



CITY OF GEORGETOWN

ELECTRIC RESOURCE MANAGEMENT ASSESSMENT REPORT

CITY COUNCIL MEETING

PREPARED BY: SCHNEIDER ENGINEERING, LTD. | MAY 14, 2019

INTRODUCTION – ASSESSMENT GOALS

- Assessment goal: *Provide an assessment of the City's Electric Resource Management business area.*
- The assessment included a review and evaluation of the following subjects:
 - The City's Electric Resource Management organization / functional area.
 - The development of the current wholesale power contracts and the performance outlook for the contracts.
 - Significant factors that contributed towards decisions that culminated in significant increases in cost to wholesale power.
 - The impact of wholesale power cost increases on recent City's budgets, retail electric rates and other City business areas.
 - Offer a forward-looking evaluation of steps the City may consider to effectively manage and optimize the contracts and consider market factors that may influence the performance of the contracts



INTRODUCTION – ORGANIZATION OF REPORT

- The Assessment is organized into the following areas:
 - Background
 - Current Power Contracts (Confidential Information)
 - Financial Impact to the City
 - Organizational Assessment
 - A forward-Look at Market and Regulatory Issues
 - Conclusions and Key Findings
 - Recommendations



BACKGROUND

- City Utility Structure
- City Council
- Georgetown Utility Systems (GUS) Advisory Board
- GUS Electric Resource Management Department
- Important Dates and Issues

