



Legislation Text

File #: 991142, Version: 0

GRU Membership in The Energy Authority (B)

In June 1998, the City Commission authorized the General Manager to execute a Resource Management Agreement with The Energy Authority (TEA). The issues presented and reasons discussed for making the recommendation to (see Attachment A) contract with TEA in June of 1998 are still valid today. Staff also indicated a mutual interest with TEA of exploring full membership. Membership in this context means the City would become part owner of TEA instead of having a contractual relationship.

Membership has several benefits. As discussed in the June, 1998 Commission agenda, the wholesale market has undergone much change in the last few years. Participation in the wholesale market has become more difficult, but at the same time it has become more important for the vitality of the utility to insure long term benefits to the City and its utility customers. Membership provides us with the opportunity to have a voice in the decision making and future direction of TEA. It allows your staff access to complete information about the business activities of TEA, so that we may take full advantage of the resources they provide. Membership also entitles us to utilize TEA's services at cost instead of paying a negotiated service charge. For example, for the period of June 1998 through October 1999, GRU paid TEA a total of \$431,370 in fees under our contract. If GRU had been a member for the same period of time we would have paid \$139,554 for a savings of \$291,816. TEA has not renegotiated our contract fees to date, but staff expects TEA to raise its fees in the near future, at least to adjust for inflation.

Additionally, becoming a member will require us to make an initial contribution of \$1 million in a working capital account. GRU's portion of income or expenses incurred by TEA will be deposited or deducted into or from this account and disbursements made to GRU accordingly.

To achieve the above benefits, GRU will have to assume some risks as part owner. These risks come from two primary sources, business risks and credit risks. TEA's primary function is to buy and sell power for its members. To keep the cost of operating TEA as low as possible to the members, TEA occasionally buys and sells power between non-members and the "profit" produced is used to offset operating expenses. There is some risk that TEA could lose money on a particular transaction, and as an owner, we would participate in a pro-rata share of the loss. However, TEA has a very strong risk management program including transaction limits to mitigate exposure to losses. Staff has reviewed this program and is satisfied that TEA's risk management practices are adequate and appropriate for the types of transactions they implement. As owners of TEA, we are also required to guarantee a certain amount of TEA's business in the form of cash, trade guaranty or guaranty to a Bank which issues Letters of Credit. However, the utilities' exposure is limited to approximately \$5M. More importantly, the other members are all large and strong financial organizations with credit ratings of similar quality to ours. Therefore, any risk is shared by all members.

Attached for your information is the June 1998 agenda letter referenced as Attachment A; the Membership Agreement as Attachment B; the Restated and Amended Advance Agreement as Attachment C; and the TEA By-laws as Attachment D. The Operating Agreement and other draft closing documents are on file with the Clerk of the Commission.

The City Commission authorize the General Manager to: 1) Negotiate the final terms and conditions of a membership agreement with The Energy Authority (TEA); 2) Execute all membership documents substantially in the form as those on file in the Office of the Clerk subject to approval of the City Attorney as to form and legality, and 3) Pay all sums due and make all deposits required under the terms and conditions of the membership agreement

and advance agreement; and perform such other acts as may be required to comply with the closing documents. The membership fee for joining TEA is \$867,360. Cost saving estimates indicate a savings in monthly expenses of approximately \$18,000 per month over the current contractual arrangement at today's rates, providing for an approximate four year payback.

Prepared by Darrell R. DuBose, AGM/Energy Supply

Reviewed by Raymond O. Manasco, Jr., Utilities Attorney

Submitted by Michael L. Kurtz, General Manager