



Agenda Item:

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## **COUNCIL COMMUNICATION**

### **City Manager's Office**

#### **GENERAL INFORMATION**

Agenda Date: 05/23/05

Communication No.: 05-299

Agenda Item Type: Resolution,

Roll Call No.:

Submitted by: Donald M. Tripp, Park and Recreation Director  
Merrill R. Stanley, Finance Director

#### **SUBJECT—**

Natural Gas Supply and Transportation Services

#### **SYNOPSIS—**

Approve the hiring of Cornerstone Energy, Inc., (Brett Seller, CEO, 11011 Q Street, Suite 106A, Omaha, Nebraska, 68137) as the natural gas supplier for selected buildings within the City of Des Moines.

#### **FISCAL IMPACT—**

Energy costs have increased significantly during the past years. Natural gas expenditures for the City, including enterprise funds, were approximately \$760,000 over the last 12 months. There is no certainty regarding future energy prices, but the proposed agreement will provide the City with options to control increasing costs. The action also allows the city to save \$5,000 to \$25,000 annually avoiding regulated fixed costs currently charged by MidAmerican Energy.

#### **RECOMMENDATION—**

Approval

#### **BACKGROUND—**

Effective September 1, 2004, the Iowa Utilities Board approved a Tariff change adding all Government Entities to the existing Iowa Schools Gas Transportation Program. This Program allows all state and local government facilities the option to participate in the natural gas transportation program. For years, large natural gas users were able to take advantage of reduced costs through a similar program. Now, smaller natural gas users can have the same benefits

through this change. The transportation program allows end users the ability to buy gas supply from a third party marketer eliminating the higher cost gas from the regulated utility.

The benefits of this natural gas supply and transportation program are:

- Reduced costs
- Purchase of natural gas at daily market rates
- Elimination of the local utility fixed asset costs
- Fixed long term price
- Risk management options/budget management

The program requires an agent or “pool operator” certified by the Iowa Utilities Board who must comply with any applicable laws and regulations relating to competitive natural gas providers (CNGP’s). Only three companies are currently certified as a CNPG in the State of Iowa: Mid-American Energy-Retail, Cornerstone Energy, and IJUMP.

During the late summer of 2004, City staff from the Park and Recreation and Finance Departments became aware of the new changes in natural gas purchasing laws and set up a team to begin researching the potential advantages for the City. On November 4, 2004, Jim Rasley with International Utility Specialists, Inc., a local Des Moines business, was hired to assist the City team with the project.

The Consultant’s responsibilities included:

- Evaluate all City gas accounts for eligibility
- Design/Develop an RFP specific to City needs and requirements  
(to include interviewing and recommending potential suppliers, and once selected, assist in negotiating a price and agreement)
- Follow up at six months with 1) an evaluation of the recommended accounts and a report of findings to City Purchasing, and 2) recommendations on further pricing and potential risk management)

City staff contacted Polk County, Des Moines Water Works and Des Moines Public Schools, among others, to evaluate the possibility of a joint RFP for natural gas purchasing services. The County’s interest was confirmed, and on March 7, 2005, a bid packet was let for natural gas supply and transportation services for the City of Des Moines and Polk County.

Bids were received on or before April 4, 2005, and were submitted by all three certified CNPG’s -- Mid-American Energy-Retail, Cornerstone Energy, and IJUMP. All three bids complied with the original RFP and were evaluated according to their pricing and other required responses. The Selection Committee was composed of the three City team members from the Park and Recreation and Finance Departments. The Committee was assisted by the consultant. Selection criteria and scoring values were provided in the RFP. After final analysis, Cornerstone Energy’s quote incorporated with historical costs showed a positive savings when compared to the existing regulated tariff.

City staff recommends approval by the City Council to hire Cornerstone Energy as its natural gas supplier.