

City of Seward, NE
Monday, December 21, 2015
Regular Session

Item G4

**PRESENTATION AND CONSIDERATION OF THE POWER
SUPPLY PROPOSALS - Bruce Smith & John Krajewski**

Administrative Report: The City Council contracted services from Mr. Krajewski to conduct an energy supply RFP from suppliers. Mr. Krajewski will present the proposals to the City Council for discussion and consideration. The City Council may determine how to move forward.

Staff Contact:

Power Supply Evaluation

Presented to:
City Council, City of Seward
December 21, 2015

Presented by:
John A. Krajewski, P.E.



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Purpose of Presentation

- Discuss evaluation process
- Review economic assessment
- Identify other factors
- Discuss conclusions
- Next steps



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Evaluation Process

- Solicited power supply proposals
- Reviewed to ensure proposals met minimum requirements
- Initial economic assessment prepared
- Developed short-list
- Provided short-listed proposers opportunity to update proposals
- Prepared recommendation



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Schedule

Date	Description
November 9, 2015	RFP issues
November 16, 2015	Notice of Intent to Propose due
December 1, 2015	Proposals due
Early December 2015	Review by Consultant
December 10, 2015	Initial review with City staff
December 21, 2015	Meeting with City Council
December 31, 2015	Deadline to execute new NPPD 20-year agreement and avoid 3.57% adder



Requests for Proposals

- Initially sent to 17 suppliers
- Six entities provided proposals that were responsive for power supply
 - American Electric Power
 - Big Rivers Electric Corporation
 - First Security Power (disqualified)
 - Heartland Consumers Power District
 - Municipal Energy Agency of Nebraska
 - Nebraska Public Power District
- Two service providers offered market participant services



Layout of RFP

- Three options available for potential proposers to consider
 - Option 1 – 30% in 2019-2021
 - Option 2 – 50-90% in 2021
 - Option 3 – Total requirements beginning 2022



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Evaluation Parameters

- No NPPD production rate increase through 2027
- No City load growth
- For alternate suppliers:
 - 3.7% NPPD adder through 2021 for customers who do not sign new wholesale contract
 - 30% reduction in 2019
 - 100% reduction in 2022



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Assessment of Initial Responses

- NPPD offered most cost effective long-term supply (> 10 years)
- Cost difference between new contract and existing contract - \$200,000 per year
- Existing contract preserves termination rights and rights to reduce



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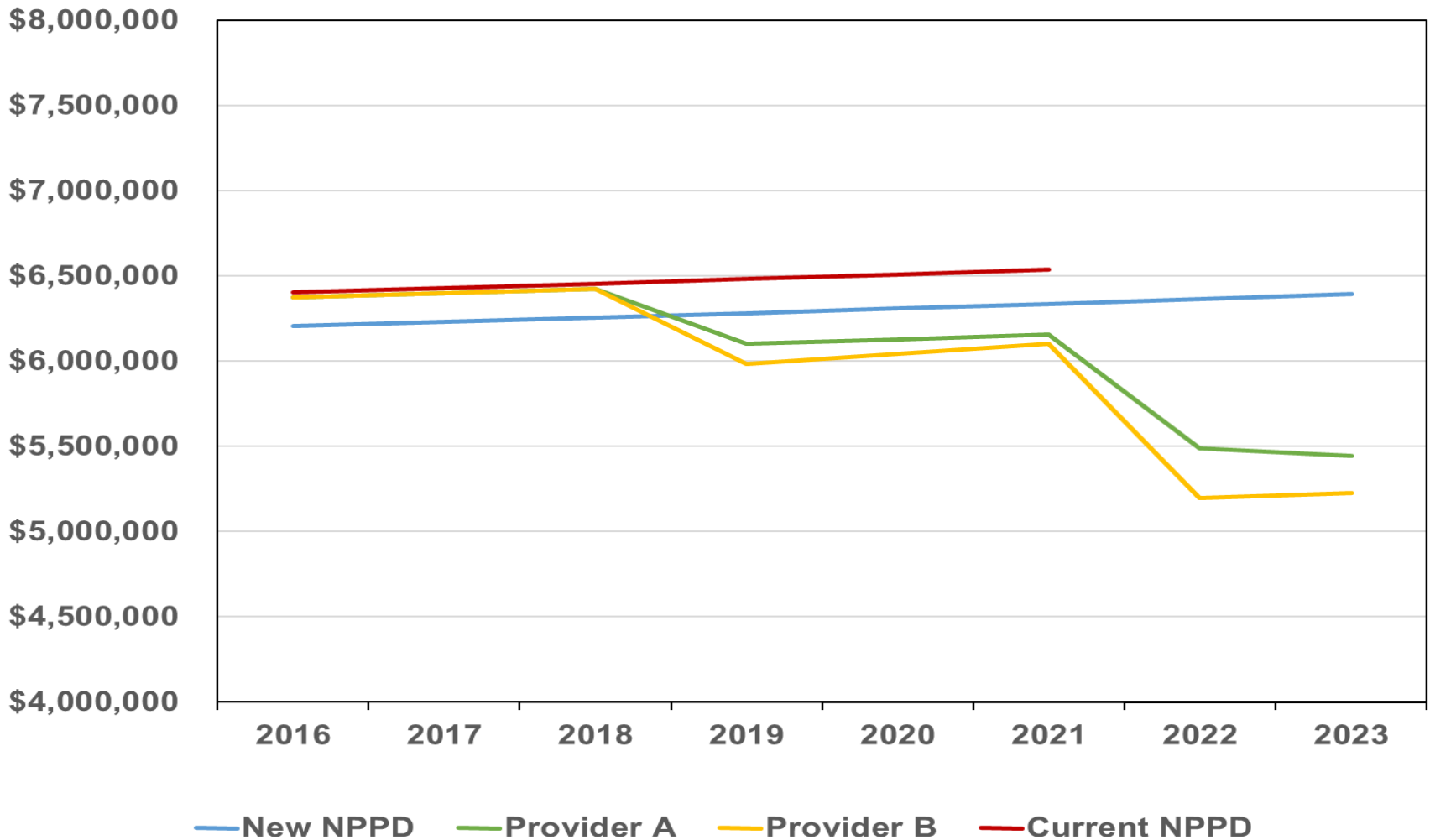
Assessment of Initial Responses

