

City of Philadelphia



(Bill No. 040701)

AN ORDINANCE

Approving certain contracts and transactions arising thereunder for the purchase, storage, distribution, transportation and/or transmission of natural gas entered into by the Philadelphia Facilities Management Corporation 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, PFMC (for PGW) purchases large supplies of gas each year commencing in May and injects these purchases into storages in which PGW reserves capacity (i.e., various storage caverns located throughout the country) in order to provide for adequate firm supplies to the City’s gas customers in the coming winter; and

WHEREAS, The “injection season” commences in May in order to make sure that storages are filled by the time the winter heating season occurs in November; and

WHEREAS, Gas supply sourced from storage is considered a more secure supply because it is not subject to the same type of weather-related force majeure events that could affect gas obtained on a “live” basis from the Gulf of Mexico; and

WHEREAS, Typically, PGW pays suppliers for gas purchased and injected into storage on a pay-as-you-go basis; however, for the Summer ‘04 injection season PGW sought to delay payment for such purchases due to PGW’s cash flow circumstances; and

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WHEREAS, Without the injected supply, PGW's ability to insure winter availability for Winter '04-'05 would be unacceptably jeopardized; and

WHEREAS, Occidental Energy Management, Inc. ("Oxy"), indicated that it would be willing to structure a delayed payment transaction with PGW that would permit PGW to receive the supply it needed commencing May 1, 2004 and to defer payment until December 25, 2004; and

WHEREAS, The material financial terms of the transaction with Oxy are summarized as follows:

- Oxy will sell 9,180,000 dth of gas to PGW commencing May 1, 2004 (the "Oxy Volume") at a current approximate cost of \$60 million;
- Approximately 2/3 of the Oxy Volume will be delivered to PGW from May 1 to September 30, 2004 and PGW will make payment for same in five (5) equal monthly installments commencing December 25, 2004;
- PGW has released capacity at two of its storage fields (Washington Storage and Eminence Storage – "WS" and "ESS", respectively) to Oxy and has sold to Oxy incidental existing storage balances; Oxy will store the remaining 1/3 of the Oxy Volume in these released storage areas;
- During the winter season, PGW will purchase and pay Oxy for gas as withdrawn from the WS and ESS storages, but no sooner than December 25, 2004;
- At the end of the winter season, the storages will revert to PGW;
- The net cost to PGW for the transaction is approximately 35 cents per dth sold, in addition to commodity and other usual charges (fuel, transportation, storage, etc.); and

WHEREAS, The transaction also required that capacity releases be effected by PGW not later than April 30, 2004, by 10:00 a.m. or the transaction would be forfeit, putting PGW's winter supply in jeopardy; and

WHEREAS, In order to be able to properly effectuate the aforementioned capacity releases, PGW and Transcontinental Gas Pipe Line Corporation executed the agreements attached collectively hereto as Exhibit "1" on April 29, 2004, which agreements memorialized PGW's rights to the WSS and ES storage fields; and

WHEREAS, PGW and Oxy completed negotiations on April 29, 2004, and immediately executed the letter agreement and amendment collectively attached hereto as Exhibit "2", which are also subject to the terms of a North American Energy Standards Board base contract previously entered into with Oxy, which has been approved by the Gas Commission and City Council, and which is also subject to certain terms and conditions imposed by the Gas Commission and City Council, including, without limitation, with respect to certain reporting obligations.

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THE COUNCIL OF THE CITY OF PHILADELPHIA HEREBY ORDAINS:

SECTION 1. APPROVAL OF CERTAIN CONTRACTS AND TRANSACTIONS

Subject to the same conditions established by Council as set forth in Bill No. 040367, the contracts attached hereto as Exhibits “1” and “2” (the “Contracts”) and the transactions arising thereunder are hereby approved.

SECTION 2. EXHIBITS

The Exhibits “1” and “2” referred to and incorporated in this Ordinance shall be kept on file by the Chief Clerk of City Council and shall be available to the public for inspection, reading or copying at reasonable times.

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CERTIFICATION: This is a true and correct copy of the original Bill, Passed by the City Council on January 25, 2005. The Bill was Signed by the Mayor on February 10, 2005.



Patricia Rafferty
Chief Clerk of the City Council