Spring 2014
Volume 6, Issue 1

Condo Connection

Wilson, Blanchard Management Inc. – *Condominium Management with Experience and Integrity*
www.wilsonblanchard.com

This edition of the WB Condo Connection is dedicated to the current state of the utility markets in Ontario. Contained within are discussion points for consideration in helping Boards make decisions on controlling utility costs, consider the risks and benefits of utility contracts and develop a plan to minimize the exposure to sudden cost increases due to fluctuations in gas and hydro prices. We encourage you to consider the recommendations and the rationale provided.

We hope you enjoy this edition and we welcome your comments, suggestions, or article topic requests by email to newsletter.editor@wilsonblanchard.com

Inside This Issue

Hydroelectric Markets and Contracts 1
Water Expenses 2
Changes in the Natural Gas Market 3
Natural Gas Contracts – A Glossary 4

Hydroelectric Markets and Contracts

By: Dean McCabe
Vice President of Operations

In some ways the electricity markets in Ontario have been stable over the past 10 years and in other ways Ontario's condominium industry has kept a nervous eye on this sector for the past decade.
In this brief article I will attempt to answer a few of the FAQ's.

- What is the Rate Protection Plan? How do I tell if my Condo is on the RPP?
- How does Time-Of-Use affect my Condo?
- Why is my condo not in a supply contract?
- What is the OCEB?
- Is it time to consider a supply contract?

The vast majority of multi-unit residential condominiums that are not sub-metered or individually metered (that means condo's where the condo maintenance fees include hydro) are billed on tiered electricity pricing commonly referred to as the Rate Protection Plan *(RPP)*.

This pricing strategy was developed following the re-regulation of the electricity markets in Ontario and allows condos to pay 8.3 cents per KWh for the first 1,000 KWh per residential unit and 9.7 cents for each additional KWh.

A quick review of your condo electricity bill will tell you if you are on the RPP. If there is no section on the bill which calculates the *Global Adjustment* then you are on the protected RPP. Note that the RPP rates mentioned earlier in this article are reviewed by the Ontario Energy Board twice a year and new rates are set.

The vast majority of Ontario electricity users pay time-of-use prices. There are three time-of-use price periods:

- Off-peak, when demand for electricity is lowest. Ontario households use the majority of their electricity – nearly two thirds of it – during off-peak hours. The rate for off-peak consumption is 7.2 cents per KWh.
- Mid-peak, when demand for electricity is moderate. These periods are during the daytime, but not the busiest times of day. The rate for mid-peak consumption is 10.9 cents per KWh.
- On-peak, when demand is highest. The busiest time of day. Generally when people are cooking, firing up their computers and running heaters or air conditioners. The rate for on-peak consumption is 12.9 cents per KWh.

…Cont'd on page 2

Cont'd from page 1…

Many directors will have seen advertisements, or heard reference to electricity at 3, 4 or 5 cents per KWh. These contracts do not include the Global Adjustment and when combined with other regulated prices can result in net costs that are higher than the RPP rates set by the energy board.

For that reason, and due to the relative stability in the electricity market, ***WB*** has recommended **against electricity contracts for residential condos** since the introduction of the RPP. This is still a relatively safe strategy and will protect condos from large unforeseen price increases month over month.

Another advantage that has helped residential condos with bulk electricity billing is the implementation of the *Ontario Clean Energy Benefit (OCEB).* This rebate of 10% of the cost of residential electricity consumption was introduced in 2010. There are questions about the long term viability of the rebate given the Province's fiscal constraints and condos should likely prepare for a possible end to the program and to budget for a 10% increase in the cost of electricity.

However, according to the 2013 Long Term Energy Plan, published by the Ministry of Energy, Ontario's current energy plans will result in a 42% increase in residential bills by 2018 and 68% increase by 2032. This increase will be reflected in higher prices published in the RPP, due to the increasing Global Adjustment Cost. While **the best cost saving solution is to invest in conservation** measures and demand reduction technologies, customers on time-of-use rates may be able to benefit from variable and fixed electricity products, provided that their usage in the peak and mid-peak hours are greater than 18% respectively.

In short, there are possibilities for savings in managing the hydro market, those savings however can come with increased risk, combine that with the anticipated cost of electricity in the coming years and condos that find ways to reduce their consumption will reap the highest benefits.

Follow @wb_condo on twitter

Follow our blog at wbcondo.wordpress.com

For more detailed information on utility pricing and market conditions visit: www.ontarioenergyboard.ca

Water Expenses – A Drain on Operating Budgets (get it?)

As pressures on operating budgets increase and utility expenses continue to escalate, no condo can afford to watch their owners' fees go down the drain. Failing to maintain your condo's water infrastructure is the same as flushing money down the toilet – OK, that's the last one, I promise.

We all want our condo fees to just keep pace with inflation – that offers the same services at roughly the same fees. In Southern Ontario inflation has hovered around 2 – 3% for the past few years. The cost of water in Toronto has increased by over 9% per year for the past 5 years. Mississauga has increased by 9% per year over the past 3 years. Hamilton faces similar increases.

The reason for these dramatic increases is the need for cities to maintain and even replace an increasingly aging water and sewer infrastructure. This failure to maintain in the past generation is catching up with our urban areas now.

Your condo needs to reduce its water consumption in order to hold your fees for water and sewer costs. Regular maintenance on toilets, shower heads, taps and irrigation systems will help but regular replacement and investment in order to take advantage of improving technology will also help control costs.

