

FEB 27 2017

REQUEST FOR AGENDA PLACEMENT FORM

Submission Deadline - Tuesday, 12:00 PM before Court Dates

SUBMITTED BY: Rick Bailey
TODAY'S DATE: February 21, 2017

DEPARTMENT: Precinct 1

SIGNATURE OF DEPARTMENT HEAD:

REQUESTED AGENDA DATE: February 27, 2017

SPECIFIC AGENDA WORDING: Consideration of Procurement Proposal for Electric Power Supply Beginning January 1, 2020, and Notice of Intent to Begin a Competitive Procurement Process on March 31, 2017

PERSON(S) TO PRESENT ITEM: Rick Bailey

SUPPORT MATERIAL: (Must enclose supporting documentation)

TIME: 10 min
(Anticipated number of minutes needed to discuss item)

ACTION ITEM:	<u> X </u>
WORKSHOP	_____
CONSENT:	_____
EXECUTIVE:	_____

STAFF NOTICE:

COUNTY ATTORNEY: <u> X </u>	IT DEPARTMENT: _____
AUDITOR: _____	PURCHASING DEPARTMENT: <u> X </u>
PERSONNEL: _____	PUBLIC WORKS: <u> X </u>
BUDGET COORDINATOR: _____	OTHER: _____

*****This Section to be Completed by County Judge's Office*****

ASSIGNED AGENDA DATE: _____

REQUEST RECEIVED BY COUNTY JUDGE'S OFFICE _____

COURT MEMBER APPROVAL _____ Date _____



Public Power Pool

Commissioners Court

FEB 27 2017

500 W. 13th St. Austin, TX 78701 Ph 512-233-5780 Fx 512-233-5781 www.publicpowerpool.org

January 30, 2017

The Honorable Rick Bailey
County Commissioner, Pct. 41
Johnson County
Precinct 1 Maintenance Facility 2744 W.FM 4
Cleburne, TX 76033

**Re: Procurement Proposal for Electric Power Supply Beginning January 1, 2020; and
Notice of Intent to Begin a Competitive Procurement Process**

Your current electric power supply contract expires on December 31, 2019. This contract was procured through Public Power Pool, the largest electric power purchasing cooperative, or aggregation, in Texas. Your commitment to act together with other local governments has resulted in savings for each member of 7-9% - or \$13.8 million per year - since the inception of the program, compared to prices seen by similar buyers acting alone.

Herein you will find our 2017 Procurement Proposal. This proposal implements the strategy adopted by the P3 Technical Committee, on which all members are represented, and approved by the P3 Board. Under the proposal, the group would issue an RFP to every Retail Electric Provider in Texas for power prices for 2020, 2021 and 2022. Our open procurement process would identify the most competitive bids and execute a deal with the lowest and best bidder. There is no obligation to select a provider unless the market offers us attractive pricing. The proposal limits our authority to purchase those years only if the price for the group is within 5% of the group's weighted average price in the current 2017-19 contract. To execute a contract on your behalf, P3 must obtain prices that are below your ceiling rate, as spelled out for you in detail on page 3. This approach will allow the group to be ready to execute a deal should the market offer us an attractive deal.

The packet behind this cover letter consists of four parts for your review and consideration:

1. Procurement Trigger and Rate Estimate showing projected cost savings based on current market rates and trigger point calculations (page 3);
2. Member's Active Account List (page 4 on);
3. 2017 Procurement Proposal; and
4. Methodology to Control Cross-Subsidization Among Members.

Our bylaws require us to notify each member representative before the date on which the Corporation begins a competitive procurement for the aggregated group. The P3 Board has voted to give existing members 60 days to consider their continued participation before the procurement process begins. **This letter serves as that 60-day notice. We intend to begin the competitive procurement process for the aggregated group on March 31, 2017.** If Johnson County decides to procure power supply contracts on its own rather than through P3,

Public Power Pool is a not-for-profit organization created by local governments in Texas to aggregate their electric power purchasing to procure the most competitive contracts at the lowest cost.

please provide us with a copy of your governing body's resolution or minute order withdrawing from P3 on or before March 30, 2017. If notice of such action is not received by us by March 30, 2017, Johnson County will continue its P3 membership through the 2017 procurement cycle and contract period, in accordance with our Bylaws.

As in past procurements, we have established a "ceiling rate" for each member, which can be found on page 3 of the enclosed packet, titled "Procurement Ceiling and Expected Rate Estimates." The ceiling rate represents the maximum rate that each member will realize from the aggregated procurement process and is designed to give members budget certainty. The ceiling rate calculation reflects a conservative approach and we expect to improve upon it, as shown by the "expected rate" that is also identified on page 3. In past procurements P3 has executed substantially below the ceiling rate: for the 2014-2016 contract the executed price was 6.3% lower than the ceiling and for the 2017-2019 contract the executed price was 5.2% lower than the ceiling. While P3 expects to transact at or close to the current market, reflected in the "expected" rate, the ceiling gives us flexibility to capture an attractive market price should the market move away from the current expected rate during the opt-out period. If the market does not produce the ceiling rate for a given year by October 31, 2017, we will terminate the procurement exercise for that year.

We recommend that you carefully verify your current account list (beginning on page 4) immediately. The "Active Account List" included in this packet lists all your sites/ESI IDs (i.e. electric meters) in our database. An accurate site/ESI ID list is essential to avoid billing errors. If there are *any* changes to the list, or if you anticipate any additions or deletions greater than 100kw peak demand before 2020, please let us know so that we may include the expected consumption changes in our procurement documents.

