

ITEM #:	41
DATE:	03-10-26
DEPT:	ELEC

COUNCIL ACTION FORM

SUBJECT: FY 2026/27 NATURAL GAS SUPPLY FOR ELECTRIC

BACKGROUND:

The two boilers at the Power Plant are primarily fired by natural gas. The natural gas, along with refuse-derived fuel (RDF), are combusted to generate electricity. When in operation, Unit #7 typically combusts 8,000 MMBtu of natural gas per day, while Unit #8 typically combusts 12,000 MMBtu of natural gas per day. To reduce pricing volatility inherent in the daily gas market, the City has entered into gas contracts of various lengths. The contract has created efficiency, flexibility, and affordability in the purchase of a valuable commodity, ensuring that the City has reliable service while creating stable generation costs.

With the current contract expiring on June 30, 2026, City staff must secure a price and add additional supply to the existing contract in the next few months. **The challenge in arranging a contract extension or soliciting bids for a new gas contract is determining the price at which to commit. In the natural gas market, quoted prices expire within a 24-hour period, which is less time than is necessary to provide notice of a City Council meeting and approve the contract.**

When staff negotiated the original contract, the process was handled similarly to the sale of the City's bonds. The Council Action Form did not have prices, nor did it identify the preferred supplier. Bidders faxed their prices to staff hours before the City Council meeting and a summary report was handed out during the Council meeting where a decision was made. Although this approach provides competitive pricing between several suppliers at a single point in time, repeating this approach may lock the City into a price that could have been much lower if solicited at a different time of the year.

Since the end of the first contract, Council has authorized the Director of Electric Services the discretion to commit the City to natural gas contract extensions within defined price cap or budgetary restrictions. For example, the approved FY 2025/26 operating budget includes \$17,600,000 for the purchase of natural gas, transportation, gas management and related services to operate the Power Plant.

The existing gas contract went through calendar year 2025 plus a yearly transportation cost of \$10,600,000. This left roughly \$7,000,000 to cover the remaining natural gas purchases needed from January 2026 to June 2026. Council approved purchasing gas up to the remaining budgeted amount of \$7,000,000.

This approach proved to be quite effective! **Staff was able to contract the remaining needed natural gas for relatively lower prices and save over \$1,500,000 in natural gas expenses over that time period.**

For the 2026/27 fiscal year, staff is proposing to repeat the method used in 2023, 2024 and 2025, which allowed the Director of Electric Services to obligate the City to

purchase natural gas at or below the Council-authorized cap. Again, this could be a price per dekatherm cap or a budgetary cap.

As these prices fluctuate between Council meetings, staff is requesting the authority to commit the City to extensions as short as a month, at fixed prices and fill in small incremental needs with daily spot-priced purchases. The goal is to avoid energy cost increases to electric customers due to high natural gas prices, but continue to purchase gas to burn refuse derived fuel. At current natural gas contract prices, keeping cost contained is dependent on the length of the contract, market timing, and the amount of gas purchased.

It is important to note that the daily gas allotment, if unused by the Electric utility due to scheduled or unscheduled outages, can be sold back to the market at spot prices. At times when the gas can be sold back and spot prices are high, this can be advantageous to the Electric utility. However, if the spot prices are very low, then the gas must be sold by the Electric utility to the market at a loss.

ALTERNATIVES:

There are several alternative strategies that could be pursued to purchase the natural gas, each of which has different advantages and disadvantages. **Under each alternative, the City Council would authorize staff to approve extensions to the contract with Macquarie Energy LLC, Houston, TX, to extend the existing natural gas supply contract for a term of not more than six months in daily, monthly, or seasonal increments, for the gas quantities described in each alternative.**

If staff is authorized to approve such extensions, staff would then report back to the City Council after each extension has been agreed to by staff. The alternatives are:

ALTERNATIVE# 1: Purchase 8,000 MMBtu/day and possibly diverting haulers directly to Boone County Landfill approximately 2 days/week

