

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.

Hidalgo County

For 01/01/08 - 01/31/09

Expenditure Summary Report

FJEXS01A

Periods 01 - 13

Standard Report Format

1001 - Standard Report Spec

Account No./Description	Adjusted Budget	Y-T-D Encumb	Period Expended	Y-T-D Expended	Available Balance	Percent Used
1100 GENERAL FUND						
8-1100-412-00-064-001-0-622 JP PCT 2/PL 2-ELECTRICITY	3,600.00	.00	145.89	145.89	3,454.11	4.05
8-1100-415-00-115-002-0-622 CO WIDE ADM-ELECTRICITY	.00	.00	3,544.18	3,544.18	-3,544.18	.00
8-1100-415-15-140-001-0-622 TAX OFF-ELECTRICITY	20,000.00	.00	1,936.87	1,936.87	18,063.13	9.68
8-1100-419-40-220-001-0-622 GEN GOVT BLDG-ELECTRICITY	900,000.00	.00	163,109.17	163,109.17	736,890.83	18.12
8-1100-421-00-280-001-0-622 SHERIFF-ELECTRICITY	100,000.00	.00	15,396.56	15,396.56	84,603.44	15.40
8-1100-423-00-320-001-0-622 ADULT PROB-ELECTRICITY	36,000.00	.00	9,411.78	9,411.78	26,588.22	26.14
8-1100-423-21-280-002-0-622 JAIL-ELECTRICITY	500,000.00	.00	55,541.02	55,541.02	444,458.98	11.11
8-1100-423-32-330-001-0-622 JUV DET HM-ELECTRICITY	229,800.00	.00	33,799.65	33,799.65	196,000.35	14.71
8-1100-432-00-121-001-0-622 SANITATION PCT.1-ELECTRICITY	4,000.00	.00	1,359.23	1,359.23	2,640.77	33.98
8-1100-432-00-122-001-0-622 SANITATION PCT.2-ELECTRICITY	3,380.75	.00	19.10	19.10	3,361.65	.56
8-1100-432-00-123-001-0-622 SANITATION PCT.3-ELECTRICITY	4,000.00	.00	845.93	845.93	3,154.07	21.15
8-1100-432-00-124-001-0-622 SANITATION PCT.4-ELECTRICITY	1,500.00	.00	219.00	219.00	1,281.00	14.60
8-1100-441-00-340-003-0-622 HEALTH CLINICS-ELECTRICITY	72,000.00	.00	12,033.17	12,033.17	59,966.83	16.71
8-1100-444-00-115-030-0-622 EASTER SEALS RGV-ELECTRICITY	12,500.00	.00	1,608.54	1,608.54	10,891.46	12.87
8-1100-451-10-115-033-0-622 HISTORICAL COMM-ELECTRICITY	3,000.00	.00	.00	.00	3,000.00	.00
1100 GENERAL FUND	1,889,780.75	.00	298,970.09	298,970.09	1,590,810.66	15.82
1200 R&B COUNTY WIDE						
8-1200-431-00-122-004-0-622 CO SHOP-ELECTRICITY	1,100.00	.00	269.97	269.97	830.03	24.54
1201 R&B COUNTY WIDE						
1201 R&B PRECINCT NO.1	1,100.00	.00	269.97	269.97	830.03	24.54
8-1201-431-00-121-004-0-622 PCT.1 RD ADM-ELECTRICITY	15,000.00	.00	3,205.13	3,205.13	11,794.87	21.37
8-1201-431-00-121-005-0-622 PCT.1 P/U RD-ELECTRICITY	6,000.00	.00	916.23	916.23	5,083.77	15.27
1202 R&B PRECINCT NO.1	21,000.00	.00	4,121.36	4,121.36	16,878.64	19.63
1202 R&B PRECINCT NO.2						
8-1202-431-00-122-005-0-622 PCT.2 RD ADM-ELECTRICITY	7,000.00	.00	1,570.25	1,570.25	5,429.75	22.43
8-1202-431-00-122-006-0-622 PCT.2 P/U RD-ELECTRICITY	12,011.96	.00	2,595.86	2,595.86	9,416.10	21.61
1203 R&B PRECINCT NO.2	19,011.96	.00	4,166.11	4,166.11	14,845.85	21.91
1203 R&B PRECINCT NO.3						
8-1203-431-00-123-004-0-622 PCT.3 RD ADM-ELECTRICITY	28,000.00	.00	6,163.35	6,163.35	21,836.65	22.01
1204 R&B PRECINCT NO.4	28,000.00	.00	6,163.35	6,163.35	21,836.65	22.01

