

NOT YET APPROVED

ORDINANCE NO. _____

ORDINANCE OF THE COUNCIL OF THE CITY OF PALO ALTO
AUTHORIZING THE CITY MANAGER TO PURCHASE A PORTION
OF THE CITY'S NATURAL GAS REQUIREMENTS FROM
CERTAIN PREQUALIFIED NATURAL GAS SUPPLIERS UNDER
SPECIFIED TERMS AND CONDITIONS DURING CALENDAR
YEARS 2007 THROUGH 2022, INCLUSIVE

The Council of the City of Palo Alto does ORDAIN as follows:

SECTION 1. The City Council finds, as follows:

A. Between August 2003 and August 2004, the Council by minute orders approved the following: (1) the gas utility long-term plan management objectives and guidelines ("GULP Guidelines"), noted in staff report CMR:355:03, which requires the diversification of energy purchases based on factors such as dates and terms of commitment, suppliers, prices and fuel sources; and (3) the GULP Implementation Plan, noted in staff report CMR:335:04, which deals with asset management and acquisition strategies.

B. In accordance with the GULP Guidelines and implementation of the City's natural gas purchase laddering strategy, noted in staff report CMR:167:04, the City must annually purchase and, incidental to purchases, sell gas to meet the needs of its gas customers by contracting for terms varying from less than one month to three years. The City's Energy Risk Management Policies, noted in staff report CMR:128:06, provide that the City will purchase only that quantity of gas meeting its load requirements at the time a transaction is executed.

C. By Ordinance No. 4810, adopted November 10, 2003, the City has entered into one or more purchase transactions, costing in the aggregate \$34 million, which are scheduled for delivery in the 2007 - 2009 period. These transactions will be governed by the new, amended, or restated North American Energy Standards Board, Inc. contracts (each a "NAESB Contract").

D. In June 2006, the City conducted an RFP process for natural gas purchases, and BP Energy Company, Coral Energy Resources, L.P., Sempra Energy Trading Corporation, ConocoPhillips Company, J.P. Morgan Ventures Energy Corporation, and Powerex Corporation have been determined to possess the minimum financial

and legal qualifications and business experience required of suppliers eligible to do business with the City.

E. The City intends to purchase natural gas from one or more of these pre-qualified suppliers for delivery during calendar years 2007 through 2022, inclusive, so long as the supplier with whom the City negotiates a specific purchase transaction continues to be qualified and otherwise eligible to transact with the City.

SECTION 2. The Council hereby authorizes the City Manager to negotiate and sign new, amended, or restated NAESB contracts with the suppliers referred to in Section 1.D above, and further authorizes the City Manager or his designee, the Director of Utilities, to negotiate one or more individual transactions, including, but not limited to, negotiating contracts, addenda, confirmations and transactions. The authorization shall extend to individual transactions executed under any number of NAESB Contracts with the referenced suppliers; provided, however, (a) the maximum expenditure under any NAESB Contract shall not exceed \$65 million in the aggregate and, with respect to outstanding transactions for \$34 million referred to in Section 1.C, the respective amounts will not be applied against the maximum expenditure established herein; and (b) the maximum term of any transaction shall not exceed three years, commencing on the delivery date of the transaction. The sentence preceding notwithstanding, the City may enter into a transaction greater than three years, if the Council grants prior approval to such transaction.

SECTION 3. No NAESB Contract and any related transaction entered into with any qualified supplier, executed by the City Manager or his designated representative and approved as to form by the City Attorney, under the authority of this ordinance, shall extend beyond December 31, 2022.

SECTION 4. The Council hereby finds that this ordinance is exempt from the provisions of the California Environmental Quality Act pursuant to Section 15061(b)(3) of the California Environmental Quality Act Guidelines, because it can be seen with certainty that there is no possibility of significant environmental effects occurring as a result of the adoption of this ordinance.

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SECTION 5. This ordinance shall be effective on the thirty-first day after the date of its adoption.

INTRODUCED:

PASSED:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

ATTEST:

City Clerk

APPROVED AS TO FORM:

Senior Asst. City Attorney

Mayor

APPROVED:

City Manager

Director of Administrative
Services

Director of Utilities