

Agenda Report

September 24, 2012

TO: Honorable Mayor and City Council

THROUGH: Municipal Service Committee (September 11, 2012)

FROM: Water and Power Department

SUBJECT: AUTHORIZATION FOR THE CITY MANAGER TO EXECUTE A REPLACEMENT RENEWABLE ENERGY DEVELOPMENT AGREEMENT WITH THE SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b)(3) (General Rule); and
2. Authorize the City Manager to enter into a contract with the Southern California Public Power Authority ("SCPPA"), a Joint Powers Authority, of which Pasadena is a member, for the purpose of performing due diligence on renewable resource options for an initial amount not to exceed \$300,000. The term and not-to-exceed amount of the contract shall extend until negotiations for renewable energy are completed or until the City Manager terminates the agreement with 180 days' notice; and
3. Find that competitive bidding is not required pursuant to the City Charter Section 1002(h) contracts with other governmental agencies or their contractors.

BACKGROUND:

In October 2003, the City Council adopted the City of Pasadena's ("City") first Renewable Portfolio Standard ("RPS") that established an RPS target of 10% renewable resources by 2010 and 20% by 2017 for Pasadena Water and Power ("PWP"). As part of the 2009 Integrated Resource Plan adoption, the City increased the RPS to 40% by 2020. The City Council maintained this target as part of the Integrated Resource Plan Update in March, 2012.

PWP's renewable resource procurement strategy is to secure a diverse portfolio of relatively small long-term contracts over time. The object of this strategy is to spread the risk of project failure, operating contingencies, technology changes, and fixed price commitments over many small supply contracts, rather than having a large dependence on only a few contracts. Due to economies of scale and transmission and siting issues, cost-effective new renewable project developments tend to be much larger than PWP's preferred size. By partnering with other SCPPA member utilities, PWP can pursue its strategy by taking small shares in a variety of shared, cost effective projects.

The process of preparing RFPs, evaluating responses, performing project and developer viability, and negotiating and executing agreements for shared renewable energy projects requires SCPPA to coordinate member staff activities and secure expert professional services for due diligence and advice to ensure fair, legal, and minimal risk agreements.

To coordinate and fund these efforts, SCPPA prepared a Renewable Development Agreement that has been used by various SCPPA members, including PWP, to evaluate and secure contracts for renewable resources since 2006. This agreement has served the participants well, and PWP has secured eight long term contracts for renewable resources through SCPPA solicitations and due diligence processes funded by the existing Renewable Development Agreement.

In anticipation that the existing Renewable Development Agreement will reach its authorized expenditure limit in September 2012, SCPPA has prepared the recommended 2012 Renewable Development Agreement so that SCPPA members may elect to participate in ongoing SCPPA solicitations and evaluation of potential renewable resource projects. In order for PWP to participate in future joint project solicitations with SCPPA, Pasadena must execute the proposed 2012 Renewable Development Agreement.

2012 Renewable Development Agreement

The 2012 Renewable Development Agreement builds on the success of the existing agreement with additional clauses and requirements as necessary in order to respond to changes in the electric industry. Like the existing agreement, the proposed agreement enables SCPPA, at the direction of its participating members, to contract for professional technical services, bond counsel, and financial analysts to evaluate project feasibility, tax and financing issues, and counterparty creditworthiness. The proposed agreement expands on this to include additional legal services to address complex contractual and regulatory issues associated with renewable energy requirements.

The proposed agreement also expands the scope of potential resources to include transmission projects as may be necessary to move and deliver renewable energy resources, and energy storage technologies as may be desired or necessary to integrate renewable energy resources and/or comply with legislative requirements.

The 2012 Renewable Development Agreement provides individual participants with greater flexibility, project control, and oversight. The structure has been changed from a single multiparty agreement to individual bilateral agreements between SCPPA and each participant, enabling each participant to control their individual expenditure limits. It includes provisions for participants of each project to appoint a Project Representative and a Contract Administrator. It is anticipated that the Assistant General Manager of Power Supply and his designee, respectively would be selected to perform these duties. It establishes a Coordinating Committee for overall program management, and designates the Los Angeles Department of Water and Power ("LADWP") as the development project manager

The costs for these professional services incurred by SCPPA under the proposed agreement are allocated separately for each project, on a pro-rata basis according to each participant's share of the project. Members who do not participate in any particular project are not liable for any costs associated with that project.

At any point during the due diligence process, a project participant may terminate its participation in a given project which would then limit its responsibility for due diligence costs to those to which the participant had committed as of the termination date. The terminating participant does not incur any additional due diligence costs should the remaining SCPPA participating members proceed with the project.

Development Agreement Cost Cap and Budget

Staff recommends that the City Council authorize an initial \$300,000 "not-to-exceed" cost limit for the proposed agreement, an amount equal to PWP's share of the existing agreement that has been utilized for over six years. The cost and timing of expenses incurred under the proposed agreement is unknown and will be dependent on the type, complexity, and pace of projects in which PWP chooses to participate, as well as PWP's respective cost share of each project. PWP anticipates the proposed \$300,000 cost cap should cover three to five years of project development work and that annual expenses are likely to be less than \$100,000 per year. Future City Council approval would be required to increase expenditures beyond the recommended cost cap.

COUNCIL POLICY CONSIDERATION:

The proposed SCPPA Renewable Development Agreement is consistent with the City's Urban Environmental Accords Goals with respect to increasing renewable energy and reducing greenhouse gas emissions, the 2012 IRP and RPS goals, and the General Plan Energy Element.

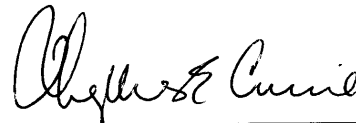
ENVIRONMENTAL ANALYSIS:

The proposed agreement has been determined to be exempt from the CEQA process pursuant to State CEQA Guidelines Section 15061(b)(3), the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. Further, while no physical construction is contemplated by the actions proposed in this staff report, further CEQA review may apply to construction projects in the future.

FISCAL IMPACT:

Expenditures under the proposed agreement will be limited to \$300,000. PWP anticipates expenditures of approximately \$100,000 for the current fiscal year. Funding for this action is addressed by the utilization of existing budgeted appropriations in Account 8213-401-841910. There are no indirect and support costs such as maintenance and information technology anticipated under this agreement. Should the initial \$300,000 be inadequate to cover actual costs of the services provided, staff will come back to Council with a request to extend the agreement.

Respectfully submitted,



PHYLLIS E. CURRIE
General Manager
Water and Power Department

Prepared by:



Steven K. Endo, P.E.
Principal Engineer

Approved by:


for MICHAEL J. BECK
City Manager