

# Memorandum



CITY OF DALLAS

DATE June 12, 2015

TO Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair),  
Jennifer S. Gates (Vice Chair), Tennell Atkins, Sheffie Kadane, Philip T. Kingston

SUBJECT Electricity Procurement

On June 15, 2015 the Budget, Finance and Audit Committee will be briefed on Electricity Procurement. The briefing will be presented by Errick Thompson, Director of Equipment and Building Services. The briefing is attached for your review.

Please let me know if you need additional information.

A handwritten signature in black ink, appearing to read 'Jill Jordan'.

Jill A. Jordan, P.E.  
Assistant City Manager

c: Honorable Mayor and Members of City Council  
A.C. Gonzalez, City Manager  
Warren M.S. Ernst, City Attorney  
Craig D. Kinton, City Auditor  
Rosa A. Rios, City Secretary  
Daniel F. Solis, Administrative Judge  
Ryan S. Evans, First Assistant City Manager

Joey Zapata, Assistant City Manager  
Mark McDaniel, Assistant City Manager  
Eric D. Campbell, Assistant City Manager  
Jeanne Chipperfield, Chief Financial Officer  
Sana Syed, Public Information Officer  
Errick Thompson, Director, Equipment and Building Services  
Elsa Cantu, Assistant to the City Manager

# Electricity Procurement



**Budget, Finance and Audit Committee  
June 15, 2015**



- ▶ Provide a brief overview of City electricity program
- ▶ Discuss current energy market
- ▶ Discuss an opportunity to take advantage of historically low electricity prices and reduce electricity expenses in FY15-16 and beyond



# Electricity Program Background

The City has a successful electricity program and results since FY07-08 include:

- Reduced expenditures by 23.5% (\$78.7m to \$60.2m)
- Reduced electricity rate by 26%
- Reduced consumption by 7.9% (770,289 MWh to 709,757 MWh)
  - Lighting and controls projects funded by American Recovery and Reinvestment Act (ARRA) grants and performance contracts
  - Energy Recovery Facility at Dallas Water Utilities' Southside Wastewater Treatment Plant
  - Reduced water pumping due to twice per week watering ordinance

