

COUNCIL ACTION FORM

**SUBJECT: ASSET MANAGEMENT AGREEMENT / PIPELINE SERVICES FOR
POWER PLANT CONTRACT RENEWAL**

BACKGROUND:

Over the past year Electric Services converted both of the Power Plant's coal fired generators to use natural gas. The Power Plant now typically burns 12,000 MMBtu of natural gas daily to generate electricity and consume refuse derived fuel.

This contract is for a firm to provide their asset management services to manage the City's natural gas purchases and gas pipeline transportation contracts. The contracted company serves as a bridge between the natural gas commodity already under contract and the delivery services already under contract.

On October 27, 2015, City Council awarded a contract to BP Canada Energy Marketing Corp., Omaha, NE, for AMA/Pipeline Services for the City of Ames in an amount not to exceed \$30,000 for the base services. In addition, an amount not to exceed \$3,000,000 was authorized for the purchase of additional natural gas plus delivery as needed to manage the day-to-day fuel needs of the Power Plant. Included in the original contract were terms for up to four additional one-year terms. **This is the first renewal out of four maximum.**

BP has provided three separate renewal agreements, each providing a different service. These are (1) an Asset Management Agreement Addendum (AMA), (2) an AMA Transaction Confirmation, and (3) a Transaction Confirmation. Each agreement is attached and is described in further detail below.

Asset Management Agreement Addendum (AMA)

The basic services are included in Attachment #1 entitled The AMA Addendum. This is an addendum to the North American Energy Standards Board (NAESB) agreement the City of Ames and BP have already signed. This agreement manages (1) the pipeline capacity the City has under contract with Northern Natural Gas Company, (2) the natural gas supply the City purchased from Macquarie, and (3) the scheduling and balancing of our natural gas. "Balancing" involves matching the amount scheduled with the amount consumed. BP will charge the City of Ames \$30,000 per year for the basic services.

AMA Transaction Confirmation

This agreement outlines the terms and conditions when the actual amount of natural gas burned in a day is less than 12,000 dekatherms. This can typically occur at times when Unit #8 is down for maintenance. For these events, BP will sell or store the excess gas on behalf of the City and credit the City the revenue. This agreement also

outlines the terms and conditions when the actual amount of natural gas burned in a day is greater than 12,000 dekatherms but less than 14,000 dekatherms. For these events, BP will purchase additional natural gas on behalf of the City and charge the City for the gas plus their fee. It should be noted that no additional pipeline transportation is needed because the City has contracted for capacity up to 14,000 dekatherms.

Transaction Confirmation

This agreement outlines the terms and conditions when the actual amount of natural gas burned in a day is greater than 14,000 dekatherms. For these events, BP will purchase both additional natural gas **and additional natural gas transport service** on behalf of the City and charge the City for the gas plus their adder. This can typically occur at peak times in the summer when Unit #8 is operated at higher generation levels or when both Unit #7 and Unit #8 are operating at the same time.

Under the AMA Transaction Confirmation and Transaction Confirmation agreements, services are charged based on the price of the natural gas at the time of purchase plus a fee. It is difficult to predict at this time how much of these services will be required each day. Therefore, staff is requesting that an amount not to exceed \$500,000 be approved so that staff, together with BP, can manage the daily gas needs over the coming year. If the net purchases of additional gas approach this limit, staff will return to City Council for additional purchasing approval at that time.

The approved FY 2016/17 operating budget currently includes \$17,000,000 for the purchase of natural gas to operate the Power Plant. It should be noted that this contract crosses two budget years. The FY17/18 Electric Services budget will include appropriate funding to cover this contract.

ALTERNATIVES:

1. Approve the renewal of the three contracts described above to BP Canada Energy Marketing Corp., Omaha, NE, for AMA/Pipeline Services for the City of Ames in an amount not to exceed \$30,000 for the base services. In addition, authorize an amount not to exceed \$500,000 for the purchase of additional natural gas plus delivery as needed to manage the day-to-day fuel needs of the power plant.
2. Do not renew the agreement and instruct staff to seek new competitive proposals.

MANAGER'S RECOMMENDED ACTION:

These three contracts provide Electric Services with a crucial service that will manage the natural gas needed to operate the power plant and burn refuse derived fuel.

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