



City of Saginaw

City of Saginaw

Meeting Date: 09/01/2015

Staff Contact: Nan Stanford
City Manager

Agenda Item: 4d
(CC-0915-04)

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SUBJECT: Action regarding Resolution No. 2015-13, authorizing the Texas Coalition for Affordable Power, Inc. (TCAP) to negotiate an electric supply agreement for three years for deliveries of electricity effective January 1, 2018; authorizing TCAP to act as an agent on behalf of the City to enter into a contract for electricity; authorizing City Manager Nan Stanford to execute an electric supply agreement for deliveries of electricity effective January 1, 2018 and committing to budget for energy purchases in 2018 through 2020 and to honor the City's commitments to purchase power for its electrical needs in 2018 through 2020 through TCAP

BACKGROUND/DISCUSSION:

The City is a member of the Texas Coalition for Affordable Power (TCAP) and the current electric supply agreement expires on December 31, 2017. The TCAP Board of Directors is working on options for an electric supply agreement for the years 2018 through 2020. Resolution No. 2015-13 authorizes TCAP to negotiate on behalf of the City.

FINANCIAL IMPACT:

None at this time.

RECOMMENDATION:

Staff recommends approval of Resolution No. 2015-13, authorizing the Texas Coalition for Affordable Power, Inc. (TCAP) to negotiate an electric supply agreement for three years for deliveries of electricity effective January 1, 2018; authorizing TCAP to act as an agent on behalf of the City to enter into a contract for electricity; authorizing City Manager Nan Stanford to execute an electric supply agreement for deliveries of electricity effective January 1, 2018 and committing to budget for energy purchases in 2018 through 2020 and to honor the City's commitments to purchase power for its electrical needs in 2018 through 2020 through TCAP.

Attachments

Memo from Geoffrey Gay
Proposed Resolution

MEMORANDUM

TO: TCAP Members

FROM: Geoffrey M. Gay

DATE: August 7, 2015

RE: TCAP Future Supply Options and Opportunities

The electric supply agreement for TCAP members expires on December 31, 2017. The TCAP Board of Directors wants to make options available to all members in the near future and have the 2018 prices locked down before the Summer of 2016. The current wholesale market is reflecting prices that for the first time match prices that were available when the deregulated retail market opened in 2002. TCAP members will have two different opportunities to contract for electricity to be provided upon expiration of the existing contract. The first opportunity will be this Fall. The second opportunity will be next Spring.

Supply Options discussed with TCAP members

Over the past two months, TCAP's Executive Director, consultants and general counsel have met in the offices of about 35 TCAP members to explain exciting plans regarding future supply options and to obtain feedback on the preferences of individual members. Based on those visits, in the first quarter of next year, TCAP is likely to offer all members a choice of three supply options. Each member will be able to select the option that best suits their needs and culture. In early 2016, all TCAP members will be requested to pick one of three supply options. The size of load for each option will be defined by resolutions passed by each member's governing body. The options will most likely include:

1. A full requirements, fixed price option (with all consumption priced the same regardless of type of load or time of day), similar to the current TCAP contract, except at a significantly reduced price. The benchmark price will be around 4 cents per kWh, depending on zone.
2. A fixed price for peak usage and a variable price for off-peak usage that relies upon the spot market where prices have been historically low. This option may offer some savings over option 1, but with some monthly volatility in price.
3. A fixed price for base load usage and reliance on renewable energy (probably solar) for some portion of peak usage and additional reliance on the spot market. This option may provide savings greater than option 2, but with additional volatility in price.

While the options to be presented early next year are an exciting development, the TCAP Board recognized that many TCAP members are being approached by brokers and REP agents claiming that there is an urgent need to lock-in future prices. Wholesale electricity prices are largely dependent upon the supply and price of natural gas which is the marginal fuel for generation of electricity within ERCOT. There is a glut of natural gas and the current pricing environment for electricity is unlikely to change significantly anytime soon. Any broker or agent that visits you must deal through a Retail Electric Provider (REP), who in turn must buy power in the wholesale market from some other entity. Under Texas law REPs cannot own generation resources. TCAP on the other hand is a political subdivision corporation that is authorized to contract in the wholesale market. Remember that TCAP is a non-profit entity that is owned by cities and controlled by city employees for the benefit of cities.