The important fact in this article is simple – we cannot lower the cost of water as it is set by municipal governments – but we can and must conserve and reduce consumption in order to keep the cost of this utility from pressing condo fees even higher.

Changes in the Natural Gas Market – Learning from the Past

The study of what drives natural gas markets is extremely interesting. Basically it comes down to storage and demand. For the past several years we have benefitted from lower natural gas prices from systems providers – Union Gas and Enbridge Gas. Their prices have hovered in the 10 – 14 cent range and multi-unit residential condos have benefitted from that stability.

This benefit was welcomed after many condos watched prices drop during 2009 and 2010 while they were locked into commodity contracts worth 25 – 35 cents. Contracts that were well advised when entering into them but which became difficult to swallow as the systems gas prices dropped. That drop in the market was largely due to drops in demand as North American manufacturing dropped and storage of gas increased.

Here comes the unwelcome news – **Prices appear set to climb in the near future** – this is for a couple of reasons. The North American economy is making a steady return to pre- 2009 levels and as markets turn away from the use of coal fired plants to generate electricity there are many natural gas fired electricity plants being constructed, and that will also increase demand.

On April 1st Union Gas has filed for price increases of 68% - from 13.30 cents per cubic meter to 22.39 cents. At the time of writing the Enbridge rates were not known.

There are three questions that Boards should consider.

1. Is there a benefit in protecting your condo from spiralling prices?
2. What are the options in purchasing Natural Gas?
3. Which option provides a balance between protection and flexibility?

Here are a few thoughts for your Board to consider...

There is a huge benefit in protecting your condo from price fluctuations in the price of natural gas. If your condo provides natural gas services for heat and hot water to your residents it is not uncommon that natural gas can account for 20% or more of your maintenance fees. The increase from Union Gas on April 1st could mean an increase of 5 – 7% in maintenance fees – in one day.

The Natural Gas purchasing options include the option of staying on **systems gas** and being subject to quarterly price variations, entering into a **supply contract** for between 1 – 5 years for the purchase of the commodity or entering into a **pool arrangement** that has prices adjusted annually based on tiered purchasing.

Boards that enter into a 1, 3 or 5 year supply contract will have their price protected for that period and realize *maximum savings* as prices increase. At present a 5 year contract is available for approximately 18 – 22 cents. This protects the condo from price fluctuations. There is the possibility of a repeat of the 2009 market that would see systems gas prices drop.

The positive side of that equation is the stability that is offered and the protection from increasing prices. Boards that choose this option should consider a commitment to budget based on systems gas prices – or at least attempt to keep pace with market costs. There is nothing like a shock to the system when a five year contract ends and the condo is facing gas prices that have increased while they have been protected by a supply agreement.

The option of a pool arrangement is not one that WB has encouraged or facilitated as our primary purpose is the management of your condo community and not the operation and risk management of utilities pools that present both risk and uncertainty to the Condos we represent.

For the past several years we have been saying that the time for natural gas contracts was not here. Systems gas pricing was stable and there were no dramatic increases on the horizon. We may be facing the beginning of that change in market conditions that would give us cause to look at contracts again.

In the following article are a few of the conditions, clauses and loopholes that you will want to beware of if considering a natural gas contract.

Natural Gas Contracts – A Glossary of Terms

There are obvious differences in buying natural gas services from someone at your front door and through a reputable established commodities broker. The difference is not in the gas that you receive, but it can be in the contract terms – and the differences can be the difference between a good deal and a bad deal – and that can be expensive.

Load Balancing - One of the most expensive and confusing terms in a natural gas contract can be Load Balancing. The Energy Source website provides the following description- "Load balancing from the utilities primarily involves managing variations between delivery and consumption. Since utilities roughly receive the same quantity of gas every day, they need to find a balance between the time it receives the gas from Western Canada and the time it is consumed by the customer."

It is important that any contract that a condominium signs for natural gas should **INCLUDE** load balancing.

Transportation – Some gas suppliers will offer transportation as part of their contract services. Transportation is a regulated service unless the customer opts out of that service and places the cost of transporting gas as part of the contract. In order to best protect your condo corporation **transportation costs should not be included as part of the contract.**

Blend and Extend – Breaking a gas contract is expensive due to the fact that your supplier has already committed to purchasing gas on the futures market for your future consumption. The practice of combining the balance of your remaining contract with a new longer term at a lower price is called blending and extending. If your condo has a contract with more than 2 years left on it – investigate blend-and-extend pricing.

WB Wilson Blanchard

In Summary – (or - What should we do?)

Many times the manager gets asked to summarize their views by being asked "What would you do if you were a Director here?" It is a perfectly valid question and demonstrates that the Board values the opinion and expertise of the Manager.
So here it is – in short:

- Condos should start investigating natural gas contracts and be prepared to enter a gas contract within the next 3 months. At the time of writing a good rate for a natural gas – 5 year contract is 19-19.9 cents per cubic meter. Make sure the gas contract has no additional load balancing charges and that transportation charges are not part of the contract. In budgeting for the next five years, Boards should ensure that the cost of gas is budgeted at or near the cost of gas from Enbridge because one day that five year contract will end.
- Condos should not be entering into hydro contracts at this time if the condo is on a bulk meter. WB will continue to monitor hydro products on the market and will update our Boards and Managers.
- Condos should invest wherever possible in water saving technologies. If suppliers or contractors can demonstrate a payback of less than 3 years, you should seriously consider investing in technologies that reduce consumption. Look at toilets and irrigation systems as possible sources of water loss.

We trust you have found this special edition of WB Condo Connection helpful.