

OFFICE OF THE CITY MANAGER

April 23, 2001

TO: City Council

FROM: City Manager

SUBJECT: Authorize the General Manager of the City of Pasadena's Water and Power Department to enter into a contract with the Building Owners and Managers of Greater Los Angeles (BOMA) and the RAND Corporation (RAND) for non-PBC funded energy conservation programs

On April 18, 2001 the Deregulation Committee considered and deferred the attached recommendation due to outstanding questions. The attached 2-page program summary provides the information to address these questions.

Due to the urgent needs for electric demand reduction, staff recommends that Council approve this recommendation without returning to the Deregulation Committee for their review.

Additionally, staff recommends deferring the reduction in incentive payments offered by this program from June 30, 2001 until September 30, 2001. This will facilitate installation and verification of energy conservation projects throughout the summer and thereby increase the likelihood of immediate results from the program.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Cynthia J. Kurtz".

CYNTHIA J. KURTZ
City Manager

RAND/BOMA Overview

Program Overview

- PWP contracts with RAND to facilitate rapid deployment of energy conservation programs to be implemented between June 1, 2001 and June 30, 2002.
- RAND provides program administration, implementation, and verification resources, and leverages BOMA resources to identify and contact customers to achieve high participation.
- RAND assists customer in identifying potential projects, estimating demand/energy reduction, finding vendors (including local vendors), and analyzing project economics for the customer.
- RAND contracts with customer for incentive to paid upon energy savings verification. To accelerate program, higher incentives offered for projects completed by September 2001.
- Customer will be responsible for vendor selection, equipment procurement, and installation services. RAND will help facilitate and expedite these efforts.
- RAND contracts with third party to verify and document energy savings using industry standard procedures. Demand reduction is directly measured; annual energy savings are verified through a combination of measurements and calculations.
- RAND will invoice PWP on EITHER a \$/kW basis for measured demand reduction, or on a \$/kWh basis for one-year's verified energy savings. RAND estimates that 90% of PWP payment will be used for customer incentive, and 10% for RAND/BOMA program administration expenses.
- RAND will pay customer (or vendor) contracted incentive amount.
- RAND to publish results of efforts and help PWP leverage goodwill resulting from program
- RAND project lead has prior success with similar programs in New York and Boston

Program Funding

- The payment to RAND will be for energy, as part of PWP's overall energy procurement strategy for the coming year, and thus will be treated as purchased power expense
- The total cost will be directly proportional to the amount of energy savings purchased. Cost will be approximately \$1.8 million for every 1% of system-wide energy conservation achieved. The target level of conservation is 15-20 MW at a cost of \$10-13 Million.

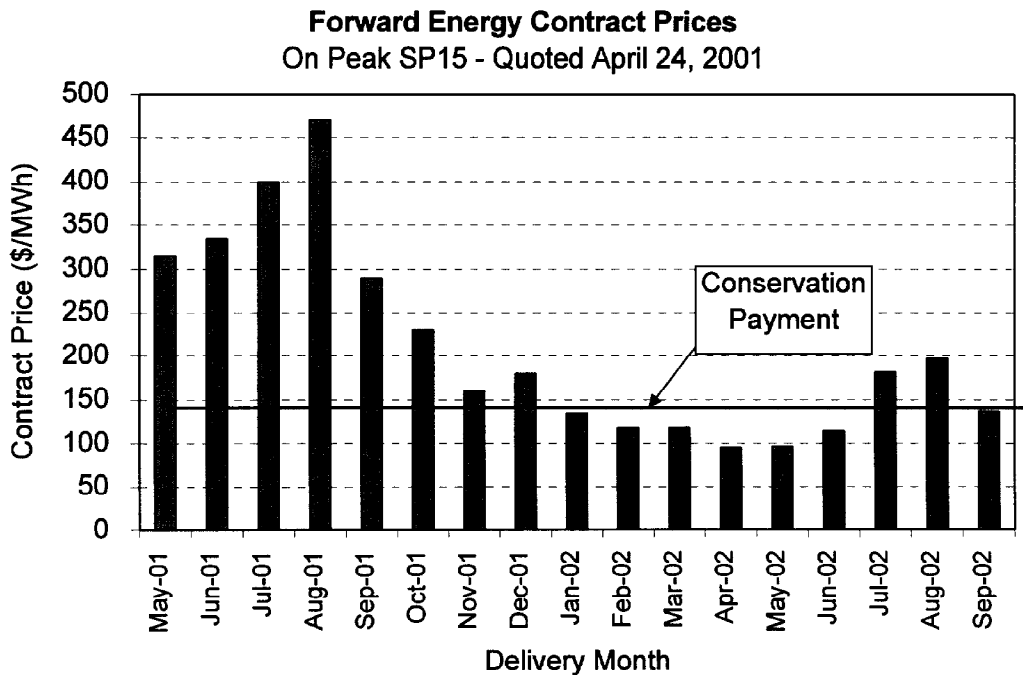
Program Benefits

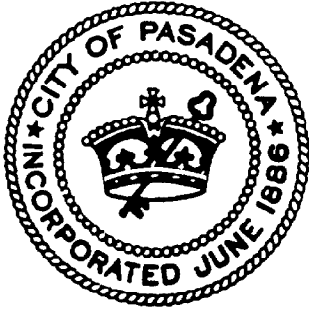
- Participating customers will achieve rapid payback on equipment investment and will benefit from reduced on-going electric energy costs.
- Non-participating customers will benefit from reduced purchased power costs versus market.
- Reduced loads may offset or defer need for some power system capital upgrades.
- Aggressive conservation will reduce statewide need for rolling blackouts and may help favorably position PWP in efforts to seek relief from rolling blackouts.
- Minimal or no risk. PWP not obligated to pay RAND except for verified energy savings.

