AGENDA
WATAUGA CITY COUNCIL
WORKSHOP MEETING
TUESDAY, NOVEMBER 12, 2019
CITY HALL COUNCIL CHAMBER, 7105 WHITLEY ROAD
5:30 PM

This notice is posted pursuant to the Texas Open Meetings Act. Notice is hereby given that a **City Council Workshop Meeting** of the City of Watauga, Texas will be held at which time the following subjects will be discussed and may be acted upon.

CALL TO ORDER (Council Members, City Staff, Members of the Public - when speaking during the meeting please speak directly into the microphones on the dais or podium)

ROLL CALL

PLEDGE OF ALLEGIANCE United States and Texas Flags

PRESENTATIONS

1. Present, discuss and provide direction to the City Manager on participation in the Texas Coalition for Affordable Power Strategic Hedging Program
   Andrea Gardner, City Manager

ADJOURNMENT

<u>Meeting Notices and Reservation of Rights</u>
The City Council may retire to executive session any time between the meeting's opening and adjournment for the purpose of consultation with legal counsel pursuant to Chapter 551.071 of the Texas Government Code; discussion of personnel matters pursuant to Chapter 551.074 of the Texas Government Code if the requisite information is otherwise posted; deliberation regarding real property pursuant to Chapter 551.072 of the Texas Government Code; deliberation regarding economic development negotiations pursuant to Chapter 551.087 of the Texas Government Code; and/or deliberation regarding the deployment, or specific occasions for implementation of security personnel or devices pursuant to Chapter 551.076 of the Texas Government Code (as applicable) when determined necessary by the to address a subject matter on the agenda. Action, if any, will be taken in open session.

This agenda has been reviewed and approved by the City's legal counsel and the presence of any subject in any Executive Session portion of the agenda constitutes a written interpretation of Texas Government Code Chapter 551 by legal counsel for the governmental body and constitutes an opinion by the attorney that the items discussed therein may be legally discussed in the closed portion of the meeting considering available opinions of a court of record and opinions of the Texas Attorney General known to the attorney. This provision has been added to this agenda with the intent to meet all elements necessary to satisfy Texas Government Code Chapter 551.144(c) and the meeting is conducted by all participants in reliance on this opinion.

Attendance by Other Elected or Appointed Officials: It is anticipated that members of other governmental bodies, and/or city council, boards, commissions and/or committees may attend the meeting in numbers that may constitute a quorum of the body, board, commission and/or committee. Notice is hereby given that the meeting, to the extent required by law, is also noticed as a possible meeting of the other body, board, commission and/or committee, whose members may be in attendance, if such numbers constitute a quorum. The members of the city council, boards, commissions and/or committees may be permitted to participate in discussions on the same items listed on the agenda, which occur at the meeting, but no action will be taken by such in attendance unless such item and action is specifically provided for on an agenda for that city council, body, board, commission or committee subject to the Texas Open Meetings Act.

NOTICE

THIS FACILITY IS WHEELCHAIR ACCESSIBLE AND ACCESSIBLE PARKING SPACES ARE AVAILABLE. REQUESTS FOR ACCOMMODATIONS OR INTERPRETIVE SERVICES MUST BE MADE 48 HOURS PRIOR TO THIS MEETING. PLEASE CONTACT THE CITY SECRETARY'S OFFICE AT (817) 514-5825, OR FAX (817) 514-3625.

I, Andrea Gardner, City Secretary for the City of Watauga, hereby certify that this agenda was posted on the bulletin boards at City Hall, 7105 Whitley Road, Watauga, Texas, on Wednesday, November 6, 2019 before 5:00 p.m., in accordance with Chapter 551 of the Texas Government Code.

Andrea Gardner, City Secretary

CITY OF WATAUGA, TEXAS

AGENDA MEMORANDUM

DATE: October 22, 2019

TO: Honorable City Council Members

FROM: Andrea Gardner, City Manager

THROUGH:

SUBJECT: Present, discuss and provide direction to the City Manager on participation in the Texas Coalition for Affordable Power Strategic Hedging Program

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BACKGROUND/INFORMATION:

TCAP representatives presented City staff with the option to participate in the Strategic Hedging Program in late September 2019. City staff requested TCAP representatives provide a presentation to the governing body.

