



**CITY OF PLANO
COUNCIL AGENDA ITEM**

CITY SECRETARY'S USE ONLY	
<input type="checkbox"/> Consent	<input type="checkbox"/> Regular <input type="checkbox"/> Statutory
Council Meeting Date:	12/7/2010
Department:	Customer and Utility Services
Department Head	Mark Israelson
Agenda Coordinator (include phone #): Nancy Rodriguez X7510	

CAPTION

A Resolution of the City of Plano, Texas, authorizing the Cities Aggregation Power Project, Inc. (CAPP) to negotiate an extension to the current electric supply and necessary related services agreement with Next Era for a fixed price per kWh that is lower than contract rates for 2011-2013, said extension to continue until December 31, 2018; authorizing CAPP to act as an agent on behalf of the City to enter into a contract for electricity; authorizing the Chairman of CAPP to execute an extension to the current electric supply agreement for deliveries of electricity effective January 1, 2011, or as soon after finalization of a contract as possible; committing to budget for energy purchases and to honor the City's commitments to purchase power through CAPP for its electrical needs through December 31, 2018; and providing an effective date.

FINANCIAL SUMMARY

NOT APPLICABLE OPERATING EXPENSE REVENUE CIP

FISCAL YEAR:	Prior Year (CIP Only)	Current Year	Future Years	TOTALS
Overlapping several fiscal years, period: 1/1/2011 through 12/31/2018				
Budget	0	0	0	0
Encumbered/Expended Amount	0	0	0	0
This Item	0	-598,930	0	-598,930
BALANCE	0	-598,930	0	-598,930

FUND(s): **VARIOUS CITY FUNDS**

COMMENTS: Cost savings realized by modifying and extending the current agreement are projected to reduce next year's electricity price by about 1 cent per kWh, with an estimated savings to Plano of approximately \$598,930 for the first year. (Providing that the energy price to be paid per kWh in 2011-2013 is less than the current contract price for 2011-2013.)

STRATEGIC PLANO GOAL: A contract that reduces prices for the next three years and extends a fixed price for energy through December 31, 2018 is related to a "Financially Strong City with Service Excellence".

SUMMARY OF ITEM

Resolution to Amend and Extend the current Cities Aggregation Power Project (CAPP) Blended Electricity Contract through December 31, 2018.



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List of Supporting Documents: Cover Memo	Other Departments, Boards, Commissions or Agencies

MEMORANDUM

TO: City Council

THROUGH: Thomas H. Muehlenbeck, City Manager

FROM: Mark Israelson, Assistant City Manager

DATE: November 22, 2010

RE: Electric Rates for 2011 and Beyond

Members of CAPP have an opportunity to reduce next year's prices and achieve significant savings over the next three years by amending and extending the existing electricity supply agreement.

Background

The current contract is referred to as a four-party agreement. It contractually commits CAPP to Next Era (aka, Florida Power & Light) as supplier and Direct Energy Business Services ("DEBS") as retail electric provider responsible for customer accounts and billing. Each CAPP member was required to pass a resolution agreeing to be bound by the four-party agreement and pledging to sign an individual customer energy supply agreement with DEBS. The current contract became effective on January 1, 2009 and will expire December 31, 2013. Under ordinary circumstances, bids for power to meet member needs in 2014 and beyond would not have commenced until sometime in 2012.

In June, CAPP received an unsolicited offer for a block of base load energy to be available in 2014 from distressed generation assets to be purchased by some West Texas investors and backed by J.P. Morgan. The indicative pricing looked favorable for a five-to-twelve-year commitment.

The CAPP Board was interested in the proposal and directed R.J. Covington Consulting to perform a due diligence evaluation of the proposed pricing. Consultants were able to obtain several comparable offers, including an offer from Next Era. However, Next Era indicated that while they were willing to discuss the block power commitment, better pricing could be offered in a blend and extend arrangement. Their blend and extend proposal contained more favorable pricing with less risk than any other offer. Next Era proposed to liquidate the gas futures contracts obtained in 2008 to serve CAPP load through 2013 and to purchase new gas futures contracts at lower prices to serve CAPP's full requirements through 2018. The energy price offered to members would be fixed for eight years subject to the same adjustment provisions (for ancillary services, nodal market prices and changes to total member load) in the current contract. Generally speaking, members would see a reduction in next year's price of about 1¢ per kWh. Plano's estimated savings would be approximately \$598,930.36.

Do Near-Term Savings Justify a Five Year Extension?

Two factors largely determine electric prices in the Texas deregulated market: natural gas futures prices and heat rates which are in turn influenced by market perceptions of available generation capacity. At this point in time, natural gas prices are low and stable; and there is excess capacity.