Hidalgo County
 Expenditure Summary Report
 Standard Report Format

Account No/Description	Adjusted Budget	Y-T-D Encumb	Period Expended	Y-T-D Expended	Available Balance	Percent Used
1204 R&B PRECINCT NO.4						
8-1204-431-00-124-005-0-622 PCT.4 RD ADM-ELECTRICITY	11,000.00	.00	801.05	801.05	10,198.95	7.28
8-1204-431-00-124-007-0-622 PCT.4 P/U RD-ELECTRICITY	5,000.00	.00	.00	.00	5,000.00	.00
1204 R&B PRECINCT NO.4	16,000.00	.00	801.05	801.05	15,198.95	5.01
1211 PARKS PRECINCT NO.1						
8-1211-452-00-121-013-0-622 PARKS PCT.1-ELECTRICITY	20,000.00	.00	4,390.64	4,390.64	15,609.36	21.95
1211 PARKS PRECINCT NO.1	20,000.00	.00	4,390.64	4,390.64	15,609.36	21.95
1212 PARKS PRECINCT NO.2						
8-1212-452-00-122-008-0-622 PARKS PCT.2-ELECTRICITY	35,000.00	.00	8,116.73	8,116.73	26,883.27	23.19
1212 PARKS PRECINCT NO.2	35,000.00	.00	8,116.73	8,116.73	26,883.27	23.19
1213 PARKS PRECINCT NO.3						
8-1213-452-00-123-008-0-622 PARKS PCT.3-ELECTRICITY	25,000.00	.00	5,286.93	5,286.93	19,713.07	21.15
1213 PARKS PRECINCT NO.3	25,000.00	.00	5,286.93	5,286.93	19,713.07	21.15
1214 PARKS PRECINCT NO.4						
8-1214-452-00-124-009-0-622 PARKS PCT.4-ELECTRICITY	10,000.00	.00	400.88	400.88	9,599.12	4.01
1214 PARKS PRECINCT NO.4	10,000.00	.00	400.88	400.88	9,599.12	4.01
1291 HIDTA						
8-1291-412-00-270-003-7-622 HIDTA TASK FORCE-ELECTRICITY	5,700.00	.00	900.00	900.00	4,800.00	15.79
1291 HIDTA	5,700.00	.00	900.00	900.00	4,800.00	15.79
1292 WIC						
8-1292-441-00-350-001-8-622 WIC ADM-ELECTRICITY	98,725.90	.00	23,517.62	23,517.62	75,208.28	23.82
1292 WIC	98,725.90	.00	23,517.62	23,517.62	75,208.28	23.82
1295 POST ADJUDICATION JUVENILE BOOT CAMP						
8-1295-423-00-330-028-0-622 WESL B/C-ELECTRICITY	70,000.00	.00	11,944.93	11,944.93	58,055.07	17.06
1295 POST ADJUDICATION JUVENILE BOOT CAMP	70,000.00	.00	11,944.93	11,944.93	58,055.07	17.06
1297 ADULT PROBATION						
8-1297-423-00-320-005-8-622 RESTITUTION CTR-ELECTRICITY	26,462.18	.00	5,866.63	5,866.63	20,595.55	22.17
8-1297-423-00-320-008-8-622 COMM CORR-ELECTRICITY	5,925.65	.00	6,277.36	6,277.36	-351.71	105.94
1297 ADULT PROBATION	32,387.83	.00	12,143.99	12,143.99	20,243.84	37.50
8 YEAR	2,271,706.44	.00	381,193.65	381,193.65	1,890,512.79	16.78



Hidalgo County

April 7, 2008

Hidalgo County



- On 3-28-2006 Hidalgo County locked into an Agreement with the General Land Office
 - Locked into Fixed price Contract of .10563 - through the end of May 2008 – inclusive of AEP Transmission and Distribution Charges
 - *At the time prices higher than previous contract price due to increases in NG prices.*
 - *Currently in similar situation*
- Hidalgo County in aggregate uses approximately 16,000 annual MWH's
- Hidalgo Load has increased
 - Adds and Deletes accommodate without incident

Hidalgo County



AEP Transmission and Distribution Charges included in price

- Current indicative FP Bundled Prices
 - 12 month - .12379
 - 24 month - .11888
 - 36 month - .11632
 - 48 month - .11478
 - 60 month - .11431
- Elimination of GRT and PUC reimbursement charges
 - Equal to about 2.167% of total spend, including TDSP charge
 - Approximately .00247 per kWh - \$39,000 annually; due to non-assessment of taxes.
- Price includes protection from transition to zonal to nodal market expected to begin December 2008.