FINANCIAL IMPLICATIONS:

RECOMMENDATION/ACTION DESIRED:

City staff respectfully requests the City Council provide direction to the City Manager on Watauga's desired participation in TCAP's Strategic Hedging Program.

ATTACHMENTS/ SUPPORTING DOCUMENTATION:

1. TCAP Strategic Hedging Program

REVIEWED BY:

Approved as to form for inclusion on Agenda

TCAP's Strategic Hedging Program

The Future of Retail Energy

Texas Coalition for Affordable Power

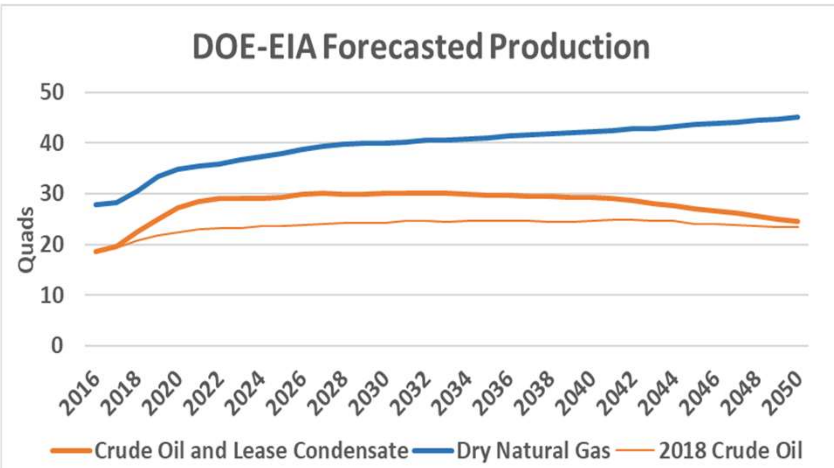
2019

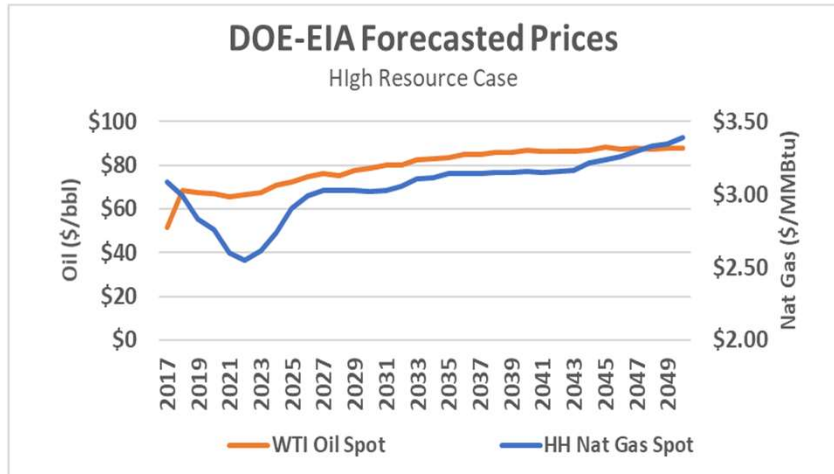
Strategic Hedging Program Is Market Responsive

