

City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 4, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #81: GREEN ENERGY COSTS

This budget memorandum is in response to the following questions from Councilman Krupicka:
(1) Is there an existing Dominion Power contract that allows the City to use green energy?
(2) If so, how much does it cost to use such provision? (3) If not, how much more would it cost to add and use such a provision?

Discussion:

(1) Is there an existing Dominion Power contract that allows the City to use green energy?

The Virginia Energy Purchasing Governmental Association (VEPGA), a steering committee of the Virginia Municipal League Association, composed of over 225 local government entities, was formed to purchase electricity. Green (wind) energy is a major step towards meeting the region's air quality goals for the reduction of ground level ozone. On April 1, 2005, the VEPGA entered into a two-year contract to purchase green energy. This purchase of green energy was the first such initiative in Virginia (The VEPGA contract actually provides for the purchase of "renewable energy credits". The purchase of credits allows the City to legally claim to have purchased energy produced by renewable energy sources such as the sun, wind, geothermal hydro-electrical, wave or tidal energy. These credits are sold by the producers and traded to subsidize renewal energy production.)

During the Request For Proposal (RFP) process, the City of Alexandria, and Fairfax, Arlington, and Prince William Counties were the only localities that expressed interest in participating in the intent to purchase green energy. Due to budget constraints, the City did not participate in this project. Ultimately, Fairfax and Arlington Counties were the only two jurisdictions that participated in the contract award for green energy. March 30, 2007, was the expiration of the initial contract, however, an extension was granted until a new contract could be awarded.

In January 2007, the VEPGA issued a new RFP for green energy. Participants in the new solicitation process included the Alexandria City Public Schools (ACPS), Fairfax, Arlington and Prince William Counties. This solicitation included language (which was missing from the previous RFP) to allow other jurisdictions to opt into the contract at any time during the life of the contract. New jurisdictions opting in must do so at the prevailing market rate.

The VEPGA received two responses to the RFP. The responses were from 3-Phases Energy Services, a company located in San Francisco, California, and Washington Gas Energy Services (WGES). WGES submitted a price that was five percent lower than that offered by 3-Phases Energy Services. The selection committee, in accordance with the evaluation criteria as set forth in the RFP, elected to award the contract to 3-Phases Energy Services because they offered State Implementation Plan (SIP) credits, more experience in providing green energy, better compliance assurances and guaranteed Renewal Energy Credits (RECs). The new contract was signed between VEPGA and 3-Phases Energy Services on April 16, 2007.

During the initial contact period of 2005-2007, Fairfax and Arlington Counties committed to purchase five and three percent of their electricity as green energy, respectively.

ACPS and Fairfax, Arlington, and Prince William Counties are all participants in the new green energy contract. Fairfax County has committed to purchase five percent of its electricity through the VEPGA as green energy through 2009 and ten percent for the final year of the contract in 2010. Arlington has committed to purchase six percent. Prince William County has committed to purchase three percent, and ACPS has committed to purchase 10 percent for the duration of the new contract (from July 2007 to June 2010).

(2) If so, how much does it cost to use such provision?

The City of Alexandria does not currently participate in the purchase of green energy.

(3) If not, how much more would it cost to add and use such a provision?

In FY 2006, the City's actual electric consumption was approximately 35,503,602 kilowatt hours (kwh), or a total cost of \$3,293,834, which is an average of \$0.0928 cents per kwh. The new contract has established a green energy purchase rate of \$0.0225 cents per kwh, in addition to the average actual costs per kwh (\$0.0928). The City, if it elected to purchase 4.0% of its total load as green energy, could incur additional energy costs of about \$32,000. A 5% commitment would cost about \$40,000 (based upon FY 2006 data available). The City also would have to pay slightly more than \$15,000 over the 2007-2010 contract period for its share of legal expenses for negotiating the shared contract.

If the City elected to participate in the existing VEGPA/3-Phase Energy Services contract, the City would have to expend monies to share in the negotiation expenses through a legal counsel (Christian Barton, LLP). In the previous contract, the shared expenses were \$15,000. These expenses are allocated to each participating jurisdiction. This is dependent upon the amount of green energy the jurisdiction commits to purchase.

An inquiry to the legal counsel for VEGPA, has confirmed that legal expenses for participation in the green energy program, will be slightly higher than \$15,000, for the 2007-2010 contract period. This increase is attributable to the additional legal counsel related to SIP and REC credits that were not part of the previous contract.

The costs of green energy would be based on a percentage of total annual electricity consumption by a participating jurisdiction. The Fairfax County Chief Utilities Manager stated that the County's determination of how much green energy to purchase was " simply a guess." He also stated that the initial contract was so successful (reduction in carbon dioxides, sulfur

dioxides and nitrogen oxides) that the County in 2009, would double its green energy purchase from five to ten percent.