

# Mayor and Council Communication

**DATE:** 11/14/23

**M&C FILE NUMBER:** M&C 23-0991

**LOG NAME:** 21COKINOS NATURAL GAS CONTRACT FOR ALLIANCE AND VILLAGE CREEK

## **SUBJECT**

(CD 5 and CD 10) Authorize the Execution of a Gas Sales Agreement with Cokinos Energy Corporation for the Village Creek Water Reclamation Facility Biosolids Drum Drying Facility in the Amount of \$1,299,315.00 and the Alliance Maintenance Facility in the Amount of \$245,544.00 for a Total Agreement of \$1,544,859.00

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## **RECOMMENDATION:**

It is recommended that the City Council authorize the execution of a Gas Sales Agreement with Cokinos Energy Corporation, relative to the purchase of natural gas supply for the Village Creek Water Reclamation Facility Biosolids Drum Drying Facility in the amount of \$1,299,315.00 and the Alliance Fort Worth Maintenance Facility in the amount of \$245,544.00 for a total agreement of \$1,544,859.00.

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## **DISCUSSION:**

The procurement of natural gas supply for the Village Creek Water Reclamation Facility Biosolids Drum Drying Facility (Dryer Facility) and the Alliance Fort Worth Maintenance Facility (Alliance) is currently done using two separate natural gas supply agreements, which were executed under different conditions.

City Secretary Contract No. 46466 was executed for the procurement of gas supply for the Alliance Fort Worth Maintenance Facility, at a fixed price for a term of three (3) years; from March 1, 2015 to February 28, 2018. After February 28, 2018, natural gas supply continued under costly month to month conditions. On November 30<sup>th</sup>, 2021, the City Council authorized execution of a Gas Sales Agreement with Symmetry Energy Solutions for Alliance Fort Worth Maintenance Facility (M&C 21-0907).

The Gas Sales Agreement with Symmetry Energy Solutions was executed for a twenty-two (22) month term with month-to-month renewal options utilizing New York Mercantile Exchange (NYMEX) index pricing. The agreement provides the City with the ability to lock in the cost of natural gas at strategic moments with a fixed adder cost of \$0.150 per one million British Thermal Units (MMBTU) instead of previous adder of \$1.50 MMBTU; yielding a significant anticipated annual savings of \$61,500.00. Natural Gas strategic price hedging for Alliance's trending volumes is complete through the end of the contract, which expires in October 2024.

On February 28<sup>th</sup>, 2023, the City Council authorized the execution of City Secretary Contract No. 59069 with the Texas General Land Office for a twelve (12) month natural gas supply term for the Dryer Facility (M&C 23-0172), which will expire in March 2024. Natural Gas supply was previously supplied by Atmos Energy by way of the operator of the dryer facility, Synagro, under a commercial tariff rate account. Due to the exorbitant cost to the City under the commercial rate tariffed account, it was necessary to reclassify the dryer facility from a commercial rate to a transport rate and secure a short-term natural gas supplier agreement to support the facility's natural gas volume and decrease gas utility expenses. The short-term savings for the biosolids drum drying facility when comparing historical costs and expected future consumption, has yielded an average commodity savings of \$60,000.00 per month.

As communicated in M&C 23-0172 City staff has pursued a natural gas sales agreement through a competitive Request for Proposals (RFP) for both facilities to provide the City an opportunity to combine natural gas volumes to issue a more comprehensive RFP to various natural gas suppliers and yield improved contract terms for the City's benefit. As intended, City staff have reached a proposed, negotiated, full requirements agreement with the top ranked supplier, Cokinos Energy Corporation (Cokinos) to support natural gas supply needs for both the Dryer Facility and Alliance. Contract terms are set to be effective upon the expiration of each facility's current gas supply agreement and will expire coterminous under the agreement with Cokinos.

The Cokinos natural gas supply agreement will include both fixed price and index-variable pricing elements throughout the term of the agreement. Aggregate fixed price volumes shall be based upon the natural gas volumes hedged and the price of natural gas hedged. Volumes that are left unhedged (variable priced volumes), shall be equal to the monthly settlement price of natural gas as indicated at the first of the month equal to the index price posting in Platts Gas Daily price guide report, in section titled "Market Centers", under the heading "East Texas" and under the subheading Natural Gas-East Texas "NGPL Texok zone" plus \$0.05 per MMBTU, plus upstream fuel and applicable taxes.

The estimated gas utility expense for the Cokinos contract term is \$1,544,859.00 (\$1.55 million) for both Alliance and the Dryer Facility combined. Separately, the estimated gas utility expense for Alliance is \$245,544.00 and \$1,299,315.00 for the Dryer Facility. The estimated natural gas utility expense considers multiple assumptions; including natural gas consumption estimates at both facilities based upon consumption history, potential future natural gas hedges for Fiscal Year 2024, current market indicative natural gas prices for future months, March 2024 through October 2025, adder cost of \$0.05 per MMBTU, and includes estimated Atmos Local Distribution Charges for the transportation of natural gas to facilities.

Execution of this gas sales agreement allows the City to take the initiative by continuing the practice of active participation in the natural gas market, which allows the City to actively and better manage expenditures through potential strategic hedges for the majority of both facilities' natural gas requirements, and reduce the City's natural gas utility cost for the Alliance Maintenance Facility and the Village Creek Water

Reclamation Facility Biosolids Drum Drying Facility.

Funding is budgeted in the Alliance Maintenance Facility Fund and the Water & Sewer Fund.

These are located in COUNCIL DISTRICTS 5 & 10.

A Form 1295 is not required because: This contract will be with a gas utility: COKINOS ENERGY CORPORATION

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**FISCAL INFORMATION / CERTIFICATION:**

The Director of Finance certifies that upon approval of the recommendation, funds are available in the current operating budget, as previously appropriated, in the Alliance Maintenance Facility Fund and the Water & Sewer Fund. Prior to an expenditure being incurred, the Property Management and Water Departments have the responsibility to validate the availability of funds.

**Submitted for City Manager's Office by:** Dana Burghdoff 8018

**Originating Business Unit Head:** Ricardo Salazar 8379

**Additional Information Contact:** Juanita Rigsby 8518