## **Purchasing Modification** CITY OF AUSTIN RECOMMENDATION FOR COUNCIL ACTION

AGENDA ITEM NO.: 92 **AGENDA DATE:** Thu 06/23/2005

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**SUBJECT:** Authorize execution of Amendment No. 1 to the service agreement for natural gas transportation with ATMOS PIPELINE AND STORAGE LLC, Dallas, TX to extend the agreement an additional five years to January 1, 2011, in an amount not to exceed \$5,025,000, for a revised contract amount of \$11,325,000.

AMOUNT & SOURCE OF FUNDING: Funding will be provided through Electric fuel charge revenue.

FISCAL NOTE: There is no unanticipated fiscal impact. A fiscal note is not required.

**REQUESTING** Purchasing

**DIRECTOR'S** 

**DEPARTMENT:** for Austin Energy;

**AUTHORIZATION: Vickie Schubert** 

FOR MORE INFORMATION CONTACT: Carole Martindale, Purchasing Mgr. 322-6155

PRIOR COUNCIL ACTION: 05/13/99-Approved original contract with Lonestar Pipeline

**BOARD AND COMMISSION ACTION:** N/A

**PURCHASING:** N/A

MBE / WBE: This contract was awarded in compliance with Chapter 2-9 of the City Code (Minority-Owned and Women-Owned Business Enterprise procurement Program). No subcontracting opportunities were identified, therefore, no locals were established for this solicitation.

On May 13, 1999, Council approved a service agreement with TXU Lone Star Pipeline to provide natural gas transportation service to Austin Energy's Decker and Sand Hill power plants in an amount not to exceed \$6,300,000. TXU Lone Star Pipeline was subsequently purchased by Atmos Pipeline and Storage LLC (Atmos).

Sand Hill is served by Kinder Morgan Pipeline, and Decker is served by Enterprise Texas Pipeline. There are no other pipelines currently in place with access to these plants. Service by multiple pipelines offers improved reliability, enhanced competition and broader access to natural gas supplies.

The current six-year agreement with Atmos is scheduled to expire at the end of 2005. The amendment extends the agreement for an additional five years and provides a continuation of natural gas transportation service to the Decker and Sand Hill power plants on terms favorable to Austin Energy.

RCA Serial#: 9009 Date: 06/23/05 Original: Yes Published: Fri 06/17/2005

Disposition:

Adjusted version published:



TO:

Mayor and Council Members

Toby Hammett Futreil, City Manager

FROM:

Juan Garza, General Manager, Austin Energy

DATE:

May 23, 2005

SUBJECT:

Critical Business Need – Amending the Natural Gas Transportation Agreement with Atmos

Pipeline and Storage LLC

## **ACTION:**

As detailed below, and in accordance with City Council-approved purchasing procedures, I am designating as a Critical Business Need of Austin Energy (AE), an extension of the Gas Transportation Agreement (GTA) with Atmos Pipeline and Storage LLC (Atmos), to provide continued natural gas transportation service to the Decker and Sand Hill power plants. Austin Energy will bring a related RCA to Council (target date: June 23) for approval to negotiate and execute an amendment to the Atmos GTA.

## **BACKGROUND:**

Austin Energy and Atmos, formerly TXU Lone Star Pipeline, are currently parties to a six-year Gas Transportation Agreement that will expire January 1, 2006. Atmos has approached AE with a proposal to extend the term of the existing GTA for five years to January 1, 2011. Extension of the GTA with Atmos represents a Critical Business Need to AE due to its role in providing competitive and reliable natural gas fuel supplies to AE's power plants. In particular, the Atmos agreement offers the following advantages to AE:

<u>Competing / multiple gas transportation providers</u> - Sand Hill is currently served by Kinder Morgan and Atmos pipelines while Decker is served by the Atmos and Enterprise pipelines. [Holly is served only by Enterprise.] Multiple pipelines enable competitive pricing of gas transportation service. This is particularly important in the Austin area, which has only three to four major natural gas pipelines with varied capabilities. AE has worked diligently to obtain multiple pipelines at Sand Hill and Decker and the extension of the GTA with Atmos would retain those competitive benefits for AE. Further, the rates to be charged by Atmos during the GTA extension are favorable and permit savings in comparison to the terms in AE's other gas transportation agreements, particularly as to demand charges and gas compression costs.

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<u>Diversity of suppliers and supply</u> - While there is a degree of overlap, different pipelines offer AE access to different suppliers and different geographic sources of supply. This diversity enhances AE's ability to obtain competitive pricing for its gas supply. Extension of the GTA with Atmos will enable AE to continue to have access to lower priced west Texas Waha gas for Sand Hill compared to the higher priced Katy supplies that are available on Kinder Morgan's pipeline.

Enhanced reilability - Reliable fuel supplies protect AE's competitive interests. Multiple, active pipeline connections allow AE to continue operations in the event of a failure on one pipeline. Likewise, such multiple connections reduce the risk of disruption by the failure of a single transporter or the impacts of weather driven events on supply by allowing AE to seek alternative supplies or suppliers on its other pipeline(s).

<u>Timing</u> – Because, as stated above, it is essential to have at least two pipelines in place for reliability and healthy competition at Sand Hill and Decker, and since no other pipeline entity could permit and construct a new pipeline by the expiration of the Atmos GTA, extension of the current Atmos GTA on favorable terms is a critical business need for Austin Energy.

<u>Costs</u> – The costs for natural gas transportation and natural gas storage services are estimated at \$5,025,000 for a five-year contract extension based on terms discussed with Atmos. AE has evaluated these terms to be economical and attractive compared to those offered by the other pipelines.

Juan Garza

General Manager