

APPROVED
BY THE CITY COUNCIL

JAN 27 1998

CONTINUED

OFFICE OF THE
CITY CLERK

FROM

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AG98-005

DEPARTMENT OF
PUBLIC WORKS

CITY OF SACRAMENTO
CALIFORNIA

TECHNICAL SERVICES DIVISION
ENGINEERING DESIGN

927 10TH STREET
ROOM 300
SACRAMENTO, CA
95814-2702

January 12, 1998

916-264-8427
FAX 916-264-7903

City Council
Sacramento, California

Honorable Members in Session:

**SUBJECT: APPROVAL OF CITY OF SACRAMENTO NATURAL GAS
PURCHASE AGREEMENT**

LOCATION AND COUNCIL DISTRICT: Citywide.

RECOMMENDATION:

This report recommends City Council adopt the Resolution which:

1. Suspends formal competitive bidding for the purchase of the City's natural gas supplies.
2. Authorize the City Manager to accept the results of a joint City/County Request for Proposals, and to execute the attached agreement with POCO Petroleum, Inc. for the procurement of natural gas for the City of Sacramento.

CONTACT PERSON: Brian Reilly, Project Manager, 264-8427

FOR COUNCIL MEETING OF: January 20, 1998

SUMMARY:

As the result of the combined City of Sacramento/County of Sacramento Request for Proposal (RFP) process, the Public Works Department recommends that the City of Sacramento enter into a fourteen (14) month natural gas contract with POCO Petroleum, Inc. which will provide savings on gas commodity and services. The County of Sacramento will enter into a separate agreement with POCO Petroleum for natural gas procurement, based on approval from the County Board of Supervisors.

City Council
Approval of City of Sacramento Natural Gas Purchase Agreement
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COMMITTEE/COMMISSION ACTION:

None.

BACKGROUND INFORMATION:

Between 1984 and 1993, the California Public Utilities Commission (CPUC), in conjunction with the Federal Energy Regulatory Commission, issued a series of decisions intended to restructure the natural gas industry. In these decisions the CPUC unbundled gas sales from gas transportation services, reformed gas purchase contracts, and opened up access to interstate pipeline transportation capacity to promote gas supply competition.

In November 1995, PG&E announced its intent to completely restructure its natural gas services under a program known as the PG&E Gas Accord. The main objective of the program was to increase customer choice by changing PG&E's role in procuring natural gas supplies for its customers. On August 1, 1997 the CPUC approved the PG&E Gas Accord.

The deregulation of natural gas in California has induced major changes in the utility industry. Under deregulation, gas service is unbundled into three distinct functions: transmission, distribution and commodity. Natural gas end users are no longer required to purchase energy from a single source provider for these services.

Long-term forecasting by the California Energy Commission indicates that natural gas core commercial commodity prices will decline over the next 20 years due to adequate supplies, increased competition and the short-term effects of electricity deregulation on gas demand in California. This combination of factors promotes the finding that entry into a deregulated natural gas marketplace at this time will yield energy cost savings for end users with load profiles such as the City of Sacramento.

PG&E fully support and encourage its customers to consider competitive alternatives for natural gas procurement. A letter from PG&E documenting its support is included with this report. See Attachment "A". Gas pipeline and meter changes are not required to complete the transition to a new gas provider. PG&E will continue to provide local distribution of natural gas through its pipelines and meters. In addition, PG&E have formed a deregulated subsidiary company, PG&E Energy Services, to compete for its market share of the deregulated natural gas industry.

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January 12, 1998

Advantages of this natural gas agreement to the City include a guaranteed gas commodity cost savings from PG&E's rates, customized billing services to serve the City's needs, account servicing and rate schedule analysis, mediation services with PG&E for metering issues & billing discrepancies and an option to obtain greater future cost savings by converting to gas industry indexed pricing.

On September 19, 1997, the City of Sacramento and County of Sacramento jointly released a Request for Proposal (RFP) for procurement of natural gas under PG&E's Core Gas Transportation Service Program. The RFP solicited proposals from qualified firms experienced in the procurement, transport and services related to supplying natural gas to the end user.

