

# Agenda Report

December 15, 2003

**To:** City Council

**From:** City Manager

**Subject:** Authorization To Enter Into Contracts With The Southern California Public Power Authority For The Purchase Of Up To Four and One-Half Megawatts Of the Ameresco Landfill Gas Power Project Output

**RECOMMENDATION:**

It is recommended that the City Council Authorize the City Manager to enter into a Power Purchase Agreement and a Scheduling Service Agreement ("Contracts") with the Southern California Public Power Authority ("SCPPA") for up to a 4.5 MW share of the Ameresco Landfill Gas Project ("Project").

These Contracts are exempt from competitive bidding pursuant to City Charter Section 1002(h) contracts with other governmental agencies or their contractors.

**BACKGROUND:**

The City Council adopted a renewable portfolio standard ("RPS") for Pasadena Water and Power ("PWP") on October 13, 2003. The RPS calls for the addition of cost-effective renewable resources to meet 10% of Pasadena's retail electric energy needs by 2010 through a combination of long-term and short-term power purchases.

The Project meets the criteria for renewable resources, and the proposed Contracts are in compliance the RPS. PWP's share of the project will be between 2 and 4.5 MW, depending upon interest expressed by other SCPPA members for the initial Project capacity and whether Pasadena elects to obtain expansion capacity that may become available in the future. As a result of purchasing this energy, Pasadena's renewable energy portfolio would increase by approximately 15,000 to 35,600 MWh per year, representing about 1.5% to 3.0% of retail energy sales in FY2004.

Pasadena's current retail energy portfolio includes 6 to 7%<sup>1</sup> renewable energy.

<sup>1</sup> The actual percentage will vary depending on annual fluctuations in hydro conditions.

Existing renewable resources include the recently approved wind energy purchase from the High Winds Energy Center in Solano County, California, plus hydroelectric energy from Azusa Hydro and Hoover Dam. With the addition of the proposed landfill gas to energy Contract, Pasadena's renewable energy portfolio will be 7.5 to 10% of retail sales<sup>2</sup>.

### ***Project Selection Process***

In February 2002, SCPPA issued a request for proposals (RFP) for renewable energy projects on behalf of its members, including Pasadena. A total of 44 proposals were received for various types of renewable energy projects including wind, solar, geothermal, biomass, and landfill gas. The proposals were reviewed by the SCPPA Resource Planning Committee, which recommended retaining 20 proposals for further consideration. Since that time, SCPPA has received a number of additional proposals that have been considered, including the proposed Ameresco Landfill Gas Project.

This Project was selected by SCPPA due to competitive fixed-cost pricing, appropriate size that matches member interest, Project technical feasibility (proven technology, multi-unit reliability, transmission availability), and the relatively low risk profile of a volumetric contract that has no associated fixed charges. Pasadena will only pay for the energy actually received from the Project. Additionally, the location is such that it will have added benefits to local air quality by destroying green house gases emitted from the Chiquita Canyon Landfill in Valencia, California.

### ***Power Purchase Agreement Summary***

Source: 13.4 MW Landfill Gas electric generating facility ("Project"), to be located at the Chiquita Canyon Landfill in Valencia, California, and developed, owned and operated by Ameresco Chiquita Energy LLC ("Ameresco")

Quantity: Actual metered output from PWP's contract share (2-4.5 MW) of the Project, or approximately 15,000-35,600 MWh per year

Delivery: Delivered unit contingent firm to high side of step up transformers that interconnect with SCE grid for delivery into the California ISO at SP-15

Term: 20 years

Price: Fixed price of \$54/MWh for energy produced, with no escalation over the term, plus costs associated with the Scheduling Agreement and transmission. This price will be reduced by 30% of any energy production tax credits received by Ameresco for Project output.

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<sup>2</sup> The new renewable percentage will also depend on the final Project Contract share.

SCPPA will purchase the entire output of this facility and resell this output to participating SCPPA members. Currently, the Cities of Anaheim, Glendale, and Pasadena have equal shares in this project. The City of Burbank has expressed an interest in acquiring a share of this project as well. Once Burbank's RPS has been approved, the parties are prepared to reduce Pasadena's share of the Project by approximately 2.2MW and to increase Burbank's share by 2.2MW.

