



## City Council Staff Report

DATE: October 2, 2013

CONSENT CALENDAR

SUBJECT: AUTHORIZE THE PURCHASE OF NATURAL GAS

FROM: David H. Ready, City Manager

BY: Public Works – Facilities Maintenance

---

### 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. Because of the Chevron energy project the Sunrise Plant is scheduled to be taken off line December 26, 2013. The Muni Plant is scheduled to be taken off line in July 2014, and it is estimated the new engine will be on line in Mid December 2014.

### RECOMMENDATION:

1. Authorize the City Manager enter into an agreement for the purchase of natural gas for a term not-to exceed 24 months through November 30, 2015.
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. After December 2013 the natural gas will fuel only one cogeneration plant. 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 November 3, 2010 Council authorized the City Manager to enter into agreements for the purchase of natural gas for a term not to exceed 30 months from May 31, 2011. The current natural gas contract and City Manager authorization to enter into agreement expires November 30, 2013. In order to allow for a new bid process and contract, it is necessary to allow for additional City Manager authority.

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.

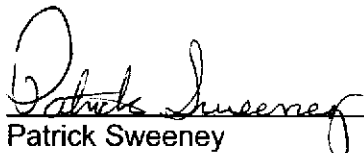
ITEM NO. 26

The City's current contract for natural gas will expire on November 30, 2013. Historical price trends have shown lower contract prices in the late Fall than in the Spring provided the just ended hurricane season does not result in damage to gas infrastructure. The current contract price is \$4.20 per decatherm.

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 thru the bidding process. It is further recommended that City Council extend the authorization to the City Manager by an additional 24 months to November 30, 2015.

FISCAL IMPACT:

The cost of natural gas is budgeted in the Energy Fund at \$5 per decatherm through the end of the current 2013/2014 fiscal year. The current contract price is \$4.20. Based on current usage 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.

  
\_\_\_\_\_  
Patrick Sweeney  
Facilities Maintenance Manager

  
\_\_\_\_\_  
David J. Barakian  
Director of Public Works/City Engineer

  
\_\_\_\_\_  
David H. Ready  
City Manager