



Enel X Insights

February 2020 California Monthly Market Commentary

California

Pacific Gas & Electric: A Year In Review

12 months have passed since Pacific Gas and Electric (PG&E) filed chapter 11 bankruptcy in the face of enormous wildfire liabilities. Since the declaration, California's largest utility has faced an onslaught of criticism from state regulators, rate payers, and investors. A new headline each week on the ineptitude of leadership, power shut offs, government acquisition, and the murky path to solvency resulted in PG&E being the most dominant California energy story in 2019. The company has been able to navigate many challenges in 2019, yet several obstacles remain in 2020 with the clock counting down to a June 30 deadline. Outlined below are the major steps taken by the utility and regulators, along with those yet to come, for PG&E to exit bankruptcy and solidify the future of California's publicly owned utilities.

2019 – A Year in Review

- **Wildfire Liabilities**
 - PG&E was found responsible for igniting multiple wildfires in its service territory in 2017 and 2018. The billions of dollars in liabilities forced the company into bankruptcy in January 2019. By year end, the utility reached agreements with victims, insurers, and regulators totaling “in excess of \$25 billion” according to a press release on Jan 31, 2020. In the same press release the company highlighted that the plan of reorganization will be “rate neutral on average to customers,” but this remains to be seen. The finalization of the settlements and approval by the court will enable PG&E to stay on track to exit bankruptcy.
- **Assembly Bill (AB) 1054**
 - Passed in July 2019, AB 1054 establishes two wildfire liabilities funds for utilities, valued at a cumulative \$21 billion. Partially funded by the existing “DWR Bond Charge” that was originally established after the California Electricity Crisis, the bill will provide a financial backstop for the state's publicly owned utilities when they face liabilities for wildfire damages in the future. Currently, the “DWR Bond Charge” rate is \$0.00525/kWh, and for a small commercial/industrial customer with 1,000,000 kWh annual usage, this charge amounts to \$52,500 per year. The second \$10.5 billion will be funded through contributions by the participating utilities proportionate to their size. Southern California Edison (SCE) and San Diego Gas and Electric (SDG&E) were eligible for participation immediately and have opted in while PG&E is required to exit bankruptcy by June 30, 2020 to gain admittance. This constrained timeline put significant pressure on PG&E to exit bankruptcy and gain approval from the California Public Utilities Commission in the next 4 months or face immense liability risk in years to come.
- **Public Safety Power Shutoffs**
 - In the fall of 2019, PG&E continued to wade through bankruptcy proceedings while wildfire risk was elevated throughout the west. High winds and dry temperatures forced all three investor-owned utilities in the state to shut off power to customers in the interest of public safety. PG&E cut power three separate times in the month of October and once in November. Hundreds of thousands of people were impacted in Northern California and the fallout resulted in severe scrutiny by customers and regulators.

2020 Outlook

- **June 30, 2020 Deadline**

- With expectations that wildfire risk will increase in years to come due to climate change, it is vital that PG&E obtain the financial support that is provided by AB 1054. This requires the utility to exit bankruptcy with a CPUC-approved reorganization plan by June 30, 2020, a time frame which has significantly weakened their negotiating power. The CPUC's approval comes with heavy influence from state regulators. California Governor Gavin Newsome has used AB 1054 as leverage against PG&E, threatening a state takeover of the utility if they do not comply with the state's conditions, including a complete executive board overhaul, accelerated commitments to wildfire safety, continued investment in renewable energy, and neutral cost impact on the rate base.

- **Potential for restructure**

- PG&E in the past has attempted to limit the influence of the Governor and other state regulators on its reorganization plan, however in its [refiled plan of organization](#) submitted January 31, the company appears to have gone out of its way to comply with the demands. A few of the items in the plan include the following:
 - “Refreshing the Board of Directors,” for both the utility and its parent company PG&E Corporation.
 - “Establishing a newly expanded role of Chief Risk Officer.”
 - “Establishing a newly expanded role of Chief Safety Officer”
 - “Reforming executive compensation to further tie it to safety performance.”

