

POLICY		FIN-ACQ-560	
Gas Purchase		Category FIN - Finance	Sub-category ACQ - Acquisitions & Dispositions
Approval Type COUNCIL	Department/Division Infrastructure Services/Gas and Water Utilities	Author and Position Click here to enter text.	
Date Approved January 19, 1998	Last Reviewed/Amended June 26, 2023	Next Review Date June 26, 2026	

Related Policies or Procedures

- None

1. Policy Purpose

The purpose of this policy is to allow the transaction of gas commodity and transportation contracts in an effective and efficient manner. Gas commodity pricing is dynamic and fluctuates with the market. The nature of these transaction do not align with the standard purchasing processes and policies.

2. Definitions

Council: City of Kitchener Council.

Gas: Natural gas.

KU: Kitchener Utilities.

Fixed Price Contracts: Agreements or deals to purchase gas commodities at a predetermined price on a future date. It is a risk management strategy used to stabilize costs and protect against price volatility commonly known as hedging.

Market Price Deals: Agreements to purchase gas commodities at market prices at the time of transaction. These deals are subject to price volatility and commonly known as index deals.

Staff: Kitchener Utilities Staff

Year 0: Current budget year from January 1st to December 31st.

Planning Horizon: A timeframe that starts next January 1st and lasts for three years.

Rollover Date: January 1 of each calendar year, when the Planning Horizon shifts forward by one year.

3. Policy Scope

This policy applies to the purchase of fuel commodity and transportation contracts to be delivered to Kitchener Utilities customers.

Application

- Employees** *(Indicate below which categories apply: All employees, Permanent full-time, Temporary full-time, Continuous part-time, Casual, Probationary, Student, Management, Non-union)*
 - [Click or tap here to enter text.](#)
- Unions** *(Indicate below which categories apply: All Unions, CUPE 68 Civic, CUPE 68 Mechanics, CUPE 791, IATSE, IBEW, KPFFA)*
 - [Click or tap here to enter text.](#)
- Council**
- Specified Positions:** [Click or tap here to enter text.](#)
- Other:** Local Boards and Advisory Committees

4. Policy Content

That the following Market Responsive Portfolio be adopted as the Gas Purchase Policy for the City of Kitchener, namely:

- 1) Utilities' Staff, with assistance from external parties, as appropriate and subject to periodic tendering for consulting services, shall monitor market and economic forces to develop a prudent purchase strategy.
- 2) The purchase strategy shall reflect a three-year timeframe and use a disciplined approach to acquire a blended portfolio of natural gas contracts which varies the pricing and terms of the contracts to provide rate stability while remaining responsive to market pricing.
- 3) Given the long-term nature of getting natural gas to the City, acquiring transportation or storage contracts should include a longer-term view with contract terms of up to twenty (20) years.
- 4) The ongoing performance of the purchase portfolio in meeting its strategic objectives and customers' rate expectations shall be periodically reviewed, not less than every three years and not more than annually and revised as needed and approved by Council.
- 5) To ensure market competition is used and balanced with contracting costs, the City's expected natural gas supply needs will be placed with no less than four (4) primary suppliers. At no time should more than 50% of the City's annual supply be placed with one supplier.
- 6) The natural gas supply contracts will only be placed with large, financially secure suppliers with a proven industry track record. Before supply contracts are placed, the City must ensure that the supplier has a strong financial rating as evaluated by an independent evaluator. The minimum rating with Standard & Poor's be BBB or equivalent Moody's rating Baa for transactions that fall into Year 2 or later. For transactions falling in less than year 2, the minimum rating will be Standard & Poor's BB+ or equivalent Moody's rating Ba1.
- 7) The natural gas supply contracts will provide the City with the flexibility to swap between indexed and fixed prices at market-based transaction fees.

- 8) The financial exposure of the City will be minimized by seeking financial assurances in circumstances of high risk of supplier default. These assurances will be maintained commensurate with exposure of the contracts to an individual supplier. When dealing with a marketing entity for supply, assurances will be sought from the corporate parent.
- 9) All natural gas purchase transactions will be authorized by the CFO & City Treasurer, Financial Services Department or in his/her absence one of the City's signing officers and the Director, Gas and Water Utilities or in his/her absence, Utilities' Manager, Gas Supply and Engineering.
- 10) Separate accounting for the supply, transportation and delivery programs should be maintained, audited and reported to Council on a regular basis with other City financial statements.

11) All natural gas purchase transactions will adhere to the following requirements:

- a. The planning horizon for gas purchases is three years. Natural gas shall not be purchased beyond the three years timeframe
- b. The three years planning horizon is a rolling timeframe that starts on the next January 1st. Current year is considered year 0.
- c. The fixed price gas portfolio shall be within the following limits of the total annual volume of gas:

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

- d. Fixed price deals shall be purchased based on subject matter expert strategy recommendations. The strategy recommendations shall be provided at least once annually and shall be approved by the CFO & City Treasurer, Financial Services Department or their delegate and the Director, Gas and Water Utilities or in his/her absence, Utilities' Manager, Gas Supply and Engineering

5. Results of Review

- No Edits Required
- Housekeeping Edits
- Substantial Edits
- Repeal/Replace

6. Policy History

Administrative and Housekeeping Changes

Date	Nature of Change
2016-06	Policy I-560 template re-formatted to new numbering system and given number FIN-ACQ-560

Substantial Changes

Date	Council/CLT Directive
2001-08-27	As Per Council/CLT Directive
2002-05-27	As Per Council/CLT Directive
2006-10-06	As Per Council/CLT Directive
2014-06-16	As Per Council/CLT Directive
2023-06-26	As Per Council/CLT Directive - Report # INS-2023-247