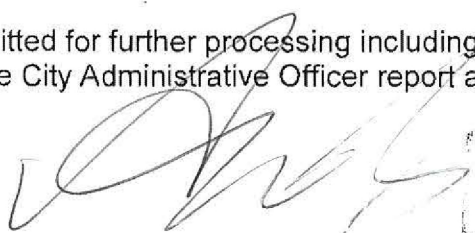




POWER SYSTEM  
MAR 19 2018  
EXECUTIVE OFFICE

<b>TRANSMITTAL</b>		0220-05128-0001
TO David H. Wright, General Manager Department of Water and Power	<i>(LPPF)</i>	DATE MAR 06 2018
FROM The Mayor		COUNCIL FILE NO.  COUNCIL DISTRICT
<p><b>AMENDMENT TO SECTION 23.135 OF THE ADMINISTRATIVE CODE RELATING TO WHOLESALE ENERGY TRANSACTIONS</b></p> <p>Approved and transmitted for further processing including Council consideration. See the City Administrative Officer report attached.</p> <p> Ana Guerrero</p> <p>MAYOR</p>		
<small>RHL:RR:10180006t CAO 649-d</small>		

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: March 2, 2018

CAO File No. 0220-05128-0001

Council File No.

Council District:

To: The Mayor

From: Richard H. Llewellyn, Jr., City Administrative Officer *RHL*

Reference: Communication from the Department of Water and Power dated July 25, 2017

Subject: **AMENDMENT TO SECTION 23.135 OF THE ADMINISTRATIVE CODE RELATING TO WHOLESALE ENERGY TRANSACTIONS**

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### RECOMMENDATIONS

That the Mayor:

1. Approve the proposed resolution and Ordinance amending Section 23.135(2) of the Los Angeles Administrative Code to increase the current contract limitation of 500 megawatts to a new contract limitation of 2,000 megawatts per wholesale energy transaction;
2. Return the proposed amendment to the Department for further processing, including Council consideration.

### SUMMARY

The objective of the proposed resolution and Ordinance is to improve the Power System reliability by increasing the opportunities for importing energy into Los Angeles. Specifically, it authorizes the Department of Water and Power (DWP; Department) Board of Commissioners (Board) or the General Manager, if delegated by the Board, to purchase wholesale energy with a per transaction limitation of 2,000 megawatts (MW) compared to the current limit of 500 MW per transaction.

DWP anticipates requiring this increased authority to quickly acquire large quantities of energy during an incident of sudden power loss, natural gas curtailments related to the Aliso Canyon gas storage facility, or as opportunities to import excess energy become available from the California Independent System Operator (CAISO).

The current limit of 500 MW per transaction was established by Ordinance 177678, effective August 17, 2006. In addition to the limit on transaction size, Ordinance 177678 also set a limit for contract duration and price of 18 months and \$2,500 per megawatt-hour (MWh). If approved, the current proposal only amends the 500 MW limit by increasing it to 2,000 MW per transaction. The limit for contract duration and price shall remain unchanged.

DWP has identified the current 500 MW limit to be in conflict with its operating goal of maintaining

power system reliability (i.e. avoid power outages). As an example, DWP was required to exceed the 500 MW limit in 2010 when an unexpected failure of the Southern Transmission System (STS) occurred, stranding 1,900 MW of generation from the Intermountain Power Project, which led to several energy purchases including 800 MW from the Bonneville Power Authority (BPA). The energy purchases occurred within 10 minutes of the STS failing and are credited with maintaining system reliability as well as avoiding power outages in Los Angeles. Although a transaction exceeded the 500 MW limit of the LAAC, it was deemed necessary to support power system reliability. In this incident, if the DWP had complied with the LAAC and the 500 MW limit, it may have resulted in power outages throughout the City while the DWP located other sources of energy.

At the time in 2010, formal procedures were not established for reporting non-compliance with the LAAC. However, DWP staff prepared a detailed report for the executive management notifying them of the incident and the energy purchase which led to non-compliance with the LAAC. DWP has formalized a process for subsequent non-compliance incidents. Furthermore, DWP states an annual independent audit review for wholesale energy transactions identified the transaction as non-compliant with the LAAC and advised to consider amending the LAAC to increase the current limitation of 500 MW per transaction.