- **2020 Fire Season**

- “What happened last year is unacceptable, it cannot happen again,” said Gavin Newsome on January 29 (as reported by [SF Chronicle](#)) in reference to the power shut offs that affected hundreds of thousands in 2019. In October, PG&E CEO Bill Johnson said that it could take up to 10 years before the utility can improve their systems to the point of not needing power shutoffs. Rate payers and regulators alike are calling for increased scrutiny and new regulations to decrease the scale and duration of shut offs. California Senate Bill 378 passed the senate on January 27, 2020 and would require utilities to pay severe fines if their outages were deemed unnecessary by the CPUC. Moody's Investor services reported that the \$250,000 fine per 50,000 people per hour of outage would have resulted in estimated fines of \$450 million for PG&E last year. Moody's also reported that the passing of the bill would create additional credit risk for investor-owned utilities in the state in addition to the high level of wildfire risk that PG&E, SCE, and SDG&E are currently grappling with.

PG&E will continue to lead headlines in 2020. While the uncertainty surrounding the company's future has lessened since its bankruptcy filing 12 months ago, there are still hurdles that it must overcome to remain intact. Entering 2020, the CPUC-approved rate increases for PG&E to address items related to wildfire safety, and while the company has committed to a rate-neutral plan of organization it is apparent that the regulatory requirements for utilities in California will require increased rates beyond the continuation of the DWR Bond Charge.

Regional Electricity Pricing Update

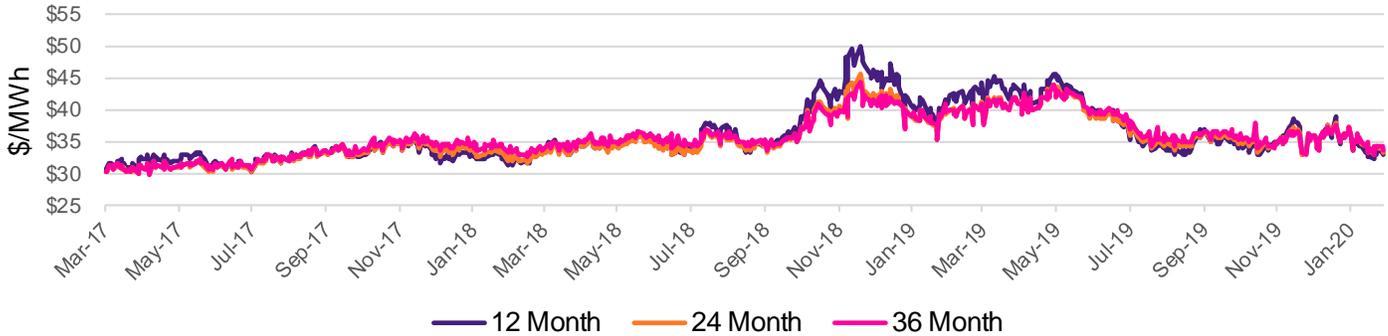
LMP prices in both Northern California (NP15) and Southern California (SP15) decreased month-over-month roughly 22%. Average monthly spot prices for NP15 in January were 11% below the 5-year average and 24% below this time last year. On a forward basis, the NP15 12-month forward strip fell 5.3%, down \$1.3/MWh through the month. Similarly, SP15 12-month forward strip prices finished the month of January 5.6% lower. Prices have stayed flat in the first week of February, with the NP15 and SP15 12-month strips last trading at \$32.94/MWh and \$33.58/MWh respectively. The current trend of natural gas storage surplus nationally has not contributed to the Pacific Region. While natural gas storage is no longer teetering on 5-year lows, a forecasted cold front moving through the region has the potential to send spot prices higher.

Average Monthly Day Ahead LMP - NP15							
	2014	2015	2016	2017	2018	2019	2020
Jan	\$46.07	\$33.40	\$28.54	\$34.90	\$32.94	\$41.09	\$31.19
Feb	\$61.99	\$30.71	\$24.01	\$29.23	\$30.47	\$75.58	
Mar	\$47.63	\$30.72	\$19.60	\$22.12	\$30.06	\$36.63	
Apr	\$47.48	\$32.27	\$21.23	\$22.13	\$24.91	\$22.25	
May	\$46.67	\$32.69	\$20.76	\$29.28	\$20.75	\$18.46	
Jun	\$45.42	\$34.64	\$28.09	\$33.12	\$28.14	\$22.94	
Jul	\$47.23	\$35.54	\$32.80	\$35.84	\$54.89	\$30.28	
Aug	\$46.49	\$34.32	\$34.85	\$45.20	\$49.84	\$31.82	
Sep	\$45.45	\$34.46	\$34.66	\$39.72	\$33.42	\$34.55	
Oct	\$44.73	\$32.49	\$34.03	\$41.19	\$43.74	\$36.32	
Nov	\$45.12	\$29.41	\$30.17	\$36.27	\$52.40	\$41.51	
Dec	\$37.52	\$28.65	\$36.60	\$34.22	\$54.17	\$39.82	
Avg.	\$46.81	\$32.44	\$28.78	\$33.60	\$37.98	\$35.94	\$31.19

