

# Agenda Report

July 18, 2016

**TO:** Honorable Mayor and City Council

**THROUGH:** Municipal Services Committee (July 12, 2016)

**FROM:** Water and Power Department

**SUBJECT: AUTHORIZE THE CITY MANAGER TO ENTER INTO CONTRACTS WITH FALLS CREEK H.P., L.P. AND POWEREX CORP. FOR THE PURCHASE OF RENEWABLE ENERGY CERTIFICATES**

**RECOMMENDATION:**

It is recommended that the City Council:

1. Find that the approval and execution of the proposed renewable energy contracts are categorically exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines section 15301(b), the existing facilities rule and 15061(b)(3), the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment;
2. Authorize the City Manager to execute the following contracts:
  - a. A ten (10) year contract with Falls Creek H.P., L.P. ("Falls Creek") for the purchase of Portfolio Content Category 3 Renewable Energy Certificates ("RECs"); and
  - b. A four (4) year contract with Powerex Corp. ("Powerex") for the purchase of Portfolio Content Category 1 and Category 2 bundled renewable energy.

The proposed contracts are exempt from competitive bidding pursuant to City Charter Section 1002(f); and

3. Grant the proposed contracts an exemption from the competitive selection process pursuant to Pasadena Municipal Code Section 4.08.049 (B), contracts for which the City's best interests are served.

**EXECUTIVE SUMMARY:**

The purpose of these recommendations is to allow Pasadena Water and Power ("PWP") to meet a portion of both the City of Pasadena's voluntary and the State of California's mandatory Renewable Portfolio Standard ("RPS") at the lowest cost consistent with good utility practice.

The proposed ten year contract with Falls Creek will provide annual quantities of Category 3 RECs from a group of ten existing low impact small hydroelectric facilities in Oregon and Idaho. Quantities will range from 35,000 to 69,000 RECs per year, or approximately three to six percent of PWP retail sales. Each facility has been certified by the California Energy Commission as RPS eligible. The contract price is \$1.37 per REC for the first five years of the contract, and will be a negotiated fair market value price for the last five years. If the Seller fails to deliver the guaranteed quantity in any given year, it will pay liquidated damages equal to the replacement price for any REC shortfall.

The proposed four year contract with Powerex will provide Category 1 and 2 bundled renewable energy and RECs. The source will be Powerex's portfolio of California Energy Commission certified renewable energy projects in Washington and British Columbia. In each of the four calendar year delivery periods beginning in 2017 and continuing through 2020, Pasadena will receive a total of 52,500 MWh, equivalent to approximately five percent of PWP's retail load. The total includes 17,500 MWh of Category 1 and 35,000 MWh of Category 2. The contract price will be equal to the energy index<sup>1</sup>, plus \$13.95/MWh for Category 1 RECs and \$4.50/MWh for Category 2 RECs. The melded rate of both Powerex products together is approximately \$7.65/MWh in addition to the index price for energy.

**BACKGROUND:**

The California RPS includes a mixture of renewable energy product types, classified into three Portfolio Content Categories. Category 1 includes energy "bundled" with the RECs, and delivered together into a California balancing authority area such as the California Independent System Operator ("CAISO"). Category 1 is the most expensive form of renewable energy. The RPS requires that, beginning in 2017, at least 75 percent of Pasadena's state-mandated renewable energy procurement must be in the form of Category 1. Category 1 typically sells at a premium of \$10 - \$20 per MWh above the market price of energy alone.

Category 2 product RECs are separated from the energy generated at the original RPS-certified facility and attached to incremental energy from another facility. This re-bundling may be done to reduce the cost of transmission to California, or to reconfigure the timing of energy deliveries to better match the needs of the purchaser. Both the

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<sup>1</sup> The index will be the CAISO day ahead hourly index for the SP-15 existing generation hub, which is a common market price indicator for energy transactions in southern California.

RPS-certified facility and the resource providing the incremental energy must be located outside of California. Category 2 products have typically traded at a premium of less than \$5 per MWh above the market price of energy.