So Let's Take a Quick Look at Energy Market Dynamics

U.S. Energy Future is Bright

World's Largest Producer of Oil and Natural Gas





Positive Supply Outlook

DOE Production Estimate Through 2050 Show a Well Supplied Market

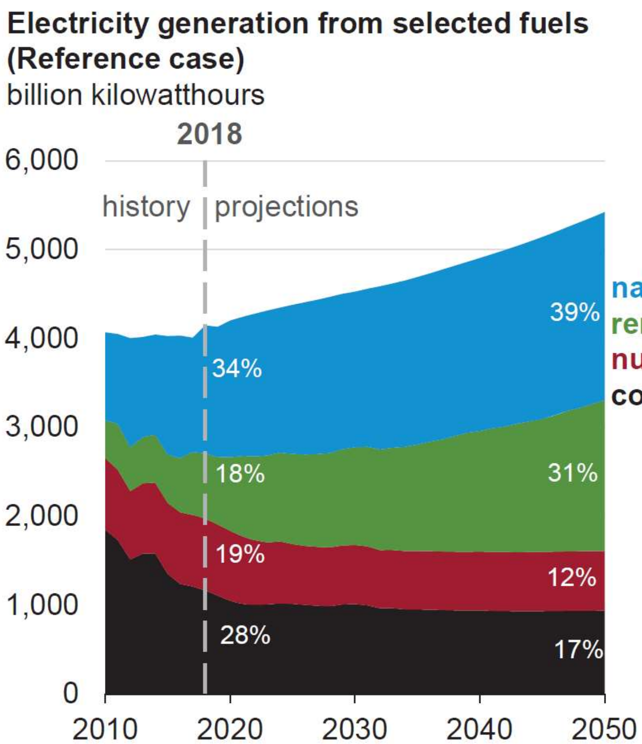
Stable Price Outlook

Actual Natural Gas and Oil Spot Prices Currently Lower than Projected Prices

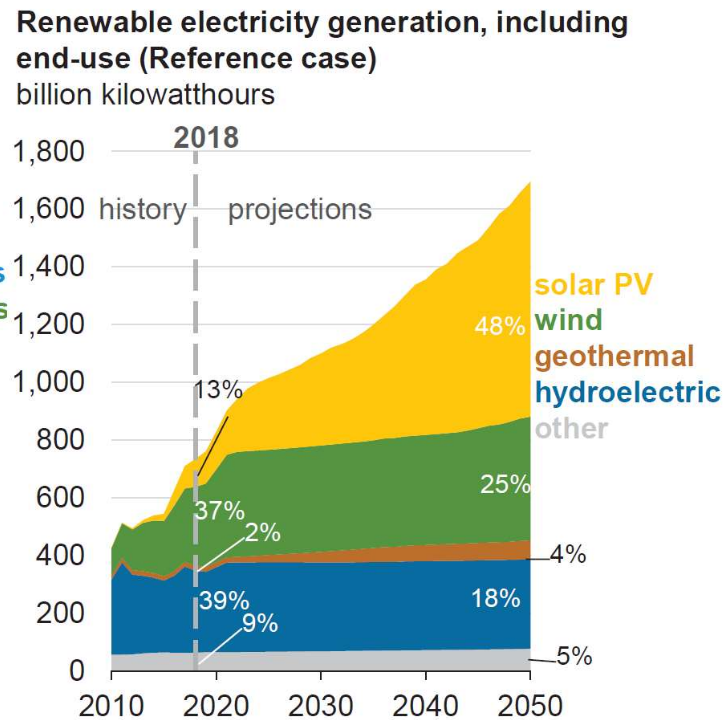
Source: DOE/EIA AEO 2019/2018

U.S. Electric Mix is Changing

Less Coal, More Natural Gas and Renewables



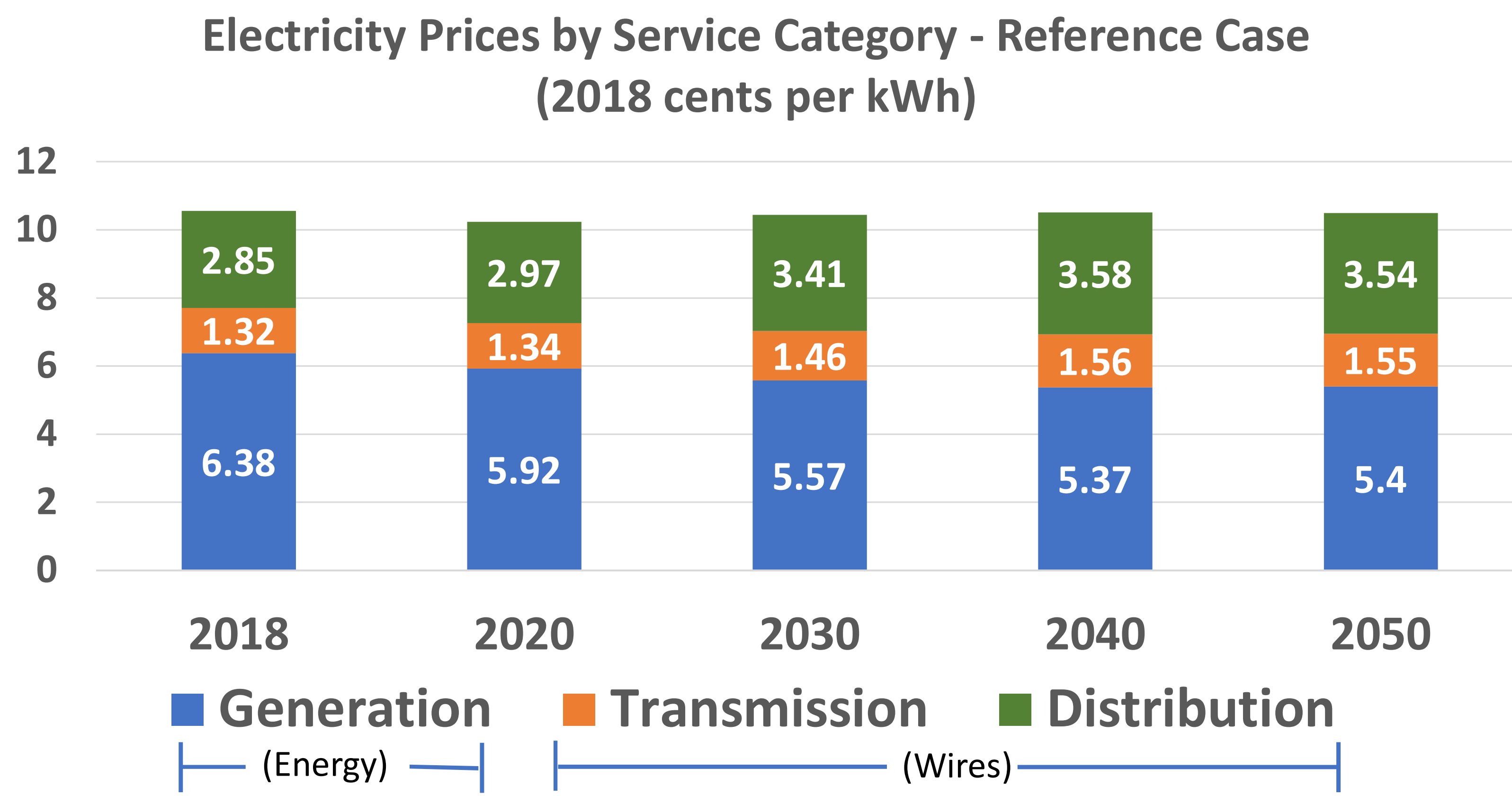
Less Coal – More Nat Gas and Renewables



Renewables Growth Mainly in Solar

Source: DOE/EIA AEO 2019

U.S. Electric Price Forecast Appears Stable