The Fall Solicitation

TCAP consultants believe that current wholesale energy prices will persist at least through the first part of next year, and may even be lower than current levels in the coming months. Prices for 2018 load have declined slightly since we started meeting with city members several months ago. However, the TCAP Board is sensitive to the fact some members, particularly smaller cities that we have not had an opportunity to visit, are anxious about future prices. Therefore, the Board has authorized a load solicitation to take place ahead of the offering planned for early next year. In the near future, you will receive a draft resolution for your governing body to consider which will authorize someone (i.e., the mayor, city manager, executive director or TCAP Board President) to sign a three-year contract covering the period January 1, 2018 thru December 31, 2020 at a fixed price **not to exceed 4.3 cents**. Each member will be given six weeks to act on the resolution, but should do so **only if** the governing body is uncomfortable waiting until early 2016 to contract for 2018 or is so risk adverse that there is no desire to consider alternative supply options other than a full requirements, fixed price contract. TCAP's wholesale supplier will be given several months to lock-in a load (below the threshold price) necessary to serve the members who adopt the early resolution. Options 2 and 3 referenced above will not be available with the Fall offering. Additionally, since a number of members have mentioned that they would like to see a five-year extension rather than a three-year deal, next Spring's resolution will authorize a two-year extension of the three-year term prior to its expiration. The Fall option will not contain that provision.

RESOLUTION NO. 2015-13

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SAGINAW, TEXAS, AUTHORIZING THE TEXAS COALITION FOR AFFORDABLE POWER, INC. (TCAP) TO NEGOTIATE AN ELECTRIC SUPPLY AGREEMENT FOR THREE YEARS FOR DELIVERIES OF ELECTRICITY EFFECTIVE JANUARY 1, 2018; AUTHORIZING TCAP TO ACT AS AN AGENT ON BEHALF OF THE CITY TO ENTER INTO A CONTRACT FOR ELECTRICITY; AUTHORIZING CITY MANAGER NAN STANFORD TO EXECUTE AN ELECTRIC SUPPLY AGREEMENT FOR DELIVERIES OF ELECTRICITY EFFECTIVE JANUARY 1, 2018 AND COMMITTING TO BUDGET FOR ENERGY PURCHASES IN 2018 THROUGH 2020 AND TO HONOR THE CITY'S COMMITMENTS TO PURCHASE POWER FOR ITS ELECTRICAL NEEDS IN 2018 THROUGH 2020 THROUGH TCAP

WHEREAS, the City of SAGINAW, Texas (City) is a member of Texas Coalition For Affordable Power, Inc. (TCAP), a non-profit, political subdivision corporation dedicated to securing electric power for its more than 160 members in the competitive retail market; and

WHEREAS, TCAP has unique rights under Texas law to negotiate directly in the wholesale market and arrange separate contracts for power supply and retail services which provides TCAP leverage to achieve contract provisions that single city negotiations with a Retail Electric Provider (REP) would be unlikely to produce; and

WHEREAS, TCAP's geographic diversity across all four ERCOT zones produces an aggregated peak load that is lower than the single peak load profile of the vast majority of individual TCAP members, allowing price benefits in the wholesale market that are not likely to be available to any given TCAP member alone; and

WHEREAS, TCAP and its predecessor organizations, Cities Aggregation Power Project, Inc. (CAPP) and South Texas Aggregation Project, Inc. (STAP), negotiated favorable contract

terms that resulted in rebates from the wholesale supplier and reasonable commodity prices for delivered electricity since 2002 resulting in stable budgets for electricity for members; and

