

City of Philadelphia



(Bill No. 040558)

AN ORDINANCE

Authorizing a trial program under which advance approval is given to the Philadelphia Facilities Management Corporation to enter into certain contracts and transactions arising thereunder for the purchase, storage, distribution, transportation and/or transmission of natural and other gas on behalf of the Philadelphia Gas Works, subject to certain terms and conditions.

WHEREAS, The Philadelphia Facilities Management Corporation (“PFMC”) must enter into contracts on behalf of the Philadelphia Gas Works (“PGW”) to purchase gas supply, storage, distribution, transportation and transmission services in order to ensure a gas supply sufficient for the estimated maximum requirements of gas users in the City of Philadelphia; and

WHEREAS, Paragraph 2 of Section II of the Agreement Between The City of Philadelphia and the Philadelphia Facilities Management Corporation for the Management and Operation of the Philadelphia Gas Works dated December 29, 1972, authorized pursuant to an Ordinance of Council approved December 29, 1972 (Bill No. 455), as further amended (“Management Agreement/Ordinance”) requires PFMC to submit such contracts to the Philadelphia Gas Commission (“Gas Commission”) for its recommendations and to Council for approval before entering into them (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, Due to interstate pipeline deregulation in the early 1990’s, gas supply, storage, transportation and transmission service transactions now routinely occur in extremely short timeframes on a competitive basis such that PFMC on behalf of PGW must be able to enter into numerous authorized contracts on an expedited basis; and

WHEREAS, Current market conditions make it impracticable for PFMC on behalf of PGW to enter into the necessary gas procurement contracts on a timely basis under the requirements of Paragraph 2 of Section II of the Management Agreement/Ordinance, thereby jeopardizing PFMC’s ability to finalize the necessary arrangements with gas suppliers to secure sufficient gas supply and maximize its ability to secure such supply at favorable prices; and

WHEREAS, In line with increased market prices for natural gas, PGW’s annual purchased gas expense exceeded \$400 million in Fiscal Year (“FY”) 2003, is projected to exceed \$450 million in FY 2004 (assuming normal weather), and can reasonably be

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expected to be at or above the \$400 million to \$450 million range in FY 2005 and FY 2006; and

WHEREAS, Purchased gas costs are borne exclusively by PGW's ratepayers and comprise the single largest expense related to operating PGW; and

WHEREAS, The "Joint Petition for Settlement of Philadelphia Gas Works' 2003-2004 GCR Proceeding" dated May 14, 2003 submitted to the Pennsylvania Public Utility Commission ("PUC") in accordance with the Pennsylvania Public Utility Code describes PGW's gas procurement program for the Fiscal Years 2003-2004 and 2004-2005, mandates a least cost fuel procurement policy for PGW pursuant to 66 Pa.C.S.A. §1318(a), and requires PGW to obtain the prior approval of PFMC, the Gas Commission and Council in order to enter into gas contracts involving financial hedging; and

WHEREAS, PFMC has requested that the Gas Commission recommend and Council approve in advance contracts for the purchase of natural and other gas supply, storage, distribution, transportation and transmission services (collectively, "Services") which will be entered into by PFMC on behalf of PGW during a trial period commencing on the effective date of this Bill and ending August 31, 2006 (the "Trial Period") for Services to be delivered no later than August 31, 2007, as set forth in the PFMC Board Resolution dated February 10, 2004; and

WHEREAS, The Gas Commission has recommended that Council approve in advance contracts for the purchase of such Services and transactions arising thereunder which will be entered into by PFMC on behalf of PGW during the Trial Period for Services to be delivered no later than August 31, 2007, subject to the terms and conditions set forth in the Gas Commission Order and Resolution dated May 18, 2004; and

WHEREAS, Council wishes to establish gas procurement contract approval standards consistent with the foregoing, and to authorize a program during the Trial Period under which Council approval is given in advance to certain gas procurement contracts and transactions arising thereunder, under certain terms and conditions; now, therefore,

THE COUNCIL OF THE CITY OF PHILADELPHIA HEREBY ORDAINS:

SECTION 1. APPROVAL OF CERTAIN TRANSACTIONS

- a. Subject to and except as otherwise provided by all other provisions of this Ordinance, contracts for the purchase of natural and other gas supply (including volumes of gas associated with the production of Liquefied Natural Gas ("LNG")), storage, distribution, transportation and transmission services (collectively, "Services") entered into by PFMC on behalf of PGW during a

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trial period commencing on the effective date of this bill and ending August 31, 2006 (the "Trial Period"), for Services to be delivered no later than August 31, 2007, and transactions arising thereunder, are hereby approved, provided that:

