

COUNCIL ACTION FORM

**SUBJECT: AMENDMENT TO ELECTRIC SERVICES NATURAL GAS
SUPPLY CONTRACT**

BACKGROUND:

On October 15, 2015, a 5 year fixed price contract was awarded to Macquarie Energy LLC for for the purchase of 12,000 MMBtu/per day of natural gas for Electric Services for the contract period. The Power Plant typically burns 12,000 MMBtu of natural gas daily along with refuse-derived-fuel to generate electricity.

The contract has created efficiency and flexibility in the purchase of a valuable commodity, ensuring that the City has reliable service while creating stable generation costs.

Ames staff, in consultation with our NG consultant, have determined that this as a prudent time to secure a price and add two to three years of supply to the existing contract.

Here are the points of consideration that helped us make this recommendation:

- In late 2020 huge increases of Liquefied Natural Gas (LNG) exports to Asia and increased gas delivered to Mexico are expected. Mexico is forecasted to have a shortage by the end of 2019.

Production is expecting to ramp up in late 2020 or early 2021. However, this will be tempered by the above increase in exports along with increases in industrial load in the US.

- Most production has flattened. The one area where production continues to grow is the Northeast. However, there is not the required infrastructure to ship the product to the Midwest.
- There is an ongoing issue with adequately refilling storage which can cause volatile swings in the winter as current production and infrastructure cannot handle a true winter load.
- LNG will start to ramp up in late 2019 creating a short-term shortage of supply as production is currently not ready for this increase.
- Currently there are seven LNG ports operating, another ten will be approved and operating before the end of 2019. The total capacity of these seventeen locations

will be 32,500 MMBtu per day or 12 Billion Cubic Feet (BCF) annually. The second phase of LNG plants will be in service before the end of 2022 which adds another 9 BCF to this process.

The challenge in arranging a contract extension is to determine the price. In the natural gas market, it is not possible to ask for a price today, and have that price guaranteed for 5 days. The price expires within a 24-hour period. Case in point, when we negotiated the current contract price, the Council Action Form did not have prices nor did it identify the preferred supplier. Bidders faxed their prices to staff hours before the City Council meeting and a summary report was handed out during the council meeting where a decision was made.

In order to solve this problem for the contract extension, staff proposes the following. The current contract has a fixed price for natural gas set at \$3.02 per MMBtu. Forward price curves, for two years out, show natural gas futures in the \$2.80 - \$2.85 MMBtu range. **As these prices fluctuate between Council meetings, staff is requesting the authority to commit the City to a two or three-year extension if/when the overall cost reaches \$2.80/MMBtu or less.**

The approved FY 2019/20 operating budget currently includes \$13,200,000 for the purchase of natural gas to operate the power plant.

ALTERNATIVES:

1. Grant the Director of Electric Services the authority to approve an amendment with Macquarie Energy LLC, Houston, TX to extend the existing contract two or three years, if the overall contract cost falls to or below \$2.80/MMBtu.
2. Reject the amendment and maintain the existing contract with Macquarie Energy which expires on December 31, 2020.

MANAGER'S RECOMMENDED ACTION:

This strategy will continue to offer the City certainty in the supply and price of natural gas needed to operate the Power Plant and burn refuse derived fuel. The proposed amendment would drop the price, including the price of the current contract, by at least \$0.22 cents per MMBtu. This would save the City nearly \$80,000 per month under the current contract.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, as stated above.