

# Agenda Report

July 30, 2012

**TO:** Honorable Mayor and City Council

**THROUGH:** Municipal Services Committee (July 24, 2012)

**FROM:** Water and Power Department

**SUBJECT: ADOPT A RESOLUTION THAT AUTHORIZES THE CITY MANAGER OR GENERAL MANAGER OF THE WATER AND POWER DEPARTMENT TO EXECUTE AGREEMENTS WITH THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR ("CAISO") AS DESCRIBED HEREIN IN ORDER TO MAINTAIN AND OPTIMIZE PARTICIPATION IN THE CAISO MARKETS**

## **RECOMMENDATION:**

It is recommended that the City Council:

1. Find that the proposed action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b)(3) (General Rule);
2. Adopt a resolution that authorizes the City Manager or General Manager of the Water and Power Department ("PWP") to execute agreements with the CAISO as described herein in order to maintain and optimize participation in the CAISO markets.

## **MUNICIPAL SERVICES COMMITTEE RECOMMENDATION:**

On July 24, 2012, the Municipal Services Committee recommended that the City Council adopt the proposed resolution.

## **EXECUTIVE SUMMARY:**

The CAISO provides a number of energy market services that are necessary for PWP to reliably and cost-effectively deliver electrical energy service to its customers and meet various operational and regulatory requirements. The CAISO provides these services pursuant to agreements with the City of Pasadena that are governed by the Federal Energy Regulatory Commission ("FERC"). Over the years, the City Council has

## Adopt Resolution to Authorize Signing Contracts with the CAISO

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granted authority for the City Manager to sign certain new or amended contracts, and for the PWP General Manager to sign other contracts with the CAISO and conduct various types of transactions in CAISO-operated markets.

The CAISO agreements reference FERC-approved CAISO tariffs that provide detailed terms and conditions of the services. At any time, FERC may order or authorize changes to these agreements and/or tariffs. In order to maintain the benefits of operating within the CAISO-controlled electric grid and fully participate in CAISO markets, PWP must occasionally sign amended, restated, or even new agreements with the CAISO.

The recommended resolution will consolidate and clarify the existing authority of the City Manager or General Manager to:

1. Sign amendments to existing agreements with the CAISO; and,
2. Sign new agreements that replace existing agreements with the CAISO.

In addition, the recommended resolution will authorize the City Manager or General Manager to:

3. Sign new agreements with the CAISO that are required by the CAISO or FERC in order to maintain PWP's ability to participate in CAISO markets as necessary; and,
4. Sign new agreements with the CAISO that are required by the CAISO or FERC to utilize new services offered by the CAISO, provided such services are consistent with transactional authority previously granted by the City Council pursuant to other resolutions. The City Council has previously granted authority for services involving energy, capacity, transmission, natural gas, renewable energy credits, emissions credits, and/or adopted energy risk management policies.

The resolution would not authorize the signing of contracts for energy commodities or services that have not otherwise been authorized by the City Council. Furthermore, if a proposed agreement, revision to an existing agreement, or implementation of a new regulatory command appears detrimental to PWP ratepayers, staff will return to the City Council with appropriate recommendations to address the City's concerns before taking any action.

### **BACKGROUND:**

Since the initial operation of the CAISO in April, 1998, PWP has increasingly relied on the CAISO markets and grid operation services. As a CAISO market participant, PWP has access to a greater variety of spot market energy resources and the ability to sell excess generation capacity. By relying on the CAISO's grid operation services, PWP can rely on the entire grid to back up Pasadena's generation resources. This allows Pasadena to operate its local generation only when necessary to ensure reliability or when it is economical to do so. By sharing PWP's transmission entitlements with the CAISO, PWP customers save about ten million dollars per year. There are no short-

term alternatives to continued operation within CAISO markets. Developing an alternative would take many months or years and have significant infrastructure, operational, and economic impacts on PWP.

**Existing Authorizations for CAISO Contracts and Related Transactions**

Since July 1998, the City Council has granted authority to the City Manager or the General Manager of PWP to sign various new or amended contracts with the CAISO and conduct various types of transactions in CAISO-operated markets. These authorizations facilitate the buying and selling of electric energy, transmission, control area ancillary services, and planning capacity products necessary for PWP to continue performing utility operations under California’s restructured electric energy markets. Table 1 provides a summary of contracts and services for which the City Council has previously approved signature authority for the City Manager and/or General Manager.

