



OFFICE OF THE CITY MANAGER

May 17, 2001

To: City Council
From: City Manager
Subject: Backup Generator/Voluntary Load Curtailment

On May 2, 2001, the Deregulation Committee reviewed the attached recommendation and moved that it be forwarded to City Council for approval. At the same time, the Committee requested that staff address the questions below in connection with the proposed Blackout Mitigation Plan and the proposed contract with Planergy, Inc. It is proposed that Planergy, under contract with PWP, will assist in the implementation and administration of a customer voluntary load curtailment plan.

Q. Who is Planergy's parent company?

A. Planergy is a subsidiary of XcelEnergy, Inc., an investor owned utility located in Minneapolis.

Q. How will Pasadena be protected from Planergy or its parent from using confidential customer information to compete for PWP customers in the future?

A. Neither Planergy nor its parent XcelEnergy are registered or licensed as an ESP (Energy Service Provider) California.

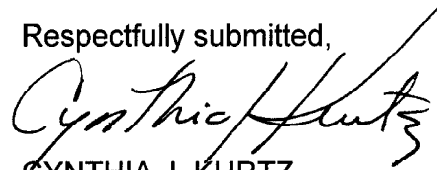
The contract with Planergy will contain a not-to-compete provision that will prohibit Planergy and/or its parent XcelEnergy from being able to sell electricity to PWP customers for 2 ½ years after termination of the contract.

Additionally, any ESP desiring to do business in Pasadena must execute a licensing agreement with the City. Presently there are two ESP's licensed to sell energy in Pasadena, namely Cucamonga Electric located in Santa Ana California and PowerCom Energy & Communications Access, Inc. located in Los Angeles California.

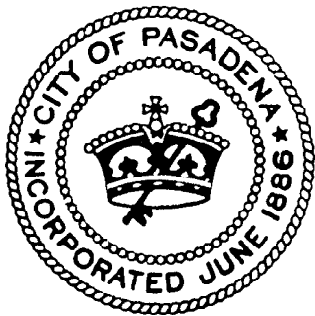
Following the Deregulation Committee meeting, the City Attorney's Office indicated that the Energy Charge Ordinance would require clarifying language in order to recover expenses associated with these programs through the Energy Charge. Therefore, staff would like to add the following recommendation:

"It is further recommended that City Council direct City Attorney to prepare an amendment to the Light and Power Rate Ordinance, Chapter 13.04.170 of the Pasadena Municipal Code to change the formula for the Energy Charge to include costs associated with City Council approved blackout mitigation and conservation programs in the calculation to the Energy Charge rate."

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Cynthia J. Kurtz". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

CYNTHIA J. KURTZ,
City Manager



Agenda Report

May 14, 2001

TO: City Council
THROUGH: Deregulation Committee
FROM: City Manager
SUBJECT: Backup Generator/Voluntary Load Curtailment

RECOMMENDATION:

1. That the City Council authorize the General Manager of Pasadena Water and Power (PWP) take the following actions for mitigation of potential rolling blackouts:
 - A. Amend the Fiscal Year 2001 Capital Improvement Program to create a new capital project entitled "Water Supply Backup Generators" and approve a journal voucher appropriating \$330,000 from the Water Fund;
 - B. Contract with commercial and industrial customers to purchase electric power from customer owned and operated backup generators (Backup Generator Program);
 - C. Contract with customers to provide voluntary load curtailment to help avoid rolling blackouts (Voluntary Load Curtailment Program); and
 - D. Contract with Planergy Services Inc. (Planergy) to assist PWP with the implementation and administration of PWP's Voluntary Load Curtailment Program.
2. That the City Council authorize the recovery of costs associated with these emergency energy procurement programs (1B, 1C, and 1D) as purchased power expenses through the Energy Cost Adjustment Charge (ECAC) or Energy Charge.
3. That the above contracts be exempt from the Competitive Selection process of the Affirmative Action in Contracting Ordinance, pursuant to Pasadena Municipal Code section 4.09.060 (C), Contracts for which the City's best interest are served.

BACKGROUND:

The City is facing the possibility of rolling blackouts this summer, which could be longer and more frequent than those experienced earlier this year. In order to mitigate the potential intensity of such blackouts this summer, PWP is proposing to implement two programs aimed at reducing PWP system load during peak demand and power consumption periods, a customer Backup Generator Program and a Voluntary Load Curtailment Program. It is estimated that the combined load reduction from these two programs could range from 10 to 20 megawatts depending on customer participation levels. However, there are no guarantees that blackouts will be totally avoided this summer.

