
2005 BUDGET BRIEFING NOTE – Corporate Utilities

Response to BAC Decision on January 31, 2005

Issue:

At its meeting on January 31, 2005, the Budget Advisory Committee made the following decisions:

1. reduced the Non-Program Corporate Utilities Budget by \$ 1 million; and
2. requested the Chief Financial Officer & Treasurer to provide a briefing note to the Budget Advisory Committee for its meeting of February 4, 2005 on any further reductions to the Non-Program Corporate Utilities Budget.

Background:

The 2005 EMT Recommended Budget for Corporate Utilities is \$32.053 million gross and \$25.588 million net. Approximately 89 per cent of the 2005 EMT Recommended Gross Budget is for the consumption of electricity (62 per cent) and natural gas (27 per cent).

Key Points

2004 Projected Expenditures

The 2004 projected actuals have been updated. As can be seen from Table 1, the projected 2004 expenditures are lower than the budget. The following reasons contributed to the under-expenditures:

1. A number of new buildings that were expected to be using energy in 2004 did not come on line. These buildings included 9 Hanna, 2440 Lawrence and 85-115 The Esplanade. The total amount budgeted in 2004 for these buildings were \$315,950.

Electricity

2. The projected actual for electricity includes a Business Protection Price Rebate (BPPR) of \$750,000 that was not budgeted. The Province calculates this rebate based on the actual cost of power generation in the Province. It is not expected that this rebate will be provided in the future.
3. Electricity consumption was lower in 2004 by 5.4 per cent due to decreased air-conditioning load because of an unusually cool summer. The Environment Canada data shows cooling degree days to be 45% less than an average year. This resulted in a decrease in electricity consumption of approximately 5 million kwh or \$450,000. There is no basis to assume that 2005 will have the same trend.

Natural Gas

4. The projected actual for natural gas is also lower than the budget. This may be partly due to a warmer winter in 2004 than in 2003. The warmer winter attributed to the overall natural gas cost reduction of approximately \$200,000 in 2004.
5. The City also received a 2003 rate adjustment (credit) in the amount of \$178,000 in 2004. This credit was not budgeted for in 2004.

Steam Heating

6. Steam heating projected actual is also lower than the budget and this may be partly due to a warmer winter in 2004 than in 2003. The warmer winter attributed to the overall steam heating cost reduction of approximately \$80,000 in 2004.

Water

7. Although our budget accurately reflects our anticipated expenditures, the expenditures did not materialize. Weather could be a factor since many EDCT locations are in this budget, and less water was required for the cooling towers in large corporate buildings.

Assuming the 2004 projected actuals were to be used as basis in determining the 2005 budget, some adjustments are required to take into account the unanticipated items as listed above.

Table 1
Corporate Utilities (\$ million)

	2004			2005				New Services/ Annualiz.	Revised 2005 Budget Request	2005 EMT Rec. Budget	Change from 2005 EMT Rec. Budget
	Projected			Unexpected Cost Reduction in	Revised 2004 Projected	Economic Factor Increases	Proposed 2005 Budget				
	Budget	Actual	Variance	2004	Actual						
	(A)	(B)	(C)=(A)-(B)	(D)	(E)=(B)+(D)	(F)	(G)=(E)+(F)	(H)	(I)=(G)+(H)	(J)	(K)=(I)-(J)
Electricity	18.080	17.050	1.030	1.200	18.250	1.470	19.720	0.396	20.116	19.793	0.323
Natural Gas	7.165	6.025	1.140	0.378	6.403	1.261	7.664	0.169	7.833	8.725	(0.892)
Steam Heating	1.822	1.670	0.152	0.080	1.750	0.175	1.925		1.925	2.005	(0.080)
Water	1.342	1.086	0.256		1.086	0.065	1.151	0.047	1.198	1.460	(0.262)
Heating Oil	0.044	0.029	0.015		0.029	0.003	0.032		0.032	0.048	(0.016)
Propane		0.002	(0.002)		0.002		0.002	0.022	0.024	0.022	0.002
Gross Expenditure	28.453	25.862	2.591	1.658	27.520	2.974	30.494	0.634	31.128	32.053	(0.925)
Revenue	5.642	5.260	(0.382)	0.332	5.592	0.595	6.186	0.340	6.526	6.465	0.061
Net Expenditure	22.811	20.602	2.209	1.326	21.928	2.379	24.308	0.294	24.602	25.588	(0.986)

Note: Unexpected cost reduction in 2004 includes unexpected rebates for both hydro and natural gas. A cooler summer and warmer winter also contributed to the overall utility cost reduction for hydro, natural gas and steam heating.

Inflation Factors:

The following table shows the weighted average rate increases for the various utilities for the past 4 years, and the projected rate increase for 2005 and 2006:

Year	Electricity	Natural Gas	Water	Steam	Heating Oil
2001	6%	18%	2%	12%	15%
2002	5%	-25%	9%	-15%	5%
2003	-2%	5%	9%	34%	4%
2004	9%	11%	7%	6%	15%
2005	8%	20%	6%	10%	10%
2006	2%	3%	7%	15%	15%

The inflation factors for 2005 have been revisited and it has been determined that they accurately reflect the expected rate increases for the various utilities.

Conclusion:

The 2005 EMT Recommended Budget for corporate utilities is \$32.053 million gross and \$25.588 million net. In reviewing the 2004 projected actuals and taking into consideration the unanticipated cost reductions in 2004, the proposed 2005 Budget is \$31.128 million gross and \$24.602 million net. Based on the revised estimates, the 2005 EMT Recommended Budget may be reduced by \$0.925 million gross and \$0.986 million net.

Future actual energy expenditures are greatly influenced by weather and rate changes that are out of the control of the City.

Contact for further information:

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