
HALDIMAND COUNTY

Report FCA-01-2023 Local Authority Services (LAS) Natural Gas Procurement Program Agreement

For Consideration by Council in Committee on April 11, 2023



OBJECTIVE:

To obtain Council approval to execute an updated Local Authority Services Ltd. (LAS) Natural Gas Procurement Program agreement.

RECOMMENDATIONS:

1. THAT Report FCA-01-2023 Local Authority Services (LAS) Natural Gas Procurement Program Agreement be received;
2. AND THAT staff be authorized to execute a Natural Gas Appointment and Retainer Agreement with LAS for a two (2) year automatic renewable term, so that as agent, LAS will negotiate all required Natural Gas purchases on behalf of Haldimand County;
3. AND THAT Local Authority Services be authorized to have access to Natural Gas consumption data from the local natural gas utility on an as needed basis;
4. AND THAT a by-law be presented authorizing enrolment in the AMO/LAS Natural Gas Procurement Program;
5. AND THAT the Natural Gas Appointment and Retainer Agreement with LAS be added as a reference to Policy 2011-05 Commodity Price Hedging Policy.

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Reviewed by: Jeff Oakes, Manager, Facilities Capital and Asset Management

Respectfully submitted: Tyson Haedrich, M. Eng., P. Eng., General Manager of Engineering & Capital Works

Approved: Craig Manley, MCIP, RPP, Chief Administrative Officer

EXECUTIVE SUMMARY:

The County has been participating in the Local Authority Services (LAS) Natural Gas Procurement Program since the formation of the County in 2001. This program which was established under auspices of the Association of Ontario Municipalities (AMO) provides consistent and competitive natural gas pricing for municipalities compared to buying on the open market. Over the six year period from 2016 to 2021, Haldimand County has saved about 8.6% per year on the purchase of natural gas compared to buying on the open market.

In order for the County to continue in the Local Authority Services (LAS) Natural Gas Procurement Program the LAS has requested that the County enter into an updated Natural Gas Appointment and Retainer Agreement as the last known agreement formally expired in 2012. This process is governed by Policy 2011-05 Commodity Price Hedging Policy which ensures that the program is to the overall benefit of the County.

BACKGROUND:

Local Authority Services (LAS), a wholly owned subsidiary of the Association of Municipalities of Ontario (AMO), has offered the Natural Gas Procurement Program to municipalities since 1992 and has about 160 municipalities currently enrolled in the program. The LAS program provides predictable and competitive gas pricing for municipalities through the following strategies:

- **Cost Certainty** – the LAS program sets prices for a one-year period (November – October); as a result, program members are able to accurately and confidently budget for natural gas costs each year.
- **Competitive Prices** – LAS seeks to provide a reliable supply of natural gas using only credit-worthy counterparties and seeks to do so at a price that is competitive with market gas rates and utility gas options.
- **Maximize Purchasing Power** – LAS leverages economies-of-scale in securing natural gas from credit-worthy counterparties. The program hedges 80-90% of required gas for each program year through aggregated competitive tenders. The remaining portion is procured at typically competitive spot market rates.

Based on available information staff have determined that the previous Town of Dunnville was a member of the LAS Natural Gas Procurement Program and that after the 2001 transition, the new Haldimand County buildings were added to the program.

LAS has recently contacted the County and requested that we update our Natural Gas Appointment and Retainer Agreement, as the last known agreement was signed in 2006 and expired in 2012.

The County currently has forty-two utility accounts enrolled in the program including the arenas, administration buildings, fire stations, public works yards, libraries, museums, and water and wastewater treatment plants. Natural gas consumption within the program totals approximately 1,100,000 m³/ year. Over the six year period from 2016 to 2021, Haldimand County has saved about 8.6% per year on the purchase of natural gas compared to buying on the open market.

It should be noted that the County, through Report PW-FAM02-2011, joined the LAS Electricity Procurement Program in 2011 and that this agreement remains current through the two year automatic renewal clause.

