

Agenda Report

April 28, 2008

To: CITY COUNCIL

From: CITY MANAGER

Subject: AUTHORIZATION TO ENTER INTO THE FIRST AMENDMENT TO THE ORMAT GEOTHERMAL ENERGY PROJECTS POWER SALES AGREEMENT AMENDING AGREEMENT #18,802, ORMAT GEOTHERMAL ENERGY PROJECTS POWER SALES AGREEMENT BETWEEN SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY AND CITY OF PASADENA, CALIFORNIA

RECOMMENDATION:

It is recommended that the City Council Authorize the City Manager to enter into the First Amendment to the Long Term Firm Power Sales Agreement (Contract) with the Southern California Public Power Authority (SCPPA) which reduces the contracted capacity entitlement amount from 3.0MW to a 2.1 MW share of the Ormat Geothermal Energy Project (Project).

This Contract is exempt from competitive bidding pursuant to City Charter Section 1002(h), contracts with other governmental agencies or their contractors.

BACKGROUND:

In April, 2005, SCPPA and the City of Pasadena entered into the Ormat Geothermal Energy Projects Power Sales Agreement ("SCPPA/Pasadena Agreement") by which SCPPA agreed to sell to Pasadena 15 percent of SCPPA's share of the project output of two geothermal energy projects to be developed by Ormat Technologies, Inc., an independent energy services company with significant expertise in the development and operation of such projects ("Ormat").

The Ormat Heber Plant 2 Project ("OrHeber 2") was completed in early 2006 and Pasadena has been receiving its share of OrHeber 2 energy and environmental attributes pursuant to the SCPPA/Pasadena Agreement. The second project, Ormat Mesa Plant Project ("OrMesa"), was never completed for various reasons beyond Ormat's control and no energy or environmental attributes are expected to be produced from OrMesa. However, the original power purchase agreements

("PPA") are performance contracts, so SCPPA and Pasadena only pay for delivered products, and there have been no payments made for the OrMesa project.

The OrHeber 2 project is currently served from two 5 MW geothermal units named Gould 1 and Gould 2, which have produced less than their rated capacity due to geothermal reservoir conditions. Ormat has proposed to fulfill the energy entitlement requirement served by the OrHeber 2 project with a new 14 MW geothermal unit named Heber South, which is expected to produce close to its rated capacity. However, a higher price is proposed for the additional 4 MW because the cost to construct the new unit was higher than that of Gould 1 and Gould 2, which were built in 2005. Thus, the original PPA pricing would be maintained for the 10 MW of energy contracted to be produced from Gould 1 and Gould 2 and a new price would be paid for the incremental energy produced above 10 MW.

Additionally, pursuant to Section 6.1 of the original PPAs, on January 25, 2007 SCPPA executed the First Amendment to the SCPPA-OrHeber2 Power Purchase Agreement, which reduced the price paid by SCPPA/Pasadena for energy and environmental attributes by \$2 per MWh as a share of production tax credits not available upon execution.

The Heber South plant is currently in commercial operation. SCPPA will purchase the entire output of this facility and resell this output to participating SCPPA members. Currently, the original participating Cities of Anaheim (8.4MW), Banning (1.4MW), Glendale (2.1MW), and Pasadena (2.1MW) have agreed to this amended purchase shares in this project and will receive a pro-rata share of the additional 4MW.

Project Scheduling Agreement

SCPPA will continue to 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 has contracted these duties to Anaheim who will continue to schedule the power.

Project Economics

Energy produced by the Project will be sold to SCPPA at two price levels. The original 10MW entitlement will keep its original pricing structure: initially at \$57.5/MWh or 5.75¢/kWh with a 1.5% annual escalation over the term. In 2007, SCPPA executed the First Amendment to the SCPPA-OrHeber2 Power Purchase Agreement, which reduced the price paid by SCPPA/Pasadena for energy and environmental attributes by \$2 per MWh as a share of production tax credits not available upon execution in 2006. The price of energy for 2008 is now \$57.21/MWh under the above escalation formula. Energy from the

additional 4MW of entitlement will be sold to SCPPA at \$75.00/MWh and escalated at 1.5%.

As in the original agreement, 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 price of the additional energy from the project is somewhat higher than current market prices, its fixed escalation will contribute to PWP's rate stability objectives. It will not significantly increase near-term purchased power costs versus alternative short-term market supplies.

The annual cost for the expected average output of 5,000 MWh for the additional output will be \$291,000 for the first year. The levelized annual cost over the life of the project will be approximately \$399,000 per year. Based on the latest available market forecasts provided by Global Energy Decisions (formerly Henwood Energy Services, Inc.) that Pasadena uses for long term energy price forecasting, the Project cost is expected to average approximately \$47,000 per year more than non-renewable local spot market energy sources, resulting in a system-wide energy rate impact of less than 0.04¢/kwh (4 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:

This renewable resource Power Purchase Agreement is expected to cost on average \$47,000 per year more than generic non-renewable spot market power purchases, resulting in a rate premium (spread across all Pasadena customers) of less than 0.04¢/kwh during the life of the agreement. All costs associated with this Contract will be recovered in the Energy Charge component of Pasadena's electric energy rates.

Respectfully submitted,



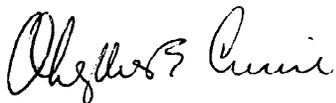
for BERNARD K. MELEKIAN
City Manager

Prepared by:



STEVEN ENDO
Principal Engineer
Power Supply
Water and Power Department

Approved by:



PHYLLIS E. CURRIE
General Manager
Water and Power Department