

Agenda Report

November 6, 2006

To: City Council
Through: Municipal Services Committee

From: City Manager

Subject: INCREASE THE CITY MANAGER'S AUTHORITY TO ENTER INTO CONTRACTS WITH MINNESOTA METHANE FROM 4 MEGAWATTS TO A TOTAL OF 9.5 MEGAWATTS

RECOMMENDATION:

It is recommended that the City Council increase the City Manager's authority to enter into contracts with MM West Covina LLC and MM Tulare Energy LLC (Minnesota Methane) from 4 Megawatts ("MW") to a total of 9.5 MW for the purchase of renewable energy from landfill gas generation. A separate contract will be signed for each of the three projects that will supply the renewable energy from Minnesota Methane's facilities in West Covina and Tulare, California.

These contracts are exempt from competitive bidding pursuant to City Charter Section 1002(F) contracts for professional or unique services.

BACKGROUND:

The City Council approved a 4 MW purchase from Minnesota Methane on July 31, 2006. Since that time, the other participant in this project dropped out of negotiations with Minnesota Methane and there is an opportunity for Pasadena to purchase an additional 5.5 MW from Minnesota Methane. This additional 5.5 MW would bring the contract total to 9.5 MW from two Minnesota Methane projects (West Covina and Tulare).

The City Council adopted a renewable portfolio standard ("RPS") for Pasadena Water and Power ("PWP") on October 13, 2003. The RPS calls for the addition of cost-effective renewable resources to meet 10% of Pasadena's retail electric energy needs by 2010, and 20% by 2017, through a combination of long-term and short-term power purchases.

This resource is a qualified California renewable resource, and the proposed contracts are in compliance with the RPS. As a result of purchasing this

additional 5.5 MW of generation capability, Pasadena's renewable energy portfolio would increase by approximately 43,000MWh per year, representing about 3.7% of retail energy sales in 2010. Because of its 10 year term, this contract will not contribute to meeting Pasadena's 2017 RPS goal.

As shown in Table 1, Pasadena's renewable resources are projected to equal approximately 14.1% of forecast retail energy sales in calendar year 2007 and 18.8% in 2010, including energy from Hoover Hydroelectric facility and the proposed increase in the Minnesota Methane contract. This also assumes that the Ameresco Landfill Generator project is completed and starts production in late 2007, and that the second phase of Ormat Geothermal is completed and starts production in 2008. Under this scenario, Pasadena will be very close to meeting its 2010 goal, assuming that Hoover continues to be counted. The proposed Minnesota Methane increase provides a cushion of about 3.5% of retail sales. The Calendar Year 2010 "Adverse" column assumes neither of these projects are completed and that the proposed Minnesota Methane increase is not approved.

In all cases, excluding Hoover energy reduces the renewable portfolio by about 5.5% of forecast 2010 retail sales.

Table 1: Renewable Energy Portfolio Summary (GWh)

Supply Resource	CY 2007 (Projected)	CY 2010 (Projected)	CY 2010 (Adverse)
Hoover Hydroelectric	55	55	55
Azusa Hydroelectric	5	5	5
PPM Wind	18	18	18
Ormat Geothermal	12	25	12
Minnesota Methane (Current)	32	32	32
Minnesota Methane (Increase)	43	43	0
Ameresco Land Fill Gas	3	53	0
Total Renewable	168	230	122
Retail Sales	1,190	1,226	1,226
% Renewable	14.1%	18.8%	9.9%
% Renewable w/o Hoover*	9.5%	14.3%	5.4%

** Note that while the Pasadena's RPS counts hydroelectric energy from Hoover as renewable, there is significant debate regarding whether large hydroelectric facilities should be counted.*

Project Selection Process

In September 2005, Southern California Public Power Authority (SCPPA) issued a request for proposals (RFP) for renewable energy projects on behalf of its members, including Pasadena. A total of 12 proposals were received for various types of renewable energy projects including wind, solar, geothermal, biomass, and landfill gas. The proposals were then reviewed by the SCPPA Resource Planning Committee.

This Project was selected by the Committee due to competitive pricing, appropriate size that matches member interest, proven plant operations, location and energy deliverability, and the relatively low risk profile of a volumetric contract that has no associated fixed charges. Unlike other renewable contracts approved to meet Pasadena's RPS, there is no development risk associated with this facility, which is already in operation with a proven track record.

Initially, Pasadena was sharing the output of these facilities with one other SCPPA member. If the proposed increase to 9.5 MW of capacity is approved, Pasadena will receive all of the energy generated by these facilities.

