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

<table>
<thead>
<tr>
<th>Role</th>
<th>P3 Aggregation</th>
<th>Independent</th>
</tr>
</thead>
<tbody>
<tr>
<td>What impacts electric rate?</td>
<td>Significantly impacted by cost of natural gas and point in time rate is locked</td>
<td>Same</td>
</tr>
<tr>
<td>Decisions have significant cost impact</td>
<td>$0.001 per kWh will effect City cost by about $900,000 per year</td>
<td>Same</td>
</tr>
<tr>
<td>Flexibility to deal with volatile market</td>
<td>P3 Board authorizes P3 staff to lock rate based on approved strategy</td>
<td>Recommend process in which City Manager locks rate (within limits approved by Council)</td>
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# Review of Options

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<tr>
<td><strong>Terms and conditions of contract</strong></td>
<td>Designed to benefit multiple members</td>
<td>Will be unique for City’s benefit and can be diversified</td>
</tr>
<tr>
<td><strong>General Land Office</strong></td>
<td>Declined request to bid on last contract</td>
<td>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</td>
</tr>
<tr>
<td><strong>Green Energy</strong></td>
<td>Prices requested for green power but no mandate to purchase</td>
<td>Develop our own policy</td>
</tr>
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## Review of Options

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<tr>
<td><strong>Pricing Structure</strong></td>
<td>Complex with 2,000 units in order to avoid one member subsidizing another</td>
<td>Under City’s control based on recommended strategy</td>
</tr>
<tr>
<td><strong>Dallas cost for contract administration</strong></td>
<td>About $305K annually paid to P3 + one in house staff</td>
<td>Estimate $200K annually</td>
</tr>
<tr>
<td><strong>Preparedness to administer contract</strong></td>
<td>Already has staff and consultants in place (CeTex)</td>
<td>One staff in place; need to hire an additional energy analyst; need to contract with consultant</td>
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<tr>
<td>**What are other Dallas</td>
<td>Dallas County plans to stay with P3; DISD currently in P3 and evaluating options</td>
<td>DART has 5-year contract with GLO</td>
</tr>
<tr>
<td>jurisdictions doing?**</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Economy of scale</strong></td>
<td>Dallas represents about 35% of P3 load</td>
<td>City is large enough to procure independently</td>
</tr>
<tr>
<td><strong>Legislative issues</strong></td>
<td>Must consider all members</td>
<td>Advocate for best interest of City</td>
</tr>
<tr>
<td>**Unique City assets, i.e.</td>
<td>Unknown at this time how P3 would wrap City power generation into pool</td>
<td>Continue to seek opportunities for savings; would only benefit City</td>
</tr>
<tr>
<td>McCommas Landfill gas**</td>
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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 27\(^{th}\)

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