TO:   HONORABLE CITY COUNCIL  
FROM:  CITY MANAGER    DEPARTMENT: UTILITIES  
DATE:  MARCH 15, 2004  
SUBJECT: GAS LADDERING STRATEGY REVISION

RECOMMENDATION
This is an informational report and no Council action is required.

BACKGROUND
The gas utility has no long-term supply assets such as natural gas reserves and, hence, is inherently in deficit. In 2001, during the energy crisis that resulted in skyrocketing natural gas prices, staff developed a plan to hedge gas prices for periods longer than one fiscal year (CMR:196:01). The gas “laddering strategy” consists of dividing the City’s load into “pieces” and purchasing each “piece” at a different time.

COMMISSION REVIEW AND RECOMMENDATIONS
The revised gas laddering strategy was presented and discussed at the January 14, 2004 Utilities Advisory Commission meeting. There were no substantive comments by the Commissioners and no comments by the public.

DISCUSSION
The Director of Utilities has revised the gas commodity purchasing strategy whereby 60% to 100% of the load will be purchased for the nearest 18 month time period, 40% to 75% of the load will be purchased for months 19 to 27 months from now, and 20% to 50% of the load will be purchased for the months 28 to 36 months starting in January 2004. These purchases will apply to the residential and small commercial customers’ loads only. The revised strategy is shown below along with the old strategy in Table A. Implementation of the revised strategy began in January 2004.

GAS COMMODITY PURCHASING STRATEGY
Current vs. Revised

| Months from Present | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 32 | 33 | 34 | 35 | 36 |
|--------------------|---|---|---|---|---|---|---|---|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
| Revised Strategy   | 60% - 100% | 40% - 75% | 20% - 50% |
| Old Strategy       | 60% - 100% | 40% - 60% | 20% - 30% |

Table A

CMR:167:04
POLICY IMPLICATIONS
The revised gas laddering strategy supports the Utilities Strategic Implementation Plan [CMR:223:01], in particular, Strategy 2 – Preserve a supply cost advantage compared to the market price. The revised gas laddering strategy also supports the Council-approved gas supply portfolio planning and management objectives and guidelines for the Gas Utility Long-Term Plan (GULP)[CMR:355:03]. The relevant GULP objectives and guideline are:

Objective 1: Ensure low and stable gas supply rates for residential and small commercial customers.

Objective 2: Provide superior financial performance to customers and the City by managing the supply portfolio cost in a competitive manner compared to market cost and a retail supply rate advantage compared to PG&E.

Guideline 1: Market Risk Management – Manage market risk by adopting a portfolio strategy for gas supply procurement by:

A. Diversifying energy purchases for the residential and small commercial customers across commitment date, delivery date, duration, suppliers, pricing terms, & delivery points;
B. Maintaining a prudent exposure to changing market prices by leaving some fraction of the forecasted gas pool needs exposed to near-term market prices;
C. Avoiding long-term (>10 years) fixed-price commodity contracts.

ATTACHMENTS
A: January 14, 2004 UAC Report
B: January 14, 2004 Presentation
B: Minutes from UAC Meeting January 14, 2004

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