

# Agenda Report

October 10, 2016

**TO:** Honorable Mayor and City Council

**THROUGH:** Municipal Services Committee (September 27, 2016)

**FROM:** Water and Power Department

**SUBJECT: APPROVE CALIFORNIA ENERGY COMMISSION ("CEC") SENATE BILL ("SB") 1368 EMISSION PERFORMANCE STANDARDS COMPLIANCE FILING FOR THE INTERMOUNTAIN POWER PROJECT ("IPP") REPOWERING PROJECT**

## **RECOMMENDATION:**

It is recommended that the City Council:

1. Find that the proposed action is not a project subject to the California Environmental Quality Act (CEQA) pursuant to Section 21065 of CEQA and Sections 15060 (c)(2), 15060 (c)(3), and 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project; and
2. Authorize the Interim General Manager of Pasadena Water and Power to submit the CEC SB 1368 Emission Performance Standards compliance filing for the IPP Repowering Project.

## **EXECUTIVE SUMMARY:**

Pasadena Water and Power ("PWP") has a long term power purchase contract with Intermountain Power Agency ("IPA") for the IPP coal-fired power plant located near Delta, Utah. This power purchase contract also provides for transmission service that enables energy delivery to Pasadena. The other purchasers include five California publicly owned utilities (Anaheim, Burbank, Glendale, Los Angeles Department of Water and Power, and Riverside), along with 23 Utah municipalities, and six rural electric cooperatives. The current contract expires on June 15, 2027. All of the IPP purchasers, including PWP, wish to extend their transmission rights to access the renewable and conventional energy resources in or around Delta, and most current participants wish to build a new natural gas-fired electric generation project ("Renewal Project") to replace the existing coal plants.

Last year on July 20<sup>th</sup>, the City Council authorized the City Manager to execute an amendment to the existing power purchase contract to allow for construction of the Renewal Project. Additionally, the City Council authorized PWP to participate in the Renewal Project up to 40MW. The Renewal Power Sales Contract ("RPSC") needs to be executed for PWP to be able to participate in the Renewal Project post June 15, 2027. The RPSC includes an option for PWP to terminate the contract and exit the Renewal Project if exercised by August 3, 2019. Pasadena and other California utilities may not execute the RPSC until the CEC verifies that the new power plant will be compliant with the California emission standards pursuant to Senate Bill ("SB") 1368. PWP and other California participants have recently become aware that IPA and LADWP consider the CEC approval as a prerequisite for executing the RPSC. CEC approval does not affect PWP's option to exit the Renewal project by August 3, 2019.

Therefore, PWP is now seeking approval to submit a compliance filing to the CEC for the IPP Repowering Project as required by SB1368, also known as the California Emission Performance Standards. SB1368 limits California electric utilities from entering into new or renewed long-term contracts for the purchase of power from baseload generation power plants that exceed an emission performance standard of 1,100 pounds of carbon dioxide ("CO<sub>2</sub>") per megawatt-hour ("MWh"). IPP is considered a baseload generation power plant because it has historically produced electricity at greater than 60 percent of its maximum annual capacity. Thus, for California participants involved in IPP, including the City of Pasadena, to renew the existing Power Sales Contracts which expire on June 15, 2027, the generating units must be converted from coal to an alternative that is compliant with the Emission Performance Standards.

On March 16, 2016, the Second Amendatory Power Sales Contract, which was previously approved by the Pasadena City Council, went into effect, allowing for the repowering of IPP's coal-fired generating units with Emission Performance Standards compliant combined-cycle natural gas-fired units ("the Project").

Per contractual provisions, purchasers of IPP's energy beyond June 15, 2027 must obtain necessary regulatory approvals prior to entering into the Renewal Power Sales Contracts and the Agreement for Sale of Renewal Excess Power ("Renewal Contracts"). The Renewal Contracts provide for the procurement of electricity from the Project through 2077.

**BACKGROUND:**

IPP, which is owned by the Intermountain Power Agency, a political subdivision of the State of Utah, consists of a 1,800 MW coal-fired power plant located near Delta, Utah. PWP and five other California publicly owned utilities (Anaheim, Burbank, Glendale, the LADWP, and Riverside), along with 23 Utah municipalities, and six rural electric cooperatives, currently purchase power from IPP under the existing Power Sales Contracts. Because IPP is a joint project, the concurrence of all participants was required to amend the existing contracts.