Your continued participation in Texas' largest aggregation has delivered considerable savings for all P3 members since the program started in 2001. Members' procurement costs are the lowest in the industry and the quality of our customer service and electricity contracts are far above the industry norm. This procurement follows the same process we have successfully used in previous years. We will continue to perform due diligence and employ effective risk management practices that have protected P3 members from price volatility in the past.

Should you have any questions or comments about the procurement, please contact me or our Program Manager, David Quin, at 512.233.5780. We are available to meet in person with you or anyone else from your entity to answer questions and provide a detailed briefing.

Sincerely,



Donald Lee, Executive Director, Public Power Pool

Enclosures:

1. Procurement Ceiling and Expected Rate Estimate (page 3);
2. Member Account list (page 4 on);
3. 2017 Procurement Proposal; and
4. Methodology to Control Cross-Subsidization Among Members.

P3 is a unique political provision for positions created by local governments in Texas, designed to save taxpayer money by aggregating power usage to procure the best power contracts at the lowest cost.

Procurement Ceiling and Expected Rate Estimate

Johnson County

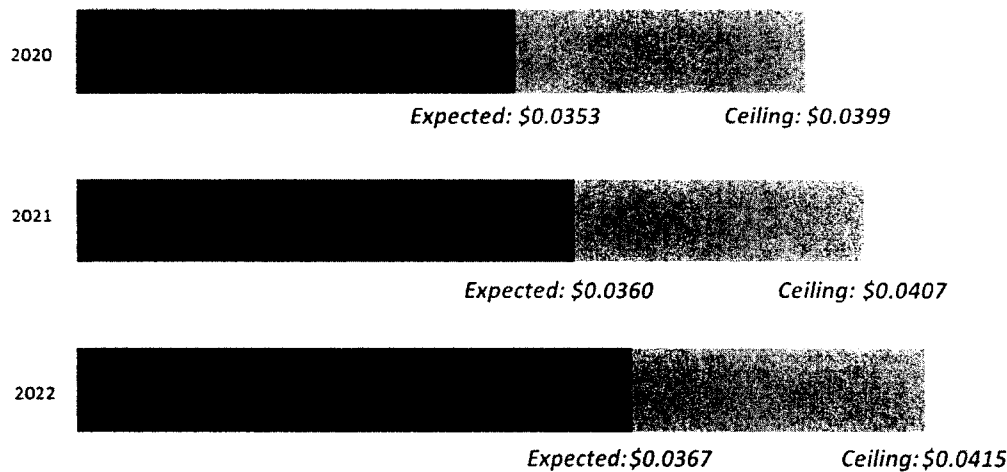
Current Supplier Rate and Annual Costs:

	Annual kWh	Current Rate	Current Annual Costs
2017 (Current):	5,494,787	\$0.0390/kWh	\$374,222

Proposed Ceiling Rates and Changes Vs. Current Annual Costs:

	Ceiling Rate	Maximum Change from Current Cost
2020 (Proposed):	\$0.0399/kWh	\$4,697 2.5%
2021 (Proposed):	\$0.0407/kWh	\$9,170 3.7%
2022 (Proposed):	\$0.0415/kWh	\$13,642 4.5%

Rate Distribution Given Risk Management Outcomes:



Supplier Rate (excludes TDSP and taxes), \$/kWh

The Purchase Ceiling, shown as a percentage, shows increases and/or decreases (as negative) relative to the current contract rate.

Annual Cost amounts are inclusive of supplier costs, TDSP charges and all costs to-the-meter.

The Expected Prices reflects the market condition at the time the report was run. The Ceiling Price reflects the highest price at which the Program will execute a contract.

Active Account List

Johnson County

List of Accounts In-Program

Facility, City	ESI ID	Ann. kWh	Pool
206 N. Baugh Street , Alvarado	10443720000153902	159,899	NORTH BUSMEDLF
203 N BUFFALO AVE GRDL 1 , CLEBURNE	10443720000189602	3,425	
203 N BUFFALO AVE GRDL 2 , CLEBURNE	10443720000189633	483	
409 N BUFFALO STREET, CLEBURNE	10443720002792982	2,882	NORTH BUSNODEM
1102 E KILPATRICK ST, CLEBURNE	10443720002800453	378,180	NORTH BUSMEDLF
1 N MAIN ST, CLEBURNE	10443720002935396	869,708	NORTH BUSLOLF
102 S MILL ST, CLEBURNE	10443720002935520	79,609	NORTH BUSHILF
113 W CHAMBERS ST, CLEBURNE	10443720002935675	11,548	NORTH BUSNODEM
116 S MILL ST, CLEBURNE	10443720002937411	31,858	NORTH BUSHILF
@COURT HOUSE, CLEBURNE	10443720002947238	799,602	NORTH BUSMEDLF
103 S WALNUT ST, CLEBURNE	10443720002965714	60,111	NORTH BUSLOLF
220 FEATHERSTON ST, CLEBURNE	10443720003021731	43,491	NORTH BUSLOLF
103 S WALNUT ST GRDL, CLEBURNE	10443720005164888	828	NORTH NMLIGHT
204 S BUFFALO AVE, CLEBURNE	10443720006883034	2,358,877	NORTH BUSMEDLF
2401 PIPELINE RD, CLEBURNE	10443720007180071	1,728	NORTH BUSNODEM
1102 E KILPATRICK ST, CLEBURNE	10443720007520885	69,395	NORTH BUSLOLF
105 S WALNUT ST BLDG GYM, CLEBURNE	10443720008600349	66,413	NORTH BUSHILF
810 E KILPATRICK, CLEBURNE	10443720008711918	71,861	NORTH BUSLOLF
1700 ISLAND GROVE RD STE D, CLEBURNE	10443720008934126	37,840	NORTH BUSNODEM
425 W CHAMBERS ST, CLEBURNE	10443720009336351	377,890	NORTH BUSMEDLF
3425 COUNTY ROAD 920 CELL, CROWLEY	10443720009468617	33,849	NORTH BUSLOLF
226 FEATHERSTON ST PERM, CLEBURNE	10443720009963225	35,310	NORTH BUSLOLF
		5,494,787	