RFP's were sent to 17 prospective natural gas marketing groups and suppliers. Ten of those firms were registered with PG&E as Core Transport Agents (CTA) and currently provided natural gas to customers under PG&E's Core Gas Transportation Service Program. Six detailed responses were received and evaluated.

The six respondents were:

- 1) Coral Energy L.P.
- 2) POCO Petroleum, Inc.
- 3) PG&E Energy Services
- 4) Enserch Energy Services, Inc.
- 5) Enron Capital & Trade Resources Corp.
- 6) School Project for Utility Rate Reduction (SPURR)

The evaluation and selection process was performed in accordance with established City of Sacramento and County of Sacramento procedures. An Evaluation Panel was created to evaluate and rank firms interested in providing natural gas commodity and related services for the City and County. The Evaluation Panel was composed of members from the California Energy Commission, San Juan Unified School District, the County of Sacramento Department of General Services Energy Program and City of Sacramento Department of Public Works Technical Services.

The results of the evaluation process are tabulated on the following page. Evaluation criteria used in the process are listed in the column on the left. The weight percentage associated with each evaluation component is indicated to its right. Scores for each RFP respondent evaluated are shown below the firm's name, with the total score at the bottom of the column. Overall firm rankings were based on the combined total of points.

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**CITY OF SACRAMENTO
 COUNTY OF SACRAMENTO
NATURAL GAS RFP EVALUATION SHEET**

		<u>POCO</u> <u>PETROLEUM</u>	<u>ENSERCH</u>	<u>CORAL</u> <u>ENERGY</u>	<u>SPURR</u>	<u>ENRON</u>	<u>PG&E</u>
PERSONNEL & EXPERIENCE	15%	15	15	13	15	15	12
GAS SUPPLY PROCUREMENT AND MANAGEMENT	15%	15	13	14	14	14	11
PRICING METHODOLOGIES/ FLEXIBILITY	40%	36	30	32	24	18	22
RISK MANAGEMENT	15%	13	14	14	12	14	10
CUSTOMER AND NON-COMMODITY SERVICES	10%	9.5	8.5	7.5	9.5	9	7.5
ORGANIZATION AND MANAGEMENT STRUCTURE	5%	4.5	5	4	5	5	4
TOTAL SCORE:	100%	93	85.5	84.5	79.5	75	66.5

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The three most qualified firms were short-listed for further evaluation. The short-listed firms were:

- 1) POCO Petroleum, Inc.
- 2) Enserch Energy Services, Inc.
- 3) Coral Energy L.P.

Based on additional evaluation by the Evaluation Panel of each short-listed firm utilizing the previously established evaluation criteria and verification of each firm's references, POCO Petroleum, Inc was rated as the highest-ranked firm.

Upon approval by the City Council and County Board of Supervisors respectively, the City and County will enter into separate agreements with POCO Petroleum, Inc. for the procurement of natural gas and related services.

FINANCIAL CONSIDERATIONS:

The City's agreement with POCO Petroleum will provide guaranteed savings of 10% on PG&E's gas commodity costs. The commodity portion of the gas bill represents approximately 33% of the total bill. In 1996 the City of Sacramento spent \$421,228 in natural gas costs. Under deregulation, the commodity savings for 1996 would have been \$13,900. Savings for the first year of the contract will be \$15,000 based on anticipated 1998 City gas consumption.

Under the agreement, the City has the option to convert to gas index pricing which has the potential for greater savings based on the fluctuating demand for natural gas. Staff will evaluate this pricing mechanism for future savings.

Funding mechanisms for gas usage will not change. Gas usage by each City department will be funded by its existing utility allocation fund. Cost savings will be realized by each department's natural gas account.

ENVIRONMENTAL CONSIDERATIONS:

None.

City Council
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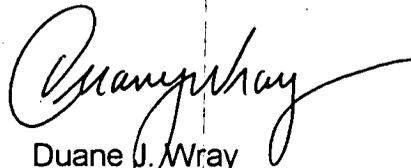
POLICY CONSIDERATIONS:

This recommendation is in accordance with the provisions of City Code Section 57.04.401(c), which authorizes suspension of formal competitive bidding upon a two-thirds vote of the City Council.

