

Energy Management: Street Light Electric Procurement

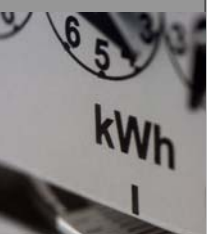
January 17, 2007





Purpose of Briefing

- Provide update on energy procurement for Street Lights
- At initial briefing on December 4, 2006, City Council directed staff to open process for more competition
 - Request for Proposal (RFP) advertised
 - 93 REPs registered with Public Utility Commission were notified
 - 10 REPs submitted proposals
- This briefing will address:
 - Background information
 - How energy markets work
 - Process for procuring energy for Street Lights
 - Recommendation and future steps





Background information

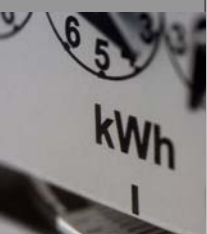
- Since 2002, all energy accounts (except street lights) have been under Public Power Pool (P3) aggregation program
 - April 2006, Council approved withdrawal from P3 at end of December 2007
- Energy for Street Lights has been purchased from TXU at Price To Beat (PTB) rate
 - TXU Energy PTB ended January 1, 2007
 - No price certainty for energy for Street Lights
- Recommend executing contract for energy for Street Lights for 2007
 - Lower costs (if current trends hold)
 - Price certainty
 - Will end at same time as other Dallas electric load contract with P3





Background information

- Procurement is only for energy for Street Lights
 - Procurement is not for maintenance of Street Lights
 - Procurement is not for electricity accounts/load already contracted through P3 until December 2007
- Procurement for energy for approximately 85,000 lights
 - 9,000 owned by State
 - 6,000 owned by City
 - 70,000 owned by TXU-ED (Electric Delivery) – leased by City
- ~84,000,000 kwh/yr (84,000 MWH/yr) or 10% of city-wide electricity use





How energy markets work

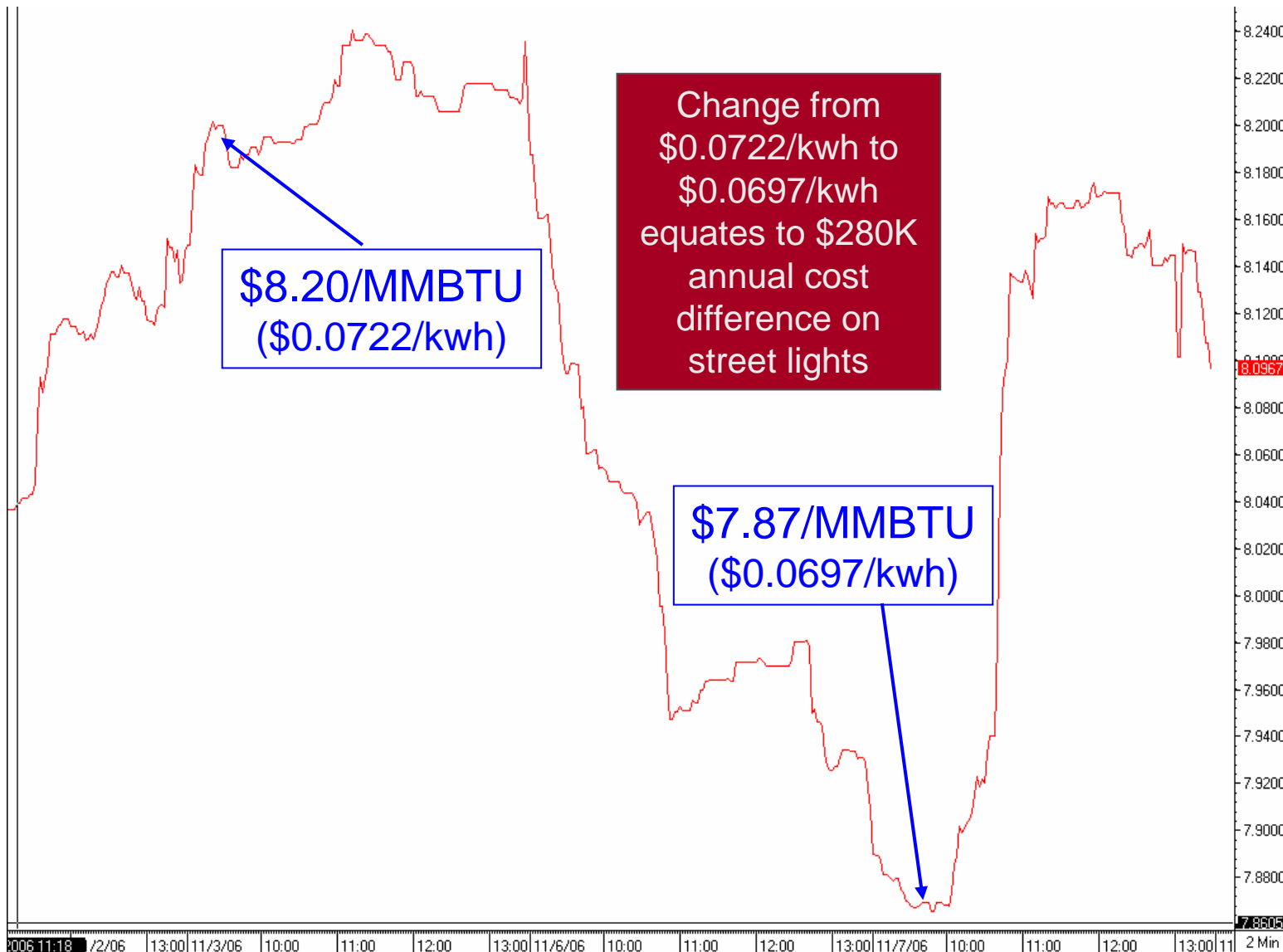
- Contract for energy for Street Lights will be with Retail Electric Provider (REP)
- REP does not own generation
- REP has to buy fuel and contract with facilities to generate electricity with that fuel
- REP does not buy fuel or contract with generators until they have customer
 - Generation market changes day to day (unit availability/generation mix, etc.)
 - Fuel market changes by minute
 - While natural gas is not only means of electricity generation in Texas, it is used as base fuel for bidding electricity cost
 - New York Mercantile Exchange (NYMEX) gas futures contracts
 - Most volatile commodity (+/- 10% in a day not uncommon)



