



Los Angeles
Department of
Water & Power

RESOLUTION NO. _____

BOARD LETTER APPROVAL

Handwritten signature of Michael S. Webster in blue ink.

MICHAEL S. WEBSTER
Interim Director – Power System
Engineering and Technical Services

Handwritten signature of Marcie L. Edwards in blue ink.

MARCIE L. EDWARDS
General Manager

DATE: July 13, 2015

SUBJECT: Approval of the Binding Request for Period Two Service, LADWP No. BP 12-018, (Binding Request) and Period Two Firm Transportation Service Agreement (Period Two Agreement), LADWP No. BP 15-012, between the LADWP and Kern River Gas Transmission Company (Kern River)

SUMMARY

This Kern River Period Two Agreement, Agreement No. BP 15-012, is a long-term natural gas transportation service agreement (TSA) to provide LADWP with firm natural gas interstate pipeline service from various locations in Wyoming into Southern California and Southern Nevada. "Period Two" is the nomenclature given by Kern River to designate agreements that succeed existing agreements which are termed "Period One". The Period Two Agreement will provide uninterrupted gas transportation service to the LADWP when the existing Restatement of Firm Transportation Service Agreement (Restatement Agreement), LADWP Agreement No. BP 12-018, with Kern River expires on September 30, 2016. Approval of the Period Two Agreement ensures that the LADWP will retain its original priority of service date and other key active provisions from the Restatement Agreement, realize substantially lower rates than it currently pays under the Restatement Agreement, and experience no disruption of service for the delivery of natural gas to its gas-fired generating stations.

In order to be eligible to receive service under the Period Two Agreement and realize a significant decrease in rates, the LADWP must submit the Binding Request to Kern River on or before September 30, 2015, one year prior to the September 30, 2016, expiration date of the Restatement Agreement.

Per Charter Section 373, City Council approval is required for the Binding Request and Agreement No. BP 15-012. The City Administrative Officer Report dated June 29, 2015, is attached.

RECOMMENDATION

It is requested that the Board of Water and Power Commissioners adopt the attached Resolution recommending City Council's approval of the Binding Request and Agreement No. BP 15-012 between the City of Los Angeles, acting by and through the LADWP, and Kern River for long-term natural gas transportation service as required in Charter Section 373.

ALTERNATIVES CONSIDERED

There are no firm natural gas interstate pipeline transportation service alternatives.

The Kern River pipeline system is the only interstate pipeline that can provide LADWP with the operational ability to access both its natural gas reserves in southern Wyoming and the Apex Power Project in southern Nevada.

FINANCIAL INFORMATION

In 2013 and 2014, the LADWP paid Kern River approximately \$15.1 million annually utilizing the existing Restatement Agreement for transportation services on the Kern River natural gas pipeline.

Under the Period Two Agreement, as an original system "vintage shipper," the LADWP expects to pay rates that are 49 percent less (an annual saving of approximately \$7.4 million) than the rates it is currently being charged under the Restatement Agreement.

The Period Two Agreement is a 15-year TSA that will cost the LADWP approximately \$7.7 million annually or \$115.5 million for the life of the agreement. The Period Two Agreement will come into effect on October 1, 2016, immediately after the Restatement Agreement expires on September 30, 2016, thus ensuring uninterrupted gas transportation service to the LADWP. Without the Period Two Agreement, the LADWP will buy natural gas with the cost of transportation embedded in the cost.

The term of the Period Two Agreement will be from October 1, 2016, through September 30, 2031.

BACKGROUND

In order to supply its in-basin generating stations with a firm and reliable fuel source, the LADWP entered into a long-term "vintage agreement," Kern River Contract No. 1006 (LADWP Agreement No. 10870), with Kern River on April 2, 1990. LADWP Agreement No. 10870 was a TSA with Kern River providing the LADWP as a "shipper" with reliable,

firm natural gas interstate pipeline transportation service from various natural gas production locations in Wyoming to Southern California for a 15-year contract term beginning on March 1, 1992 and ending on February 28, 2007. The LADWP, as an original system "vintage shipper," received Period One rates under the "vintage agreement," LADWP Agreement No. 10870.

On March 6, 2001, the LADWP entered into an Extended Term Rate Amendment, LADWP Agreement No. BP 99-002B, with Kern River which amended LADWP Agreement No. 10870 lowering the unit rate for natural gas transportation service that the LADWP pays and extending the primary term of LADWP Agreement No. 10870 to end September 30, 2016.

As a result of the February 1, 2012, Federal Energy Regulatory Commission (FERC)-approved settlement with Kern River to simplify and consolidate Kern River's natural gas tariff and contracting procedures, the LADWP entered into a restated TSA, the Restatement Agreement, LADWP Agreement No. BP 12-018, with Kern River on May 28, 2013. The Restatement Agreement ensured that the LADWP retained the same key material terms of LADWP Agreement No. 10870 in original priority of service, rate, receipt and delivery point entitlements, volume and character of service provided and incorporated the extended primary term of service ending date of September 30, 2016.

On March 25, 2014, the LADWP completed the purchase through a take-or-pay contract with the Southern California Public Power Authority of 100 percent of the capacity and energy of the natural gas-fired Apex Power Project located in Southern Nevada. The Apex Power Project receives its gas supply through an existing direct lateral interconnection to the Kern River pipeline system. Through the Restatement Agreement and other agreements, the LADWP began arranging in 2014 for the delivery of the natural gas to the Apex Power Project.

On December 22, 2014, Kern River notified the LADWP that it must submit a Binding Request indicating its intentions to continue receiving transportation service when the current Restatement Agreement expires on September 30, 2016. As an original system "vintage shipper" on the Kern River system, LADWP is eligible to continue its firm transportation service uninterrupted and receive a 49 percent decrease in rates under the new Period Two rates for 15 years, if the LADWP submits the Binding Request to Kern River on or before September 30, 2015, one year prior to the September 30, 2016, expiration date of the Restatement Agreement.

ENVIRONMENTAL DETERMINATION

In accordance with the California Environmental Quality Act (CEQA), it has been determined that Binding Request and Agreement No. BP 15-012 are exempt pursuant to the General Exemption described in CEQA Guidelines, Article II, Section 1, and Section 15061(b)(3) which state that, "Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA."

CITY ATTORNEY

The Office of the City Attorney reviewed and approved the Binding Request, Agreement No. BP 15-012 and Resolution as to form and legality.

ATTACHMENTS

- A. Resolution
- B. Binding Request for Period Two Service
- C. Period Two Firm Transportation Service Agreement
- D. CAO Report dated June 29, 2015