

NO: **R051**

COUNCIL DATE: **March 12, 2012**

---

## REGULAR COUNCIL

TO: **Mayor & Council**

DATE: **March 6, 2012**

FROM: **General Manager, Finance & Technology  
General Manager, Planning & Development**

FILE: **2320-01**

SUBJECT: **Purchase of Natural Gas for Civic Facilities**

---

## RECOMMENDATION

The Finance & Technology Department and the Planning and Development Department recommend that Council:

1. approve the execution of a contract by the appropriate City officials with Cascadia Energy Ltd. ("Cascadia") for the supply of natural gas for the civic facilities listed in Appendix "A" to this report for a term beginning on April 1, 2012 and ending on October 31, 2012 at a price of \$2.43 per GJ plus HST; and
2. instruct staff to provide by the end of July 2012 a further report to Council complete with recommendations regarding the purchase of natural gas for the subject civic facilities commencing on November 1, 2012.

## BACKGROUND

The City currently purchases its natural gas from FortisBC ("Fortis"). The City has not previously used the services of an independent marketer to obtain natural gas; however, many local governments in the GVRD purchase their natural gas from independent gas marketers at reduced rates. During the summer of 2011, staff undertook a study of the merits of purchasing natural gas from such an entity and concluded that the City could benefit by way of significant savings by purchasing natural gas through an independent marketer of this commodity.

### Request for Expression of Interest Process and Results

In view of the above-referenced conclusion, during September 2011 a Request for Expressions of Interest and Statements of Qualification (RFEOI/SOQ) No. 1220-050-2011-019 was issued by the City with view to determining the market interest in supplying natural gas for the City's civic facilities. Information related to the RFEOI/SOQ was posted on the City website and on the BC Bid website.

Pricing information provided by the proponents indicated that individual buildings that consume a minimum of 2,000 GJ annually are suitable candidates for this alternate means of acquiring natural gas. For facilities consuming smaller quantities, the analysis indicates that the City should continue to purchase natural gas for these facilities from Fortis BC. A list of City facilities that consume a minimum of 2,000 GJ annually is listed in Appendix "A".

In follow-up to the above process, each of the respondents was asked by staff to respond to the following question:

*“Assume that today, October 27th, you are entering into a one-year agreement to supply the City of Surrey with the natural gas for its large commercial and general firm service sites at a fixed price per GJ:*

- 1. Would the fixed price apply to all natural gas consumed, or would it instead apply to a fixed volume?; and*
- 2. What would be the fixed price you could offer?”*

The response to the questions from each of the proponents who responded, is documented in Appendix “B” with the responses ranked in order of price. Staff has concluded that Cascadia, which offered a price of \$3.68 per GJ without any minimum or maximum volume limitations, represents the best value for the City. Appendix “C” provides additional details in this regard. Had the City chosen to switch suppliers at the end of October 2011, the estimated savings would have been \$86,557 for the 12 month period ending October 31, 2012.

## **DISCUSSION**

From October 2011 to February 2012 natural gas commodity prices decreased. The Fortis midstream, delivery, and demand rates increased slightly on January 1, 2012. On February 20, 2012, City staff asked for and received up-to-date pricing information from Cascadia for a potential seven-month contract beginning April 1, 2012. Cascadia responded with a rate of \$2.43 per GJ. At this rate the City could save a total of approximately \$95,182 over a seven-month period in comparison to the current approach to acquiring natural gas through Fortis BC. Appendix “D” provides additional details in this regard.

Based on information provided by Cascadia, the City may cancel its agreement to purchase gas from Cascadia by giving 60 days notice in advance of October 31<sup>st</sup>. The Cascadia contract can be terminated on October 31<sup>st</sup> of any year. Similarly, to re-engage Fortis BC as the supplier of gas for any facility, the City must give Fortis BC 60 days notice, which can be provided at any time during the year.

To purchase gas from Cascadia or any other independent gas supplier, the City must pay Fortis a one-time charge to upgrade the gas meter at each facility. Each meter costs approximately \$600 to supply and install. Cascadia has agreed to rebate the City for such expense at a rate of \$25 per meter per month during the first two years of the contract. This would result in a full recovery of the cost of each meter over the two-year period.

