing for all other accounts. Moreover, if we choose to enter into a contract on our own we would have to undertake a RFP/contract development process with retailers/suppliers that could be lengthy and costly.

The objectives of the LAS bulk hedging program are generally synonymous with municipal objectives:

1. Facilitates Budgeting – purchasing blocks of electricity produce stable prices
2. Competitive Pricing – provide savings on required purchases
3. Maximize Purchasing Power – pooling can leverage better pricing

The LAS program provides strategic advice related to purchases, effective program oversight, and ongoing accountability. Periodic oversight is provided by the LAS Energy Advisory Committee and LAS Board of Directors, both of which are comprised of municipal representatives. In addition, the LAS Energy Services Division offers a range of conservation and demand management services to members of the LAS procurement programs.

NEXT STEPS

- Pass a by-law/resolution authorizing our enrollment in the program
- Sign the Agency Retainer/Services Agreement with LAS
- Confirm with LAS the accounts we want enrolled in the Program.
- Determine what accounts to include in the next LAS hedge purchase

CONCLUSION

There are several vendors in the de-regulated energy marketplace selling fixed price contracts. The Municipal / MUSH sector is large enough to support its own dedicated approach in this endeavor to ensure the best program approach. The needs among members are quite similar, usage by time of day is similar, volume of course will vary. The proposed LAS program recognizes these similarities and volume variances by providing the same benefit per kWh to every member.

Therefore, staff recommends pursuing the LAS Electricity Procurement Program.