

Agenda Report

October 13, 2003

To: City Council
Through Municipal Services Committee

From: City Manager

**Subject: ADOPT A RENEWABLE PORTFOLIO STANDARD FOR
PASADENA WATER AND POWER**

RECOMMENDATION:

It is recommended that the City Council approve the attached Renewable Portfolio Standard (RPS).

UAC RECOMMENDATION:

The Utility Advisory Commission (UAC) recommends that the Municipal Services Committee and the City Council approve the RPS.

BACKGROUND:

Senate Bill 1078, which became law January 1, 2003, requires local publicly owned utilities to establish and implement a renewable portfolio standard that "recognizes the intent of the Legislature to encourage renewable resources, while taking into consideration the effect on rates, reliability, financial resources, and the goal of environmental improvement."

The provisions of SB-1078 applicable to Pasadena Water and Power (PWP) include requirements that:

- The governing body implement and enforce a renewable portfolio standard to encourage renewable resources
- Publicly owned utilities report annually to their customers the following:
 - The amount of public benefit funds spent on renewable resources
 - The resource mix used to serve the customers
- Each municipal utility governing board define the terms of its RPS. The terms would include:
 - What qualifies as a renewable resource (i.e. whether or not to count large hydroelectric projects (in excess of 30MW))
 - The percentage of the total energy resources that are to be renewable
 - The time frame in which to meet the "goal" of the defined standard

The City supports a broad range of energy conservation, energy efficiency, electric technology, low income, and renewable generation programs, as described in the Public Benefits Program approved by City Council on December 2, 1997. The City intends to continue its support of this broad range of programs, thus encouraging wise use of energy resources, especially renewable energy generation.

The City Council adopted the PWP Power System Strategic Resource Plan on November 19, 2001. The Strategic Resource Plan was developed in response to regional power shortages, energy price volatility, and a need to reduce air emissions. It serves as a guide for developing PWP's portfolio of power supply and transmission resources to meet PWP's goals of reliable service, stable rates, competitive energy pricing, and environmental stewardship. In recognizing an obligation to reliably serve customers, the Strategic Plan calls for maintaining adequate planning reserves with a diverse portfolio of resources, including the addition of cost-effective renewable resources to meet a portion of Pasadena's electric energy needs.

PWP worked closely with the UAC to develop the attached RPS for Pasadena to embody the spirit and intent of SB-1078, Pasadena's PBC and Green Rate programs, the Strategic Resource Plan, and PWP's mission to provide reliable electric service at stable and reasonable rates.

IMPLEMENTATION:

Currently, approximately 6-7% of the 1,240 gigawatt-hours ("GWh") per year net energy needed to meet Pasadena's 1,160 GWh/year retail electric sales (the difference is due to distribution losses) is met with renewable resources. These resources include Hoover Hydro, Azusa Hydro, and the recently approved Wind energy contract with PPM Energy.

PWP will need to procure an additional 3-4% renewable energy by 2010, and an additional 10% by 2017 to meet the respective 10% and 20% RPS targets. Since approximately 25-35% of the energy needed to meet Pasadena's retail electric consumption is procured on the spot market, the increased procurement of renewable resources will reduce, but not eliminate, the amount of conventional (non-renewable) spot market supplies PWP uses to meet Pasadena's energy needs. Under the proposed RPS, PWP will not be required to reduce the use of existing contract supplies to meet the targets.

Because some of PWP's contract resources are in excess of Pasadena's retail needs at certain times, and there are also opportunities to sell local generation into the ISO, PWP usually procures or generates about 200-300 GWh per year of energy that is used for wholesale purposes. The RPS target procurement will not apply to energy used for wholesale sales.

PWP intends to build a cost-effective portfolio of renewable resources over time, using a blend of short-term (up to one year in duration) renewable resource purchases (green tickets or other certified renewable supplies) along with periodic long-term purchase commitments (such as the 20 year PPM Wind energy deal). This approach will help stabilize PWP's overall energy costs without over-committing to any single source of renewable energy that may prove costly or unreliable in future years. Conversely, if the demand for renewable resources suddenly surges due to increased regulatory requirements, PWP will not be caught short and be forced to procure all of its renewable supplies at inflated prices in short-term markets.

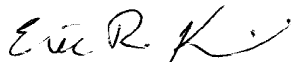
Each long-term commitment will be evaluated by PWP to ensure it meets identified resource needs, strategic objectives, and supports PWP's mission to provide reliable electric service at stable and reasonable rates. Each long-term renewable energy purchase commitment must be approved by the City Council.

FISCAL IMPACT:

Adoption of this policy will not have a direct impact on rates or Light and Power Fund. Although individual contracts for renewable resources may be at higher prices than prevailing market prices for conventional resources at any given time, the potential rate impacts and rate stability benefits will be assessed and approved as new resources are brought forth for Council approval.

Prepared by:

Respectfully Submitted,

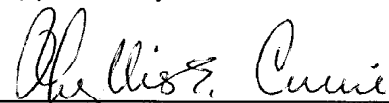


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