CITY OF
LONG BEACH
ENERGY RESOURCES

M E M O R A N D U M

Date: February 1, 2019

To: Patrick H. West, City Manager

From: Robert Dowell, Director of Energy Resources

For: Mayor and Members of the City Council

Subject: **Natural Gas Commodity Price Increases**

Background

Energy Resources (ER) purchases and imports out of state natural gas that is sold to its customers through the SoCalGas pipeline system. This is essentially the only means available to ER to purchase natural gas for delivery to the residents and businesses in Long Beach. The wholesale cost of the natural gas purchased at the SoCal CityGate hub is passed directly onto ER's customers with no added costs. Being a municipal gas utility does not insulate Long Beach from the natural gas commodity price volatility at the SoCal CityGate. ER has not increased its service charge or its transmission gas rates in over two years.

There have been a series of factors in the SoCalGas system that have been primarily responsible for the increase in gas commodity prices at the SoCal CityGate hub, none that are controllable by ER. These contributing factors include:

- Several SoCalGas pipelines operating at reduced or limited capacity due to planned and unplanned maintenance activities.

- Decreased availability from SoCalGas underground gas storage inventories due to operating limitations placed on its storage facilities as a result of the 2015 gas leak at the Aliso Canyon storage facility. Storage inventories this 2018-19 winter heating season are at the lowest levels in more than a decade.

- A recent explosion on a pipeline that delivers gas to Northern California has increased demand resulting in Northern California utilities competing for gas in the Southern California market.

The chart below illustrates the gas price increases peaking in December 2018 ($13.85/Dth). January 2019 prices have dropped 41% from the December price and February 2019 prices are projected to drop another 20%, trending back to more historical levels in the spring of 2019.

Impact on December 2018 Pricing for ER Customers

In general, residential customers monthly gas bills are based on two factors: (1) the cost of gas; and, (2) the amount of gas used. Gas commodity prices change monthly and daily for that matter. There are no forecasting models available that could have predicted the increase experienced in December 2018. In late November 2018, SoCal CityGate hub gas prices were in the $5.82/Dth range (typical for this time of year) and, on December 1, 2018, they jumped to $13.85/Dth.

ER did an analysis on December 1st when the $13.85/Dth first of the month SoCal CityGate hub gas price posted to determine the impact on the average residential customer in Long Beach. That analysis indicated the average residential gas usage in Long Beach for December 2017 was 44 therms. December 2018 temperatures were also forcasted to be the same as December 2017 temperatures. Incorporating the $13.85/Dth December 2018 gas prices with that average residential usage resulted in an increase to the gas bill of approximately $25 - $36 per customer.

ER and several City Council offices have recently been contacted by residents questioning their unusually high gas bills. It should be pointed out that ER has approximately 154,000 customer accounts and that significantly less than 1% of those customers have called to inquire about their December gas bills. It is most likely that these residents who have called are high or significantly higher gas consumption users (> 44 therms) so combined with higher gas prices, their increase is predictably larger than the average increase seen by other customers.

The December 2018 spike was a one time, unforeseen and unpredictable increase so there was no viable means of communicating this in advance. ER's monthly prices are posted on the department website and customers can view them at the beginning of every month. Utilizing their historical gas usage evident on their monthly bills, customers are able to estimate what their upcoming monthly bill will be using the current gas prices posted.

ER has put a fact sheet on the front page of their website, worked with the Press-Telegram and other outlets to get stories out in the paper about this regional issue, did social media, did a press alert to the City Council, and briefed the call center so anyone calling would get the appropriate information, including options of what can be done if there are financial burdens as a result of this. These items are attached to this letter.

ER call center staff have assisted numerous impacted customers during this difficult period through a variety of means. Several customers have been enrolled into payment arrangement plans, which distribute the increased costs over several months. In addition to payment arrangement plans, staff have also promoted the Level Pay Plan option under which a year's worth of bill amounts are averaged over 12 months, which generally results in lower bill payments during the winter months.

Next Steps

Though price fluctuations of this magnitude are rare, ER will continue to work to inform its customers in advance, when possible, of pending price spikes utilizing bill messaging, website, and social media postings. ER is exploring solutions that will utilize data collected and managed by the utility billing and smart meter systems to actively alert customers proactively of predetermined increases over average monthly bills.

ER is also developing a communications campaign for the next winter season to roll out in September 2019. The campaign will encourage everyone to keep their thermostats at 68°F, conserve where they can, and sign up for level pay.

There is no way to predict what next winter gas prices will do but planning in advance for a similar price spike evidenced this year, even if it does not come to fruition, will still benefit our residents and businesses.

