

Energy Procurement

Finance, Audit and Accountability
Committee

April 10, 2006

Purpose and Outline

- Recap March 27th briefing
- Review options for next electric procurement contract
 - Public Power Pool (P3) aggregation
 - Independent
- Conclusion
- Recommendation
- Attachments
 - A – Questions from March 27th
 - B – List of P3 Members

Recap Discussion from March 27th

- City's annual electric consumption
 - Approximately 934,900,000 kWh
 - Estimated total cost \$71.9 million
- City currently purchases electricity through P3 aggregation
 - Member since Jan 1, 2002
 - 3rd contract term expires Dec 31, 2006
 - P3 notified members on March 31st that members must opt-out by April 30th (if no action is taken, City automatically remains in P3)

Review of Options

	P3 Aggregation	Independent
Role	Advises and negotiates electric power procurement	Develop comprehensive energy management strategy
What impacts electric rate?	Significantly impacted by cost of natural gas and point in time rate is locked	Same
Decisions have significant cost impact	\$0.001 per kWh will effect City cost by about \$900,000 per year	Same
Flexibility to deal with volatile market	P3 Board authorizes P3 staff to lock rate based on approved strategy	Recommend process in which City Manager locks rate (within limits approved by Council)

Review of Options

	P3 Aggregation	Independent
Terms and conditions of contract	Designed to benefit multiple members	Will be unique for City's benefit and can be diversified
General Land Office	Declined request to bid on last contract	Agreed to submit bid on City load; wants to deal directly with end-users; offers 2% tax savings; could equate to about \$1.5m per year for City
Green Energy	Prices requested for green power but no mandate to purchase	Develop our own policy

Review of Options

	P3 Aggregation	Independent
Pricing Structure	Complex with 2,000 units in order to avoid one member subsidizing another	Under City's control based on recommended strategy
Dallas cost for contract administration	About \$305K annually paid to P3 + one in house staff	Estimate \$200K annually
Preparedness to administer contract	Already has staff and consultants in place (CeTex)	One staff in place; need to hire an additional energy analyst; need to contract with consultant

Review of Options

	P3 Aggregation	Independent
What are other Dallas jurisdictions doing?	Dallas County plans to stay with P3; DISD currently in P3 and evaluating options	DART has 5-year contract with GLO
Economy of scale	Dallas represents about 35% of P3 load	City is large enough to procure independently
Legislative issues	Must consider all members	Advocate for best interest of City
Unique City assets, i.e. McCommas Landfill gas	Unknown at this time how P3 would wrap City power generation into pool	Continue to seek opportunities for savings; would only benefit City

Conclusions

- Regardless of approach, cost of natural gas and point in time rate is locked will have significant impact on our cost
- Both approaches have positive aspects
- Independent approach will allow City to customize to our specific needs
 - Energy Management Strategy
 - Green Power
 - Optimize unique City assets
 - Ensure that our pricing doesn't subsidize others
 - Will not limit REP interest
- P3 is in best position to procure power now, while City will need to gear up to be in best position within the next 6 to 12 months
- P3 has indicated willingness to customize competitive process for 12 month term from Jan 2007 to Dec 2007 for City of Dallas
 - To add performance standards, City requests P3 beat GLO rate or "price to beat" rate whichever is lower

Recommendation

- April 26 – Council approve continued membership in P3 for 12 months through Dec 31, 2007
 - Recommend that continuing participation through Dec 2007 be contingent upon rate being better than GLO rate or “price to beat” rate whichever is lower
 - Plan to implement independent process for Jan 1, 2008
- May 2006 – Council approve selection of energy consultant
- Request rate from GLO
- Notify DISD, County and DART of City’s intent to go independent in 2008
 - Offer opportunity for joint process
- Summer 2006 – Staff and consultant develop:
 - Comprehensive energy management strategy
 - Green energy mandates
 - In-house modeling systems
 - Process that allows flexibility to deal with volatile market conditions
- Summer 2006 – hire additional energy analyst
- Early Fall 2006 – brief FA&A and T&E Committees on strategies
- Winter 2006 – Request for Proposals
 - Opportunity to lock rates in Spring or at optimal time during 2007

Attachment A

Questions from March 27th FA&A
Committee Meeting

Questions from March 27th

1. Who are P3 members and what is their share of load?
 - See attachment B for member list
2. What mistakes has P3 made?
 - In 2004, P3 identified best time to lock rate but process didn't allow flexibility to lock - P3 process changed afterwards to improve flexibility
 - Unable to secure tax reduction strategies
3. Is P3's approach best for City?
 - P3 has strategies designed to benefit the membership as a whole and not any one member; this limits options for individual members

Questions from March 27th

4. Who has better track record on market decisions, P3 or independent buyers?
 - Comparing rates is not “apples to apples”; price is impacted by time rate is locked
 - No clear winner is evident in review of Houston, Fort Worth, CAPP and P3 over last 4 years
5. Is P3 fee structure tied to performance?
 - No; P3 charges City 0.48% of amount City spends on electricity each year
 - City’s cost for membership increases as our cost of electricity increases (will be further impacted by Nodal pricing)
6. Who are P3 consultants and how many staff does P3 have?
 - CETex – 5 staff work on P3 project
 - P3 has 2 staff dedicated to project and 3 others partially assigned

Questions from March 27th

7. Who is City consultant for an independent procurement and do they have relationship with Texas energy industry?
 - Proposals received on March 31st; interviews currently being conducted; approval of contract anticipated in May
8. How does DART procure power?
 - Independently through General Land Office (GLO)
 - 5-year contract (4 remaining) with opportunities to blend and extend
9. Could City aggregate separate from P3 with DISD, County and DART?
 - Yes; if other jurisdictions are interested
 - DISD is evaluating options
 - County has voiced intent to continue in P3
 - DART has 5-year contract with GLO

Questions from March 27th

10. Could City have joint procurement with DISD, County and DART?
 - Yes; City could offer to share consultant cost and allow each jurisdiction to lock rate and contract with Retail Electric Provider (REP) separately
11. Could City serve as own REP?
 - No; State legislation does not allow cities to serve as REP
12. What is long term plan for green energy?
 - Currently no City mandates established
 - State mandates exist that address Air Quality
 - Currently evaluating options to use City's unique assets for green power generation, i.e. McCommas Landfill

Questions from March 27th

13. Does GLO guarantee green energy?

- No; however, green energy is an option

14. How does Houston's rate compare to Dallas considering they are in different region?

- Historically, rate has been lower; however, 2005 rate was higher
- Houston will not have same negative impact as Dallas from Nodal

15. What legislative issues should be forwarded to Legislative Affairs committee?

- Nodal pricing
- Extension of and/or ability to lower Price to Beat
- TXU's cost should not be solely based on natural gas, when some of there generation is by coal and nuclear

Attachment B

List of P3 Members