An optimistic forecast would indicate that natural gas prices will remain around current levels for the next three or four years. To pass on an offer to reduce current contract rates and achieve a fixed price guarantee for eight years, one has to count on gas prices continuing to decline and for electric generation supply to remain comfortably greater than peak demand at least through the end of 2013. Even if gas prices decline so as to justify a lower rate in 2013 for the 2014-2016 period, it is unlikely that the rate would be sufficiently lower to justify foregoing the potential near-term savings afforded by a blend and extend arrangement.

A Resolution of the City of Plano, Texas, authorizing the Cities Aggregation Power Project, Inc. (CAPP) to negotiate an extension to the current electric supply and necessary related services agreement with Next Era for a fixed price per kWh that is lower than contract rates for 2011-2013, said extension to continue until December 31, 2018; authorizing CAPP to act as an agent on behalf of the City to enter into a contract for electricity; authorizing the Chairman of CAPP to execute an extension to the current electric supply agreement for deliveries of electricity effective January 1, 2011, or as soon after finalization of a contract as possible; committing to budget for energy purchases and to honor the City's commitments to purchase power through CAPP for its electrical needs through December 31, 2018; and providing an effective date.

WHEREAS, the City of Plano, Texas (City) is a member of Cities Aggregation Power Project, Inc. ("CAPP"), a nonprofit political subdivision corporation dedicated to securing electric power for its 102 political subdivision members in the competitive retail market; and

WHEREAS, CAPP negotiated favorable contract terms and a reasonable commodity price for delivered electricity since 2002 resulting in significant savings for its members; and

WHEREAS, the City's current contract for power with Next Era arranged through CAPP expires December 31, 2013; and

WHEREAS, the CAPP Board of Directors is currently considering a blend and extend contract with Next Era with indicative retail energy prices that will reduce the prices under the current contract for the next three years and extend a fixed price for energy through December 31, 2018; and

WHEREAS, the current contract is a master agreement between CAPP and Next Era endorsed by contract with individual CAPP members; and

WHEREAS, CAPP must be able to commit contractually to prices in a blend and extend contract amendment within a 24-hour period in order to lock-in favorable prices; and

WHEREAS, experiences in contracting for CAPP load since 2002 demonstrated that providers demand immediate response to an offer and may penalize delay with higher prices; and

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

WHEREAS, the City must assure CAPP that it will budget for energy purchases and honor its commitments to purchase power for its electrical needs through CAPP for the period beginning January 1, 2011, and extending through December 31, 2018; and

WHEREAS, CAPP intends to continue to contract with Next Era (power supply) and Direct Energy (billing, administrative and other customer services); and

WHEREAS, the current contractual relationships between CAPP and Next Era and Direct Energy have been beneficial and cost effective for CAPP members and the City.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF PLANO, TEXAS, THAT:

Section I. That the CAPP Board and its consultants and advisors are agents authorized to negotiate for the City's electric power needs as a member of CAPP and extend the current supply agreement through December 31, 2018.

Section II. That the City approves CAPP extending its current contract with Next Era for the supply of electric power and related, necessary services for the City for a term to begin January 1, 2011 or as soon after finalization of a contract as possible and extending up to December 31, 2018, so long as the extension results in savings over the current contract term of 2011-2013 and results in fixed prices through December 31, 2018.

Section III. That the Chairman of CAPP is hereby authorized to sign a Commercial Electricity Supply Agreement ("CESA") for the City pursuant to the contract approved and recommended by the CAPP Board of Directors within 24 hours of said approval and recommendation, provided that the energy price to be paid per kWh in 2011-2013 is less than the current contract price for 2011-2013 resulting in savings for the City and that the fixed price for the period 2011-2013 will continue through December 31, 2018.

Section IV. That the City will budget and approve funds necessary to pay electricity costs proportionate to the City's load under the supply agreement arranged by CAPP and the CESA signed by the Chairman of CAPP on behalf of the City for the term beginning January 1, 2011 or as soon after finalization of a contract as possible and extending up to December 31, 2018.

Section V. That a copy of the resolution shall be sent to Mary Bunkley with the City Attorney's office in Arlington and Geoffrey M. Gay, legal counsel to CAPP.

Section VI. This Resolution shall become effective immediately from and after its passage.

DULY PASSED AND APPROVED this the 7th day of December, 2010

Phil Dyer, MAYOR

ATTEST:

Diane Zucco, City Secretary

APPROVED AS TO FORM:

Diane C. Wetherbee, City Attorney