### **Future Optional Courses of Action for the City:**

If the City enters into a contract with Cascadia for the period of April 1, 2012 to October 31, 2012, the City will retain the option to:

- Extend the contract with Cascadia for a new 12 month term commencing on November 1, 2012; or
- Terminate the contract at October 31, 2012 subject to providing written notice to both Fortis BC and Cascadia 60 days in advance of October 31, 2012, which will allow the City to recommence purchasing gas from Fortis BC; or
- Undertake another RFEOI/SOQ process with respect to purchasing natural gas from an independent supplier in advance of the above-referenced 60 day notice period.

## CONCLUSION

Based on the above discussion, it is recommended that Council:

- approve the execution of a contract by the appropriate City officials with Cascadia for the supply of natural gas for the civic facilities listed in Appendix “A” to this report for a term beginning on April 1, 2012 and ending on October 31, 2012 at a price of \$2.43 per GJ plus HST; and
- instruct staff to provide by the end of July 2012 a further report to Council complete with recommendations regarding the purchase of natural gas for the subject civic facilities commencing on November 1, 2012.

Vivienne Wilke  
General Manager  
Finance & Technology

Jean Lamontagne  
General Manager  
Planning & Development

### Attachments:

Appendix “A” Civic Facilities to be Covered by Agreement

Appendix “B” Responses Received to RFEOI/SOQ

Appendix “C” Financial Analysis: FortisBC vs. Cascadia Energy (November 2011 – October 2012)

Appendix “D” Financial Analysis: FortisBC vs Cascadia Energy (April 2012 – October 2012)

**Civic Facilities to be Covered by Agreement**

| <b>Facility</b>                      | <b>Address</b>     | <b>Est. Annual Usage in GJ</b> |
|--------------------------------------|--------------------|--------------------------------|
| City Hall                            | 14245 – 56 Ave.    | 8,299                          |
| Works Yard – Main                    | 6645 – 148 St.     | 4,249                          |
| Guildford Library & Rec Centre       | 15105 – 105 Ave.   | 4,488                          |
| South Surrey Arena                   | 2199 – 148 St.     | 3,894                          |
| Fleetwood Community Centre & Library | 15988 – 84 Ave.    | 5,046                          |
| Surrey Arts Centre                   | 13750 – 88 Ave.    | 2,183                          |
| Surrey Museum                        | 17710 - 56A St.    | 2,738                          |
| RCMP Headquarters                    | 14333 - 57 Ave.    | 5,435                          |
| Newton Wave Pool                     | 13730 – 72 Ave.    | 9,219                          |
| North Surrey Rec Centre              | 10275 City Parkway | 13,675                         |
| South Surrey Indoor Pool             | 14655 – 17 Ave.    | 5,130                          |
| Surrey Sport & Leisure Pool          | 16555 Fraser Hwy.  | 28,628                         |

**Additional Question Analysis  
FortisBC vs Proponent  
By Favourability of Pricing**

|  | <u>Estimated Costs for the Facilities Under Consideration</u> |                  |                   |
|--|---|------------------|-------------------|
|  | <u>FortisBC</u>   | <u>Proponent</u> | <u>Difference</u> |
| <b>Fixed Price Can Apply to All Natural Gas Consumed</b> |   |                  |                   |
| Cascadia Energy Ltd.                                     | \$ 692,915  | \$ 606,359       | \$ 86,557         |
| Access Gas Services                                      | \$ 692,915  | \$ 607,322       | \$ 85,593         |
| E2 Energy Inc.   | \$ 692,915  | \$ 608,786       | \$ 84,129         |
| Hudson Energy  | \$ 692,915  | \$ 610,213       | \$ 82,702         |
| Absolute Energy  | \$ 692,915  | \$ 619,850       | \$ 73,065         |
| Summitt Energy   | \$ 692,915  | \$ 665,060       | \$ 27,855         |
| <b>Fixed Price Can Only Apply to a Fixed Volume</b>      |   |                  |                   |
| Direct Energy  | \$ 692,915  | \$ 604,431       | \$ 88,484         |
| Energy Advantage Inc.                                    | \$ 692,915  | \$ 616,862       | \$ 76,053         |
| AltaGas  | \$ 692,915  | \$ 647,796       | \$ 45,120         |

**Note:** This analysis uses information provided by the vendor in response to the EOI as well as in response to the following question:

"Assume that today, Thursday October 27, you are entering into a one-year agreement to supply the City of Surrey with the natural gas for its large commercial and general firm service sites at a fixed price per GJ:

- 1) Would the fixed price apply all natural gas consumed, or would it instead apply to a fixed monthly volume?
- 2) What would be the fixed price you could offer?"