Report totals based on accounts in-program.



Public Power Pool

500 W. 13th St. Austin, TX 78701 Ph 512-233-5780 Fx 512-233-5781 www.publicpowerpool.org

From: Public Power Pool staff
To: Public Power Pool members
Re.: 2017 Procurement Proposal

Introduction

The dual mandate of the P3 procurement program is to obtain electricity at a competitive market rate while managing the price volatility inherent in energy markets to maintain relative rate stability. At present, P3 is under contract through the end of 2019 at a favorable rate level. Largely due to the oversupply of natural gas accompanied by the rapid buildout of low cost wind power, forward electricity prices into 2025 are at the low end of the historical range, presenting an opportunity to extend the program's rates at the current level.

Recent feedback from members indicates satisfaction with the current contract rates and an appetite to extend the period under contract if similar rates are available. The purpose of this study is to determine whether the current price level is sufficiently attractive to formally enter the market for the period beyond January 2020.

The process to determine the efficacy of entering the market more than three-years in advance of delivery includes an evaluation of market price fundamentals and trends, and an examination of available structuring options designed to match the P3 risk-averse profile and achieve program objectives.

Early market entry represents an aggressive strategy that seeks to capture the current market dynamic to reduce future price risk. Given the due diligence requirements and relative complexity of the P3 procurement process, completing a transaction typically takes several months from initiation. During this period prices will fluctuate with the potential to rise beyond the set target and necessitating a degree of planning flexibility to permit a mid-course correction to a defensive strategy that seeks to limit the impact of adverse market movements.

Conceptually, P3 has the planning option to conduct a competitive solicitation to winnow the field of counterparties that compete to serve at a target price. P3 has no compulsion to transact until 2019 should the target price be unavailable. The lengthy time period confers a degree of protection from forced action in a transient adverse market condition while, given expected levels of volatility over time, offering an opportunity to strike the target price. This approach does not insure against an upward price trend and contains a bias towards inaction as the oversupplied natural gas market seeks to re-balance.

To manage the uncertainty related to future prices, P3 has previously followed a strategy of hedging a portion of their required electricity volumes for a specified term to capture the current market value with the balance purchased incrementally within a price collar. This strategy allows P3 to cap exposure and provide budget certainty. As the available market price for delivery post 2020 is attractive and risk is primarily to the upside, a similar approach is considered prudent.

With three years remaining in the current contract, we advise initiation of a procurement campaign for the post 2020 period that is designed to seek an aggressive price target and support the program objectives related to price risk management, budget stability and competitive rates. The proposed strategy is to *exploit the time available prior to contract termination by opportunistically striking the market to defend the current rate level.*

Risk Assessment

Composed of political subdivisions with budgeting constraints and in the absence of strategic or competitive advantage stemming from energy cost inputs, the P3 membership is characterized as risk-averse with a bias towards price certainty. The membership has consistently approved of this posture from the inception of the program, with price risk contained and taken only in adverse market conditions to provide the opportunity to improve upon the rate available on the day of transaction.

The sources of forward price risk in the planning period include 1) generation capacity adequacy stemming from regulatory action restricting coal-fired generation, and 2) concerns related to the sustainability of shale gas operations at the current price level. With regard to natural gas, many of the known shale gas formations demonstrate very high depletion rates continually requiring new drilling operations and accumulation of extreme levels of debt to maintain the current level of production. At present financing distress in the natural gas sector is not proving to materially dampen production as the national build-out of shale resource operations is providing excess supply and permits a rapid price response when prices rise.

The impact of any coal generation retirements is expected to be offset by new additions—primarily natural gas and renewable resources—and ERCOT is projecting healthy capacity reserve margins through 2025.

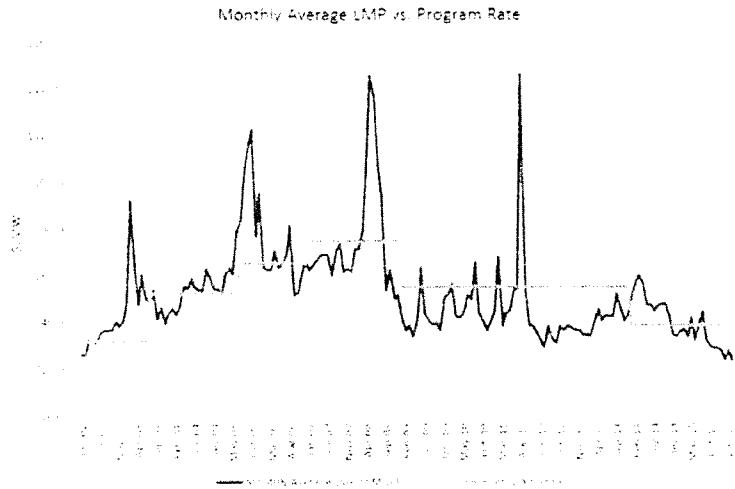
An unquantified source of price risk is event driven—primarily in the form of destructive weather—that is not forecast, generally of short duration but ever present. Insuring against this risk involves hedging a partial future position to reduce any adverse impacts.

