



# **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.



# Current Contract

(Continued)

- 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.



# New Contract

(Continued)

- 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:
    - City reps as well as our consultant contacted all of the suppliers that CNP approved to supply gas to their pipelines.
    - 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





# Evaluation Process

(Continued)

- 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



# Evaluation Process

(Continued)

- 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.