

COUNCIL ACTION FORM

SUBJECT: REVISIONS TO PURCHASING POLICIES ALLOWING FOR PURCHASE OF EMISSIONS ALLOWANCES

BACKGROUND:

The U.S. EPA Clean Air Interstate Rule (CAIR) requires facilities that emit nitrogen oxide (NO_x) in excess of their U.S. EPA allotment of allowances to obtain allowances from facilities whose actual emissions are less than their allotment, and therefore have allowances to sell. The City is responsible for purchasing allowances to offset excess NO_x emissions emitted, effective as of January 1, 2009.

This program, known as “cap and trade,” creates a market for the NO_x allowances. The market price of allowances fluctuates constantly throughout each market day, much as does the cost of purchased power. If the market price is low, allowances can be purchased and held as an asset. **Because this type of commodity purchasing is not suited to traditional bidding procedures, staff is proposing revisions to the *Purchasing Policies and Procedures* that will exempt the purchase of *emissions allowances* from the requirement for a purchase order and the requirement for formal competitive bidding.**

The current purchasing policies provide the following exceptions to the requirement for a purchase order and to the requirement for traditional competitive bidding. According to our policies, these exceptions are to allow processing of payments for commodities and services that are routine and noncompetitive, or those that are not compatible with traditional competitive bidding processes.

- Dues and memberships
- Subscriptions, periodicals, and books.
- Travel, training, and conference expenses
- Tuition reimbursement
- Publication of legal notices
- Employee physicals and medical expenses
- Legal fees
- Court costs
- Permits
- Bond and interest payments
- Postage and outgoing freight costs
- Utilities
- Union employee tool and clothing allowances.

- Insurance claims
- Software and original equipment manufacturer (OEM) maintenance agreements
- Footing drain grant payments
- Curb & Gutter program payments
- Housing Rehabilitation Program grants
- Pass-through activities to agencies and outside organizations
- Certification fees
- Hydrant program payments
- Non-contract purchases of commodities directly used in power generation (excluding coal and fuel oil)
- Rebates and refunds
- Land, rights-of-way, and easements
- Taxes
- Emissions allowances (Proposed Addition)

The proposed revision to Section 2 (“Requisition for Purchase Order”) of the policies adds “emissions allowances” to a list of commodities and services that do not require a requisition for purchase order. The proposed revision to Section 6 (“Bids, Quotations, and Proposals”) of the policies adds “emissions allowances” to a list of exceptions to the requirement for competitive bids, quotations, or proposals. **The proposed changes will enable Electric Services staff to purchase emission allowances in this new commodity market, and will facilitate purchase when the prices are most advantageous. Allowances purchased when the market price is low will be held as an asset.**

Since the budget allocated for the purchase of allowances for 2008/09 and 2009/10 is over \$4 million total, it is imperative that staff be able to move quickly to take advantage of the most favorable prices possible on the needed allowances.

ALTERNATIVES:

1. Approve revisions to the purchasing policies Sections 2 (“Requisitions for Purchase Order”) and 6 (“Bids, Quotations, and Proposals”) adding **emissions allowances** to the list of exceptions to the requirement for a purchase order and to the list of exceptions to the requirement for traditional competitive bids, quotations, or proposals.
2. Reject revisions to the purchasing policies.

MANAGER’S RECOMMENDED ACTION:

The current purchasing policies provide for certain exemptions to the requirement for a purchase order and for competitive bids, quotations, or proposals. The proposed revisions to the purchasing policies will enable Electric Services staff to purchase

emissions allowances in this new commodity market, and will facilitate an expedited purchasing process to take advantage of attractive pricing.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving revisions to the purchasing policies Sections 2 (“Requisitions for Purchase Order”) and 6 (“Bids, Quotations, and Proposals”) adding ***emissions allowances*** to the list of exceptions to the requirement for a purchase order and to the list of exceptions to the requirement for traditional competitive bids, quotations, or proposals.