City of Philadelphia

City Council
Chief Clerk's Office
402 City Hall
Philadelphia, PA 19107

BILL NO. 120105

Introduced February 16, 2012

Councilmember Tasco

Referred to the Committee on Finance

AN ORDINANCE

Authorizing the execution, delivery and performance by the Philadelphia Facilities Management Corporation on behalf of the Philadelphia Gas Works of a Renewal Amendment to Service Agreement for Gas Storage and Transportation Under Rate Schedule GSS with Transcontinental Gas Pipe Line Corporation.

WHEREAS, Pursuant to Paragraph 2 of Section II of the Agreement Between The City of Philadelphia and the Philadelphia Facilities Management Corporation ("PFMC") for the Management and Operation of the Philadelphia Gas Works ("PGW") dated December 29, 1972, authorized pursuant to an Ordinance of Council approved December 29, 1972 (Bill No. 455), as further amended (the "Management Agreement/Ordinance"), PFMC is required to obtain the advance recommendation of the Philadelphia Gas Commission (the "Gas Commission") and the approval of City Council of contracts and agreements for the purchase of natural gas supply and contracts for the distribution and/or transmission of such gas to the Gas Works or its facilities which are ancillary, attendant or related in any manner to purchase of gas (except in temporary or emergency situations, in which case PFMC must submit contracts for such purchases within thirty (30) days after initiating such purchases to the Gas Commission and Council for their approval); and

WHEREAS, Pursuant to Paragraph 1 of Section II of the Management Agreement/Ordinance, PFMC is required to take all reasonable steps to insure that the capacity of PGW to manufacture, provide and distribute gas is at all times sufficient for the estimated maximum requirements of gas users in the City of Philadelphia; and

WHEREAS, PFMC enters into natural gas storage and transportation contracts on behalf of PGW to allow PGW to (i) "balance" both its system requirements and third party supplier requirements when actual demand may be more or less than the forecasted demand, (ii) reduce the amount of gas and additional firm pipeline capacity that PGW

needs to keep under contract for demand spikes in the operating season, (iii) maintain added security in case of pipeline disruptions (i.e., hurricanes, pipeline failures, supply freeze offs and terrorist actions), (iv) reduce dependency on PGW's supplemental supply assets (e.g., Liquefied Natural Gas ("LNG")) and (v) have the potential to obtain a physical pricing advantage during the operating season since gas volumes are historically injected in the out of operating season time frame when gas demand ebbs and pricing is historically lower; and

WHEREAS, PGW's current Rate General Storage Service ("GSS") Service Agreement ("the Agreement") for storage and bundled transportation with Transcontinental Gas Pipe Line Corporation ("Transco") (which, pursuant to settlement in Federal Energy Regulatory Commission ("FERC") Docket No. CP96-226, superseded that certain Agreement with Transco with a term from October 31, 1993 through March 31, 2013, which was among the gas storage contracts enumerated in Exhibit "H" to Bill No. 1243 that were ratified and approved by City Council pursuant to Section 11 of Bill No. 1243, enacted on December 28, 1995) expires on March 31, 2013 and must be renewed by no later than March 31, 2012; and

WHEREAS, Such storage comprises about 20% of PGW's total market area storage capacity and was confirmed by an independent consultant's study in January 2011 to be one of PGW's least expensive storages; and

WHEREAS, PGW is required to comply with the "least cost fuel procurement" policy requirement mandated by the Pennsylvania Public Utility Code at 66 Pa.C.S.A. §1318(a); and

WHEREAS, If PGW is unable to contract for renewal of the GSS storage and transportation with Transco, PGW will have to attempt to replicate this service for both balancing and operating season deliverability, at an increase in cost to its ratepayers of approximately $13 million per year; and

WHEREAS, Transco has informed PGW that it is willing to offer PGW a renewal of the Agreement pursuant to an Amendment which would maintain PGW's Storage Demand and Storage Capacity Quantity at the maximum level provided by the current Agreement and would extend the term of the Agreement to March 31, 2023 ("Renewal Amendment"); and

WHEREAS, The costs to be paid for storage services pursuant to said Renewal Amendment will be as established in a generally applicable rate schedule (Rate GSS) approved by FERC; and

WHEREAS, PFMC on behalf of PGW wishes to enter into the Renewal Amendment, which will continue to provide that all payments required to be made in connection therewith shall be made solely from the revenues of PGW; and

WHEREAS, At a public meeting held on February 7, 2012, the Gas Commission recommended that Council approve the execution, delivery and performance of the Renewal Amendment by PFMC on behalf of PGW, subject to the terms and conditions set forth in the written Motion approved at that meeting; now, therefore

THE COUNCIL OF THE CITY OF PHILADELPHIA HEREBY ORDAINS:

SECTION 1. The Philadelphia Facilities Management Corporation ("PFMC") on behalf of the Philadelphia Gas Works ("PGW") is hereby authorized to execute, deliver and perform a Renewal Amendment of its Service Agreement Under Rate Schedule General Storage Service ("GSS") with Transcontinental Gas Pipe Line Corporation ("Transco") extending its term through March 31, 2023, in the form attached hereto as Exhibit "A" and incorporated herein, except and to the extent as changes may be approved by the City Solicitor.