Energy Costs Trending Down – Wires Charges Trending Up

Source: DOE/EIA AEO 2019

Texas Electric Market Has a Few Differences

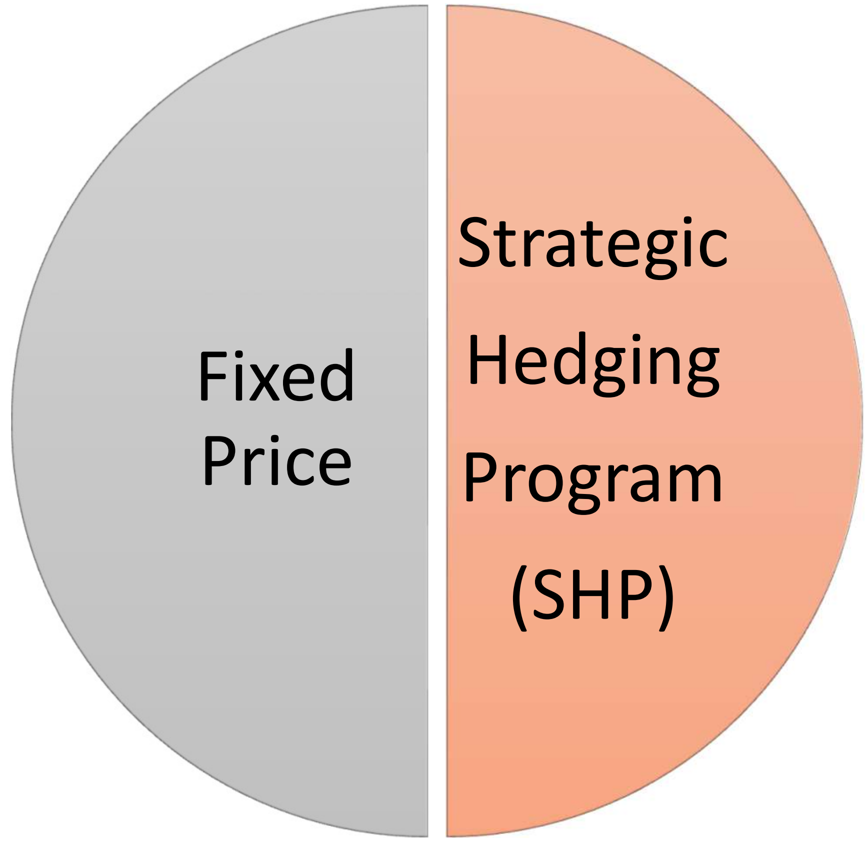
- Growing Usage and Demand - Contrary to U.S. market
- Recent Supply Shortage Mainly Due to Plant Retirements
  - Increased Price Volatility in 2018 - 2019
  - Projections Show Return to Stability in 2020
- More Distributed Generation
- More Renewable Generation Sooner
- Large Scale Batteries Increasing
- Energy Conservation by End Users Increasing

CONFIDENTIAL

Consumer Impacts for ERCOT Customers

- Higher Delivery (Wires) Charges
- Despite Short Term Volatility, Long Term Energy Prices Should Be Low
- There Will be More Market Supply Offerings
  - Wise to be Cautious