RAND/BOMA Overview

Economics

- Energy shortages and extremely high wholesale prices are anticipated for the 18-month period from July 2001 – September 2002.
- The average of current wholesale power prices offered for this timeframe is 19.5¢/kWh.
- As a buyer of electricity, PWP will purchase wholesale energy at similar cost.
- By paying a participating customer 12.5-14¢/kwh (for 12 month's energy savings) to reduce load through RAND/BOMA conservation projects, PWP customers will save at least 5.5¢ for every kWh saved during this 18 month period
- For every 1% of system-wide conservation achieved (about 3 MW), about 16,000 MWh in purchases will be avoided over the 18-month period, yielding an estimated net reduction in purchased power costs of \$880,000-1,120,000.
- The energy savings will continue into the future, but PWP customers will only pay for one year's energy savings from any given project





Agenda Report

April 23, 2001

TO: City Council
THROUGH: Deregulation Committee

FROM: City Manager

SUBJECT: Authorize the General Manager of the City of Pasadena's Water and Power Department to enter into a contract with the Building Owners and Managers of Greater Los Angeles (BOMA) and the RAND Corporation (RAND) for non-PBC funded energy conservation programs

RECOMMENDATION

It is recommended that the City Council authorize the General Manager of Pasadena Water and Power (PWP) to enter into a contract without competitive bidding pursuant to the City Charter section 1002 (F) contracts for professional or unique services with BOMA and RAND, both non-profit corporations, to assist customers in reducing electrical consumption in Pasadena through installation of energy saving devices. The objective of this program is to achieve a sustainable 10-20 MW reduction in peak electric demand and associated energy by June 2002, with additional incentives to maximize the program impact by June 30, 2001.

It is further recommended that the City Council authorize recovery of these costs through the Energy Cost Adjustment Charge (ECAC).

Grant this contract an exemption from the Competitive Selection process of the Affirmative Action in Contracting Ordinance, pursuant to Pasadena Municipal Code Subsection 4.09.060 (C) Contracts for which the Cities best interests are served.

BACKGROUND

California is experiencing a severe energy shortage that is adversely impacting PWP customers through increased costs for purchase power and natural gas, and also increased likelihood of rolling blackouts to support the statewide grid during system emergencies, such as those experienced on March 19th and 20th of this year.

Pasadena Water and Power is aggressively pursuing a number of programs to reduce the impacts of California's energy shortages on Pasadena customers and benefit the state. These programs include intensified energy conservation programs, including increased electric energy efficiency rebates and rate discounts, pursuing curtailable load agreements with customers, and seeking ways to utilize new and existing back-up generators. Collectively and individually, these programs will provide direct benefit to PWP customers through lower energy costs and higher reliability.

The recommended contract with RAND/BOMA is designed to assist commercial customers with procuring and installing energy saving equipment. This will be a highly accelerated incentive and technical assistance program with the objective of reducing Pasadena's peak electric demand by 10-20MW this summer. A copy of the proposal from RAND/BOMA is attached.

Under the proposed contract, RAND/BOMA will pay all up-front costs, utilize their extensive staff resources, industry contacts and knowledge to rapidly implement energy efficiency programs that compliment PWP's existing programs funded by the Public Benefits Charge. PWP will compensate RAND/BOMA only for measurable and demonstrated energy savings associated with each project they implement. Initially, compensation will be at the rate of either \$650/kw or 14¢/kWh (depending upon project characteristics) to encourage participation prior to this summer. After June 30, 2001, compensation will be reduced to \$580/kw or 12.5¢/kWh.

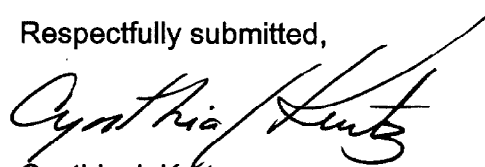
The costs of this program will be treated as a purchased power expense and collected through ECAC revenues. Because the alternative sources of energy currently cost two to four-times as much as the payment to RAND/BOMA, this program will not increase energy rates for any customer.

FISCAL IMPACT

The estimated \$7 to 14 million cost of this program will be recovered from ECAC revenues, and thus have no net impact on the PWP or the City. The program will result in reduced energy consumption and associated electric revenues. The exact impact of this program will depend entirely on the effectiveness of the program. Participating customers will benefit from a reduction in bills, and non-participating customers will benefit from lower overall procurement costs that may reduce the ECAC by 2%-10% from what it would be without the program.

Assuming that a 5% average system-wide load reduction results from this program (about 15MW), annualized savings in energy procurement will be about \$15 million per year at current wholesale market rates, and result in reducing the average ECAC rate for all customers by about 2.5%. The reduced sales will cause base rate revenues to decline at an annualized rate of \$2 million per year, PBC revenues at \$150,000/year, and ECAC revenues will decline by the avoided \$15 million in purchased power costs.

Respectfully submitted,



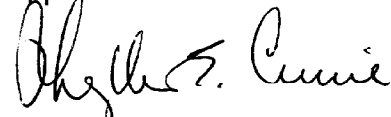
Cynthia J. Kurtz
City Manager

Prepared by:



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