Power Purchase Agreement Summary

Source: 8MW Landfill Gas electric generating facility located at the BBK Landfill in West Covina, California, developed, owned and operated by Minnesota Methane West Covina ("MM West Covina") and 1.5MW Landfill Gas electric generating facility located at the Visalia Landfill in Tulare, California developed, owned and operated by Minnesota Methane Tulare Energy ("MM Tulare").

Energy: Actual metered output from PWP's contract share (9.5MWs) of the Projects, or approximately 75,000 MWh per year

Capacity: Capacity rights for ISO resource adequacy are granted to the Scheduling Coordinator (SC). PWP will initially be the SC, but Minnesota Methane retains the right to self-provide these services with a one-year notice.

Delivery: Delivered unit contingent firm to the point at which Southern California Edison Company ("SCE") delivers power from the Project to the ISO controlled grid, which point is, as of the Effective Date, the Walnut Substation 220 kV bus for the West Covina project and Rector Substation 220 KV bus for the Tulare project

Term: 10 years

Price: Initial price of \$63.50/MWh for energy produced with a 3.1% per year escalation over the term plus costs associated with the transmission and settlements in the ISO system.

Project Economics

Energy produced by the Project will be sold to SCPPA at an initial energy price of \$63.50/MWh or 6.350¢/kWh then escalated at 3.1% per year over the term. In addition to this energy charge, PWP will incur transmission and ISO settlement charges and fees. These fees, which are typical for any generation project connected to the ISO grid, are expected to be less than \$2/MWh or 0.2¢/kWh in total. The associated capacity rights may have value as a capacity market evolves in California but are not factored into the project economics.

The energy price is competitive with current and future market prices for renewable energy. The fixed 3.1% escalator over the term of the contract will contribute to PWP's rate stability objectives by supplying a known price over the term of the contract.

At the expected 9.5MW, PWP's annual cost for the expected average output of 75,000MWh will range from \$4.8 million in 2007 to \$6.3 million in 2016. Based on a combination of current market prices and the long-term market forecast provided by Global Energy Decisions, Inc. that Pasadena uses for stranded investment calculations, the Project cost is expected to be below market through 2008, and average \$874,000 per year higher than non-renewable local spot market energy sources over the ten year contract, resulting in a system-wide average energy rate impact of approximately 0.07¢/kwh over the life of the agreement. This is commonly known as the "premium" paid for the renewable resource.

Renewable energy is an authorized use of Public Benefits Charge ("PBC") funds collected from all customers pursuant to Pasadena's RPS and Assembly Bill 1890 (specifically, Public Utilities Code Section 385). To the extent such funds become available in the future, Pasadena may opt to offset some or all of the cost premium for this resource by applying revenues from PBC charges. Additionally, Pasadena may offset cost premiums associated with the Project by applying premium revenues collected from any customers that participate in Pasadena's green-rate program.

FISCAL IMPACT:

At the expected 9.5 MW amount, this renewable resource Power Purchase Agreement is expected to cost an average of \$874,000 per year more than generic non-renewable spot market power purchases, resulting in a rate premium (spread across all Pasadena customers) of approximately 0.07¢/kwh during the life of the agreement. All costs (and credits) associated with these Contracts will be recovered in the Energy Charge component of Pasadena's electric energy rates, and will have no impact on the General Fund.

Respectfully submitted,



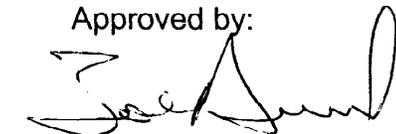
CYNTHIA J. KURTZ
City Manager

Prepared by:



Robert Sherick
Director – Power Supply

Approved by:



for PHYLLIS E. CURRIE
General Manager

Attachment C

Disclosure Pursuant to the
City of Pasadena Taxpayer Protection Amendment of 2000
Pasadena City Charter, Article WV

Contractor hereby discloses its trustees, directors, partners, officers, and those with more than a 10% equity, participation, or revenue interest in Contractor, as follows:
(If printing, please print legibly. Use additional sheets as necessary.)

1. Contractor Name:

Minnesota Methane LLC

2. Name(s) of trustees, directors, partners, officers of Contractor:

3. Names of those with more than a 10% equity, participation or revenue interest in Contractor:

TD Banknorth, Inc.

Fortistar Methane LLC

Prepared by: Trond Aschehoug

Title: Sr. Vice President & General Manager

Date: October 25, 2006

For office use only

Contract No.