The least expensive RPS compliance instrument is Category 3, which includes RECs that have been “unbundled” from the associated energy. These RECs must be from resources certified by the California Energy Commission as eligible for the RPS, and are frequently from existing facilities located out-of-state. The associated energy may be sold separately to third parties for a variety of reasons, including avoiding the cost of transmission, losses and congestion that may be involved in delivering the energy to California. Beginning in 2017, procurement of Category 3 RECs under California’s RPS is limited to no more than ten percent of the RPS target for any given year. Pasadena’s voluntary RPS does not specify percentages by category, which is a feature unique to the California RPS. During years when Pasadena’s voluntary RPS is higher than California’s, the incremental difference between California’s RPS and Pasadena’s may also be met with lower cost Category 3 RECs, effectively increasing the ten percent limit. Category 3 RECs have traditionally traded in the \$1.00 to \$2.00 range, but recent short term offers have been from \$2.50 to \$6.00 per REC.

Including Category 2 and 3 in Pasadena’s renewable procurement provides flexibility and helps reduce the overall cost of RPS compliance. The ten percent limit on Category 3 and the 75 percent minimum on Category 1 are in part to ensure that California load-serving entities like PWP support the development of new renewable energy resources that can provide bundled environmental attributes and power that may be delivered to California loads.

Based on current load and resource production forecasts, together with pending new contracts under negotiation, PWP expects to have sufficient renewable resource agreements to meet its Category 1 minimum requirements beyond the year 2020. Any surplus Category 1 products can be carried over into subsequent years, provided that the RECs are retired within 36 months of being generated. PWP has been procuring short-term Category 2 and 3 RECs as needed, but is also interested in securing longer term contracts as part of a diversified portfolio. The proposed Falls Creek and Powerex contracts are expected to fill PWP’s need for Category 2 and 3 resources for the next four or five years. The contracts will be managed by staff in the PWP Power Supply Division.

### **Selection Process**

In keeping with the spirit and intent of the competitive selection process, PWP undertook a selection process that closely resembled but did not completely conform to the competitive selection process set forth in P.M.C. 4.08.049. PWP solicited offers for Category 2 and 3 through the SCPPA<sup>[1]</sup> Renewable RFP, and by directly contacting

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<sup>[1]</sup> SCPPA is the Southern California Public Power Authority, a joint powers agency that includes the cities of Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Pasadena, Riverside, Vernon, the Los Angeles Department of Water and Power, and the Imperial Irrigation District.

several credible renewable facility owners, marketers, and brokers. The proposed contracts are directly with Pasadena and are not SCPPA contracts.

Powerex was the only supplier offering Category 2 for a term greater than one year. In order to purchase Category 2 products, Powerex required the purchase of some Category 1, which may be surplus to Pasadena's needs. Powerex offered terms of two, four and ten years. The four year term and pricing represent the best fit and value for PWP's energy portfolio needs at this time.

Of over 22 suppliers contacted, only two in addition to Falls Creek were willing to offer five year contracts for Category 3. Falls Creek offered the lowest price at \$1.37 per REC compared to the other quotes for short-term Category 3 RECs ranging from \$2.50 to \$6.00 per REC and long-term pricing ranging from \$4.00 to \$5.50 per REC.

PWP is not aware of any local businesses that offer RECs or any other wholesale energy supplies or associated environmental attributes. The proposed purchase of RECs will not directly result in the creation of new jobs.

#### ***Prior Contracts***

Table 1 summarizes previous transaction with Falls Creek for Category 3 RECs. The total amount paid to Falls Creek for these transactions was \$35,256.75.

**Table 1**  
**Previous REC Transactions with Falls Creek**

<b>Date</b>	<b>Description</b>	<b>Quantity of RECs</b>
4/9/2012	Vintage 2011 RECs	14,914
12/5/2012	Vintage 2012 RECs	15,045
10/22/2013	Vintage 2012 RECs	6,072
5/7/2015	Vintage 2015 RECs	14,265

PWP routinely purchases short-term energy projects from Powerex, and occasionally sells energy to Powerex. The combined value of transactions with Powerex totaled approximately \$1,971,466 in FY2016 and \$796,160 in FY2015.

