

## Appendix A - Natural Gas Purchasing Strategy

### 1. Natural Gas Purchasing Options

There are several alternative strategies to purchasing gas, with risks and benefits associated with each alternative as summarized below:

#### (i) Conservative Approach

- a. Fix 100% of the volume for the Board at a price equal to current market value or hopefully below.
- b. The Board will have budgetary peace of mind. If prices were to go up in the future, the Board will be 100% secure in knowing they are locked in. However, if prices were to fall, the Board would not be able to participate with any downward forces in prices.

#### (ii) Aggressive Approach

- a. Remain 100% on daily index.
- b. This approach will not provide budget certainty. Month-to-month volatility in prices will occur as the daily market price for gas goes up and down. The Board will be susceptible to market fluctuations that occur from Market Traders/Speculators as well as any Geopolitical Risks that may occur in the marketplace. The Board may save if the prices continue to weaken; however, the Board would be susceptible to any price shocks to the upside. This would likely lead to decreased stability for the Boards gas bills.

In addition, compared to the long-term daily average spot price, current prices are very favourable. We expect the shoulder period of April – June (where it is neither too cold nor hot) to lead to some very attractive fixed price opportunities for the longer term.

#### (iii) Balanced/Cautious Approach

- a. Purchase a Fixed Price natural gas contract for 2/3 (67%) of the Board's natural gas requirement for the period of September 1, 2018 to August 31, 2019 at a price of \$2.90/GJ or lower at AECO, Alberta. Leave the remaining 33% natural gas purchase price on index to take advantage of further price weakness due to oversupply of natural gas over the next few months.
- b. Purchase a Fixed Price natural gas contract for 1/2 (50%) of the Board's natural gas requirement for the period of September 1, 2019 to August 31,

- 2020 at a price of \$1.85/GJ or lower at AECO, Alberta. Leave the remaining 50% gas purchase price remain on index with a predicted target price of \$1.70/GJ or lower over the next year.
- c. Purchase a Fixed Price natural gas contract for 1/3 (33%) of the Board's natural gas requirement for the period of September 1, 2020 to August 31, 2021 at a price of \$1.85 /GJ or lower at AECO, Alberta, and leave the remaining natural gas purchase price remain on index for that period with a predicted targeted price of \$1.70/GJ or lower over the next couple of years.
  - d. Note that the Board has a goal to be 100% fixed price for each of the upcoming winter periods as extreme cold may play havoc with gas prices as it did during the Polar Vortex a few years ago.
  - e. This balanced approach will allow the Board to have some measure of price stability in the portfolio in case gas prices rise, however, it also leaves the Board with the ability to take advantage of any further potential price decreases that may occur in the marketplace over the next few years, as gas production may potentially outweigh demand.

## **2. Natural Gas Transportation Strategy:**

- (i) The Board will be supplying natural gas to Enbridge Gas at Dawn, Ontario effective September 1, 2018. The distribution charges from Dawn, Ontario will then be charged by Enbridge Gas on the utility invoices to the Board. This transportation component was previously on the natural gas supplier invoice and this change will be effective September 1, 2018.
- (ii) The Board's consultant has recommended that the Board consider locking in the Board's gas transportation rate from Alberta to Dawn, Ontario as follows:
  - a. Rate locked in initially for the period September 1, 2018 to August 31, 2019 at an average price not to exceed \$1.75/GJ.
  - b. Rate locked in for the period of September 1, 2019 to August 31, 2021 at a later date. The current price is approximately \$1.70 /GJ for this time period, however, given that new pipeline capacity is expected to be built to Dawn, Ontario, the market price for transportation will likely drop over the next year and a half. As we wait, we would like to obtain the approval to fix the price of transportation if and when the market price is below \$1.425 /GJ for the two year term. Or fix when the price drops to \$1.50 /GJ or below for September 1, 2019 to August 31, 2020, and \$1.35 /GJ or below for September 1, 2020 to August 31, 2021.