

The Regional Municipality of York

Committee of the Whole
Environmental Services
May 14, 2020

Report of the Commissioner of Environmental Services

Three-Year Performance Report on Natural Gas Buying Strategy

1. Recommendation

Council receive this report for information.

2. Summary

The Region purchases its natural gas as part of the Association of Municipalities of Ontario Buying Group. Natural gas buying group performance is provided to Council annually as recommended in the Region's [Commodity Price Hedging Policy](#) reporting requirements section. Council approved an amendment to the Natural Gas Procurement Agreement on [June 25, 2015](#) and delegated authority to the Commissioner of Environmental Services to approve annual natural gas procurement strategies developed by staff and the Buying Group's natural gas consultant.

Key Points:

- The Region purchases its natural gas along with 176 Ontario municipalities and broader public sector organizations in a buying group led by the Association of Municipalities of Ontario
- The Region saved \$229,000 over the last three years through its procurement strategies
- Procurement strategies are in place for the next 48 months
- Buying strategies generate savings for the Region and provide a degree of financial stability by limiting exposure to market volatility

3. Background

Natural gas represented 5% of the Region's total energy costs and 19% of the Region's greenhouse gas emissions over the three year reporting period

Natural gas is consumed primarily for heating buildings and domestic hot water. Three year annual average natural gas expenditures to the end of 2019 were 5% (\$2.4 million per year) of the average \$48.8 million spent annually by the Region on energy and fuel purchases.

Over the same period, emissions associated with natural gas consumption amounted to 19% of total Regional corporate greenhouse gas emissions. Since 2007, Regional consumption of natural gas has grown at an annual rate of 7%.

Delivery, service fees and carbon tax equate to 70% of the Region's total annual cost of natural gas and are fixed by the Ontario Energy Board and legislation. The remaining 30% of the Region's total cost is for the purchase of natural gas commodity. The default commodity cost for all consumers is set by the Local Distribution Company. Large natural gas consumers or buying groups can choose alternative supply arrangements with third party service providers to purchase natural gas directly from suppliers at negotiated contract prices.

The Region has been a member of the Association of Municipalities of Ontario buying group since 2007 enabling direct purchase of natural gas from suppliers

In 2007, the Region joined the Association of Municipalities of Ontario (AMO) natural gas buying group (the Buying Group). All Regional natural gas accounts participate in the Buying Group with the exception of those owned by Housing York Inc., which participates in the Housing Services Corporation and the Ontario Non-Profit Housing Association buying groups.

As part of the Buying Group, the Region purchases its natural gas along with 176 Ontario municipalities and broader public sector organizations. The large volume of commodity purchased by the Buying Group attracts competitive pricing that the Region could not obtain on its own. York Region is one of the largest members of the Buying Group, which also includes Vaughan, Aurora, Richmond Hill and Georgina.

4. Analysis

Fixed-price contracts for natural gas limit the Region's exposure to a volatile natural gas commodity market

Commodity markets set prices for natural gas based on supply and demand. Changes in factors such as supply, technology, weather and economic growth create price volatility.

Staff develop annual procurement strategies based on Buying Group research and recommendations. Strategies consist of agreements with suppliers to deliver natural gas over the next 48 months at pre-negotiated fixed volumes and prices. These strategies have generated savings for the Region and provided a degree of financial predictability limiting exposure to market volatility.

Staff develop strategies specific to the Region's needs and executed as part of a larger Buying Group

Annual purchases are composed of six to eight transactions made in an effort to reduce the impact of price volatility. For each transaction, based on recommendations from the Buying Group consultant and internal evaluations, a price target along with an allowable upper limit

is set for the Buying Group to enter into supply agreements on York Region's behalf. The Buying Group seeks out opportunities throughout the year to secure agreements at or below agreed upon targets. Each supply agreement secures a portion of the Region's total annual consumption to minimize risk and maximize purchasing opportunities at competitive rates. Over time, the aggregate volume of contracts equate to the legislated maximum of 80% of annual corporate consumption with a weighted average price equal to or lower than the target price set by the Region's strategy.

In addition to strategy execution, the Buying Group provides the Region with administrative services that include invoice reconciliation, storage management, transmission and market analysis. The Buying Group also holds all agreements and contracts, assumes all non-performance risk and conducts due diligence on behalf of the group.

5. Financial

Natural gas procurement strategies have resulted in savings of \$229,000 over the three year period ending in December 2019. These results are dependent on volatility of natural gas markets and the Buying Group's ability to acquire supplier agreements at or below price targets.

Table 1 summarizes annual savings achieved compared to default natural gas costs from Enbridge. The default utility cost is a general rate proposed by Enbridge and approved by the Ontario Energy Board and is meant to cover costs incurred by Enbridge. Unlike the Buying Group strategy, default rates do not actively seek opportunities to reduce costs or stabilize rates.

Table 1
Comparison of Natural Gas Commodity Costs

| Year | Default Utility Cost | Buying Group Strategy Cost | Difference Cost/(Savings) ¹ |
|-------|----------------------|----------------------------|--|
| 2017 | \$569,000 | \$520,000 | (\$49,000) |
| 2018 | \$544,000 | \$493,000 | (\$51,000) |
| 2019 | \$608,000 | \$479,000 | (\$129,000) |
| Total | \$1,721,000 | \$1,492,000 | (\$229,000) |

1. Based on combination of annual settlement and the difference invoiced monthly by the natural gas distributor

While the Region has successfully achieved savings over the past three years, year to year performance is impacted by market conditions. Events such as the 2008 Financial Crisis resulted in premiums paid by the Region.

Staff will continue to manage risks associated to COVID-19 to mitigate risks and natural gas costs

COVID-19 has quickly become a major challenge for global economies and commodity markets. The Region's natural gas procurement strategies for 2020 and 2021 were set prior to the COVID-19 pandemic and secured at prices similar to those which achieved the savings over the past 36 months. It is anticipated that current pricing commitments will not realize savings as a result of the pandemic's impact on natural gas markets and the economy. Consequently, the Region may incur a premium for its natural gas procurement over the next two years. Staff and the Buying Group consultant continue to evaluate and adjust the Region's future procurement strategies to minimize risks and costs.

6. Local Impact

There are no local municipal impacts associated with this report. Four local municipalities (Aurora, Georgina, Richmond Hill and Vaughan) are part of the natural gas Buying Group.

7. Conclusion

As part of its participation in the Association of Municipalities of Ontario natural gas Buying Group, the Region has been an active member in committees related to energy strategy and policy. Accurate multi-year budgeting, favourable conditions and participation in the Buying Group have resulted in savings of \$229,000 and stable prices in the past three years. Commodity markets have been impacted by COVID-19 and may result in cost premiums in the next two years because natural gas procurement strategies for 2020 and 2021 were set prior to the pandemic.

For more information on this report, please contact David Szeptycki, Director, Strategy and Innovation at 1-877-464-9675 ext.75723. Accessible formats or communication supports are available upon request.

Recommended by: **Erin Mahoney, M. Eng.**
Commissioner of Environmental Services

Approved for Submission: **Bruce Macgregor**
Chief Administrative Officer

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