



STAFF REPORT

DATE: November 13, 2018

TO: Ronald L. Olson, City Manager

FROM: Leslie Hinkle, Executive Director of Community Development

SUBJECT: Amending an Interlocal Agreement with Texas General Land Office for Electricity Services

BACKGROUND AND FINDINGS:

Since November 2013, the City has collaborated with an energy advisor and our supplier to evaluate and secure long range, resource efficient, best value electricity contracts through the Texas General Land Office (GLO).

On December 23, 2013, the City entered into a retail sales interlocal agreement with GLO with Cavallo Energy as the provider. It covered 317 electric meters and extended the GLO contract term from July 1, 2016 to June 30, 2020, and lowered the cost per kWh to \$.05503.

On February 4, 2016, the City entered into an agreement with GLO with Cavallo Energy remaining the provider. It covered 15 electric meters added since December 2013 for the same contract term, July 1, 2016 to June 30, 2020, at a lower cost per kWh for only these meters at \$.04142. On March 9, 2016, the City amended the 2013 Interlocal Agreement with GLO and Cavallo Energy provider. The extension covered all 322 sites for the term July 1, 2020 to June 30, 2023, and lowered the cost per kWh to \$.04637/kWh.

The 36-month agreement entered into on March 9, 2016 provided best value for the City, as longer-terms available at that time to the City provided less value. The continued development of natural gas supplies, a predominant fuel for electricity generation, and the proliferation of renewable resources across Texas has created an opportunity for the City to secure additional term electricity supply at lower rates, extending our track record of best value savings and budget certainty for this operating cost

THE ALTERNATIVES CONSIDERED:

This is a time-sensitive matter. The market changes daily; therefore, prices may change by the time Council takes action on this request.

1. The City can leverage historically low energy prices, and market dynamics, by extending the contract with Texas GLO and Cavallo to secure future savings and lengthen the period of budget certainty for our electricity costs. City can enter into the 36-month agreement today for \$._____/kWh and can request a blend of prices and volumes under the extension contract with those under the City's existing contracts.

2. For a period of 180 days, GLO can extend the term from July 1, 2023 for 36 months at a contract price not to exceed \$.03775/kWh. This approach allows the City to take advantage of market movement over the next few months. City can request a blend of prices and volumes under the extension contract with those under the City's existing contracts.
3. City does not extend at this time, and City's current contract terms and pricing remain in effect. With this option, City does not secure future savings or realize additional savings in FY 19 electricity costs.

Which Alternative is recommended and why?

Staff is recommending Alternative #2 to take advantage of market movement over the next 180 days and set a target price of \$.03775 per kWh.

CONFORMITY TO CITY POLICY:

Yes

FINANCIAL IMPACT:

The City budgeted a total of \$3,002,132.00 for electricity costs in FY2019.

Projected annual savings for a 36-month contract are ~\$400,000 compared to City's FY2019 electricity costs.

What is the amount of the expenditure in the current fiscal year? For future years?

The City budgeted a total of \$3,002,132.00 for electricity costs in FY2019.

Is this a one-time or recurring expenditure?

Recurring

Is this expenditure budgeted?

Yes

If not, where will the money come from?

Is there a sufficient amount in the budgeted line-item for this expenditure?

Yes

RECOMMENDATION:

Staff recommends Alternative #2, that City Council authorize the City Manager or his designee to execute an amendment that allows Texas GLO with Cavallo to extend the City of Killeen's

interlocal agreement up to 36 months, from July 1, 2023 to no later than June 30, 2026, at or below a target price of \$.03775 per kWh. City Council further authorizes the City Manager or designee and Texas GLO with Cavallo to blend electricity prices from all contract terms to begin realizing cost savings in the current fiscal year.

DEPARTMENTAL CLEARANCES:

Finance
City Attorney

ATTACHED SUPPORTING DOCUMENTS:

N/A