



OFFICE OF THE CITY MANAGER

July 27, 2006

To: City Council

From: City Manager

Subject: Addendum to Agenda Report – Authorization to enter into a long term contract with Minnesota Methane West Covina Power, LLC, for the purchase of four megawatts of landfill gas to electricity generation project generated electrical energy

This addendum is to correct typographical errors in the agenda. The first paragraph on page three reads as follows:

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.

The following paragraph replaces the above:

In September 2005, SCPPA issued a request for proposals (RFP) for renewable energy projects on behalf of its members, including Pasadena. A total of 12 proposals were received for various types of renewable energy projects including wind, solar, geothermal, biomass, and landfill gas. The proposals were then reviewed by the SCPPA Resource Planning Committee.

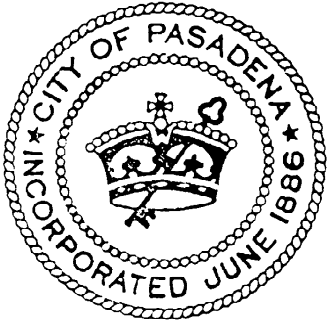
The Municipal Services Committee, at a Special Meeting on July 26, 2006, agreed with the City Manager's Recommendation and voted to forward this agenda report to the full City Council for approval.


CYNTHIA J. KURTZ
City Manager

City Hall

117 East Colorado Boulevard, 6th Floor
Mailing Address: P.O. Box 7115 • Pasadena 91109-7215
(626) 744-4333 • Fax (626) 744-3921
ckurtz@cityofpasadena.net

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Agenda Report

July 31, 2006

To: City Council
Through: Municipal Services Committee

From: City Manager

Subject: AUTHORIZATION TO ENTER INTO A LONG TERM CONTRACT WITH MINNESOTA METHANE WEST COVINA POWER, LLC, FOR THE PURCHASE OF FOUR MEGAWATTS OF LANDFILL GAS TO ELECTRICITY GENERATION PROJECT GENERATED ELECTRICAL ENERGY

RECOMMENDATION:

It is recommended that the City Council authorize the City Manager to enter into the Renewable Power Purchase Agreement Between the City of Pasadena and Minnesota Methane West Covina Power, LLC ("MM"), for the purchase of a 4MW share of the 8MW landfill gas to electricity generation project from MM's facility located in West Covina, California.

This contract is exempt from competitive bidding pursuant to City Charter Section 1002(C) contracts for labor, materials, supplies or services available from only one vendor.

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, and 20% by 2017, 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 with the RPS. PWP's share of the project will be 4MW. As a result of purchasing this energy, Pasadena's renewable energy portfolio would increase by approximately 33,300MWh per year, representing about 2.7% of retail energy sales in FY2010.

Pasadena's current retail energy portfolio includes 6% to 7%¹ renewable energy. The addition of this Project will help increase the diversity and volume of Pasadena's renewable energy resources portfolio which currently includes the High Winds Energy Center in Solano County, California, geothermal energy from the SCPPA-Ormat contract, plus hydroelectric energy from Azusa Hydro and Hoover Dam. With the addition of this proposed landfill gas to energy contract and the proposed Ameresco Landfill Generator project, Pasadena's renewable energy portfolio will be 10% to 13% of retail sales².

Assuming the concurrent approval of the proposed contract amendment with SCPPA for the Ameresco Land Fill Gas project and upon successful completion and operation of approved geothermal and landfill gas projects in FY2007 and FY2008, respectively, Pasadena's renewable energy resources portfolio will be able to supply approximately 169.1GWh of energy per year, or 13.9% of Pasadena's FY2010 total annual retail sales as shown in Table 1 below.

Table 1: Renewable Energy Portfolio Summary (GWh)

FY	2006	2007	2008	2010
Hoover	53	55	55	55
Azusa	5	5	5	5
PPM Wind	17.52	17.52	17.52	17.52
Geothermal	3.64	19.76	24.97	24.97
Minnesota Methane Land Fill Gas		16.64	33.29	33.29
Ameresco Land Fill Gas			22.19	33.29
Total Renewable	79.16	113.92	157.97	169.07
Retail Sales	1,172	1,184	1,196	1,220
% Renewable	6.75%	9.62%	13.21%	13.86%
% Renewable w/o Hoover*	2.23%	4.98%	8.61%	9.35%

** Note that while the Pasadena's RPS counts hydroelectric energy from Hoover as renewable, there is significant debate regarding whether large hydroelectric facilities should be counted.*

¹ The actual percentage will vary depending on annual fluctuations in hydro conditions.

² The new renewable percentage will also depend on the final Project Contract share.

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.

This Project was selected by the Committee due to competitive pricing, appropriate size that matches member interest, proven plant operations, location and energy deliverability, 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.

Power Purchase Agreement Summary

Source: 8MW Landfill Gas electric generating facility ("Project"), located at the BBK Landfill in West Covina, California, and developed, owned and operated by Minnesota Methane West Covina Power, LLC ("MM").

Quantity: Actual metered output from PWP's contract share (4MW) of the Project, or approximately 33,300 MWh per year

Delivery: Delivered unit contingent firm to the point at which Southern California Edison Company ("SCE") delivers power from the Project to the ISO controlled grid pursuant to MM West Covina's Wholesale Distribution Tariff Agreement with SCE, which point is, as of the Effective Date, the Walnut Substation 220 kV bus

Term: 10 years

Price: Initial price of \$63.50/MWh for energy produced with a 3.1% per year escalation over the term plus costs associated with the transmission and settlements in the ISO system.

Project Economics

Energy produced by the Project will be sold to SCPPA at an initial price of \$63.50/MWh or 6.350¢/kWh then escalated at 3.1% per year over the term. In addition to this energy charge, PWP will incur transmission and ISO settlement charges and fees. These fees, which are typical for any generation project connected to the ISO grid, are expected to be less than \$2/MWh or 0.2¢/kWh in total.

Minnesota Methane Landfill Gas to Energy Project

July 31, 2006

Page 4

The price is competitive with current and future market prices. The fixed escalator over the term of the contract 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.

At the expected 4MW Project share, PWP's annual cost for the expected average output of 33,300MWh (approx 95% capacity factor) will range from \$2.1 million in 2007 to \$2.8million in 2016. 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 below market through 2008, and average \$458,000 per year higher than non-renewable local spot market energy sources over the ten year contract, resulting in a system-wide average energy rate impact of approximately 0.035¢/kwh over 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:

At the expected 4MW Project share, this renewable resource Power Purchase Agreement is expected to cost an average of \$458,000 per year more than generic non-renewable spot market power purchases, resulting in a rate premium (spread across all Pasadena customers) of approximately 0.035¢/kwh during the life of the agreement. 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:



STEVE ENDO
Principal Engineer
Power Supply

Respectfully submitted,



CYNTHIA J. KURTZ
City Manager

Approved by:



PHYLLIS E. CURRIE
General Manager