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DEPARTMENT OF
PUBLIC WORKS

CITY OF SACRAMENTO
CALIFORNIA

AG2000-045

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TECHNICAL SERVICES
DIVISION

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April 12, 2000

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: APPROVAL OF CITY OF SACRAMENTO NATURAL GAS PURCHASE AGREEMENT: REJECT ALL BIDS, SUSPEND COMPETITIVE BIDDING AND AUTHORIZE THE CITY MANAGER TO ACCEPT THE RESULTS OF JOINT CITY OF SACRAMENTO / COUNTY OF SACRAMENTO / SACRAMENTO CITY UNIFIED SCHOOL DISTRICT NEGOTIATIONS AND TO EXECUTE AN AGREEMENT WITH SCANA ENERGY TRADING, LLC FOR THE PROCUREMENT OF NATURAL GAS FOR THE CITY OF SACRAMENTO.

LOCATION AND COUNCIL DISTRICT: All Districts.

RECOMMENDATION:

This report recommends that City Council:

Reject all bids, suspend competitive bidding (requires 2/3 votes), and authorize the City Manager to accept the results of joint City of Sacramento/County of Sacramento/Sacramento City Unified School District negotiations and to execute an agreement with SCANA Energy Trading, LLC for the procurement of natural gas for the City of Sacramento.

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

FOR COUNCIL MEETING OF: April 25, 2000

Department of
PUBLICWORKS
CITY OF
SACRAMENTO

City Council
Sacramento Natural Gas Purchase Agreement
with Scana Energy Trading
April 11, 2000

SUMMARY:

During the past two years, the City of Sacramento has successfully conducted business in the deregulated natural gas marketplace under Pacific Gas & Electric's (PG&E) Core Gas Aggregation Service Program. The City's purchase of gas commodity and services from a Core Transport Agent (Poco Petroleum, Inc.) has resulted in savings of over \$35,000 during the two year period. Poco Petroleum is now discontinuing its business in the California core gas market.

The City of Sacramento, in Partnership with the County of Sacramento and the Sacramento City Unified School District, has released a Request For Proposals (RFP) to secure an alternate energy service provider (ESP) for future gas commodity and services.

As a result of the RFP process, the Public Works Department recommends that the City enter into a natural gas agreement with SCANA Energy Trading to provide gas commodity and services at a savings to the City of Sacramento. The County of Sacramento and Sacramento City Unified School District will enter into separate agreements with SCANA Energy Trading for natural gas procurement.

As in the past, PG&E is in full support of the program and will continue to provide local distribution and safe delivery of the gas through its pipelines and meters.

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, reformed gas purchase contracts, and opened 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.

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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 continuation in the deregulated natural gas marketplace at this time will yield energy cost savings for end users with load profiles such as the City of Sacramento.

Since February 1998, the City has saved over \$35,000 in gas commodity costs through the purchase of gas from POCO Petroleum, Inc. POCO Petroleum has recently been acquired by Burlington Resources, a large energy service company based in Houston, Texas. Burlington Resources sells wholesale gas commodity and does not service the commercial retail market. Due to POCO Petroleum's acquisition, it is no longer able to service the City of Sacramento's natural gas needs.

In November 1999, the City of Sacramento, County of Sacramento, and Sacramento City Unified School District jointly released a Request for Proposals (RFP) for the 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 16 prospective natural gas marketing groups and suppliers. All of the 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. Three (3) detailed responses were received and evaluated.

The three respondents were:

TXU Energy Services
SCANA Energy Trading
School Project For Utility Rate Reduction (SPURR) / California Utility Buyers, JPA (CUB)

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 to the City, County, and Unified School District. The Evaluation Panel was composed of members from the California Energy Commission, the County of Sacramento Department of General Services, the Sacramento Unified School District, and the 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 weighted percentage associated with each criterion is indicated to its right. Scores for each RFP respondent evaluated are

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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.