Given that natural gas prices are at the low end of the historical range, a strong asymmetric risk to the upside is indicated. Continued gains in the fuels market driven by mild weather, flat demand growth and overproduction on the supply side are likely incremental at best, presenting a sufficient threat to consider defensive should one of these factors reverse.

The approach approved in the past two contract cycles, conducted in a favorable market condition, has been to fix the rate for term to eliminate price risk and complete the budget defense.

An alternative product structure that offers a risk/reward proposition incorporates a measure of exposure to the hourly market, allowing the price to float on the zonal 15-minute LMP index rather than fixed-forward.

While there is a price discount available for accepting this exposure in a declining market, over a 15-year period the rewards are small, averaging \$2.48/MWh (Monthly Average LMP vs. Program Rate chart). Savings follow the same pattern as our current metric. The Program benefits by fixing forward in a rising market; the Program is above market when fixing forward in a declining market.

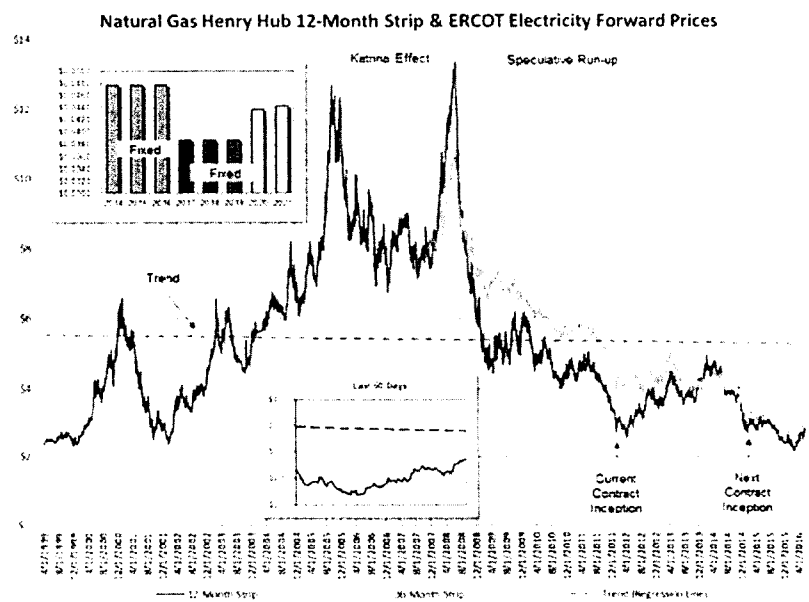


The extreme volatility and unknown price outcomes created by LMP exposure also run contrary to the budget certainty sought by the members. Further, the group's market leverage has allowed volume risk to be laid-off on the supplier at a minimal cost via an unlimited contractual bandwidth of usage, a benefit forfeited under LMP settlement.

Market Report

The "Natural Gas, Henry Hub 12-Month Strip & ERCOT Electricity Forward Prices" graphic plots the historical price pattern of natural gas—the primary factor in ERCOT electricity rates—and the prevailing market rates for electricity. The natural gas market is characterized as oversupplied into the planning period combined with improved transport capabilities and a range-bound pricing pattern.

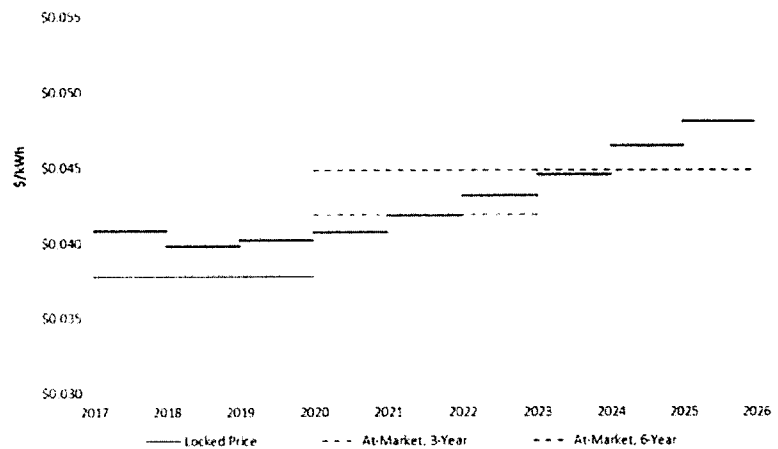
The storage overhang is persistent as the equally glutted



Canadian market ramps exports and shale oil associated gas—currently 20% of total gas production—must find a home.

