BRCPC Energy Committee file 5/22/06

BALTIMORE REGIONAL COOPERATIVE PURCHASING COMMITTEE

Revised Presentation on Natural Gas Purchase Strategy

Natural Gas Sub-Committee: Steve Myer, Baltimore County
Brian Snyder, City of Annapolis
Richard Shelton, Carroll County

18

April 6, 2006

1. Background

Natural gas was first deregulated back in 1996. The surge in demand began earlier, in the early 1990's. From 1990 through 2000, the demand grew at a rate of 2% per year. Even today and through the year 2025, the growth is predicted to remain at a rate of 1% per year. Of the current demand, 33% is for industrial use, 24% is used for electrical power generation, 21% is residential demand, and 13% is consumed by commercial customers like ourselves. The fastest growing user is the power generation market.

One third of the natural gas used in this country is produced in the Gulf of Mexico. Worldwide, the potential supply of natural gas is 1,311 trillion cubic feet or 65 years worth. Know reserves that have yet to be tapped will extend the supply for another six to nine years. The current dilemma with natural gas supply is related to the rate of production and the available transportation, not the worldwide supply. The industry struggles to produce and transport enough gas to meet the growing demand.

Since July 1, 2001, the members of BRCPC have been piggybacking the State of Maryland contract with Washington Gas Energy Services. The contract expires on May 31, 2006, however, Washington Gas has indicated that they have bought pipeline capacity through June 30, 2006. With the current contract, we buy gas on a floating price basis, with a contractor's add on factor, on the NYMEX index and traditionally firm the price for the winter season, usually starting October 1st and ending March 31st, with the contractor's add on factor included in the firm price. This firming period has varied depending on the market trends. There are two types of gas accounts: interruptible and firm. Interruptible accounts are facilities with two fuel sources to operate their physical plants, usually heating oil and natural gas. At times of extreme demand, the distribution company BGE can curtail your supply and require that you use the alternate fuel source. BGE has sent out curtailment notices at times over the past ten winters, but has never activated the curtailment. Firm gas accounts only have natural gas to fire their physical plants and thus, are unable to have their gas curtailed.

2. Limitations Of Our Current Approach

Firming the price through the winter season exposes the entire portfolio to one price point in the market and does not allow for the flexibility of buying when the market presents more advantageous pricing opportunities. The portfolio is exposed to dramatic season to season swings in the market and pricing spikes due to limited pipeline capacity or natural disasters such as hurricane Katrina.

Just as with the PJM electricity markets, decisions in the gas market are made in 15 minutes. Using our current requirements contract approach, we can only utilize attractive index pricing for the immediate need and not buy for the future need. When we do lock in firm prices, it is such a large block that we are driving up demand on ourselves.

3. New Gas Procurement Strategy

The cost of natural gas is composed of three components: production, intercontinental pipeline transportation, and local distribution. 70% of the cost of gas is the gas itself; 10 % is the transportation; and 20% is BGE's distribution to the burner tip. The price of gas for our region is traded on NYMEX daily from its point of origin Henry Hub, La. At that physical point, the transcontinental pipeline system for the east coast starts. The second price component is the actual pipeline space which is procured through a basis contract. Basis trades separately from gas. Along the pipeline system are gates for each local distribution system. For the BGE territory, it's the Baltimore City Gate. The current contract with Washington Gas covers the cost of gas to the city gate. For firm gas accounts, BGE adds balancing and storage fees to the cost of distribution. Firm gas accounts are non-interruptible and the actual gas used daily by each account must be delivered to the burner tip. BGE nominates the amount of gas that they predict will be needed on a monthly basis and must be prepared to accommodate the true requirements of the gas user. Thus, there is a need to store and balance the gas usage daily. BGE has no obligation of balancing and storage for interruptible accounts. Balancing and strorage adds $0.50-0.60 per dekatherm to the cost of distribution.

In order to control the prices for gas and transportation, we recommend the establishment of a term basis contract with a supplier licensed in the State of Maryland and approved both by the Public Services Commission and the local distribution company BGE. This new approach, modeled after our electric supply services contract with PEPCO, would require that the gas contractor act as our agent and transact block purchases of gas and basis. Staggering purchases of gas and basis over time will enable us to take advantage of favorable market pricing. We can utilize price triggers to accelerate fixed positions when market opportunities arise. The estimated cost of basis and the contractor's transactional fee is $1.10-1.30 per dekatherm for interruptible accounts and $1.40-1.60 per dekatherm for firm accounts. The cost of gas since January, 1996, is displayed on the attachments to this report.

4. Consulting Contract With South River Consulting, LLC

As with our new electricity procurement strategy, we recommend that we contract with a consultant to advise us on when to buy gas and basis, and to interact with our transactional contractor. The current contract for electricity consulting services with South River does not have flexible language to enable it to apply to the gas market or energy markets in general. Section 409 of the NEMWDA contract that we piggybacked to establish the current South River contract does allow for a contract modification. It states, "This contract may be amended from time to time by written agreement, duly authorized and executed by the parties hereto." However, legal counsel from two of the BRCPC member jurisdictions have advised that this section does not allow a change in scope and they have indicated that we need a new consultant contract providing natural gas consultation services. We recommend that the new contract be established for all energy consulting services including, but not limited to, electricity and natural gas procurements. This new consulting contract is needed to replace the existing South River Consulting contract that expires after its last renewal ends June 30, 2007. It is anticipated that both a new energy consulting services contract and a new gas transactional contract could be established by the spring of 2007. Section 5 of this report covers the procurement timelines.