ANALYSIS:

In order to comply with the LAS request to update our Natural Gas Appointment and Retainer Agreement and continue in the program the following steps are required:

- Pass a by-law authorizing the enrolment in the program.
- Enter into an updated LAS Natural Gas Appointment and Retainer Agreement (Attachment 1).

As outlined in Policy 2011-05 Commodity Price Hedging Policy (see Reference 1), when determining whether a particular commodity price hedging agreement is advantageous for the County, the following considerations will be taken into account:

- i. Any and all commodity purchases for which commodity price hedging agreements will be appropriate;
- ii. If, at the time, it is the opinion that fixed costs and estimated costs of the County will be reduced by virtue of the use of such an agreement;
- iii. If, at the time, it is the opinion that the future price or cost to the County of the applicable commodity will be lower or more stable than it would be without the agreement;

- iv. If, at the time, the commodity purchase includes a detailed estimate of the expected result of using such an agreement;
- v. If, at the time, it is the opinion that the financial and other risks to the County that would exist with the use of such an agreement will be lower than the financial and other risks to the County that would exist without such an agreement;
- vi. If, at the time, it is the opinion that the agreement contains adequate risk control measures relating to such an agreement, such as:
 - a) Limited credit exposure based on credit rating and/or on the degree of regulatory oversight and/or the regulatory capital of the other party to the agreement,
 - b) A standard agreement,
 - c) Ongoing monitoring with respect to the agreement.

Based on the policy considerations described above, staff are recommending that the County continue with the LAS Natural Gas Procurement Program for the reasons outlined below.

LAS's Energy Advisory Committee is experienced in the various procurement and risk mitigation strategies and activities, specific to purchasing natural gas; and is an association that is driven by protecting municipal interests rather than private enterprise objectives. As well, the County is currently participating in their Electricity Procurement Program.

AMO/LAS representatives have provided past and predicted future savings under this program. Based on a historical review of savings experienced by existing member municipalities of this program, savings up to 8% have been realized compared to non-hedged rates. Actual savings will depend on future spot market prices, time of day and relevant use of the underlying commodity. This program does not affect any other Provincial rebates/benefit programs currently in place.

Savings as a result of joining this program will be reported to Council on an annual basis by the Treasurer in accordance with the reporting requirements identified in O.Reg. 653/05 Debt-Related Financial Instruments and Financial Agreements and Policy No. 2011-05 Commodity Price Hedging Policy.

Legal and Support Services has reviewed the Agreement of which the terms and conditions are acceptable and in a standardized format common to this type of program. The Agreement clearly outlines roles, responsibilities, includes risk mitigation strategies, fees and is used by other municipalities.

The Agreement contract is for an initial two year term and thereafter automatically renews from year to year until terminated by either party with six months notice., Based on these terms the County is not locked into a long term contract if it determines that participation is no longer advantageous..

FINANCIAL/LEGAL IMPLICATIONS:

As mentioned in previous sections, Haldimand County has participated in the LAS Natural Gas Procurement Program since the County's formation in 2001. The intent of the County's participation in the program is to secure lower annual natural gas pricing through bulk/group purchasing. Further, Haldimand County typically receives annual rebates from LAS as part of its participation in the program. Most recently, for the period of November 2020 – October 2021, the County received a rebate of \$7,480.16, which represents Haldimand's portion of the LAS reserve surplus of \$750,000.

Updating the agreement with LAS ensures Haldimand's continued participation in the program and maintains the County's eligibility to take advantage of any potential future benefits.

STAKEHOLDER IMPACTS:

Not applicable.

REPORT IMPACTS:

Agreement: Yes

By-law: Yes

Budget Amendment: No

Policy: No

REFERENCES:

1. [Policy 2011-05 Commodity Price Hedging Policy](#)

ATTACHMENTS:

1. LAS Natural Gas Appointment and Retainer Agreement