

# Agenda Report

October 22, 2007

**To:** City Council

**From:** City Manager

**Subject:** AMEND RESOLUTION NUMBERS 4184 AND 4184-1, TO ADD AUTHORITY TO TRANSACT PURCHASES, SALES, OR EXCHANGES OF ELECTRIC GENERATION AND TRANSMISSION CAPACITY FOR PLANNING PURPOSES SUCH AS RESOURCE ADEQUACY

**RECOMMENDATION:**

It is recommended that the City Council amend Resolution Numbers 4184 and 4184-1, that authorize "for the purchase, sale, exchange or storage of any combination thereof of electrical energy or capacity or both and for the transmission of electrical energy or capacity or both" to include transactions for electric generation and transmission capacity for planning purposes, such as system or local capacity resource adequacy ("RA") requirements.

**EXECUTIVE SUMMARY:**

Resolution Numbers 4184 and 4184-1 authorize the General Manager of the Water and Power Department to execute contracts "for the purchase, sale, exchange or storage of any combination thereof of electrical energy or capacity or both and for the transmission of electrical energy or capacity or both" without competitive bidding. Historically, this authorization has been applied for transactions to buy and sell capacity and energy actually used by, and delivered to, the buyer for the purpose of meeting electrical loads. The concept of buying and selling capacity solely for planning purposes such as RA is relatively new and, prior to the recent sale to the City of Azusa, has not been previously applied in Pasadena. The recommended amendment to Resolution Numbers 4184 and 4184-1 will extend this authority to include generation and transmission capacity transactions for resource adequacy purposes, such as meeting RA and LCR requirements.

**BACKGROUND:**

In the aftermath of the California energy crisis, the state regulatory agencies and the legislature have developed the means to prevent similar crises in the future. As a result, the California Independent System Operator ("CAISO") adopted regulations requiring its participants to demonstrate adequate electric generation resources and associated transmission capacities for planning purposes, commonly referred to as an RA requirement. The CAISO has developed two tiers of RA requirements: (i) System RA requirements to ensure sufficient resources exist to meet CAISO electric load without regard to location, provided that transmission to the CAISO grid is demonstrated; and, (ii) local capacity resource requirements ("LCR") to ensure that sufficient resources are located within specific subsets of the CAISO grid to manage transmission constraints and contingencies.

While the California Public Utilities Commission ("CPUC") determines system RA requirements for Load Serving Entities ("LSEs") under their jurisdiction, Municipal LSE's have the flexibility to develop their own system RA requirements. In November 2001, the City Council adopted PWP's 2001 Strategic Resource Plan ("SRP") which set PWP's planning reserve margins equal to 15% of forecast electric load plus transmission losses. This fulfills PWP system RA guideline for CAISO compliance purpose. The SRP also calls for PWP to maintain 150 MW to 200 MW of local generation capacity to help ensure reliable electric service in Pasadena. The CAISO determines each LSE's respective LCR requirement. PWP's LCR is 165 MW for each month of the year 2008.

Each LSE must demonstrate compliance with RA requirements by reporting their respective forecast peak electric loads and qualifying RA resources (including transmission paths) to the CAISO. Municipal LSE's must report their RA compliance by September 30<sup>th</sup> for the following year, while those LSE's under the jurisdiction of the CPUC must report by October 31<sup>st</sup>. In addition to the annual report, LSE's must update their system RA compliance reports monthly.

The CAISO has authority to procure LCR and/or system RA on a behalf of any LSE that does not show compliance with their respective RA requirement. The CAISO would recover the cost of any such "backstop procurement" from those same LSE's that did not demonstrate sufficient RA. Given the uncertainty of potential costs, LSE's have a substantial incentive to meet their RA requirement.

For year 2008, PWP has excess LCR, system RA, and transmission for system RA, which it could sell to other LSE's in the CAISO. On September 24, 2007 the City Council authorized the City Manager to enter into an agreement with the City of Azusa for the sale of excess generation capacity for local RA purposes. While the deadline for conducting and reporting RA transactions for 2008 is October 31, 2007, PWP has identified at least one opportunity to make a sale of RA

capacity and may identify additional transactions before the end of the month. The opportunity to consummate such transactions typically arises and expires in a short window of time (e.g., a matter of days). In order to efficiently and expeditiously complete potential future RA transactions, it is requested that the City Council authorize their execution by amending Resolution 4184-1.

Resolution No. 4184 was adopted November 4, 1980 to authorize the General Manager of the Water and Power Department to enter into contracts from time to time for the purchase, sale, exchange, storage or transportation, of any combination thereof, of electrical energy or capacity or both and for the transmission of electrical energy or capacity or both, without public bidding, pursuant to Section 303 and Subsections 1002 (C) and 1002 (H) of the Charter and approving said contracts pursuant to Section 1001 of the Charter. It was amended on April 7, 1981 to grant these contracts a best interest exemption from the Affirmative Action in City Contracting Ordinance pursuant to Subsection 4.09.040 (C). The concept of transactions for RA purposes is new and was most likely not contemplated when Resolution 4184-1 was approved by the Council.

