

Staff Report



Infrastructure Services Department

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REPORT TO: Finance and Corporate Services Committee

DATE OF MEETING: April 20, 2026

SUBMITTED BY: Greg St. Louis, Director, Gas & Water Utilities, 519-783-8792

PREPARED BY: Khaled Abu-Eseifan, Manager, Gas Supply and Engineering, 519-783-7953

WARD(S) INVOLVED: Ward(s)

DATE OF REPORT: April 10, 2026

REPORT NO.: INS-2026-168

SUBJECT: Natural Gas Purchase Policy Review - 2026

RECOMMENDATION:

That the proposed changes to fixed portfolio minimum limits as proposed by report No. INS-2026-168 be approved; and,

That the amendments to the Gas Purchase Policy No. FIN-ACQ-560 as proposed by report No. INS-2026-168 be approved.

REPORT HIGHLIGHTS:

- The purpose of this report is to review the performance of the natural gas purchase portfolio in meeting its strategic objectives and to provide recommendations for improvements.
- The key finding of this report is that the current purchase horizon of 3 years is sufficient to maintain a balance between rate stability and market responsiveness.
- The report also recommends changes to the fixed portfolio minimum limits to align with quarterly supply rate change approach that has been followed since January 1st, 2025
- There are no financial implications for this report.
- This report supports the delivery of core services.

BACKGROUND:

In January 1998, Council adopted policy I-560 (*The Gas Purchase Policy*), which outlines the procurement of natural gas supply, separate from the City's purchasing bylaw. The main driver for this separate policy is that the nature, extent, and timing of these transactions did not align with the City's existing approvals process for goods and services.

Since its inception, this policy has been amended multiple times, with the most significant amendment being in June 2014 when council established a more "*market responsive*" management of the gas purchase portfolio. This was accomplished by reducing the purchase horizon from 5 years to 3 years and adjusting the limits on fixed portfolio proportion. Fixed portfolio limits determine the minimum and maximum proportion of forward fixed price contracts

(hedging) out of the total annual requirements. These limits ensure the use of disciplined approach to acquire blended portfolio of natural gas that balance between rate stability and market responsiveness. In 2023, the policy was amended to reduce the minimum financial rating requirements for short term suppliers. That amendment intended to increase the pool of suppliers available to trade with without increasing the financial risk associated with long term contracts.

As per clause 4 of the gas purchasing policy, Staff is required to review the policy on a no less than three-year basis to ensure that the ongoing performance of the portfolio is meeting its strategic objectives and customer’s rate expectations. This report addresses the requirement as per clause 4.

REPORT:
Policy Review:

Kitchener Utilities have historically set gas supply rates following a balance approached between market responsiveness and rates stability. The approach aligned with gas purchase policy that recommended balanced portfolio between fixed priced contracts and market index deals. Fixed price contracts or hedges are deals for the future supply of specific amount of gas at a predetermined price while market index deals are purchased on the actual market prices at the time of transaction. Fixed price contracts provide rate stability, improves financial planning and protects against sharp increase in market prices. However, they come with a premium as they tend to be more expensive on the long run compared with index deals and they include the risk of being out of the money in falling market prices periods. Index deals are usually cheaper, but they follow market volatility which impacts the budget and complicates forecasting. KU purchase policy sets a planning horizon for gas purchases of maximum three years, and previous staff reports defined limits on the minimum and maximum percentage of fixed price deals in the three years. Table 1 below provides the fixed portfolio limits that has been followed since 2014.

Table 1: Post 2014 To Date Fixed Portfolio Limits

Current Fixed Limits	Year 1	Year 2	Year 3
Maximum	60%	40%	20%
Minimum	20%	20%	0%

The intention of minimum limits is to ensure that the utility purchase enough fixed price contract to provide some price stability and the maximum limits are there to protect against the risk of speculation and out of the money deals. The purchase policy and the fixed portfolio limits performed as intended over the last 12 years resulting in rates that were balanced between stability and market responsiveness. Figure 1 below depicts Kitchener Utilities’ retail gas rate charged to its customers compared to market prices and Enbridge Gas rates. The graph can be split into 4 zones:

- Zone 1: Mild volatility period, and supply rate was relatively stable over that period of more than 4 years.