For the purpose of this analysis, commodity pricing information submitted in response to this question supercedes commodity pricing information submitted in response to the EOI. This analysis assumes that per facility consumption levels over the life of the contract will approximate those of the one-year period beginning August 1, 2010.

**FINANCIAL ANALYSIS  
November, 2011 to October, 2012**

**Additional Question Analysis  
FortisBC vs Proponent: Cascadia Energy Ltd.**

|  |                 |                                     |                   |
|--|-----------------|-------------------------------------|-------------------|
| <b>Gas Rate per GJ (from EOI Response)</b>             | \$ 3.68         |                                     |                   |
| <b>FortisBC Rates</b>                                  | <b>Current</b>  | <b>Rate Increase<br/>(Decrease)</b> | <b>Future</b>     |
| <b>Large Commercial</b>                                | \$ 4.005        | 0.0%                                | \$ 4.0050         |
| <b>General Firm Service</b>                            | \$ 4.769        | 0.0%                                | \$ 4.7690         |
|  | <b>FortisBC</b> | <b>Cascadia Energy Ltd.</b>         | <b>Difference</b> |
| <b>Large Commercial - Rate 3</b>                       |                 |                                     |                   |
| City Hall (14245 - 56 St.)                             | 62,115          | 53,256                              | 8,859             |
| Works Yard - Main (6645 - 148 St.)                     | 32,576          | 28,954                              | 3,622             |
| Guildford Library & Rec Centre (15105 - 105 Ave.)      | 34,320          | 30,389                              | 3,931             |
| Newton Library (13795 - 70 Ave.)                       | 13,393          | 13,172                              | 220               |
| South Surrey Arena (2199 - 148 St.)                    | 29,988          | 26,825                              | 3,163             |
| Newton Arena (7120 136B St.)                           | 14,450          | 14,042                              | 408               |
| Fleetwood Community Centre & Library (15988 - 84 Ave.) | 38,393          | 33,740                              | 4,653             |
| Surrey Arts Centre (13750 - 88 Ave.)                   | 17,510          | 16,560                              | 950               |
| Surrey Museum (17710 - 56A St.)                        | 21,560          | 19,891                              | 1,668             |
| RCMP Headquarters (14333 57 Ave.)                      | 41,228          | 36,073                              | 5,156             |
| <b>Subtotal, Large Commercial - Rate 3</b>             | \$ 305,532      | \$ 272,903                          | \$ 32,629         |
| <b>General Firm Service - Rate 5</b>                   |                 |                                     |                   |
| Newton Wave Pool (13730 - 72 Ave)                      | 66,809          | 58,164                              | 8,644             |
| North Surrey Rec Centre (10275 City Parkway)           | 93,817          | 80,542                              | 13,274            |
| South Surrey Indoor Pool (14655 - 17 Ave)              | 39,258          | 34,862                              | 4,395             |
| Surrey Sport & Leisure Pool (16555 Fraser Hwy)         | 187,500         | 158,687                             | 28,813            |
| <b>Subtotal, General Firm Service - Rate 5</b>         | \$ 387,383      | \$ 332,256                          | \$ 55,127         |
| <b>Install Modem on Meters at Pools</b>                | -               | 1,200                               | 1,200             |
| <b>Total</b>   | \$ 692,915      | \$ 606,359                          | \$ 86,557         |

**Note:** This analysis uses information provided by the vendor in response to the EOI as well as in response to the following question:

"Assume that today, Thursday October 27, you are entering into a one-year agreement to supply the City of Surrey with the natural gas for its large commercial and general firm service sites at a fixed price per GJ:

1) Would the fixed price apply all natural gas consumed, or would it instead apply to a fixed monthly volume?

2) What would be the fixed price you could offer?"

For the purpose of this analysis, commodity pricing information submitted in response to this question supercedes commodity pricing information submitted in response to the EOI. This analysis assumes that per facility consumption levels over the life of the contract will approximate those of the one-year period beginning August 1, 2010.

