

# Energy Procurement

Finance, Audit and Accountability  
Committee

April 10, 2006

# Purpose and Outline

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

# Recap Discussion from March 27<sup>th</sup>

- 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
  - 3<sup>rd</sup> contract term expires Dec 31, 2006
  - P3 notified members on March 31<sup>st</sup> that members must opt-out by April 30<sup>th</sup> (if no action is taken, City automatically remains in P3)

# Review of Options

	<b>P3 Aggregation</b>	<b>Independent</b>
<b>Role</b>	Advises and negotiates electric power procurement	Develop comprehensive energy management strategy
<b>What impacts electric rate?</b>	Significantly impacted by cost of natural gas and point in time rate is locked	Same
<b>Decisions have significant cost impact</b>	\$0.001 per kWh will effect City cost by about \$900,000 per year	Same
<b>Flexibility to deal with volatile market</b>	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

	<b>P3 Aggregation</b>	<b>Independent</b>
<b>Terms and conditions of contract</b>	Designed to benefit multiple members	Will be unique for City's benefit and can be diversified
<b>General Land Office</b>	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
<b>Green Energy</b>	Prices requested for green power but no mandate to purchase	Develop our own policy

# Review of Options

	<b>P3 Aggregation</b>	<b>Independent</b>
<b>Pricing Structure</b>	Complex with 2,000 units in order to avoid one member subsidizing another	Under City's control based on recommended strategy
<b>Dallas cost for contract administration</b>	About \$305K annually paid to P3 + one in house staff	Estimate \$200K annually
<b>Preparedness to administer contract</b>	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

	<b>P3 Aggregation</b>	<b>Independent</b>
<b>What are other Dallas jurisdictions doing?</b>	Dallas County plans to stay with P3; DISD currently in P3 and evaluating options	DART has 5-year contract with GLO
<b>Economy of scale</b>	Dallas represents about 35% of P3 load	City is large enough to procure independently
<b>Legislative issues</b>	Must consider all members	Advocate for best interest of City
<b>Unique City assets, i.e. McCommas Landfill gas</b>	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 27<sup>th</sup> FA&A  
Committee Meeting

# Questions from March 27<sup>th</sup>

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<sup>th</sup>

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 27<sup>th</sup>

7. Who is City consultant for an independent procurement and do they have relationship with Texas energy industry?
  - Proposals received on March 31<sup>st</sup>; 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 27<sup>th</sup>

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 27<sup>th</sup>

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