

DOCKETED

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Project Title:	Appeal by Los Angeles Department of Water & Power re Renewables Portfolio Standard Certification Eligibility
TN #:	213053
Document Title:	44 Kern River 2013 Agreement No. 1706 CAO Report (Bates Nos. LA00611-LA000614)
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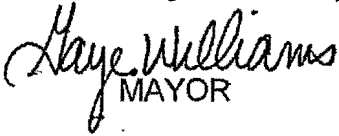
POWER SYSTEM

FEB 08 2013

EXECUTIVE OFFICE

RANDY S. HOWARD

FEB 08 2013

TRANSMITTAL		0150-09890-0001
TO Ronald O. Nichols, General Manager Department of Water and Power	DATE FEB 07 2013	COUNCIL FILE NO.
FROM The Mayor		COUNCIL DISTRICT
<p style="text-align: center;">AGREEMENT NO. BP 12-019 BETWEEN THE DEPARTMENT OF WATER AND POWER AND KERN RIVER GAS TRANSMISSION COMPANY FOR THE REPLACEMENT OF AN AGREEMENT OF FIRM NATURAL GAS TRANSPORTATION SERVICE</p> <p style="text-align: center;">Approved and transmitted for further processing including Council consideration. See the City Administrative Officer report attached.</p> <p style="text-align: center;"> MAYOR</p> <p>MAS:OAV:10130091T</p>		

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

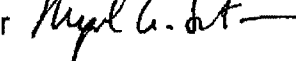
Date: February 4, 2013

CAO File No. 0150-09890-0001

Council File No.

Council Districts: Citywide

To: The Mayor

From: Miguel A. Santana, City Administrative Officer 

Reference: Transmittal from the Department of Water and Power dated January 16, 2013; referred by the Mayor for report on January 22, 2013

Subject: **AGREEMENT NO. BP 12-019 BETWEEN THE DEPARTMENT OF WATER AND POWER AND KERN RIVER GAS TRANSMISSION COMPANY FOR THE REPLACEMENT OF AN AGREEMENT OF FIRM TRANSPORTATION SERVICE**

SUMMARY

The Department of Water and Power (DWP; Department) requests approval of the proposed Resolution that authorizes the execution of a Restatement of Firm Transportation Service Agreement No. BP 12-019 (Restatement Agreement) between the DWP and Kern River Gas Transmission Company (KRGTC). The proposed Restatement Agreement will replace a 2001 Sub-Agreement (Contract No. 1706) between DWP and KRGTC for natural gas transportation service. The proposed Restatement Agreement is necessary to comply with a settlement agreement approved by the Federal Energy Regulatory Commission (FERC), which resolves rate and contractual issues in all KRGTC agreements.

The proposed Restatement Agreement, which is a standardized Agreement for all KRGTC natural gas shippers, retains DWP's natural gas transportation service agreement 15-year term (May 1, 2003 to April 30, 2018) for increased firm capacity as well as provides an additional delivery point (Kramer-Junction) along the Kern River transmission system in Wyoming into Southern California. In addition, the Restatement Agreement will retain its discounted extended rates, its original priority of service and other key provisions from the current Sub-Agreement and will not cause disruption of service for the delivery of natural gas to its in-basin generation stations. In accordance with Charter Section 373 and Los Angeles Administrative Code (LAAC) Section 10.5, Council approval is required because the cumulative term exceeds three years.

A related, but separate Restatement Agreement (BP- 12-018), replacing the original Agreement for natural gas transportation service on Kern River's gas pipeline is being submitted separately for Mayor and Council approval.

Background

On April 2, 1990 (C.F.90-1019) DWP entered into the long-term agreement with KRGTC to provide firm interstate pipeline transportation of natural gas from Wyoming to Kern County California for an initial service term of 15 years ending on February 28, 2007. Rates for interstate natural gas transportation are approved by FERC in the form of a natural gas tariff. The gas tariff allows KRGTC to recover an annual cost of services through the rates. DWP's Agreement preserves the Department's current maximum reservation rate for a specified quantity.