**FINANCIAL ANALYSIS**  
**April, 2012 to October, 2012**

**Estimate of Seven-Month Contract Cost**  
**Cascadia Energy Ltd.**

|  |           |                 |                             |                   |
|--|-----------|-----------------|-----------------------------|-------------------|
| <b>Gas Rate per GJ</b>                                 | <b>\$</b> |                 | <b>2.43</b>                 |                   |
| <br>   |           |                 |                             |                   |
| <b>FortisBC Rates</b>                                  |           |                 | <b>Current</b>              |                   |
| <b>Large Commercial</b>                                | \$        |                 | 4.005                       |                   |
| <b>General Firm Service</b>                            | \$        |                 | 4.769                       |                   |
| <br>   |           |                 |                             |                   |
|  |           | <b>FortisBC</b> | <b>Cascadia Energy Ltd.</b> | <b>Difference</b> |
| <hr/>  |           |                 |                             |                   |
| <b>Large Commercial - Rate 3</b>                       |           |                 |                             |                   |
| City Hall (14245 - 56 St.)                             |           | 23,672          | 16,957                      | 6,715             |
| Works Yard - Main (6645 - 148 St.)                     |           | 10,867          | 8,547                       | 2,319             |
| Guildford Library & Rec Centre (15105 - 105 Ave.)      |           | 13,697          | 10,406                      | 3,291             |
| South Surrey Arena (2199 - 148 St.)                    |           | 13,504          | 10,280                      | 3,225             |
| Fleetwood Community Centre & Library (15988 - 84 Ave.) |           | 15,761          | 11,762                      | 3,999             |
| Surrey Arts Centre (13750 - 88 Ave.)                   |           | 5,330           | 4,911                       | 419               |
| Surrey Museum (17710 - 56A St.)                        |           | 9,207           | 7,458                       | 1,750             |
| RCMP Headquarters (14333 57 Ave.)                      |           | 18,957          | 13,861                      | 5,096             |
| <b>Subtotal, Large Commercial - Rate 3</b>             | <b>\$</b> | <b>110,995</b>  | <b>\$</b>                   | <b>84,181</b>     |
|  |           |                 | <b>\$</b>                   | <b>26,814</b>     |
| <hr/>  |           |                 |                             |                   |
| <b>General Firm Service - Rate 5</b>                   |           |                 |                             |                   |
| Newton Wave Pool (13730 - 72 Ave)                      |           | 40,075          | 27,750                      | 12,325            |
| North Surrey Rec Centre (10275 City Parkway)           |           | 40,472          | 28,065                      | 12,407            |
| South Surrey Indoor Pool (14655 - 17 Ave)              |           | 18,864          | 14,196                      | 4,667             |
| Surrey Sport & Leisure Pool (16555 Fraser Hwy)         |           | 89,123          | 59,157                      | 29,966            |
| <b>Subtotal, General Firm Service - Rate 5</b>         | <b>\$</b> | <b>188,534</b>  | <b>\$</b>                   | <b>129,169</b>    |
|  |           |                 | <b>\$</b>                   | <b>59,365</b>     |
| <hr/>  |           |                 |                             |                   |
| <b>Install Modem on Meters at Pools</b>                |           | -               | 1,200                       | -                 |
|  |           |                 |                             | 1,200             |
| <hr/>  |           |                 |                             |                   |
| <b>Total before HST</b>                                | <b>\$</b> | <b>299,529</b>  | <b>\$</b>                   | <b>214,550</b>    |
|  |           |                 | <b>\$</b>                   | <b>84,979</b>     |
| <hr/>  |           |                 |                             |                   |
| <b>HST</b>   |           | 35,944          | 25,746                      | 10,198            |
| <hr/>  |           |                 |                             |                   |
| <b>Total with HST</b>                                  | <b>\$</b> | <b>335,473</b>  | <b>\$</b>                   | <b>240,296</b>    |
|  |           |                 | <b>\$</b>                   | <b>95,177</b>     |
| <hr/>  |           |                 |                             |                   |

**Note:** Per GJ rate to be confirmed closer to the contract date. This analysis assumes that per facility consumption levels over the life of the contract will approximate those of the seven-month period beginning April 1, 2011.