

Staff Report



Infrastructure Services Department

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REPORT TO: Finance and Corporate Services Committee

DATE OF MEETING: April 22, 2024

SUBMITTED BY: Greg St. Louis, Director, Gas & Water Utilities, 519-741-2600 ext. 4538

PREPARED BY: Khaled Abu-Eseifan, Manager, Gas Supply and Engineering, 519-741-2600 ext. 4826

WARD(S) INVOLVED: Ward(s)

DATE OF REPORT: April 3, 2024

REPORT NO.: INS-2024-168

SUBJECT: 2024 Natural Gas Supply Rate Change No.1

RECOMMENDATION:

That the supply component of the natural gas rate be decreased to 11.63 cents per cubic meter from 16.70 cents per cubic meter for system gas customers of Kitchener Utilities effective May 1, 2024; and,

That the supply rate of natural gas be reviewed quarterly against market conditions and necessary changes to be brought forward for Council approval.

REPORT HIGHLIGHTS:

- The purpose of this report is to provide an update and recommendations to change the natural gas supply rate for Kitchener Utilities.
- The key finding of this report is that the supply rate is recommended to decrease from 16.70 cents per cubic meter to 11.63 cents per cubic meter to respond to lower market prices compared to forecasts.
- The financial implications to Kitchener Utilities residential customers will be savings of approximately \$80.69 or 9.3% in 2024 compared to 2023.
- This report supports the delivery of core services.

BACKGROUND:

Kitchener Utilities (KU) is committed to delivering natural gas using a rate setting approach that focuses on rate stability for our customers. We follow the Council endorsed Gas Purchase Policy for the procurement of natural gas. The policy outlines how much of our natural gas portfolio can be purchased in advance and on the spot market. It provides the ability to blend our natural gas rate with fixed and market price natural gas. The blending of fixed and market price natural gas is used to reduce volatility in prices to keep rates stable for customers. It is also used to respond to significant changes in market prices within a reasonable time frame. Although this feature is designed to soften spikes in market prices and provide longer range rate stability, it doesn't always protect against rate shocks that usually follows a delayed response to changing market conditions.

*** This information is available in accessible formats upon request. ***
Please call 519-741-2345 or TTY 1-866-969-9994 for assistance.

Other natural gas utilities, regulated by the Ontario Energy Board, purchase natural gas on the market and adjust rates quarterly, due to the volatility of natural gas. This strategy provides rates that are more reflective of market prices, but also includes more frequent rate fluctuations.

Kitchener Utilities last natural gas rate change was in November 2023. At that time, the supply rate was decreased with a plan to review the prices more frequently due to the anticipated volatility in market prices. This report aims to revise the supply rate based on updated market conditions. Kitchener Utilities is in a very good storage position and the proposed changes aim to timely adjust rates to benefit customers, avoid significant rate spikes and ensure reasonable rates are maintained.

REPORT:

Kitchener Utilities natural gas rates have two components: gas supply, and gas delivery. The gas supply program is responsible for the purchase of the gas commodity and transportation of natural gas to Kitchener and is a pass-through cost program. The delivery program is responsible for delivery of natural gas to customers. This includes billing, meter reading, capital, maintenance, and operating costs of the distribution system.

The purpose of this report is to decrease the natural gas supply rate for system gas customers. There are no proposed changes to the gas delivery rate at this time.

Gas Supply:

The natural gas market prices usually fluctuate with supply, demand, and weather factors. Kitchener Utilities relies on its purchasing policy to create a blended portfolio of hedging (fixed price contracts) and market price purchases. Along with the purchase policy, KU relies on the stabilization reserve to absorb sudden price increases and soften rate spikes. By the end of 2023, the supply rate was set to maintain the stabilization reserve in anticipation of high volatility in market prices. Actual market prices were lower than projected and the stabilization reserve is forecasted to be over the maximum limit by the end of 2024. As the supply program is a pass-through-cost program, the rate should be reduced to benefit customers. Current market prices are at a very low level caused by consecutive mild winters and good storage levels. However, prices are forecasted to increase later in 2024 and in 2025 as the demand for natural gas is forecasted to increase in response to the low prices. Additionally, more Liquefied Natural Gas (LNG) export facilities are planned to open. They allow the export of North American gas to international markets which would reduce the amount of gas available for local use. These conditions indicate the need to reduce the supply rate in 2024 while maintaining the stabilization reserve balance at the maximum limit at the end of 2024 given the uncertainty in market prices and the desire to avoid sudden rate shocks. This would provide financial benefits to customers as well as sufficient funds in the stabilization reserve to absorb market volatility and maintain rate stability. Depending on actual market prices, the ability of KU to continue to secure reasonably priced deals and actual gas consumption volumes, the supply rate should be reviewed frequently and changed as needed subject to Council approval. Therefore, staff recommends the following:

- Decrease the supply rate from 16.70 cents per cubic meter to 11.63 cents per cubic meter effective May 1st, 2023,
- Maintain the stabilization reserve at the maximum limit at the end of 2024,
- Continuously monitor market prices and recommend changes to supply rate if needed.

Figure 1 below shows historical and forecasted supply rate changes for Kitchener Utilities compared with market prices and Enbridge rates. The forward market prices are provided by KU's consultants. These consultants are natural gas subject matter experts who are hired to provide natural gas market analysis, forecasts, gas models and assist in purchasing KU's natural gas portfolio.

