



Legislation Text

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Florida Gas Utility and Gas Supply Agreement #2 (B)

Staff recommends the City join Florida Gas Utility (FGU) and enter into Gas Supply Agreement #2 with FGU for a portion of the City's future natural gas supply needs.

Over the past several years, natural gas prices have displayed tremendous price volatility. The price volatility has been due to a number of different factors, including: 1) Changes in the supply/demand balance; 2) Storm damage from hurricanes to the production area; 3) Natural gas storage levels; 5) The fluctuations of the price of competitive fuels; and 6) Development of a liquid commodity market

GRU staff has acted to stabilize prices while attempting to reduce overall costs by implementing several gas purchasing methodologies. The methods include: 1) Develop financial strategies using commodities futures and option contracts to hedge natural gas prices; 2) Using alternate fuels when economically feasible; and 3) Pursuing physical supply or prepayment contracts that offer opportunities to stabilize pricing with prepayment discounts and reliable supply to our customers.

To reduce customer exposure to volatile pricing for spot market for natural gas, staff is recommending participation in a long-term gas pre-pay baseload supply contract for a portion of its natural gas supply requirement along with several other municipal utilities throughout the State. The supply contract will allow GRU to purchase a specified volume of natural gas for up to 20 years at savings of approximately \$0.40 per MMBTU below the New York Mercantile Exchange (NYMEX) contract for Henry Hub Natural Gas.

The City Commission: 1) Adopt a Resolution incorporating by reference, approving the form and authorizing the execution of the Assumption Agreement for membership in Florida Gas Utility (FGU); Gas Supply Agreement #2 for the purchase and sale of gas and other gas supply related services; authorizing FGU to negotiate the terms of related financial products and financial instruments on behalf of the City as provided in said agreement and at the direction of the City's authorized representatives; authorizing the execution and delivery of such instruments; authorizing FGU to pledge the City's payment obligations thereunder to secure the payment of costs as provided in the gas supply agreement, or other obligations required under such agreements and bonds or other obligation issued by FGU; providing for the making of payments pursuant to said gas supply agreement and making certain covenants in conjunction with said payments; providing for the making of payments pursuant to said financial instruments and making certain covenants in conjunction with said payments; providing for the appointment of the project participant representatives; providing certain other authorization and details with respect thereto and providing an effective date; and 2) Authorize the Interim General Manager, Clerk of the Commission and other Authorized Officers to execute such documents as may be necessary to proceed with the transactions authorized above and to take such other actions as may be necessary or advisable to proceed with the Gas Supply Agreement #2 in accordance with this City Commission authorization.

GRU customers should realize fuel (gas) cost savings in excess of \$10 million over the life of Gas Supply Agreement #2. All savings achieved as a result of the transaction will be passed on to customers through the fuel adjustment or purchased gas adjustment in accordance with City Policy.

Prepared by: George K. Allen, Assistant General Manager for Energy Supply

Submitted by: Karen Johnson, Interim General Manager