Should you have any questions, please contact me at (562) 570-2001 or Bob.Dowell@longbeach.gov.

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CITY OF
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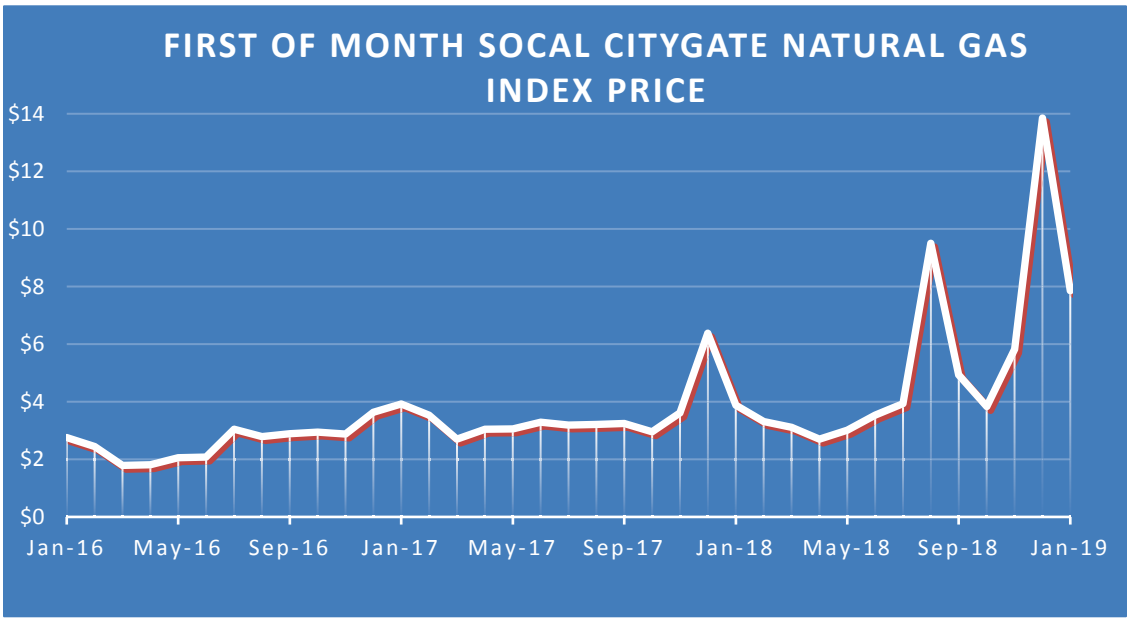
M E M O R A N D U M

ENERGY RESOURCES

The Long Beach Energy Resources Department (ER) is a wholesale transmission customer of the Southern California Gas Company (SoCalGas). What that means is that ER purchases and imports out of state natural gas that is sold to our customers through the SoCalGas pipeline system. This is the only means available to ER to purchase natural gas for delivery to the residents and businesses in the City of Long Beach. The wholesale cost of the natural gas purchased at the SoCal CityGate hub is passed directly on to ER's customers with absolutely no added costs. ER has not increased its service charge or its transmission gas rates in over two years.

Recent dramatic increases in gas wholesale commodity prices have led to significant increases for many ER natural gas customers. The current 2018-19 winter season has experienced greater price fluctuations due primarily to ongoing pipeline maintenance and storage issues on the SoCalGas system which has caused sharp increases in the wholesale cost of natural gas at the SoCal CityGate hub. The factors contributing to the price fluctuations include:

- Several SoCalGas pipelines operating at reduced or limited capacity due to planned and unplanned maintenance activities.
- Decreased availability from SoCalGas underground gas storage inventories due to operating limitations placed on its storage facilities as a result of the 2015 gas leak at the Aliso Canyon storage facility. Storage inventories this 2018-19 winter heating season are at the lowest levels in more than a decade.
- A recent explosion on a pipeline that delivers gas to Northern California has increased demand resulting in Northern California utilities competing for gas in the Southern California market.



As a result of these factors, wholesale natural gas prices have increased. The chart above illustrates the increases peaking in December 2018 ($13.85/Dth). January and February 2019 price continue fall back.

In general, a monthly gas bill is based on two factors, (1) the cost of gas and (2) the amount of gas used. Cooler than average December 2018 temperatures drove an increase in the amount of gas used. The increased usage combined with the increased cost of gas drove the average residential customer increase in December 2018 to between $25 and $36 greater than in December 2017. Individual accounts varied.

Though price fluctuations of this magnitude are rare, The Energy Resources Department will work to inform its customers in advance of pending prices spikes utilizing bill messaging, website and social media postings.