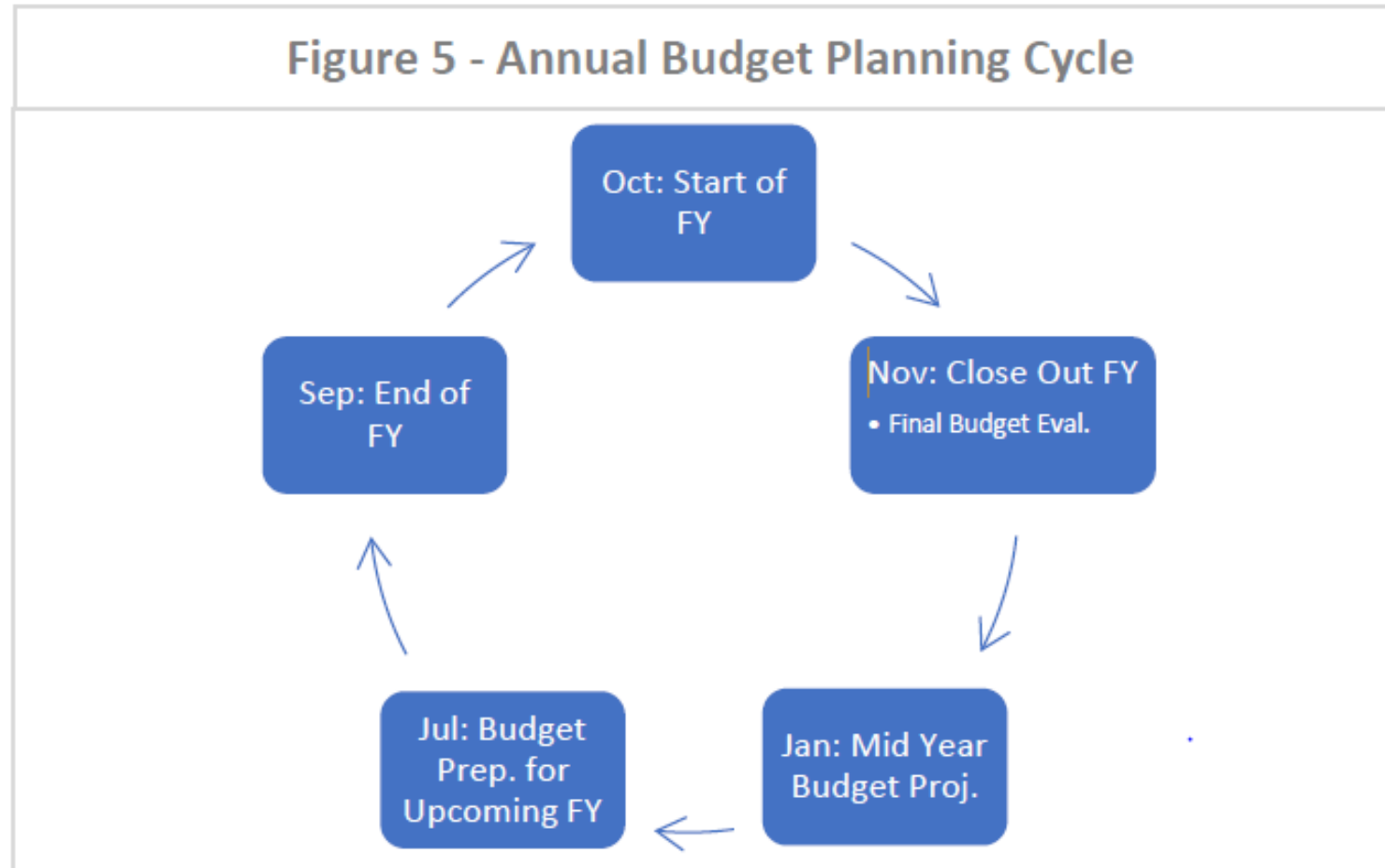


CURRENT POWER CONTRACTS

- Due to the competitive nature of this information will be presented in executive session.
- This includes:
 - A review of the individual contract development and performance
 - Analysis of total contract portfolio performance
 - Findings
 - Recommendations



