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REPORT NO. R 15 - 0 2 5 0
SEP 2 5 2015

REPORT RE:

**DRAFT ORDINANCE AMENDING LOS ANGELES ADMINISTRATIVE CODE
SECTION 10.1.1 TO AUTHORIZE THE BOARD OF WATER AND POWER
COMMISSIONERS TO DELEGATE AUTHORITY TO THE GENERAL MANAGER TO
PURCHASE NATURAL GAS IN EXCESS OF EXISTING PRICE LIMITS WITHIN
DESCRIBED PARAMETERS WHEN NECESSARY TO PROVIDE A RELIABLE
POWER SUPPLY TO RETAIL CUSTOMERS AT THE LEAST COST**

The Honorable City Council
of the City of Los Angeles
Room 395, City Hall
200 North Spring Street
Los Angeles, California 90012

Honorable Members:

This Office has prepared and now transmits for your consideration the enclosed draft ordinance, approved as to form and legality. This draft ordinance amends Subsection (b) of Section 10.1.1 of the Los Angeles Administrative Code (LAAC) to authorize the Board of Water and Power Commissioners (Board) to delegate authority to the General Manager to purchase natural gas in excess of existing price limits within described parameters when necessary to provide a reliable power supply to retail customers at the least cost.

Background

The existing LAAC Section 10.1.1(b) allows the Board to delegate its authority to the General Manager to enter into natural gas contracts within defined parameters, including a term not to exceed one year in duration, up to a volume limit of 350 million cubic feet per day (MMCFD) not to exceed \$20 per million British thermal unit (MMBtu).

There is no ability to exceed the price cap of \$20 per MMBtu, per the amended ordinance, enacted in 2002.

However, as recently as February 2014, unusually cold weather in and east of the Rocky Mountains caused a sudden spike in gas prices for the short term. Although the prices for spot natural gas supply did not exceed the \$20 per MMBtu limit specified in Section 10.1.1(b), they could have, and LADWP would have been unable to purchase sufficient quantities of natural gas to maintain system reliability and meet its retail electric demand requirements. Fortunately, in the February 2014 instance, wholesale power purchases were available.

Summary of Ordinance Provisions

The draft ordinance authorizes the Board to delegate authority to the General Manager to purchase natural gas in excess of existing price limits within described parameters when necessary to provide a reliable power supply to retail customers at the least cost. Financial instruments and other option contracts are not included in this delegation of authority.

CEQA Findings

In accordance with Section 15060(c)(3) of the California Environmental Quality Act (CEQA) Guidelines, an activity is not subject to CEQA if it does not meet the definition of a project. Section 15378(b)(5) states that organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment do not meet that definition. Therefore, the recommendation of the proposed ordinance related to the cost of natural gas is not subject to CEQA.

Council Rule 38 Referral

A copy of the draft ordinance has been presented to the Board of Water and Power Commissioners pursuant to Council Rule 38.

If you have any questions regarding this matter, please contact Deputy City Attorney Jean-Claude Bertet at (213) 367-4500. He or another member of this Office will be present when you consider this matter to answer any questions you may have.

Very truly yours,

MICHAEL N. FEUER, City Attorney



By

DAVID MICHAELSON
Chief Assistant City Attorney

DM:JCB:pj
Transmittal