WHEREAS, commodity prices for electricity experienced significant volatility between 2002 and 2009, with prices ranging from 4 cents to over 13 cents per kWh, causing CAPP and STAP members to welcome a five year contractual commitment that came close to cutting the 2008 prices in half, with that contract being extended until December 31, 2017, with a negotiated price reduction of about 1 cent per kWh; and

WHEREAS, TCAP has become a forceful voice for consumer protections and market reform to benefit the public and well as cities and other political subdivisions; and

WHEREAS, TCAP is owned by its members and shares everything according to relative load size of members and is controlled by a 15 member Board of Directors, all of whom must be city employees of members who represent diversity in size and geography; and

WHEREAS, wholesale power prices within the deregulated Texas market are largely determined by the NYMEX gas futures prices for natural gas which are currently low and relatively stable, but which change daily; and

WHEREAS, daily price changes require retail customers to execute a contract immediately upon receipt of a favorable offer; and

WHEREAS, pursuant to Texas Local Government Code Section 252.022(a)(15) expenditures for electricity are exempt from competitive bidding requirements; and

WHEREAS, on any given day, TCAP is able to capture the most favorable wholesale price for any period of time, equal to or better than any given REP or broker; and

WHEREAS, TCAP intends to continue to contract with its current wholesale supplier, NextEra, because the relationship with NextEra is such that NextEra is willing, after its knows the size of a given load, to execute a contract at or below prescribed price and terms; and

WHEREAS, the City desires, before the end of 2015, to execute a contract for electricity for the period beyond the expiration of its current contract on December 31, 2017, that locks-in favorable wholesale prices, not to exceed 4.3 cents per kWh; and

WHEREAS, TCAP will allow members six weeks from receipt of this ordinance to consider whether to participate in the first of several opportunities to contract for post-2017 electrical supply, and thereafter allow NextEra till the end of the year to contact for power for three years at a price not to exceed 4.3 cents per kWh, so long as the aggregated load of this opportunity reaches at least 50 megawatts; and

WHEREAS, wholesale suppliers demand assurance that TCAP will pay for all contracted load; and

WHEREAS, the City needs to assure TCAP that it will budget for energy purchases for the post-2017 period and honor its commitment to purchase power for its electrical needs for 2018 through 2020 through TCAP,

THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SAGINAW, TEXAS:

Section 1:

That the TCAP Board of Directors and its consultants and advisors are agents authorized to negotiate for the City's electricity needs as a member of TCAP for the period 2018 through 2020 at a price not to exceed 4.3 cents per kWh;

Section 2:

Assuming this ordinance is passed before October 1 and the combined load of TCAP members passing this ordinance exceeds 50 megawatts and NextEra is able to provide TCAP an opportunity prior to December 31 to contract for power to be delivered to members at a price not to exceed 4.3 cents per kWh for the period January 1, 2018 through December 31, 2020, City Manager Nan Stanford is hereby authorized to sign an

electric supply agreement for the City within 24 hours of receipt of a contract that has been approved and recommended by the TCAP Board of Directors.

Section 3:

That the City will commit to purchase power to meet all of its electricity needs eligible for competition pursuant to the TCAP approved supply agreement and approve funds necessary to pay electricity costs proportionate to the City's load under the supply agreement (whether wholesale or retail) arranged by TCAP and signed by TCAP's Executive Director or President or other TCAP representatives authorized by the TCAP Board.

Section 4:

That a copy of this resolution shall be sent to Jay Doegey, Executive Director of TCAP at P. O. Box 1081, Arlington, Texas 76004-1081 and Geoffrey M. Gay, legal counsel to TCAP at 816 Congress Avenue, Suite 1900, Austin, Texas 78701.

PRESENTED AND PASSED on this the 1st day of September, 2015, by a vote of _____ ayes and _____ nays at a regular meeting of the City Council of Saginaw, Texas.

Gary Brinkley, Mayor

ATTEST:

Janice England, City Secretary