FINANCIAL IMPACT - BUDGETING

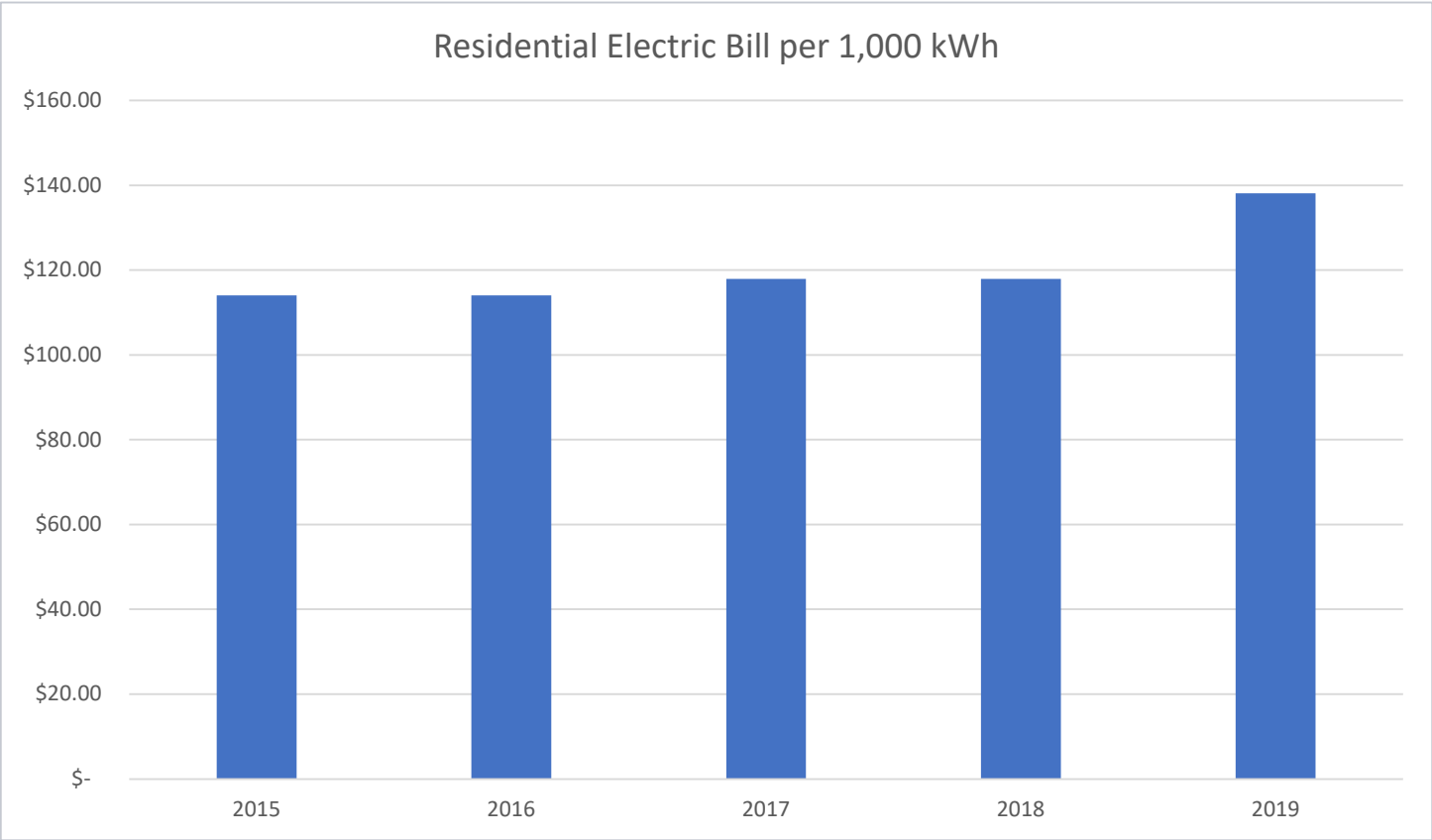


FINANCIAL IMPACT - BUDGET FORECASTING

Table 7 - GUS Purchased Power Performance						
Fiscal Year	Initial Budget	Revised Projection		Realized Settlement		
		Total \$ Value	% Diff. to Init.	Total \$ Value	% Diff. to Init.	% Diff. to Rev.
FY 2016	\$34,000,000	\$33,607,125	-1.16%	\$40,321,083	18.59%	19.98%
FY 2017	\$36,500,000	\$39,500,000	8.22%	\$46,038,447	26.13%	16.55%
FY 2018	\$42,000,000	\$45,000,000	7.14%	\$53,657,284	27.76%	19.24%



FINANCIAL IMPACT - RETAIL RATES



ELECTRIC RESOURCE MANAGEMENT

- Transition from LCRA Contract
- Responsibilities of GUS General Manager of Utilities
- Multiple Single Points of Failure
- Organizational Impacts



FORWARD MARKET ISSUES

- Favorable Trends

- Diminishing Reserve Margins
- Long-Term System Growth
- Resolution of Constraints
- Expiration of Federal Incentives

- Disadvantageous Trends

- Continued Transmission Constraints
- Continued Renewable Energy Penetration
- Depression of Natural Gas Prices



CONCLUSIONS AND KEY FINDINGS

- Background

- Decisions regarding the LCRA contract fundamentally shifted the responsibilities for power procurement to the City.
- The date for GUS to self- its power moved forward from June 2016, the expiration date of the LCRA contract, to September 2012, the date when GUS officially left LCRA.
- The early termination of the LCRA contract accelerated the planning and implementation of these new responsibilities.
- The GUS Electric Resource Management team worked to implement interim and long-term power strategies to meet the needs of the system while striving to beat internal energy price targets for its retail customers.



CONCLUSIONS AND KEY FINDINGS

- Financial Impact to the City

- During CY2016 to 2018, the power contracts cost the City significantly more than its budget **projections**. By under-forecasting the wholesale power costs, the ERM team has forced GUS and City management to make budgetary decisions regarding the Utility in an effort to minimize the impact to customers.
- With the limited tools available, GUS raised the PCA in 2019 to recover fund balances that was used to support the wholesale power costs.
- The cost increases in power have challenged the City's reporting, forecasting and budgeting **procedures**. Obtaining accurate information and forecasts has been frustrating and has produced ineffective budgeting.



CONCLUSIONS AND KEY FINDINGS

- Organizational Assessment
 - The structure of the GUS Electric Resource Management business area has contributed to problems **with the development, management and performance of contracts**. Concerns in this area include the depth of the current resources, the effectiveness of outside consulting resources along with the observation that single points of failure currently exist within the GUS Electric Resource Management business area.
- A Forward-Look at Market-Side Issues and Developments
 - Changing ERCOT market dynamics make it difficult to determine the long-term performance of the **contracts within the contracts**. Energy markets are complex and subject to myriad significant variables that impact prices.



RECOMMENDATIONS

- Current Power Contracts
 - Procure third party energy management services.
 - Implement additional enabling contracts with market participants.
 - Direct energy manager to consider appropriate insured products in relation to serving native GUS load and optimizing the value of the portfolio in the market
 - Leverage internal and external resources to increase oversight and accountability for decision making regarding portfolio management



RECOMMENDATIONS

- Impact Management

- Establish mark-to-market and other valuation procedures. This will provide GUS staff, City management, and oversight bodies a clear understanding of contracts performance on a short, medium, and long-term basis.
- Establish reporting guidelines for each level of wholesale contracts management oversight, from the GUS Electric Resource Management team to the City Council and customers.
- Set appropriate target levels for rate stabilization fund and manage power cost adjustment to meet target levels by adjusting periodically.



RECOMMENDATIONS

- Policy

- Develop and implement comprehensive risk management policy. This policy, while not addressing past issues, will increase the probability of good power outcomes in the future.

- Issues to Study

- Study the installation of separate governance structure for Georgetown Utility Systems. While any changes to GUS governance structure will not impact past decisions, this issue is worth considering for future management of GUS power and other electric utility management.
- Study the potential implications to the existing power contracts related to a City in Opt-In scenario. While the Opt-In issues is present for all retail public power entities to consider, having a solid understanding of how existing power contracts would be dealt with (especially long-term contracts) is an important element in the potential evaluation of this issue.





QUESTIONS / DISCUSSION



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