LADWP, as IPP's Operating Agent, led the strategic planning efforts to negotiate the agreements that will allow for the repowering of IPP from its current 1,800 MW of coal-fired generation to no more than 1,200 MW of Emission Performance Standards compliant natural gas-fired generation. The Project is authorized pursuant to the provisions of the Second Amendatory Power Sales Contract, which was approved by this City Council on July 20, 2015. As part of that approval process, the City Manager was also authorized to enter into the Renewal Contracts later offered by the Intermountain Power Agency.

The Project will include the construction and installation of two natural gas-fired combined cycle units, each with a design capacity of approximately 600 megawatts ("MW") and expected carbon dioxide CO<sub>2</sub> emissions of approximately 800 pounds CO<sub>2</sub> per MWh, as compared to coal-fired generation which emits roughly 2,000 pounds CO<sub>2</sub> per MWh. The reduction of the total plant output from 1,800 MW to 1,200 MW, and the conversion to natural gas, will result in the elimination of approximately 14.9 billion pounds of CO<sub>2</sub> each year as a result of the repowering.

One goal of the Project is to accelerate PWP's complete coal divestiture by July 1, 2025, approximately two years earlier than originally dictated by contract. The ability to replace the coal units two years earlier than originally planned is contingent upon several factors, including permitting, material procurement and final concurrence of all participants. Although the participants are planning to complete the Project by 2025, the commercial operation date may be delayed due to circumstances beyond Pasadena's control.

Once the Second Amendatory Power Sales Contract became effective on March 16, 2016, the Intermountain Power Agency then offered the Renewal Contracts for the participants' consideration. These Renewal Contracts will allow the participants to continue participating in IPP as a repowered Emission Performance Standards compliant natural gas facility through June 15, 2077. The participants are required to obtain their respective regulatory approvals prior to moving forward with the Renewal Contracts.

In accordance with the California Code of Regulations, Title 20, Sections 2908 and 2909, the CEC requires a public notice of deliberation and a subsequent compliance filing for entering into a covered procurement, which includes any new or renewed contract for the procurement of electricity from a baseload power plant with a term of five years or more. PWP satisfied the requirements for a public notice of deliberation which took place at the July 20, 2015 City Council meeting. In conjunction with entering into the Renewal Contracts, PWP wishes to submit this subsequent filing, approved by the City Council, to the CEC for a determination that the Project will be compliant with the Emission Performance Standards.

If approved, PWP will submit a compliance filing to the CEC pursuant to the California Code of Regulations, Title 20, Section 2909, as adopted by the CEC to implement SB 1368. The CEC will then evaluate the Project and verify its compliance with the

Emission Performance Standards. The compliance filing is not technically required unless and until Pasadena decides to remain in the Project, rather than exercise its option to terminate the Renewal Contracts in 2019. However, the Intermountain Power Agency, which owns IPP, and the Los Angeles Department of Water and Power ("LADWP"), which is the Operating Agent for IPP, have requested that all of the potential project participants make their filings now, and the CEC does not object. Therefore, PWP is requesting the authorization to submit the attached compliance filing documentation to the CEC.

**CITY COUNCIL POLICY CONSIDERATION:**

The recommended action is consistent with the Urban Environmental Accords Goal to reduce greenhouse gas emissions, the City Council's strategic goals to increase conservation and sustainability, and the 2015 Power Integrated Resource Plan.

**ENVIRONMENTAL ANALYSIS:**

The approval of the IPP Repowering Project Emission Performance Standards compliance filing is an administrative action that would not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. Therefore, the proposed action is not a "project" subject to CEQA, as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines. Since the action is not a project subject to CEQA, no environmental document is required.

**FISCAL IMPACT:**

This compliance filing satisfies a regulatory requirement at no cost to PWP. There is no fiscal impact as a result of this action, and it will not have any indirect or support cost requirements. The anticipated impact to other operational programs or capital projects as a result of this action will be none.

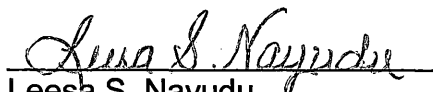
Respectfully submitted,



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Prepared by:



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Approved by:



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STEVE MERMELL  
City Manager

**ATTACHMENTS:**

- Attachment 1 – Letter to CEC
- Attachment 2 – Project Description
- Attachment 3 – Attestation