- (1) Each contract entered into pursuant to the approval set forth in this Section shall include a provision to the effect that it is understood and agreed that any payments required to be made by PFMC and/or PGW as a result of or arising out of entering into such contract shall be made solely from the revenues of the Philadelphia Gas Works; and
 - (2) PFMC is required to obtain the advance written approval (which may be given electronically or otherwise) of the Chair of the Gas Commission, the President of City Council, and the City Solicitor or their respective designee(s) prior to agreeing to any material revision, modification, amendment or addition of any special or supplemental provision to the terms and conditions of the standard North American Energy Standards Board ("NAESB") base contract that impacts the relative obligations or liabilities of the parties or the City. If approval or disapproval is not given within two (2) business days of receipt of the proposed provision, such provision will be deemed approved.
- b. The approval set forth in Section 1(a) of this Ordinance shall not apply to a contract or transaction arising thereunder related to any of the following:
- (1) Financial hedging. For purposes of this Section 1, "financial hedging" shall mean the purchase of an insurance or derivative-based product intended to protect against the risk of financial loss due to fluctuations in the price of natural gas but which does not itself constitute the purchase or sale of gas supply, transportation, transmission, or storage services; or
 - (2) Outsourcing of the procurement of all or a substantial part of PGW's gas supply, storage, distribution, transportation and/or transmission services. For purposes of this Section 1, "outsourcing of the procurement" shall mean any arrangement between PFMC and a third party whereby such third party is contracted by PFMC and/or PGW to direct PGW's gas supply, storage, distribution, transportation and/or transmission services for any period of time on behalf of itself, PGW, or PFMC. Further, for purposes of this Section 1, "a substantial part" shall mean fifty (50) percent or more of the volume of PGW's gas supply, storage, distribution, transportation, or transmission services, whether outsourced through one transaction, more than one transaction, or any combination thereof; or

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- (3) Sale or lease of LNG facilities, including, without limitation, LNG capacity, and/or the land appurtenant thereto.
- c. Council may at any time by Resolution direct PFMC to terminate any Contract or to not enter into any further transactions under any Contract without termination, after first receiving a recommendation from the Gas Commission.

SECTION 2. MAXIMUM GAS COSTS

The sum total of contracts and transactions arising thereunder entered into pursuant to the authorization provided in Section 1 for the delivery of Services during each PGW Fiscal Year within the Trial Period shall not exceed the projected sum for gas purchases for such Fiscal Year as set forth in PGW's annual Gas Cost Rate ("GCR", also referred to as Gas Cost Adjustment ("GCA")) filing as approved by the PUC (the "approved 1307f Filing"), as updated by PGW's quarterly GCR filings with the PUC; provided, however, that the foregoing not-to-exceed sum total of contracts and transactions arising thereunder for each PGW Fiscal Year shall be adjusted accordingly if PFMC:

- a. Notifies the Gas Commission in writing prior to the end of any Fiscal Year that:
 - (1) the actual degree days for a PGW Fiscal Year exceed the projected number set forth in the approved 1307f Filing; and/or
 - (2) the Near-Month New York Mercantile Exchange ("NYMEX") closing pricing for non-locked-in-for-price volumes is actually greater than the pricing projected in the approved 1307f Filing; and/or
 - (3) pricing set forth in an amended 1307f Filing which has been approved by the PUC exceeds the initial projected sum for such gas purchases; and
- b. Specifies in such notice the amount by which PGW's not-to-exceed sum total of contracts has been adjusted and itemizes the resultant dollar impact of each of the applicable factors identified in the foregoing Sections 2(a)(1),(2) and (3).
- c. For purposes of this Section 2, "degree day" shall mean a measure of the coldness of the weather experienced based on the extent to which the daily mean temperature falls below 65 degrees Fahrenheit. For example, on a day in which the daily mean temperature is 59 degrees Fahrenheit, there are six (6) degree days.
- d. For purposes of this Section 2, "Near-Month New York Mercantile Exchange ("NYMEX") closing pricing" shall mean the published NYMEX closing price for Henry Hub gas futures contracts for the last trading day of the previous month.

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- e. For purposes of this Section 2, “non-locked-in-for-price volumes” shall mean volumes of natural or other gas for which the unit price is determined by any means other than a fixed, express contract price.

SECTION 3. PROCUREMENT STANDARDS

The following procurement standards shall apply to contracts entered into and transactions arising thereunder pursuant to this Ordinance.

- a. Contracts entered into during the Trial Period for Services to be delivered no later than August 31, 2007 and transactions arising thereunder shall be consistent with the then-applicable 1307f Filing approved by the PUC. To the extent that an approved 1307f Filing requires PGW/PFMC to engage in financial hedging (as defined in Section 1) if approval of the local authorities is obtained, Section 1 of this Ordinance shall neither constitute nor be construed as such approval.
- b. Contracts entered into during the Trial Period for Services to be delivered no later than August 31, 2007 and transactions arising thereunder shall be consistent with a least cost fuel procurement policy.

