City of Mississauga
Corporate Report

Date: February 18, 2025	Originator's files:
To: Chair and Members of General Committee	
From: Raj Sheth, P.Eng, Commissioner of Corporate Services	Meeting date: March 26, 2025

Subject
Annual Report on Commodity Price Hedging Agreements for 2024 (Electricity and Natural Gas)

Recommendation
That the Corporate Report dated February 18, 2025, entitled "Annual Report on Commodity Price Hedging Agreements for 2024 (Electricity and Natural Gas)", from the Commissioner, Corporate Services be received for information.

Executive Summary
- The Ontario Regulation 653/05 "Debt-related financial instruments and financial agreements" under *Municipal Act 2001* as it pertains to Commodity Price Hedging Agreements, requires that municipalities adopt a statement of policies and goals relating to the use of financial agreements to address commodity pricing and costs before the municipality enters into commodity price hedging agreements. City of Mississauga adopted Corporate Policy #03-06-07 Procurement of Electricity and Natural Gas. This report is to satisfy the requirements of this Policy.
- The goal of the electricity and natural gas procurement strategies is to mitigate the risk of price volatility and optimize the cost of the City's electricity and natural gas.
- Fixed Price Contract (Hedging) is a method of managing the electricity and natural gas price volatility.
- The total cost of electricity for the City of Mississauga in 2024 was $14,262,976.65 (1.76% tax included). The market conditions and offerings did not favour hedging for electricity; therefore, this strategy was not considered in 2024.
- The total cost of natural gas for the City of Mississauga in 2024 was $3,269,643.08 (1.76% tax included). The City entered into a hedging agreement for 54,600 GJ (16.5%) of the total 329,705 GJ for 2024 from January to March. It was a continuation of an agreement entered in 2023 based on internal evaluation and SME's advice at the time.

Background

This Report is being provided to General Committee as required by Corporate Policy # 03-06-07 on Commodity Price Hedging Agreements on Electricity and Natural Gas. The Policy states that electricity and natural gas procurement will be undertaken in a manner that endeavours to balance the need to achieve the lowest cost with the need for price stability.

To assist in developing the City's electricity and natural gas procurement strategy, the City hired Jupiter Energy Advisors Inc. (Subject Matter Expert) as an energy consultant for natural gas procurement and WattsWorth Analysis Inc. as an energy consultant for electricity procurement. They are hired to advise on supplier contracts and market opportunities and to provide the City with ongoing market updates and support as required.

The Policy also requires that the Commissioner of Corporate Services provide a report to Council, on an annual basis that contains the information provided in this report.

Comments

Electricity

There are three major costs associated with electricity use for the City:

- Commodity/Supply - The cost of purchasing the electricity from a Generator, Retailer, or the Local Distributing Company (LDC).
- Global Adjustment - Charge which includes compensation to Ontario Power Generation when market prices fall below an agreed base price but also the recovery of premium that the Province pays towards green power generation projects and conservation programs. Global Adjustment can be either Class A, Class B or embedded in the commodity rates for small accounts.
- Regulated Charges - Costs to deliver the electricity from the Generator to the LDC (Transmission) and from the LDC to the end user (Distribution) in addition to fixed connection and administrative fees.

2024 Strategy

Hedging is a procurement strategy known to manage the price volatility. Hedging was not considered for the City's electricity purchase since 2004 when Global Adjustment was introduced. The reason for this is that retailers are currently only offering contracts to cover the Hourly Ontario Electricity Price (HOEP) which is the commodity portion of the electricity price, and not the Global Adjustment. As the HOEP currently makes up approximately 33% of the pricing, a hedge would still leave a portion of the City's electricity exposed to the volatility of the Global Adjustment.

2025 Strategy

With HOEP (i.e., index rates) currently averaging about (3.39 c/kWh) year-to-date, the Global Adjustment (6.85 c/kWh) still makes up a higher share of the City's total electricity charge (10.24 c/kWh). As such, no hedging is currently suggested as part of the procurement strategy for 2025.

Natural Gas

- There are three major costs associated with Natural Gas use for the City:
- Commodity/Supply – The cost of purchasing the physical natural gas from a supplier.
- Transportation – The costs associated with moving the purchased natural gas from the point of purchase to the Local Distributing Company (LDC) at Dawn (Ontario). If natural gas is purchased directly at Dawn the transportation cost becomes embedded in the commodity price.
- Distribution Costs (Regulated Charges) – Administrative charges and costs to deliver the natural gas from the LDC to the end user and the Federal Carbon Charge.

This report refers to the first two bullet points. Regulated charges are set by the Ontario Energy Board (OEB) or the Federal government and are not subject to commodity purchase strategies.

2024 Strategy

In the past, the City used a mix of fixed and spot market pricing to protect the budget against price volatility. For 2024, the City purchased a portion of the gas supply under fixed price from January until March, which was a contract obligation from the previous year's contract. The City did not purchase any natural gas on fixed price contracts (hedging) after the contract's end. The decision was taken after reviewing historical market conditions and the future forecasted trends of the factors that impact natural gas prices. The City also reviewed hedging scenarios received from Subject Matter Experts (SME) and a summary of the purchasing strategy used in 2024 is presented in Table 1.

Table 1: Natural Gas 2024 Procurement Strategy

Year	Procurement Method	Period	Duration	Amount (% of total volume)	Volume of Natural Gas
2024	Hedging (contract)	Jan-Mar	3 Months	16.5%	54,600 GJ
	Daily Priced Index	Jan-Mar	3 Months	8%	27,846 GJ
		Mar-Dec	9 Months	75.5%	247,259 GJ
	2024 Totals	**Jan-Dec**	**12 Months**	**100%**	**329,705 GJ**

It should be noted that the decision to engage in different purchase strategies of natural gas is always based on the information available at the time and the recommendations provided by the SME engaged by the City to advise on commodity procurement. Section 1 of "Appendix A - Supporting Information" compares the actual market (index) spot price against the SME's closing price forecast and upside at 90% confidence based on the market conditions prevalent in 2023.

The forecast from the SME suggested that the spot price would be a minimum of $4.46/GJ (SME closing forecast) and a maximum of $5.32/GJ (Upside 90% Confidence) going into 2024.

Therefore, due to the market (index) price stability towards the end of 2023 and the fact that the City had a hedge contract in place for Q1 of 2024, the City decided not to pursue any additional hedging for the beginning of 2024 and monitor the natural gas market for Q1 of 2024.

In 2024, Ontario faced a warm winter, therefore the storage levels were significantly above the 5-year average. This indicated that the index market prices were going to be lower than average and the City decided not to hedge for the remainder of the 2024 calendar year. Section 2 of "Appendix A - Supporting Information" contains additional details.

2025 Strategy

Based on 2025 forecasted conditions (Refer to Section 3 of Appendix A - Supporting Information) and SME recommendation that natural gas markets will continue to be stable from 2024, no additional hedging was procured for 2025.

This decision will be revisited in collaboration with our SME as market conditions change and feasible hedging options become available.

Financial Impact

In 2024, the City achieved the intended utility budget stability with only partial hedging.

Conclusion

This report provides an overview of the electricity and natural gas procurement strategy used in 2024 and the results of the strategy. Additionally, it presents the approach to be followed in 2025.

The City proactively monitors electricity and natural gas markets conditions and takes appropriate procurement decisions in order to mitigate the risk of price volatility and optimize the cost of the City's utilities.

Attachments

Appendix A - Supporting Information

Raj Sheth, P.Eng, Commissioner of Corporate Services

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