DWP has access to natural gas fields in Wyoming through their participation in a SCAPPA project and SCAPPA has part ownership with other shippers in the surrounding gas field areas of Pinedale, Wyoming. DWP and others ship their natural gas through the KRGTC's pipeline to Southern California Gas Company's (So Cal Gas) system in Bakersfield, California. So Cal Gas is the only authorized shipper of natural gas in California. DWP has a separate, current contract with So Cal Gas for the delivery of natural gas to the Scattergood, Haynes, Harbor and Valley Generating Stations.

On March 6, 2001 DWP entered into an Extended Term Rate Amendment with KRGTC, which amended the original agreement, reducing the per unit transportation rate for natural gas service and extending the primary term to September 30, 2016. In exchange for extending the term of their service agreement, DWP would retain its delivery point entitlement assurances and firm volume commitment from KRGTC. At that time the Board of Water and Power Commissioners approved a resolution to extend the agreement term to September 30, 2016 in order secure a discount as well as a firm scheduling commitment (non-interruptible). The reduction in the unit rate represented a 34% reduction over the previous rate.

On May 21, 2001, DWP entered into a Sub-Agreement to the original Agreement for firm natural gas transportation service (Contract No. 1706) to receive increased capacity and an additional delivery point for DWP for a 15-year term beginning May 1, 2003 and expiring on April 30, 2018.

Restatement Agreement

The Kern River pipeline system delivers the vast majority of DWP's natural gas fuel supply. The natural gas delivered through the Kern River pipeline amounted to 84 percent in 2010 and 88 percent in 2011 of DWP's natural gas requirements. The natural gas transported comes from eleven different suppliers, including DWP's share of the Pinedale natural gas field near Pinedale, Wyoming.

On December 7, 2011, KRGTC filed an appeal with FERC as a result of all the natural gas shippers requesting standardization of all agreement language to avoid special treatment requests. To settle the appeal FERC approved the language proposed by KRGTC, which resulted in the Restatement Agreement. The proposed Restatement Agreement is required by FERC to standardize the natural gas transportation agreements for all of the shippers on the KRGTC pipeline. The new restated natural gas Transportation Service Agreement (TSA) simplifies and consolidates all the tariffs and contracting procedures. All shippers would be required to enter into a new pro forma agreement with the same material terms as the current TSA retaining the same priority of service, rates, receipt and

delivery point entitlements, volume and type of service provided. There are approximately 39 long-term shippers on the Kern River Pipeline. DWP ranks third behind Nevada Power (first) and So Cal Gas (second). On February 1, 2012, FERC approved a settlement of the KRGTC appeal. The rates, service delivery and other conditions of the DWP Sub-Agreement with KRGTC will remain the same.

CONTRACTING COMPLIANCE

The City Attorney has approved the proposed resolution and Agreement as to form and legality. The Agreement is exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to the General Exemptions described in Section 15061(b)(3) of the Los Angeles City CEQA Guidelines. In accordance with Charter Section 1022, it has been determined the work specified in the Agreement can be performed more economically and feasibly by Independent Contractors than by City employees. Pursuant to Charter Section 373 and Los Angeles Administrative Code Section 10.5, Council consideration of this Agreement is required because the term exceeds three years.

RECOMMENDATION

That the Mayor:

1. Approve the proposed Resolution that authorizes the execution of a Restatement of Firm Natural Gas Transportation Service Agreement No. BP 12-019 between the DWP and Kern River Gas Transmission Company, which will replace the current Sub-Agreement (Contract No. 1706) for interstate natural gas transportation service with the proposed Restatement of Firm Natural Gas Transportation Service Agreement; and,
2. Return the proposed resolution to the Department for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

The approval of this request restates an existing contractual agreement and does not increase the current financial obligation of the DWP. This Agreement is consistent with the DWP Financial Policies which are not applicable.

TIME LIMIT FOR COUNCIL ACTION

Pursuant to Charter Section 373, "Long Term Contracts Approved by Council," and the Los Angeles Administrative Code Section 10.5, "Limitation and Power to Make Contracts," unless the Council takes action disapproving a contract that is longer than three years within 60 days after submission to Council, the contract shall be deemed approved.

MAS:OAV:101030091