FY2013 Natural Gas Contract Renewal

Presentation to Budget and Fiscal Affairs Committee

October 30, 2012
Agenda

• Current Contract

• New Contract

• Evaluation Process
Current Contract

• Current contract with CenterPoint Energy was executed in 1989
• There have been 6 subsequent amendments, the last of which was executed in 2005.
• Contract expires on January 28, 2013
• Annual consumption is about 1.3 Bcf/year
• Current spend is about $6 million per year
• Regulated by the City of Houston and the Texas Railroad Commission.
• City has 409 separate gas meters
• 3 meters consume about 82% of City’s annual consumption
  – 69th Street waste water treatment plant
  – Almeda waste water treatment plant
  – Bush Intercontinental Airport
  – 3 meters above are priced @ Houston Ship Channel Index plus 65 cents, or fixed price as agreed.
  – Remaining 406 meters under public tariff 2162

*Note – difference in price is $4.21 small meter, and $3.80 large meter for the month of August. Public tariff 2162 is basically a pass thru.*
Current Contract
(Continued)

• Two separate services are provided by CenterPoint.
  – Provides pipes and meters to deliver natural gas
  – Supply the natural gas
• Prior to 2005 CenterPoint exercised a monopoly over these two types of services
• In 2005 CenterPoint gave its larger customers the option to obtain their own gas from third party suppliers.
• Advantages, unregulated suppliers have a lower cost structure, more flexibility.
• City did not take advantage of this option because they were already under contract with CNP to take CNP gas thru Jan 2013.

Note – cost of service regulation exercised by City and the RRC
New Contract

• An Evaluation Committee was created last April to supervise the execution of the new contract.
  – General Services Department
  – Public Works/Combined Utility System
  – Aviation Department
  – Finance Department
  – Administrative and Regulatory Affairs Department

• Choice Energy Services was retained to advise the City
• City legal representatives and outside counsel will advise on the contract as well.
• The Evaluation Committee in conjunction with its consultant considered the pros/cons of buying gas directly from CenterPoint or moving to 3rd party suppliers
• Decision was made to go with a 3rd party supplier
• Advantages, lower price, greater flexibility, bundle small meters
• Gas Price based on Houston Ship Channel Index plus an “Adder”.
• CenterPoint will continue to operate pipes and meters. City negotiated a ~7.5% price decrease for the new contract.
Evaluation Process

• City issued an RFQ on August 24, 2012
  – To ensure contract was marketed to all players in the market:
    o City reps as well as our consultant contacted all of the suppliers that CNP approved to supply gas to their pipelines.
    o An ad was placed in the Houston Business Journal and the Houston Style Magazine for two consecutive weeks

• Respondents to the RFQ:
  – Center Point Energy Solutions (CES)
  – Constellation Energy
  – Seminole Energy
  – Cokinos Energy

• All respondents made it through initial screening
• City issued an RFP on September 24, 2012
• Responses have been received and are currently being evaluated
• Evaluation criteria:
  – Adder
  – Financial stability
  – Risk management capabilities
  – Administrative efficiency
  – MWBE participation
  – Houston First Criteria
Responses to the RFP have been received and graded.

Two of the firms, Cokinos and Centerpoint Energy Services, were in a virtual tie in the grading.

It is our intent to discuss contract terms with both of these firms and solicit from them a best and final offer.

A recommendation will be made to City Council during early December recommending that the contract be awarded to one of these two firms.