Backup Generator Program

PWP staff has identified approximately 20 megawatts of customer owned and operated backup generator capacity. Staff believes that it may be possible to contract for up to 50% of the capacity and energy that can be produced from customer owned back up generators. AQMD has recently increased the permitted annual operating hours for these types of generators to help ease California's energy crisis. Staff believes customers may be interested in contracting to supply energy to PWP during peak demand periods in an effort to mitigate and/or reduce the magnitude of impending rolling blackouts. Customers would be compensated for the power supplied to PWP at either generation cost-based prices or market based prices at the time of delivery. It is anticipated that the procurement of black out mitigation power from customer backup generators would occur over approximately 100 hours of high demand during the months of June through September.

It is estimated that customers would be paid on the basis of an avoided cost that could range in the neighborhood of \$0.45 per kilowatt-hour. This price represents a forecast of the average cost of wholesale spot power that may be seen during peak demand conditions this summer. Customers would be reimbursed for costs they may incur to connect generators to PWP's distribution system. On average, these costs could be in the range of \$5,000 per generator.

PWP will have the flexibility under the backup generation contracts with customers to schedule backup generators to be operated during Stage III emergency conditions. Under the agreements, customers would also be obligated to perform necessary maintenance on the backup generators to ensure their reliability. PWP would establish a standard communication protocol

between the customer and PWP dispatchers to meet load curtailment objectives of the ISO.

PWP is also working with other departments to identify City facilities, which could be equipped with backup generators. As a start, PWP proposes to install generators at the City's three water reservoirs to provide approximately 1½ megawatts of emergency backup pumping power. These generators could be called upon during power system emergencies. The backup generators could also be used during unplanned outages to provide power to operate pumps at three Water Division pumping facilities.

Voluntary Load Curtailment Program

Under the Voluntary Load Curtailment Program, participating customers would be asked to curtail (reduce) a portion of their load during peak demand periods during the months of June through September. PWP estimates it may be possible to curtail 5 to 10 megawatts of peak electric demand under this program. Customers who participate in this program would receive demand payments of \$13.33 per kilowatt-month and an avoided energy payment of \$0.15 per kilowatt-hour. This is in line with payments being provided by cities that are implementing similar programs.

PWP is recommending that Planergy, a firm that currently provides load curtailment turnkey services for other utilities, be retained to assist in the implementation and administration of this critical program. Planergy has an up and running load curtailment program, which would provide the necessary infrastructure and resources to quickly, help PWP implement this program. Recently, the California Independent System Operator as well as other California municipal utilities have contracted with Planergy to implement similar volunteer customer load curtailment programs. Services that Planergy would provide to PWP in carrying out the day-to-day administration of the Voluntary Load Curtailment Program would include:

- Assisting in negotiations with potential participating customers
- Maintaining real time coordination with PWP dispatchers
- Maintaining real time communications with customers
- Maintaining internet, phone and cell phone infrastructure
- Providing necessary software to track program activities
- Providing timely performance reports
- Maintaining necessary documentation and accounting records for metering and payment purposes
- Providing any special metering equipment that may be necessary

- Providing all staffing for the day-to-day administration of the volunteer load curtailment program

PWP believes that time is of the essence given the impending power shortages that will likely occur this summer and recommends that the City move to implement these two critical programs as quickly as possible.

FISCAL IMPACT:

The estimated cost of providing backup generators for the City's water pumping facilities is \$330,000. As the availability of backup power ensures the availability of water supply, this cost would come from the water revenue fund.

The estimated cost of the customer Backup Generator Program is \$600,000 over the critical four-month period from June through September. This is based on contracting for 10 megawatts of backup generation for 100 hours at an average market energy rate of \$0.45 per kilowatt-hour plus an estimated \$150,000 to reimburse customers for generator connection costs.

The estimated cost of the blackout mitigation Voluntary Load Curtailment Program is \$665,000, including customer incentives and program administration costs. This is based on contracting for up to 7 megawatts of voluntary customer load curtailments at \$20.00 per kilowatt-month for a four-month period from June through September, plus payments for up to 100 hours of avoided energy at \$0.15 per kilowatt-hour.

The costs of both the customer Backup Generation Program and the Voluntary Load Curtailment Program would be recovered through the ECAC and would therefore have no fiscal impact on PWP or the City. Power curtailed under these blackout mitigation programs would reduce the amount of premium priced energy

purchased on the wholesale spot energy market during system emergencies at peak summer prices and therefore would have little effect on the ECAC rates, if any.

Respectfully submitted,



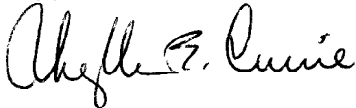
Cynthia J. Kurtz
City Manager

Prepared by:



Donald M. Pappe
Director of Customer Care
Pasadena Water and Power

Approved:



Phyllis E. Currie
General Manager
Pasadena Water and Power