

# TORONTO TRANSIT COMMISSION REPORT NO.

**MEETING DATE:** February 18, 2009

**SUBJECT:** PROCUREMENT AUTHORIZATION - PURCHASE OF  
ELECTRICAL POWER

**ACTION ITEM:**

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## RECOMMENDATION

It is recommended that the Commission approve:

- a) Staff entering into the required Agency Agreements to permit the City of Toronto to continue processing purchases for the supply of electrical power from a pool of electricity suppliers on behalf of the Commission in the upset limit amount of \$290 million for an additional 5 year period from January 1, 2010 to December 31, 2014.
- b) Staff entering into a contract with Toronto Hydro Energy Services Inc. (THESI) for the supply of consolidated billing services related to the supply of electrical power in the upset limit price of \$375,000 for an additional 5 year period from January 1, 2010 to December 31, 2014 subject to successful negotiations by the City of Toronto for satisfactory terms and conditions and at a cost that is commercially reasonable.

## FUNDING

Sufficient funds will be included in the proposed 2010 Operating Budget and future Operating Budgets as required.

## BACKGROUND

At its meeting of October 25, 2006 the Commission approved entering into electricity purchase agreements for a three year period from January 1, 2007 to December 31, 2009 to permit the City of Toronto (City) to process purchases for the supply of electrical power from a pool of five firms who were awarded contracts as a result of a Request For Proposal (RFP) issued by the City on behalf of the City/ABC's, including the Commission. The intent of the RFP was to retain three

to five electricity suppliers to enter into Master Electricity Power Purchase Agreements for the subsequent purchase of electrical power for a three-year period, with the option for a contract extension for an additional three-year period.

Master Agreements have been negotiated and are currently established with a roster of four electricity commodity price risk counterparties from the original pool of five. The four counterparties are Direct Energy Marketing Limited, Powerex Corp., Integrys Energy Services of Canada (previously known as WPS Energy Services of Canada Corporation), and Shell Energy North America (Canada) Inc., (previously known as Coral Energy Canada Inc.).

Managing the risk of this commodity requires experienced staff, policies and procedures, in-house legal/financial expertise on such purchase transactions, to execute these purchasing transactions. Commission staff recommended executing Agency Agreements with the City as they already have the infrastructure in place through the Energy & Waste Management Office of the Facilities & Real Estate Division staff. The City acts on behalf of the Commission for the actual transaction based on the strategy developed by Commission staff in conjunction with advice from the City's/ABC's consultant retained for that purpose.

On August 22, 2008, the Commission purchased a 7.5MW block of electricity for approximately 15% of its 2009 electrical requirements from Direct Energy Marketing Limited at \$54.70/MWh for approximately \$3,600,000. On December 17, 2008, the Commission purchased an additional 2.5MW block of electricity for approximately 5% of its 2009 electrical requirements from Integrys Energy Services of Canada at \$51.79/MWh for approximately \$1,200,000. The average Ontario spot price for electricity in 2008 was approximately \$51.70/MWh, however as peak electricity usage for the Commission occurs during the morning and afternoon periods when electricity prices are normally at their peak, the Commission would likely pay more for its power than the average price for 2008.

## **DISCUSSION**

At its Council meeting of October 29-30, 2008 the City approved the renewal of the current roster of four qualified counterparties for another five years to December 31, 2014. The roster of eligible counterparties will be established every five years thereafter through a competitive procurement process.

The purpose of this report is to request approval for a 5 year extension to the term of the current Agency Agreements with the City for the purchase of electricity from a pool of four electricity suppliers on behalf of the Commission to allow for forward hedging transaction terms to be transacted out to December 31, 2014.

Commission staff has established a committee with representatives from Materials and Procurement, Finance and S/E/C departments that meets to develop short and long term strategies and also meets with the City staff and their consultant on an as required basis to co-ordinate the purchase of electrical power.