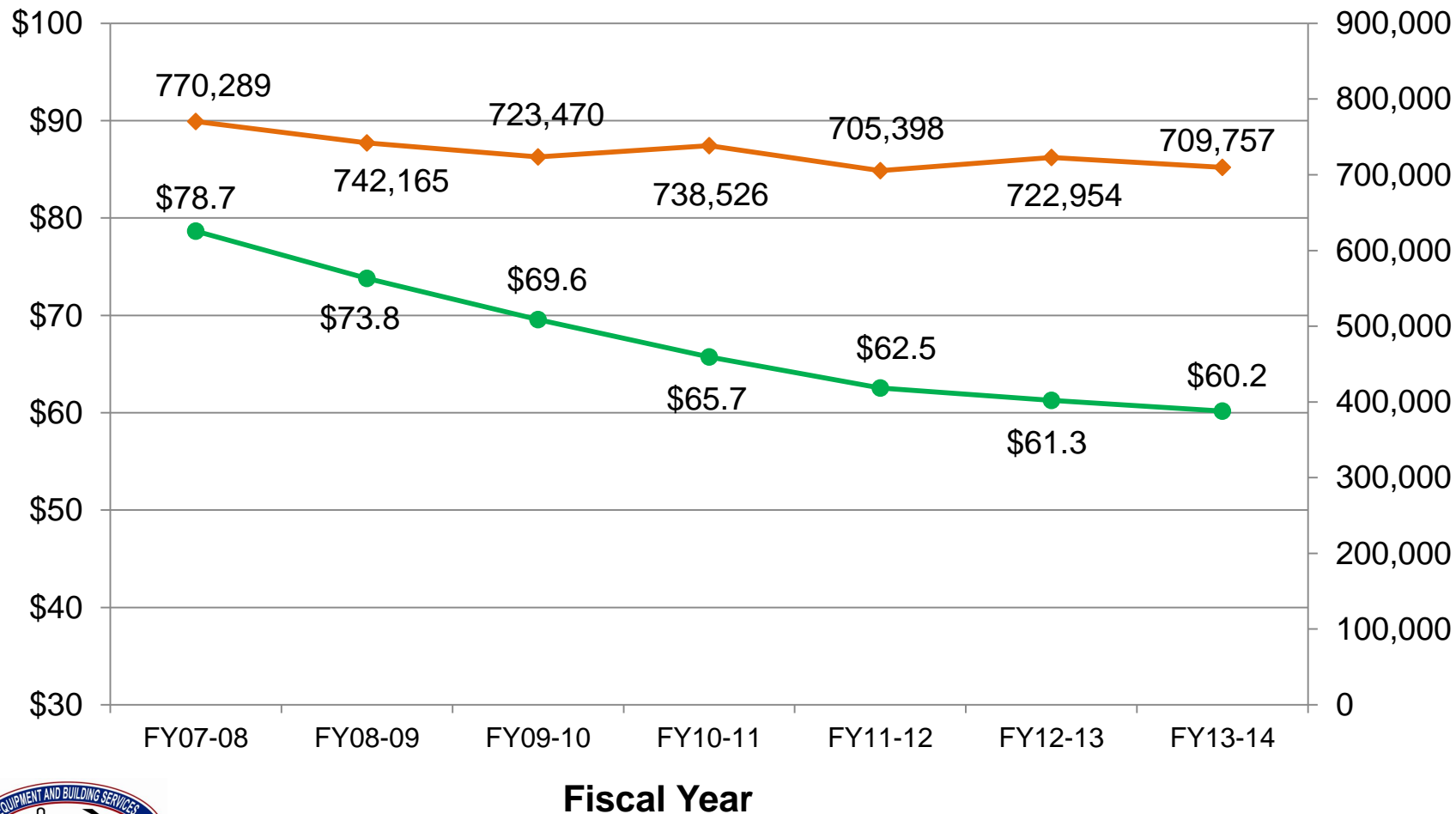


# Electricity Program Background

## City Electricity Use

Cost in Millions

MWh Used



# Electricity Program Background

## Energy Consultant

- ▶ City staff works closely with Priority Power Management, LLC, the City's energy consultant who:
  - Has staff with over 250 years of combined experience in energy markets
  - Procures and manages an estimated \$1 billion in annual energy spending
  - Provides supply side analysis for 32 of the Top 100 Texas independent oil and gas producers
  
- ▶ Notable clients include:
  - Chesapeake Energy
  - Hunt Oil Company
  - Devon Energy
  - Texas Health Resources
  - University of Texas System
  - City of Midland



# Electricity Program Background

## Recent Contracts

- ▶ City entered into the original agreement with TXU Energy Retail Company LLC on July 7, 2010
  - 36-month term (January 2011 through December 2013)
  - \$232.2m total contract value
  - 40% renewable energy included
- ▶ City extended the contract on December 12, 2012
  - 29-month term (through May 31, 2016)
  - \$232.8m total contract value
  - 50% renewable energy purchased through a third party



## Electricity Market Outlook

- ▶ Market prices are at historical lows due to current natural gas market
- ▶ Market prices will likely rise due to increased demand for natural gas because of:
  - Liquefied natural gas (LNG) exports to Asia
  - Preferred fuel for U.S. power industry
  - Environmental Protection Agency (EPA) and other regulatory pressure
- ▶ Current market conditions present a window of opportunity for the City to achieve additional savings for the coming years





## Seizing the Opportunity

- ▶ Existing contract (expires May 31, 2016) cannot be cancelled, but the City can lock-in current market pricing using a “blend and extend” approach (similar to the December 2012 amendment/extension)
- ▶ “Blend and extend” approach could lower the contract price for FY15-16 and lower rates even more for the balance of the extended term
  - “Blend” – lowers contract price for remaining 8 months of existing contract
  - “Extend” – lowers contract price further for the newly extended term



