

# Agenda Report

**To:** City Council

**Date:** August 13, 2007

**From:** City Manager

**Subject:** REVISE THE CITY MANAGER'S AUTHORITY TO ENTER INTO A CONTRACT WITH SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY ("SCCPA") TO EXTEND THE CONTRACT TERM FROM 20 YEARS TO 30 YEARS FOR A PREPAID NATURAL GAS SUPPLY AGREEMENT FOR AN AVERAGE OF 2,000 MMBTU PER DAY

## **RECOMMENDATION:**

It is recommended that the City Council:

1. Revise the City Manager's authority as previously approved on April 30, 2007 to enter into an agreement with Southern California Public Power Authority (SCPPA) to extend the term of the agreement from 20 years to 30 years for a Prepaid Natural Gas Supply Agreement ("Agreement") to deliver an average of 2,000 MMBtu (Million British Thermal Units) per day.
2. Rescind Resolution # 8735 dated April 30, 2007 authorizing a 20 year Natural Gas Supply Agreement.
3. Adopt a Resolution authorizing approval of a 30 year Natural Gas Supply Agreement.
4. Grant the proposed Natural Gas Supply Agreement an exemption from competitive bidding pursuant to City Charter section 1002 (H), contracts with other governmental entities or their contractors for labor, materials, supplies or service.

## **BACKGROUND:**

On April 30, 2007, the City Council approved a staff recommendation to authorize the City Manager to enter into a 20 year agreement with SCPPA to deliver natural gas through a prepaid supply agreement. The agreement will supply Pasadena with an average of 2,000 MMBtu per day, or about 40% of the forecasted 10-year average requirement for Pasadena's gas-fired electricity generation. The natural gas supplied through this agreement will be provided at a discounted price below a market standard index (i.e., SoCal Border index.)

The economic and commodity supply opportunities associated with the natural gas supply agreement have improved since the City Council authorized the original transaction on April 30. The City of Pasadena currently has the opportunity to join other participants in the transaction (the cities of Burbank, Glendale, Colton and Anaheim) to participate in a prepaid natural gas agreement for a term of 30 years instead of the 20 year term originally authorized by the City Council. This improved opportunity is a result of changes in both the financial and commodity markets that favor a longer term. The original agreement as approved by City Council on April 30, 2007 has not been fully executed by the City of Pasadena pending final approval by other participants.

The most significant advantage of participating in the proposed 30 year term is related to the improved economic benefits. The discount from the market standard index price for the 20 year deal is currently between \$0.35 and \$0.60 per MMBtu. The discount available for the 30 year deal is currently between \$0.75 and \$0.95 per MMBtu for an additional savings greater than 100% above the savings offered in the 20 year transaction. The contemplated volume and discount price will result in operational savings ranging from \$547,500 to \$693,500 annually, or \$16,425,000 to \$20,805,000 over the next 30 years, based on bond market conditions as of mid-July. The actual discount to index will depend on the market conditions at the time the Agreement is executed and will be locked in on the closing date, anticipated to be during September 2007.

Participating in this agreement will allow the Department to continue its current course of action to increase renewable energy resources and cleaner-burning gas fired generation that will remain a core component of the Department's total resources. Shifting reliance from carbon-heavy fuels such as coal to efficient natural gas fired generation is part of Pasadena's strategies to meet Urban Environmental Accords goals and comply with AB-32 and SB-1368.

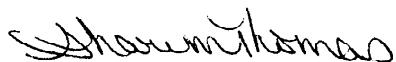
Under the terms of this agreement with SCPPA, Pasadena will continue to purchase natural gas at the floating price set monthly at index less the estimated discount. By executing this long-term supply Agreement, Pasadena will secure a reliable source of natural gas at a discount to market prices for the next 30 years.

**FISCAL IMPACT:**

The Prepay Agreement will provide a secure and long-term supply of natural gas of approximately 2,000 MMBtu daily or 730,000 MMBtu annually, which represents about 40% of Pasadena's projected aggregate 10-year usage for the Magnolia Power Plant and local generation. The Agreement provides this supply at a discounted price below spot market price (the SoCal Index) over the next 30 years. The projected discount of 75 cents to 95 cents per MMBtu will result in savings ranging from \$547,500 to \$693,500 annually, or \$16,425,000 to \$20,805,000 over the next 30 years,

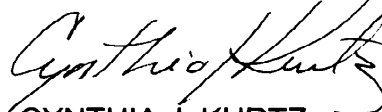
SCPPA will bill Pasadena for actual quantities of natural gas delivered each month. These costs will be recovered through the energy charge component of the electric rates as they are incurred, just as costs for natural gas purchases are currently recovered. Estimated costs for natural gas purchases are included in the budget of the Power Supply division account 8229-401-841910-0501. Actual costs associated with the purchase of natural gas delivered through the Agreement will be based on index prices at the SoCal border (less the discount).

