

LA**Los Angeles
Department of
Water & Power**

RESOLUTION NO. _____

BOARD LETTER APPROVAL

Handwritten signature of Michael S. Webster in blue ink.

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

Handwritten signature of Martin L. Adams in blue ink.

MARTIN L. ADAMS
Chief Operating Officer

Handwritten signature of David H. Wright in blue ink.

DAVID H. WRIGHT
General Manager

DATE: January 5, 2017

SUBJECT: Binding Request and Period Two Firm Transportation Service Agreement No. BP 16-019 Between the Los Angeles Department of Water and Power and Kern River Gas Transmission Company

SUMMARY

Period Two Firm Transportation Service Agreement No. BP 16-019 between Kern River Gas Transmission Company (Kern River) and the Los Angeles Department of Water and Power (LADWP) 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 natural gas transportation service to the LADWP when the existing Restatement of Firm Transportation Service Agreement No. BP 12-019 (Restatement Agreement) with Kern River expires on April 30, 2018. Approval of the Period Two Agreement ensures the LADWP will retain the same transportation entitlement as in 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.

Approval of the Period Two Agreement would allow for the continuation of reliable transportation of natural gas to LADWP's generating stations to meet our anticipated daily requirements, which is independent of any need or use of natural gas storage involving Southern California Gas Company's Aliso Canyon natural gas storage facility.

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 for Period Two Service (Binding Request) to Kern River on or before April 30, 2017, one year prior to the April 30, 2018, expiration date of the Restatement Agreement.

City Council approval is required pursuant to Los Angeles City Charter Section 373.

RECOMMENDATION

It is requested that the Board of Water and Power Commissioners (Board) adopt the attached Resolution recommending City Council's approval of the Binding Request and Agreement No. BP 16-019 between the City of Los Angeles, acting by and through the LADWP, and Kern River for long-term natural gas transportation service as pursuant to Charter Section 373.

ALTERNATIVES CONSIDERED

There are no firm natural gas interstate pipeline transportation alternatives.

Non-firm interstate transportation has a lower priority of service than firm interstate transportation. Natural gas purchases for delivery to LADWP's generating stations would be more at risk to be curtailed if arranged through non-firm transportation.

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 Wyoming and the Apex Power Project in southern Nevada.

FINANCIAL INFORMATION

In 2014 and 2015, the LADWP paid Kern River approximately \$6.7 million annually utilizing the existing Restatement Agreement for transportation services on the Kern River natural gas pipeline.

Under the Period Two Agreement, the LADWP expects to pay rates that are 53 percent less (an annual saving of approximately \$3.6 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 \$3.1 million annually or \$46.5 million for the life of the agreement. The Period Two Agreement will come into effect on May 1, 2018 immediately after the Restatement Agreement expires on April 30, 2018, thus ensuring uninterrupted gas transportation service to the LADWP.

The term of the Period Two Agreement will be from May 1, 2018 through April 30, 2033.

BACKGROUND

In order to supply its in-basin generating stations with a firm and reliable fuel source, the LADWP entered into a long-term agreement, Agreement No. 10870 (Kern River Contract No. 1006), with Kern River on April 2, 1990. 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 shipper, received Period One rates under Agreement No. 10870.

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

On May 21, 2001, as part of Kern River's 2003 Expansion Project, the LADWP entered into a Sub-agreement, Agreement No. 1706, to Agreement No. 10870 to receive increased capacity on Kern River's pipeline system. The Sub-agreement provided for expanded firm transportation service as well as an additional receipt point and delivery point for the delivery of natural gas for the LADWP for a 15-year period to begin on the in-service date of May 1, 2003 and end on April 30, 2018.

As a result of the February 1, 2012 Federal Energy Regulatory Commission-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, Agreement No. BP 12-019, with Kern River on May 28, 2013. The Restatement Agreement ensured that the LADWP retained the same key material terms as Agreement No. 1706 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 April 30, 2018.

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 natural 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 for the delivery of the natural gas to the Apex Power Project in 2014.

On September 1, 2015, the City Council approved Council File No. 15-0873 concurring with the Board's action of July 21, 2015 authorizing the LADWP to execute Agreement No. BP 15-012 with Kern River. Agreement No. BP 15-012 provided for 112,815 dekatherms of Kern River pipeline transportation capacity originating from Agreement No. 10870. Agreement No. BP 16-019 is substantially the same as LADWP BP 15-012,

but instead provides for 39,000 dekatherms of expanded Kern River pipeline transportation capacity originating from the Sub-Agreement No. 1706.

On July 19, 2016, 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 April 30, 2018. LADWP is eligible to continue its firm transportation service uninterrupted and receive a 53 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 April 30, 2017, one year prior to the April 30, 2018, expiration date of the Restatement Agreement.

Please see the attached City Administrative Officer Report dated December 20, 2016.

ENVIRONMENTAL DETERMINATION

In accordance with Section 15060 (c) (3) of the California Environmental Quality Act (CEQA) Guidelines, an activity is not subject to CEQA if it does not meet the definition of a project. Section 15378 (b) (5) states that organizational or administrative activities that will not result in direct or indirect physical changes in the environment do not meet that definition. Since this action would only allow continued receiving transportation service when a current agreement expires, it does not meet that definition of a project.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved the Agreement 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. City Administrative Officer Report