

# Agenda Report

**DATE:** May 12, 2003

**TO:** City Council  
**THROUGH:** Municipal Services Committee

**FROM:** City Manager

**SUBJECT:** Amend Resolution No. 5656, "Purchases, Sales, Exchanges, Storage and Transportation of Natural Gas and Fuel Oils"

## **RECOMMENDATION**

It is recommended that the City Council amend Resolution No. 5656 as follows:

1. Eliminate the \$1,000,000 maximum per contract amount;
2. Include authorization to execute "enabling agreements" - contracts with gas marketers, brokers and exchanges to facilitate such transactions;
3. Include authorization to execute software license or electronic commerce agreements necessary to schedule such transactions.

## **BACKGROUND**

The City Council authorized the General Manager of the Water and Power Department to execute Purchases, Sales, Exchanges, Storage and Transportation of Natural Gas and Fuel Oils by Resolution No. 5656, adopted October 20, 1986.

Resolution No. 5656 includes a \$1,000,000 dollar per contract limitation that has become an obstacle to necessary transactions under current market conditions. During peak burn periods, Pasadena's generations may consume \$100,000 to \$150,000 per day of fuel. The dollar limitation restricts forward transactions to

very small volumes. Furthermore, because most transactions with a given party are covered under a single enabling agreement, it is not clear that PWP staff have authority to continue entering into additional transactions under a given contract once the dollar limitation has been reached.

Pasadena must execute an enabling agreement with each potential counter party prior to entering into any natural gas transactions. In the past, Pasadena executed individually-negotiated contracts with many parties. In the 1990's, a standardized contract was developed by the Gas Industry Standards Board ("GISB"), and most companies began terminating older enabling agreements and transacting under the GISB standard. The current form of agreement that is commonly in use today is established by the North American Energy Standards Board ("NAESB"), a successor to the GISB. Nearly all gas market participants rely on this form of agreement for natural gas transactions. Due to increased credit concerns, some companies now require very clear authorization for the signatory.

Over time, many gas commodity trading and pipeline scheduling protocols have been automated with various proprietary software systems. In order to use these systems, Pasadena must occasionally execute software license agreements. Such agreements may involve a small usage fee, but often software is provided at no cost. Authorization to execute software license or electronic commerce agreements necessary to execute and schedule gas transactions is included in the proposed resolution amendment.

All gas and pipeline transactions conducted under these authorizing agreements will be negotiated and executed in compliance with the Pasadena Water and Power Energy Risk Management Policy adopted by the City Council, which authorizes purchases of fuel intended for use in Pasadena's local generating units and defines authorized transaction size and term limits applicable to schedulers (up to 1 month), middle management (up to 3 months), and the Water and Power General Manager (up to 1 year).

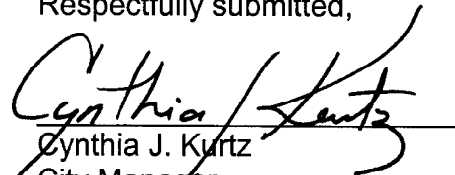
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**FISCAL IMPACT**

These amendments to the existing resolution for gas purchases and sales will have no fiscal impact on the city, other than facilitating transactions that may lead to reduced energy costs that will be passed on to electric ratepayers through lower rates.

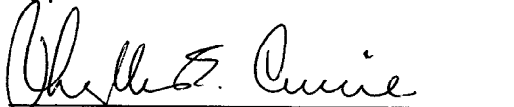
Respectfully submitted,

  
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