

Concept

When buying gas for electric generation, an end-user is concerned about receiving a reliable fuel supply, getting gas to the facility from many different suppliers from diverse geographic locations, and purchasing gas at the lowest possible cost. To assist with this endeavor, MCV implemented the GISB contract because it requires minimal execution time and it contains industry standard language, terms, and conditions.

The Midland Cogeneration Venture Limited Partnership (MCV) operates a 1500-megawatt gas fired cogeneration facility in Midland, Michigan. In order to maximize the value of the facility, gas for electric generation needs to have the highest level of reliability so power generation will not be affected by fuel shortfalls, and gas needs to be purchased at the lowest possible price so production costs will be as low as possible.

At a dispatchable plant like MCV, the fuel source must be flexible. The plant requirements respond to a changing market, so MCV needs to react to these demand swings. To provide flexibility, some gas purchases are made daily to balance load requirements, and gas sales are made to maximize the value of our firm transportation. This past year, MCV burned 88 Bcf of gas to produce steam and electricity. Of this, 67 Bcf was from long-term contracts, and 19 Bcf was from short-term contracts. Additionally, 32 Bcf was traded in the spot market to mitigate transportation costs. Therefore, MCV purchased 51.5 Bcf of natural gas under short-term contracts resulting in more than 1100 individual physical transactions.

MCV holds firm transportation contracts to directly access Canadian, Michigan, Gulf Coast, and mid-continent supplies. This varied portfolio provides three major opportunities:

1. MCV can purchase gas at diverse geographic locations to take advantage of cost differentials.
2. MCV can purchase gas from suppliers who are able to sell gas at competitive prices.
3. MCV has a large source of suppliers who are able to meet the fluctuating demands of the plant.

In order to take advantage of the above listed opportunities, short-term contracts must be in place.

Contracting Before GISB

To understand why the GISB contract is valuable to MCV, it is necessary to look at gas contracting before the GISB. First, each company had their own standard contract, and they each preferred to use their contract as the basis for trading gas. Second, trying to conclude individual contracts was time consuming, as each company had to reread and renegotiate changes. Third, the final result was not standard. Contracts varied in payment terms, confirmation forms, confirmation procedures, vocabulary -- any number and any type of differences were possible. To make it more challenging, changes were made to the contract itself; therefore, each contract needed to be read in order to find modifications.

Such nonstandard contracts complicated what should have been routine practices. For example, to complete a confirmation, one would need to be aware of the vocabulary specific to each contract: is it nomination period or delivery period? Is it transportation pipeline or transporter? Is it swing or interruptible?

Is it a dual-sign exhibit or an exhibit that is deemed accepted if the receiver doesn't respond within X numbers of days? Another example, to forward payment of an invoice, the accountant would need to know the payment terms specific to each contract. MCV is party to more than 70 active spot contracts. Due to a lack of uniformity among contracts, how many notes or how many visits to the contract administrator would be necessary to perform the routine tasks mentioned above?

GISB

In contrast, the GISB standard alleviates the issue of which contract to use, shortens the negotiation period, and produces more standardized contracts. The GISB consists of two parts: the Base Contract and the General Terms and Conditions. The first page, which is the Base Contract, lists contract date; parties to the contract with mailing, invoicing, and wiring instructions; check boxes indicating the provisions agreed; and signatures of the parties. The General Terms and Conditions are the remaining seven pages including an exhibit that demonstrates an acceptable form for a transaction confirmation. This part is self-explanatory – the general terms and conditions govern all agreements between the parties under this contract.

On each page of the contract, there is a GISB watermark. This indicates that the contract is in its standard form. If there are changes in the contract, the watermark is to be removed. Typically, modifications are made by attaching an addendum to the contract and indicating such addition in the space provided on the Base Contract.

Summary

GISB has streamlined the contracting process at MCV. It has reduced the time required to achieve fully executed contracts, and it has standardized our contract vocabulary and terms.

When two parties enter into a GISB, they have an understanding of the terms and conditions contained therein. Therefore, minimal effort is required to attain a fully executed contract. This is important to MCV. As we strive to purchase gas at the lowest cost and from diverse geographic locations, the GISB contract provides assurance that if a beneficial transaction becomes available MCV won't miss the opportunity due to contractual issues. The GISB contract is a tool MCV uses to be a highly reliable, efficient provider in the energy market.