MBE/WBE:

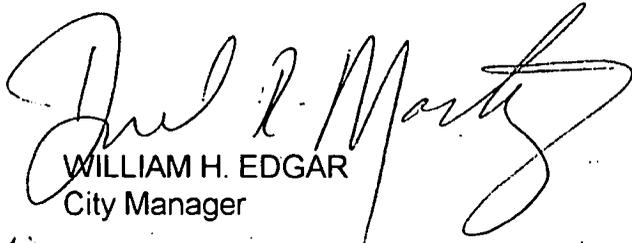
None of the respondents to the combined City of Sacramento / County of Sacramento RFP are MBE/WBE firms. We are not aware of any MBE/WBE firms providing natural gas commodity and services.

Respectfully submitted,



Duane J. Wray
Technical Services Manager

RECOMMENDATION APPROVED:



WILLIAM H. EDGAR
City Manager

for

Approved:



Michael Kashiwagi
Director of Public Works

Pacific Gas and Electric Company5555 Florin-Perkins Road
P.O. Box 277444
Sacramento, CA 95827

January 5, 1998

**Mr. Duane Wray**
Manager of Technical Services
City of Sacramento
927 Tenth Street Room 100
Sacramento, CA 95814

Subject: Clarification of Customer Choice

Mr. Wray:

As discussed on the telephone today with Brian Reilly, PG&E, as a corporation, fully supports the ideals and concepts of customer choice. Customer choice, as related to the purchase of gas and or electric supply and services, is one of the guiding principles of the Natural Gas Accord, and is the cornerstone for utility deregulation and restructuring.

PG&E fully supports customer choice in services as well as service providers. PG&E will assist customers in obtaining necessary information to make informed choices. PG&E will not stand in the way of a customer's ability to choose alternate suppliers.

The goal of PG&E is to provide safe, reliable and economical service to our customers. If a third party can provide service more safely, more reliably, and more economically than PG&E, it would be understandable why a customer would elect to change service providers.

Duane, I hope this helps clarify our position on customer choice. If I can be of further assistance, please contact me at 386-5007.

Sincerely,

A handwritten signature in cursive script that reads "David T. Hather".

David T. Hather
Senior Major Account Representative

APPROVED
BY THE CITY COUNCIL

JAN 27 1998

OFFICE OF THE
CITY CLERK

RESOLUTION NO. 98-031

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

APPROVAL OF CITY OF SACRAMENTO NATURAL GAS PURCHASE AGREEMENT

THE CITY COUNCIL OF THE CITY OF SACRAMENTO RESOLVES:

1. In the ^ebest interest of the City of Sacramento, formal competitive bidding is hereby suspended for the procurement of natural gas for the City of Sacramento; and
2. The City Manager is hereby authorized to accept the results of a joint City/County Request for Proposals, and to execute the attached agreement with Poco Petroleum, Inc. for the procurement of natural gas for the City of Sacramento.

MAYOR

ATTEST:

CITY CLERK

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FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

DISCOUNT GAS SALE AGREEMENT

This Agreement is made as of the _____ day of _____,

BETWEEN:

_____ (hereinafter called the "End User")

OF THE FIRST PART

AND:

POCO PETROLEUM, INC. (hereinafter called "Poco")

OF THE SECOND PART

The End User hereby agrees to participate in a natural gas direct purchase agreement (the "Direct Purchase") administered by Poco for the benefit of the End User. The End User hereby agrees to execute Pacific Gas and Electric Company's ("PG&E") Attachment A, Customer Authorization for Core Gas Transportation Service ("Attachment A"), a form of which is attached hereto, whereby Poco shall be appointed and authorized as the exclusive Core Transport Agent ("CTA") to perform all of the functions for the term of, and subject to the terms and conditions of, Attachment A and whereby PG&E shall transport all gas to The End User, read the End User's meter and continue to provide all other authorized services to the End User. The End User agrees that it will not terminate Attachment A so long as this Agreement is in effect. Subject to the terms and conditions specified herein the End User and Poco hereby agree as follows:

Savings

The End User shall pay Poco for all gas delivered to the End User by Poco pursuant to this Agreement. The amount paid by the End User for gas delivered under this Agreement shall be discounted from the commodity costs that PG&E would have charged the End User for the same amount of gas consumed during the same time period under the rates then in effect and as approved by the relevant state authorities, but specifically not including gas aggregation costs payable to PG&E, if the End User had elected to obtain gas from PG&E for such period, with the amount of any discount being herein referred to as "Savings". For the initial one year term of this Agreement, Poco agrees the Savings will be ___% of the commodity costs, excluding gas aggregation costs, otherwise payable by the End User to PG&E for all gas delivered to the End User by Poco under this Agreement. The amount of the Savings may be changed by Poco for any subsequent one-year term by written notice to the End User at least thirty (30) days prior to the commencement of such year. The End User acknowledges and accepts that the form of Direct Purchase may change during the term of this Agreement and that Poco shall be solely responsible for the negotiation of any new terms to existing agreements or new agreements with PG&E which are necessary to accommodate such changes while preserving the original intent of this Agreement.

Term

The initial term of this Agreement will be for a period of twelve (12) consecutive months from the effective service date specified in Attachment A and shall be automatically renewed for subsequent one year periods unless either party provides written notice of termination at least thirty (30) days prior to the expiry of the initial or any renewal portion of the term.

Billing

PG&E will continue to bill the End User for gas aggregation charges in respect of the designated accounts and End User acknowledges that it is responsible for and will continue to pay PG&E for such charges in accordance with existing terms and conditions. PG&E will periodically provide POCO with the End User's pertinent usage data. POCO will bill the End User monthly for the commodity costs, excluding gas aggregation costs, in an amount equal to what PG&E would otherwise have billed End User had End User not elected to enter into Direct Purchase with POCO, less the amount of the Savings as set forth above. POCO will bill the End User for Utility User's Tax payable on the commodity costs of any gas sold to End User under this Agreement, where applicable and to remit on the End User's behalf to the appropriate authority in the User Tax area.

Payment Terms and Notices

Any bill issued to the End User is due and payable within fifteen (15) calendar days after the date of the bill. If a bill rendered to the End User for Direct Purchase gas costs remains unpaid after 15 days, POCO will issue a past due notice to the End User, with a copy to PG&E. Interest shall accrue on the amount not paid from the due date until the date of payment at the lesser of (i) the then current prime rate of interest charges by Citibank, N.A., New York, N.Y. to its best commercial and industrial borrowers plus two percent (2%), or (ii) the applicable maximum rate permitted by law. If the bill remains unpaid seven (7) days after the date of a past due notice, this Agreement will be subject to immediate termination. POCO will then issue a "Termination of Customer Authorization for Core Gas Transportation Service" to PG&E with a copy to the End User. Upon issuance of the Termination of Customer Authorization for Core Gas Transportation Service, this Agreement shall terminate, and POCO will immediately terminate the supply of gas to the End User. The End User shall remain responsible for any charges for gas and services provided prior to termination of this Agreement, even if such charges are billed after termination.

Confidentiality

POCO and the End User shall keep confidential the pricing terms of this Agreement and all matters relative thereto except as required to be disclosed to PG&E or in accordance with applicable law including, without limitation, any regulatory order.

Miscellaneous

Waiver - Waiver of any breach of any provision of this Agreement shall not be deemed to be a waiver of any other provision hereof or of any subsequent breach of such provision.

Succession - This Agreement shall be binding upon and inure to the benefit of the parties hereto, their legal representatives, successors and assigns. This Agreement shall not be assigned by the End User without the prior written consent of POCO, such consent to not be unreasonably withheld. In the event that during the term hereof, the End User intends to sell or otherwise dispose of facilities to which gas is delivered to pursuant to this Agreement, the End User shall provide written notice to POCO at least thirty (30) days prior to the effective date of such event and shall use its best efforts to arrange for the assignment of its rights and obligations in connection with the Direct Purchase to any third party (or parties) who will thereafter be responsible for the purchase of gas at such facilities.