How energy markets work

Natural Gas Prices & Electric Prices

Gas market and electric price changes over 4 days

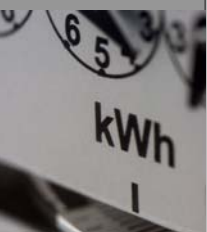




How energy markets work

Contracting with Volatility

- Two primary options for contracting with REP
 - Fixed pricing simplest
 - Decision must be made quickly (i.e. within 5 minutes)
 - Significant premium charged for holding price open
 - Prices can be withdrawn by REP if market moves up
 - Gas index pricing – recommended
 - Formula based
 - Allows time to make a decision without bids changing
 - Can be held open for a day with little risk





How energy markets work

Gas Index Pricing Formula

$$\text{Electricity Price} = (\text{GP} \times \text{HR}) + \text{RA}$$

GP – Gas Price as traded on the NYMEX

HR – Heat Rate relates gas input to electricity output

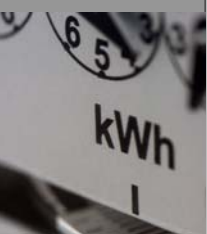
RA – Retail Adder – accounts for ancillary services, REP profit, other costs to get retail power

- Heat Rate (HR) and Retail Adder (RA) fixed in REP bid
- Gas price (GP) set when lock occurs
 - Based on NYMEX trading at time of lock
 - Recommend locking GP automatically over 5 day period following contract approval
 - Given market volatility City should not 'bet' on a good price on a given day
 - Mitigates risk of price run up on day of signing



Process for procuring energy for Street Lights

- State law exempts electricity from competitive bidding and normal purchasing process
- Process initially proposed by staff and consultants was to seek proposal from 4 REPs determined by consultants to be best able to meet City needs
- December 4, 2006 – City Council directed staff to open process for more competition
 - Request for Proposal (RFP) advertised
 - 93 REPs registered with Public Utility Commission were notified in addition to vendors registered with the City
 - RFP closed on December 29, 2006
 - 10 REPs submitted proposals