**Table 1**

CAISO Contract or Related Energy Transactions	Authorizing Document(s)
<ul style="list-style-type: none"> <li>• Utility Distribution Company Operating Agreement</li> <li>• Participating Generator Agreement</li> <li>• Meter Service Agreement</li> <li>• Scheduling Coordinator Agreement</li> <li>• Reliability Must Run Agreement</li> </ul>	Agenda Report Dated July 13, 1998*; Agenda Report Dated June 28, 2004 authorized signing amendments**
<ul style="list-style-type: none"> <li>• Metered Subsystem Agreement</li> </ul>	Agenda Report Dated June 28, 2004**
<ul style="list-style-type: none"> <li>• Transmission Control Agreement</li> <li>• Filing Transmission Revenue Requirements and Transmission Owner Tariff</li> </ul>	Agenda Report Dated October 4, 2004**;
<ul style="list-style-type: none"> <li>• Electrical energy, capacity, and transmission of electrical energy or capacity or both;</li> <li>• Electric generation and transmission capacity for planning and compliance purposes within the CAISO markets</li> </ul>	Resolution 4184-2 Amended 10-22-2007*
<ul style="list-style-type: none"> <li>• Purchases, sales, exchanges, and participation in auctions of Congestion Revenue Rights (CRR's) for use in CAISO operated transmission markets</li> </ul>	Resolution 8965 Dated 8-3-2009*

\* Authority granted to PWP General Manager

\*\* Authority granted to City Manager

**Authorization to Sign Amendments or Replacement Agreements**

The CAISO has issued new or restated agreements to replace many of the existing agreements in conformance with FERC-approved CAISO tariff changes. PWP must sign these agreements to continue taking service from the CAISO.

While the City Council’s authorization of the Metered Subsystem Agreement in 2004 authorized the City Manager to sign periodic amendments to any existing agreements

with the CAISO, it is not clear whether such authority extends to the “replacement” contracts prepared by the CAISO.

The proposed Resolution is intended to consolidate the authorization to sign new, amended, or replacement contracts with the CAISO into a single document by Resolution. The Resolution will further clarify that either the City Manager or General Manager of PWP may sign such contracts, providing for flexibility and timeliness in the contract signature process.

***Authorization to Sign New Agreements Consistent with Other Authorizations***

The proposed resolution will authorize signing new agreements with the CAISO that are required to utilize new services offered by the CAISO, provided such services are consistent with transactional authority previously granted by the City Council pursuant to other resolutions, such as those listed in Table 2.

**Table 2**

<b>Energy Related Transaction and Contract Authority</b>	<b>Authorizing Document(s)</b>
<ul style="list-style-type: none"><li>• Purchase and sale of air emissions credits (NOx and SOx)</li></ul>	Resolution 7452 Dated 12-16-1996*
<ul style="list-style-type: none"><li>• Purchase and sale of natural gas commodity and other petroleum products used for generation resources</li><li>• Gas transaction master enabling agreements (e.g., NAESB, bilateral)</li></ul>	Resolution 8243 Dated 5-12-2003*
<ul style="list-style-type: none"><li>• Electrical energy, capacity, and transmission of electrical energy or capacity or both;</li><li>• Electric generation and transmission capacity for planning and compliance purposes within the CAISO markets</li></ul>	Resolution 4184-2 Amended 10-22-2007* to include CAISO capacity products
<ul style="list-style-type: none"><li>• Environmental attributes such as Renewable Energy Credits, green tags, carbon credits, and any other environmental attributes as may be defined in the future</li><li>• Carbon-related permits, credits, allowances, certificates, offsets and similar instruments</li></ul>	Resolution 9063 Dated 10-4-2010*

\* Authority granted to PWP General Manager

These types of “blanket transactional authorities” have proven to be effective and increasingly necessary to ensure that PWP can efficiently operate the electric utility.

**COUNCIL POLICY CONSIDERATION**

The proposed resolution is consistent with the City Council's goal to maintain fiscal responsibility and stability and to improve, maintain and enhance public facilities and infrastructure.

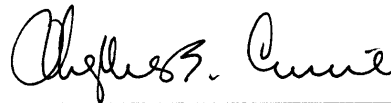
**ENVIRONMENTAL ANALYSIS:**

The proposed resolution has been determined to be exempt from the CEQA process pursuant to State CEQA Guidelines Section 15061(b)(3), the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Further, while no physical construction is contemplated by the actions proposed in this staff report, further CEQA review may apply to construction projects in the future.

