

Agenda Report

October 28, 2024

TO: Honorable Mayor and City Council

THROUGH: Municipal Services Committee (October 22, 2024)

FROM: Water and Power Department

SUBJECT: AUTHORIZE THE CITY MANAGER TO ENTER INTO A POWER SALES AGREEMENT WITH SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY FOR RENEWABLE SOLAR ENERGY FOR AN AMOUNT NOT-TO-EXCEED \$137,197,368 FOR THE WATER AND POWER DEPARTMENT

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) (Common Sense Exemption);
2. Authorize the City Manager to enter into a contract with Southern California Public Power Authority ("SCPPA") for the purchase of renewable energy that includes daily delivery of a maximum of 50 megawatts ("MW") from the Grace Orchard Solar Facility during a 20-year contract term beginning December 1, 2027, for a total amount not-to-exceed \$137,197,368. Competitive price bidding is not required pursuant to City Charter Section 1002(H) (Contracts with other governmental entities), and competitive selection is not required pursuant to Pasadena Municipal Code Section 4.08.049(A)(3), contracts with other governmental entities; and
3. Authorize Pasadena Water and Power's ("PWP") General Manager to execute documents pertaining to operational and administrative matters directly related to this contract.

EXECUTIVE SUMMARY:

NextEra Energy Resources ("NEER"), one of the largest renewable energy developers in North America, is constructing a large photovoltaic solar project, called the Grace Orchard Solar III Project ("Grace Project") in Riverside County, California. As a member of SCPPA, a Joint Powers Authority ("JPA"), and a government entity comprised of eleven municipal utilities (including PWP) and one irrigation district, PWP learned of the Grace Project

through SCPPA's open Request for Proposals ("RFP") for renewable energy and storage projects. Upon completion, the Grace Project is planned to be a 500 MW facility, with SCPPA's share of output to be 170 MW. PWP has negotiated a 20-year Power Sales Agreement ("contract") with SCPPA to purchase this renewable energy – a contract that includes daily delivery of a maximum of 50 MW beginning December 1, 2027. Two other municipal utilities would take the remainder of SCPPA's 170 MW share.

As a zero-carbon resource offered through a 20-year contract, the Grace Project contributes to fulfilling the requirements of City Resolution 9977 that sets a goal to source 100% of Pasadena's electricity from carbon-free sources by the end of 2030. The Resolution has been incorporated into PWP's recently adopted 2023 Integrated Resources Plan ("IRP"), which requires that the City continue a path to zero-carbon resources 15 years before the 2045 target year established by Senate Bill ("SB") 100. California's Renewables Portfolio Standard ("RPS") Program, which is driven by SB 100 goals, currently requires all electric load-serving entities to procure 60% of their electricity portfolios from eligible renewable energy resources by 2030, with the 2045 zero-carbon goal likely to be incorporated in the next regulation. Pasadena's goal greatly exceeds the requirements of both SB 100 and the RPS Program in resource qualifications and timeline, focusing on resources that support the best value of resources while meeting Pasadena's unique energy needs.

BACKGROUND:

In December 2018, the Pasadena City Council approved and adopted the 2018 IRP, which includes a commitment to consider only renewable and/or zero-carbon emitting resources for any new long-term energy contracts. Accordingly, a key component of the 2018 IRP is the termination of PWP's 108 MW interest in the Intermountain Power Project ("IPP"), effective June 2027. In addition, energy resource contracts representing an additional 40 MW are due to expire by the end of 2030 and need to be replaced.

The 2023 IRP, which was approved and adopted by the City Council in December 2023, expands on the goals of the 2018 IRP and outlines multiple pathways to reach Resolution 9977's goal to source 100% of Pasadena's electricity from carbon-free sources by the end of 2030. Pasadena's target is considerably more ambitious than the 2045 zero-carbon goal mandated by SB 100 and associated RPS compliance requirements and will require accelerated planning and procurement in a highly competitive energy resource market.

California's RPS Program includes other related mandated regulatory requirements, such as portfolio disposition and duration targets. Specifically, 65% of a utility's required procurement target must be met by owned or contracted resources that are at least 10 years or more in duration. Furthermore, at least 75% of the target must be met by resources classified as Portfolio Content Category ("PCC") 1, which carries the highest environmental value.

