

# Energy Management Update

Finance, Audit and Accountability Committee

April 24, 2006

# Purpose and Outline

- Recap March 27<sup>th</sup> briefing
- Recap April 10<sup>th</sup> briefing
- Preliminary cost estimate
- Discuss new information
- Options and recommendation

# 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 Public Power Pool (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)

# Recap Discussion from April 10<sup>th</sup>

- City needs to develop comprehensive energy management plan with one component being procurement strategy (independent)
  - Development of plan will occur over next several months and will be guided by energy management consultant
  - Once plan is developed, City will be in better position to procure electricity independently
  - Independent procurement will allow City to develop all strategies, including those that impact pricing – such as:
    - Integrate process with County, DISD, DART, etc.
    - Green power requirements
    - Optimize landfill gas and other alternative generation options
- P3 aggregation is in best position to procure power now

# Recap Discussion from April 10<sup>th</sup>

- FA&A approved recommendation (to be Council action item for April 26<sup>th</sup>)
  - Approve continued membership in P3 for 12 months through Dec 31, 2007
  - Continued participation contingent upon P3 rate being better than General Land Office (GLO) rate or “price to beat” rate whichever is lower
  - Plan to implement independent process for Jan 1, 2008
- FA&A directed staff to continue discussions with P3 and GLO to ensure that above conditions could be honored

# Preliminary Cost Estimate

- Recent discussion with P3 consultant
  - Consultant predicts cost increase of 37.5% for energy only (as of March 31, 2005)
  - City currently spends about \$71.9 million annually for energy + other charges such as transmission/distribution
  - Predicted increase could result in our electricity cost rising to about \$88.1 million per year

# Since April 10<sup>th</sup>

- P3 by-law restricts members from opting-in P3 aggregation (competitive bid process) and simultaneously seeking independent bid (such as from GLO)
  - City can not run simultaneous process, i.e. aggregation and independent
  - P3's performance must be better than “price to beat”
  - Condition of beating GLO rate will not be honored

# Since April 10<sup>th</sup>

- P3 staff agreed to structure Dallas accounts into a separate block which would allow GLO to bid on Dallas only block
  - GLO will not bid on Dallas load as long as City is member of P3
  - GLO continues to want to deal directly with end user without a third party in middle
  - GLO indicated interest in Dallas load if City does an independent procurement or an inter-local agreement



# Options

- **Option 1:** Opt-out of P3 effective Jan 1, 2007
  - Execute contract with GLO or other provider directly
  - Rush a competitive bid process
- **Option 2:** Continue in P3 effective Jan 1, 2007 to ending date yet to be determined by P3
  - No Council action required - option 2 becomes automatic if Council takes no action prior to April 30
  - P3 will develop structure, term, blocks/pools, and negotiate contract
  - Previous contract terms have been 18, 24, and 18 months

# Recommended Option

- **Option 3:** Opt-in P3 for next term and request contract period to be from Jan 1, 2007 to Dec 31, 2007 (council action April 26<sup>th</sup>)
  - P3 agreed to structure Dallas only block for limited 12-month term
  - P3 agreed to seek lowest competitive bid for Dallas block
  - P3 agreed that Dallas block will not subsidize other P3 blocks
  - Over next several months, City to develop comprehensive energy management plan with independent procurement strategy
  - Withdraw from P3 membership and implement independent purchasing strategies effective Jan 1, 2008

# Recommended Option

- Donald Lee, P3 Executive Director, has agreed to comply with Dallas request
  - *“It is my commitment to you to proceed as outlined.”*
    - Limit term to 12-months, through Dec 31, 2007
    - Structure blocks/accounts so that Dallas accounts are separate and do not subsidize other members
    - Secure the lowest price for Dallas blocks through competitive process
- P3 Board has final contracting authority and is not legally bound to honor Dallas’ request

# Attachment

## April 26<sup>th</sup> City Council Agenda Item and Resolution