Nodal Market Design Changes



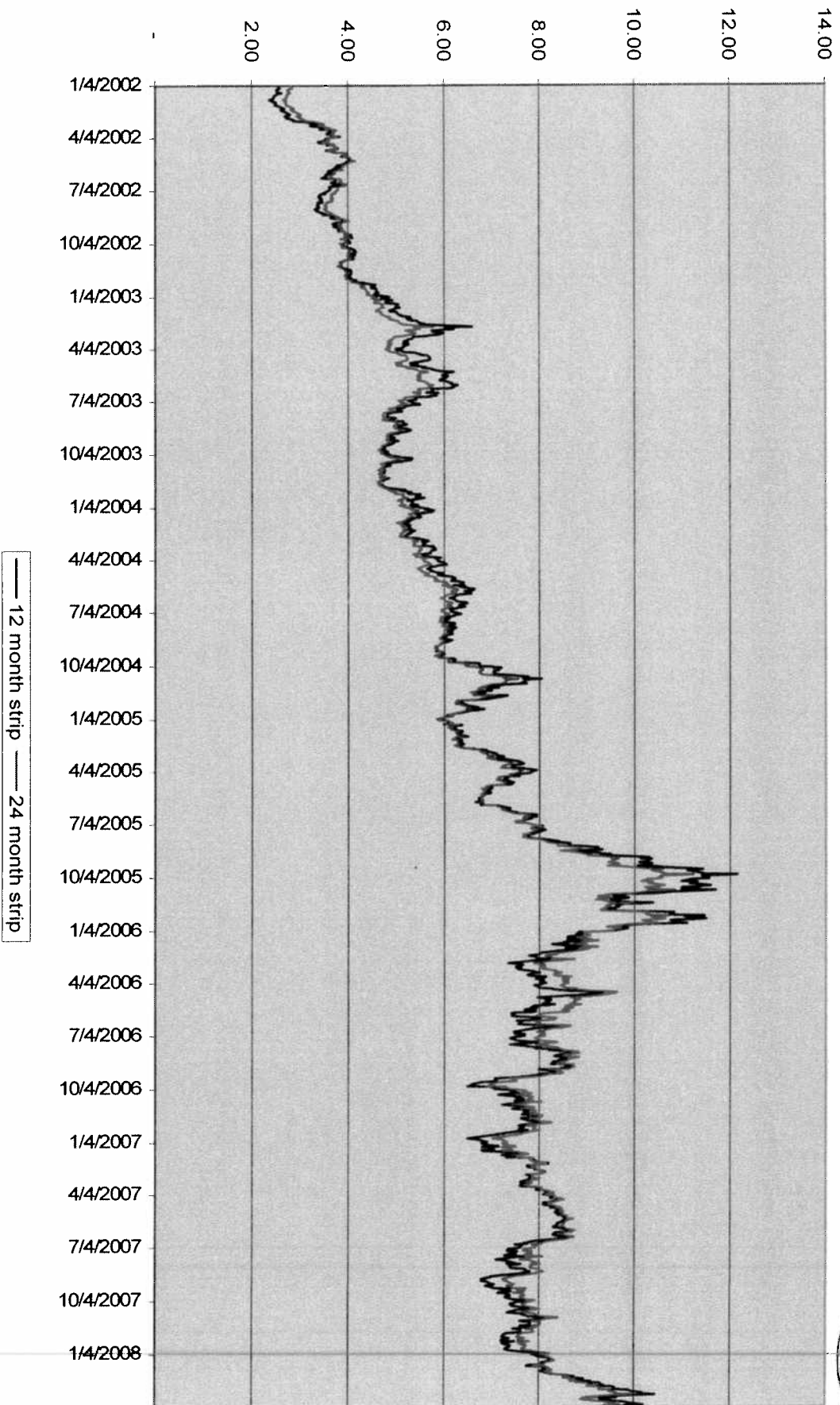
- Changing from Zonal to Nodal Market Design
 - Beginning December 2008
 - From 4 zones to 4,000 Nodes
 - Each nodal price considers generation cost, power line constraints and load.
 - Intra-zonal congestion
 - Capable of shielding from increases due to market design change.

