

**Subject:** LAS Electricity Hedging

**Recommendation:**

**BE IT RESOLVED THAT Council receive Report #2024-0173-Corporate Services, for information;**

**AND THAT Council approve the Town of Pelham entering into a Electricity Hedging with Local Authority Services (LAS) effective January 1, 2025 after final review from the Town Solicitor;**

**AND THAT Council approve Option #2 at 50% of all accounts for Electricity Hedging.**

**Background:**

**Overview**

This report seeks Council's support for participation in the LAS Electricity Program with a chosen hedge percentage. The options presented aim to simplify decision-making while balancing potential savings and risk exposure. The hedge percentages range from 20% to 75%, with three primary options analyzed: 25%, 50%, and 65%.

**Background**

The majority (70% or 94 municipalities) of LAS program members have opted for a 65% hedge for the year 2024. This preference is influenced by a desire to mitigate risk while still taking advantage of potential market savings. Currently, the 25% hedge option appears to offer the most savings; however, this is subject to change with fluctuating market rates.

**Analysis:**

**Review Methodology**

This review estimates yearly results based on the following assumptions:

- Electricity rates are assumed to remain unchanged in 2024.
- The average 2024 figures for Global Adjustment and Weighted Average Hourly Ontario Electricity Price (HOEP) are used.
- Electricity consumption estimates are derived from received bills and accounts with similar usage patterns already enrolled in the LAS Electricity Program.
- Real usage patterns may change, and these estimates provide a projection of potential outcomes.
- The review includes LAS fees and is based on the three most common hedge percentage options used by current program members.

## **Financial Considerations:**

### **Hedge Options and Estimated Savings**

1. **Option 1: LAS HEDGE @ 65% (All accounts)**
  - **Estimated Savings:** \$21,126.34
  - **Savings Percentage:** 4.7%
2. **Option 2: LAS HEDGE @ 50% (All accounts)**
  - **Estimated Savings:** \$22,717.11
  - **Savings Percentage:** 5.1%
3. **Option 3: LAS HEDGE @ 25% (All accounts)**
  - **Estimated Savings:** \$25,368.40
  - **Savings Percentage:** 5.6%

## **Discussion**

Choosing a smaller hedge percentage (25%) may yield higher savings if market rates remain stable, as seen in the current estimates. However, this approach also involves greater exposure to market price fluctuations, which increases risk. Conversely, a higher hedge percentage (65%) offers more stability and less risk but potentially lower savings. The 50% hedge represents a balanced approach between these extremes.

## **Conclusion and Recommendation**

Given the potential for savings and the varying risk levels, it is recommended that Council supports participation in the LAS Electricity Program with a flexible hedge percentage. The final decision should consider our municipality's risk tolerance and financial goal. Staff suggests considering the 50% hedge option as it balances risk and savings effectively.

An indirect but significant benefit to hedging is that the data entry for these accounts is now accomplished by uploads by LAS.

### **Next Steps**

1. **Council Approval:** Seek Council's approval to join the LAS Electricity Program.
2. **Hedge Percentage Selection:** Decide on the preferred hedge percentage (25%, 50%, or 65%).
3. **Implementation:** Work with LAS to implement the chosen hedge percentage and monitor market conditions to adjust strategy as needed.

### **Alternatives Reviewed:**

LAS is supported by Association of Municipalities of Ontario (AMO) which represents the municipalities of Ontario. The program has received positive feedback from other municipalities participating in this program. The Town also has a gas hedging agreement with LAS.

### **Strategic Plan Relationship: Financial Health**

Hedging electricity prices will help to lock in prices and stabilize fluctuations in prices.

### **Consultation:**

Councillor Hildebrant, Member of the Utility Sustainability Working Group  
Senior Leadership Group

### **Other Pertinent Reports/Attachments:**

Appendix 1: LAS presentation

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