

# Agenda Report

TO: City Council  
THROUGH: Deregulation Committee

DATE: May 21, 2001

FROM: City Manager

SUBJECT: Increase Maximum Authorized Level of Participation and Expenditures for the Magnolia Power Project Planning Agreement (Number 17,558) with the Southern California Public Power Authority and other Cities.

## RECOMMENDATION:

1. It is recommended that the City Council authorize the General Manager of Pasadena Water and Power (PWP) to increase PWP's participation in the Magnolia Power Project Planning Agreement, Number 17,558 (Agreement) with the Southern California Public Power Authority (SCPPA) and other participating cities, to a maximum level of 10.35%, or 25 MW.
2. It is further recommended that the City Council authorize expenditures of up to \$497,421 for planning related costs, and up to \$1,405,323 for pre-construction costs for the Magnolia Project.
3. It is further recommended that the City Council appropriate an additional \$1,502,744 from unappropriated Light and Power Fund to CIP account number 3156 to fund the additional level of expenses associated with the Agreement. This will bring total authorized expenditures to \$1,902,744.

**BACKGROUND:**

On March 12, the City Council authorized the General Manager to execute the Agreement with the Southern California Public Power Authority (SCPPA) for up to an 8% share of the Magnolia Power Project (Project), and further authorized expenditures of up to \$400,000 for Pasadena's pro-rata share of the planning and permitting costs for the Project. Initially, PWP indicated an interest of 10 MW, or about 4%. Execution of the Agreement preserves PWP's option to participate in the Project, but does not obligate PWP for expenditures beyond the planning and permitting phase.

The Agreement contemplates a decision by the project participants to approve pre-construction expenditures (primarily \$7.6 million for down-payments on generation equipment and \$4.6 million for emissions offsets that may be required for permitting) in order to facilitate a more rapid completion of the Project. The Agreement provides an off-ramp so that participants have the option to terminate their participation in the Agreement prior to incurring any pre-construction cost obligations. Based on that provision, the initial recommendation was to seek authorization only for planning and permitting costs while PWP and RW Beck continued work on the Strategic Resource Plan.

Although the Strategic Resource Plan work is still in progress, RW Beck has completed sufficient analysis to demonstrate that the Magnolia Project is a viable and economic resource for PWP's portfolio. RW Beck has indicated that about 185 MW of generation should be maintained within Pasadena and an additional 20-50 MW of new external resources will be required to meet PWP's resource requirements. Of the external resources considered thus far, combined cycle gas generation options ranked higher in the preliminary results than other options reviewed. Scenarios with in-basin combined cycle units (e.g. Magnolia) and out-of-basin combined cycle units were evaluated and found to be similar in their level of attractiveness, with the later having a slightly better rank. Although out-of-basin combined cycle generation provides greater fuel cost diversification, and possibly lower variable O&M due to less stringent emission limitations and costs, it also has the disadvantages of costs associated with transmission losses and transmission-related forced outages. Furthermore, unlike other "generic" alternatives considered, it is a "real" resource that is currently in the permitting phase.

The RW Beck analysis suggests that the Magnolia Project is an attractive resource alternative for PWP. A share of Magnolia would positively augment a

scenario where Glenarm 1 & 2 and both Broadway 1 and 2 are retired and 2 new simple-cycle LM6000 CTs are installed at the PWP site. Because of the general economic attractiveness of new in-basin CC generation, and to avoid closing off a potentially attractive option, RW Beck suggests it may make sense for PWP to commit to up to 25 MW of the Project. Doing so should not preclude PWP from altering the effects of this commitment by selling or hedging its share of Magnolia in the future.

To maximize the benefit of the Project, the participants desire to fast-track permitting and ensure equipment is available to support the earliest possible commissioning date of the Project. It is likely that Project participants will move to authorize and begin spending funds for pre-construction immediately upon execution of the Agreement by all parties. To keep the project moving, many participants are seeking flexibility in their authority to adjust their Project share and pre-authorizing expenditure levels.

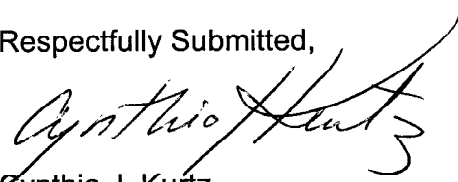
PWP is currently committed to a 10MW (4.1322%) share of the Project. Additional authority is sought for participation levels up to 25MW, to provide flexibility to increase PWP's share in the event that the opportunity arises and is supported by the final outcome of the Strategic Resource Plan studies.

Approval of this recommendation does not authorize or commit PWP to an ownership share of the Project and to proceed with financing and construction. It is anticipated that the authority to execute additional contracts for financing and construction of the Project will be requested toward the end of calendar year 2001.

FISCAL IMPACT:


The proposed authorization of funding pre-construction costs and possible increase in participation percentage will result in total Project expenditures of up to \$1,902,744 through the end of FY2002 for a 25 MW share of the Project. The expected expenditures for PWP's current 10 MW share are approximately \$760,000. These costs will be charged against capital improvement project number 3156, which is being funded from unappropriated Light and Power Fund funds.

Respectfully Submitted,




Cynthia J. Kurtz  
City Manager

Prepared by:



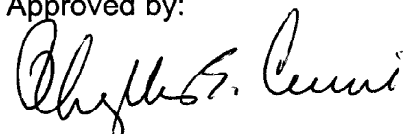
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Concurred by:



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Approved by:



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