- ERCOT Charges May Increase
- May See Some Fundamental Market Changes from Legislature or Public Utility Commission

TCAP Future Procurement Options



- **Fixed Price Option (Traditional TCAP Pricing) Still Available**
- **SHP Has Periodic Off Ramps - Not a Permanent Election**

TCAP's Current Contract is Favorable

Strategic Hedging Program (SHP) Designed to Enhance Pricing

Important Buying Concepts

- If the product is the same - Buy when the price is cheaper
- Avoid carrying charges and risk premiums – much like how we save for retirement, buy in small increments over time to spread risk
- Comparison shop for the best deal

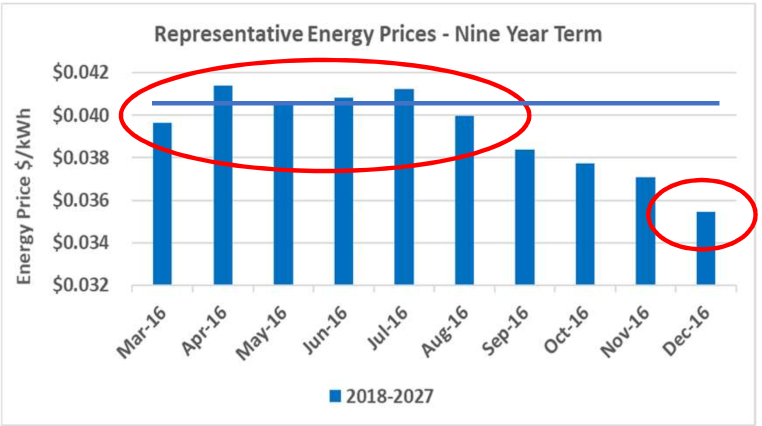
What Have Traditional Offerings Looked Like?

