



# CITY OF LODI

# COUNCIL COMMUNICATION

**AGENDA TITLE:** Adopt a resolution authorizing the City Manager to sign a consulting services agreement with McDonald Partners to provide bulk power cost modeling and strategic advisory services to the Electric Utility Department (not to exceed \$75,000) (EUD)

**MEETING DATE:** February 20, 2002

**PREPARED BY:** Electric Utility Director

**RECOMMENDED ACTION:** That the City Council authorize the City Manager to sign a consulting services agreement for professional services with McDonald Partners to provide production cost modeling and strategic advisory services to the Electric Utility Department up to a maximum of \$75,000.

**BACKGROUND INFORMATION:** The extreme volatility in the energy markets last year has made the entire energy industry re-evaluate the traditional concept of resource planning. Traditional seasonal relationships related to energy pricing can not be counted on in the new energy markets.

The City of Lodi Electric Utility Department (EUD) has relied on the Northern California Power Agency (NCPA) to handle most of its seasonal energy needs. In the past, energy prices were based on production costs. Now, energy prices are market driven. It is the intent of the EUD to reduce our exposure to market prices and lock in a stable and competitive energy rate for our customers.

NCPA uses a sophisticated production cost model to optimize the value of NCPA resources for the ten NCPA pool members. Lodi is a member of the NCPA pool and has traditionally benefited from the cost modeling provided to all members. Things have changed. Although it is the EUD's intent that Lodi remains a pool member, the time has come for Lodi to evaluate it's own resource needs in terms of future energy market volatility. NCPA must continue to focus on the entire NCPA pool. It is the EUD's intent to drastically limit our exposure to the vagaries of the existing energy market place. In that regard, it is our intent to retain the technical expertise of McDonald Partners to assist Lodi in developing a financially based production cost model. Such a model integrates all cost centers and allows for real time analysis of our revenue requirement compared to a variety of operating scenarios.

The arrangement which we are asking the Lodi City Council to approve provides for a number of tasks to be performed by McDonald Partners. The end product will be a PC based financial model which integrates market movements in both electrical and fuel costs. The EUD can not project its resource costs in an efficient manner, in the long term, without such a model. The City does not posses the expertise to develop an integrated model like this on its own. It is therefore recommended that the City Council authorize the City Manager to execute a consulting services agreement for professional services with McDonald Partners at a cost not to exceed \$75,000. A copy of the proposed agreement is attached hereto.

**FUNDING:** 160603.7323  
Funding Approval: Vicky McAthie  
Vicky McAthie, Finance Director

Alan N. Vallow  
Alan N. Vallow  
Electric Utility Director

C: City Attorney  
Finance Director

**APPROVED:** H. Dixon Flynn  
H. Dixon Flynn - City Manager

# McDonald Partners

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February 12, 2002

Mr. Alan Vallow  
Electric Utility Director  
Lodi Electric  
1331 S. Ham Lane  
Lodi, CA 95242-3995

Dear Alan:

McDonald Partners would be pleased to provide resource cost and strategic advisory services to Lodi Electric. As we discussed, McDonald Partners will work closely with you, your staff and other consultants to develop and execute strategies that are consistent with a goal of obtaining long term price stability for Lodi Electric's customers. The proposed scope of work shall include the following tasks:

#### Task 1 – Data Gathering and Critical Review

- Identification of all of Lodi Electric's resources and contractual arrangements
- Review of existing financial and resource models.
- Review of Lodi Electric's most recent and historical load forecasts.
- Correlation of historical loads and resources with weather data.

Estimated Time: Four Weeks  
Proposed Fee: \$15,000

#### Task 2 - Develop Comprehensive Resource Cost Model

- Integrate load and resource data with gas and power forecasts
- Include economic dispatch of peaking assets
- Provide flexibility for alternative scenarios
- Measure current price risk and budgetary impacts
- Document model for additional users
- Review mid-Task as necessary with Lodi Electric Management

Estimated Time: Eight to Ten Weeks  
Proposed Fee: \$45,000

#### Task 3 – Development of Recommendations to Ensure Price Stability.

- Recommend appropriateness of physical or financial hedging strategies
- Identify potential transaction structures
- Demonstrate impact on Lodi Electric's retail rates

Estimated Time: Three to Four Weeks  
Proposed Fee: \$15,000

**Additional provisions**

McDonald Partners is available to begin work on Task One of this assignment immediately. Work on each subsequent Task shall commence solely at the direction of Lodi Electric's General Manager. McDonald Partners will share proprietary forward gas and power curve data throughout this engagement. All information related to this assignment will be held in strictest confidence.

In addition to the fees proposed above, all out-of-pocket expenses (which shall include, but not be limited to, travel, lodging, telephone, overnight mail, postage and copying) shall be for the account of Lodi Electric. Fees and out-of-pocket expenses will be billed at the completion of each Task.

The effective date of this engagement shall be February 21, 2002. This engagement shall terminate upon completion of the identified tasks, unless an amendment outlining additional tasks, expected completion and fees is agreed to by both parties.

If the terms of this engagement as set forth in this letter are satisfactory, kindly sign the acceptance and return an original to me the above address. If you have any questions or need additional information, please call me at (925)-743-8498. I look forward to working with you on this assignment.

Sincerely,

Sandra McDonald  
Principal  
McDonald Partners

Accepted:  
City of Lodi

By: \_\_\_\_\_

Title: City Manager

Date: \_\_\_\_\_

ATTEST

By: \_\_\_\_\_

Title: City Clerk

Date: \_\_\_\_\_

APPROVED AS TO FORM

By: \_\_\_\_\_

Title: City Attorney

Date: \_\_\_\_\_

RESOLUTION NO. 2002-44

A RESOLUTION OF THE LODI CITY COUNCIL AUTHORIZING  
THE CITY MANAGER TO EXECUTE A CONSULTING SERVICES  
AGREEMENT WITH MCDONALD PARTNERS TO PROVIDE  
BULK POWER COST MODELING AND STRATEGIC ADVISORY  
SERVICES TO THE ELECTRIC UTILITY DEPARTMENT

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NOW, THEREFORE, BE IT RESOLVED, that the Lodi City Council does hereby authorize the City Manager to execute a consulting services agreement with McDonald Partners to provide bulk power cost modeling and strategic advisory services to the Electric Utility Department.

Dated: February 20, 2002

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I hereby certify that Resolution No. 2002-44 was passed and adopted by the Lodi City Council in a regular meeting held February 20, 2002 by the following vote:

AYES: COUNCIL MEMBERS – Hitchcock, Howard, Land, Nakanishi, and Mayor Pennino

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None



SUSAN J. BLACKSTON  
City Clerk