



City Council Staff Report

DATE: October 22, 2008 CONSENT CALENDAR
SUBJECT: AUTHORIZE THE PURCHASE OF NATURAL GAS
FROM: David H. Ready, City Manager
BY: Procurement & Contracting and Public Works & Engineering

SUMMARY

The City purchases natural gas to fuel the two co-generation plants that produce electricity for various City facilities. The prices available on the open market vary depending upon numerous hard-to-foresee factors that affect both the structure and the duration of the pricing agreement. Due to the volatility of the market, staff is seeking authorization for the City Manager to enter into an agreement for supply of natural gas at a time and at a price that best serves the City's interests.

RECOMMENDATION:

1. Authorize the City Manager enter into an agreement for the purchase of natural gas for a term not-to exceed 24 months.
2. Authorize the City Manager to execute all necessary documents.

STAFF ANALYSIS:

The City purchases natural gas to fuel its two (2) co-generation plants. Historically, staff has requested Council authorization several months in advance of the expiration date of the then-current pricing agreement in order to allow staff the time to track, competitively solicit pricing and to enter into an agreement at an advantageous time and price.

On March 21, 2007 Council adopted MO#8018 authorizing the City Manager to enter into agreements for the purchase of natural gas for a term not to exceed 24 months. The effective date of this action was June 1, 2007. Subsequently, three 6-month contracts have been executed, the latest effective through November 30, 2008. There are only 6 months of authority remaining of the original 24 months.

Predicting natural gas prices, even for just a few years, has been very difficult for even seasoned professionals. This has been especially true the last few years which have seen very volatile gas prices. Most experts view the increased volatility as an effect of the swings in winter temperatures and increased summer demand for natural gas by gas-fired electric generating plants. As an example, over the past 2 years, prices per decatherm have ranged from \$14 to \$6.

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Since the federal government quit regulating the wellhead price of natural gas in the mid-1980's market forces (of supply and demand) now set natural gas prices. Prices often change direction for no apparent reason, often due to weather changes, the economy, hurricanes (which can temporarily affect gas production in the Gulf of Mexico), oil prices, and more recently, expected demand for gas-fired electric generation, which is highly dependent on actual or forecasted Summer weather.

The City's current contract for natural gas will expire on November 30, 2008. Staff has been monitoring current market trends and believes that it would be advantageous for the City to lock in a favorable price within the next 30 days before weather factors begin to adversely affect the market. Historical price trends have shown lower contract prices in the late Fall than in the Spring provided the just ended hurricane season did not result in damage to gas infrastructure. The current contract price is \$8.59 per decatherm, about \$2 below the budgeted amount. As there was not serious damage from this year's hurricanes current prices are even lower than the current contract.

Due to the volatile nature of the natural gas market it is impractical, if not impossible, to bring a specific contract amount to the City Council for approval. Price quotes, when delivered, expire within minutes as the market responds to daily inputs. As a result, staff is requesting that the City Manager be authorized to lock in pricing that is favorable to the City as a result of monitoring the market on a day-to-day basis. It is further recommended that City Council extend the authorization to the City Manager by an additional 24 months to May 31, 2011.

FISCAL IMPACT:

The cost of natural gas is budgeted in the Energy Fund at \$11 per decatherm through the end of the current 2008/2009 fiscal year. The current contract price is \$8.59. For each change in unit price of \$.10, increase or decrease, the overall contract amount will be affected in the approximate amount of \$20,000 annually.

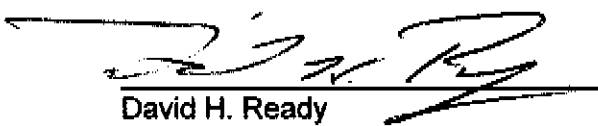
The latest price quotation (October 14, 2008) for a 1-year contract was \$6.79 per decatherm.




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