- Zone 2: beginning of high volatility period with sharp increase in market prices. Rates were increased significantly at that time to respond to market conditions. A review of the purchase policy was conducted at the end of zone 2 (June 2023) and recommended to maintain the minimum and maximum limits as they aligned with rate stability approach at that time.
- Zone 3: Continuation of high volatility period with sharp decreases in market prices followed by a significant drop to rates after a delay. The significant increases and decreases to rates over these years were the downside of rate stability approach and the main driver to consider the quarterly rate setting mechanism.
- Zone 4: Moderate to high volatility period with the implementation of gas supply rate policy that allows for quarterly rate adjustments. The new approach is more market responsive and allows for smaller frequent changes compared with large, limited changes in the past.

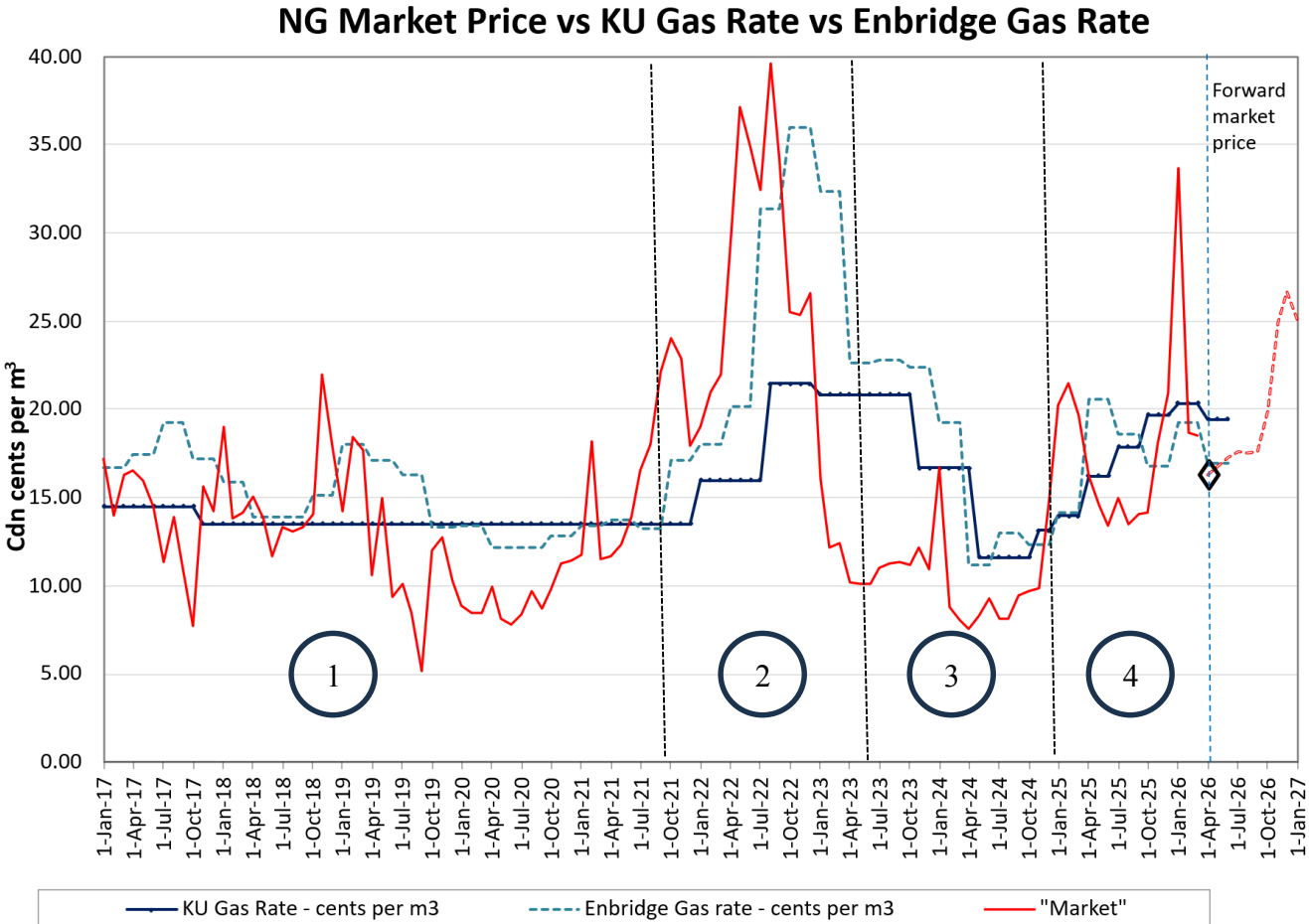


Figure 1: Natural Gas Market Prices vs KU Gas Rate vs Enbridge Gas Rate

Recommended Changes to Fixed Portfolio Limits:

Since the implementation of gas supply policy in 2025, KU changed the supply rate quarterly and that reduced the dependency on fixed price contracts to maintain price stability. As indicated earlier, hedging includes premiums and given that the supply program is a pass-through program (i.e. the actual costs of gas commodity are passed directly to customers through supply rate

without additions or subsidies), less hedging results in lower rates to customers on the long run. KU is currently using the following guidelines to purchase gas and set supply gas rates:

- Buy most of the gas using index deals.
- Hedge or buy fixed price contracts as needed up to the maximum portfolio limit only when forecasts indicate increasing market conditions. The intention of hedging is to minimise the risk of gas costs exceeding budgetary targets.
- Set supply rate quarterly based on actual gas costs and forecasted market prices.
- Rely on stabilization reserve to absorb sudden market increases.