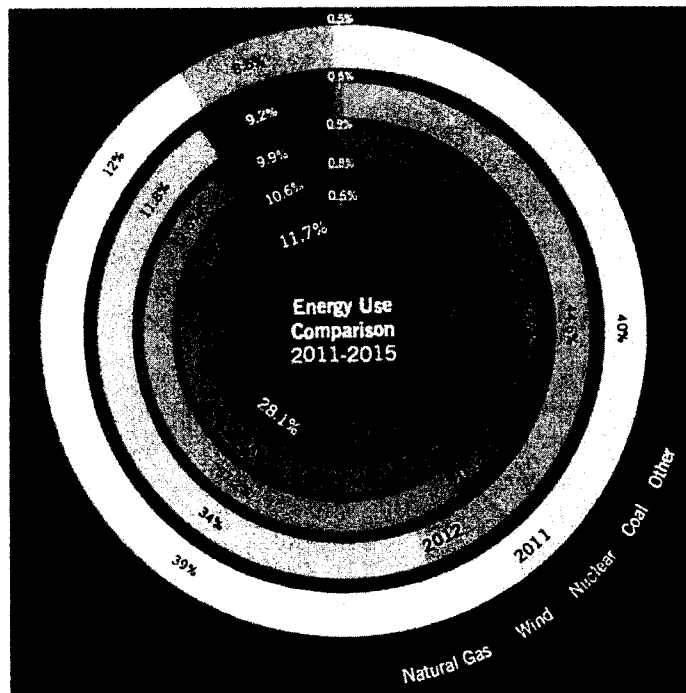
Short term electricity prices in ERCOT have recently strengthened, pushing up 2016-17 and creating a bow shape in the forward curve. Beyond this, the market is largely flat into 2021, where inflationary and uncertainly pressures begin pushing the curve back into contango. The at-market 3-year price for 2020-2022 shows \$42.7/MWh; the six-year price for 2020-2015 is \$45.3/MWh.

Forward Retail Electric Rates, ERCOT Blend



The ERCOT electricity market price—following the lead of natural gas—is characterized as fundamentally weak and influenced by a substantial and growing wind power sector. While natural gas fueled electric production has taken a greater portion of the gen-stack, the wind sector has added diversity in electric rate making – especially in the off-peak.

The wholesale market price effect of intermittent wind resources is complex as producers introduce both low-cost supply and price volatility to the mix. Additionally, an expected increase in solar generation in the coming decade represents a more predictable profile and reliable on-peak resource. The long-term impact of renewable resources will be largely determined by advances in grid management that optimize the dispatch process.



While natural gas sets the marginal clearing price for electricity in ERCOT, it is important to note that the relationship of gas to electricity in ERCOT is not static. As gas prices drop, less efficient gas plants become profitable to run, displacing coal baseload units. The effect of these lower

efficiency plants in setting the marginal price can be seen in the system heat rate, which increases as gas prices decrease and buoys the electric price relative to gas. This influence has a limit, however. As prices continue drop, the fixed inputs (i.e. start costs, O&M contributions) to electric price making become more and more pronounced and electric prices become less responsive to movements in the gas market. For example, a plant with a conversion rate of 8 and a fixed per unit cost of \$10/MWh would bid their price as follows:

in a high, \$6/MMBTU gas market, $8 * 6/MMBTU + 10/MWh = \$58$

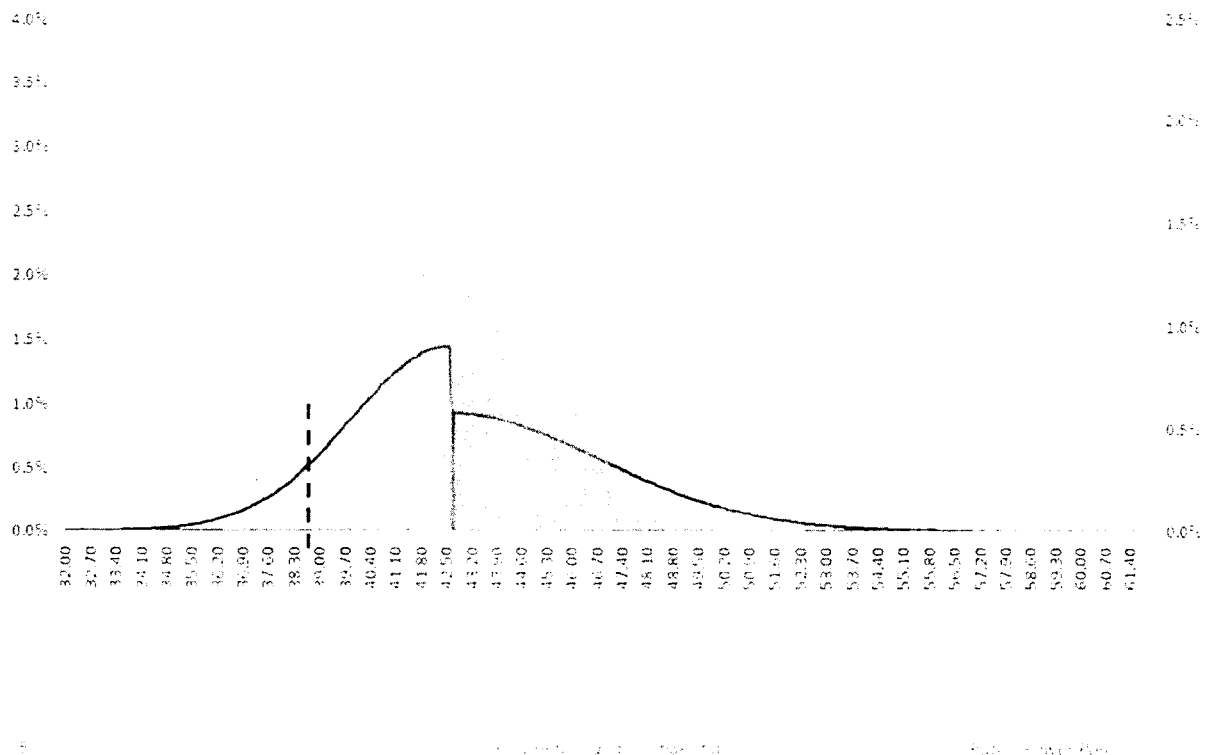
in a low, \$3/MMBTU gas market, $8 * 3/MMBTU + 10/MWh = \$34$

In the high gas cost case, the fixed component represents a minor 17% of the price; in the low gas case, the fixed cost impact moves up to 39%. In summary, as wholesale electric prices decline below \$40, they begin to flatten, facing diminishing gains in response to further declines in gas.