**FISCAL IMPACT:**

There are no anticipated direct fiscal impacts as a result of this action; however, the proposed resolution may enable PWP to maintain or increase its ability to participate in CAISO markets in order to reduce energy procurement costs or increase revenues from excess resources. There will be no indirect or support cost requirements. There are no anticipated impacts to other operational programs or capital projects as a result of this action.

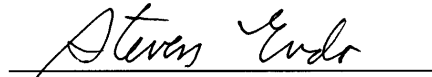
Respectfully submitted,



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PHYLLIS E. CURRIE  
General Manager  
Water and Power Department

Prepared by:



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Steven K. Endo  
Principal Engineer

Approved by:



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MICHAEL J. BECK  
City Manager

Attachments:

Attachment A – Proposed Resolution

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

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA  
AUTHORIZING THE CITY MANAGER OR GENERAL MANAGER OF THE  
WATER AND POWER DEPARTMENT TO EXECUTE AND IMPLEMENT  
AGREEMENTS WITH THE CALIFORNIA INDEPENDENT SYSTEM  
OPERATOR**

**WHEREAS**, On July 13, 1998, the City Council authorized the General Manager of the Pasadena Water and Power Department ("PWP") to enter into agreements with the California Independent System Operator ("CAISO") to establish Pasadena as a participant within the CAISO control area, allow Pasadena's generators to bid ancillary services into the CAISO market, and submit energy and transmission schedules to the CAISO on behalf of Pasadena, enabling Pasadena to operate as part of the CAISO-controlled transmission grid and participate in CAISO-operated wholesale energy markets; and

**WHEREAS**, On June 28, 2004, the City Council authorized the City Manager to enter into a Metered Subsystem Agreement with the CAISO and to sign amendments to existing agreements with the CAISO that may be required from time to time; and

**WHEREAS**, On October 4, 2004, the City Council authorized the City Manager to (1) enter into a Transmission Control Agreement, as may be modified periodically, with the CAISO and other Participating Transmission Owners, and (2) perform duties necessary to enable Pasadena to turn over operational control of its power transmission ownership, rights and entitlements to the CAISO, thus becoming a Participating Transmission Owner; and

**WHEREAS**, On October 22, 2007, the City Council adopted Resolution Number 4184-2 to, amongst other things, authorize the General Manager of the Water and Power Department to enter into contracts for the purchase or sale of electrical generation and transmission capacity used for compliance with CAISO agreements; and

**WHEREAS**, On August 3, 2009, the City Council adopted Resolution Number 8965 to authorize the General Manager of the Water and Power Department to enter into agreements for purchases, sales, exchanges, and participation in auctions of congestion revenue rights for use in CAISO-operated transmission markets; and

**WHEREAS**, The aforementioned agreements incorporate the CAISO tariff, as it may be amended from time to time subject to approval by the Federal Energy Regulatory Commission; and

**WHEREAS**, The CAISO has prepared new agreements to replace existing agreements in conformance with CAISO tariff changes; and

**WHEREAS**, The CAISO may develop new or amended agreements for energy-related products and services not contemplated under the current CAISO tariff or existing agreements; and

**WHEREAS**, All CAISO market participants, including the City of Pasadena, must sign said CAISO agreements in order to benefit from such CAISO services; and

**WHEREAS**, the City Council of the City of Pasadena desires that PWP continue to be afforded access to evolving CAISO market products and services necessary to reliably and economically provide electric service to its customers and the opportunity to enjoy the benefits thereof:

**NOW, THEREFORE, BE IT RESOLVED** as follows:

1. The City Manager or General Manager of the Water and Power Department is hereby authorized to enter into all electrical energy agreements and amendments thereto (the "Agreements") with the California Independent System Operator so long as the contracts are consistent with the authorizations described in the Agenda Report approved by the City Council on August 6, 2012, accompanying this Resolution.

2. The General Manager of the Water and Power Department is hereby authorized and directed to perform all actions necessary to implement and administer such Agreements.



3. The Agreements authorized hereunder are approved pursuant to Section 1001 of the City Charter.

4. The City Clerk is directed to attest his signature and affix the corporate seal of the City thereto.

5. The Director of Finance is hereby authorized and directed to expend out of the Light and Power Fund in accordance with the terms of the Agreements authorized hereunder and consistent with the provisions of the budget.

6. The Agreements 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 \_\_\_\_\_, 2012 by the following vote:

AYES:

NOES:


ABSENT:

ABSTAINED:

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Mark Jomsky  
City Clerk

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Lisa Hosey  
Deputy City Attorney