

DOCKETED

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Project Title:	Appeal by Los Angeles Department of Water & Power re Renewables Portfolio Standard Certification Eligibility
TN #:	213068
Document Title:	60 SoCalGas 2008 Delegation of Authority for Master Srvcs Contract Agreement 47498-6 CAO Report (Bates Nos. LA000739-LA000742)
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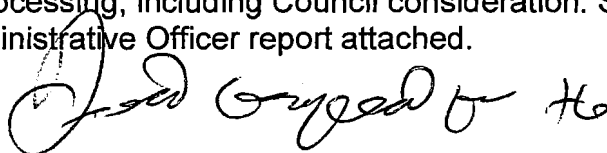
0220-04163-0001

TRANSMITTAL

TO H. David Nahai, General Manager Department of Water and Power	DATE APR 23 2008	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT	

SOUTHERN CALIFORNIA GAS COMPANY MASTER SERVICES AGREEMENT

Transmitted for further processing, including Council consideration. See the
City Administrative Officer report attached.



MAYOR

KLS:OAV:10080088T

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: February 29, 2008

CAO File No. 0220-04163-0001

Council File No.

Council District: All

To: The Mayor

From: Karen L. Sisson, City Administrative Officer *KLS*

Reference: Letter from the General Manager, Department of Water and Power, dated December 3, 2007; referred for report January 7, 2008

Subject: **SOUTHERN CALIFORNIA GAS COMPANY MASTER SERVICES CONTRACT**

SUMMARY

The Department of Water and Power (DWP) requests approval of a delegation of authority to the Board of Water and Power Commissioners (Board) to extend and amend the Master Services Contract No. 47498-6 (MSC) with the Southern California Gas Company (So Cal Gas) for intrastate transportation of natural gas for use at the four local City power plants. The proposed terms of the MSC for the Haynes, Harbor and Valley Generating Stations are for an additional two years from July 1, 2008 to July 1, 2010 with unlimited natural gas service and month-to-month interruptible service thereafter. Every two years the MSC for each generating plant is renewed for two additional years. The current Agreement will expire on July 1, 2008. The delegation of authority to the DWP will allow the Department to manage on a day-to day basis the volume of gas transported based on the volatility of the cost of natural gas and the demand for natural gas generated power. In addition, the volume will be adjusted on a daily basis to reflect changes in natural gas needs due to the variable nature of the availability of renewable generation sources such as wind and solar generation.

The Scattergood Generating Station is on a contract for one month from July 1, 2008 to August 1, 2008 and then converts to month-to-month interruptible service thereafter because the California Public Utilities Commission (CPUC) prohibits So Cal Gas from signing a longer term Agreement with DWP for Scattergood since imported natural gas is a secondary source of fuel for the Scattergood Plant. The primary source of fuel is digester gas from the Hyperion Waste Treatment Plant.

The natural gas MSC with So Cal Gas has been approved by the Board, Mayor and Council since July 2000. Therefore, pursuant to Section 606 of the City Charter, Council approval of this proposed contract is required because the cumulative term of the contract exceeds three years.

BACKGROUND

So Cal Gas was provided a natural gas distribution franchise by the State of California for the transportation of natural gas to all natural gas users within its service territory. Execution of the proposed Master Services Agreement will allow DWP to continue to access the So Cal Gas

LA000740

infrastructure and transport natural gas from the California State line to the City power plants. This is a sole source contract and competitive bidding opportunities are not available.

The Agreement identifies the amount of gas to be delivered, the location of delivery and type of service provided. The Agreement itself contains no costs. However, actual transportation of natural gas does cost DWP and will vary depending upon the volume of gas transported and the amount of tariffs

ADDITIONAL SERVICES

In addition, DWP is requesting to amend the Agreement to include flexibility in the various natural gas transportation services available from So Cal Gas that DWP can use when the opportunity is advantageous and may vary depending on the circumstances. Those services include Wheeling, Parking, Loaning, Storage, and Off System Delivery. Wheeling allows DWP to move gas purchased across the So Cal system to facilitate exchanges with other gas supply arrangements outside of Southern California. Loaning contracts temporarily borrow gas from So Cal Gas's system for a short time and must be repaid; whereas, parking contracts are used to hold DWP gas in So Cal Gas's system for a short period of time until it can be used for generation.

Now that DWP and the City have a goal to increase the usage of Renewable Energy, there are improved opportunities for the use of loaned or parked natural gas. Since renewable sources such as wind or solar power are not available 100 percent of the time, predicting the accessibility of resources at any given time is difficult. The convenience of loaning and/or parking contracts for the delivery of natural gas for the generation would complement the renewable sources of generation and avoid outages. Outages could also be avoided by using parked or loaned natural gas whenever there are unexpected repairs or maintenance on a facility.

The DWP Executive Risk Policy Committee (ERPC) meets monthly or more frequently if required, to set policy controlling the overall limits on prices and volumes. The ERPC is composed of the Chief Financial Officer (the Chair), the Chief Administrative Officer, the City Attorney, the Assistant General Manager of Power, the Director of Power Supply Operations, and the Director of Planning and Projects. Under the jurisdiction of the ERPC is the review of the use of the additional services such as Parking and Loaning natural gas which are services that would affect the long term financial strategy of DWP's natural gas transportation and storage outlook annually.

Tariffs for the actual transportation of natural gas are separate from this Agreement and can be adjusted separately. DWP estimates that the cost of actual transportation of natural gas under this Agreement will be \$37 million annually based upon the current tariff levels.

These additional services, that have been included for the first time in the MSC, will allow DWP the flexibility to use the tools on the So Cal Gas System on a timely basis. The Department advises that the delegation of the use of these additional services to DWP instead of seeking approval on every change will expedite the decision making and be in the best financial interests of the DWP customers and result in the best use of natural gas and a renewable resource mix on a day-to-day basis.

City Compliance Issues

This is a sole source contract since So Cal Gas owns the State of California authorized franchise for providing intrastate gas transportation service to all gas consuming entities in the its service territory, which includes the area in which the DWP basin generating stations operate. This contract is used throughout the State and as such is not modifiable for the various customers of So Cal Gas. Therefore, DWP requests exemption from certain provisions in Section 10 of the Los Angeles Administrative Code (LAAC) that pertain to the Child Support Policy, Recycled Paper, and the Minority and Women Owned Business Enterprise Outreach Program. In addition, exemption is sought from the Service Worker Retention Program, the City Living Wage and the Equal Benefits Ordinances. The proposed contract is subject to the review and approval as to form by the City Attorney.

RECOMMENDATION

That the Mayor approve, subject to review and approval as to form by the City Attorney, the Department of Water and Power (DWP) request for approval of a delegation of authority to the Board of Department of Water and Power Commissioners to extend and amend of a Master Services Contract (No. 47498-6) with the Southern California Gas Company for intrastate transportation of natural gas for use at City power plants, including the additional services provided in the contract and an exception from certain provisions of Section 10 of the Los Angeles Administrative Code as detailed in the request, and return the request to the Department for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

There is no impact on the City General Fund. It is estimated that the annual cost will be \$37 million, funded by the Power Revenue Fund. In addition, the Department of Water and Power is only bound by the City Debt Management Policies. Therefore, the City Financial Policies 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.

KLS:OAV:10080088