



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: MAY 7, 2019**

FROM: PUBLIC UTILITIES DEPARTMENT **WARDS: ALL**

SUBJECT: SUPPLEMENTAL APPROPRIATION FROM ELECTRIC FUND UNRESTRICTED, UNDESIGNATED CASH RESERVE TO ELECTRIC FUND'S POWER SUPPLY ACCOUNT FOR REMAINDER OF FISCAL YEAR 2018/19 IN THE AMOUNT OF \$7,000,000

ISSUE:

Authorize a supplemental appropriation from the Electric Fund Unrestricted, Undesignated Cash Reserve to the Electric Fund's Power Supply account for the remainder of fiscal year 2018/19 in the amount of \$7,000,000, due to higher than anticipated retail energy load and abnormally elevated gas and power prices during the summer of 2018, and continued elevated gas prices during the winter of Fiscal Year 2018/19.

RECOMMENDATIONS:

That the City Council:

1. Authorize a supplemental appropriation in the amount of \$7,000,000 from the Electric Fund Unrestricted, Undesignated Cash Reserve due to higher than anticipated retail energy load and abnormally elevated gas and power prices during the summer of 2018, and continued elevated gas prices during the winter of Fiscal Year 2018/19; and
2. Appropriate expenditures in the amount of \$7,000,000 to the Electric Fund's Power Supply Account No. 6120100-422926 for the remainder of fiscal year 2018/19.

BOARD RECOMMENDATION:

On April 22, 2019, the Board of Public Utilities voted unanimously, with all members present, to recommend that the City Council authorize a supplemental appropriation from the Electric Fund Unrestricted, Undesignated Cash Reserve to the Electric Fund's Power Supply account for the remainder of fiscal year 2018/19 in the amount of \$7,000,000, due to higher than anticipated retail energy load and abnormally elevated gas and power prices during the summer of 2018, and continued elevated gas prices during the winter of Fiscal Year 2018/19.

BACKGROUND:

The Riverside Public Utilities (RPU) Electric Fund budget for fiscal years (FY) 2018/19 and

2019/20 was approved by the Board of Public Utilities on April 23, 2018, and was subsequently adopted by City Council on June 12, 2018. The adopted FY 2018/19 and FY 2019/20 Power Supply budget is \$205.8 million and \$217.3 million, respectively.

DISCUSSION:

During the July to September 2018 summer time period, RPU collected approximately \$8,680,000 in additional retail revenues from higher than expected energy load due to the warmer than normal summer weather conditions. However, during this same period, RPU's Power Supply budget experienced a corresponding \$9,710,000 cost overrun. Approximately \$4,930,000 of this cost overrun was a direct result of RPU's need to purchase additional natural gas and wholesale power to serve the above mentioned excess retail load. The remaining \$4,780,000 cost overrun was due to abnormally elevated gas and power prices, particularly in July and August 2018.

During the summer of 2018, Southern California utilities were subject to bouts of severe short-term market price volatility. Wholesale natural gas and power prices became significantly elevated during at least two (2) heat-wave events, in one case increasing by an order of magnitude. These sudden price spikes were due to the joint impact of major natural gas transmission pipeline outages and the continued Aliso Canyon storage moratorium, which combined together to create operational delivery constraints during high demand conditions. Currently, without Aliso Canyon, electric generators must primarily rely on a flowing natural gas supply. Disruptions to this supply (due to the pipeline outages) triggered critical low flow conditions that in turn led to severe short-term price spikes at the Southern California Gas Company's (So Cal) Citygate, a key regional natural gas trading hub.

The July market price disruptions caused the greatest material impact to RPU's financial metrics. Five (5) days before the July heat-wave event that led to the most severe natural gas and energy price spikes, Intermountain Power Plant (IPP) Unit #1 tripped off-line, reducing RPU's energy supply stack by 68 mega-watts. The Intermountain Power Authority (IPA) initially reported that Unit #1 would be back on-line within 72 hours. Unfortunately, IPA was unable to bring IPP back on-line within three (3) days and the outage ultimately lasted 10 days throughout the majority of the July heat-wave event. In turn, RPU was forced to run all four (4) natural gas units at the Riverside Energy Resource Center (RERC) just to meet internal peak load conditions during the heat-wave, denying RPU the opportunity to sell any excess generation back in the California Independent System Operator (CAISO) market.

Figure 1 shows a bar chart plot of the daily (weekday) So Cal Citygate natural gas prices versus RPU's daily peak load. The chart notes that the two (2) prominent heat-wave events occurring from July 23–27, 2018 and August 6-9, 2018 coincided with grossly elevated natural gas prices, ranging from \$10 to \$38 per million British Thermal Units (MMBtu).