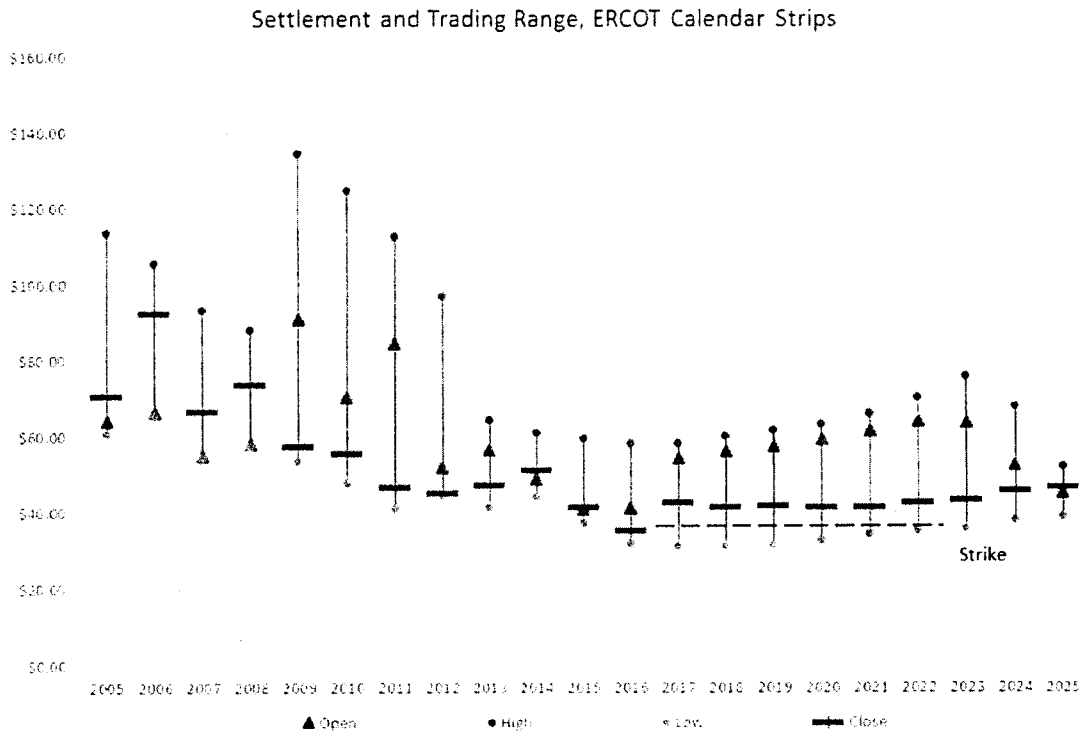
Looking forward, electricity over the 2020 to 2022 target period is trading at \$42.7/MWh. This price level is at the low range of the historic settlement of this 3-year strip, which has been priced as high as \$64/MWh and as low as \$39.8/MWh over the history of active trading.

The probability study (below) shows likely settlement for the target period falling between \$33.25/MWh and \$56/MWh prior to delivery. The distribution is further refined by restricting outcomes to a 1-year horizon (red & green distributions), which limits the expected range to between \$36.5 and \$50.25.

ERCOT Retail, 2020-2022 VaR (2013 to present)



The Settlement and Trading Range chart (below) shows the trading range of ERCOT calendar strips over 20-years. Years 2005 – 2016 have settled (their delivery period is past and the closing price is known), years 2017-2025 are still actively traded and the settlement price is at-market. Since the market collapse in 2008, a pattern of near-low settlements has followed the shale-gas surplus and weak demand. Tighter trading bands from 2013 forward are also evident, reflecting lower volatility in electric trading as prices track the stability in the fuels market over this time.



From the studies, several patterns emerge to inform the purchase decision. 1) The current price is quite low relative to the trading history. 2) Future price movement risk is somewhat asymmetric; a higher settlement price is more likely given observed trading volatility for the time period. 3) Relative to near-term pricing, trading volatilities for this long-dated strip are low, creating tight pricing outcomes. 4) Prices at delivery have been settling lower than their trading average over time. In summary, current prices for delivery post 2020 are attractive with upward potential, offset by a long transactional window with prices displaying a pattern of migrating lower as the delivery date approaches.

Deal Structure

Given the fundamental market factors, assuming an active posture in the market to exploit near-term price opportunities and defend against the loss of this favorable price point is considered prudent. Based on what the forward market will likely offer combined with the long transactional window, a desired trigger(s) should be established.

In execution, there are several methods available in the market to achieve this end.

