



MEMO

To: Mayor and Ames City Council Members
From: Donald Kom, Director of Electric Services
Date: 22 September 2023

Subject: Update on the Natural Gas Supply Contract Extension

At the 27 Jul 2023 City Council meeting, staff presented a Council Action Form (CAF) asking for approval to amend the Electric Services Natural Gas Supply Contract. The CAF offered several alternatives. Council approved Alternative 4B, which is restated here (Highlights added):

ALTERNATIVE # 4: Purchase 8,000 MMBtu/day for November through March, and 12,000 MMBtu/day for April through October at a cost not to exceed \$4.00/MMBtu (with slight variations due to market conditions) and either:

(A) Divert haulers directly to Boone County Landfill approximately 2 days/week in winter months, OR

(B) Continue to accept hauled waste during the winter months but increase the volume of reject materials

After continue monitoring of the forward price curves on an ongoing basis, on September 8, staff locked in a price at \$3.60/MMBtu. At this price, the gas contract will cost \$13,593,600 for calendar year 2024 which is less than the FY 2023/24 fuels budget of \$13,980,000, and considerably less than the \$14,900,000 authorized by City Council. The impact on customer electric bills reflected in the Energy Cost Adjustment (ECA) due to this purchase is estimated to be less than a 3% increase when fully phased in after twelve months.

With the 8,000/12,000 MMBtu now purchased, it becomes increasingly important to reduce the volume of waste being received at the Resource Recovery Plant immediately and subsequently allow Resource Recovery to divert haulers as little as possible by increasing rejects when necessary. Staff would time future planned outages at the Power Plant and Resource Recovery Plant to occur in the winter months when there is less available natural gas.

Consequently, staff will immediately pursue options for reducing the volume of waste received through recycling and other waste diversion programs. These options could potentially include adding sites for residents to drop off recyclable materials such as cardboard or plastics, implementing curbside recyclable collection (either through a Citywide contract or by requiring haulers to

offer those services). It should be noted that staff is already seeing a strong community support for the cardboard recycling pilot underway. The 4 bins in place are filled and emptied weekly; diverting 1 ton from the waste stream every week. Increase in the number of bins should be pursued.

It should be emphasized that due to lost RDF sales and increased hauling and disposal fees, the cost to the Resource Recovery System under Alternative #4B, with increased rejects sent to the landfill is estimated to be up to \$125,000 for the remainder of FY 2023/24. The actual shortfall amount due specifically to the reduction in natural gas purchased will be determined at the end of the FY 2023/24. The shortfall cost together with the number of days haulers are diverted will be reported back to EUORAB and to the City Manager.

In response to this projected shortfall, Electric Services will transfer the necessary funds to Resource Recovery for the FY 2023/24 period. For FY 2024/25, the Staff will be requesting that the City Council approve adjustments to other Resource Recovery funding streams (per capita subsidy and/or tipping fees) in order to make up for the shortfall.