

SUBJECT:

Approval to negotiate and enter into a new term electrical agreement through the GLO State Power Program for an optional 12, 24 or 36, 48 or 60 month extension term beginning June 1, 2008.

BACKGROUND:

The Hidalgo County is currently under contract with the Texas General Land Office to purchase all electricity requirements for its facilities. This contract is in effect through May 31, 2008. The County contract includes the cost of TDSP charges bundled in the contract price which has benefited the county due to an interim rate increase imposed by AEP around June of 2007. The GLO did not assess additional charges to the Hidalgo County due to AEP's rate increase. County staff has been evaluating Natural Gas Markets, Oil commodity markets as well as monitoring electricity prices in order to determine the best value for the county.

EVALUATION:

Electricity prices in the deregulated market are extremely volatile and sensitive to movements in the prices of natural gas. As a result, the price of electricity can fluctuate from day to day as well as intraday. While no one can predict whether electricity prices will be higher or lower in the future, current market conditions enable us to remain within +/- .0051 per kWh of our current price of .10563, for a longer term contract. Additionally, the GLO is capable of bundling congestion fees associated with the zonal to nodal market design change - scheduled to be implemented by ERCOT beginning December 2008.

The GLO has accommodated all of the County's new accounts at the contract price and has not imposed penalties for deletion of any accounts. Hidalgo County accounts are also afforded unlimited bandwidth, which allows the County to use more or less energy than expected. Additionally, through the GLO State Power Program, County accounts are not assessed Gross Receipt Tax or Public Utility Commission Assessment Fees. Estimated savings due to non-assessment of these taxes are over \$40,000 annually. The County has also saved significant amount of money avoiding consultant fees which range from .002 to .005 per kWh. On the low end Consultant fee savings for a 24 month term agreement are estimated at \$68,000, with little or no support after the County enters a contract. Finally, the GLO will be providing assistance with utility consumption reporting requirements per HB 3693.

In the event of additional market opportunities in the future, the Hidalgo County may have a chance to lower its current price of electricity for the remainder of the contract term while extending the lower price for an additional period (Blend and Extend), allowing us to manage the cost down.

STAFF RECOMMENDATION:

It is recommended that the Commissioners Court consider authorization of the County Judge or his designee to enter into an inter-local electric service agreement with the Texas GLO for a term of up to 60 months +/- 5 months in hopes of catching a dip in the market in tandem with an optimized term. Conversely, as a stop gap measure, the County Judge would also would be authorized to strike if the market begins to climb and reaches a certain point.