The Commission's total electricity costs are budgeted to be approximately \$46 million in 2009 excluding any rebates and green power purchase premiums. The delivery charge and other non-electricity service charges are regulated and total approximately \$20 million. The remaining \$26 million represents the commodity cost which is not regulated and is subject to the risk of market price fluctuations on a hourly, daily, weekly and seasonal basis. Over the five year term, January 1, 2010 to December 31, 2014, the Commission is expected to spend approximately \$290 million on electricity (assuming an 8% increase annually) of which approximately \$165 million is the commodity portion of the requirement. Of this \$165 million total five year commodity requirement, currently only 35% or \$58 million is required to be purchased through a hedging process. The remaining portion is purchased through the local hydro utility via spot pricing and billing will occur through a consolidated billing process carried out by THESI. The City will initially pay on the Commission's behalf pending verification of billing by staff and repayment to the City.

The potential price risk fluctuation associated with the purchase/use of electricity is covered through two Provincial mechanisms; the Ontario Power Generation Rebate (OPG) and the Global Adjustment. These two mechanisms currently apply to 65% of the TTC's total yearly electrical consumption and provide rebates if electricity spot pricing rises above provincially specified levels. As a result and as noted above, only up to 35% of the TTC's yearly consumption would have to be purchased through the City by the hedging process. The remaining 65% is purchased through the local utility company via spot pricing. Of this 35%, staff has currently purchased approximately 20% of its 2009 electrical requirements through hedging transactions executed in 2008 at a fixed price. This hedging approach provides a higher level of budget certainty and reduces the Commission's exposure to the risk of significant future price fluctuations. It also allows staff the ability to lock-in any portion of the remaining yearly usage at a fixed price if favourable pricing becomes available in the marketplace.

The OPG Rebate is scheduled to end on April 30, 2009, however, most industry insiders believe that it will not likely happen and that an extension to this rebate will be granted. In the event that the rebate does end on April 30, 2009, the OPG Rebate represents approximately 20% of electrical consumption which would mean that the Commission's exposure to spot market prices would rise by roughly 20% from 35% to 55%. This would mean that up to 55% of the yearly consumption may then have to be purchased through the City by the hedging process.

The Commission is in the process of establishing a contract for the supply of Ecologo<sup>M</sup> Certified green power generated within the Province of Ontario for approximately 5% of the Commission's total electricity requirements for 2009, which will have no impact on the purchase of electricity discussed in this report.

The City has recommended to continue with the THESI consolidated billing for a further five years and Commission staff also recommend continuing with this arrangement as THESI to date has provided the City/ABC's including the Commission with consolidated billing services, whereby the Commission has received one consolidated electronic bill on a monthly basis. The City issues one payment for the City/ABC's. Each ABC subsequently reconciles the invoices and pays the City. Consolidated billing has provided the City/ABC's including the Commission with significant savings in terms of staff time and administration of bill payment. Without consolidated billing, the City/ABC's would receive about 4,000 paper bills in each month. As consolidated billing services the same as that provided by THESI is no longer offered by any other retailer or wholesale power marketer, the only alternative would be to develop/implement a custom-made solution, however this would be significantly more costly and take some time to develop and is considered as not practical.

Since THESI already provides consolidated billing services to the City/ABC's and as they have already incurred the associated capital costs for their system, it is recommended that the Commission extend the contract with THESI as recommended by the City to continue consolidated billing services in the upset limit cost of \$375,000 for the Commission's share for an additional five year term.

The recommended upset limit of \$290 million for the purchase of the Commission's electrical power for the five year period is based on the estimated cost to purchase power in 2010 and beyond by assuming an 8% increase annually due to price related demand/supply issues.

## **JUSTIFICATION**

The existing Power Purchase Agreements (PPA) with the City will expire on December 31, 2009 and an extension of the PPA is required for an additional 5 years to December 31, 2014 to coincide with the City's 5 year electricity price hedging portfolio to permit staff to lock in fixed pricing for the supply of a portion of the Commission's electricity requirements, as appropriate.

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February 2, 2009  
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