



Los Angeles  
Department of  
Water & Power

RESOLUTION NO. \_\_\_\_\_

BOARD LETTER APPROVAL

Handwritten signature of Michael S. Webster in blue ink.

**MICHAEL S. WEBSTER**  
Executive Director – Power System  
Engineering and Technical Services

Handwritten signature of Marcie L. Edwards in blue ink.

**MARCIE L. EDWARDS**  
General Manager

**DATE:** August 24, 2015

**SUBJECT:** Amendment to Section 10.1.1 (b) of the Los Angeles Administrative Code, by Ordinance, Involving the Purchase of Natural Gas by the LADWP

**SUMMARY**

The attached Resolution for approval by the Board of Water and Power Commissioners (Board) recommends to the Los Angeles City Council (Council) that an ordinance be passed to amend Section 10.1.1 (b) of the Los Angeles Administrative Code (LACC) to allow for the purchase of short-term natural gas during natural gas and electric market disruptions in excess of existing specified price parameters. The requested amendment removes the existing administrative limitation and replaces it with an economic decision to be made by the LADWP General Manager whether to pay the prevailing market price for limited periods during times of spiked natural gas pricing. Limited to fifteen day purchase transactions, the LADWP General Manager would report to the Board and several other City officials within two days of such action. These requested changes are essential to help provide for a stable supply of fuel, maintain system reliability and ensure LADWP can serve retail customers during natural gas and electric market disruptions at the least cost.

City Council approval by Ordinance is required per Charter Section 240.

**RECOMMENDATION**

It is requested that your Honorable Board adopt the attached Resolution recommending the Council's approval of the proposed amendments to LAAC Section 10.1.1 (b) as discussed herein and in the attached proposed draft ordinance.

## **ALTERNATIVES CONSIDERED**

The alternative would be to not amend Section 10.1.1 (b) of the LACC and continue to risk the Department not being able to purchase natural gas for electric generation for our retail customers (or procuring potentially less economic wholesale power) during periods of natural gas and electric market disruptions.

## **FINANCIAL INFORMATION**

The ordinance applies to funds approved in the LADWP's annual budget process. Currently, Section 10.1.1 (b) of the LAAC allows the Board to delegate to the General Manager the power to enter into certain natural gas contracts within defined parameters, including a term limit of one year and a natural gas purchase price not to exceed \$20 per million British thermal unit (MMBtu). The resolution adds authority upon prior notification of and approval by the General Manager or a designee to enter into natural gas contracts with term limits of up to 100 million cubic feet per day (MMCFD) and 15 days in duration per transaction which can exceed the existing \$20 per MMBtu limit during periods of natural gas and electric market disruptions. Such prior notification of the General Manager or a designee shall be performed by the LADWP's Senior Assistant General Manager – Power System or a designee. In such instances that natural gas contracts are entered into which exceed the existing \$20 per MMBtu limit, the General Manager or a designee shall notify (manual or electronic) within two (2) business days the Associate Director, Infrastructure Services, Office of the Mayor; the Chair of the Energy and Environment Committee of the City Council; the Chief Administrative Analyst of the City Administrative Officer; the Policy Advisor, Energy and Environment of the Chief Legislative Analyst; the Rate Payer Advocate of the Office of Public Accountability; the Commission Secretary of the Board of Water and Power Commissioners, or similar position of the aforementioned City representatives, of such purchase and, as requested, provide information concerning (1) the circumstances, to the extent known, of the natural gas and electric markets disruption that led to the purchase of natural gas exceeding the \$20 per MMBtu limit and (2) the financial factors that led to and result from the execution of the subject natural gas contract(s) and, to the extent calculable, the resulting effect on LADWP's Energy Cost Adjustment Factor and other financial and budget criteria.

## **BACKGROUND**

The LADWP has been procuring its natural gas for electricity production under Section 10.1.1 (b) of the LAAC for approximately 12 years. Over the last several years, it has been concluded that a change to this enabling ordinance is needed to allow for natural gas purchases for serving retail electric demand during limited times of spiked natural gas prices. As recently as early February 2014, unusually cold weather in and east of the Rocky Mountains caused a sudden increased use of natural gas supplied from the same area from which LADWP purchases much of its natural gas. The sudden increased use restricted supply and severely drove up prices for the short term. Though prices for spot natural gas supply needed by LADWP did not exceed the \$20 per

MMBtu limit specified in Section 1.1 (b), they could have, and the LADWP would have been unable to purchase sufficient quantities of natural gas to maintain system reliability and meet its retail electric demand requirements. Without other options, such as hydroelectric generation dispatch or wholesale power purchases, the LADWP would have had to curtail electric supply to some of its customers. Fortunately, in the February instance, wholesale power purchases were available. What this amendment to the ordinance does is to augment the economic buying authority already available to the LADWP for the purchase of natural gas for the generation of electric power. This amendment to the ordinance would only allow for the purchase of natural gas for up to 15 days at a price that exceeds the current \$20 per MMBtu limit during volatile market conditions. Having augmented economic buying authority for natural gas purchases is both logical and prudent in serving the electric demands of our retail customers given the potential for volatile market conditions in wholesale power and/or natural gas markets.

The City Administrative Officer report dated June 9, 2015 is attached.

### **ENVIRONMENTAL DETERMINATION**

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 no subject to CEQA.

### **CITY ATTORNEY**

The Office of the City Attorney reviewed and approved the Resolution as to form and legality.

### **ATTACHMENTS**

- A. Resolution
- B. Ordinance
- C. CAO Report dated June 9, 2015