ABAG Publicly Owned Energy Resources (ABAG POWER)

Board of Directors

October 30, 2019	**Agenda Item 5.b.**

Natural Gas Aggregation Program

Subject: Canadian Supply and Transportation Update

Background: Historically, POWER has been able to compete with Pacific Gas and Electric Company's (PG&E) core procurement price by purchasing gas in California's local markets. Typically, annual purchase requirements have consisted of 25-50% long-term fixed-price contracts, and the remainder purchased on short-term daily or monthly indices.

In early 2013, pursuant to a California Public Utilities Commission (CPUC) decision, PG&E began offering POWER and other Core Transport Agents (CTAs) a pro-rata share of the intra- and interstate pipeline capacity held by PG&E. Every four months, CTAs can elect to accept or reject this capacity. For rejected capacity, PG&E attempts to recover costs through an auction, but POWER retains full cost responsibility.

In recent years, PG&E's purchasing strategy has shifted from local markets to capitalize on low commodity prices in Canada and Texas. Following this change, staff began investigating the use of interstate capacity. In June 2018, in pursuit of cost savings, the Executive Committee authorized entering into necessary agreements and business actions to enable the purchase and transport of natural gas from locations within Canada.

Compared to purchasing on local indices, POWER saved approximately $24,000 in Canadian markets. Purchasing in international markets also enables the program to avoid a degree of local price volatility.

When entering agreements with Canadian gas suppliers and pipeline companies, POWER is subject to the jurisdiction of Canadian law for these specific transactions. Staff and counsel believe that a dispute developing relative to the business POWER would transact pursuant to the agreements is unlikely. However, should such a dispute develop, it could require retention of Canadian counsel and possible litigating of the dispute in the Canadian court system, which would likely be costly.

Discussion Items: Staff expects to continue this purchasing strategy for the foreseeable future, given the relative flexibility of four-month pipeline capacity agreements. In the coming months, staff plans to analyze additional pipeline capacity offered by PG&E that POWER has historically rejected. Ultimately, without a significant change in market conditions or PG&E's purchasing strategy, the program may need to shift most of its purchases to lower-cost markets to remain cost-competitive with PG&E.

Recommended Action: The ABAG POWER Board of Directors is requested to review and comment on the discussion items.

Issues: None.

Attachments: None.

Reviewed: Brad Paul

Brad Paul