TO:        HONORABLE CITY COUNCIL

ATTENTION: FINANCE COMMITTEE

FROM:     CITY MANAGER                      DEPARTMENT: UTILITIES

DATE:     APRIL 5, 2005                      CMR:196:05

SUBJECT:   RECOMMENDATION FOR THE CITY OF PALO ALTO UTILITIES TO SUBSCRIBE TO THE CENTRAL VALLEY PROJECT CORPORATION SEASONAL EXCHANGE PROGRAM

RECOMMENDATION
Staff recommends Council authorize the City Manager to execute Participant Exhibit B (Energy Exchange Arrangements for Project Use and First Preference Support) in order to participate in the Central Valley Project Corporation (CVP Corp.) seasonal energy exchange program.

BACKGROUND
On Feb 22, 2005 Council approved Palo Alto’s joining the CVP Corporation [CMR:102:05]. Staff committed to seek Council approval to subscribe to various beneficial services offered by CVP Corp.

Western Area Power Administration (Western) has executed a seasonal energy exchange agreement with the CVP Corp. Under that agreement, Western will provide energy to certain CVP Corp subscribers during the months of May through August most years. The subscribers will purchase it on a daily basis and pay the CVP Corp for the energy at a rate equal to 95% of the Dow Jones North of Path 15 (DJNP15) on-peak market price index. Regardless of Palo Alto’s participation, Western will market up to 10% of its available energy into the seasonal exchange program.

In the winter when Western needs more energy than the Central Valley hydro project can generate, Western can order energy from the CVP Corp. The CVP Corp provides the energy to Western at no charge from market sources (including voluntary designated suppliers who are participants in the exchange).
DISCUSSION
Participation creates an opportunity for Palo Alto to receive up to $750,000 worth of energy from Western that it would otherwise be unable to receive, priced at 95% of market. Subscribers also receive a scheduling benefit from being able to have the energy scheduled into the most valuable hours of each day. That scheduling benefit on average may provide about 6% additional value. Assuming that Western provides $4 million worth of energy each year and Palo Alto’s share is 13%, and that Palo Alto realizes 5% discount and the 6% scheduling benefit, then Palo Alto’s average annual benefit will be $57,000.

Subscribers are also able to volunteer to participate in the winter time energy banking with Western. The City would provide energy (via NCPA) to Western as Western requests. The average benefits of participation in that side of the cycle are estimated at 1% and amount to about $5,000/year. Those benefits would vary between a net cost of $10,000 and a net benefit of $20,000 per year depending upon which hours of the day Western needs energy.

Daily operation in the exchange program will be handled by NCPA, which already handles this service for a half dozen NCPA members. It will be NCPA’s responsibility to schedule the available CVP Corp exchange energy on the participants’ behalf in a beneficial way. At the start of each return energy season (when Western provides energy to the subscribers) Western will announce a seasonal must-pay dollar volume for each subscriber. During the months of April through August each subscriber is able to choose the days and hours they wish to receive the energy and pay towards the must-pay seasonal dollar target. This way Western has seasonal dollar volume certainty and participants have discretion in terms of picking the days and hours during which they wish to purchase energy. Given pool accounting rules, it is in the participant’s interest to have NCPA select to purchase the energy in the highest peak load hours of summer days.

Either party (CVP Corp or Palo Alto) may terminate Palo Alto’s subscription to Participant Exhibit B with 120 days notice to the other.

Risk Assessment
The Energy Risk Manager has reviewed and agrees with the recommendation in this CMR. The risks considered with the CVP Corp exchange agreement center on four concerns: price risk, volume risk, credit risk, and operational risk. Overall the risks associated with this program are very low. The price risk of the Seasonal Exchange program participation itself is nil since daily energy would arrive at daily index and be credited based on the same index. During the April to August period, CVP will receive supplies from Western. It is not known if Western will allow adequate capacity for NCPA to shape the received energy deliveries into the highest ISO load hours to maximize the price advantage to the participants. While Western has indicated it will endeavor to shape the deliveries as requested, it is not obligated to do so. If the actual deliveries do not correspond with Palo Alto’s needs, NCPA will be required to purchase the energy on Palo Alto’s behalf on the spot market, negating the price benefits of the exchange. Additionally, during the November to March period, CVP will purchase supplies from, or exchange products with, volunteering participants to meet the hourly demands outlined by Western. It is not known
if Western will shape its request into the lowest value hours (or lowest ISO load hours) to help the supplier participant’s economics. Western is not obligated to do so.

NCPA administers the exchange agreement. NCPA has verbally indicated it will work to fairly distribute energy during these periods to all of the participants. Additionally, since the April through August delivery period has a “take or pay” contract arrangement, CPAU will ensure that it receives its full allotment of power to maximize the contract value.

RESOURCE IMPACT

The program participation would be managed by NCPA staff and would not adversely impact Palo Alto resources.

POLICY IMPLICATIONS

Subscribing to the Seasonal Exchange program is consistent with Primary Portfolio Planning Objective 2: Provide superior financial performance to customers and the City by maintaining a supply cost advantage compared to market cost (CMR:425:01).

ENVIRONMENTAL REVIEW

Exhibit B Seasonal Exchange has been in place and operating without Palo Alto for about one year and will not be effected by Palo Alto’s subscription to it. Neither the existence of Exhibit B Seasonal Exchange, nor Palo Alto’s subscription to it will have any effect on the levels of reservoirs, volumes and timings of flows of rivers or pumping of water etc.

ATTACHMENTS

A: Resolution approving execution of Exhibit B.
B: Participant Exhibit B (Energy Exchange Arrangements for Project Use and First Preference Support)