- Alternate suppliers provide lower costs beginning in 2019 (30% reduction)
 - ~\$300,000 annual savings in 2019-2021
 - Approximately 5% savings
- Larger savings in 2022
 - \$1.0 million per year, decreasing over time
 - 16% savings in 2022



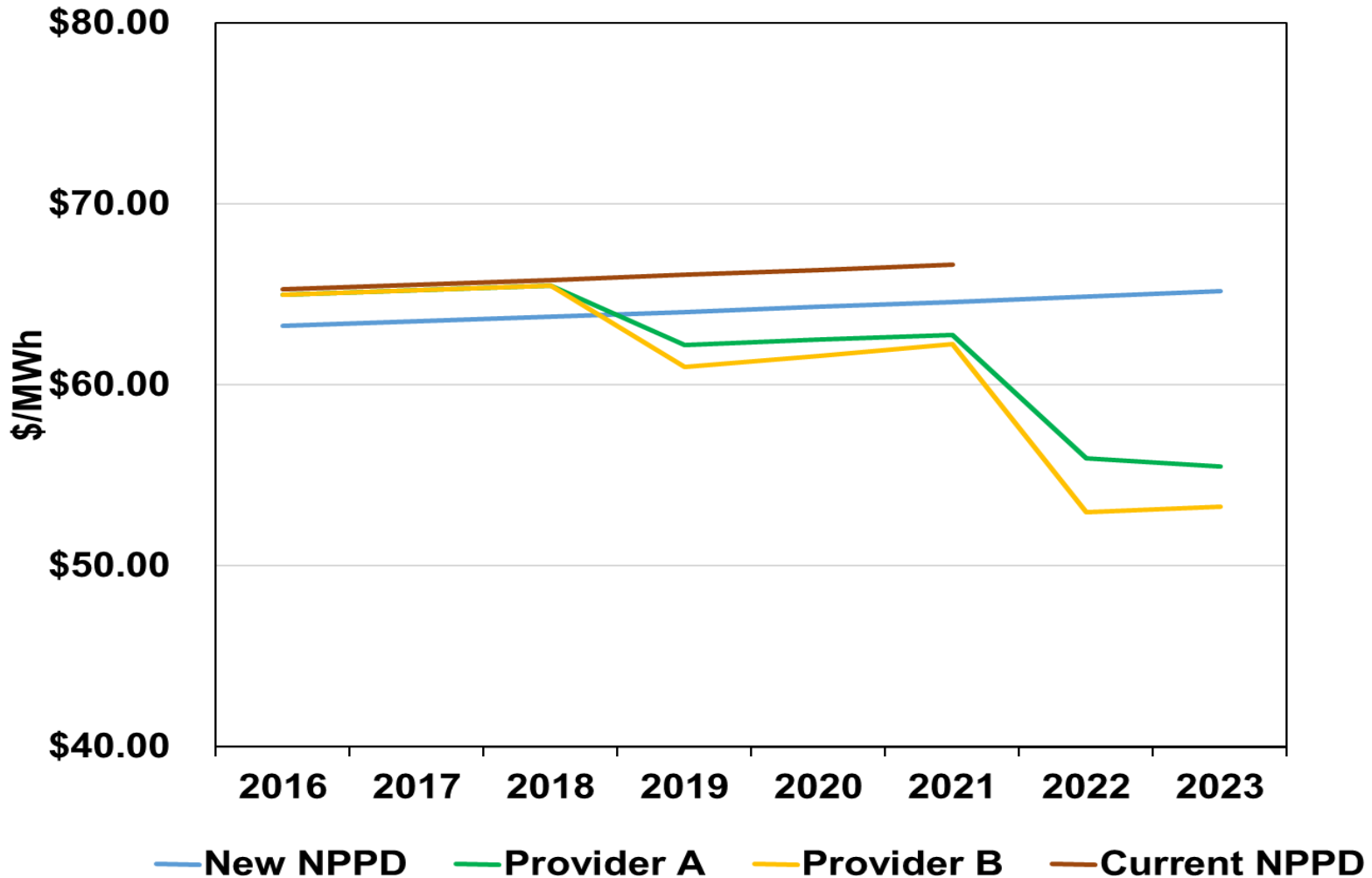
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Comparison of Alternatives



