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February 4, 2009

Gary Seitz
Director of Finance/Treasurer
Town of Ingersoll
130 Oxford St., 2nd Floor
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Re: Electricity Procurement Strategy Proposal

Dear Gary:

Thank you for the opportunity to support the Town of Ingersoll's electricity procurement initiatives. In August 2008, the Town of Ingersoll pursued an electricity procurement strategy proposed by WattsWorth Analysis that managed to reduce its cost of electricity from an average of 6.0 ¢ per kWh to 5.5 ¢ per kWh. Prior to this the Town had been part of the government sponsored Regulated Price Protection (RPP) plan but the alternative initiative managed to save the Town 8% for a four month savings of **\$23,206¹**. These savings are expected to continue through to April 30, 2009 at which time the market for electricity will fundamentally change, and with it, the strategy that WattsWorth proposes for the Town.

Two significant events are scheduled to occur on May 1, 2009. The first is that municipal customers will no longer qualify for the RPP. The second is that one of the market mechanisms that fix the price of up to 25% of the electricity purchased from the spot market at a very attractive rate will expire. Thus, municipalities will be required to manage their own cost of electricity at exactly the same time that they will be faced with greater challenges and risks. In light of this, WattsWorth Analysis has analyzed both the Town's electricity needs and the forward market for electricity and proposes the following strategies for the Town to manage its electricity costs.

Small Non-Interval Accounts:

Although municipal electricity customers are required to exit RPP, the Town's smallest electricity accounts will still qualify for the RPP based on their size (<250,000 kWh consumed or <50 kW Demand). WattsWorth recommends that the Town continue to leave its smallest accounts in the RPP because they generally pay the first-tier rate for electricity. The first-tier rate of the RPP is generally set below the expected cost of electricity to give an incentive for conservation. The attraction of leaving these accounts in the RPP is that it is very stable.

¹ Includes RPP Exit payments of \$(0.0018) per kWh times annual consumption

Large Non-Interval Accounts:

The Town's largest non-interval accounts are those that have been put onto the spot market for their electricity purchases. Although this strategy has yielded savings for the Town, it is only a viable for those months where the spot market price risk is at its lowest. By July 2009, WattsWorth recommends that these accounts have a hedge in place to mitigate some of the market risk. Based on the Town's needs for these accounts and the forward electricity market, WattsWorth recommends the following hedge:

Size: 45 kW
Type: 5x16 (7a.m. to 11 p.m., Mon to Fri)
Proportion of Coverage: 85%
Maximum Price Threshold: \$75 per MWh
Term: Maximum 2 Years

Interval Accounts:

WattsWorth has analyzed each of the Town's interval accounts and classified them into one of two account pools: Peaking and Low Summer Consumption (LSC). A summary of the analysis is as follows:

Ratio of On-Peak Consumption to Off-Peak

Account #	Description	Off Peak	On Peak					Account Pool
			Winter	Spring	Summer	Fall	Annual	
00100549-00	130 OXFORD ST	1:	1.497	1.559	1.714	1.557	1.588	Peaking
00161052-00	121 THAMES ST N	1:	1.560	1.421	1.656	1.544	1.540	Peaking
00100499-04	355 WELLINGTON ST	1:	1.275	1.325	1.446	1.343	1.342	Peaking
00100606-01	80 PEMBERTON ROAD	1:	1.405	1.282	1.176	1.354	1.317	LSC
00100580-03	97 MUTUAL ST	1:	1.232	1.255	1.214	1.227	1.239	LSC

Interval Accounts – Peaking

Peaking interval accounts consume the majority of their electricity when the spot market price for electricity is at its most volatile. The first three accounts in this table fall into this category. WattsWorth recommends that these accounts have a hedge in place to ensure that their spot market risk is mitigated. The optimal hedge for these accounts is as follows:

Size: 70 kW
Type: 5x16 (7a.m. to 11 p.m., Mon to Fri)
Proportion of Coverage: 75% (Maximum possible)
Maximum Price Threshold: \$75 per MWh
Term: Maximum 2 Years

The maximum coverage available using this procurement option is 75% due to the mismatch in "shape" between the customer's consumption and the block structure of the hedge. A larger forward contract would put the Town in a speculative position.

Interval Accounts – Low Summer Consumption (LSC)

These two accounts consume very little electricity during the most risky time of year; which is the summer. For this reason, adding a hedge to these accounts is not likely to provide the Town with any benefit. It is therefore recommended that these accounts remain on the spot market without a hedge.

Street Light Account

Street lights are self-hedging because they operate almost exclusively at a time when the spot market prices are at their minimums. Adverse prices that may occur are generally short in duration and are more than offset by the longer-term low prices. For this reason, forward contracts do not offer any risk mitigation to the town and thus are WattsWorth recommends that they be left on the spot market without a hedge.

The coming electricity year will present many challenges for the Town of Ingersoll and WattsWorth given the precarious nature of the market dynamics. Utilizing this strategy, WattsWorth estimates that the Town's cost of electricity will remain at or below its current price for electricity of 5.5¢ per kWh for a savings of 8%.

Comparatively, the Provincial government recently raised the RPP rate for electricity by 11%. We look forward to proving our abilities in the coming electricity term and exceeding your expectations.

Sincerely

A handwritten signature in black ink, appearing to read 'Tim Hart', is positioned to the left of a vertical red line.

Tim Hart
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