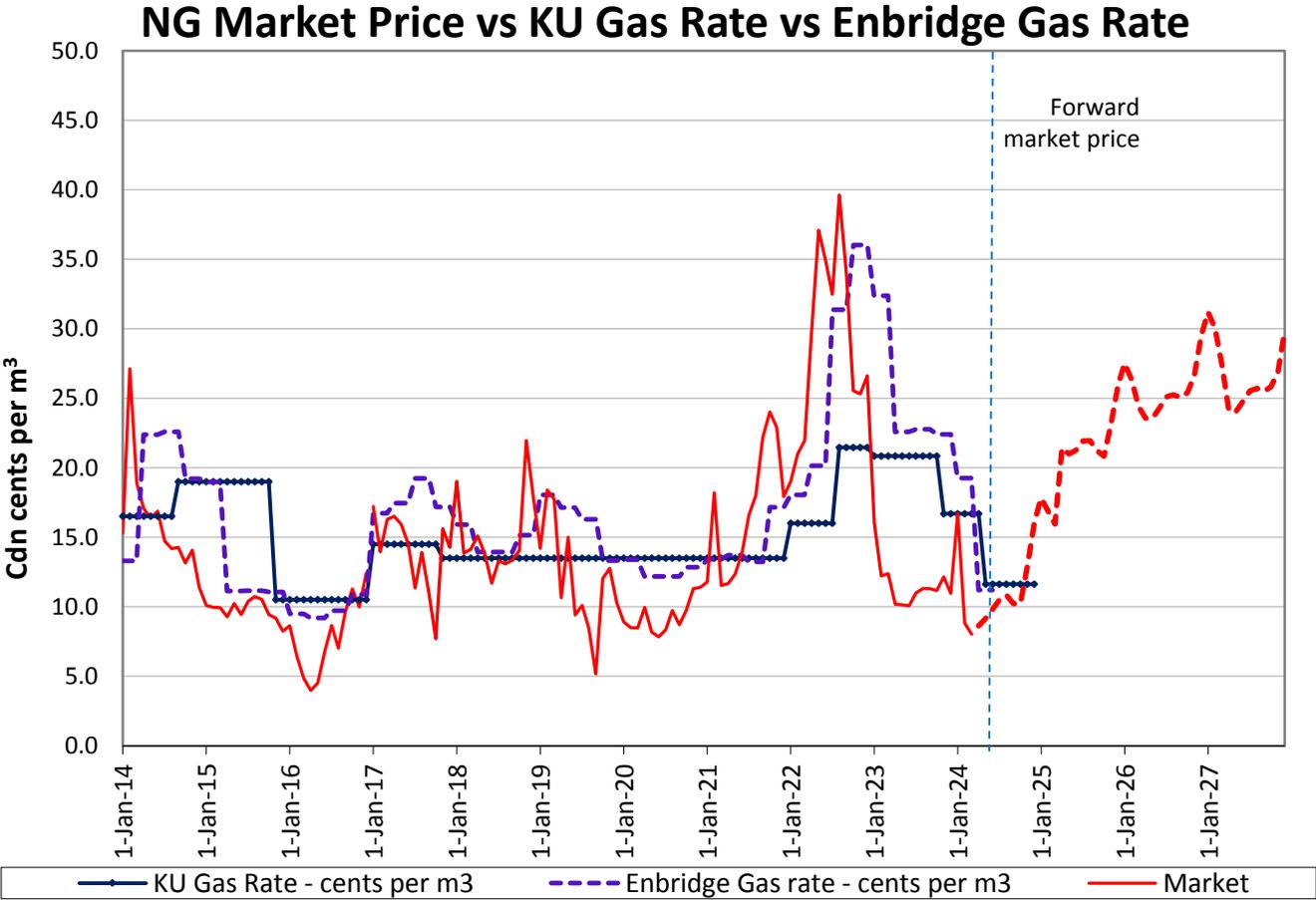


Figure 1: Natural gas supply rates comparison

STRATEGIC PLAN ALIGNMENT:

This report supports the delivery of core services.

FINANCIAL IMPLICATIONS:

The natural gas supply stabilization reserve balance is forecasted to be higher than the 2024 budget estimate and therefore, a decrease in the supply rate intends to keep the balance towards the maximum benchmark of the reserve in 2024. The supply stabilization reserve is needed to absorb fluctuations in market prices and soften rate spikes. Due to uncertainty and volatility of gas markets, this reserve should be at the maximum balance to avoid rate shock for KU customers.

The financial implications to Kitchener Utilities residential customers will be savings of approximately \$80.69 or 9.3% in 2024 compared to 2023.

COMMUNITY ENGAGEMENT:

INFORM - Kitchener Utilities will work with the Corporate Communications and Marketing Division to ensure that the rate change details are included in the Council Key Decisions media

brief. A bill insert will be distributed with utility bills along with posting information on the Kitchener Utilities' and City websites. An on-bill message will also appear on May 2024 natural gas bills.

This report has been posted to the City's website with the agenda in advance of the council / committee meeting.

PREVIOUS REPORTS/AUTHORITIES:

- INS-2023-334: 2023/2024 Natural Gas Rates

APPROVED BY: Denise McGoldrick, General Manager Infrastructure Services.

ATTACHMENTS:

None