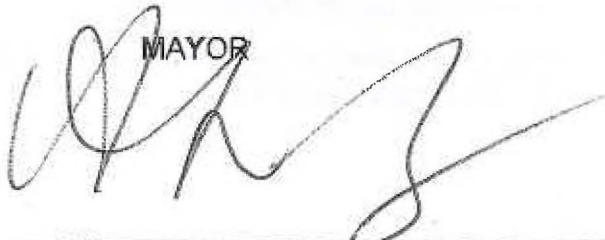


POWER SYSTEM

JUN 10 2015

EXECUTIVE OFFICE

TRANSMITTAL		0320-00172-0000
TO Marcie L. Edwards, General Manager Department of Water and Power	DATE JUN 09 2015	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT	
AMENDMENT TO SECTION 10.1.1(B) OF THE ADMINISTRATIVE CODE FOR NATURAL GAS PURCHASES BY THE DEPARTMENT OF WATER AND POWER.		
Approved and transmitted for further processing including Council consideration. See the City Administrative Officer report attached.		
 MAYOR		

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: June 5, 2015

CAO File No. 0320-00172-0000
Council File No.
Council District:

To: The Mayor

From: Miguel A. Santana, City Administrative Officer *MAS*

Reference: Transmittal from the Department of Water and Power dated September 19, 2014; referred by the Mayor for report on September 26, 2014

Subject: **AMENDMENT TO SECTION 10.1.1(b) OF THE ADMINISTRATIVE CODE FOR NATURAL GAS PURCHASES BY THE DEPARTMENT OF WATER AND POWER**

SUMMARY

The Department of Water and Power (DWP; Department) requests approval of a proposed resolution and Ordinance that amends Section 10.1.1(b) of the Los Angeles Administrative Code (LAAC) relating to the purchase of natural gas fuel. Specifically, the Department proposes that, should natural gas be priced above \$20 per million British Thermal Unit (MMBtu):

- Contracts for the acquisition of natural gas above \$20 per MMBtu shall not exceed 15 calendar days; and,
- The volume of natural gas purchased at a cost above \$20 per MMBtu is not to exceed 100 million cubic feet per day (MMCFD) per contract.

To promote transparency and accountability, the DWP General Manager or a designee shall notify within two (2) business days the Office of the Mayor, the City Council Chair of the Energy and Environment Committee, the DWP Board of Commissioners (Board) Secretary, the Office of the City Administrative Officer, and the Office of Public Accountability of such purchase including the price, term and volume of the transaction. A detailed report would be provided by the next regularly scheduled meeting of the Board, if requested, to explain the transaction including:

- Support of power reliability for the volume of natural gas purchased above \$20 per MMBtu,;
- The market conditions that created the need to purchase natural gas above \$20 per MMBtu;
- The cost-effectiveness of alternatives to the purchase of natural gas above \$20 per MMBtu. The alternatives shall include, but not be limited to:
 - The dispatch of City-owned non-natural gas generation;
 - The purchase of energy; and,
 - Implementation of managed power outages; and,
- The effect of the purchases on the Energy Cost Adjustment Factor, Department budget, and the typical residential and commercial customer.

Approval of the request will allow the Department to continue to deliver power reliably and cost-effectively should prices for natural gas increase above \$20 per MMBtu. To ensure accountability, the General Manager of the Department shall be required to approve purchases above \$20 per MMBtu in writing. Furthermore, the General Manager shall only be allowed to delegate this approval authority to the Senior Assistant General Manager – Power System or a Power System Division Director.

This Office has provided the DWP with suggestions to improve transparency and accountability by (1) expanding the list of officials to be notified if the proposed authority is utilized and (2) setting the notification period to be within two business days. The DWP has accepted our suggestions and asserts that it will revise its original proposal to incorporate the changes in the final DWP resolution. A draft copy of the revised DWP Board report and resolution has been provided to this Office although the documents are pending management approval. Furthermore, the revised resolution is also pending City Attorney approval as to form and legality.

The City Council and Mayor will be required to approve this request by Ordinance.

RECOMMENDATIONS

That the Mayor:

1. Approve, subject to approval by the City Attorney as to form and legality, a proposed amendment to Section 10.1.1(b) of the Los Angeles Administrative Code to authorize the purchase of natural gas above \$20 per MMBtu with the limitations described in this report;
2. Return the proposed amendment to the Department for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

DWP purchases of natural gas fuel result in an expenditure for the Power Revenue Fund. The proposed resolution complies with the Department's adopted Financial Policies. There is no impact to the City General Fund.

TIME LIMIT FOR COUNCIL ACTION

The City Attorney advises that there is no time limitation for items approved by ordinance.

APPENDIX

BACKGROUND

The current LAAC Section 10.1.1(b) allows the DWP Board of Commissioners (Board) to delegate authority to the GM to execute purchase, sale, or exchange contracts for natural gas with a term not to exceed one year, up to a limit of 350 million cubic feet per day (MMCFD), and a price not to exceed \$20 per million British thermal unit (MMBtu).

Based on data provided by the Department, the 2014 market prices for natural gas available to the Department generally fluctuated in the range of \$4.00 to \$5.00 per MMBtu. However, during a six week period beginning January 28, 2014, the market price was elevated to between \$5.08 and \$8.69 per MMBtu caused in part by increased demand in anticipation of very cold weather (i.e. 2014 Polar Vortex) throughout large portions of the United States. During this period of elevated prices, a sudden price spike occurred on February 6, 2014, which resulted in natural gas prices available to the Department for that day to be between \$17.30 and \$22.30 per MMBtu. Fuel prices exceeded the LAAC limit of \$20 per MMBtu and the DWP was not authorized to purchase a sufficient volume of natural gas for power generation to meet customer demands. In response, the DWP procured energy from the wholesale energy markets at substantially higher costs. The following day the price of natural gas decreased significantly within the Department's authority to less than \$7.74 per MMBtu.

NATURAL GAS CONSUMPTION AND SOURCES

The DWP daily consumption of natural gas for generating electricity averaged 135,000 MMBtu, 177,000 MMBtu, and 140,000 MMBtu during 2011, 2012, and 2013 respectively. The five year daily average use is approximately 159,000 MMBtu. Due to seasonality and weather, occasionally the daily gas demand ranges from 40,000 MMBtu to over 300,000 MMBtu.

DWP purchases a majority of its natural gas through purchase contracts. The Department does own the Pinedale natural gas field which provides up to 23,000 MMBtu per day depending on facility production and maintenance.

Natural gas storage is not used by DWP at this time as the Department expends its daily purchased gas supplies for its daily generating activities inclusive of natural gas from Pinedale. In the past, DWP purchased storage rights from the Southern California Gas Company. It was determined by DWP that the cost of storage exceeded any potential purchase price benefits. Additionally, DWP states that the intrastate and interstate pipeline infrastructure are adequate to ensure delivery of gas supplies to its generation plants, thus reducing the benefit of a secured storage supply.