Response to Request for Information Report

DATE: June 7, 2022

TO: Board of Trustees

FROM: Darrel Robertson, Superintendent of Schools

SUBJECT: Rising Utility Costs
(Response to Request for Information #009)

ORIGINATOR: Kathy Muhlethaler, Assistant Superintendent

RESOURCE STAFF: Todd Burnstad, Kym Fudge, Darryl Kaminski, Maegan Lukian, Coreen Moccia, Madonna Proulx, Christopher Wright

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ISSUE

On April 19, 2022, Trustee Ip requested the following information:

> Given the rising utility prices in the province, I'd like to request a brief report on the following questions:
> 1. Please provide a breakdown of Division utility costs (electricity and gas) on a monthly basis over the past 12 months and costs on an annual basis over the last 3 years.
> 2. Please provide a brief overview on how utility services are procured in the Division and whether there are current long-term contracts with service providers.
> 3. How is the Division funded for utility costs?
> 4. How is rising utility prices impacting individual schools and the Division? What are the factors that have contributed to these impacts? Has rising prices impacted classroom resourcing in any way?
> 5. Please outline other inflationary pressures the Division may be facing.

BACKGROUND

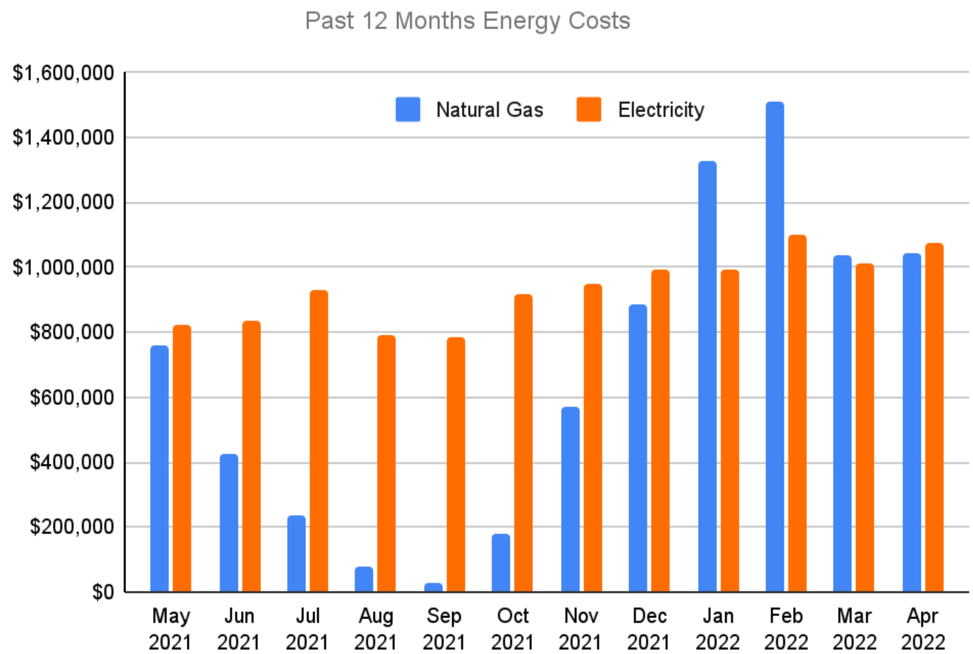
Retail energy prices have proven to be volatile and continue to fluctuate. To protect against this volatility, the Division has entered into long-term contracts for both electricity and natural gas. The future trend for utility costs is upward and there are a number of reasons for this:

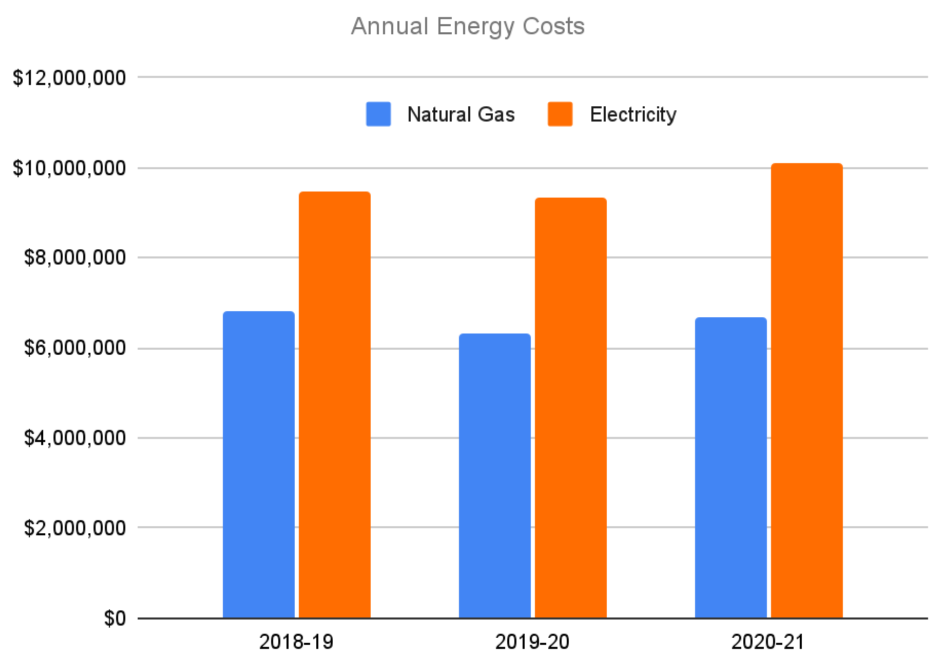
- Increasing economic variability – EPSB has a winter-dominant energy cycle and gas prices tend to increase most during the coldest weather. Additionally, as energy becomes increasingly globalized, supply chain disruptions have led to increased prices.
- Increasing consumption – The Division has implemented numerous efficiency measures; however, consumption continues to rise. Division growth is one factor but others include the introduction of new equipment, increased use of technology and extending air exchange operating hours (coupled with increasing the percentage of outside air).
- Increasing transmission and distribution fees – The regulated portion of energy invoices, which EPSB has less control over, has grown significantly. For electricity, this is affected by items like expanded grid capacity and a growing Technology Innovation and Emissions Reduction (TIER) regulation fee. For natural gas, the most evident fee is the increasing carbon tax.

CURRENT SITUATION

1. *Please provide a breakdown of Division utility costs (electricity and gas) on a monthly basis over the past 12 months and costs on an annual basis over the last 3 years.*

The breakdown of Division utility costs (without GST) can be found below:





2. *Please provide a brief overview on how utility services are procured in the Division and whether there are current long-term contracts with service providers.*

For over 10 years, the Division has used external energy consultants to provide professional advice on procuring multi-year energy contracts. The length of a contract can vary based on current market volatility and is determined at the time of the procurement. The Division also uses a two-stage procurement process for electricity and natural gas; vendor qualification and obtaining pricing from qualified vendors.

There are long-term contracts in place for both electricity and natural gas:

- The current electricity contract (100 per cent fixed rate) for $64.54/MWh commenced in January 2021 for a three-year term.
- The current natural gas contract (70 per cent fixed rate, 30 per cent index rate) for $2.18/Gj commenced in November 2020 for a four-year term, with an option to Blend & Extend for up to an additional three years.

Prior to the expiration of the contracts, an external energy consultant will be secured and their advice on future contracts will be considered.

3. *How is the Division funded for utility costs?*

The Division receives an Operations and Maintenance (O&M) grant from the Province. This grant is provided to school divisions to address the jurisdiction's responsibility for the operation (including utilities), maintenance, safety and security of all school buildings, and the administration of these services. The provincial funding formula for the O&M grant has two components: a weighted moving average (WMA) enrolment factor and a school space component factor.

As per the 2022-2023 Provincial Funding Manual for School Authorities, the majority of the Division's utility costs are categorized under the O&M expense block. Operating expenses for central administration (including utilities) are charged to the System Administration expense block and operating expenses related to student transportation are charged to the Transportation expense block for purposes of financial reporting.

4. *How are rising utility prices impacting individual schools and the Division? What are the factors that have contributed to these impacts? Have rising prices impacted classroom resourcing in any way?*

Similar to the funding formula outlined in the provincial funding manual, schools are allocated a portion of the O&M funding based on a student-driven calculation using their normalized enrolment as well as the individual school's total square footage. Schools larger than 100,000 square feet receive an additional allocation based on square footage.

As reported in the 2022-2023 Distribution of Funds Report, the Province announced that the O&M grant was increased by one per cent for the 2022-2023 school year. For our Division, this translates to an increase of $1.4 million compared to the previous year. The increase is intended to assist school divisions with rising utility and insurance costs. For the 2022-2023 budget, the Division anticipates utility costs will increase by $1.4 million and insurance will increase by $1 million. As both of these are considered fixed operating costs, any increase that is not offset by a corresponding increase in the O&M

grant results in the Division having to use a portion of the other grants that would otherwise be directed to schools.

As reported on Schedule 3 (Consolidated Schedule of Program Operations) in our audited financial statements (available on our website), our O&M expenses have exceeded our O&M grant by $25 million for the year ended August 31, 2021 and $22 million for the year ended August 31, 2020.

