

**STAFF REPORT: Finance & IT Services**



**REPORT TO: Finance & Administration**  
**MEETING DATE: January 30, 2012**  
**REPORT NO.: FIT.12.04**  
**SUBJECT: LAS Electricity Procurement Program Update**  
**PREPARED BY: Sherri Adams, Manager of Purchasing**

### **A. Recommendations**

THAT Council receive Staff Report FIT.12.04 “LAS Electricity Procurement Program Update” for information purposes.

### **B. Background**

Council approved the Staff Report FIT.11.45 on September 21, 2011 and the recommendations contained therein for the Town’s enrolment into the Las Electricity Program.

The November 2011 purchase tender for the 2012 program year has been finalized for the 96 municipalities enrolled. The purchase price was \$32.75/MW, which is 12% lower than the 2011 LAS Program rate.

The all-inclusive contract cost for hedged electricity for 2012 is 3.425 cents per kWh, which includes all program related fees as outlined in the Agency Agreement between the Town and LAS. The Town has placed 75% of the total requirements under the hedged electricity.

The Town’s remaining requirements (25%) are placed on the spot market. The spot market cannot be predicted, however, over the past year, the Hourly Ontario Electricity Price (HOEP) has averaged 3.24 cents per kWh (Nov 2010-Oct 2011). The Global Adjustment commodity charge has averaged 3.8 cents per kWh over the term Dec 2010 – Nov 2011).

All streetlight Accounts will be billed at the HOEP rates for the 2012 term as it is the best cost saving option for members. The Town currently has 10 streetlight accounts.

### **C. The Blue Mountains’ Strategic Plan**

Ensuring long-term financial sustainability

Providing a strong, well managed municipal government

#### **D. Environmental Impacts**

LAS offers a complementary energy management program that utilizes the data obtained in the electricity procurement program, that could be utilized to track energy consumption and lead to improvements in energy efficiency.

#### **E. Financial Impact**

Based on 2010 consumption data, the Town will save in the range of \$35,000 to \$45,000 during 2012. Staff will report on this throughout the year.

#### **F. In Consultation With**

Robert Cummings

#### **G. Attached**

1. LAS Electricity Program Pricing Details for Calendar Year 2012

Respectfully submitted,

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Sherri Adams, Manager of Purchasing

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Robert Cummings, Director of Finance & IT Services

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## LAS Electricity Program Pricing Details for Calendar Year 2012

The November 2011 purchase tender included all 85 municipalities currently enrolled in the LAS Program as well as 11 new municipal program members. The term of the completed purchase is 12 months - January 1, 2012 to December 31. This new purchase coincides with the conclusion of the 2011 period purchases for current LAS program members.

**The purchase price was \$32.75/MW**, which is 12% lower than the 2011 LAS Program rate. Unless a lower hedge amount was chosen by your municipality, 75% of your electricity requirement has been hedged at the above noted price; this leaves a minimum of 25% of total exposure to the spot market, which provides for flexibility in terms of overall consumption and prevents any concern of speculation.

**For all hedged electricity - 75% of total requirements unless advised otherwise:**

The new all-inclusive contract electricity cost for 2012 is \$34.25/MWh or 3.425¢/kWh; this price includes all program fees as outlined in the Agency Agreement between each municipality and LAS.

**For all spot market consumption – 25% of total requirements, or greater:**

It is impossible to predict the spot market cost of electricity given that it is dependent on the supply and demand of electricity on an hour-by-hour basis, but over the past year the Hourly Ontario Electricity Price (HOEP) has averaged 3.24¢/kWh (November 2010 – October 2011). For the same period the Global Adjustment commodity charge has averaged 3.8¢/kWh.

As presented below, similar HOEP pricing during the purchase term should produce commodity **cost savings of 0.92¢/kWh compared to current Regulated Price Plan (RPP) rates**, with the impact of the Global Adjustment included.

**Expected Commodity Savings per kWh**

<i>Block</i>	<i>Volume</i>	<i>Price (¢/kWh)</i>
Hedge Purchase Price (including program fees)		<b>3.43</b>
	@ 75% of Load	<b>2.57</b>
Avg. HOEP (1)		<b>3.24</b>
	@ 25% of Load	<b>0.81</b>
<b>Expected Cost = Purchase Price + Spot</b>	<b>100% of Load</b>	<b>3.38</b>
<b>Global Adjustment Charge (2)</b>		<b>3.80</b>
<b>Expected LAS Rate</b>		<b>7.18</b>
<b>RPP Rate (3)</b>		<b>8.10</b>
<b>Expected Commodity Cost Savings</b>		<b>0.92 ¢/kWh</b>

Notes:

- 1) The average HOEP price from November 2010 to October 2011 - past averages are not always indicative of future performance.
- 2) The Global Adjustment average charge from December 2010 to November 2011.
- 3) This rate is a blend of the two-tier RPP rate based on typical municipal account consumption.

There will be points during the purchase term when the HOEP cost is lower than the hedge contract price provided by LAS, but it is important to recognize that even during these periods, members are ensuring budgetable commodity pricing for their organizations by hedging a

portion of required electricity. Given that LAS requires that each member have at least 25% of their consumption settle at spot market rates, the program also helps to ensure that cost-saving opportunities are leveraged in low-market rate environments.

**Streetlight Accounts:**

All enrolled streetlight accounts will continue to be billed at the prevailing HOEP rates for the 2012 term, as this continues to be the best cost saving option for members.

The reason that electricity costs are typically lower for streetlight accounts is because streetlights are primarily operated when demand for power is lowest (i.e. overnight – from dusk to dawn), and with lower demand comes lower HOEP rates.

For the last 22 months (January 2010 to November 2011), the average streetlight commodity price was 3.00¢/kWh. Similar pricing for the purchase term would result in **commodity savings of 1.3¢/kWh** compared to RPP rates, even with the impact of the Global Adjustment included.

**Expected Streetlight Savings per kWh**

	<i>Price (¢/kWh)</i>
<b>Avg. HOEP (4)</b>	<b>3.00</b>
<b>Global Adjustment Charge (5)</b>	<b>3.80</b>
<b>RPP (6)</b>	<b>8.10</b>
<b>Expected Savings</b>	<b>1.30 ¢/kWh</b>

Notes:

- 4) The average HOEP cost is based on the average streetlight profile for an Ontario LDC from January 2010 to October 2011. Savings within different LDC service areas will vary slightly.
- 5) The Global Adjustment is the average charge from December 2010 to November 2011.
- 6) This rate is a blend of the two-tier RPP rate based on typical municipal account consumption.

**Current RPP Rates**

Effective November 1, 2011, the RPP rate for ‘eligible’ municipal accounts is:

- Up to 750 kWh – 7.1¢/kWh
- All Additional Usage – 8.3¢/kWh

The RPP ended at November 1, 2009 for municipal accounts with annual consumption of greater than 250,000kWh; accounts that exceed this threshold, and which are not enrolled with a retailer (such as LAS), are billed at the less budgetable weighted spot market rate.

For RPP-eligible municipal accounts with active Time of Use (TOU) meters, the RPP TOU rates at November 1, 2011 are as follows:

- On-Peak – 10.7¢/kWh (7-11am and 5-7pm)
- Mid-Peak – 8.9¢/kWh (11am-5pm)
- Off-Peak – 5.9¢/kWh (7pm-7am)

*The LAS program is unaffected by changes to the RPP and unaffected by TOU rates. The program was created specifically to help municipalities proactively exit the RPP and take control of their energy costs by providing budgetable energy commodity costs.*