Due to uncertainties in the actual Project cost and feasibility prior to completion of detailed design, Ameresco has retained the right to terminate its contract with SCPPA prior to Project financing. In the event this occurs, Pasadena's contracts with SCPPA (if executed) would likewise be terminated without incurring any costs.

#### ***Project Scheduling Agreement***

SCPPA will be responsible for scheduling the Project output into the California ISO system and to the various Project participants. However, because SCPPA does not currently maintain the required staff and infrastructure, SCPPA will need to contract these duties to one of its members or a third party vendor.

SCPPA, with Project participants' input, is currently in negotiations with a third party vendor for scheduling and settlements services for the energy produced by the Project. Responsibilities under the agreement, in addition to providing daily and hourly scheduling, include monthly reporting, outage reporting to CAISO as well as to the participants, tagging and checking out, resolving disputes with the CAISO, and monitoring and implementing future CAISO market design changes. The initial term of the proposed contract will be eighteen months with an early exit option for the participants. The charge for this service is a fixed monthly fee, which will translate to about \$1.00/MWh.

In the event SCPPA is unable to reach such an agreement with the aforementioned or another third party or should the participants exercise its early exit option, PWP is prepared to provide these scheduling services for the Project. Should PWP assume this duty, the cost structure will be designed such that any ISO charges/credits associated with the Project will be charged/reimbursed to SCPPA. Experience gained from the third party assistance will help determine an appropriate charge for services rendered. Any Scheduling Agreement designating Pasadena as scheduling agent will include terms for adjusting the fee or terminating services with six months notice by either party.

### ***Project Economics***

Energy produced by the Project will be sold to SCPPA at a fixed price of \$54/MWh or 5.4¢/kWh, without escalation over the term. This price will be reduced by 30% of any production tax credits received by Ameresco. In addition to this energy charge, SCPPA will incur transmission, scheduling, and ISO settlement charges and fees that will be paid for by the participating members in proportion to their share of the project. These fees, which are typical for any generation project connected to the ISO grid, are expected to be less than \$2/MWh in total.

Although the project's price is somewhat higher than current market prices, its fixed price will contribute to PWP's rate stability objectives and it will not significantly increase near-term purchased power costs versus alternative short-term market supplies.

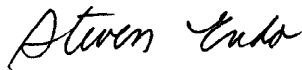
Assuming the maximum 4.5 MW Project share, PWP's annual cost for the expected average output of 35,600 MWh (approx 95% capacity factor) is \$1.92million. Based on current market forecasts provided by Henwood Energy Services, Inc. that Pasadena uses for stranded investment calculations, the Project cost is expected to be up to \$670,000 per year higher than non-renewable local spot market energy sources, resulting in a system-wide energy rate impact of approximately 0.05¢/kwh (5 hundredths of one penny per kWh) during the life of the agreement. This is commonly known as the "premium" paid for the renewable resource.

Renewable energy is an authorized use of Public Benefits Charge ("PBC") funds collected from all customers pursuant to Pasadena's RPS and Assembly Bill 1890 as described in Public Utilities Code Section 385. To the extent such funds become available in the future, Pasadena may opt to offset some or all of the cost premium for this resource by applying revenues from PBC charges. Additionally, Pasadena may offset cost premiums associated with the Project by applying premium revenues collected from any customers that participate in Pasadena's green-rate program.

**FISCAL IMPACT:**

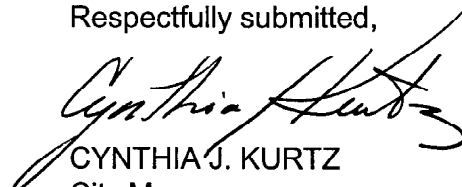
Assuming the maximum 4.5 MW Project share, this renewable resource Power Purchase Agreement is expected to cost up to \$670,000 per year more than generic non-renewable spot market power purchases, resulting in a rate premium (spread across all Pasadena customers) of approximately 0.05¢/kwh during the life of the agreement. Because PWP is targeting a 2 MW Project share, the actual impacts may be less. All costs (and credits) associated with these Contracts will be recovered in the Energy Charge component of Pasadena's electric energy rates, and will have no impact on the General Fund.

Prepared by:

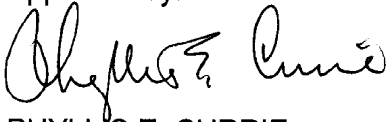


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Respectfully submitted,

  
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Approved by:



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