

New York State
Office of General Services

Natural Gas Contracting
2009 NASPO Cronin Bronze Award

NATURAL GAS

Group 05900

Award Number : 21411 PF (Replaces Award 20438)

Contract Period : November 1, 2008 to October 31, 2010

Bid Opening and Issue Date : August 20, 2008

A contract for the purchase of Fixed Price/Firm Supply Natural Gas, adjustable price Interruptible and Firm Supply Natural Gas from gas suppliers and/or marketers. This concept is in accordance with gas deregulation action of the Federal Energy Regulatory Commission, New York Legislature and the New York Public Service Commission. For this Award the Procurement Fee is included in all Fixed Pricing. The Procurement Fee for Indexed Pricing will be calculated on a monthly basis and reflected in the monthly price change purchasing memorandum.

Firm Supply - Fixed; Indexed Price -Fixed; Indexed Price - Interruptible Supply

Award Considerations

62 counties and 8 LDCs – filed requirement contract

- LDC - Local Distribution Company, also known as Local Utility Company, that transports gas from the City Gate to the customer's meter.

\$80 Million annual spend (based on current market price)

Dual fuel facilities (burn oil and gas)

- average annual interruptions - 45 days

\$60,000 cost per day for interruption to burn oil.

Bid both firm and interruptible gas supply

Using statistical and market analysis, state chose firm supply (higher prices) relative to cost avoidance using oil during interruptions.

Award Considerations

Annual Fuel (2 M dth/yr. usage in two locations)

- Monthly natural gas usage = 196,000 dekatherms* - enough to heat/cool 13,067 homes! (*Average home burns 15 dth of natural gas annually)
- Monthly oil usage between 45,000 to 80,000 gallons
- Average cost \$61,000/occurrence
- Previous contract – indexed price / interruptible supply

Additional Consideration

Q. How does one include Centralized the Procurement Contract Fee on indexed prices?

A. OGS posts on web and includes in monthly contract price based on index

Bid Results

- Indexed Price / Interruptible Supply - \$.9773
- Indexed Price / Firm Supply - \$1.7040

Previous Awards

Interruptible supply – limited financial impact when the price differential between natural gas and oil were insignificant.

As oil prices increased, cost differential became prohibitive, especially for 45 days of curtailments.

Award Results

Decision to award Indexed Price / Firm Supply was based on:

- Potential savings of not burning oil for an estimated average of 45 days per year
- Bid prices received and fuel trends available on bid opening day.

Collaborators

- Utility company
- LDC (applicable pipelines and capacity issues)
- Office of the State Comptroller
- Agency energy specialists
- Procurement specialists
- Feasibility and risk management plan – Finance
- Facility maintenance specialists at agency
- Aligned specialists on bid opening day to award on the same day

Benefits

- Cost avoidance (above the cost of gas)
Approximately \$60,000/day – year 1
\$76,000/day – yr 2
based on 45 days interruption/year
- Estimated savings - \$6.1 million/ 2 year contract
- Budget estimating
- Firm gas to city gate reduced the occurrence of interruptions by almost 96%
- Significant volume aggregation

Additional Benefits

Interruptions contract language tightened

- Allowed for alternate gas supply from other sources in lieu of interrupting at non-contract prices (potentially higher but $<$ oil)
- Supplies from alternate pipelines
- Requests to other marketers
- Requested to affected LDCs for excess city gas supplies
- Fewer service requirements and avoided maintenance costs for burning oil

Bid Results

- The bid for Indexed Price / Interruptible Supply was .9773 per dekatherm
 - + NYMEX to city gate
 - + transportation charges billed directly by utility (tariff driven).
- The bid for Indexed Price / Firm Supply was 1.7040
- \$.73 difference (gas now \$4 previously \$15)

Another Amendment

- Amending contract for triggering of forward prices at \$.12 dth cost

Award Definitions

Basis Cost - all costs associated with the acquisition and transportation of natural gas from the marketer's point of acquisition to the local utility's (LDC) city gate including all costs associated with balancing services to the burner tip. Included with the basis cost shrinkage, fuel retainage losses, GRI surcharge, custom duties and charges. Basis cost does not include the commodity cost.

Curtailment - interruption of flowing natural gas supplies imposed by pipelines and LDC as a result of the demand for transportation service exceeding the capacity of the pipeline

Fixed Price - the combined price of the commodity and the “basis cost” for the duration of the contract for the delivery of natural gas to the city gate.

Final Fixed Price – Fixed Price plus the procurement fee

Interruptible Supply – gas service which may be interrupted by the marketer with satisfactory justification, which is an interstate pipeline or LDC curtailment.

LDC - Local Distribution Company, also known as Local Utility Company, which

Award Definitions Continued

Final Indexed prices monthly average of the last three (3) days closing settlement price of NYMEX natural gas daily settlement for the month of gas delivery and the basis cost and procurement fee. Prices are carried to the 4th decimal place. increases to basis costs are not allowed. However, basis cost decreases are allowed at anytime. Average of the last three days of the Close of the NYMEX shall mean the average of the last three days NYMEX Close (Settlement Price) of the NYMEX for natural gas at the Henry Hub Louisiana delivery point as published in the Wall Street Journal Futures Column and shown on the NYMEX website.

The customer may nominate "0" for any month if the alternate fuel is more economical than gas. Also, the customer may have its gas supply interrupted when the supplier can provide satisfactory justification for an interruption or curtailment.

Marketer shall use all commercially reasonable efforts to secure replacement gas for the customers.