

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

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

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

Review of Options

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

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

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