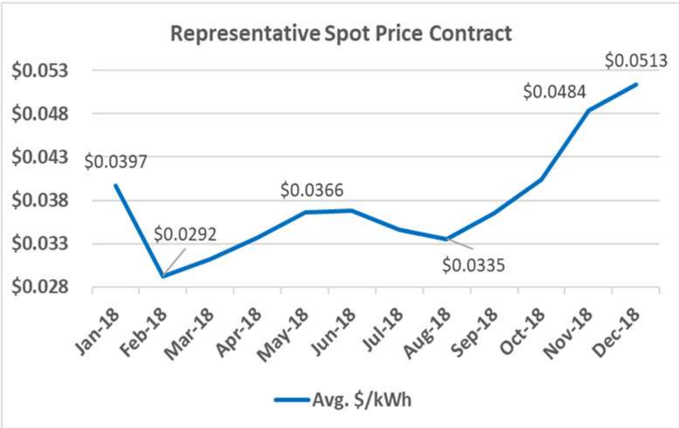
Fixed Price Contract

- Commitment to a Fixed Energy Price for a Fixed Term (Maybe)
- Perceived as Less Risky Because Price is Certain
- More Expensive Than Other Options

Variable Price Contract

- Price of Energy Varies, based on Spot Market
- Perceived as More Risky Because Future Price is Unknown and Hourly Price Volatility
- Typically Cheaper Than Other Options



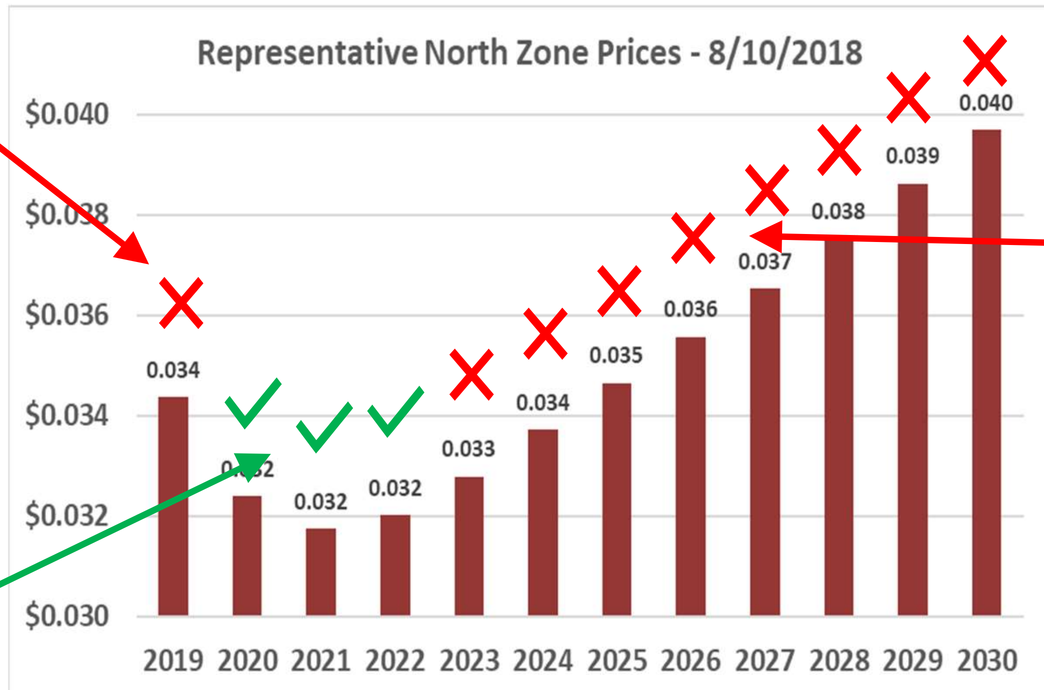


ERCOT Pricing Pattern Dynamics

Why Does Price Change Over Time?

Prices Often Higher in Immediate Next Year Reflecting Uncertainty Created by Current Market Problems and Issues

Market Feels Short Term Problems will be Resolved and Carrying Charges and Market Premium are Low. All Else Being Equal, a Good Time to Buy.