Based on the results of the evaluation process, TXU Energy Services was rated as the highest-ranking firm. During the month of February, 2000, negotiations with TXU Energy Services were conducted. The Partnership was unable to reach an agreement with TXU. On February 22, negotiations with TXU were terminated and negotiations with the next highest ranked respondent, SCANA Energy Trading, commenced. Agreement of terms was completed on March 28. Upon approval of the City Council, the City will enter into a separate one year agreement with SCANA Energy Trading for the procurement of natural gas and related services.

**CITY OF SACRAMNETO
 COUNTY OF SACRAMENTO
 SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
 NATURAL GAS RFP EVALUATION SHEET**

		TXU Energy Services	SCANA Energy Trading	SPURR/CUB
Personnel & Experience	15%	13.2	12.2	13.4
Gas Supply Procurement and Management	15%	12.6	12.4	12.6
Pricing Methodologies/ Flexibility	40%	35.0	27.4	20.4
Risk Management	15%	14.0	14.0	12.2
Customer and Non-Commodity Services	10%	9.4	8.8	7.8
Organization and Management Structure	5%	4.8	4.6	4.8
TOTAL SCORE:	100%	89.0	79.4	71.2

FINANCIAL CONSIDERATIONS:

For the past two years, POCO Petroleum, Inc. has provided a guaranteed savings on PG&E's gas commodity costs to the City of Sacramento. In 1998, the City spent \$547,274 in natural gas costs with savings of \$14,863. In 1999, natural gas costs were \$537,727 with a savings of \$20,464.

In accordance with the terms of the negotiated agreement, SCANA Energy Trading will provide a guaranteed discount of 4% to PG&E's gas commodity costs. Based on 1999 City of Sacramento gas use, this will provide a savings of approximately \$7000 per year to the City.

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 continue to be realized by each department's natural gas accounts.

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ENVIRONMENTAL CONSIDERATIONS:

None.

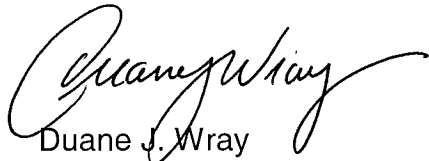
POLICY CONSIDERATIONS:

None.

ESBD CONSIDERATIONS:

The project was announced on the Project Information Line, which contains information on Public Works projects, and the City's Internet site. Sixteen firms indicated interest and were sent the RFP. Most were out of state firms and none were ESBE certifiable due to size requirements for natural gas providers. Of the three respondents, only one was California based, which is an ESBD program requirement.

Respectfully submitted,



Duane J. Wray
Technical Services Manager

RECOMMENDATION APPROVED:

Approved:



ROBERT P. THOMAS
City Manager

P/active/4553 Natural Gas/council/Scana Energy Trading, LLC



Michael Kashwagi
Director of Public Works

APPROVED
APR 25 2000
OFFICE OF THE
CITY CLERK

RESOLUTION 2000-171

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

**APPROVAL OF CITY OF SACRAMENTO NATURAL GAS PURCHASE AGREEMENT:
REJECT ALL BIDS, SUSPEND COMPETITIVE BIDDING AND AUTHORIZE THE CITY
MANAGER TO ACCEPT THE RESULTS OF JOINT CITY OF SACRAMENTO/COUNTY OF
SACRAMENTO/SACRAMENTO CITY UNIFIED SCHOOL DISTRICT NEGOTIATIONS AND
TO EXECUTE AN AGREEMENT WITH SCANA ENERGY TRADING, LLC FOR THE
PROCUREMENT OF NATURAL GAS FOR THE CITY OF SACRAMENTO**

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO THAT:

1. In the best interest of the City of Sacramento, all bids are rejected and formal competitive bidding is hereby suspended (requires 2/3 votes) for the procurement of natural gas for the City of Sacramento; and
2. The City Manager is hereby authorized to accept the results of joint City of Sacramento/County of Sacramento/Sacramento City Unified School District negotiations, and to execute the attached agreement with SCANA Energy Trading, LLC for the procurement of natural gas for the City of Sacramento.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION: _____

DATE ADOPTED: _____