To meet overall procurement and duration requirements, and to replace the energy represented by the 2027 IPP termination and the other expiring renewable contracts, PWP plans to procure a mix of both long- and short-term zero-carbon energy products that

support reliability, meet current and future state and local compliance requirements, and limit potential exposure to long-term stranded investments. The Grace Project, a 20-year opportunity that provides valuable PCC 1 Renewable Energy Credits (“RECs”), will help meet both portfolio disposition and long-term RPS requirements, while also contributing to the zero-carbon goals of the Resolution. RECs are defined as a renewable energy value of 1 megawatt-hour.

Project Selection Process

SCPPA issues RFPs through its website for Renewable Energy Resources and Energy Storage Solutions on a rolling annual basis. During the evaluation process, in which PWP staff participated, over 16 proposals were considered based on criteria focusing on resource type and location, electricity reliability, contract duration, and comparability with existing member solar contracts. The proposal for the Grace Project offered a competitive price and was ultimately determined to be the most responsive for PWP because it qualifies for RPS compliance, diversifies the resource portfolio mix, meets the goals of Resolution 9977, and may someday provide approximately 3.5 MW of Resource Adequacy (“RA”) capacity to help meet requirements set by the California Independent System Operator (“CAISO”).

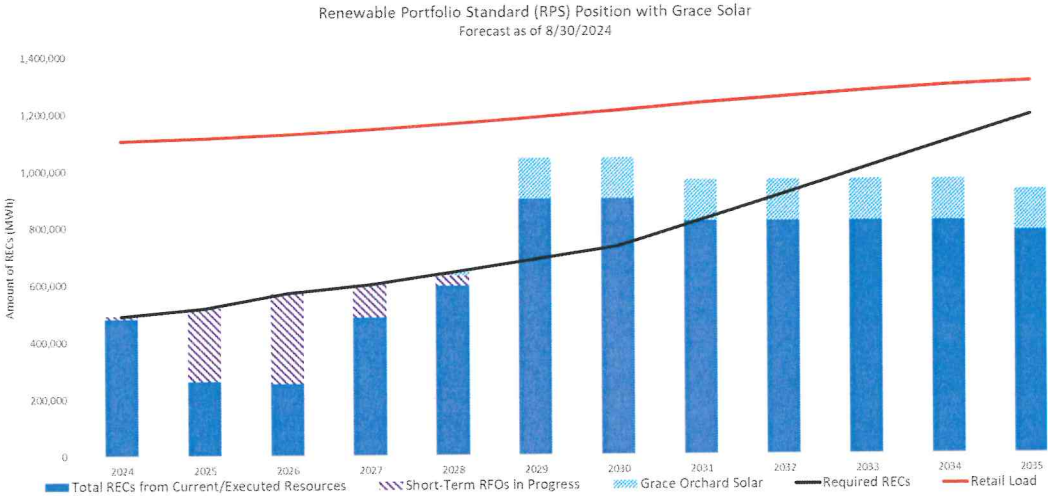
At this writing, NEER is still securing its internal approvals for its underlying contract with SCPPA for the Grace Project. That contract contains an early termination clause that requires NEER to pay SCPPA a \$10 million termination fee in case all such internal approvals are not obtained by November 15, 2024. In that event, PWP would receive its participation share of that fee ($50/170 \times \$10$ million, or about \$2.94 million).

PWP is not aware of any local businesses that develop utility-scale renewable energy projects with associated environmental attributes and therefore did not conduct any local outreach.

Projected RPS Impact on the PWP RPS Energy Portfolio

The Grace Project would contribute significantly to PWP’s renewable and zero-carbon resource portfolio to help meet California’s RPS compliance requirements and the goals of Resolution 9977. Figure 1 depicts PWP’s RPS position as compared to California’s compliance requirements and projected load. In Figure 1, RFO refers to Request for Offers.

Figure 1: Pasadena’s Projected RPS Procurement Need by Calendar Year



*The graph above uses commercial operation date deadlines

Estimated Costs

The annual cost per Megawatt Hour (“MWh”) for this solar resource is provided in Table 1. There is a possibility that the supply chain events underlying the maximum price will not materialize as severely as the Seller anticipates. The Power Purchase Agreement provides for a professional, third-party audit to assess this impact early in the life of the Agreement and allows for a price reduction of up to \$3.75/MWh, subject to the results of the audit. Delivery of power is anticipated to begin on December 1, 2027, which is approximately aligned with PWP’s decrease in capacity from IPP in mid-2027.

Table 1: Estimated Annual Project Cost for PWP

Estimated Annual Solar Cost for PWP	December 1, 2027-November 30, 2047
Solar (\$/MWh)	\$47.46
Annual Cost for Energy (\$)	\$6,859,868.40

*A current annual negotiated projection of full costs for solar is represented. The cost over the course of the contract is estimated to be approximately \$137 million.