In this option, enough gas would be purchased to guarantee the continual operation of Unit #7. This would allow approximately 24,000 tons of RDF to be consumed by the Power Plant, at a minimum. **The additional tons not burned at Electric Services would result in garbage haulers being diverted to the landfill when the tipping floor and/or storage bin become full. These diversions would have the negative impacts to the haulers, Boone County Landfill, and the Resource Recovery operation.**

If the 8,000 MMBtu/day could be secured at the anticipated average price of \$4.25/MMBtu, the Electric Fuels budget for natural gas would have approximately \$890,000 in savings in FY 2026/27.

This option results in the least potential for electric bill increases because the cost to purchase natural gas would be less than the budgeted amount. However, this alternative results in a greater amount of material being sent to the landfill, impacting the haulers, Resource Recovery, and Boone County.

ALTERNATIVE# 2: Purchase gas only on the spot market (no secure gas contract) and possibly diverting haulers directly to Boone County Landfill approximately 2

days/weekly

This option would eliminate the use of a secure contract and would require the daily gas needs to be purchased on the spot gas market. **The Electric Utility would be subject to considerable volatility in gas prices, particularly in the winter months when demand for gas is the highest.** It is not possible to project the potential cost to customers for this alternative.

Because of the time required to startup and shutdown the Electric boilers and Resource Recovery operation, it would not likely be feasible to plan for purchasing electricity on the market when electric grid prices are low. **Therefore, this option exposes the City to extreme volatility with little potential benefit. The only real benefit that can be seen today is that spot gas prices have remained below \$3/MMBtu since early February 2026. To "cap this risk", staff would set a ceiling price (suggesting \$6/MMBtu), where if the spot price was exceeded, gas would not be purchased for that day, and haulers would be diverted.**

If the 8,000 MMBtu/day could be secured on the spot market at an anticipated blended price of \$3.25/MMBtu, the Electric Fuels budget for natural gas would have a savings of \$3,810,000 in FY 2026/27.

With some increased risk, this option results in the greatest potential for lower electric bills, but results in a greater amount of material being sent to the landfill, impacting the haulers, Resource Recovery, and Boone County when spot gas exceeds \$6/MMBtu.

ALTERNATIVE# 3: Blend Alternatives #1 and #2; securing enough firm gas to burn some RDF every day and increase burning when spot gas is more cost effective.

The purchasing strategy under this alternative would be to purchase 6,000 - 8,000 MMBtus on a firm basis in the winter. As spring and summer approach, the amount of firm gas that is purchased would be 4,000 MMBtu. Regardless of the season, if spot market pricing is favorable, additional gas could be purchased to increase the RDF consumption. This approach lowers the amount of firm gas the utility would have to sell in the event of an unplanned outage compared to the amount of firm gas purchased in the expiring contract. Lowering the amount of firm gas purchased minimizes the potential for selling unused gas at a loss during the seasons when spot gas is likely to be least costly. **This is the option that was approved by Council last November, and once executed, was able to save over \$1,500,000 from the approved FY 2025/26 budget.**

CITY MANAGER'S RECOMMENDED ACTION:

During the initial years of operating using natural gas, the City benefited from extremely advantageous guaranteed natural gas prices. Natural gas futures pricing has since escalated considerably. There does not appear to be a risk-free option available to the City Council since the strategy with the least impact to electric customers, also has the highest impact to Resource Recovery System, and vice versa.

Staff believes the best strategy is Alternative No. 3, which calls for a blended cost, and secures enough natural gas on contract to burn the majority of the RDF that could be consumed in a typical year. Under this alternative, staff will continue to pursue options for

reducing the volume of waste received through recycling and other waste diversion programs.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 3, thereby authorizing the Electric Director to approve extensions to the contract with Macquarie Energy LLC, Houston, TX, to amend the existing natural gas supply contract over the coming fiscal year at prices to achieve a total cost of not more than \$13,300,000.