- 1) Fix at Trigger
- 2) Costless collar
- 3) Options

The Fix-at-Trigger structure is similar to the process employed for the last two contract cycles. Once the short-list of suppliers has been established and the contracts are in an executable state, the process waits for the market price to become available at or below the desired trigger price. Once that price level is reached, a final round of competitive pricing is solicited from the short-list of suppliers and the low price is locked for term. The advantage of this approach is its structural simplicity and single transaction point. The disadvantage is that it offers no upside protection. If the trigger point is not reached in the transaction window, a new, likely higher trigger would need to be established in a rising market. Price outcome:

Final Price = Market Price at contract inception

In a costless collar, a series of trigger prices and associated volumes are set around the current market price. As the market moves up or down over time, floor or ceiling triggers are crossed and positions are purchased. At the time of delivery, any unpurchased positions receive the settlement price, the last trading day of the contract. The applied price becomes the weighted average of all purchased positions at delivery. In the event of a downward price trend, the trigger schedule may be modified and specified price levels ratcheted lower to consolidate a gain.

An advantage of this approach is that the outcomes are limited to a known range (the summation of the floors, ceilings, or somewhere in between). Another advantage, as the name suggests, is that it is free of cost to implement. Positions are purchased per a self-imposed program when and if the market presents the target price. There being no price obligation on the supplier's behalf, there is no cost premium associated with this structure. Price outcome:

$\sum \text{Floor price} \leq \text{Final Price} \leq \sum \text{Ceiling Price}$

The third method involves the purchases of options. While this does incur an up-front cost in the form of the option premium, it establishes a known ceiling price (the option strike) without limiting downward potential. This has the advantage of always keeping the program price at market or better. Price outcome:

Final Price \leq \sum Ceiling Price + Premium

At present, at-market strikes are being offered at a price in the \$4/MWh range. This indicates that P3 can secure a \$42.7/MWh price for 2020-22 at a \$4/MWh premium, yielding a ceiling price of \$46.7/MWh. The position would be in-the-money if the settlement price is less than \$42.7/MWh, but given the cost of this insurance, the settlement price would need to be

\$38.7/MWh (\$42.7 - \$4/MWh) or below to fully compensate the price of the premium. Current probabilities show this outcome at 19.3%, rendering this strategy sub optimal unless lower priced options can be found or market expectations change.

Product

The range of products considered must be a fit for the risk-adverse budget defender and allow for the inclusion of the structures described in the previous section. To that end, we recommend one or both of the following products to be solicited:

- 1) Index Plus, Full Requirements
- 2) Fixed Price, Full Requirements

Both products will establish a fixed price in the forward market prior to delivery and push volume risk back to the supplier. P3 has shown a strategic benefit in volume risk management as its market leverage and load diversity has yielded offers of unlimited bandwidth. Available price levels make fixing forward at or near the current market attractive, however the long horizon and near-low settlement patterns would suggest keeping an open position for the short-term.

Given this purchasing condition, an "Index Plus, Full Requirements" product, with the option to convert to a fixed price at our discretion is ideally suited. For this product, the suppliers bid a dollar per/MWh adder to cover their cost of service while the commodity portion initially floats at index. This adder plus the final electric commodity price (converted from index to fixed price per the costless collar) becomes the applied electric rate.

There is a variant to the "Index Plus, Full Requirements" product that would use natural gas as the underlying commodity rather than electricity. In this variant, a both a \$/MWh adder and a heat rate (natural gas to electric conversion ratio) would be purchased from the supplier, and the electric rate would float on the natural gas market per this function:

$$\text{Fixed Heat Rate} * \text{Floating Natural Gas Index} + \text{Fixed } \$/\text{MWh Adder}$$

The forward natural gas market is both more liquid and more transparent than electricity, allowing a greater range of risk management tools in the float to fixed conversion and potentially lower transaction costs. These benefits may become critical should the "Options" deal structure be pursued. Using gas as an underlying, both longer-dated options would be available (gas options are priced five years forward) and exchange-traded options are offered, which are transparent and have lower costs versus purchasing a corresponding volume of over-the-counter electric options.

A simpler version of this strategy per the Fix-at-Trigger alternative would be to accept a simpler "Fixed Price, Full Requirements", but to enter into a contract only when the market was at our strike point. To assure speed to market, suppliers could be vetted and short-listed prior to the strike point. Once the strike price is available in the market, the short-listed suppliers are directed

to mark their price at current market, the low price being fixed for term at the time of contract inception.

Considering the target price, the membership has voiced approval of the 2017-2019 contract average rate fixed at **3.87 cents/kWh** and a willingness to extend at this price level. Both the VaR study and the calendar-strip trading patterns suggest this price is likely to present itself in the market barring a fundamental change in the supply/demand balance. The studies performed along with the fixed component influence of electric price making also suggest that a sub **3.6 cents/kWh** is not probable, limiting opportunity cost despite the long transaction window.

Term Considerations

The ideal term for any future transactions is dictated by the forward prices available at the time of bidding that meet the program's stated objectives. Due to the length of current arrangements and forward prices, this study is confined to the 2020-2025 period.

Solicitation Process

The standard P3 electricity procurement process is designed to ensure performance of due diligence and create meaningful competition among suppliers that are capable of servicing a large-scale transaction. The multi-step approach is initiated by notification to members of the proposed transaction—including a not-to-exceed rate calculated specifically for their load profile—that must be achieved for the transaction to be executed on their behalf. This is followed by a period that allows time for existing members to affirmatively opt out of the procurement exercise. A no-action decision on the part of the member indicates acceptance of the right of P3 to act as agent on their behalf to execute the transaction.

