

OFFICE OF THE CITY MANAGER

March 21, 2001

To: City Council
Through: Deregulation Committee
From: City Manager
Re: **Follow-up Information to Deregulation Committee Questions Regarding the Magnolia Power Project**

The following information has been assembled in response to questions raised by members of the Deregulation Committee at the March 14, 2001 meeting.

I. Why Is Pasadena Interested in Participating In This Project?

Pasadena Water and Power (PWP) has a primary resource portfolio objective to maintain a portfolio of resources that can provide Pasadena customers with reliable and reasonably priced electric energy. The goal is to manage the resource portfolio to limit risk exposure through:

- Diversification of generation resources (physically and geographically)
- Diversification of fuel supply (coal, gas, nuclear, hydro)
- Managing price volatility through hedging
- Limiting out-of-market financial exposure (SIS, favoring "caps" over fixed-prices, etc.)
- Acquiring assets which are new, reliable and efficient

The Magnolia Power Project is viewed as a means by which to 1) enhance the portfolio which is currently in place, 2) acquire new generation to meet future growth in the city's load requirements, and 3) meet PWP's needs to begin layering in additional long term resources to replace those that will be diminishing in the future, (such as with the current Bonneville Power Administration contracts). Furthermore, this plant will have the latest emissions controls and very high efficiency ratings in addition to being new and reliable.

II. How Does This Project Relate to SCPPA?

The Southern California Public Power Association, SCPPA, was created primarily to finance large-scale capital projects for joint-participation by various Southern California municipal utilities. This enables relatively small utilities, such as Pasadena, to secure a diverse portfolio consisting of small ownership shares in large “central station” generation and transmission projects with significant economies of scale. Through SCPPA participation, various members own shares of Palo Verde Nuclear Generation Station, San Juan Coal Project, Hoover Hydro, and a number of interstate transmission lines.

In recognition of member’s need for additional energy resources, SCPPA formed a Resource Planning Committee late in 2000 to share market intelligence, planning information, and consider and coordinate the development of new generation projects in order to maximize their potential benefit. Currently, members are considering a number of projects that may be financed through SCPPA and jointly-owned, such as:

Magnolia Project (240MW combined-cycle in Burbank)

Flexible Generator (180-360 MW gas or oil fired combined cycle in Colton)

Eagle Mountain Pumped Storage (proposed by a private developer, near Palm Springs)

In addition, the following members are considering building new plants within their cities that may be wholly-owned by the member or jointly-owned as a SCPPA project:

Anaheim - simple-cycle gas turbine (40-80 MW)

Glendale - Repowering Project

Pasadena - Broadway Repowering Project

Vernon - new simple-cycle gas turbine

Although there are additional hurdles and complexities associated with joint-ownership, the members realize that benefits such as staged implementation, sharing unit contingency risk (unit outages) through joint-ownership, and the ability to finance projects through SCPPA warrant consideration of joint project participation.

The City of Burbank presented the Magnolia Project to SCPPA as the first of many new possible projects and invited all members to participate in ownership. Many members expressed such interest, and the SCPPA Board approved the project as a SCPPA Study Project. As a result, each participant will fund a pro-rata share of all costs incurred related to the study, design, planning, and permitting of the project. Assuming the project goes to construction, SCPPA will finance the project and each member that chooses to continue participating will be obligated to pay a pro-rata share of all costs for the life of the project as a co-owner of the facility.

III. How Does This Project Relate to The Tri-City Proposal?

The Tri-City proposal was conceived as an expedient means of garnering financial support from the State government. Recognizing that a relatively short window of opportunity was opened as the state struggles with a severe generation shortage, the City Managers and Utility General Managers of Burbank, Glendale, and Pasadena joined forces to quickly develop a proposal of sufficient size to capture the states attention without being potentially bogged down in SCPPA process. The notion was to obtain State financial backing and legislative relief to expedite the construction of new generators that could possibly double the output at existing facilities.

Individually owned, units such as the Magnolia Project would represent an unacceptably high contingency risk. However, by selling half of each unit to the state and dividing the remaining output among the three cities, the unit contingency risk could be managed.

The Tri-City Proposal and the Magnolia Project are two separate projects; i.e. from a governing and decision-making process, they are stand-alone projects. The Magnolia Project will continue regardless of the outcome of the Tri-City Proposal.

The Tri-City Proposal will identify and offer incremental generation to the State-wide grid. The portion of the Magnolia Project that is owned by the three cities is included in the total number of megawatts identified in the Tri-City Proposal. Thus if the Magnolia Project does not proceed, the Tri-City Proposal will have less to offer.

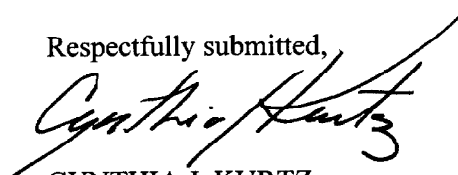
IV. What Other Cities Have Expressed An Interest In This Project?

As of this date, the SCPPA cities of Anaheim, Burbank, Colton, Glendale and Pasadena have expressed interest in 200 of the 237 megawatts available from this plant. In addition, the cities of Cerritos, San Marcos and Chico are interested in the remaining capacity.

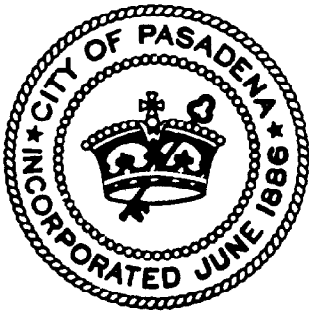
V. What Is the Timing of the Results Of The Current Proposal?