# Proposal for Consideration

## Overview

- ▶ Current contract would be extended up to 84 months (June 1, 2016 up to May 31, 2023) with final terms set upon contract execution
- ▶ New contract would:
  - Reduce rates effective October 1, 2015 through May 31, 2016
  - Lower rates again beginning June 1, 2016 through the remainder of the extended term
  - Include a 10% add/delete clause and ancillary costs (additional details in Appendix)
  - Provide \$750,000 from TXU for energy efficiency projects in the first year of the new agreement and \$150,000 per year, thereafter, through the agreement term, with projects managed by TXU in coordination with EBS staff
  - Include 100% renewable energy



## Renewable Energy

- ▶ Renewable energy percentage would increase from 50% to 100% beginning October 1, 2015
- ▶ Renewable energy would include Texas wind with the potential to add some solar, with non-exclusive naming rights, in an 84-month agreement
- ▶ 100% renewable energy would strengthen Dallas' **national** reputation as a sustainability leader among local governments according to EPA's *Green Power Partnership*



# Top Local Government Consumers of Renewable Energy



Represents the largest green power users among local government partners within the Green Power Partnership – as of May 21, 2015

Local Government Entity	Annual Green Power Use (kWh)	Green Power % of Total Annual Electricity Use
1. City of Houston, TX	623,013,375	50%
2. Washington, DC	459,000,000	100%
3. City of Austin, TX	372,344,963	99%
<b>4. City of Dallas</b>	<b>359,368,000</b>	<b>50%</b>
5. Montgomery County (MD) Clean Energy Buyers Group	223,307,000	40%
6. DFW International Airport	129,255,000	30%
7. City of Portland, OR	88,513,000	60%
8. Port of Portland, OR	75,070,343	103%
9. Washington Suburban Sanitary Commission, MD	59,952,598	28%
10. Forest County, WI Potawatomi Community	55,035,000	105%



# Proposal for Consideration

## Financial Summary\*

	Estimated FY15-16 Savings/Value	Estimated Total Contract Savings/Value
Estimated Contract Savings	\$3.0m to \$3.5m	\$21.9m to \$30m
General Fund Savings (included in total above)	\$1.0m to \$1.17m	\$7.4m to \$10.1m
100% Renewable Energy	Included	Included
Energy Efficiency Funds	\$0.75m	\$1.05m to \$1.65m
Procurement Cost	\$0.15m	\$0.15m to \$0.45m
<b>Total</b>	<b>\$3.9m - \$4.4m</b>	<b>\$23.1m - \$32.1m</b>

*Contract Savings estimates are based on existing contract rate and estimated volume  
Renewable Energy is included at 100% in new contract vs. 50% in the existing*

*\* Ranges in values cover up to an 84-month agreement*



Approve June 17, 2015 Council addendum item requesting Council approval to execute an amendment and extension of the electricity services contract that:

