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| REPORT TO: | Special Council |
| DATE OF MEETING: | November 30, 2021 |
| SUBMITTED BY: | Greg St. Louis, Director of Utilities, 519-741-2600 ext. 4538 |
| PREPARED BY: | Greg St. Louis, Director of Utilities, 519-741-2600 ext. 4538 |
| WARD(S) INVOLVED: | All |
| DATE OF REPORT: | October 15, 2021 |
| REPORT NO.: | INS-2021-13 |
| SUBJECT: | 2022 NATURAL GAS RATES |

RECOMMENDATION:

That the supply component of the natural gas rate be increased to 16.0 cents per cubic meter from 13.5 cents per cubic meter for system gas customers of Kitchener Utilities effective January 1, 2022; and,

That Kitchener Utilities' natural gas variable and fixed delivery rates be approved as proposed in report INS-2021-13 - Appendix A, for all Kitchener delivery customers effective January 1, 2022.

BACKGROUND:

Kitchener Utilities is committed to delivering natural gas rate stability for the citizens of Kitchener. We follow the Council endorsed Gas Purchase Policy for the procurement of natural gas supply. It outlines how much of our natural gas portfolio can be purchased in advance and on the market. The policy 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.

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 customers have indicated a preference for rate stability. Kitchener Utilities delivers rates which soften spikes in market and provides longer range rate stability. This offers customers easier and more reliable annual budgeting for energy costs.

The global pandemic has also impacted the natural gas market. As the world began to shut down with the onset of the pandemic, less natural gas was needed globally. This created a market with excessive supply and declining demand. As a result, prices quickly

began to drop. Due to these market conditions, and along with increasing policies promoting low-carbon energy, the refinement of new natural gas supply decreased. Now as the economy is reopening, demand for natural gas is increasing but supply has not kept up with demand. This and other factors are creating a rising natural gas market.

Kitchener Utilities is in a very good storage position of natural gas entering the heating season. Knowing that natural gas prices are rising, we have purchased natural gas and have delayed changing rates this fall, to hold lower rates for customers.

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 following are key highlights of this natural gas rate change report:

- Natural gas supply rate increase for system gas customers;
- Variable and fixed delivery rate increase as proposed in Appendix A;
- An average residential customer will see an overall rate increase of approx. \$74 or 10%, for the period January 1st, 2022 to December 31st, 2022 with the proposed rate change.

Gas Supply:

The gas supply rates are impacted by natural gas supply, demand, and the weather. During the 2021 budget process the purchase price of gas was forecasted to increase in the fall of 2021. The market prices have risen sharply which is necessitating an increase to 16 cents per cubic metre into 2022. This rate increase is required to bring the program's projected stabilization reserve to an appropriate position.

Gas Delivery:

There are two components to the delivery charges: *a daily fixed charge*, and a *variable rate*. There are four Delivery Rate Groups: M1, M2, M4 and M5. These rates service customers of different volumetric requirements.

- The delivery components of the proposed natural gas rates are shown in Appendix A.

The key drivers of delivery rate changes are the following:

- Natural gas delivery system capacity upgrades required to ensure critical minimum supply volumes are available to customers
- Natural gas meter purchases to meet regulatory requirements of Measurements Canada
- Inflationary increases to operating and capital expenditures

Inflationary increases within the 2022 budget have been limited to salaries/wages and internal charges, in order to offset the impacts of the increase in natural gas costs and to limit the increase in gas rates required.

ALIGNMENT WITH CITY OF KITCHENER STRATEGIC PLAN:

The recommendation of this report supports the achievement of the city's strategic vision through the delivery of core service.

FINANCIAL IMPLICATIONS:

For an average system gas residential (M1) customer consuming 2,100 cubic meters annually, the proposed natural gas rates result in an increase to the overall annual bill by approx. \$74 for the period January 1, 2022 to December 31, 2022. This excludes the Federal Carbon Charge.

Kitchener Utilities supports the Waterloo Region Energy Assistance Program. This program offers support to customers facing challenges paying their utility bills. The program is administered by the Region of Waterloo and offers support for both electricity and natural gas bills.

COMMUNITY ENGAGEMENT:

Kitchener Utilities will work with the Corporate Communications and Marketing Division to ensure that media outlets are provided with a press release to inform customers. An insert will be distributed with utility bills along with information will be posted on the Kitchener Utilities' and City website. An on-bill message will also appear on January natural gas bills.

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

ACKNOWLEDGED BY:

Denise McGoldrick, General Manager,
Infrastructure Services