SECTION 4. REPORTING AND DISCLOSURE

The approval set forth in Section 1 of this Ordinance is conditioned upon the following:

- a. PFMC shall provide the Gas Commission and Public Advocate with copies of each contract and each transaction thereunder entered into on behalf of PGW pursuant to Section 1 of this Ordinance within ten (10) business days of entering into such contract or transaction. When any such contract or transaction thereunder pertains to outsourcing of the procurement of less than a substantial part of PGW’s Services, as provided in Section 1(b)(2) of this Ordinance, PFMC shall provide the Gas Commission and Public Advocate with a report on the purpose and total cost of the underlying transaction, which report shall be provided no later than with the next quarterly comparison report to be provided pursuant to Section 4(b) of this Ordinance.
- b. PFMC shall provide the Gas Commission and Public Advocate with a quarterly report comparing the GCA approved by the PUC for PGW with the then-current PUC-approved GCAs for other Pennsylvania natural gas utilities. Whenever this comparison report shows that, of the eight (8) largest natural gas utilities, PGW is not among the four (4) with the lowest GCAs, PFMC shall include an explanatory narrative. This report shall be due on the tenth (10th) business day of September, December, March, and June of each fiscal year.

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- c. PFMC shall provide the Gas Commission and Public Advocate, within five (5) business days of filing with the PUC, copies of all documents filed relative to PGW's GCA. If not already provided as part of such PUC filings, PFMC, by no later than March 1, 2005, shall also provide the Gas Commission and Public Advocate with PGW's proposed gas procurement program for the period September 1, 2005 to August 31, 2007. In addition, PFMC shall provide the Gas Commission and Public Advocate with copies of all orders and secretarial letters issued by the PUC regarding PGW's GCA within three (3) business days of issuance.
- d. PFMC shall promptly furnish the Gas Commission or the Gas Commission's designee with the terms of any proposed agreement and/or settlement with the PUC and/or with any parties to a PUC proceeding relating to gas procurement. Such terms may be furnished telephonically but must be confirmed by an e-mail or other writing within twenty-four (24) hours. If the Gas Commission or the Gas Commission's designee determines that any term of such proposed agreement and/or settlement appears to contravene any provision of this Ordinance or of the Management Agreement/Ordinance, the Gas Commission or the Gas Commission's designee shall promptly notify PFMC, Council and the Mayor.
- e. PFMC shall file a report with the Gas Commission and Public Advocate at any time that PFMC projects that PGW will exceed or whenever PGW actually exceeds the cost maximums set forth in Section 2 of this Ordinance. PFMC will explain the reasons for the anticipated or actual variance.
- f. PFMC shall file on October 3, 2005 a report with the Gas Commission, Public Advocate and Council reviewing its implementation of and compliance with this Ordinance.
- g. The Gas Commission shall submit a report to Council during December 2005 with respect to PGW's implementation of and compliance with this Ordinance.

SECTION 5. EARLY TERMINATION OF TRIAL PERIOD

The Trial Period may be terminated at any time prior to August 31, 2006 by Council by ordinance, provided that such ordinance shall set forth a date of termination which shall not be earlier than ninety (90) days after such ordinance becomes law. This Ordinance shall not constitute approval of any contract entered into after any such date of termination or of any transaction after any such date of termination which arises under a contract entered into prior to such date of termination.

SECTION 6. EXTENSION OR RENEWAL OF TRIAL PERIOD

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- a. The Trial Period set forth in Section 1 of this Ordinance may be extended or renewed by ordinance. If PFMC on behalf of PGW wishes to extend or renew the Trial Period, it shall file with the Clerk of Council (with copies to all members of Council) no later than March 15, 2005 a proposed ordinance to extend or renew the Trial Period (whether on the same or different terms and conditions), accompanied by PGW's most current update on gas costs, which shall include at a minimum PGW's most recent 1307f filing with the PUC and quarterly update thereto, its most recent gas costs comparison report, and its proposed gas procurement program for the period to be covered by the proposed ordinance. PFMC shall simultaneously file a copy of any such proposed ordinance and gas cost update with the Gas Commission.

- b. No ordinance to extend or renew the Trial Period shall be enacted unless such ordinance was first submitted to the Gas Commission for its recommendations.

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CERTIFICATION: This is a true and correct copy of the original Bill, Passed by the City Council on June 21, 2004. The Bill was Signed by the Mayor on July 1, 2004.



Patricia Rafferty
Chief Clerk of the City Council