

**BOARD OF SUPERVISORS
FINANCE/GOVERNMENT OPERATIONS AND
ECONOMIC DEVELOPMENT COMMITTEE
ACTION ITEM**

SUBJECT: **CONTRACT AWARD/Natural Gas Services for County Facilities**

ELECTION DISTRICT: Countywide

CRITICAL ACTION DATE: November 15, 2016

STAFF CONTACTS: Alan Brewer, General Services
Ernest N. Brown, General Services
Ravi Palaniandy, Finance and Procurement

PURPOSE: To award a contract for natural gas services for sixty-one (61) County-owned or leased facilities.

RECOMMENDATIONS: Staff recommends the Finance/Government Operations and Economic Development Committee (FGOEDC) recommend to the Board of Supervisors (Board) that the Purchasing Agent be authorized to enter into a forty-three (43) month term contract for natural gas services with WGL Energy Services, Inc. in the estimated amount of \$2,100,000.

BACKGROUND: The Department of General Services currently maintains natural gas services for sixty-one (61) County facilities through a contract with WGL Energy Services, Inc. (formerly known as Washington Gas Energy Services, Inc.). The current contract term is due to expire on December 31, 2016.

On December 12, 2012, the Board of Supervisors authorized the Purchasing Agent to enter into a three (3) year contract with WGL Energy Services, Inc. for natural gas services for County facilities in the estimated amount of \$1,500,000. This award was based on a cooperative contract awarded jointly by the City of Alexandria, Fauquier County, Fauquier County Public Schools, Alexandria Renew Enterprises, Charles County Schools, and the Metropolitan Washington Airport Authority. At the end of the three (3) year term, County staff renewed the contract for one (1) year in the amount of \$500,000 under staff authority.

Through an Invitation for Bid (IFB) for natural gas services, issued by Fairfax County, WGL Energy Services, Inc. was awarded a five (5) year term contract to fulfill the natural gas service needs for Fairfax County Government and Fairfax County Public Schools. Staff intends to award

a new forty-three (43) month (three (3) years and seven (7) months) term contract based on this cooperative contract awarded by Fairfax County. The contract is for the period January 1, 2017 through July 31, 2020.

All customers in Virginia are eligible to purchase their natural gas from competitive retail energy suppliers.

Natural gas is purchased by the therm, which is approximately the energy equivalent of burning 100 cubic feet of natural gas. The price of a therm consists of essentially three (3) cost elements: 1) the cost of the product, 2) the basis point, and 3) the distribution charge. The cost of the product is established by daily trading on the New York Mercantile Exchange (NYMEX). The basis point represents the contractual cost of delivering natural gas to the local distribution company (LDC) from the NYMEX natural gas trading point; this fee includes costs such as: storage, balancing and other related expenses, and risks of moving and storing the product in the distribution network. The distribution charge is a regulated fee assessed by the LDC and covers the cost of transporting natural gas through the LDC's infrastructure to the point of use. Since the product cost is determined by the market NYMEX, and the local distribution and delivery cost is determined by the LDC, only the cost of the basis point can be compressed by competitive bidding.

The basis for award for the Fairfax County contract was the lowest responsive and responsible bidder complying with the terms of the IFB. The contract was awarded to WGL Energy Services, Inc. to serve as supplier for natural gas services.

The contract provides an option to enter into a firm fixed price contract, NYMEX plus basis point pricing, based on a specific contract term commitment. This firm fixed price can be locked in at any time during the term of the contract. The County has a Certified Energy Procurement Professional on staff who will monitor the conditions that affect natural gas prices and lock in a firm fixed rate when pricing is favorable to the County. The County will pay NYMEX plus basis point rates until a firm fixed rate is locked.

ISSUES: The current contract is due to expire on December 31, 2016. This new contract award requires action by the FGOEDC and the Board as it exceeds the staff authority of \$500,000 in accordance with the Procurement Resolution.

FISCAL IMPACT: The forty-three (43) month term contract amount under the new contract is \$2,100,000 with an estimated average expenditure of approximately \$586,045 annually. Sufficient funding is available in the Department of General Services' FY 2017 operating budget through June 30, 2017. Funding for the remaining contract term will be subject to annual appropriations.

ALTERNATIVES:

1. Recommend to the Board that the Purchasing Agent be authorized to enter into a forty-three (43) month term contract for natural gas services with WGL Energy Services, Inc. in the estimated amount of \$2,100,000.

OR

2. Do not authorize the contract award and direct staff on how to proceed.

DRAFT MOTIONS:

1. I move that the Finance/Government Operations and Economic Development Committee recommend that the Board of Supervisors authorize the Purchasing Agent to enter into a forty-three (43) month contract for natural gas services with WGL Energy Services, Inc. in the estimated amount of \$2,100,000.

OR

2. I move an alternate motion.