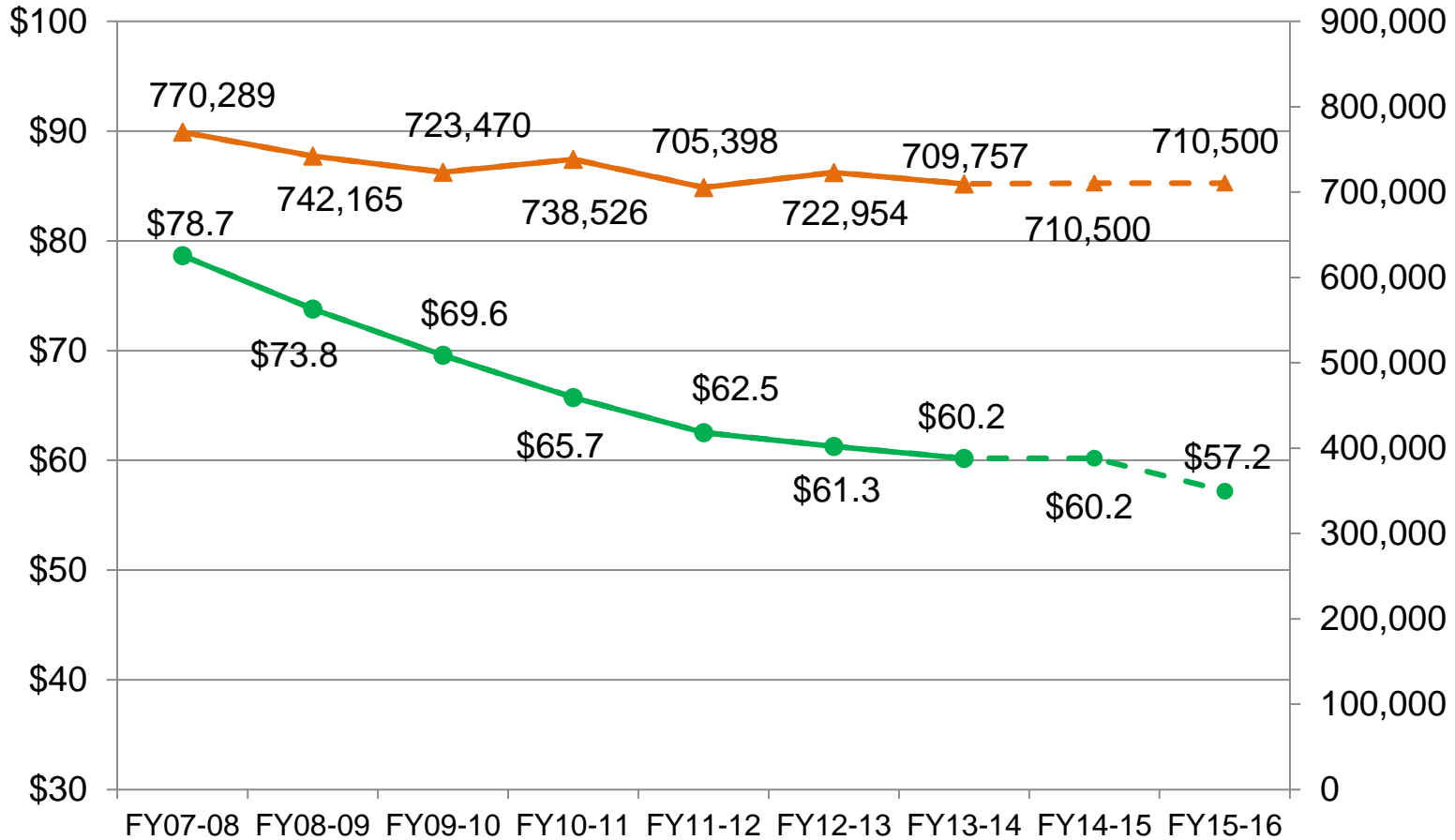
- Extends the current agreement for a time period up to 84 months (based on best and final pricing)
- Reduces the current rate at least 3% for the period of October 1, 2015 – May 31, 2016
- Lowers the rate again at least an additional 7% beginning June 1, 2016 through the remainder of the agreement
- Provides at least \$3.0m in FY15-16 savings (\$1m General Fund)
- Includes 100% renewable energy
- Provides an annual allowance for energy efficiency projects



