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TO: BOARD OF WATER AND POWER COMMISSIONERS DATE: January 16, 2001

SUBMITTED BY:	SUBJECT:
ENRIQUE MARTINEZ, Assistant General Manager Power S. DAVID FREEMAN, General Manager THOMAS J. McCARTHY, Acting Director Bulk Power RECEIVED JAN 11 2001 Board of Water & Power Com'rs CITY OF LOS ANGELES	Kern River Gas Transmission Company (KRGT) Extended Term Rate Amendment (BP 99-002B)
FOR: APPROVAL x INFORMATION	FOR COMMISSION OFFICE USE: RES. No. 001 153 JAN 16 2001 3 COPY RES. TO Power Svcs 3 " Bulk Power 3/6/01
AGENDA: CONSENT REGULAR COMMITTEE APPROVAL:	

COUNCIL APPROVAL REQUIRED

Summary

Transmitted for your consideration are an original and a duplicate original of an Extended Term Rate Amendment (ETRA) to enter into ETRA gas transportation service with the Kern River Gas Transmission Company (KRGT). This ETRA is the final phase of implementing the Extended Term Rate Program of a previous Term Differentiated Rate (TDR) Precedent Agreement (BP 99-002A) that was approved by the Board of Water and Power Commissioners by Resolution No. 001-014 on July 18, 2000 and subsequently approved by the City Council by File No. 99-0283 on September 19, 2000. KRGT requested the TDR Precedent Agreement to gain approval from the Federal Energy Regulatory Commission (FERC) to go forward with the Rate Program.

KRGT has received permission from FERC to proceed with the ETRA. The City Attorney has informed us that City Council approval is required and the CAO report is in process. The ETRA incorporates four important changes that will benefit the Department: it will allow the Department to exit the ETRA 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 ETRA; it will require KRGT to bear the entire costs associated with its non-ETRA customers turning back capacity in 2007; and finally, it will become effective one month earlier, thereby saving the Department approximately $750,000. Offramps will be included if the agreement negatively impacts the Department, allowing a reversion to the original agreement, with the appropriate rate adjustments.

The ETRA 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 ETRA 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 production 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 ETRA rates, are subject to the approval of the FERC.

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.

ETRA Process

This ETRA (BP 99-002B) will allow the Department and KRGT to substitute an amended transportation agreement to include a reduced ETRA rate for a 15-year term, taking effect on October 1, 2001. This 15-year term will effectively extend the Department's and KRGT's 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 ETRA rate structure; however, the 15-year ETRA 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 ETRA rates, the Department will significantly reduce its natural gas transportation costs. To assist its customers in becoming more competitive, KRGT conducted an ETRA "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.

Following receipt of the commitments from all existing and new KRGT customers in the form of ETRA Precedent Agreements, KRGT sought FERC approval of the new rate structure in early 2000. The ETRA was approved by the FERC in the form now presented here before the Board for approval.

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

ETRA Precedent Agreement

The ETRA, together with the Precedent Agreement, establishes various conditions which must be met in order to provide to the Department and other KRGT customers the opportunity to obtain reduced ETRA 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 to refuse to take service at ETRA rates if the initial rate eventually approved by the FERC exceeds the rates specified by the Department in its ETRA. 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 ETRA will have no immediate impact on existing contract expenditures. The approved ETRA 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 the ETRA becomes effective, the ETRA rates of the new 15-year term commencing in October 2001 will extend the original agreement (DWP No. 10870) by nine years and seven months. This will increase 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 ETRA be executed as authorized in the resolution.

Attachments