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TO: BOARD OF WATER AND POWER COMMISSIONERS DATE: June 8, 2000

SUBMITTED BY:		SUBJECT:
ENRIQUE MARTINEZ Assistant General Manager Power Services	S. DAVID FREEMAN General Manager	Kern River Gas Transmission Company (KRGT) Term Differentiated Rate Precedent Agreement (BP 99-002A)
MARCIE L. EDWARDS Director of Bulk Power	RECEIVED JUL 13 2000 Board of Water & Power Comm'rs. CITY OF LOS ANGELES	FOR COMMISSION OFFICE USE: RES. No. 001 014 JUL 18 2000
FOR: APPROVAL X	INFORMATION	COPY RES. TO: Pwr Svcs, Bulk Pwr 9/28/00
AGENDA: CONSENT REGULAR	COMMITTEE APPROVAL:	

COUNCIL APPROVAL REQUIRED

Summary

Transmitted for your consideration are an original and a duplicate original of a Term Differentiated Rate (TDR) Precedent Agreement to enter into TDR gas transportation service with the Kern River Gas Transmission Company (KRGT). This TDR Precedent Agreement replaces a previous TDR Precedent Agreement (BP 99-002) that was approved by the Board of Water and Power Commissioners by Resolution No. 99-176 on February 16, 1999 and subsequently approved by the City Council by File No. 99-0283 on April 7, 1999.

The reason for this second TDR is that since April 1999, KRGT continued to negotiate other TDR precedent agreements with holdout customers. As a result of this activity and the Most Favored Nations requirement, KRGT offered to substitute this new improved subject agreement to the Department. The City Attorney has informed us that City Council approval is required and the CAO report is attached. This new TDR Precedent Agreement incorporates four important changes that will benefit the Department: it will allow the Department to exit the TDR if the Department is adversely affected by a change in the original underlying gas transportation contract (Agreement No. 10870) from being denominated in Mcf to MMBtu; it will extend the date for final opt in/opt out of this TDR; it will require KRGT to bear the entire costs associated with its non-TDR customers turning back capacity in 2007; and finally, it will become effective one month earlier, thereby saving the Department approximately $750,000. This newly substituted TDR Precedent Agreement (BP 99-002A) will supersede the previous Precedent Agreement (BP 99-002). Offramps will be included if the agreement negatively impacts the Department, allowing a reversion to the original agreement, with the appropriate rate adjustments.

This TDR Precedent Agreement establishes the conditions that must be met in order for the Department and KRGT to develop an amendment to the existing, long-term, natural gas transportation agreement (Agreement No. 10870). There will be no immediate impact, but ultimately, the amended agreement to be developed will substantially lower the unit rate for natural gas transportation service, as well as extend the agreement's duration by nine years and seven months. The current demand charge of $0.664/MMBtu will decrease to approximately $0.423/MMBtu. By obtaining a more competitive rate structure, the amended agreement to be developed will allow the Department to reduce its annual

expenditures for KRGT interstate gas transportation service by approximately $8 million or 36 percent per year.

This new TDR Precedent Agreement has been approved as to form and legality by the City Attorney.

Background – Existing Agreement No. 10870

In order to provide for a firm, reliable, and clean fuel source for its Los Angeles basin electric generation stations, the Department entered into a long-term, interstate natural gas transportation agreement with KRGT (Agreement No. 10870) on April 2, 1990. This agreement provides the Department with reliable, firm, natural gas interstate pipeline transportation service from various productions locations in Wyoming to California, for a 15-year contract term beginning on March 1, 1992, and ending on February 28, 2007. Rates for all interstate natural gas transportation service, including the proposed TDR rates, are subject to the approval of the Federal Energy Regulatory Commission (FERC). KRGT did not seek approval of Precedent Agreement BP99-002 at the Federal Energy Regulatory Agency. They chose to wait until more TDR precedent agreements were negotiated with their other shippers. This newly substituted TDR will require FERC approval.

Natural gas supply is procured by the Department through separate agreements. Local intrastate gas transportation service is obtained from the Southern California Gas Company to deliver natural gas to the Department's electric generation facilities.

The rate structure of the existing KRGT agreement obligates the Department to pay a rate that is currently much higher than the market value for such service. Under the terms of the existing agreement, all KRGT firm transportation customers, including the Department, are obligated to pay for such natural gas transportation service at rates approved by FERC. At the current FERC-approved rates, the Department is obligated to pay approximately $22 million per year in reservation charges for the use of the KRGT's system until the contract expires in 2007.

TDR Process

This TDR Precedent Agreement (BP99-002A) will allow the Department and KRGT to substitute an amended transportation agreement to include a reduced TDR rate for a 15-year term, taking effect on October 1, 2001. This 15-year term will effectively extend the Department and KRGT existing Agreement No. 10870's duration by approximately nine years and seven months. This reduces the annual above-market reservation costs of the existing agreement by approximately 36 percent. KRGT is also offering a 10-year TDR rate structure; however, the 15-year TDR rate structure will provide a more competitive rate for a longer duration.

By obtaining interstate natural gas transportation service from KRGT at reduced and competitive TDR rates, the Department will significantly reduce its natural gas transportation costs. To assist its customers in becoming more competitive, KRGT conducted a TDR "Open Season" process during Fall 1998, to determine interest from its existing and prospective firm customers in obtaining substantially lower natural gas transportation rates, in exchange for an extended contract duration. In order to prepare and develop a reduced rate structure for and extended contract duration, KRGT must obtain commitments in the form of a TDR Precedent Agreement from all prospective customers desiring TDR service.

Following receipt of the commitments from all existing and new KRGT customers in the form of TDR Precedent Agreements, KRGT will file in early 2000 and seek FERC approval of the new rate structure. KRGT and the Department, as well as other KRGT TDR customers, will then develop amendments to their existing agreements, as necessary, to accommodate the TDR rate structure concurrent with the FERC approval rates. The Department's amendments will be subject to the approvals of the Board of Water and Power Commissioners and the Los Angeles City Council.

As currently proposed, the TDR rate structures will not take effect until October 1, 2001. This date coincides with the expiration of onerous refinance restrictions under KRGT's debt structure.

TDR Precedent Agreement

The TDR Precedent Agreement establishes various conditions which must be met in order to provide to the Department and other KRGT customers the liability to obtain reduced TDR rates. These conditions must be satisfied or expressly waived by the party favored by the condition. Among the key conditions are that the Department has the discretion not to take service at TDR rates if the initial rate eventually approved by the FERC exceeds that specified by the Department in its Precedent Agreement. In addition, the amendment to be developed to the existing agreement (Agreement No. 10870) is subject to the approvals of the Board of Water and Power Commissioners and the Los Angeles City Council.

Fiscal Impact Statement

This TDR Precedent Agreement will have no immediate impact on existing contract expenditures. The approved TDR Rates will allow the Department to reduce its annual reservation costs from FERC approved rate (Agreement No. 10870) by approximately 36 percent (from \$22 million per year to \$14 million per year). However, when an amended agreement is developed and approved to allow TDR rates over a new 15-year term commencing in October 2001, it would extend the agreement duration by nine years and seven months. This increases the total expenditures remaining on the agreement by approximately \$97 million (\$113 million to \$210 million).

In accordance with the California Environmental Quality Act (CEQA), it has been determined that this Agreement is exempt from further requirements under Los Angeles City CEQA Guidelines, Article III, Section 1, No Significant Effect.

It is recommended that your Honorable Board adopt the attached resolution, approved as to form and legality by the City Attorney, and that the TDR Precedent Agreement be executed as authorized in the resolution.