

Energy Procurement Strategy

Transportation & Environment Committee
Equipment and Building Services
August 22, 2005

Purpose

- Provide information/history for City of Dallas deregulated energy procurement strategy

Background

- Prior to deregulation, City purchased electricity from TXU Electric (regulated company)
 - City's annual consumption about 846.76 million kWh; annual cost about \$66.18m (average about 7.8¢ per kWh)
- Sept 1999, Senate Bill 7 created opportunities for competition in electric retail (deregulation); effective Jan 1, 2002
 - In anticipation of deregulation, we started two separate paths to determine which procurement process was best for City

Background

- Path 1: Purchase electricity independently
 - Engaged consultant (Camp, Dresser & McKee) to assist us in preparing for deregulation
 - City sought independent proposals
 - Participated in pilot program with 70 accounts to test deregulation (June 2001)
 - City was encouraged to purchase from local provider
 - City was encouraged to join aggregation group to benefit other jurisdictions
 - Aug 22, 2001, City rejected independent bid submitted by Entergy, a Louisiana company

Background

- Path 2: Join an aggregation group to purchase power
 - Texas Local Government Code allows us to join with other political subdivisions to negotiate the purchase of electricity on our joint behalf, i.e., Aggregation
 - Aggregation allows us to pool our consumption to get a better price (economy of scale)
 - Aggregation allows us to combine our load profiles to level the load usage throughout the day, month or seasons to get a better price (flat profile better than peaks & valleys)
 - Aggregation allows us to share administrative, consulting and legal costs
 - March 28, 2001, City joined two separate aggregation groups – Public Power Pool, Inc. (P3) and Cities Aggregation Power Project, Inc. (CAPP)

Background

- Aug 22, 2001, City opted to purchase electricity through P3 beginning on Jan 1, 2002 when deregulation began
 - P3's procurement process resulted in using two retail providers for 18 month period
 - 80% - Reliant Energy (for relatively consistent accounts)
 - 20% - TXU (for variable pumping load accounts)
 - Contract Jan 1, 2002 to June 30, 2003
 - City's annual consumption about 864.45 million kWh for 1756 accounts
 - Annual cost about \$55.55m or average cost about 6.43¢ per kWh

Background

- Feb 12, 2003, City continued electric procurement through P3
 - P3's procurement process resulted in using two retail providers for 24 month period
 - 92% - General Land Office (GLO) / Reliant
 - 8% - TXU Energy (for street lights)
 - Contract July 1, 2003 to June 30, 2005
 - City's annual consumption about 795 million kWh for 1890 accounts
 - Annual cost about \$67.0m or average cost about 8.43¢ per kWh

Background

- Feb 23, 2005, City continued electric procurement through P3
 - P3's procurement process resulted in using three retail providers for 18 month period
 - 82% - Sempra Energy Solutions (most constant load profile accounts)
 - 10% - Constellation New Energy (variable load profile accounts)
 - 8% - TXU Energy (Street lights and 85 low consumption accounts)
 - Contract July 1, 2005 to Dec 31, 2006
 - City's annual consumption estimated to be 926 million kWh for 2090 accounts
 - Annual cost estimated to be \$78m
- March 2005, GLO opted to not participate in P3's competitive bid process

Who is P3?

- City is part of the Public Power Pool (P3) Aggregation for electricity procurement
 - Represents 90 jurisdictions including DISD, Dallas County, Collin County, Tarrant County, Tarrant Hospital District, Harris County, etc.
 - Represents Dallas citizens' overlapping jurisdictions including Dallas County, Collin County, and DISD
 - Including City of Dallas, P3 represents largest aggregation group based on dollars and consumption
 - Goal - To be in the best position to secure the “best competitive bid deal” with a retail electric provider
 - To leverage our buying power to minimize utility cost
 - P3 consultants bring expertise from other deregulated markets around the country

Benefits of an Aggregation

- Aggregation allows us to pool our consumption to get a better price (economy of scale)
- Aggregation allows us to combine our load profiles to level the load usage throughout the day, month or seasons to get a better price (flat profile better than peaks & valleys)
- Aggregation improves the load profile (combining all cities/counties) that we go into the market with when seeking pricing
- Actual billing for each account is based on the load profile of that specific account so as to not mix pricing or subsidize accounts with poor load profiles
- P3 membership includes City's representation as one of six board positions (currently – Council Member Ed Oakley)
- Aggregation allows City to share cost of consultants for activities such as on-going contract assistance, administrative support, technical support, and legal expertise (City only has one full-time staff working on our energy issues – Houston has eleven)

Texas State Power Program

- General Land Office (GLO/Reliant)
 - Reliant Energy is Retail Electric Provider
- State Power Program offers competitively priced electricity with simplified bidding procedures for cities, counties, school districts and other eligible Public Retail Customers in many parts of Texas
- Program designed to increase revenue on public lands for public education funding, as well as reduce electricity costs for the public sector
- GLO opted to not competitively bid another P3 procurement; instead they now seek to work directly with end users

Moving Forward

- Retained Camp, Dresser and McKee (CDM) to develop options to proceed with procurement strategy
 - Define Performance Standards for Aggregator's services
 - Assist to evaluate and rank current market procurement options
 - Purchase with Aggregation versus Independent
 - Prepare to issue independent Request For Proposal for electric procurement
 - Purchase Wholesale
 - Purchase of Green Energy versus Credits
 - Assist City to choose best procurement strategy by Dec 2005

Moving Forward

- City must continue to seek ways to reduce consumption in order to comply with 2001 Texas Senate Bill 5
 - Required to reduce consumption on baseline accounts by 25% from Jan 2002 to Dec 2006
 - City must reduce 211.70 million kWh within 5 years (or 42.34 million kWh per year)
- At end of year 3 of 5, City is on track to comply
 - End of year 3, City has implemented 86 energy reduction projects with anticipated savings of 132.80 million kWh
- Methods used to achieve savings include Performance Contracts, HVAC upgrades, automated controls, Bio-mass generation and solar water heating