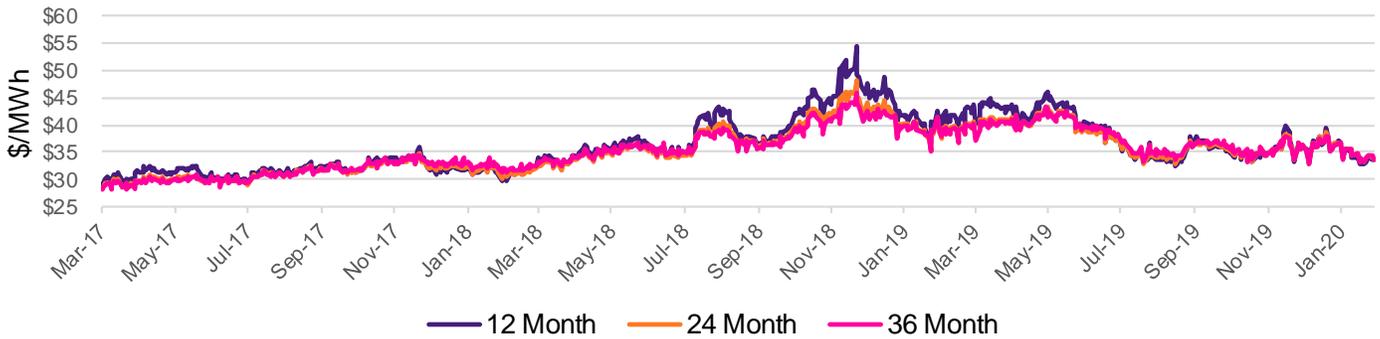
Average Monthly Day Ahead LMP - SP15							
	2014	2015	2016	2017	2018	2019	2020
Jan	\$46.47	\$33.51	\$28.18	\$33.55	\$34.37	\$39.96	\$31.22
Feb	\$61.70	\$30.05	\$22.99	\$26.39	\$34.24	\$70.89	
Mar	\$47.60	\$29.00	\$18.05	\$21.75	\$30.53	\$36.02	
Apr	\$44.71	\$27.93	\$18.44	\$24.80	\$24.88	\$23.52	
May	\$45.85	\$27.21	\$21.01	\$28.35	\$21.65	\$18.43	
Jun	\$45.25	\$33.94	\$29.95	\$32.80	\$28.17	\$23.07	
Jul	\$47.75	\$36.02	\$34.29	\$36.70	\$75.43	\$31.52	
Aug	\$45.89	\$35.69	\$34.93	\$45.35	\$69.73	\$32.84	
Sep	\$46.65	\$34.76	\$32.89	\$38.43	\$35.33	\$36.08	
Oct	\$45.17	\$32.62	\$33.06	\$41.09	\$38.88	\$34.36	
Nov	\$44.98	\$28.86	\$27.79	\$39.51	\$51.59	\$42.03	
Dec	\$37.87	\$28.09	\$33.95	\$39.12	\$52.93	\$40.24	
Avg.	\$46.66	\$31.47	\$27.96	\$33.99	\$41.48	\$35.75	\$31.22



NP-15 ATC Forward Strip



SP-15 ATC Forward Strip



Regional Natural Gas Pricing Update

Natural gas spot prices in both Northern and Southern California declined significantly month-over-month in January, falling 20% and 12.2% on average respectively. Pacific storage levels have continued to stay below the 5-year average. Lessened restrictions on withdrawal from Aliso Canyon storage facility in Southern California will decrease volatility this winter with significantly below-average temperatures forecasted for the remainder of February.

CA HUB	Month over Month			Year over Year	
	Jan-20	Dec-19	MoM % Chg	Jan-19	YoY % Chg
PGE Gate	4.336	5.423	-20.0%	3.740	15.9%
Socal City Gate	2.958	3.370	-12.2%	4.912	-39.8%
Hub Average	3.647	4.396	-17.0%	4.326	-15.7%

For questions or further discussion about these topics, please contact your Enel X Energy Advisor or talk to an [Energy Sourcing Expert](#).