



Agenda Report

October 29, 2018

TO: Honorable Mayor and City Council
FROM: Water and Power Department
THROUGH: Municipal Services Committee (October 23, 2018)
**SUBJECT: TERMINATION OF INTERMOUNTAIN POWER PROJECT RENEWAL
POWER SALES CONTRACT**

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 per Section 15061 (b)(3), the "General Rule"; and,
2. Ratify the decision of the City Manager providing notice to the Intermountain Power Agency ("IPA") pursuant to Section 34 of the Renewal Power Sales Contract dated as of January 16, 2017 between IPA and the City of Pasadena ("Contract") that the City of Pasadena is exercising its rights under Section 42 of the Contract to terminate the Contract.

BACKGROUND:

Pasadena Water and Power ("PWP") has an existing forty-year contract with the IPA for energy from the coal-fired Intermountain Power Project ("IPP") in Delta, Utah and associated transmission systems that bring power to Pasadena. This contract expires on June 15, 2027.

Under the current agreement, the coal plants are to be replaced with new natural gas fired plants, known as the "IPP Renewal Project", by 2025. Once the new natural gas power plants are operational, the existing coal plants will be shut down and all current project participants (including PWP) will be obligated to take energy from the Renewal Project through the 2027 expiration of the Agreement. Participants in the IPP Renewal Project will be entitled to generation from the new power plants and the associated transmission rights for 50 years starting June 16, 2027.

In 2015, the City Council authorized the City Manager to execute a new agreement with IPA that provides rights to energy up to 40 MW from the IPP Renewal Project and associated transmission rights. This authorization provides broad authority for the City

Manager to execute terms of the Contract, including the termination provision. Nevertheless, given the significance of exercising the termination provision, staff recommends that the City Council take action to ratify the notice to IPA that the City is exercising its termination rights under Section 42 of the Contract.

Since then, staff has periodically updated the MSC regarding the status coal plant decommissioning, the proposal to build a new natural gas plant, and discussions with respect to what other agencies may do when the original IPP contract term expires. PWP currently has a 14 MW (1.667%) contractual share of the IPP Renewal Project and an equivalent percentage share of rights to the Southern Transmission System ("STS") that delivers energy from the IPP generator bus to southern California.

The Contract includes provisions for PWP to terminate its participation in the project effective November 1, 2019 provided at least 90 days' prior notice is given to IPA. This would terminate PWP's share of IPP energy and associated transmission effective June 16, 2027.

PWP has determined that it would be in the City's best interest to give notice to the IPA terminating its participation in the IPP Renewal Project based on several economic and environmental considerations. PWP's long-term Power Integrated Resource Plan ("IRP"), although not finalized, analyzed the economics of remaining in IPP extensively. This analysis has clearly shown that the IPP Renewal Project is not an economic resource choice and it does not meet the greenhouse gas emission reduction requirements. As a result, it was not selected as a preferred resource under any of the energy portfolios shortlisted in the IRP analysis.

Transmission access to the STS system was one reason cited in 2015 for participating in the 50 year Contract for the IPP Renewal Project. Although transmission may be a valuable asset, as a participant in the California Independent System Operator ("CAISO"), PWP has access to the vast majority of the grid that serves California. PWP has only committed to one new resource (5 MW of Milford Wind in Utah) that is connected a transmission entitlement owned by PWP since joining the CAISO as a "Participating Transmission Owner" in 2004. Whereas dozens of contracts have been signed for renewable energy resources directly connected to transmission lines owned by other parties that are under CAISO control. While staff believes that the STS rights relinquished after June 2027 as a result of this action would otherwise have some tangible future value to PWP customers, this potential value pales in comparison to the stranded cost commitment and additional greenhouse gas emissions associated with remaining in the IPP Renewal Project.

COUNCIL POLICY CONSIDERATION:

The proposed action supports the City Council Strategic Planning Goals, Pasadena's Climate Action Plan ("CAP"), the Urban Environmental Accords, and the General Plan, in reducing greenhouse gas ("GHG") emissions by reducing the City's commitment to the future use of fossil fuel powered electric generation resources.

Furthermore, the recent passage of Senate Bill 100 ("SB-100"), signed into law on September 10th, establishes a statewide policy goal to achieve a 100% carbon-free power resource supply for California by 2045. Although IPA's shift to natural gas is an improvement over coal from an environmental point of view, continued participation in the IPP Renewal Project through 2077 would be inconsistent with the goal of SB-100.

ENVIRONMENTAL ANALYSIS:

The recommended action is exempt from CEQA pursuant to State CEQA Guidelines per Section 15061 (b)(3), the "General Rule" that CEQA only applies to projects that may have an effect on the environment.

FISCAL IMPACT:

There is no near-term fiscal impact as a result of this action and it will not have any indirect or support cost requirement. This action is expected to save PWP customers money after June 2027 by eliminating a commitment to a higher-cost energy resource than would be otherwise available from other sources.

The anticipated impact to other operational programs or capital projects as a result of this action will be none.

Respectfully submitted,



GURCHARAN S. BAWA
General Manager
Water and Power Department

Prepared by:



for Mandip Samra
Power Resource Planning Manager
Water and Power Department

Approved by:



STEVE MERMELL
City Manager