



Agenda Report

October 4, 2010

TO: Honorable Mayor and City Council

THROUGH: Municipal Services Committee (September 28, 2010)

FROM: Water and Power Department

SUBJECT: ADOPT 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, AND EXCHANGES OF UNBUNDLED ENERGY ATTRIBUTES, ALLOWANCES, CREDITS, OR CERTIFICATES, INCLUDING TRANSFERS FROM THE WATER UTILITY TO THE POWER UTILITY IN EXCHANGE FOR FAIR MARKET VALUE

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed resolution is exempt from the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15061 (b) (3);
2. Adopt a resolution to
 - a. Authorize the General Manager of the Water and Power Department to purchase, sell, or exchange electricity environmental attributes; and
 - b. Allow the sale of environmental attributes with a value exceeding \$10,000 between the Water utility and Power utility in accordance with City Charter Section 1404.

EXECUTIVE SUMMARY:

Adoption of the proposed resolution would enable the Pasadena Water and Power (PWP) General Manager to execute contracts for the purchase, sale, or exchange of environmental attributes without competitive bidding as needed to cost effectively meet regulatory requirements and City policy goals. This resolution will also facilitate the transfer of environmental attributes between the Water utility and Power utility pursuant to City Charter Section 1404. Such transfers would be valued at estimated fair market value of the attributes.

The electric utility industry is increasingly governed by federal, state, and local legislative efforts to reduce environmental impacts such as climate change and air pollution. The resultant regulations generally include market-based approaches to

reduce environmental impacts by providing economic incentives for achieving emission reductions. Such programs, commonly known as cap-and-trade or emission offset rules apply to a variety of environmental attributes such as oxides of nitrogen and sulfur; particulate matter; volatile organic compounds; Renewable Energy Credits (REC); carbon credits, permits or allowances; emission offsets; and possibly others.

PWP is committed to real and long-term reduction of environmental impacts while maintaining the reliability of its electrical system in a cost effective manner. Given continually evolving regulatory requirements, physical limitations, and operational and economical constraints, PWP needs the ability to trade environmental attributes in time sensitive marketplaces to meet its regulatory compliance obligations, City Council goals, or maximize economic value of excess holdings.

This resolution will also authorize the PWP General Manager to sell environmental attributes without competitive bidding from the Water utility to the Power utility in exchange for the fair market value of the environmental attributes.

BACKGROUND:

On December 16, 1996, the City Council adopted Resolution #7452 authorizing the General Manager of PWP to buy and sell emissions credits for air emissions of oxides of sulfur and nitrogen from the Department's local generating plants as required to meet air quality regulations. Since then a number of state and local climate initiatives and air quality regulations have been formulated that affect electric utilities. Major initiatives include Renewable Portfolio Standard commonly called RPS (Senate Bills 1038 and 1078 of 2002, 107 and 1250 of 2006, 1036 of 2007, and Governor's Executive Order S-21-09), Emissions Performance Standard (Senate Bill 1368 of 2006); Global Warming Solutions Act of 2006 (Assembly Bill 32); South Coast Air Quality Management District New Source Review and emission offset requirements, and US Environmental Protection Agency's inclusion of Greenhouse Gases (GHG) under the federal Clean Air Act in 2009. Last year, the City Council adopted the 2009 Energy Integrated Resource Plan and revised Renewable Portfolio Standard. As a result PWP is expected to be subject to additional GHG and other air quality rules.

A number of regulatory agencies at the local, state, and federal levels are currently developing GHG-related rules that allow flexible compliance mechanisms including marketable environmental attributes associated with electricity generation. In the last few years there have been unsuccessful legislative efforts to further restrict compliance options and limit local authority. This evolving regulatory uncertainty affecting PWP's electricity generation plants and business practices require PWP to adopt conservative and sustainable energy procurement policies and operational practices to reduce its environmental impact. Short-term requirements, however, are expected to be met through purchasing and selling environmental attributes.

PWP is faced with multiple market challenges such as a limited supply of viable renewable projects with appropriate transmission access, constricted financing, escalating costs, and operational issues related to intermittent wind and solar

resources. These challenges continue to hinder procurement of environmentally friendly resources. As an example, PWP and other California Independent System Operator (CAISO) participants are currently not allowed to import intermittent renewable energy resources, such as wind and solar, into California. Given the uncertainty of commissioning schedules of contracted projects, overall shortage of renewable energy, operational and regulatory constraints, and regulatory import prohibitions, PWP will need to employ a variety of strategies to meet its environmental goals. The ability to procure environmental attributes, as needed, would provide a cost-effective means to meet regulatory obligations, the City's goals and Green Rate customers' electric demand. The trading markets for environmental attributes are time-sensitive. PWP's General Manager will require flexibility to execute contracts quickly.

