CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Adopt a resolution authorizing the City Manager to extend the consulting services agreement with McDonald Partners, Inc. through December 2003 to provide bulk power cost modeling and strategic services to the Electric Utility Department ($70,000) (EUD)

MEETING DATE: July 16th, 2003

PREPARED BY: Electric Utility Director

RECOMMENDED ACTION: That the City Council adopt a resolution authorizing the City Manager to extend the consulting services agreement with McDonald Partners, Inc. through December 2003, to provide bulk power cost modeling and strategic services to the Electric Utility Department ($70,000).

BACKGROUND INFORMATION: 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. Markets have not been as volatile as 2001, but recent price volatility shows that we are beyond the low prices following the 2001 crisis. Market risk is still viable. 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, we have previously retained the technical expertise of McDonald Partners developing a financially based production cost model. The arrangement, which we are asking the Lodi City Council to approve, provides for a number of tasks to be performed by McDonald Partners.

- Maintain Lodi Electric's Resource Planning Model.
- Analyze and provide recommendations related to power market strategies to reduce market risk
- Assist in negotiating agreements and evaluating the credit risk of energy suppliers.
- Meet in Lodi on a monthly basis to review strategies

The contract amount will cover work through December 2003.

FUNDING: 160603

Funding Approval: Ruby R. Paiste for
Vicky McAthie, Finance Director

APPROVED: _____
H. Dixon Flynn - City Manager

CITY COUNCIL

SUSAN HITCHCOCK, Mayor
EMILY HOWARD
Mayor Pro Tempore
JOHN BECKMAN
LARRY HANSEN
KEITH LAND

CITY OF LODI

ELECTRIC UTILITY DEPARTMENT

ALAN N. VALLOW, DIRECTOR

1331 S HAM LANE

LODI, CALIFORNIA 95242-3995

(209) 333-6762

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H. DIXON FLYNN
City Manager

RANDALL A. HAYS
City Attorney

SUSAN J. BLACKSTON
City Clerk

March 20, 2003

McDonald Partners, Inc.
222 High Eagle Road
Alamo, CA 94507

Dear Sandra and Michael:

Lodi Electric proposes to transition the consulting services McDonald Partners, Inc. (McDonald Partners) has provided during the past year from a project-based arrangement to a monthly retainer. Under this arrangement, we would like McDonald Partners to work with Lodi Electric staff to develop and execute strategies that are consistent with a goal of maintaining long-term price stability for Lodi Electric's customers. As we discussed, McDonald Partners will work under the direction of the City of Lodi Electric Utility Director and will be responsible for developing and assisting in the implementation of comprehensive energy commodity management strategies including, but not limited to the following specific activities:

- Maintain Lodi Electric's Integrated Resource Planning Model to include current load forecasts, gas and power price forecasts, resource utilization, price risk exposure and budgetary impacts.
- Compare actual data to forecasts to monitor the accuracy of the Integrated Resource Model.
- Make available McDonald Partners' proprietary forward gas and power curve data on a quarterly basis throughout the engagement.
- Negotiate enabling agreements with credit-worthy gas, power, and financial products suppliers.
- Perform and maintain counter party credit analyses.
- Monitor Lodi Electric's mark-to-market exposure/liability on term contracts.
- Identify opportunities and recommend transactions for utilization of Lodi Electric physical assets including Lodi's share of the COTP and the Lodi Gas Storage Project.
- Recommend appropriateness of physical and financial hedging strategies for natural gas, power, and debt management.
- Monitor gas and power markets on a regular basis and identify potential transaction structures.
- Develop term sheets, solicit bids/offers from a pool of providers and analyze provider proposals.
- Provide transaction follow up to ensure proper deal confirmation, scheduling, accounting, and billing.
- Meet in Lodi on a monthly basis to review strategies.

Proposed fee: $11,500 per month for the fiscal year 2003/2004. It is anticipated that continuing work for the next budget year will be at a reduced rate. Should additional meetings be required, incremental meeting time will be billed at $150/hour. Either party may cancel at any time on thirty days written notice.

We propose that the retainer service begin immediately following Lodi City Council approval. All information related to this assignment will be held in strictest confidence. No work shall be performed by anyone other than Sandra or Michael McDonald without the express written approval of Lodi Electric.

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 monthly.

If the terms of this engagement as set forth in this letter are satisfactory, kindly sign the acceptance and return an original to me at the above address. If you have any questions or need additional information, please call me at (209)-333-6762. I look forward to working with you on this assignment.

ACCEPTED:

City of Lodi

By: _____
H. Dixon, Flynn, City Manger

Date: _____

APPROVED AS TO FORM:

By: Randall A. Hays
Randall A. Hays, City Attorney

Date: 7-10-03

ATTEST:

By: _____
Susan Blackston, City Clerk

Date: _____

ACCEPTED:

McDonald Partners, Inc.

By: _____
Principal

Date: _____

RESOLUTION NO. 2003-128

A RESOLUTION OF THE LODI CITY COUNCIL AUTHORIZING THE CITY MANAGER TO EXECUTE A CONSULTING SERVICES AGREEMENT WITH MCDONALD PARTNERS, INC., TO PROVIDE BULK POWER COST MODELING AND STRATEGIC 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 extend the consulting services agreement with McDonald Partners, Inc., to provide bulk power cost modeling and strategic services to the Electric Utility Department, in an amount not to exceed $70,000.00 through December 2003.

Dated: July 16, 2003

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I hereby certify that Resolution No. 2003-128 was passed and adopted by the Lodi City Council in a regular meeting held July 16, 2003, by the following vote:

AYES: COUNCIL MEMBERS – Beckman, Hansen, Howard, and Land

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – Mayor Hitchcock

ABSTAIN: COUNCIL MEMBERS – None

SUSAN J. BLACKSTON
City Clerk