Process for procuring energy for Street Lights – evaluation criteria

- Financial stability
- Renewable energy credits for 40% of load
- Agreement with required contract terms
- Other contract terms and conditions
- Level of experience
- Proposed imbalance (swing) allowances
- Assurance of timely and accurate invoices
- Assurance of timely meter switches
- Approach on customer service
- Invoicing





Process for procuring energy for Street Lights – proposal scoring

■ First round proposal scoring

Round One Points	25	10	10	10	15	5	5	5	10	5	100
Supplier	Financial Stability	Provide REC's?	Agree to Contract Terms?	Other Contract T&C's	Level of Exper.	Proposed Imbalance Allowances	Assurance of Timely Accurate Invoices	Assurance of Timely Meter Switches	Approach on Customer Service	Invoicing - Paper, PDF & Excel	SCORE
GLO/Reliant	25	10	9	7	15	5	5	5	10	5	96
Suez	20	10	8.5	8	13	4	5	5	10	3.5	87
WPS	20	10	9	7.5	13	5	4	4	8	3	83.5
Strategic	20	10	8	7	12.5	4	4	4	7	4	80.5
TXU Energy	18	10	9.5	6	13	4	4	5	7	4	80.5
Gexa	20	4	10	6	12	5	4	5	7	2.5	75.5
Direct Energy	22.5	4	3	6	8	5	4	3	7	3.5	66
StarTex	5	4	10	5	5	4.5	4	4	7	4	52.5
ConEdison	20	4	0	3	5	0	4	0	6	3.5	45.5
Liberty Power	10	0	8.5	7	3	0	3	0	7	3	41.5

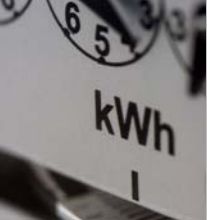
■ Second round evaluation will be based on:

- REP agreement on City contract terms and conditions (pass/fail)
- Proposed cost of electricity



Process for procuring energy for Street Lights

- 3 REPs determined to be unable to meet City needs based on review of proposals submitted and evaluation criteria
 - Liberty Power
 - Insufficient documentation of financial stability
 - Did not respond to several RFP requirements
 - ConEdison Solutions
 - Did not agree to required price rate structure
 - Limited level of experience (only 8 MW in Texas)
 - Did not agree to required contract terms
 - StarTex Power
 - Audited financial statements show insufficient working capital
 - Unreasonable contract provisions, e.g. one late payment defaults entire contract





Process for procuring energy for Street Lights

- Based on initial review of proposals submitted and evaluation criteria, 7 REPs under further review
 - GLO/Reliant Energy Solutions
 - Suez Energy Resources
 - WPS Energy Services
 - Strategic Energy
 - TXU Energy
 - GEXA Energy
 - Direct Energy
- Contract terms and conditions are being finalized with 7 REPs that met minimum qualifications
 - If any REP does not agree to City's terms, they will be eliminated from final pricing round
 - Best and final offers are required January 23, 2007 by 5:00 p.m.
- Recommendation by staff and authorization by City Council – prior to noon on Wednesday, January 24, 2007
 - REP selected and gas index formula set, but final price not set until gas price locked through January 31, 2007



Process for procuring energy for Street Lights – price lock solution

- Locking gas price automatically over 5 day period following contract approval
- Price will be based on settlement (closing price) for each of 5 days of trading following signing
- 11 month average price for 2007 will be averaged over 5 day period
 - Prices will be set by January 31, 2007 at close of business
 - Price verified by consultant team





Recommendation and future steps

- Recommend approval on January 24, 2007 of Street Light energy procurement based on gas index pricing methodology
 - Contract for 11 months to expire end of December 2007 simultaneously with accounts currently assigned to P3
 - Natural gas based formula for Street Light energy with price to be determined 5 days after Council approval
 - 40% renewable energy credits to be included
- Future Steps
 - Evaluate success of pilot approach and use of gas index pricing
 - Establish City's strategies for independent procurement for entire load to address city needs beginning January 2008
 - Determine methodologies for future procurements; i.e., fixed price, gas index price, delegate authority to CMO; City's risk tolerance, etc.
 - Summer or Fall 2007 execute contract for City-wide electric procurement starting January 2008