Force Majeure - Performance of POCO's obligations hereunder shall be subject to and contingent upon strikes, riots, fires, floods, wars, delays, equipment and pipeline breakdowns (other than scheduled or routine maintenance and repairs of equipment and pipelines), interruption or requisitioning or limitations imposed by government or regulatory authorities or any other disability, causes or contingencies beyond POCO's control.

Governing Law - This Agreement shall be construed and governed by the laws of the State of California, U.S.A.

Notices - Any notice to be given pursuant to this Agreement may be effected by mailing, by first class, registered or certified mail, or by delivery or telecopy, to the address indicated for each party opposite their execution of this Agreement, or at any other address as any party may provide by written notice to the other. All notices sent by mail shall be deemed to be effective on the second day after the date of mailing and all notices by delivery or telecopy shall be deemed to be effective upon receipt.

Costs - In the event any action, including but not limited to legal proceedings, is taken by either party hereto in order to enforce the provisions of this Agreement, the party prevailing in such action shall also be entitled to receive from the other party all costs and expenses, including reasonable attorney's fees incurred by the prevailing party in respect of such action.

Severability of Provisions - In the event any one or more of the provisions contained in this Agreement shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be in any way affected or impaired thereby.

Entire Agreement - This Agreement and the documents referred to herein embody the entire agreement and understanding between the parties hereto and supersede all prior agreements and understandings relating to the subject matter hereof.

IN WITNESS THEREOF the parties hereto have duly executed this Agreement as of the date hereof.

Address for Notices:

Per: _____

Attention:
Telephone:
Fax:

Name: _____

Date: _____

POCO PETROLEUM, INC.

Address for Notices:

3500, 250 - 6th Avenue, SW
Calgary, Alberta
T2P 3H7

Per: _____

Name: _____

Attention: Dorothy Mersereau
Telephone: 1-800-946-7626
Fax: 1-403-265-2941

Date: _____

PLEASE EXPEDITE

FORMALLY BID CONTRACT OVER \$100,000

COUNCIL DATE: January 20, 1998
PROJECT: Natural Gas Savings Program
PROJECT MANAGER: Brian Reilly
ACTION REQUESTED: Approve agreement with POCO Petroleum

COUNCIL ACTION REQUIRED

THIS AGREEMENT MUST BE JOINED WITH THE COUNCIL REPORT AUTHORIZING THE AGREEMENT

<u>CRH</u> 1-9 Initials Date	CONTRACT SERVICES	3131
<u>JR</u> 1-15 Initials Date	JOE ROBINSON, DEPUTY CITY ATTORNEY	0500
_____ Initials Date	VALERIE BURROWES, CITY CLERK	0700
_____ Initials Date	DAVID R. MARTINEZ, DEPUTY CITY MANAGER	0310
_____ Initials Date	RETURN TO P. W. TECHNICAL ASSISTANCE	3131

PLEASE EXPEDITE

(Form 02, Rev. 1/5/98/Blue)

DATED MATERIAL - URGENT
COUNCIL AGENDA ITEM

IS THIS REPORT ON THE PRE-AGENDA? Yes No

MEETING DATE REQUESTED: JANUARY 20, 1998

PROJECT: APPROVAL OF CITY OF SACRAMENTO NATURAL GAS PURCHASE AGREEMENT

BTR 1/6/98
Initials Date
BRIAN REILLY, PROJECT MANAGER

ALG 1/6/98
Initials Date
ANGIE LOUIE, ENGINEERING TECHNICAL MANAGER, DESIGN

Initials Date
GREG HOVIOUS, CONTRACTS OFFICER

JD 1/6
Initials Date
DUANE WRAY, TECHNICAL SERVICES MANAGER

MK 1/7
Initials Date
MIKE KASHIWAGI, DIRECTOR, PUBLIC WORKS 3112