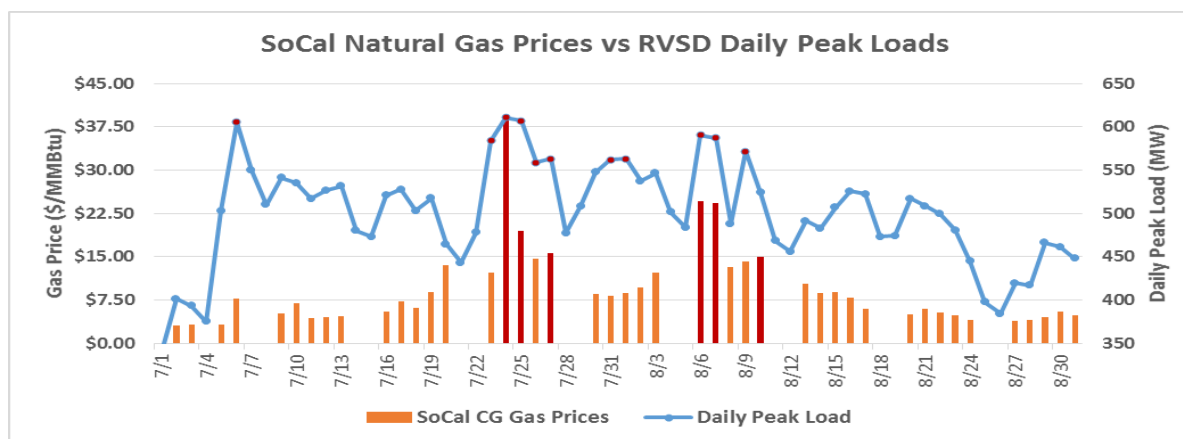


Figure 1. So Cal Citygate natural gas prices versus Riverside daily peak loads: July-August 2018.

Figure 2 shows a similar bar chart of the average SP-15 trading hub day-ahead (DA) super-peak power prices, which reflect electricity market conditions in Southern California, versus RPU's daily peak load. Again, the chart notes that the most significantly elevated power prices (i.e., > \$200 per mega-watt hour) coincided with the two (2) heat-wave events.

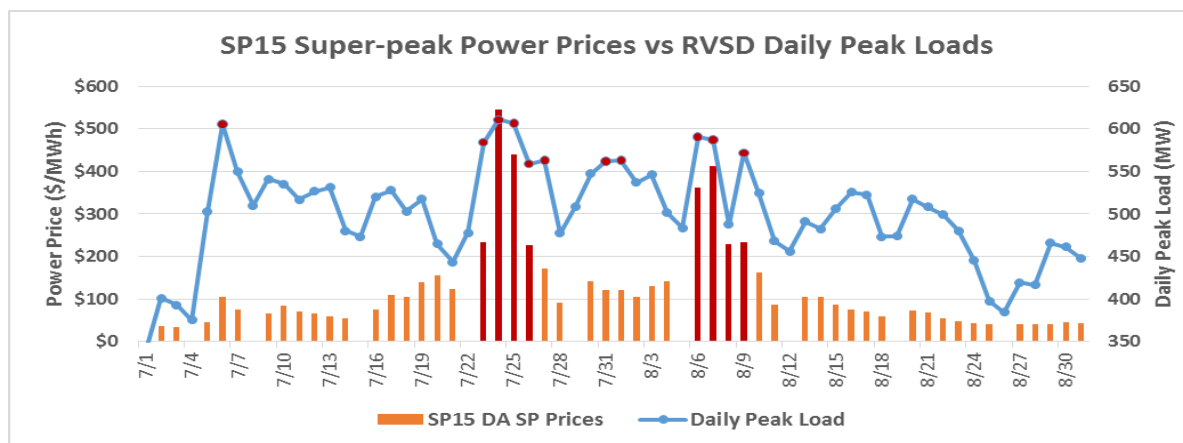


Figure 2. SP-15 trading hub super peak power prices versus Riverside daily peak loads: July-August 2018.

This is the first time in six (6) years that RPU will exceed its power supply budget. Nearly all Southern California utilities who participate in the CAISO experienced Power Supply cost overruns in the summer of 2018. For example, Anaheim Public Utilities recently reported a \$3.7 million July 2018 cost overrun to their Board. Likewise, SCE (which is prohibited by the California Public Utilities Commission from forward hedging any power or natural gas) reported in December 2018 that their summer 2018 Power Supply costs had exceeded budget by nearly \$960 million. This cost overrun was so significant that it prompted the California Energy Commission to hold a joint stakeholder meeting with the California Public Utilities Commission on January 11, 2019 to specifically discuss methods and strategies for mitigating future Southern California natural gas price volatility.

Since the summer 2018-time period, staff has continued to monitor and forecast the expected end-of-year excess retail revenues and Power Supply cost overruns. Natural gas prices have remained elevated during the winter and gas costs continue to come in above budget. As of the end of February 2019, year-to-date excess retail revenues have declined to \$3,100,000 over budget due to lower sales since October 2018 and Power Supply costs were \$8,400,000 over budget. Staff forecasts that retail revenues will ultimately come in near budget by the end of FY 2018/19, while Power Supply costs will most likely exceed budget by approximately \$6,000,000.

Additionally, staff intends to forward purchase daily power and gas call options for the summer of 2019 to defend against potential new market price blowout. The premiums for these call options are anticipated to cost approximately \$900,000. Therefore, staff is requesting a supplemental appropriation to the Electric Fund's Power Supply account for the remainder of FY 2018/19 in the amount of \$7,000,000.

FISCAL IMPACT:

The total Power Supply costs for FY 2018/19 are projected to exceed the adopted Power Supply budget by approximately \$7,000,000. Staff anticipates that budgetary savings in other Electric Fund operating accounts will at least partially offset these increased Power Supply costs. Nonetheless, there are sufficient funds in the Electric Unrestricted, Undesignated Reserve Account 0000510-101000 to cover the increase in Power Supply costs and the balance in the Electric Unrestricted, Undesignated Account is projected to be within the minimum and maximum level at June 30, 2019 as set forth in the RPU Cash Reserve Policy.

Prepared by: Todd M Corbin, Utilities General Manager
Certified as to
availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by: Al Zelinka, FAICP, City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. April 22, 2019 Board of Public Utilities draft meeting minutes
2. Presentation