



Item Number: {{item.number}}

City Council / Board of Directors

Written Communications

Meeting of: January 21, 2025

Submitted By:

Brenda Hampton, Director of Electric Utility Services

Subject:

Approval of a North American Energy Standards Board Base Contract and Special Provisions ("NAESB") for the Sale and Purchase of Natural Gas with Morgan Stanley Capital Group Inc.

Recommendation:

The Honorable City Council:

- (1) Approve the North American Energy Standards Board Base Contract, Special Provisions to the Base Contract, Credit Support Addendum, and Special Provisions to the Credit Support Addendum (collectively, the "NAESB") with Morgan Stanley Capital Group Inc. for natural gas supply and related services and authorize the City Manager to execute the agreement; and
- (2) Allow the City Manager and/or his/her designee to execute transaction confirmations under the NAESB contracts for procurement of firm gas supply not to exceed \$3.65 million total estimated cost and for terms not to exceed 24 months.

Fiscal Impact:

This purchase will have a fiscal impact of approximately \$819,000 over the next 12 months (600 Dth/day x 273 days x \$5.00/Dth). This amount represents Victorville Municipal Utility Services ("VMUS") best estimate of the gas supply required to serve the gas customers at the Southern California Logistics Airport during the contract term along with scheduling services and imbalance management under a high gas price scenario. No additional appropriations will be required as the funds have been budgeted for during Fiscal Year 2024-2025 for purchased gas.

Account	Amount
4190210-53020 (Purchased Gas)	\$819,000

Strategic Plan Goal:

This item supports the City's Strategic Plan, Goal A, Fiscal Sustainability. Execution of this contract will enable VMUS to procure firm natural gas supply delivered from the Kern River Gas Transmission system ("Kern River" or "KRG") at competitive market prices thereby reducing total delivered cost of gas for VMUS customers.

Background:

VMUS has received bundled natural gas service from Southwest Gas (SWG) for decades. The cost of SWG service has continually increased to the point where bypassing SWG in favor of interconnecting with the nearby Kern River system was economically justified.

On February 7th, 2023, the Victorville City Council approved the execution of an Interconnection Agreement ("IA") with KRG to enable construction of a natural gas pipeline interconnection, meter station facilities, odorizer, and VMUS pipeline extension construction project. The construction of this infrastructure provided a new natural gas delivery point for the City, enabling VMUS to have an alternate supply of natural gas through KRG's interstate transmission system as an alternative to VMUS being a captive retail customer of Southwest Gas Corporation.

On July 16th, 2024, the Victorville City Council approved a Capacity Release Agreement with High Desert Power Project, LLC ("HDPP") and a Transportation Services Agreement with Kern River Gas Transmission Company for the permanent release of HDPP firm gas transmission capacity on the KRG High Desert Lateral ("HDL") to serve the City of Victorville's new gas delivery point on the HDL. Construction and commissioning of the new Kern River interconnection was completed in September 2024.

Kern River transports approximately 1.8 billion cubic feet of gas per day from gas production basins in the Rocky Mountains to end-user customers in Utah, Nevada, and California. VMUS's current gas supply needs are small in comparison, less than 1,000 cubic feet per day.

Most of the natural gas purchased and sold in the U.S. and on the Kern River system is transacted under NAESB contracts, which are largely based on the Uniform Commercial Code (UCC). The NAESB is a standard contract designed for transactional efficiency. A NAESB "Contract" consists of several related documents:

1. NAESB Base Contract. The NAESB Base Contract identifies the parties, selected options where options are provided in the General Terms and Conditions, and the non-price/non-volume aspects of the parties agreement;
2. General Terms and Conditions. These are attached to the NAESB Base Contract and are largely based on UCC law;
3. Special Provisions. Special Provisions are negotiated modifications of and additions to the General Terms and Conditions to reflect the business needs of the parties. Special Provisions can include terms such as credit support, added representations and warranties, and alternative dispute resolution;

4. Transaction Confirmation(s) (1-2 pages). Transaction Confirmations (TCs) contain the price, volume, term, and delivery point terms of the agreement.

VMUS negotiated the NAESB Contract with Morgan Stanley Capital Group Inc. that also includes a Credit Support Addendum and Special Provisions to the Credit Support Addendum. The Credit Support Addendum and Special Provisions thereto replace Section 10.1 of the NAESB General Terms and Conditions and provide an objective and transparent collateral threshold based upon the City's credit rating, which is more administratively efficient for both parties.

A NAESB Contract consisting solely of the NAESB Base Contract, General Terms and Conditions and Special Provisions is valid and executory indefinitely unless terminated by one or both parties with 30-days prior notice. It is the execution of one or more TCs that activates that NAESB Contract and the parties' obligations to physically deliver and receive gas at the specified volume, delivery point and pricing. Termination of a NAESB Contract only becomes effective upon completion of the parties' performances under any executory TCs.

Discussion:

A NAESB Contract is required to allow VMUS to procure gas supply from a reputable and creditworthy marketer for delivery into the Kern River capacity for ultimate delivery into the VMUS distribution system. The City issued a Request for Proposal (RFP) on August 22, 2024. Two potential gas suppliers were short-listed. The NAESB contract that is presented is with Morgan Stanley Capital Group Inc., a subsidiary of Morgan Stanley that engages mainly in sales, trading and market-making activities in commodities.

The NAESB was negotiated by the VMUS commercial team, with review and advice from the City attorney and an outside consultant with in-depth expertise in the natural gas industry.

Due to its relatively small gas demand, VMUS will only take gas supply from one supplier at any given time. This will be accomplished by executing one or more TCs with one of the suppliers where an NAESB contract has been established. Execution of the NAESB contracts does not preclude the City from executing additional NAESB contracts with other qualified suppliers.

Execution of this Agreement and authorizing the City Manager or his/her designee to execute subsequent transaction confirmations will allow VMUS to efficiently and reliably manage gas supply to VMUS customers.

Staff remains available to answer any questions the City Council may have.

- Attachments:**
- A. Base Contract and Special Provisions for Sale and Purchase of Natural Gas with General Terms and Conditions
 - B. Resolution No. 25-003