

Agenda Report

October 28, 2013

TO: Honorable Mayor and City Council

FROM: Water and Power Department

SUBJECT: AMENDMENTS TO TRANSMISSION SERVICE AGREEMENTS #14,443 AND #14,444 WITH THE LOS ANGELES DEPARTMENT OF WATER AND POWER

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the recommended action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b)(3) (General Rule); and,
2. Authorize the City Manager to amend the Intermountain Power Project Transmission Service Agreement (City Contract No. 14,443) and the Victorville – Sylmar Transmission Service Agreement (City Contract No. 14,444) with the Los Angeles Department of Water and Power ("LADWP") as described herein. Neither competitive bidding nor competitive selection is required pursuant to City Charter Section 1002(h), and Pasadena Municipal Code Section 4.08.049.A.3, contracts with other governmental entities.

BACKGROUND:

In October, 1991, the City of Pasadena ("City") executed two Transmission Service Agreements (collectively, "Agreements") with the LADWP:

1. **City Contract No.14,443:** The Intermountain Power Project Transmission Service Agreement provides 136 MW of transmission service from Adelanto, the southern terminus of the Southern Transmission System ("STS"), to the California Independent System Operators ("CAISO") grid at Sylmar. Pasadena Water and Power ("PWP") uses this capacity to import power from the Intermountain Power Project ("IPP"), the UPC Milford I Wind Project, and other short-term purchases in Utah to meet PWP's customer load; and,

2. **City Contract No. 14,444:** The Victorville – Sylmar Transmission Service Agreement provides 26MW of transmission service through which Pasadena imports 20MW of energy and capacity from PWP's Hoover Hydroelectric power entitlement as well as energy from short-term purchases from various southwest utilities into the CAISO grid to meet customer load.

The Cities of Burbank and Glendale concurrently executed two similar transmission service agreements with LADWP.

These Agreements play a major role in PWP's ability to provide reliable and low cost power, as over 60% of the City's energy requirements are imported through these two transmission paths.

Unlike most bilateral service agreements, the transmission service rate was not negotiated as a fixed price, an initial price plus escalator, or other traditional pricing mechanism. Instead, the initial service rate of \$1.01 per kw-month for transmission service was set based on a formula that incorporated various parameters, including the interest rates for revenue bonds issued by the Southern California Public Power Authority to finance the STS. Also incorporated in the agreements was a clause which mandated an automatic recalculation of the transmission service rate each time the STS bonds were refinanced at a lower interest rate which would reduce rates to reflect the cost of capital.

In 2010, Glendale performed a comprehensive review of Glendale's long-term generation and transmission agreements. PWP staff reviewed Glendale's findings, and determined that, although the transmission service rates had been reduced once to \$0.94 per kw-month, the STS bonds had been refinanced a number of times since that rate reduction without resulting in attendant reductions in the transmission service rates. Pasadena staff, in conjunction with Glendale and Burbank staff, contacted LADWP in June of 2010 to discuss this apparent overpayment by the three utilities to LADWP.

After two and a half years of discussions and negotiations with LADWP, first in conjunction with Burbank and Glendale and later independently, Pasadena and LADWP reached a tentative settlement of the overcharges, and are in the process of finalizing settlement documents. During these negotiations, Pasadena and LADWP held different opinions about the proper application of the rate formula, and agreed it would be mutually beneficial to propose amendments to the Agreements to:

1. Eliminate the transmission service rate adjustment mechanism linked to future STS revenue bond refinancing;
2. Fix the transmission service rate at \$0.80 per kw-month through the term of the Agreements; and
3. Remove Exhibit A, which describes the method by which the transmission service rate is to be recalculated.

Furthermore, for City Contract No. 14,443 only, the following amendments are proposed:

1. Recalculate and restate the loss factor for transmission line to reflect current transmission line conditions;
2. Restate the STS transfer capability from 1,920 MW to 2,400 MW to reflect the recent completion of the STS transmission line upgrade; and
3. Restate the transmission service capacity from 113 MW to 136 MW to reflect PWP's current transmission rights, which are tied to PWP's proportionate share of the STS transfer capability described above.