SECTION 2. PFMC, on behalf of PGW, is hereby authorized and directed to execute and deliver such other documents, and to take such other action as is deemed necessary or appropriate in order to effectuate this Ordinance.

Exhibit "A"

(Amendment to Service Agreement Under Rate Schedule GSS)

AMENDMENT TO SERVICE AGREEMENT UNDER RATE SCHEDULE GSS

THIS AMENDMENT ("Amendment") is entered into this _____ day of _____, 2012 by and between TRANSCONTINENTAL GAS PIPE LINE COMPANY, LLC, a Delaware limited liability company, hereinafter referred to as "Seller", first party, and PHILADELPHIA GAS WORKS, by Philadelphia Facilities Management Corporation in its capacity as operator and manager of the municipally owned Philadelphia Gas Works pursuant to an Agreement with the City of Philadelphia dated December 29, 1972, as amended, hereinafter referred to as "Buyer", second party.

WITNESSETH

WHEREAS, Seller and Buyer are parties to that certain Service Agreement dated July 1, 1996, under Seller's Rate Schedule GSS, pursuant to which Seller provides natural gas storage service for Buyer ("Service Agreement") (which Service Agreement superseded the Service Agreement between Buyer and Seller dated October 1, 1993); and

WHEREAS, pursuant to the terms of the Application to Amend Seller's Certificate, in Docket No. CP61-194, as approved by the Federal Energy Regulatory Commission's order dated June 13, 1996 in Docket No. CP96-226-000, the Service Agreement allows for a partial decrease in Buyer's Storage Demand and Buyer's Storage Capacity Quantity beginning July 1, 2001; and

WHEREAS, Buyer has requested and Seller has agreed not to decrease Buyer's Storage Demand and Buyer's Storage Capacity Quantity, and to maintain those quantities at the higher level for the remaining term of the Storage Service Agreement; and

WHEREAS, Seller's firm storage service under Rate Schedule GSS is supported, in part, by a contract storage service purchased from Dominion Transmission, Inc. ("DTI") pursuant to an agreement dated August 23, 1993 under DTI's Rate Schedule GSS ("DTI Storage Service Agreement"); and

WHEREAS, DTI and Seller have negotiated for an extension of the DTI Storage Service Agreement through March 31, 2023; and

WHEREAS, Seller and Buyer desire to continue transacting business pursuant to the Service Agreement and extend the primary term of the Service Agreement to March 31, 2023.

NOW THEREFORE, Seller and Buyer hereby agree as follows:

1. Effective as of the date hereof, Article I of the Service Agreement is hereby deleted in its entirety and replaced by the following:

ARTICLE I
SERVICE TO BE RENDERED

Subject to the terms and provisions of this agreement and of Seller's Rate Schedule GSS, Seller agrees to receive from Buyer for storage, inject into storage for Buyer's account, store, withdraw from storage (or cause to be injected into storage for Buyer's account, stored, and withdrawn from storage) and deliver to Buyer, quantities of natural gas as follows:

To withdraw from storage or cause to be withdrawn from storage, the gas stored for Buyer's account up to a maximum quantity in any day of 61,567 dt, which quantity shall be Buyer's Storage Demand.

To receive and store or cause to be stored up to a total quantity at any one time of 4,123,733 dt, which quantity shall be Buyer's Storage Capacity Quantity.

2. Effective as of April 1, 2013, Article IV of the Service Agreement is hereby deleted in its entirety and replaced by the following:

ARTICLE IV
TERM OF AGREEMENT

This agreement shall be effective July 1, 1996 and shall remain in force and effect for a period ending March 31, 2023.

3. Except as herein renewed and amended, the Service Agreement shall remain in full force and effect pursuant to the terms thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be signed by their respective officers or representatives thereunto duly authorized.

TRANSCONTINENTAL GAS PIPE LINE COMPANY, LLC
(Seller)

By___**DRAFT**_____

Print Name Paul F. Egner III

Title Director, Customer Services

PHILADELPHIA GAS WORKS by Philadelphia Facilities Management Corporation
(Buyer)

By__**DRAFT**_____

Print Name _____
Title_____