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The Energy Authority (TEA) Natural Gas Guaranty (NB)

On February 28, 2000, the City Commission approved GRU's membership in The Energy Authority (TEA), an organization comprised of six public power organizations throughout the United States and whose primary function is to buy and sell wholesale energy for its members at the best possible prices (while maintaining adequate security and controls). GRU is currently a one-fourteenth-share member. We have been very pleased with the service from TEA and on March 11, 2002 made a presentation to the City Commission regarding the effectiveness of our investment in TEA.

Staff has been working with TEA to allow it to begin the physical purchase of natural gas for GRU effective May 1, 2002. GRU uses natural gas in two capacities, the first being for fuel for our generators and the second for our natural gas customers' use. When buying gas for GRU, TEA must give the sellers a guaranty that we will pay for the gas when we receive it. The obligations of the City as a gas participant are described in the Restated and Amended Natural Gas Advance Agreement and include certain guarantys necessary to support gas transactions.

Guarantys have always been important in the electric and gas markets, however they are even more common in current times due to the well-publicized problems associated with Enron. These guarantys are provided to the sellers by TEA on our behalf in one of two forms depending upon what is required by the Seller. The first is a Bank Letter of Credit. The second is a Trade Guaranty which is essentially just a written document promising to pay.

On the electric side of TEA, the Commission approved a guaranty for electric power purchases in the amount of \$9,642,857.12. The guaranty is required only for the power not generated internally but purchased off-system. Consequently, the amount of the comparable electric advance is less than that for natural gas, which must be 100% of the estimated value of projected gas volumes.

For gas purchases, \$899,000 cash will be required to support the Bank Letter of Credit (similar to an escrow account held in our name on which we receive interest). The balance of the \$20,301,000 for a total of \$21,200,000 (\$13,800,000 for the partial year 2002) is in the form of non-cash Bank trade or general trade guaranty. While this is a large amount, it is important to remember that TEA will be buying 100% of GRU's natural gas which amounts to over 7 million MMBtus (million Btus) a year at an approximate annual budget of \$30 million. Also, if TEA weren't buying our natural gas and GRU still did it ourselves, we would have to guaranty payments for purchases to sellers

via contract or purchase order so effectively it is not a change in our commitment.

Each year TEA will determine the amount of the Natural Gas Advance requirement depending upon forecasted gas prices, volatility in the market, GRU's and other members' forecasted volumes and will determine the new (increased or reduced) guaranty requirement. We recommend that the Commission delegate the authority to approve changes in the guaranty to the General Manager, which is consistent with City Commission fuel purchasing policy.

Additionally, TEA is going to act as GRU's agent to hedge future natural gas prices by using products that lock in, cap, and otherwise limit future costs. They have particular expertise and do substantial market research to advise their members in this area. It is anticipated that TEA will use existing agreements in place with various sellers in TEA's name to accomplish these hedges and, accordingly, they will require GRU to guaranty those hedges in a separate document. The amount of the guarantee depends upon how much volume and how far out we purchase natural gas hedges. If we hedge 25% of our anticipated natural gas use out for three years, the guarantee to TEA is approximately \$10 million. We recommend that the General Manager be authorized to execute the hedging guarantys substantially in the form attached subject to approval as to form and legality by the City Attorney and to execute necessary revisions for matters including, but not limited to, changes in prices and volumes hedged.

The last two recommendations would authorize the General Manager and Clerk of the City Commission to execute any other documents and take other such action necessary to implement the natural gas trading activities of TEA. This, for instance, would specifically allow the Clerk of the Commission to certify agenda items, provide incumbency certificates and other ministerial acts necessary to conclude the City's entry into TEA gas activities.

On March 21, 2002 the Regional Utilities Committee approved recommending to the full City Commission that staff proceed with the process to authorize TEA to begin making natural gas purchases effective May 1, 2002.

The City Commission: 1) authorize the General Manager to: a. execute such documents as are necessary for the City to become a party to and comply with the terms of the Restated and Amended Natural Gas Advance Agreement for TEA substantially in the form on file in the office of the Clerk subject to approval by the City Attorney as to form and legality; b. execute such documents to amend the Restated and Amended Gas Advance Agreement as may be needed from time-to-time to address such matters including, but not limited to, changes in natural gas price and volume, subject to the approval of the City Attorney as to form and legality; c. execute the Member Advance Agreement substantially in the form attached and any subsequent changes necessary to facilitate the hedging of future natural gas products subject to approval by the City Attorney as to form and legality; and d. execute such other documents, subject to approval of the City Attorney as to form and legality as may be necessary to implement the City's participation in the natural gas activities of TEA; and 2) authorize the Clerk of the Commission to take such actions as may be necessary to assist the General Manager in exercising the authority granted herein.

Prepared by Michael L. Kurtz, General Manager

Submitted by Commissioner John Barrow, Chair

Mayor Tom Bussing, Member