Prepared by:



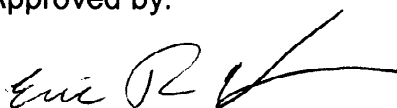
SHARI M. THOMAS  
Business Unit Director  
Water and Power Department

Respectfully Submitted:



CYNTHIA J. KURTZ  
City Manager

Approved by:



PHYLLIS E. CURRIE  
General Manager  
Water and Power Department

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA APPROVING THE GAS SUPPLY AGREEMENT BETWEEN THE CITY OF PASADENA AND THE SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY, AUTHORIZING SPECIFIED CITY OFFICIALS TO EXECUTE AND DELIVER THE GAS SUPPLY AGREEMENT, AND APPROVING THE PARTICIPATION OF THE CITY OF PASADENA IN THE ACTIVITIES AND PROGRAM REFLECTED THEREIN PURSUANT TO THE TERMS AND CONDITIONS OF THE GAS SUPPLY AGREEMENT

WHEREAS, the City of Pasadena (the "City") has participated with other members of the Southern California Public Power Authority ("SCPPA") in investing alternative means by which to secure critically necessary long-term reliable supplies of natural gas necessary to carry forth the City's electric generation responsibilities to its citizens of the City of Pasadena; and

WHEREAS, the City of Pasadena and a number of other members of the Southern California Public Power Authority that are participants in the SCPPA natural gas prepayment programs, to wit: the cities of Anaheim, Burbank, Colton, Glendale, Pasadena, and Los Angeles Department of Water and Power have carried out investigations and studies concerning the commercial advantages in utilizing a prepayment methodology for the acquisition of long-term reliable supplies of natural gas which are proposed to be carried forth and financed by SCPPA; and

WHEREAS, the SCPPA member cities which are participating in this natural gas prepayment project have carried both an extensive request for proposals process, examined a variety of proposals by natural gas supplies and interviewed individuals

having substantial background and experience in the issues associated with the acquisition of prepaid supplies of natural gas; and

WHEREAS, the member city participants in this SCPPA project have concluded the investigation associated with this program with the selection of a natural gas supplies (J. Aron & Company) affiliated with a large financial institution (the Goldman, Sachs Group, Inc.) to carry forth the methodology contemplated by this specific gas supply and financing structure; and

WHEREAS, it is contemplated that SCPPA will sell bonds to finance a natural gas prepayment to J. Aron & Company and, in turn, enter into prepaid natural gas sales agreements with J. Aron, under which SCPPA will provide the gas purchased pursuant to those prepaid natural gas sales agreements to the five Project 1 SCPPA participants consisting of the Cities of Anaheim, Burbank, Colton, Glendale and Pasadena, which will take those amounts specified in the Prepaid Natural Gas Supply Agreements (Project 1); and

WHEREAS, the Prepaid Natural Gas Program Gas Supply Agreement (Project 1) between the City and SCPPA (“Gas Supply Agreement”) will provide for certain terms under which the City will pay and be entitled to certain predetermined amounts of natural gas to fuel generation facilities; and

WHEREAS, Pasadena desires to participate in this program to procure a long term, reliable supply of natural gas by which to generate electricity to carry forth its responsibilities to provide reliable electric energy to its citizens and desires to enter into the Gas Supply Agreement to carry forth these goals; and

WHEREAS, on April 30, 2007 Pasadena adopted Resolution No. 8735

authorizing execution of the Gas Supply Agreement for a term of twenty years and now desires to increase the term to thirty years:

NOW, THEREFORE BE IT RESOLVED by the City Council of the City of Pasadena:

1. In accordance with the City Charter and the laws of the City of Pasadena, the City Council hereby approves, in substantial form, the Prepaid Natural Gas Program Gas Supply Agreement (Project 1) (“Gas Supply Agreement”) between the Southern California Public Power Authority and the City of Pasadena.

2. The City Council authorizes the scheduling to the Pasadena Electric System of up to 4,000 MMBtu’s per day of natural gas pursuant to the Gas Supply Agreement at a price entailing a discount from the applicable index equal to or greater than \$0.75 per MMBtu.

3. The City Manager is hereby authorized to execute and deliver the Gas Supply Agreement, with such changes, insertions, and omissions as shall be approved by the official executing the Gas Supply Agreement (such approval to be conclusively evidenced by such execution), and the City Clerk is hereby authorized to attest to such signature.

4. The City Manager is hereby authorized to execute and deliver any and all other documents and instruments and to do and cause to be done any and all acts and things necessary or advisable for carrying out the transactions contemplated by this Resolution, including SCPPA’s financing of the Prepaid Natural Gas Program for the benefit of the City and the other participants in the Program.

5. Resolution No. 8735 adopted on April 30, 2007 is hereby rescinded.
6. This Resolution shall become effective immediately.

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Adopted at the regular meeting of the City Council of the City of Pasadena on the

\_\_\_\_\_ day of \_\_\_\_\_ 2007, by the

following vote:

AYES:


NOES:

ABSENT:

ABSTAIN:

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Jane L. Rodriguez, CMC  
City Clerk

APPROVED AS TO FORM:

  
Scott D. Rasmussen  
Assistant City Attorney