Licensing of this project is being based on a combined cycle facility with a phased implementation. Based on the new fast track procedures, this project could be licensed as a 160 MWh peaking facility in as little as 21 days, and as a full 230 MWh combined cycle facility by no later than November.

Respectfully submitted,



CYNTHIA J. KURTZ
City Manager



Agenda Report

TO: City Council
THROUGH: Deregulation Committee

DATE: March 19, 2001

FROM: City Manager

SUBJECT: Authorization to Enter Into a Planning Agreement with the Southern California Public Power Authority for the Magnolia Power Project.

RECOMMENDATION:

1. It is recommended that the City Council authorize the General Manager of Pasadena Water and Power (PWP) to enter into a planning agreement (Agreement) with the Southern California Public Power Authority (SCPPA) for up to an 8% share of the Magnolia Power Project (Project). The Project and Agreement are further described in Attachments I and II.

Execution of this agreement will:

- Obligate Pasadena to fund a pro-rata share of the planning and permitting costs for the project, with Pasadena's share ranging up to \$400,000; and,
 - Preserve PWP's option to participate in the project, but does not obligate PWP beyond the Planning and Permitting Phase.
2. It is further recommended that the City Council appropriate \$400,000 from unappropriated Light and Power Fund to CIP account number 3156 to fund the expenses associated with the planning and permitting phase of the Project.

BACKGROUND:

The State of California is in an energy emergency. The lack of adequate reliability and supply of electricity are jeopardizing the health and welfare of the people of California, as well as the viability of the State's economy. In order to solve California's energy emergency, new sources of electricity must be identified to meet the State's demand for electricity.

One way to resolve this emergency is through the construction of new electrical power plants to replace the older outdated plants that exist today. The cities of Burbank, Glendale, and Pasadena have existing power plant sites upon which new, more efficient, and less polluting power plants could be built. The construction of such facilities would not only benefit the three cities, but would have regional and statewide benefits.

Pasadena Water and Power currently has a resource portfolio that includes coal, hydro, nuclear and natural gas generation. These resources are located in several states throughout the western states. This diversified portfolio provides a sufficient electrical capacity to supply the current needs of the city. However, PWP is forecasting load growth combined with an expected reduction in resources in the future. The City of Pasadena has a long and successful record of positioning Pasadena to be able to meet the utility needs of its residents and businesses in a reliable, competitive and effective fashion. "Independence" and "self-sufficiency" have historically been principles guiding the planning of Pasadena's electrical utility program. These guiding values have placed Pasadena in the enviable position it enjoys today. PWP has always taken the approach that it has an "obligation to serve" its customers. This approach requires Pasadena to own or control assets that fulfill the needs of its customers.

One approach that has helped Pasadena maintain a diverse portfolio is participation in joint ownership of power projects through SCPPA. This approach enables SCPPA members to achieve the economies of scale necessary for cost-effective generation without the risk of reliance on a single large source of generation. SCPPA is currently considering and assessing a number of new jointly owned generation projects in Southern California which would provide all SCPPA members access to a diverse portfolio of new resources. The Magnolia Project is the first such project to be approved by the SCPPA Board to be funded through the planning and permitting phase as a SCPPA project. It is intended that this project become part of the Tri-City Arrangement currently being developed. Since it was already in the development stages when the Tri-City Arrangement was originated, it is further along in the completion process than the other projects.

The Magnolia Power Project involves the replacement of an existing generation plant in the City of Burbank with a new 250 MW plant that is among the most efficient and cleanest available today. This facility appears to be a viable and cost effective potential resource for Pasadena's portfolio, and PWP is proposing an ownership share of up to 8% of the new plant. This equates to 20 MW, which is almost 10% of the average daily needs for PWP customers. The daily average demand varies from approximately 140 MW in the winter to approximately 240 MW in the summer. Currently the project is in the planning and permitting stage, which involves all of those steps necessary before the request to proceed with

financing and construction. Attachments I and II explain the Project in greater detail.

This recommendation is not a request for authority to commit to an ownership share of the Project and to proceed with financing and construction. It is anticipated that the authority to execute additional SCPA contracts for financing and construction of the Project will be requested toward the end of calendar year 2001, after the permitting phase is complete and additional economic analysis based on final project budgets is completed. Furthermore, PWP has several alternatives to consider prior to this time. Four of these are as follows:

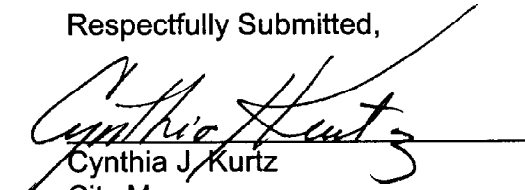
- 1) Do Not Proceed - PWP can opt out of the arrangement and "sell" its reservation to other interested parties, assuming there are any at that time, and recoup the expenses identified in this report.
- 2) Proceed - PWP can continue with the arrangement and add the electricity to its portfolio for use by its customers.
- 3) Proceed and Become a Marketer - PWP can continue with the arrangement and choose to sell the electricity on the open market.
- 4) Project Cancellation – PWP would remove itself from the arrangement and lose its initial investment if the project were to fail for some reason, such as the inability to receive appropriate funding.

As a result of option one above, staff believes there is minimal risk to this request because the State, and others, may be interested in ownership. Option 2 will require a resolution to issues surrounding the relatively high tariff charged by LADWP to move the electricity through their control area.

FISCAL IMPACT:


The proposed execution of the Project Planning Agreement will increase billings from SCPA by up to \$400,000 through the end of FY2002. These costs will be charged against capital improvement project number 3156, which is being funded from unappropriated Light and Power Fund funds.

Respectfully Submitted,




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City Manager

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Pasadena Water and Power