
Report To: Finance & Corporate Services Committee

Date of Meeting: October 2, 2006

Submitted By: Pauline Houston, General Manager of Financial Services
& City Treasurer

Prepared By: Loraine Baillargeon, 2532

Ward(s) Involved: All

Date of Report: September 25, 2006

Report No.: FIN-06-031

Subject: NATURAL GAS RATES

RECOMMENDATION:

That, the supply component of the natural gas rates be decreased to 29.9 cents per cubic meter from 31.9 cents per cubic meter for system gas customers of the City of Kitchener effective November 1, 2006;

BACKGROUND:

Kitchener Utilities began a gas supply program in April 1998 to arrange supply for Utilities' customers who did not choose to buy from a gas marketer. The program was initiated with the goals of mitigating the impact of the natural gas price volatility and eliminating retroactive billing that had become common place with our past provider.

Our system gas program uses a disciplined economic approach to secure natural gas contracts in a portfolio to strive for a low risk, reasonable cost alternative to the current retail offerings. The supply program is a cost-based service and does not cross-subsidize with other Utilities profits.

Since the beginning of the supply program, we have been able to keep rates at some of the lowest levels in Ontario. The program has saved Kitchener customers over \$30 million since 1998 versus the previous supply arrangements. We continue to mitigate the risk of price volatility through management of the portfolio, contracting for fixed prices for a majority of the volumes of gas required.

REPORT:

The natural gas commodity markets continue to be very volatile. A large part of our portfolio is at fixed prices and we continue to pursue buying opportunities that would keep our supply rate

constant. A decrease is in order so that forecast revenues will not exceed reasonable levels and the projected gas costs for this year will be covered.

FINANCIAL IMPLICATIONS:

The impact of the supply rate change is expected to produce a decrease of 4.1% or savings of approximately \$52 per year for the average residential customer. In all estimations, we use a 2600 m3 annual consumption as an average residential customer consumption.

COMMUNICATIONS:

The Utilities Division will work with the Communications Division to ensure that media are provided with a media release to inform our customers and an insert is being prepared to be distributed with utility bills in November.

Dwayne Quinn, P.Eng., MBA
Director of Utilities

Pauline Houston, CA
General Manager of Financial Services
& City Treasurer