



City of Grand Island

Tuesday, July 11, 2006

Council Session

Item G3

#2006-187 - Approving Natural Gas Supply Contract Six Month Extension for Power Plants with ONEOK

Staff Contact: Gary R. Mader; Dale Shotkoski

Council Agenda Memo

From: Gary R. Mader, Utilities Director
Dale Shotkoski, Interim City Attorney

Meeting: July 11, 2006

Subject: Approving Gas Supply Contract - Six Month Extension

Item #'s: G-3

Presenter(s): Gary R. Mader, Utilities Director

Background

Until the late '80's, natural gas supply for Grand Island Power Plants was from Kansas Nebraska (KN) Inc., a regulated, vertically integrated natural gas supply and transportation company. In 1989 KN "opened" its pipeline and restructured into a number of separate companies that were originally one, such as, pipeline operation, gas field operation, marketing, etc. Grand Island entered into contract with KN Gas Marketing (KNGM), and a number of other marketing firms who then had access to the gas transmission system. Gas purchases were made monthly by soliciting bids.

However, as gas demand continued to increase during the 90's, supply and availability did not keep pace. Over time the monthly markets became unreliable. On some days, gas supply just went away as Operational Floor Orders were declared on the pipeline. In 1997, the Department solicited bids to firm up its gas supply. KNGM was the low bidder by a substantial margin. KNGM was later sold to ONEOK, an Oklahoma Corporation. ONEOK remains the Utility Department's natural gas supplier. That contract expired June 30, 2006.

The Utilities Department would prefer that the natural gas supply contract not expire immediately before the high use summer period.

Discussion

In order to provide firm natural gas fuel supply for the Department's gas fired power generators thru the peak load summer period, and in order to shift the contract term expiration from the peak use period, the Utilities Department asked the current supplier for a contract extension for firm gas supply service through the remainder of calendar

year 2006 at the 1997 price for firm transmission system capacity reservation. By contract, the Gas commodity price is based on daily indices at the time of use.

ONEOK agreed to the contract extension. Revised Exhibit A is attached with a December 31, 2006 expiration date. All other contract terms remain unchanged. The original contract is available for review in the Legal, City Clerk, and Utility Offices.

Alternatives

It appears that the Council has the following alternatives concerning the issue at hand. The Council may:

1. Move to approve
2. Refer the issue to a Committee
3. Postpone the issue to future date
4. Take no action on the issue

Recommendation

City Administration recommends that the Council approve revised Exhibit A to the Gas Sales Agreement with ONEOK.

Sample Motion

Motion to approve revised Exhibit A to the ONEOK Gas Supply Agreement.

EXHIBIT "A"

GAS SALES AGREEMENT

CONFIRMATION ORDER

Date: June 12, 2006

Superseding X

This Confirmation Order is made a part of and is subject to all terms and conditions set forth in that Gas Sales Agreement dated July 7, 1989, by and between ONEOK Energy Services Company, L.P., formerly known as ONEOK Energy Marketing and Trading Company, L.P., formerly known as ONEOK Texas Gas Marketing, L.P., formerly known as KN Marketing, L.P. and City of Grand Island Utilities Department ("Buyer").

Terms:

1. Order Period: This agreement shall be effective during the period November 1, 2001 through December 31, 2006.
2. Quantity: Up to 6,000 MMBtu per day. However, on certain days, Buyer may request additional volumes above 6,000 MMBtu per day and Seller will deliver if these additional volumes are available. Buyer is not required to purchase any gas.
3. Delivery Point: KMI Meter #041012
4. Price:
 - (A) For volumes up to 6,000 MMBtu per day that are nominated no later than 24 hours prior to delivery under the nomination guidelines below, the price for each MMBtu of gas sold and delivered shall be found in Gas Daily, published by The McGraw-Hill Companies, Inc., under the heading "Oklahoma", for the published trade date which corresponds to the gas flow date (weekends shall be priced using the price on the Friday trade date which is published on the following Monday), and shall be equal to: 1) the highest of the "Midpoint" price for the following "Delivery In" designations: NGPL (Midcont.), Northern (Mid 11), PEPL, or Williams, plus 2) a fuel percentage adder of 3.56%, plus 3) a flat rate adder of \$0.05 per MMBtu.
 - (B) For volumes above 6,000 MMBtu per day that are nominated no later than 24 hours prior to delivery under the nomination guidelines below, the price for each MMBtu of gas sold and delivered shall be the same as (A) above except that the highest of the "Absolute" price shall be used.
 - (C) For any volumes that are nominated with less than 24 hours notice, the price shall be equal to the greater of either (A) or (B) (whichever applies) or the current same day market price as determined by Seller.
 - (D) A monthly demand charge of \$14,600 shall be paid regardless of actual natural gas purchases.

5. Fuel: As shown in Section 4. (A) above, the current fuel rate charged to Buyer is 3.56%. If Kinder Morgan Interstate Gas Transmission (KMIGT) increases the tariff fuel rate above the current fuel rate, the Seller has the option to increase or renegotiate the current fuel rate with Buyer.

6. Nominations: Daily nominations for the volume of natural gas for delivery the next day must be sent by email or by phone to the Seller's designated personnel no later than 8:30 a.m. Central Clock Time (CCT) on the previous day. Daily nominations for the volume of natural gas to be delivered on Saturday through Monday must be received no later than 8:30 a.m. CCT on the previous Friday. For nominations made after the nomination deadline, Seller will use reasonable efforts to make these volumes available. Seller will confirm with Buyer the volume of gas nominated by email or by phone.

Seller

ONEOK Energy Services Company L.P.

By: 

Title: PATRICK J. McDONIE
SR. VICE PRESIDENT

Buyer

City of Grand Island Utilities Department

By: _____

Title: _____

Attest: _____

SH

RESOLUTION 2006-187

WHEREAS, the City of Grand Island currently has an agreement with ONEOK Energy Marketing and Trading Company, L.P. as successor in interest to KN Gas Marketing, Inc. to provide natural gas for Burdick Station; and

WHEREAS, such agreement was scheduled to expire on June 30, 2006; and

WHEREAS, it is recommended that such agreement be extended at the same terms and conditions until December 31, 2006; and

WHEREAS, the proposed Exhibit "A" to such agreement for such contract extension has been reviewed and approved by the Interim City Attorney.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that Exhibit "A" to the agreement with ONEOK Energy Marketing and Trading Company, L.P. is hereby approved to extend the contract until December 31, 2006, for the provision of natural gas for Burdick Station.

BE IT FURTHER RESOLVED, that the Mayor is hereby authorized and directed to execute Amendment No. 2 on behalf of the City of Grand Island.

- - -

Adopted by the City Council of the City of Grand Island, Nebraska, July 11, 2006.

Jay Vavricek, Mayor

Attest:

RaNae Edwards, City Clerk

| | |
|---------------------|-----------------|
| Approved as to Form | ☐ _____ |
| July 6, 2006 | ☐ City Attorney |