TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: UTILITIES

DATE: MARCH 15, 2004

SUBJECT: ADOPTION OF A RESOLUTION OF THE COUNCIL OF THE CITY OF PALO ALTO IN THE AMOUNT OF $167,000 APPROVING PARTICIPATION IN CERTAIN NORTHERN CALIFORNIA POWER AGENCY MEMBER AGREEMENTS (SECOND PHASE AND THIRD PHASE) FOR FINANCING OF PLANNING AND DEVELOPMENT ACTIVITIES FOR AGREEMENTS TO PURCHASE POWER AND PURCHASING POWER FROM NCPA GENERATED BY LANDFILL GAS ELECTRICITY PROJECTS AND WIND ELECTRIC GENERATING PROJECTS

RECOMMENDATION

Staff recommends Council adopt the attached resolution authorizing the City Manager or his designee to execute the three attached member agreements with the Northern California Power Agency (NCPA), to conduct the necessary due diligence, and negotiate power purchase contracts for electric energy supplies generated by wind and landfill gas.

BACKGROUND

On October 21, 2002, the City Council approved the Long-Term Electric Acquisition Plan (LEAP) Guidelines [CMR:398:03], including Guideline #6: Renewable Portfolio Investments, which serves as Palo Alto’s “Renewable Portfolio Standard”. On August 4, 2003, Council approved the LEAP Implementation Plan [CMR:354:03], Task #1 of which is to acquire renewable energy resources to meet LEAP Guideline 6.

On January 14, 2004, staff presented the Utilities Renewable Energy Supply Implementation Plan (Plan) to the Utilities Advisory Commission (UAC). The UAC report, presentation and surrounding discussion summary were provided to Council in an informational report on March 1, 2004 [CMR:168:04]. The Plan has two “tiers”: (1)
power purchase agreements (PPAs) for the near term (2005-2008) to meet the 10% renewable investment target by 2008, and (2) exploring new resource development opportunities for the longer term (2009-2015) to meet the 20% renewable investment goal by 2015. Resources being pursued for the near term are 15-30 MW of wind energy from Solano County with deliveries beginning in 2005, and 3-10 MW of electricity from landfill gas from various locations in and around the Bay Area, with deliveries expected to ramp up from late 2005 to 2007. The proposed projects have been selected by means of the NCPA Renewable Energy RFP, described in detail in the previous staff reports.

The NCPA Commission approved the attached NCPA member agreements on February 26, 2004 (NCPA Commission Resolution 04-03 is attached). The member agreements facilitate the next steps in completing the supply contracts needed to implement Tier 1 of the Plan. Staff expects to bring the resulting contracts to Council for approval to meet these goals during the spring and summer of 2004.

**DISCUSSION**
Staff requests that Council adopt a Resolution authorizing the City Manager or his designee to execute the three attached member agreements with the Northern California Power Agency to conduct the necessary due diligence and negotiate power purchase contracts for electric energy supplies generated by wind and landfill gas. There are two second phase agreements, for landfill gas energy generated by several projects by Ameresco, Inc., and Energy Developments, Inc. (EDI). There is one Third Phase agreement, for wind power generated from the High Winds project by PPM Energy, Inc. (PPM).

The NCPA facilities agreement, effective September 22, 1993, provides for three phases of project planning and development. Each phase provides the option to the participating members to participate in the subsequent phase. The first stage is exploratory, and was completed by means of a comprehensive renewable energy RFP conducted jointly with other NCPA members.

The second phase consists of all work performed after one or more participants has signed an agreement with NCPA for project study or development, before a third phase agreement, and any accompanying power purchase agreement, becomes effective for obtaining the rights to the output of an NCPA project. The two second phase agreements are for projects that are yet to be constructed. The end result of the second phase agreement is a third phase agreement and possibly an accompanying PPA, both to be approved by Council. The third phase agreement is for a project has already been built. The end result of the third phase agreement is a PPA, to be approved by Council.
All of the projects governed by these member agreements will be built, owned, and operated by the third party suppliers. NCPA will serve as the scheduling coordinator, managing the day-to-day balancing activities within the NCPA Pool, verifying deliveries, monitoring supplier compliance with contractual obligations, and managing invoicing and payment. NCPA will purchase the power directly from the projects, and allocate the energy deliveries and costs to the participating members.

The output from these projects will be shared with Alameda Power & Telecom. Palo Alto’s participation percentages are 50% for the landfill gas projects and 67% for the wind project. These percentages also define the portion of the negotiation and due diligence costs paid by each participant. Palo Alto’s share of the costs to complete the work outlined in the three member agreements is $167,000.

The final product specification, volume, contract term, and pricing are to be finalized during negotiations. The combined volume in Tier 1 will meet 8-12% of the City’s expected load. Energy payments will be made as energy is delivered. Estimated total Palo Alto annual cost of the proposed wind PPA is $2.5-5 million. Estimated total Palo Alto annual cost of the proposed landfill gas PPAs is $2-4 million. Energy supplies from wind could start as soon as January 1, 2005, and from landfill gas starting in late 2005 and ramping up through 2007. These contracts are expected to allow Palo Alto to move aggressively toward meeting its LEAP Guideline #6 renewable energy targets well within the system average rate impact limit of ½ ø/kWh.

**RESOURCE IMPACT**
Funds to support Palo Alto’s $167,000 share of the costs to complete the work outlined in the three member agreements are included in the Utilities Electric Fund Supply budget for the current fiscal year 2003-2004.

**POLICY IMPLICATIONS**
The proposed Member Agreements are key elements of the Utilities Renewable Energy Supply Implementation Plan, and supports the Council-approved Utilities Strategic Plan [CMR 432:02] and Utilities Strategic Implementation Plan [CMR:223:01].

Renewable energy supplies are required to meet the targets established by Council in LEAP Guideline #6 (Renewable Portfolio Investments) and also support LEAP Guideline #2 (Hydro Risk Management) and #3 (Market Risk Management) by diversifying Palo Alto’s resources, and #5 (Local Generation) through exploring local renewable generation alternatives.
Implementing LEAP Renewable Portfolio Investments also supports City’s Sustainability Policy Statement, adopted April 2, 2001 [CMR 175:01], the Green Government Pledge, adopted July 19, 1999 [CMR 284:99] and elements of the Comprehensive Plan, specifically:

1. GOAL N-9: A clean, efficient, competitively-priced energy supply that makes use of cost-effective renewable resources, and Policies
2. POLICY N-44: Maintain Palo Alto’s long-term supply of electricity and natural gas while addressing environmental and economic concerns.
3. POLICY N-48: Encourage the appropriate use of alternative energy technologies.

ENVIRONMENTAL REVIEW
Execution of the Member Agreements does not constitute a project for the purposes of the California Environmental Quality Act (CEQA). However, Palo Alto and other participating members intend to receive output from projects that will constitute a project for the purposes of CEQA. These member agreements provide for NCPA, on behalf of itself and the project members to ensure that environmental review has been conducted and certified prior to progressing to any project’s subsequent phase.

ATTACHMENTS
A: Resolution authorizing the City Manager or his designee to execute the three attached NCPA Member Agreements.
B: NCPA Resolution No. 04-03 Authorizing Execution of the Agreements.
C: Member Agreement (Third Phase), Wind, PPM Energy, Inc.
D: Member Agreement (Second Phase), Landfill Gas, Ameresco, Inc.
E: Member Agreement (Second Phase), Landfill Gas, Energy Developments, Inc.

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