This approach has eliminated the need to maintain minimum amount of fixed price contracts within the portfolio. The rates are market responsive and there are additional risk mitigation tools available to staff to control sudden increases to market prices other than maintaining minimum hedges. Staff are recommending eliminating the minimum limits to the fixed price portfolio while maintaining the maximum limits and the three years planning horizon as shown in table 2.

Table 2: Recommended Fixed Portfolio Limits

Current Fixed Limits	Year 1	Year 2	Year 3
Maximum	60%	40%	20%
Minimum	0%	0%	0%

The elimination of minimum limits provides flexibility to reduce the amount of hedging within the portfolio while maintaining the opportunity to hedge if needed based on market conditions.

Amendment to Gas Purchase Policy:

The fixed portfolio limits were set in previous staff reports to Council and were not included in the gas purchase strategy (FIN-ACQ-560). This resulted in confusion in implementing the policy and the fixed limits as they were not properly defined. Incorporating the limits into the gas purchase policy will eliminate confusion and improve transparency. Therefore, it is recommended to add the following amendments to the policy:

- The fixed portfolio limits as indicated in table 2 of this report,
- Definition of planning horizon years and the process to roll the planning years forward with time,
- Additions to clarify authorities in fixed price deals (hedging),
- Administrative additions to definitions.

The amended gas purchase policy can be found in Attachment A. The current gas purchase policy is in Attachment B.

STRATEGIC PLAN ALIGNMENT:

This report supports the delivery of core services.

FINANCIAL IMPLICATIONS:

Capital Budget – The recommendation has no impact on the Capital Budget.

Operating Budget – The recommendation has no impact on the Operating Budget.

COMMUNITY ENGAGEMENT:

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

PREVIOUS REPORTS/AUTHORITIES:

- [INS-2024-383 2024-2025 Gas Supply and Delivery Rates](#)
- [INS-2023-247 Natural Gas Purchase Policy Review - 2023](#)
- [INS-17-085 3-Year review of Natural Gas Purchasing Policy](#)
- [INS-14-014 Natural Gas Purchase Policy Review](#)
- [FIN-ACQ-560 Gas Purchase Policy](#)
- [FIN-ACQ-2052 Gas Supply Rates](#)

APPROVED BY: Denise McGoldrick, General Manager, Infrastructure Services

ATTACHMENTS:

Attachment A – FIN – ACQ - 560: Modified Gas Purchase Policy

Attachment B – FIN – ACQ - 560: Gas Purchase Policy