The estimated impact to the electric system average rate is a little over half a cent (\$0.0061) per kWh. This reflects the impact of the additional cost for the project. It does not consider the net impact of the Intermountain Power Project exit or other expiring resources and assumes all other rate components are held constant. Other components will be considered in the Electric Rate Study.

Although the project cost will partially be offset through the termination of IPP, PWP will review the combined rate impacts of expiring and future renewable energy contracts as part of its electric cost-of-service study.

As previously noted, the 20-year opportunity has multi-faceted benefits and will help PWP meet both energy portfolio needs and long-term RPS requirements. Moreover, it will reduce the need to purchase in the short-term energy market and exposure to price

volatility. A summary comparison of program attributes of the current short-term market and Grace Solar prices is shown in Table 2.

Table 2: A Comparison of Grace Solar and Short-term Market Prices

Product	Short-term Market	Grace Solar
Energy	\$48.93	\$13.46
Environmental Attributes (RECs)	\$34.00	\$34.00
Total	\$82.93	\$47.46

**Product pricing is based upon current and projected market prices at which PWP is able to transact for energy and associated attributes. The indicative energy price is for January-June 2025, and the indicative renewable energy credit ("REC") price is for Calendar 2027-2041.*

Market Conditions Update

As California and the nation push to decarbonize the power grid as quickly as possible, overall resource scarcity, transmission constraints, and volatile energy market conditions have resulted in extreme competition for resources. Moreover, power resource project developments and construction schedules continue to be impacted by additional CAISO transmission queue requirements (for grid expansion), land use assessments, and environmental impact analyses.

Considering these market challenges, combined with California’s escalating clean energy targets, the Grace Solar Project, which provides multi-faceted benefits, represents a good fit for Pasadena. In addition to providing PCC-1 RECs, which comprise 75% of RPS portfolio balance requirements; a 20-year term, which supports RPS long-term requirements; and energy, which supports RA needs; this proposed opportunity meets all California compliance requirements. Also, as a zero-carbon resource, it comports with the requirements of the Resolution.

Conclusion

It is respectfully requested that the City Council authorize the City Manager to enter into a 20-year contract, without competitive bidding pursuant to City Charter Section 1002(H), contracts with other governmental entities with SCPA to purchase 50 MW of solar generation from the Grace Project beginning on December 1, 2027, and ending on November 30, 2047, for a total not-to-exceed amount of \$137,197,368 over the course of the contract. It is further requested that the City Council grant the proposed contract an exemption from the Competitive Selection process pursuant to Pasadena Municipal Code Section 4.08.049(A)(3) regarding contracts with other governmental entities. Finally, it is requested that the City Council authorize PWP’s General Manager to execute documents pertaining to operational and administrative matters directly related to this contract.

COUNCIL POLICY CONSIDERATION:

The Project, which supports an increase in renewable and zero-carbon energy resources and reduction in GHG emissions, is consistent with the City’s Urban Environmental Accords; specifically, Action 1, Renewable Energy; Action 2, Energy Efficiency; and Action

3, Climate Change, as well as with Resolution 9977, passed by the City Council on January 30, 2023, declaring a climate emergency and setting a goal to source 100% of Pasadena's electricity from carbon-free sources by the end of 2030.

ENVIRONMENTAL ANALYSIS:

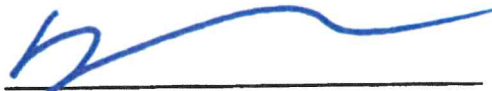
The proposed contract has been determined to be exempt from the California Environmental Quality Act pursuant to State CEQA Guidelines Section 15061 (b)(3), the common sense exemption, that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Pasadena will have no ownership interest, there is no construction by or for Pasadena, nor is there any other direct physical change in the environment attributable to Pasadena. The use of renewable energy would have a beneficial effect on the environment by reducing GHG emissions and air pollutants. Therefore, as it applies to Pasadena, this contract is exempt from CEQA under the common sense exemption set forth in CEQA Guidelines section 15061(b)(3).

FISCAL IMPACT:

The cost of the recommended action is \$137,197,368 over 20 years from Fiscal Years 2028 to 2048. The annual project cost is estimated to be \$6,859,868.

Funding for this action will be addressed by future appropriations in the Power Operating Fund 401. There is no impact to the General Fund.

Respectfully submitted,



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