





Hamilton

# INFORMATION REPORT

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	June 20, 2016
<b>SUBJECT/REPORT NO:</b>	2015 Annual Energy Report on Commodity Price Hedging (FCS16025(a)) (PW16016(a)) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	John Savoia, Senior Policy Advisor Corporate Services Department (905) 546-2424 Ext. 7298  Tom Chessman, Manager, Office of Energy Initiatives Public Works Department (905) 546-2424 Ext. 2494  Linda Campbell, Superintendent, Utilities Public Works Department (905) 546-2424 Ext. 2810
<b>SUBMITTED BY:</b>	Brian McMullen Director, Financial Planning and Policy Corporate Services Department  Geoff Lupton Director, Energy, Fleet and Traffic Public Works Department
<b>SIGNATURE:</b>	 

## Council Direction

At the Audit, Finance and Administration Committee meeting of June 6, 2016, staff were directed to provide clarification on the differences between the 2015 City of Hamilton Financial Report and Audited Statements (FCS16051) which indicates the 2015 Horizon Utilities Corporation (HUC) spend of \$33.5 M, and the 2015 Annual Energy Report on Commodity Price Hedging (FCS16025) (PW16016) which indicates electricity spend of \$28.1 M. In addition, staff was directed to provide further clarification on the Global Adjustment (GA) and avoided costs.

**Information**

The primary difference between the two Reports relates to City Housing Hamilton charges and the Hydro One charges. The 2015 City of Hamilton Financial Report and Audited Financial Statements (FCS16051) report (Consent Item 5.5) includes hydro charges for City Housing Hamilton. The 2015 Annual Energy Report on Commodity Price Hedging (FCS16025) (PW16016) (Discussion Item 8.1) includes Hydro One charges, but not charges for City Housing Hamilton.

Reported Values Clarification

The costs included in the 2015 City of Hamilton Financial Report and Audited Financial Statements (FCS16051) report attached as Appendix “B”, page 26 of 66, represents investment in HUC as government business enterprise and reports all transactions in the normal course of operations. The Report identifies hydro purchased from HUC in the amount of \$33.5 M. This figure includes amounts paid to HUC for City departments, boards and City Housing Hamilton.

The costs included in the 2015 Annual Energy Report on Commodity Price Hedging represent electricity (hydro) costs incurred by Corporate Facilities (including Police, Library), Hamilton Water, Public Works Operations, Street and Traffic lighting, but excludes City Housing Hamilton. This is consistent with previous reports.

Table 1 below shows the difference of reported values between the 2015 Financial Report and the 2015 Annual Energy Report on Commodity Price Hedging.

Table 1: Differences in Reported Electricity Values

Electricity (Hydro)	2015 Financial Report	2015 Commodity Report
Hydro for City of Hamilton (HUC)	\$ 25,125,433	\$ 24,926,813
Hydro for City Housing Hamilton	\$ 8,420,669	\$ -
Hydro for City of Hamilton (Hydro One)	\$ -	\$ 3,195,002
<b>Total Hydro (Electricity) Purchased</b>	<b>\$ 33,546,102</b>	<b>\$ 28,121,815</b>

The variance between the Financial Report and Commodity Report on the hydro for City of Hamilton (HUC) line item above (\$25.1 M vs \$24.9 M) represents period normalized data and part-year data being applied. The amounts represented in the Commodity Report include amounts paid to both Horizon Utilities Corporation (HUC) and Hydro One, as indicated in Table 1, above. Furthermore, sites that have only a partial year of utility data in 2015 were not included as part year data skews annual reporting. Those part year sites will be included once a full year data set becomes available. For example, Tim Horton’s Field was not included in 2015 because it did not have a full year of operation under City control, but will be included in next year’s report.

Global Adjustment (GA)

One of the best methods to control electricity costs is by rate optimization and consumption reduction. The City has had success with moving some of its large user's accounts from a general service Class B rate to Class A rate. Class A customers have more control over their GA costs due to the methodology used by the Independent Electricity Service Operator (IESO) to calculate their GA costs. City Staff track forecasted provincial demand and pricing on a daily basis to communicate out to various departments when peak demand events are expected. By limiting consumption use during peak demand times, Class A consumers can reduce the costs on the GA rates.

The sites at 900 Woodward Avenue (Hamilton Water), the Municipal Recycling Facility, FirstOntario Centre, Central Utilities Plant (CUP), and the Hamilton Water pump station at Greenhill Avenue are Class A sites. The rate class change resulted in avoided costs of \$3.91 M in the 2015 GA charges. Utility Rates and Cost Avoidance Savings are classified as the avoidance of costs that would have been incurred had no action been initiated.

The five year cumulative avoided cost for the GA is \$11.42 M. The \$11.42 M in avoided costs breaks down as \$8.7 M for Rate and \$2.72 M for Levy. Table 2 below shows a breakdown of the past five years of GA avoided costs due to the sites converting to Class A.

Table 2: Class A Avoided Costs from 2011- 2015

Year	GA Charges for Class A (\$ Millions)	GA Charges for Class B (\$ Millions)	Avoided Costs (\$ Millions)
2011	\$1.64	\$2.70	-\$1.06
2012	\$2.35	\$3.85	-\$1.50
2013	\$3.22	\$5.72	-\$2.50
2014	\$3.13	\$5.57	-\$2.45
2015	\$4.02	\$7.93	-\$3.91
Total	\$14.36	\$25.78	-\$11.42

TC/LC/JS:ch-l/dkm