The Energy Resources Department stands ready to assist its customers through this difficult period. Department Call Center staff can provide **Payment Arrangement** over several months. In addition to payment arrangement plans, the Department also offers a **Level Pay Plans** in which a year's worth of bill are averaged over 12 months, which in most cases lowers bill payments during winter months.

ER also offers assistance for qualified households. Please visit our website at:
http://longbeach.gov/UtilityServices/Billing-and-Payments/Utility-Assistance/

For energy savings tips, customers are asked to visit:
http://longbeach.gov/globalassets/utility-services/media-library/documents/energy-saving-tips

Should you have any questions, please contact Tony Foster, Manager of Business Operations, at (562) 570-2015.

LOCAL NEWS

Here's why Long Beach gas bills spiked last month

Mark Ellefson, owner of Prodigy Plumbing, prepares a new water heater as he replaces a water heater at a residence in Long Beach, CA. Saturday August 2, 2014. (Thomas R. Cordova/Press-Telegram/Daily Breeze)

By HAYLEY MUNGUIA | hmunguia@scng.com | Long Beach Press-Telegram

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Long Beach residents recently had a rude awakening when they opened their gas bills: prices had more than doubled from November to December.

One such resident was Chris Lee, whose monthly bill was up from about $32 to $49 — despite his and his wife's attempts to use less gas to cut their costs.

"The gas price is so high that my wife and I don't really use our wall heaters in our old apartment. We use electrical heaters," he said. "Paying $50 when we barely use any heat at all doesn't seem justifiable."

The price surge was the result of several factors out of the city's control, including a pipeline rupture and gas leaks, that cut down on supply while causing demand to spike. The increase should be temporary and, officials have said, prices are already returning to normal. But in the meantime, customers will have to bear the brunt of the price increases — and some aren't happy.

Lee was one of many who called Long Beach's Energy Resources Department to complain, though the department was ready for the blow-back.

"We anticipated customers concerns and calls," said Tony Foster, the department's business operations manager. "We did notify our call center. Our call center was fully briefed" on the issue.

Foster said he sympathized with customers and described the series of events that led to the price hike as both "an anomaly" and "a perfect storm."

What caused the surge

Long Beach relies on the Southern California Gas Company pipelines to bring gas into the area, and those "had a number of planned and unplanned outages," Foster said.

"Those unplanned outages really decreased the amount of gas we can receive," he said.

The city has other ways to bring in gas during such outages.

One of those methods had been drawing from Aliso Canyon, where Long Beach had some gas stored away. But a months-long gas leak at that facility — which led to a $119.5 million settlement agreement from Southern California Gas Company — meant Aliso "was effectively shut down," Foster said.

"We are unable to withdraw from Aliso," he added.

Yet another factor in the "perfect storm" was when a pipeline in Canada, which supplies gas to to Northern California, ruptured. The cities served by that pipeline turned to Southern California to make up the difference, putting more of a squeeze on the local market.

"So all of this increased demand, coupled with decreased supply — it's economics 101, which drove up the price," Foster said.

What happens next

City data show that January gas prices are down a little more than 40 percent from December's peak, but they're still well above previous months.

"That's still an effect from the perfect storm in December," Foster said. "Gas is still constrained coming into our system, so those factors are still there, but they are not nearly as dramatic as what occurred in December, and they are trending back to normal."

He added that he expects the prices to continue to recede back to a more normal rate in the coming months.

"We work very hard to keep the price stabilized for our customers," Foster said. "We do a great deal to keep the price level and steady."

But Long Beach doesn't have many tools to protect customers against the price effects of unplanned outages.

"We're sort of reliant upon getting gas to us through the Southern California Gas Company system," he said. "There's no other way to do it unless we build our own pipeline to the border, which would not be very cost-effective."

Where residents stand

For Lee, it's hard to simply accept that he has no option but to pay the Energy Resources Department a price that the department in turn says it doesn't control.

"We can't protest as citizens by refusing to pay, because the company will just shut off our gas," he said. "It's use gas or don't.

"The only way to not use gas," Lee added, "is to shut off my water heaters and not cook."

Lee said that while he understands some of these issues may be inevitable, Long Beach should either proactively notify its customers ahead of time about large spikes or provide some type of reimbursement.

"I'm sure people (in the Energy Resources Department) do work in good faith to negotiate as laws demand," he said. "But in this instance, such a spike is unreasonable, and at the very least I think we should be reimbursed."

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Hayley Munguia

Hayley Munguia covers Long Beach City Hall for the Southern California News Group. She previously worked as a data reporter for FiveThirtyEight and has written for The Week, the Jerusalem Post and the Austin American-Statesman, among other publications. She's originally from Austin, graduated from NYU and will pet a dog any chance she gets.

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