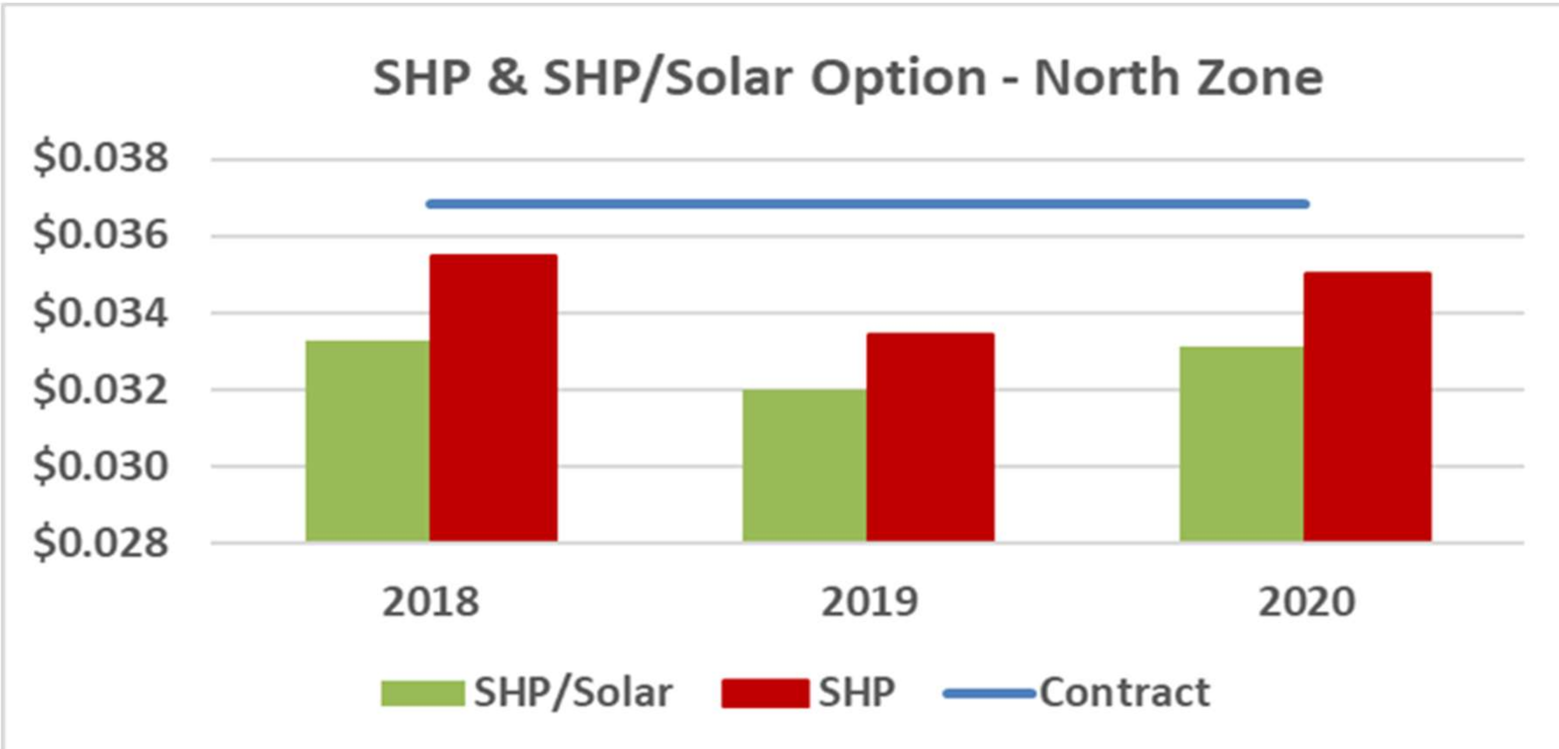
Prices Increase Over Time Reflecting Carrying Costs of Procurement for Future Needs and Risk Premiums for future market uncertainty

This Pattern Has Been in Place for at Least the Last Four Years and Reflects a Well Supplied Market

SHP Mechanics – What is Different?