Additionally, the proposal strengthens DWP's ability to mitigate impacts of any potential natural gas curtailments related to the Aliso Canyon gas storage facility (Aliso Canyon) and supports DWP's efforts to reduce its reliance on local natural gas facilities. Due to the impacts of Aliso Canyon, the Southern California Gas Company (SoCalGas) announced it may curtail up to 40 percent of the in-basin generation capacity gas supply during the summer and up to 60 percent in the winter. This potential for curtailment could result in a significant loss of generation capacity totaling 1,385 MW during the summer and 2,078 MW in the winter. The proposal ultimately increases the flexibility of the Department to acquire sufficient amounts of energy to replace any losses due to a curtailment.

Lastly, the growth of renewable energy in California is resulting in incidents of excess energy generation being sold at below-market costs. Additional opportunities will be available for purchasing and selling energy as DWP furthers its implementation and eventual participation in the CAISO Energy Imbalance Market (C.F. 17-0312). It is noted DWP also plans on utilizing the proposed transaction limit for purchasing renewable energy from sources other than the CAISO.

For reference, the historic peak load or highest customer demand is 6,502 MW which occurred on August 31, 2017. The next day on September 1, 2017, the peak load decreased slightly to 6,430 MW which is still greater than the prior historic peak load that occurred approximately three years earlier on September 14, 2014 with 6,396 MW.

Independent Audit Compliance - In accordance with LAAC 23.135(3), DWP shall retain an independent auditor to annually audit and prepare a report relating to DWP contracts for the purchase and sale of energy as well as an assessment of the adequacy of risk management controls and compliance with the LAAC. The auditor's report is to be provided for review to the DWP Energy Services Executive Risk Policy Committee (ERPC). Established by the Board, the ERPC meets monthly and is responsible for oversight of the wholesale energy risk management program and development of internal controls to ensure compliance with policies and procedures.

The most recent audit report provided to the ERPC is for FY 2013-14, released on December 1, 2015. Subsequent audits were not completed due to concerns about ongoing litigation involving other DWP operating units. A previous three-year contract, which expired in 2017, was intended to perform the audit services for FY 2014-15; however, the services were not completed.

On March 3, 2017, the DWP purchasing group released Request for Proposals (RFP) 90363 to perform the subsequent audits consisting of FY 2015-16, 2016-17, and 2017-18. The deadline for submitting proposals was April 18, 2017. Two qualified responses were received and evaluated. On November 28, 2017, the DWP Board awarded Agreement 49435 to Siemens Industry with a three year term and a total cost not to exceed \$400,000. Following discussions with the City Attorney and the CAO, DWP intends to prepare an amendment to Agreement 49435 with Siemens Industry to expand the scope of work to include audit services for FY 2014-15 and to provide sufficient funding for the additional scope of work. The anticipated amendment to the contract with Siemens Industry would be subject to approval by the DWP Board.

The City Administrative Officer (CAO) expresses a general concern regarding the lack of timeliness for performing the audits in accordance with LAAC 23.135(3). There is also a specific concern regarding the lack of an independent audit report since FY 2013-14 which affects DWP's compliance with the LAAC 23.135(3). The lack of an audit report since FY 2013-14 and any report recommendations may also impact or cause delays for the subsequent annual audits. We have discussed these concerns with DWP and they are in agreement with the following.

In considering DWP's goal of maintaining power reliability and mitigating potential risks, the CAO supports approval of the proposed resolution and Ordinance. However, to further the Department's financial compliance with the LAAC and to enhance its risk management practices going forward, the CAO advises DWP to take the following actions:

- i. Request the DWP Board to approve an amendment of Agreement 49435 with Siemens Industry to expand the scope of work to include services for FY 2014-15 and to provide sufficient funding for the additional scope of work;
- ii. Review the DWP risk management policies and establish a time limit not to exceed 12 months after completion of a fiscal year end reconciliation to complete the independent audit requirement per LAAC 23.135(3) and to present the audit report to the DWP ERPC; and,
- iii. Conduct a review of contracting practices to establish an appropriate timeline for conducting competitive bid processes to ensure the timely award of contracts.

Approval of this request by Ordinance is required pursuant to Charter Section 240. The City Attorney has approved the proposed resolution as to form and legality. There is no time limitation for items approved by ordinance.

## FISCAL IMPACT STATEMENT

Wholesale energy transactions impact the Power Revenue Fund. There is no impact to the City General Fund.

*RHL:RR:10180006*