AEP Rate Case

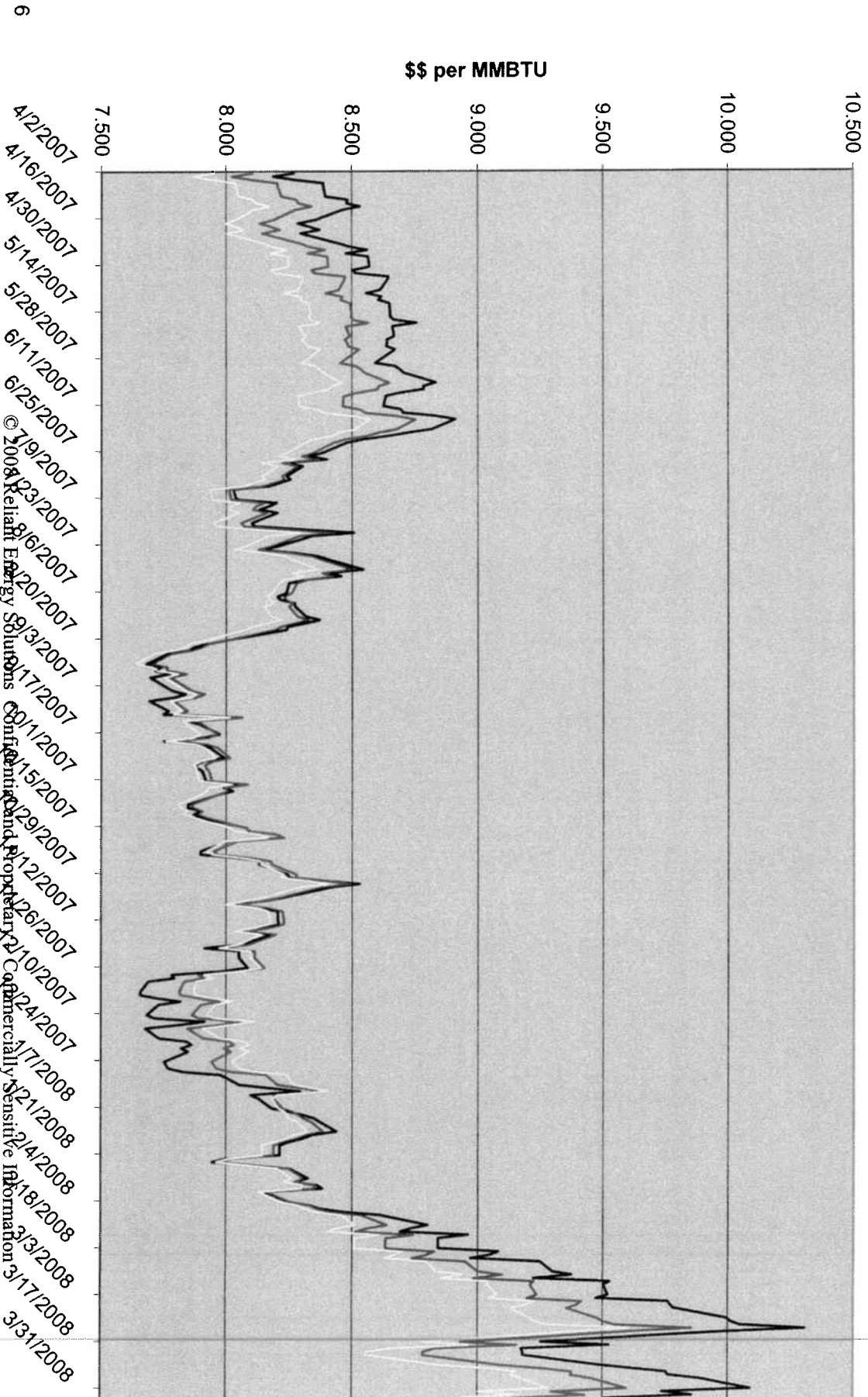


- AEP interim T&D rate increase
 - Began June 07
 - Did not impact Hidalgo County due to Bundled rate
 - New T&D rates finalized by PUCT

HSCI Gas 12 and 24 Month Strip 2002 to Current



Natural Gas Strips HSCI beginning June 2008



Hind-site / Influencing Variables



- Post Analysis of market
 - Longer than expected Winter
 - Has drawn Gas stocks down
 - **High Oil Prices**
 - Gas is substitute
 - All Commodities in General have increased
 - Sorghum, Coal, Gold, Soybeans, Cotton, Etc,
 - Alternative fuel price increases (Coal, Grain, Corn, Renewables)

- Predicting market like predicting collective view of Natural Gas Traders emotions and beliefs from one day to the next.

Strategies



- **Terms**
 - Capable of locking in up to 5 year Term.
Through May 2013.
- **Targets**
 - Establish Targets for multiple terms
 - Determine time frame whereby targets can be met
- **Lock in Now**
 - Belief that market will not improve significantly
 - Do not want to bear additional risk
- **Blend and Extend can be analyzed on an Ad Hoc basis.**
 - Blend remaining term with new term can lower price.

State Power Program Benefits



- Security of contracting with the State of Texas via Interlocal agreement
- In-kind royalties from state mineral production may be converted into electricity for sale to public retail customers
- Elimination of GRT and PUC reimbursement charges
 - Equal to about 2.167% of total spend, including TDSP charge
- No Meter or Aggregation Fees
- No Hidden Charges
- Superior Customer Care support
 - Extensive experience in meeting the unique needs of Counties and working with TDSPs
 - Dedicated Customer Care representative with experience with County business requirements