



POLICY No. 2011-05

Commodity Price Hedging Policy

Originating Department PW-FAM-02-2011

SMT Approval: N/A

Council in Committee: 2011-08-29

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1. PURPOSE

This policy is intended to ensure that all statutory requirements are adhered to regarding hedging for commodities. In accordance with the Municipal Act and Section 6(1) of Ontario Regulation 653/05, a municipality, prior to entering into a commodity price hedging agreement must adopt a statement of policies and goals. The policies and goals are intended to ensure that the price hedging makes optimum use of corporate resources and considers the risk associated with this method of securing commodities.

2. POLICY

Statement of Commodity Price Hedging Policies and Goals

1. Haldimand County will consider commodity price hedging agreements as a means of fixing, directly or indirectly, or enabling the County to fix, the price or range of prices to be paid by the County for the future delivery of some or all of the commodity or the future cost to the County of an equivalent quantity of the commodity, where it is advantageous to do so.
2. In determining whether a particular commodity price hedging agreement is advantageous for the County, the following considerations will be taken into account:
 - i. Any and all commodity purchases for which commodity price hedging agreements will be appropriate;
 - ii. If, at the time, it is the opinion that fixed costs and estimated costs of the County will be reduced by virtue of the use of such an agreement;
 - iii. If, at the time, it is the opinion that the future price or cost to the County of the applicable commodity will be lower or more stable than it would be without the agreement;

- iv. If, at the time, the commodity purchase includes a detailed estimate of the expected result of using such an agreement;
- v. If, at the time, it is the opinion that the financial and other risks to the County that would exist with the use of such an agreement will be lower than the financial and other risks to the County that would exist without such an agreement;
- vi. If, at the time, it is the opinion that the agreement contains adequate risk control measures relating to such an agreement, such as:
 - a) Limited credit exposure based on credit rating and/or on the degree of regulatory oversight and/or the regulatory capital of the other party to the agreement,
 - b) A standard agreement,
 - c) Ongoing monitoring with respect to the agreement.

3. DEFINITIONS

- 3.1. **Commodity** - means, whether in the original or a processed state, an agricultural product, a forest product, a product of the sea, a mineral, a metal, a hydrocarbon fuel, electricity, a precious stone or other gem and other physical goods but does not include chattel paper, a document of title, an instrument, money or securities.
- 3.2. **Commodity Price Hedging Agreement** - A municipality that plans to enter an agreement under Part II of the Municipal Act for the supply of a commodity required for a municipal system may enter into one or more financial agreements to minimize the cost or financial risk associated with incurring debt for the commodity.
- 3.3. **Electricity Market** - is a system for effecting purchases, through bids to buy; sales, through offers to sell; and short term trades, generally in the form of financial or obligation swaps. Bids and offers use supply and demand principles to set the price.
- 3.4. **Energy Commodity** - includes electricity, gas, coal, and oil, electricity has the particular characteristic that it is either impossible or uneconomical to store, hence, electricity must be consumed as soon as it is produced.

4. RESPONSIBILITIES

4.1 Reporting Requirements

The Treasurer shall report to Council on an annual basis with respect to any and all commodity price hedging agreements in place. The report shall contain, as a minimum, all requirements as set out in O. Reg. 653/05.

The report, at a minimum, must contain the following information and documents:

- 1. A statement about the status of the agreements during the period of the report, including a comparison of the expected and actual results of using the agreements.
- 2. A statement by the treasurer indicating whether, in his or her opinion, all of the agreements entered during the period of the report are consistent with the

municipality's statement of policies and goals relating to the use of financial agreements to address commodity pricing and costs.

5. REFERENCES

- 5.1 Report PW-FAM-02-2011 RE: Local Authority Services (LAS) Electricity Procurement Program
- 5.2 Electricity Appointment and Retainer Agreement with the Local Authority Services Ltd.

REVISION HISTORY					
REPORT	CIC		COUNCIL		DETAILS
	Date	Rec#	Date	Res#	
	Date	Rec#	Date	Res#	
	Date	Rec#	Date	Res#	
	Date	Rec#	Date	Res#	
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