5. *Please outline other inflationary pressures the Division may be facing.*

- All school building insurance costs are also charged to O&M. Although property insurance premium costs are starting to stabilize, the Division's overall insurance premiums have increased by $4.4 million, or 125 per cent, over the last five years.
- All custodial charges and costs related to cleaning supplies are also reported as O&M, with the exception of central administration and student transportation. Increased costs in these areas also create inflationary pressures for the Division.
- All our benefit costs have also increased, which impact all our non-teacher staff salaries. The benefit costs include the employer portion of Canada Pension Plan, Employment Insurance, Workers Compensation Board, and extended health premiums.

KEY POINTS

- The Division has long-term contracts in place for both electricity and natural gas.
- The trend for utility costs is upward and not all the reasons for this are within our control.
- The majority of the Division's utility costs are categorized under the O&M expense block and our O&M expenses have exceeded our O&M grant by $25 million.
- Other inflationary pressures include increased insurance premiums as well as increased supplies and benefits costs.

ATTACHMENTS

Attachment I Energy Utilities Summary

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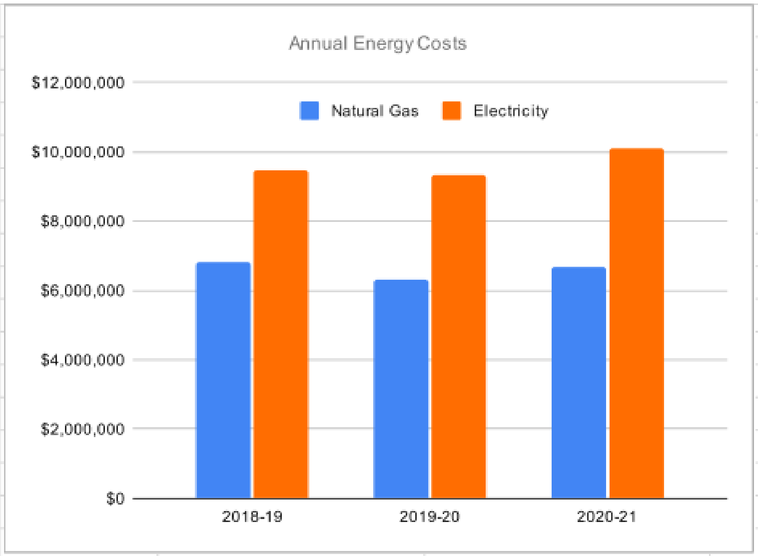
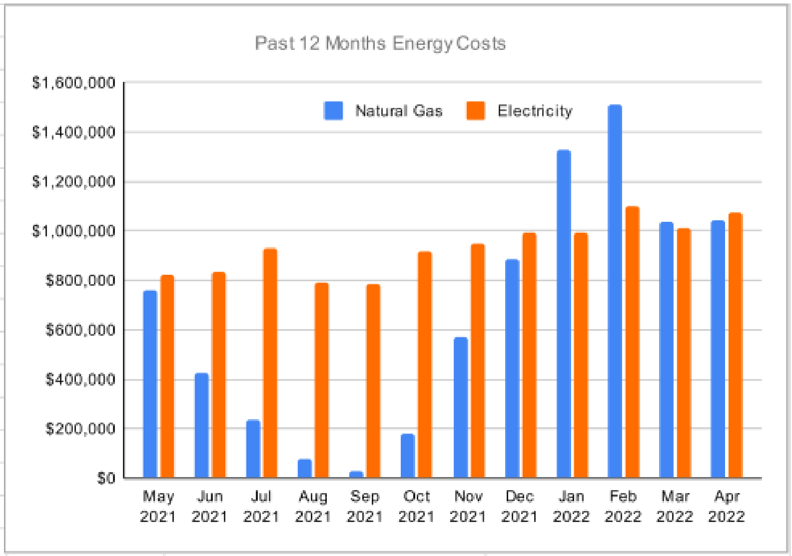
RFI-009 Energy Utilities Summary

ATTACHMENT I





Date	Natural Gas	Electricity
2018-19	$6,836,291	$9,453,222
2019-20	$6,319,846	$9,346,410
2020-21	$6,697,242	$10,111,034

Date	Natural Gas	Electricity
May 2021	$757,302	$825,549
Jun 2021	$422,889	$833,449
Jul 2021	$235,224	$929,317
Aug 2021	$80,056	$789,919
Sep 2021	$25,974	$782,807
Oct 2021	$182,299	$915,985
Nov 2021	$573,377	$949,907
Dec 2021	$884,957	$991,712
Jan 2022	$1,325,152	$993,771
Feb 2022	$1,512,874	$1,099,131
Mar 2022	$1,038,072	$1,011,637
Apr 2022	$1,042,412	$1,073,548