- **Periodic Procurements**
  - Multiple RFPs for Each Year's Procurement to mitigate risk
  - Avoids the "All-In" Guess of a Single Fixed Price Multi-Year Deal
  - No Need to Change REPs to capture a Price (but can change REP if service falters)
- **Ultra-Competitive RFP Process for Procureme**nt
  - Pool of 20+ Vetted Creditworthy Supplies
  - True Energy Portfolio – At Least 4 Suppliers in TCAP Portfolio at all times
  - Suppliers can be added or deleted as desired
- **Fits Member Needs**
  - **Timely** – Price known by Member prior to fiscal year budgeting needs
  - **Market Competitive** – Avoids Member Having To Explain a Long Term Out of Market Contract Price to Citizens
  - **Flexible** – Periodic Off Ramps to Allow Member to Revert to Longer Term Fixed Price if Desired

Analysis Shows SHP Works



Long Range Lookback Shows Savings From 2% (Worst Case) to 32% Over Fixed Price Option

Recent Market Quotes Suggest Pricing Will Be Significantly Lower For Next Renewal Period!

Important Buying Concepts – SHP Utilizes Them

- **If the product is the same - Buy when the price is cheaper**
  - SHP will utilize strategic purchasing strategies to buy electricity when the price is cheaper

- **If possible, avoid carrying charges and risk premiums – much like how we save for retirement, buy in small increments over time**
  - SHP will utilize strategies that avoids carrying charges and risk premiums by buying in smaller increments over time and avoid long term, risker procurements

- **Comparison shop for the best deal**
  - SHP will us an RFP type process to procure supplies from multiple sources. Bids will be requested from at least 4 suppliers chosen from a pool of 20+ vetted creditworthy suppliers.

Renewables - Recent Solar Deals Show Lower Costs

gtm. Solar Grid Edge Storage Wind More Trending Podcasts Resources

UTILITY-SCALE SOLAR

Texas Municipal Utility Signs New Super-Low Solar PPA

The deal rivals the lowest utility-scale power purchase agreement prices, at below $25 per megawatt-hour.

EMMA FOEHRINGER MERCHANT | DECEMBER 14, 2018

This is equivalent to $0.025 /kWh

<u>Important Specifics</u>

- Short-Term Opportunity Created by Incentives (end of 2023)
- Lengthy Term Required (7-15 years)
- Wholesale Product – Typically Price Adders to Make It Retail Energy at the Meter
- Often Sold Pre-development - Risk of Actual Build
- Retail Options May Have Issues
- **Only Meets a Portion of User Total Needs**

What is the Delivered Price?

Item	Example $/MWh	Example $/kWh
Solar Price at Zonal Hub (Wholesale Price)	25.00	0.025
+ Ancillaries (2018 est.)	2.50	0.0025
+ Zonal Basis (Varies by Zone) 2017/18 Avg.	0.50-4.50	0.0005-0.0045
+ Losses @ 6.5%	1.63	0.00163
+ REP Adder	1.50	0.0015
+ Broker Fee	1.00	0.0010
= Total	32.13-36.13	0.0321-0.0361

The Risk of Over-Procurement is Real

Why Not Buy All Solar and Wind?

It's Been Tried Before!

COMMUNITY IMPACT NEWSPAPER

LOCAL. USEFUL. EVERYONE GETS IT.®

You're seeing news from GEORGETOWN

ADVERT

IMPACTS TRANSPORTATION GOVERNMENT BUSINESS DINING THINGS TO DO E-NEWSLETTER LATEST E

Energy price drop costs city of Georgetown electric fund $6.84M

Renewables - In A Nutshell

- Can be a good deal – if structured and contracted properly
- Low prices often require longer contract terms
- Make sure you know the delivered price
- Behind the meter solar can avoid wires charges
- Over-procurement is <u>very</u> risky

Recap and SHP Advantages

- U.S. and Texas energy futures looks bright – abundant supplies and stable prices
- SHP is a unique opportunity for TCAP members
- SHP is a structured ultra-competitive purchase program - buys when price is most advantageous
  - Avoid buyer's remorse of the "all-in" guess of a long-term fixed price (50% correct)
  - Avoids carrying charges and risk premiums
  - Know future energy price prior to budgeting
- Solar option adds portfolio diversity, and may improve price (may also extend term)
- SHP is flexible – adaptable to market changes and member can convert to fixed price

What’s Next?

- **Need to Execute Professional Services Agreement**
- **Be Prepared to Execute New CESA in 2020**
- **Need to Determine If Solar Option is Desired**

QUESTIONS?

CALL TCAP

Margaret Somereve
972-764-3136