



Item Number: {{item.number}}

City Council / Board of Directors

Written Communications

Meeting of: July 16, 2024

Submitted By:

Brenda Hampton, Director of Electric Utility Services

Subject:

Approval to execute a Capacity Release Agreement with High Desert Power Project, LLC ("HDPP") and a Transportation Services Agreement with Kern River Gas Transmission Company ("KRG T") for the permanent release of HDPP firm gas transmission capacity on the KRG T High Desert Lateral ("HDL") to serve the City of Victorville's new gas delivery point on the HDL.

Recommendation:

That the Honorable City Council:

1. Approve the Capacity Release Agreement with HDPP to effectuate the permanent capacity release from HDPP to the City of Victorville of a pro rata share of HDPP's firm natural gas transportation capacity rights and authorize the City Manager to execute the agreement; and
2. Approve the Transportation Services Agreement in form, allow the City Manager to accept non-substantive changes to the agreement, and authorize City staff to execute the contract using the KRG T portal on the Rapids database system

Fiscal Impact:

This Capacity Release Agreement, if approved by the Victorville City Council, will result in a Fiscal Impact of a lump-sum up-front payment of \$200,000. Additionally, there will be a cost associated with maintaining a short-term Letter of Credit required to secure the transaction. There are sufficient funds available to cover the expenses for this capacity release, which is budgeted for in project 4190210-55080-30067 (KERN RIVER INTERCONNECTION).

Account	Amount
4190210-55080-30067 (Kern River Interconnection)	\$200,000

The Transportation Services Agreement, if approved, will result in a Fiscal Impact of no more than \$138,335 annually. There are sufficient funds available to cover the expenses for providing natural gas transportation services, which is budgeted for in Purchased Gas.

Account	Amount
4190210-53020 (Purchased Gas)	\$138,335

Strategic Plan Goal:

Invest in Infrastructure to provide a new natural gas delivery point for the City, enabling VMUS to have an alternate source of lower cost and reliable natural gas supply via KRG T's interstate gas transmission system. The construction of the meter station will allow interconnection of the existing KRG T infrastructure with the existing VMUS natural gas distribution system, and these agreements will allow for the transportation of natural gas to the interconnection.

Background:

On February 7th, 2023, the Victorville City Council approved the execution of an Interconnection Agreement ("IA") with KRG T to enable construction of a natural gas pipeline interconnection, meter station facilities, odorizer, and Victorville Municipal Utility Services ("VMUS") pipeline extension construction project with an environmental exemption located at the Southern California Logistics Airport ("SCLA").

The construction of this infrastructure will provide a new natural gas delivery point for the City, enabling VMUS to have an alternate supply of natural gas through KRG T's interstate transmission system as an alternative to VMUS being a captive retail customer of Southwest Gas Corporation. Acquisition of firm HDL gas transportation capacity on KRG T will enable VMUS to source natural gas commodity supply from multiple upstream gas marketers and deliver the gas to the new KRG T meter station to reliably serve VMUS customers. The construction of the meter station will allow physical connection of the existing KRG T infrastructure with the existing VMUS natural gas distribution system at a point located in on HDPP's property, as shown in Attachment C.

Currently, all of the firm gas transportation capacity rights on the KRG T HDL are contracted by HDPP. VMUS is requesting to acquire a small portion (approximately 4%) of HDPP's capacity rights in order to effectively and reliably serve its customers.

Discussion:

HDPP currently owns all available firm capacity rights on KRG T's HDL, a 32-mile long pipeline lateral connecting KRG T's mainline system to the existing HDPP facility located at SCLA. The proposed Capacity Release Agreement with HDPP is anticipated to result in the permanent release of 10,000 Dekatherms/Day (Dth/Day) of firm natural gas capacity, currently held by HDPP, to VMUS for its exclusive use in accordance with the terms and conditions of the KRG T tariff ("Tariff").

The released capacity must be posted for bid on KRG T's electronic bulletin board pursuant to Federal Energy Regulatory Commission ("FERC") regulations and Section 15 of the Tariff; however, HDPP has agreed to use commercially reasonable efforts to ensure that the Offer to Release will be on a permanent basis and the City of Victorville will be identified as the prearranged bidder at the current Tariff reservation rate (\$.0140 per Dth/Day) as set forth in the Transportation Service Agreement ("TSA") currently in effect between KRG T and HDPP. Under the Capacity Release Agreement, the City is not obligated to, but may bid over the current Tariff reservation rate.

The City is required to execute its own TSA with KRG T to complete the capacity release. This agreement uses a standard conforming contract previously approved by FERC. At the conclusion of the bidding period, the City will execute the TSA through the Kern River portal on the Rapids database system.

Like all firm KRG T shippers, the City will pay the fixed reservation rate to KRG T for the 10,000 Dth/Day of firm capacity for the term of its TSA, irrespective of the City's actual usage of the capacity. While the City hopes to have a winning bid at the current reservation rate, this is a competitive bid process that could result in a higher rate of up to \$.0379 per Dth/Day. The quantity of natural gas represented by the 10,000 Dth/Day is adequate to serve current and future VMUS customers for the foreseeable future. Once complete, this project is expected to result in a savings of approximately \$1.03 million/year.

Staff remains available for any questions you may have.

Attachments: A. Capacity Release Agreement
 B. KRG T Firm Transportation Service Agreement
 C. Project Map