
REPORT TITLE: Energy Commodity Procurement Policy Update

FROM: Stephen Van Ofwegen, Commissioner of Finance and Chief Financial Officer

RECOMMENDATION

That the Energy Commodity Procurement Policy attached as Appendix I to the report from the Commissioner of Finance and Chief Financial Officer, titled “Energy Commodity Procurement Policy Update”, be approved.

REPORT HIGHLIGHTS

- An Energy Management Audit Report presented to the Audit and Risk Committee in October 2019 identified the opportunity to review and update the policy and procedures related to commodity procurement to help ensure clear roles and responsibilities in the energy hedging program.
- Management developed an action plan to address this observation and the policy was updated to include changes in the responsible authority and the composition of the Energy Procurement Working Group, and inclusion of the Energy Risk Management Framework in the policy.

DISCUSSION

1. Background

An Energy Management audit was conducted in 2019 by Enterprise Risk and Audit Services and the audit report was submitted to the Audit and Risk Committee in October 2019.

The audit found that the controls in place to provide system support for energy consumption and performance analysis are effective; there are controls in place to manage energy requirement forecasting and energy procurement, at the same time mitigating the market risks associated with commodity markets.

The Energy Commodity Procurement Policy was approved by Regional Council in April 2016 to provide guidelines that ensure effective controls are in place to achieve the business objectives related to mitigating market risks associated with energy commodity markets such as supplies and demands, and price fluctuation. The Region purchases two types of energy commodities: natural gas and electricity. The procurement process follows the Region’s approved Energy Commodity Procurement Policy. A hedging program was established to mitigate the market risks associated with commodity markets such as supplies and demands, and price fluctuation.

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The audit further indicated that there is an opportunity to review and update the policy and procedures supporting energy procurement to ensure roles and responsibilities of staff responsible for the hedging program are clearly defined. It should be noted that in October 2016 the Energy Procurement and Planning Section of Real Property Asset Management Division (RPAM) was transferred to the Corporate Finance Division as the functions of the said section aligns better to the procurement function of Finance. The transfer resulted in improvements to service function and changes in responsibilities and the reporting and signing authority.

The audit noted that without an updated policy and procedures to effectively guide and support staff, there is a risk that practices may not align with management expectations. To address this observation, management developed an action plan to review and update the policy.

2. Key Revisions

The major revisions to the policy are as follows:

a) Responsible Authority

Due to changes in reporting and signing authority, the following revisions are included:

- i. Approval of energy transactions shall be changed from the Director-Real Property Asset Management to the Treasurer and Director of Corporate Finance.
- ii. The Deputy Treasurer shall be authorized to approve energy transactions in the absence of the Treasurer and Director of Corporate Finance.

b) Composition of the Energy Commodity Working Group

Due to changes in reporting authority and to better align responsibilities, the following revisions are included:

- i. The lead of group shall be changed from the Director-Real Property Asset Management to the Treasurer and Director of Corporate Finance.
- ii. The Director of Enterprise Risk and Audit Services shall be replaced as working group member by the Director of Treasury Services. The Manager-Finance Services Unit of Peel Living is also added as member.

c) Added as Appendix "A" - Energy Commodity Risk Framework

To reflect the actual best practices in managing energy market risks, the Energy Commodity Risk Framework which was not contained in the previous version of the policy shall be included as Appendix "A" to the policy. The Energy Commodity Risk Framework provides detailed guidelines and processes on energy market risk assessment and management.

CONCLUSION

Overall, the Region's updated Energy Commodity Procurement Policy will provide clear guidance and management processes to enable the Region to quickly respond to legislative changes as well as energy market conditions that affect electricity and natural gas costs, mitigating the impacts of energy market volatility and ensuring that the services provided to the community in Peel are delivered in a cost effective manner. Moving forward, management shall continue to review and update the policy as needed in order to ensure it aligns with management expectations.

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APPENDICES

Appendix I – Energy Commodity Procurement Policy

Appendix II – Energy Commodity Procurement Policy – BLACKLINED (Proposed Revisions)

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Reviewed and/or approved in workflow by:

Department Commissioner and Division Director.

Final approval is by the Chief Administrative Officer.



N. Polsinelli, Interim Chief Administrative Officer