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Comparison of Alternatives



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Potential Strategies

- Option 1: Do nothing
- Option 2: Sign new NPPD 20-year contract
- Option 3: Reduce purchases 30% in 2019-2021, give notice in 2016 to terminate agreement at end of 2021



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Option 1: Do Nothing

- Approximately \$200,000/year more expensive through 2022
- Preserves right to reduce or limit purchases for any reason or terminate agreement on five years notice
 - NPPD has option to terminate with five years notice also



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Option 2: Sign New Contract

- Lower cost than Option 1, based on surcharge NPPD is assessing
 - Subject to outcome of litigation
- Lowest cost contract would provide for option to reduce if NPPD doesn't meet rate thresholds



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Option 2: Sign New Contract

- Provide long-term stability in exchange for long-term commitment
- City forgoes opportunity to purchase from third party in 2019 and beyond
 - Potential savings in power supply



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Option 3: Reduce/Terminate

- Higher cost (~\$200,000) through 2018
 - Subject to litigation outcome
- Potential savings in 2018-2021
 - Savings of ~\$300,000 annually in 2019-2021 because of NPPD surcharge
 - Savings of more than \$1 million in 2022, decreasing over time



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Option 3: Reduce/Terminate

- Scenario based on 30% reduction in 2019-2021
 - May be able to reduce purchases by more based on litigation outcome
 - Notice required by December 31, 2015 to reduce purchases from NPPD
- City would need to give notice before December 31, 2016 if it wants to terminate agreement at the end of 2021



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Option 3: Reduce/Terminate

- Economic assessment is based on initial proposals
 - Giving respondents opportunity to refine proposals may result in further energy cost reductions



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Initial Economic Assessment

Supplier	NPV 2016-2027
Option 3: 30% / 100% reduction	\$ 57,180
Option 2: New NPPD contract	60,410

Note: Supplemental power costs. Excludes WAPA.
NPV in 2016 dollars (\$000) at 4.5% discount rate.



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Conclusions

- NPPD new contract is best long-term (>10 year initial term), cost-based arrangement
 - Low rate cost escalation
 - Resource stability



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Conclusions

- Option 1 (stay on existing contract) provides City with flexibility over next six years
 - Observe NPPD rate changes
 - Ability to reduce purchases with three year notice
 - Ability to terminate with five years notice
- Cost for Option 1 compared to Option 2 is ~\$200,000 per year



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Conclusions

- City could save approximately \$3.2 million in 2016-2027 (2016 NPV) by selecting new supplier
 - Based on 30% reduction and termination of NPPD GFPS at end of 2021
 - Supplier offered fixed prices through 2027



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Recommendation

- If long-term power supply stability at low cost is most important factor to the City, consider signing the new NPPD 20-Year Agreement
- If City prefers terms of existing agreement, including reduce and limit options, it should do nothing
 - Monitor NPPD developments, particularly if it gives notice to terminate the GFPS



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Recommendation

- If lowest cost after 2019 is most important to City, notice to reduce purchases and terminate agreement should be given
 - Provide notice to NPPD for reduction, subject to outcome of litigation
 - Provide termination notice effective December 31, 2021
 - Commence negotiations with one or more short-listed providers



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