In total, PWP tentatively expects to receive additional wholesale revenues of \$815,500, paid monthly in calendar year 2008, for the contracted and anticipated sales of RA capacity with no known incremental costs. The previously authorized contract with the City of Azusa will yield \$167,500, and a pending deal that will be executed upon authorization is expected to yield additional revenues of \$648,000, for a total of \$815,500 in calendar year 2008. In future years, PWP's excess RA and LCR could yield similar revenues assuming no major changes in PWP's loads, generation and transmission resource capacity, or the market value for RA and LCR capacity.

PWP has not identified any potential extra costs as a result of these sales. There will be no new fuel or operating costs and no known CAISO charges. There will be no reduction in ancillary services or energy revenues from generator operation, nor will PWP lose the ability to use these resources according to its own needs.

By selling only excess LCR capacity that has been certified by the CAISO, PWP will incur no new risks or obligations. To the extent that PWP sells excess capacity for RA purposes, PWP will be obligated to make the associated RA capacity available to CAISO by either scheduling the energy output or bidding the capacity and energy into markets operated by the CAISO.

**FISCAL IMPACT:**

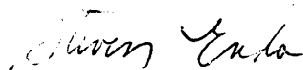
In total, PWP tentatively expects to receive additional wholesale revenues of \$815,500, paid monthly in calendar year 2008, for the contracted and anticipated sales of RA capacity with no known incremental costs. In future years, PWP's excess RA and LCR could yield similar revenues. As with other wholesale sales, 75% of the net proceeds will be used to directly offset the retail Energy Charge and 25% will be retained in the Light and Power Fund.

Respectfully submitted,



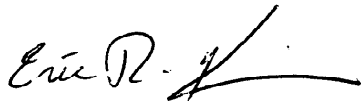
CYNTHIA J. KURTZ  
City Manager

Prepared by:



STEVE ENDO  
Principal Engineer  
Power Supply

Approved by:



PHYLLIS E. CURRIE  
General Manager  
Water and Power Department

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

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA AUTHORIZING THE GENERAL MANAGER OF THE WATER AND POWER DEPARTMENT TO ENTER INTO AGREEMENTS FOR PURCHASES, SALES, EXCHANGES OR STORAGE OF ELECTRICAL ENERGY OR CAPACITY; TRANSMISSION OF ELECTRICAL ENERGY; AND ELECTRIC GENERATION AND TRANSMISSION CAPACITY FOR PLANNING PURPOSES SUCH AS RESOURCE ADEQUACY

WHEREAS, on November 4, 1980, the City Council of the City of Pasadena adopted Resolution No. 4184 whereby the General Manager of the Water and Power Department was authorized to execute electric energy, capacity and transmission contracts; and

WHEREAS, on April 7, 1981, the City Council of the City of Pasadena amended Resolution No. 4184 to grant these contracts a best interest exemption from the Affirmative Action in City Contracting Ordinance pursuant to subsection 4.09.040(C); and

WHEREAS, new markets are developing for the purchase and sale of electric generation and transmission capacity for planning purposes such as resource adequacy that do not involve or require the physical delivery of electrical energy to meet electrical loads:

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Pasadena that Resolution Nos. 4184 and 4184-1 are hereby amended to read in full:

“1. Pursuant to Section 303 and Subsections 1002 (C) and 1002 (H) of the City Charter, the General Manager of the Water and Power Department is hereby

authorized to enter into contracts, without public bidding, for the purchase, sale, exchange or storage of any combination thereof of:

- a. electrical energy or capacity or both;
- b. the transmission of electrical energy or capacity or both; and
- c. electrical generation and transmission capacity for planning purposes including without limitation local capacity resource requirements and system resource adequacy requirements;

all in such amounts as he/she determines to be necessary from time to time to supply City's needs, the contracts authorized hereunder are approved pursuant to Section 1001 of the City Charter, the City Clerk is directed to attest her signature and affix the corporate seal of the City thereto and the Director of Finance be and he hereby is authorized and directed to expend out of the Light and Power Fund in accordance with the terms of the contracts and consistent with the provisions of the budget, the base consideration set forth in said contracts together with such additional amounts, if any, as are provided for pursuant to the contracts. The contracts authorized hereunder are exempt in whole from the requirements of the Affirmative Action in Contracting Ordinance, Chapter 4.09 of the Pasadena Municipal Code."

Adopted at the regular meeting of the City Council of the City of Pasadena on the

\_\_\_\_\_ day of \_\_\_\_\_, 2007, by the following vote:

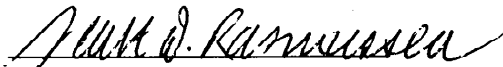
AYES:

NOES:

ABSENT:

ABSTAIN:

APPROVED AS TO FORM:



Scott D. Rasmussen  
Assistant City Attorney