All transactions with Falls Creek and Powerex in past were executed pursuant to the City Council Resolution numbers 9063 dated October 4, 2010 and 4184-2 dated October 22, 2007.

#### **CITY COUNCIL POLICY CONSIDERATION:**

The proposed agreements are consistent with the City's Urban Accords Goals with respect to renewable energy and greenhouse gas emission reduction goals, the General Plan Energy Element, and the City Council's Strategic Planning Goals of a sustainable economy and to sustain natural environmental resources for the use of

future generations. This procurement is supported by the 2015 Power Integrated Resource Plan and PWP's RPS Procurement Plan.

**ENVIRONMENTAL ANALYSIS:**

The approval of the contracts to purchase RECs from existing low-impact small hydroelectric facilities in Oregon and Idaho, and from the Powerex pool of renewable resources in Washington and British Columbia, all of which are California Energy Commission certified as RPS-eligible, is determined to be exempt from CEQA for the following reasons:

- (i) The proposed activity would not have a significant effect on the environment and is therefore exempt from CEQA under the general rule set forth in CEQA Guidelines section 15061(b)(3), 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.
- (ii) The activity involves existing facilities used to provide electric power or other public utility services and is therefore also exempt from CEQA under the existing facilities rule set forth in CEQA Guidelines section 15301(b).

**FISCAL IMPACT:**

The proposed ten year contract with Falls Creek will cost between \$47,950 and \$94,530 annually for the first five years for Category 3 RECs, as the volume of RECs received can range from 35,000 to 69,000 per year. The contract price will be \$1.37 per REC for the first five years of the contract, and will be a negotiated fair market value price for the last five years. Assuming the second five years will be priced the same as the first five, the total contract value for the Falls Creek transaction will be up to \$945,300.

The proposed four year contract with Powerex will provide Category 1 and 2 bundled renewable energy and RECs in each of the four calendar year delivery periods beginning in 2017 and continuing through 2020. Pasadena will receive 17,500 MWh of Category 1 and 35,000 MWh of Category 2 annually. The purchase price for the renewable energy will be index plus \$13.95 for Category 1 RECs, and index plus \$4.50 for Category 2 RECs. The index price will be based on the California Independent System Operator ("CAISO") market price at the point of delivery. The CAISO will pay Pasadena the index price for the renewable energy delivered to the grid by Powerex and Pasadena will pay Powerex the index price received from the CAISO plus the REC prices listed above. The annual expected fiscal impact for the Powerex agreement is \$401,625. The total contract value for the Powerex transaction will be \$1,606,500.

The value of both the Falls Creek and Powerex contracts together will be up to \$2,551,800. Funding for these actions will be addressed by utilization of existing budgeted appropriations in account 45005550-826800.


The following table presents a summary of the expected annual costs of the contracts.

<b>Falls Creek – Category 3</b>	<b>Quantity</b>	<b>Price</b>	<b>Total</b>
Years 1-5 - Low range	35,000	\$1.37	\$47,950
Years 1-5 - High range	69,000	\$1.37	\$94,530
Years 6-10	Price to be renegotiated		
Total Annual Cost – Falls Creek		\$47,950-\$94,530	
<b>Total Falls Creek Contract Value *</b>		<b>\$479,500 - \$945,300</b>	
<b>Powerex – Category 1&amp;2</b>			
Category 1	17,500	\$13.95	\$244,125
Category 2	35,000	\$4.50	\$157,500
Total Annual Cost – Powerex		\$401,625	
<b>Total Powerex Contract Value</b>		<b>\$1,606,500</b>	
Estimated Annual Fiscal Impact – Falls Creek plus Powerex		\$449,575 - \$496,155	
<b>Estimated Maximum Contract Value – Both Contracts*</b>		<b>\$2,551,800</b>	

*\*Assumes second five years of Falls Creek contract priced the same as first five.*

The impact to other operational programs or capital projects as a result of this action will be none.

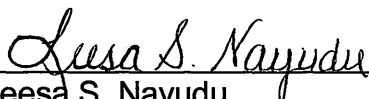
Respectfully submitted,



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