



# City of Grand Island

Tuesday, November 27, 2007

Council Session

## Item G10

**#2007-302 - Approving Award of Gas Supply Contract between the City of Grand Island, Utilities Department and ONEOK**

Staff Contact: Gary R. Mader; Wesley Nespor

# Council Agenda Memo

**From:** Gary R. Mader, Utilities Director  
Wesley Nespore, Asst. City Attorney/Purchasing

**Meeting:** November 27, 2007

**Subject:** Award of Natural Gas Supply Contract between the City of Grand Island and ONEOK

**Item #'s:** G-10

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

## Background

Grand Island operates electric power generators that are fueled by natural gas. These generators are located at the Burdick Station Power Plant on the east side of the City. That power plant is connected to the regional natural gas transmission system which is owned and operated by Kinder Morgan Interstate Pipeline Company (KMI) which is headquartered in Denver, Colorado. KMI's natural gas transmission system serves western Nebraska, western Kansas, eastern Colorado and Wyoming. The KMI system is the primary, long haul natural gas transmission pipeline system in the region. KMI is primarily a pipeline operating company, with limited direct sales to the end user. The KMI pipeline capacity is contracted for specific time periods by a number of gas sales companies that provide natural gas to retail customers. The Utilities Department periodically solicits bids for natural gas supply for the Burdick Station Power Plant from the area gas sales companies.

With the expiration of the existing contract for gas supply, the Department solicited bids for continued gas supply in January 2007. Bid solicitations and specifications were sent to five area gas sales companies. Only one response was received, that from our current supplier, ONEOK. Other potential bidders were contacted and asked why they did not respond to the bid solicitation. The answer was that the regional transmission system is very near fully loaded, and there was no capacity available on the KMI transmission system. That condition is attributed to continued population growth and development in the area, and the recent development of numerous ethanol plants on the KMI system.

The contract with our current supplier provides primary, firm reservation of gas transport capacity on the regional transmission system, with commodity pricing based on published indices at the time the gas contract is called upon to provide service to the power plant.

The annual reservation cost for the 6000 mcf/day primary, firm natural gas service is \$175,200 annually. The price bid for that same level of service in the January '07 solicitation increased to \$1,248,458.40 annually. ONEOK advised that their current gas transport agreements with KMI expire this fall and that pricing reflects the heavy loading of the regional gas transmission system. No action was taken on the January bid solicitation.

### **Discussion**

Since the bid solicitation in January, the Department has explored other options to secure fuel supply for the gas fired power plant. In August, ONEOK advised that they had made an additional acquisition of pipeline capacity and were now in a position to offer a short term gas supply contract at the same pricing as the past agreement. Contacts with other potential suppliers have not resulted in supply proposals being received. A copy of the ONEOK Proposal is attached. The terms of the Gas Sales Agreement are the same as the contract that had been in place with ONEOK since November 2001. The only change is the extension of the date through October 31, 2008, and a requirement that 24 hour day-ahead gas nominations be made by 8:15 a.m. rather than 8:30 a.m.

### **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 the contract for natural gas supply to ONEOK of Tulsa, Oklahoma.

### **Sample Motion**

Move to approve the contract for natural gas supply to ONEOK.

**EXHIBIT "A"**

**GAS SALES AGREEMENT**

CONFIRMATION ORDER

Date: October 1, 2007

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. ("Seller"), formerly ONEOK Energy Marketing and Trading Company, L.P. and City of Grand Island Utilities Department ("Buyer").

Terms:

1. Order Period: This agreement shall be effective during the period December 1, 2007 through October 31, 2008.
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.), PEPL, or Southern Star Central, 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 8:15 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 8:15 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

Buyer

ONEOK Energy Services  
Company L.P.

City of Grand Island Utilities Department

By: 

By: \_\_\_\_\_

Title: SA Vice President

Title: \_\_\_\_\_

Attest: \_\_\_\_\_

*MS*

RESOLUTION 2007-302

WHEREAS, the City of Grand Island, Nebraska invited bids for natural gas supply to the Burdick Station Power Plant; and

WHEREAS, only one bidder, ONEOK, responded; and

WHEREAS, ONEOK, submitted the only bid in accordance with terms of the advertisement, the specifications, and all other statutory requirements contained therein, with a monthly demand charge of \$14,600.00 and with gas prices established according to the terms of the gas sales agreement submitted by ONEOK dated October 1, 2007;

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that the gas sales agreement submitted by ONEOK is fair and reasonable and that the Mayor is authorized to sign the agreement on behalf of the City of Grand Island for natural gas supply to the Burdick Station Power Plant.

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Adopted by the City Council of the City of Grand Island, Nebraska, November 27, 2007.

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Margaret Hornady, Mayor

Attest:

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RaNae Edwards, City Clerk