Following completion of the member enrollment phase of the process, a Request for Proposals is issued containing all of the salient details required to solicit price quotes from every registered supplier as listed by the PUCT. Supplier responses are evaluated and ranked, and contract terms and conditions considered. A short list of the best offers is then compiled for P3 Board of Directors consideration. Upon completion of this phase, monitoring of daily market conditions is conducted to establish a favorable time to request executable price and consummate the deal.

Given the lengthy time period allowed by the current contracts that terminate in 2019, *a preliminary testing of the market is advised*. Specifically, we suggest soliciting indicative pricing before the commencement of a formal procurement process. Doing so will aid in the development of a target price that is more representative of prevailing market conditions. In this scenario, members will be provided with individual trigger points and have the ability to opt-out of the solicitation following the receipt of indicative pricing and the development of a target price.

Authorized Transaction Period

An important aspect of the P3 enrollment policy is a restrictive time limit on the authorization to act on the members' behalf, preventing an open-ended commitment. This time allotment is subject to Board of Directors approval and is typically geared to provide adequate time to conduct a solicitation and permit some flexibility in selecting a transaction date that coincides with a downward market price movement.

The current power supply agreement terminates at the end of 2019. *We recommend a time period that binds members to the agency agreement through October 2017.* Depending upon the date of initiation, this will permit up to a 10-month period to seek the target rate, permit a mid-course correction should the market condition or trend change materially during the authorization period and leave a remaining two plus year buffer prior to contract termination if the initiative fails to consummate a transaction.

P3's 2016 Market Solicitation

Based upon the preceding analysis, the P3 Board of Directors directed staff to conduct a Request for Information (RFI) process to clarify and report on available forward market prices for the post 2020 contract period. The results were intended to inform P3's timing for market entry with the express goal of defending the 2017-2019 rates.

In November 2016 the RFI was sent to the four suppliers that are currently active with P3 accounts operating under the standard contract. The suppliers were:

1. Constellation (current supplier)
2. GLO/Cavallo Energy (2017-2019 supplier)
3. MP2 (currently serving discrete accounts through bidding process)
4. Reliant Energy (currently serving discrete accounts through bidding process)

The responses received from this notional pricing exercise indicated that the forward market price for the post 2020 period is aligned with the 2017-19 contract rate and supports the program's approved defensive strategy objective.

P3's 2017 Procurement Proposal

In December 2016, based on a recommendation from the P3 Technical Committee, the P3 Board instructed us to present to members a formal competitive market solicitation as follows:

1. The procured supply agreement:
 - i. will commence January 2020; and
 - ii. will deliver a rate that is no more than a 5% increase on the program weighted average rate under the 2017-19 contract;
2. Pricing will be obtained for one, two, and three year terms;

3. The decision of whether or not to procure, and for what term to procure, will be based on analysis of the pricing received that identifies the best value for the members;
4. Supplier contracts will be evaluated based upon a contract value matrix approved by the Board;
5. Trigger points, or minimum savings amounts, are established for the members and no procurement will be completed that does not satisfy those minimum savings;
6. Members will have no less than 60 days after receipt of the procurement proposal to opt-out of the procurement; and
7. The strategy for avoiding cross-subsidization previously adopted by the board and provided to the members will continue to be followed.

The following timeline of solicitation events for the 2017 Procurement is proposed:

Jan-March 2017:	Procurement Packets distributed. Member 60-day opt-out period begins. Meetings scheduled with members.
March-April 2017:	Formal RFP issued and short-listed providers identified. P ³ Board meets to review short-listed providers.
April-Oct 2017:	Monitor market for strike price and conduct executable bidding round(s) with short-listed providers.
Nov 2017 onwards:	Revisions to floor level if fixed price target not achieved. Revised Procurement Packets distributed.



Public Power Pool

500 W. 13th St. Austin, TX 78701 Ph 512-233-5780 Fx 512-233-5781 www.publicpowerpool.org

Date: January 30, 2017

To: Public Power Pool members

From: Public Power Pool staff

Re: **Methodology for controlling cross-subsidization in the 2017 Procurement**

Background:

In the Public Power Pool Board meeting on September 22nd, 2016, the Board of Directors reviewed a methodology for avoiding cross-subsidization between members' accounts to be used during the next procurement.

The major elements of the methodology are:

1. Pooling accounts of like energy usage and geography seeks to find a balance between the costs and complexity of per account prices while maintaining the cohesion of bringing an aggregated load to market;
2. A line-loss pass-through to ensure that metering and voltage characteristics are allocated their specific loss factor; and
3. A flat, per account fee to fairly allocate the administrative costs associated with billing. There is a fixed cost of time and resources in applying meter readings, TDSP changes and invoice creation for each account regardless of that account's consumption volume. Alternatively, building these billing costs in the volumetric rate would transfer these expenses to those accounts with the highest volume, which may belong to another member.

Recommended Resolution:

RESOLVED by the Public Power Pool Board of Directors that the following methodology for control of cross-subsidization is hereby approved for the 2017 Procurement:

1. Continue to pool accounts by load factor and zone, capturing the time-of-use and geographic disparity of the various account classes;
2. Continue the use of the line-loss pass-through to ensure that metering and voltage characteristics are allocated their specific loss factor; and
3. Continue the use of a flat, per account fee to allocate actual billing costs per account (by invoice), rather than to the large accounts if applied on a per kWh basis.