The Water utility owns various properties upon which renewable energy generation projects can potentially be built. Generating renewable power on these properties would result in electricity-related environmental attributes such as RECs which the Water utility could sell to the Power utility or other third parties. This would create an opportunity for a new revenue stream for the Water utility while supporting the Power utility's efforts to meet its RPS goals. It would be in the City's interest to reduce administrative costs for transactions between the Water and Power utilities which exceed \$10,000 by authorizing the General Manager of PWP to execute such transactions without competitive bidding.

COUNCIL POLICY CONSIDERATION

The proposed resolution is consistent with the City's Urban Accords Goals with respect to renewable energy and GHG emission reduction goals, the General Plan Energy Element, the City Council's Strategic Planning Goals, and the 2009 Power Integrated Resource Plan. It will provide a mechanism to help PWP achieve regulatory compliance as well as City Council goals in a cost-effective manner.

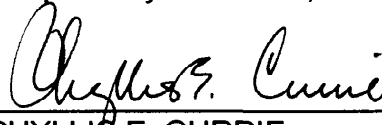
ENVIRONMENTAL ANALYSIS:

The resolution has been reviewed for compliance with the California Environmental Quality Act (CEQA) and is exempt per Section 15061 (b) (3). The resolution is covered by the general rule that CEQA only applies to projects that have the potential for causing a significant effect on the environment. The proposed resolution is an administrative function and will not cause a change in the environment.

FISCAL IMPACT:

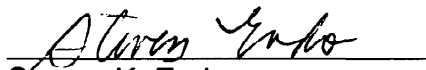
While it is not possible to estimate the quantity or value of environmental attributes that may be purchased, sold, or transferred, PWP anticipates that the use of such trades would generally be limited to covering short-term compliance gaps when other alternatives are not available or are more costly. Costs and revenues from trading environmental attributes for the Power utility will be debited or credited into the Energy Charge component of Pasadena's electric energy rates. Any revenues generated for the Water system through the sales of RECs to the Power utility or other third parties will be considered non-operating revenue for the Water utility.

Respectfully submitted,



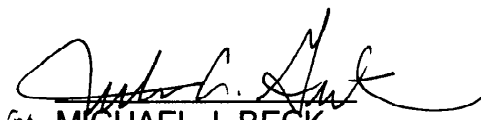
PHYLLIS E. CURRIE
General Manager
Water and Power Department

Prepared by:



Steven K. Endo
Principal Engineer

Approved by:



for MICHAEL J. BECK
City Manager

Attachments:

Attachment A – Resolution

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, AND EXCHANGES OF ENVIRONMENTAL ATTRIBUTES, ALLOWANCES, CREDITS, CERTIFICATES, AND THE LIKE, INCLUDING TRANSFERS FROM THE WATER UTILITY TO THE POWER UTILITY IN EXCHANGE FOR FAIR MARKET VALUE

WHEREAS, on March 16, 2009, the City Council of the City of Pasadena approved the Electric Integrated Resource Plan and upgraded and revised the Renewable Portfolio Standard ("RPS") to include the use of Renewable Energy Certificates ("Credits"), the environmental attributes for green energy, as a means of meeting the RPS;

WHEREAS, reliable, cost effective, timely, and environmentally friendly power deliveries depend upon the ability of the City's electric utility to utilize environmental attributes as defined by present and future environmental regulations and markets;

WHEREAS, Charter Section 1404 authorizes the City Council by resolution to transfer personal property exceeding \$10,000 in value between the water and power utilities; and

WHEREAS, the City's water utility from time to time may obtain environmental attributes useful to the operations of the City's power utility:

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Pasadena that:

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, for the purpose of meeting:
 - a) the City of Pasadena's RPS requirements; and
 - b) present and future environmental compliance obligations of the City's electric utility;to enter into contracts, without competitive bidding, for the purchase, sale, exchange, storage, and other transfers, or any combination thereof, in such amounts as he/she determines to be necessary from time to time to supply City's needs for:
 - a) environmental attributes such as Credits, green tags, carbon credits, and the like, or any other environmental attributes as may be defined in the future; and
 - b) carbon-related permits, credits, allowances, certificates, offsets and similar instruments.
2. Pursuant to City Charter Section 1404, the City's water utility is hereby authorized to transfer the environmental attributes as set forth above to the power utility in exchange for fair market value as determined by the General Manager of those utilities.
3. 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 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.

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

_____ day of _____, 2010, by the

following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

APPROVED AS TO FORM:



Scott D. Rasmussen
Assistant City Attorney