# Recommendation

## Cost in Millions

## MWh Used

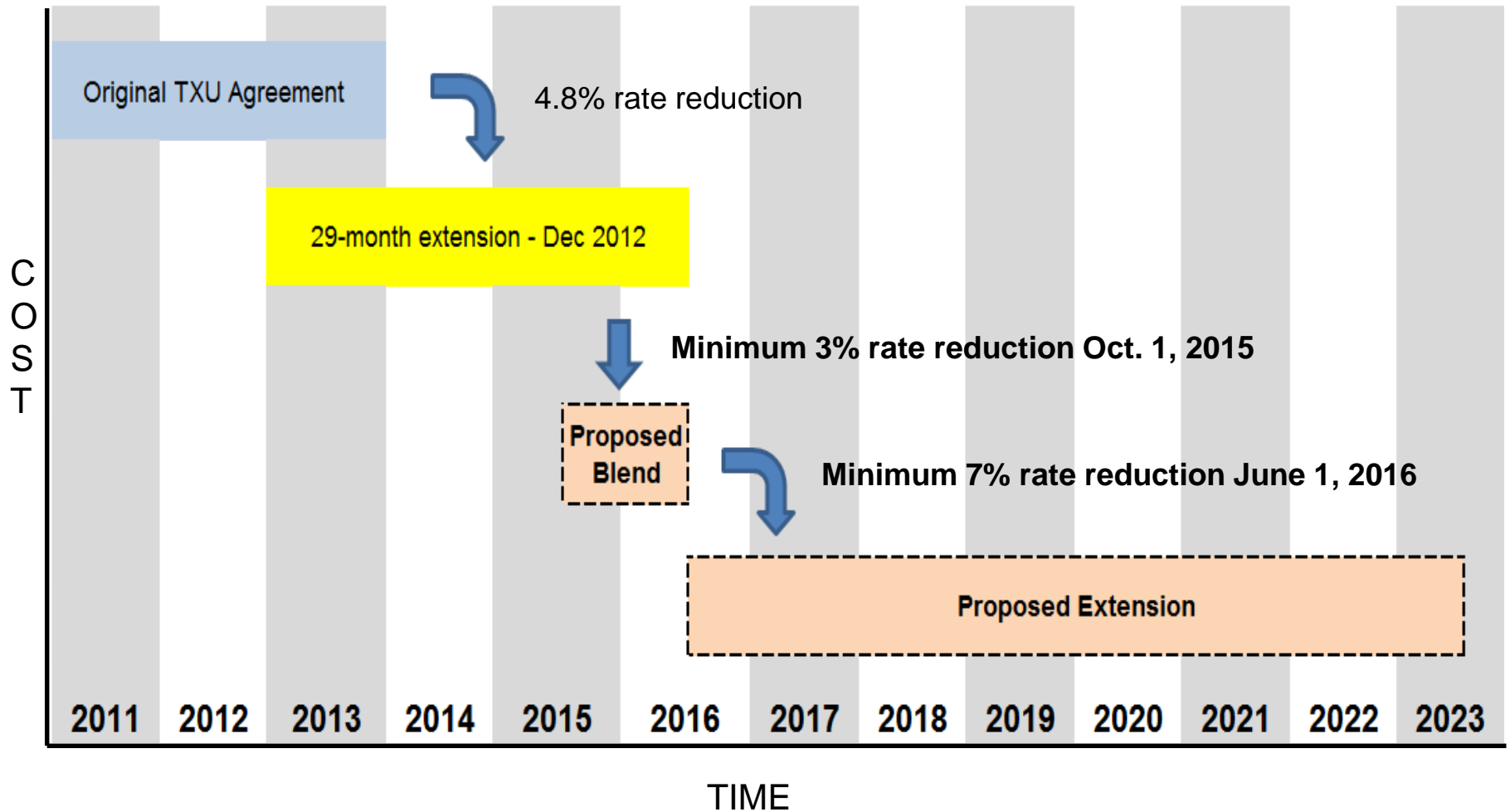


Fiscal Year

Historical  
Projected



# Recommendation



*Length of extension and pricing will not be finalized until contract execution.*





## Council consideration of addendum item June 17<sup>th</sup> and assuming passage:

- City Staff and TXU determine date for contract execution (typically within 2-3 weeks after Council approval)
- TXU provides final pricing on contracting date
- City staff and the energy consultant review final pricing and, if agreeable, present contract to the City Attorney and City Manager for signature within 1 hour of receiving prices
- TXU executes trades for electricity
- City begins benefitting from lowered pricing on October 1, 2015
- ▶ City continues electricity program success with FY15-16 savings of at least \$3m



# Appendix



**Energy Consultant Recommendation**

**TXU Business Outlook**

**Historical Gas Curves**

**Electricity price details (what is included)**

# Energy Consultant Recommendation



## CLIENT MEMO

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**DATE:** June 11, 2015  
**TO:** Errick Thompson, P.E., Department Director, EBS, City of Dallas  
**FROM:** John J. Bick, Managing Principal, Priority Power Management, LLC  
**SUBJECT:** Executive Summary Review of TXU Energy Proposals

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Mr. Thompson,

Priority Power Management, LLC ("PPM") has performed technical analysis of the various proposals that TXU Energy has presented to the City of Dallas ("COD") over the past several weeks to "Blend and Extend" the current contract for retail electricity supply. The purpose of this memo is to provide COD with PPM's professional opinion of the various TXU Energy proposals with respect to their market competitiveness.