The proposed amendments to the Agreements will eliminate future disputes regarding the transmission service rate and the need for PWP to conduct complex audits to confirm that LADWP has been charging the correct rate. The rate of \$0.80 per kW-month is based on the lowest bond refinancing rate during the audit period, which was 4.59% in 2002.

Once the tentative settlement is finalized, it would resolve past overpayments claimed by Pasadena, and the proposed amendments presented through this agenda report would permanently fix the transmission service rate for the life of the Agreements. Proceeds from the settlement will be credited to the Transmission Services Charge Fund balancing account in the Light and Power Fund, and will be used to reduce or offset future increases in the Transmission Services Charge paid by PWP's electric customers as described in the Electric Rate Ordinance (Pasadena Municipal Code Section 13.04.170).

The proposed amendments to the Agreements with LADWP are exempt from competitive bidding pursuant to City Charter Section 1002(h), and exempt from competitive selection pursuant to Pasadena Municipal Code Section 4.08.049.A.3, contracts with other governmental entities. In addition, the proposed amendments are in the best interest of the City to lock in historically low pricing, eliminate administrative burden, and reduce the risk of future litigation.

COUNCIL POLICY CONSIDERATION:

Approval of the recommended actions will allow Pasadena to continue receiving transmission service on LADWP's transmission system on the Adelanto – Sylmar and Victorville – Sylmar lines. Approval of the staff recommendation of fixing the going-forward transmission service rate at \$0.80 per kW-month will also avoid any claim of ambiguity in calculating what Pasadena should pay LADWP under the two agreements. Continued usage of these lines at the reduced rate will help Pasadena meet its Renewable Portfolio Standard and Master Plan goals and the City Council's Strategic Planning Goals of maintaining fiscal responsibility and stability, increasing conservation and sustainability, supporting and promoting the quality of life and the local economy and ensuring public safety.

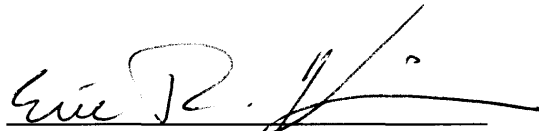
ENVIRONMENTAL ANALYSIS:

The proposed actions are the elimination of the rate recalculation provision and freezing of the transmission service rate. These actions have 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, such as extending an existing contract, may have a significant effect on the environment, the activity is not subject to CEQA. These actions do not have the potential for causing a significant effect on the environment and are therefore exempt from CEQA per Section 15061(b)(3) (General Rule).

FISCAL IMPACT:

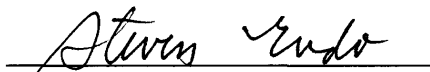
The proposed amendments to the Agreements would fix the transmission service rate at \$0.80 per kW-month, rather than a rate that would vary over time based on interest rates associated with the STS project financing bonds. The proposed actions will reduce the Purchased Power - Transmission Expenses in the Power Fund (Account 8223-401-841920-0565) by approximately \$280,000 per year but will also result in an equivalent reduction in future transmission cost recovery from the CAISO. Any net savings will be credited to PWP's Transmission Services Charge Fund balancing account and offset potential future Transmission Services Charge rate increases. There are no anticipated impacts to other operational programs or capital projects as a result of this action. Because the amount of this refund is relatively small compared to the overall PWP operating budget and the size of the PWP system (in annual kWh), the impact for individual ratepayers in terms of cents per kWh or savings on the actual monthly bill of an average customer will be negligible.

Respectfully submitted,



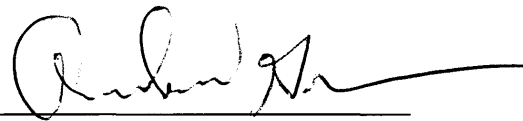
PHYLLIS E. CURRIE
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Prepared by:



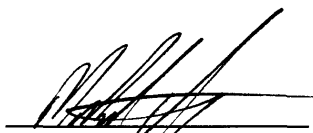
Steven K. Endo, P.E.
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Concurrence:



ANDREW GREEN
Director of Finance

Approved by:



MICHAEL J. BECK
City Manager