Because we will have to establish a new energy consulting services contract, each participant will have to piggyback the new State of Maryland gas supply contract for one year. It will probably be awarded by June 1, 2006 for start-up by July 1, 2006. We recommend that each participant firm up the price for the winter season with the new vendor in July and stay ahead of the hurricane season.

5. Procurement Timelines And Implementation

March 2, 2006: Presentation of report on natural gas and approval by BRCPC membership to proceed with the new strategy.

March 17, 2006: BRCPC members sign-up to participate in new gas strategy. Members provide list of gas accounts to Energy Board.

March 24, 2006: South River Consulting submits proposal for gas consulting services which will be included in the contract modification.

April 6, 2006: Revised natural gas procurement strategy is presented to the Energy Board and reported at the BRCPC April meeting. The revised strategy will also be emailed to the membership.

May 4, 2006: RFP solicitation draft for energy consulting contract is prepared by lead jurisdiction Baltimore County and presented to Energy Board and BRCPC membership at the May meetings for review and comment.

May 9, 2006: RFP solicitation is posted-up.

May 18, 2006: RFP pre-proposal conference held at BMC.

June 1, 2006: State of Maryland awards new gas supply contract. Each participant piggybacks the contract for one year.

June 9, 2006: Bid opening for energy consulting services RFP.

June 21, 2006: Evaluation committee meets to shortlist offerors.

June 28, 2006: Oral presentations.

July 12, 2006: Evaluation committee makes award recommendation.

July 15-September 30, 2006: Contracts executed.

October 1, 2006: Energy consulting services contract start-up.

November 2, 2006: RFP solicitation draft for natural gas transactional services contract is reviewed by Energy Board and BRCPC membership at November meetings.

November 6, 2006: RFP solicitation posted-up on Baltimore County web site.

November 16, 2006: Pre-proposal conference.

December 8, 2006: Proposals are opened.

December 18, 2006: Evaluation committee meets to shortlist offerors.

January 3, 2007: Oral presentations.

January 15, 2007: Evaluation committee makes award recommendation.

January 15-March 31, 2007: Contracts executed.

April 1, 2007: Contract start-up.

April 1-May 31,2007: Block purchases for fiscal 2008. Basis purchases for fiscal 2008 and beyond.

6. Benefits

- Purchase gas at the same pricing level as our suppliers.

- Flexibility to respond to market changes and diversify risk by staggering block purchases over time.
- Employ price triggers to accelerate fixed positions when market opportunities arise.
- Purchase gas and basis for current and future years.

Energy Board
[illegible]
5/31/06

BALTIMORE REGIONAL COOPERATIVE PURCHASING COMMITTEE

ENERGY BOARD

MINUTES OF THE MAY 4, 2006 MEETING

ATTENDANCE

Stephen P Myer, Baltimore County
William Schull, Anne Arundel County
Richard Shelton, Carroll County
Brian Snyder, City of Annapolis
Felicia Oliver, Baltimore City
Darla Herbold, Howard County
Deborah Henderson, Harford County
Vic Dodson, Howard Community Clooege

APPROVAL OF MINUTES

Bill Schull motioned for acceptance of the minutes Darla Herbold seconded the motion There were no corrections Minutes were approved unanimously

STATUS OF MOU MODIFICATION SIGNATURE PAGE DISTRIBUTION

Steve Myer advised those in attendance that the MOU modification signature page packages had been mailed out

ADDING JURISDICTIONS

Steve Myer indicated that the Housing Commission of Anne Arundel County will be joining the electricity contracts They have 382 accounts, mostly G/GS and some residential Original contract documents have been mailed to South River Consulting and PEPCO Energy Services They will in turn be forwarded to Kathy Markum, Director of Finance, for the Housing Commission for final execution

STATUS OF NEW NATURAL GAS PROCUREMENT STRATEGY

Steve Myer distributed copies of the bid solicitation RFP 205863 for the Term Contract For Energy Consulting Services for review and feedback Steve promised to email the document to the board members The pre-proposal meeting is set for Thursday, May 25, 2006 at BMC at 1:00 pm

SOUTH RIVER CONSULTING-PROJECTED BUDGET FOR FY07

Bert Wilson and Noel Chesser discussed the proposed budget electric rates for FY 07 Including all costs associated with the purchase of power (block purchases, capacity purchases, consulting fees, and transactional fees), Bert estimated that the cost of power to be $.09 KWH Using this unit price along with his estimate for the BGE distribution costs, Bert then tried to determine the rate that each of us will pay until the quarterly true-up Bert recommended that we switch to a six-month true-up It would allow for only one adjustment per fiscal year; it would make planning simpler; it would remove the potential variation; and would lower administrative costs Steve Myer, Rich Shelton, Brian Snyder, and Bill Schull expressed concern about changing the true-up schedule before we have even had one full year's experience at this new procurement strategy The Board's consensus was to keep the true-up period at three months

Bert then asked for feedback on what unit price to use for billing by PEPCO The Board agreed that the unit price should allow for the true-up balance to always be a credit to the membership rather than an additional charge and a carrying charge of 1% per month The consensus was to always have a positive result at each true-up especially in this first year Bert recommended that we have a summer rate and a winter rate so as to keep the true-up balance low but still in our favor

GREEN POWER/ALTERNATE SOURCES

Vic Dodson requested that future Energy Board meetings deal with the purchase of green power

NEXT MEETING DATE AND TIME

Wednesday, May 31, 2006 at 1:00 p.m