PPM has evaluated the various TXU proposals, the individual components of both the "Blend" and "Extend", and has done so over multiple days of refreshed prices for multiple term options.

It is PPM's opinion that many of the various TXU proposal pricing options are indicative of current forward market prices, and therefore are market competitive.

It will be important to continually monitor refreshed TXU pricing proposals up to, and on, the day that COD may elect to execute a contract to ensure TXU's pricing remains market competitive.

Should you have any questions about this memo, please do not hesitate to contact me.

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John J. Bick  
Managing Principal  
Priority Power Management, LLC



*“This restructuring is focused on our balance sheet, not our operations. We fully expect to continue normal business operations during the reorganization. TXU Energy will continue to provide best-in-class customer service and innovative energy solutions.” John Young, EFH president and chief executive officer, 4/29/2014*

Public Utility Commission of Texas, 5/2/2014

*“You should expect business as usual. EFH has requested the...court to allow TXU Energy... to continue all customer rewards programs and to continue serving all of their existing customer contracts ...”*

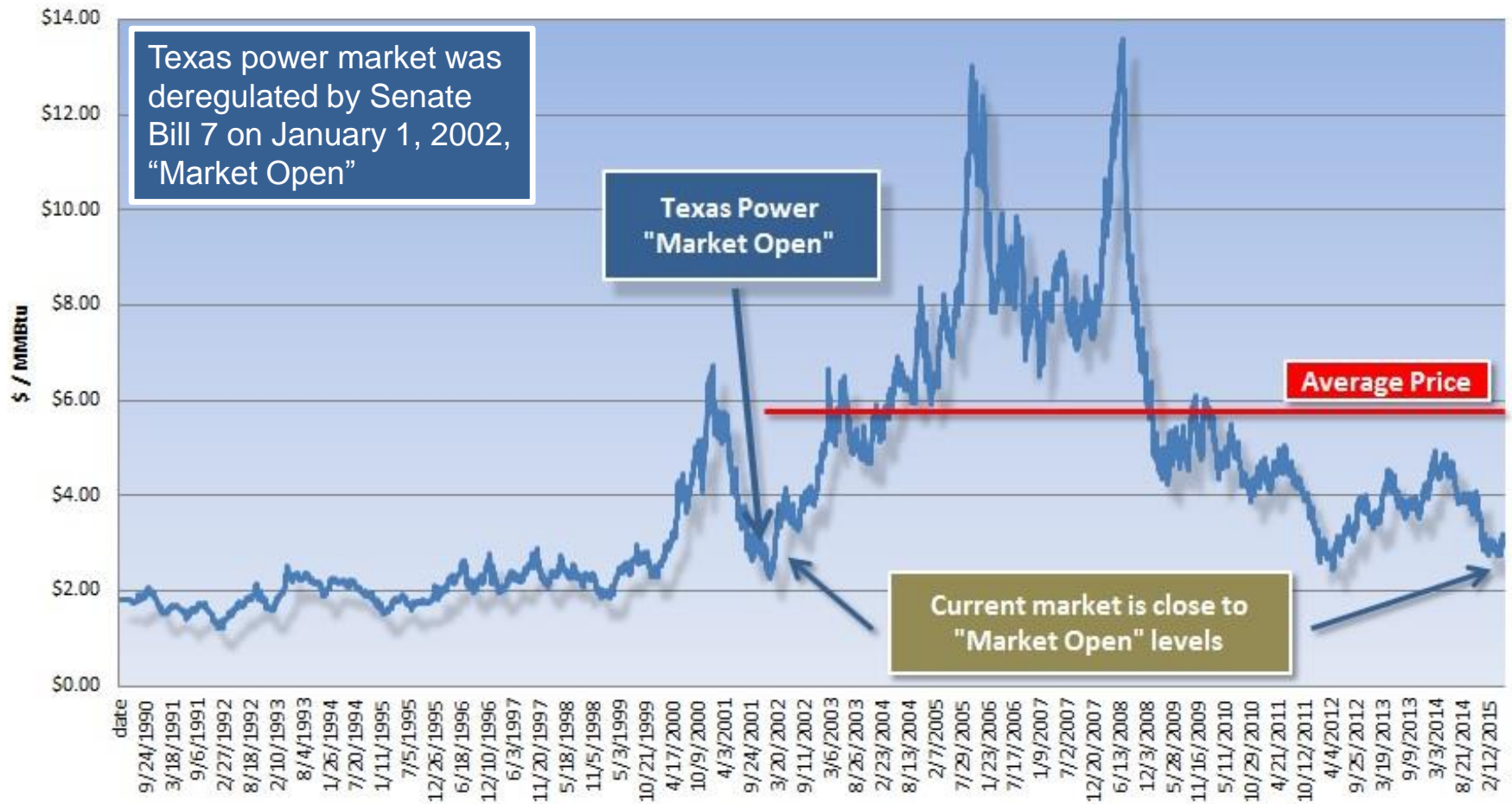
The US Bankruptcy Court (5/2/2014) granted TXU’s requests to:

- *Honor ALL retail customer agreements, while providing excellent customer service and competing in the marketplace.*
- *Access to over \$2.3 billion of Debtor-in-Possession financing to be used throughout the restructuring, ensuring operations in the normal course.*



# Historical Electricity Pricing

## NYMEX Natural Gas 12-Month Strip



Source: New York Mercantile Exchange (NYMEX)



# TXU Price Details

TXU contract price includes the following deregulated elements:

- Wholesale Price of Energy
- Capacity/Demand Charges
- Fuel Costs
- TDU Line Losses
- Unaccounted for Energy
- Operating Reserve Demand Curve
- REP Billing and Customer Care Services
- Net Billing Payment Terms
- Qualified Scheduling Entity Fees
- Regulation Service (Reg Up, Reg Down)
- Responsive Reserve Service
- Non-Spinning Reserve Service
- Reliability Must Run (RMR) ERCOT Fees
- Day-Ahead Make-Whole Charge
- Base Point Deviation Credit
- Black Start Service
- ERCOT Admin/ISO Fee
- ERCOT Reliability Charge
- ERCOT Other Charges
- Renewable Energy Surcharge
- Out-of Merit ADR Settlement
- Mismatch Schedule Fee
- Real Time Revenue Neutrality
- Voltage Support Service
- Emergency Energy
- Emergency Response Service
- Real-Time Ancillary Service Imbalance Revenue Neutrality Allocation
- Hub to Load Zone Basis Differential (Intra-zonal Congestion)
- RUC Capacity-Short Charge
- RUC Decommitment Charge
- RUC Make-Whole Uplift Charge
- RUC Clawback Payment



# TXU Price Details (continued)

## Regulated delivery charges passed-through from Oncor

- Customer Charge
- Metering Charge
- Distribution System Charge
- Transmission System Charge
- Advanced Metering Cost Recovery Factor
- Competition Transition Charge
- Energy Efficiency Cost Recovery Factor
- Nuclear Decommissioning Fee
- Rate Case Expense Rider
- System Restoration Charge
- Adjusted Federal Income Tax Credit
- Transition Charge
- Transmission Cost Recovery Factor
- Discretionary Service Charge
- Rate Case Expense Remand Surcharge
- Surcharge Energy Efficiency

## Taxes and Miscellaneous Fees

- Sales Tax (if applicable)
- Gross Receipts tax (if applicable)
- Public Utility Commission Assessment

