TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER
DEPARTMENT: UTILITIES
DATE: JUNE 07, 2004
SUBJECT: ADOPTION OF A RESOLUTION AFFIRMING PRIOR COMMITMENTS FOR FY 2005 AND FY 2006 AND MAKING A NEW COMMITMENT FOR PALO ALTO’S CONTRIBUTION LEVEL FOR FY 2007 TO THE FUNDING OF OPERATION AND MAINTENANCE (O&M) FOR THE CENTRAL VALLEY PROJECT POWER FACILITIES AND AUTHORIZING THE CITY MANAGER TO EXECUTE EXHIBIT C, REVISION 7 TO THE AGREEMENT

RECOMMENDATION
Staff recommends that the City Council adopt the attached resolution authorizing the City Manager to sign the attached Exhibit C, Revision 7 to Contract No. 96-SNR-00110 with Western Area Power Administration and U.S. Bureau of Reclamation that maintains existing commitment levels in the Operation and Maintenance (O&M) funding agreement (Exhibit C) of $4,400,000 for FY 2005, and $5,300,000 for FY 2006, and establishes $6,000,000 as the contribution commitment level for FY 2007.

BACKGROUND
Western Area Power Administration (Western) will provide the largest source of power for Palo Alto for the next several years. Most of the power marketed by Western is generated by Central Valley Project (CVP) hydroelectric plants operated by the Bureau of Reclamation (Reclamation). A variety of money-saving investment and spending opportunities arise in the maintenance, replacement and addition of equipment for the CVP and at Western. To take advantage of these opportunities, Palo Alto participates in the O&M funding program along with several dozen other Western customers. The City
entered into the Agreement for the Funding of Operations and Maintenance for the CVP power facilities on February 10, 1997 (CMR: 138:97). Through directing its normal Western bill payments toward the O&M funding program, the City funds various operations and maintenance efficiency improvements by Reclamation and Western. The improvements being pursued with this funding include replacing water turbines at Carr and New Melones power plants, replacing aging circuit breakers at Trinity power plant and implementing software upgrades to enable Western’s marketing of power post-2004. These improvements will result in short term and long-term savings related to continuing and increasing the City’s access to low-cost federal power that Western markets to the City under long-term supply agreements.

**DISCUSSION**

In July 2003, Council approved increasing Palo Alto’s funding of the Agreement for FY 2003, 2004 and 2005 (CMR 343:03 Attachment A). This request is an annual update for Palo Alto’s funding of the Agreement. This request covers the three-year rolling period FY2005, 2006 and 2007.

The exhibits to the O&M funding agreement are updated from time to time as the level of federal funding changes and as the level of activity changes in the associated Western and the Bureau of Reclamation programs.

The table below shows Palo Alto’s share of Western’s and Reclamation’s minimum requested funding levels of the O&M funding agreement. The right hand column shows the level of contribution commitment recommended by staff.

<table>
<thead>
<tr>
<th>Federal Fiscal Year</th>
<th>Prior Funding Commitment</th>
<th>Minimum Funding Commitment</th>
<th>Revision 7 Contribution Commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$4,400,000</td>
<td>$3,401,050</td>
<td>$4,400,000</td>
</tr>
<tr>
<td>2006</td>
<td>$5,600,000</td>
<td>$5,239,711</td>
<td>$5,600,000</td>
</tr>
<tr>
<td>2007</td>
<td>NA</td>
<td>$5,990,927</td>
<td>$6,000,000</td>
</tr>
</tbody>
</table>

It is important to note that those dollar amounts in the minimum column would only be adequate to fund Palo Alto’s share of several beneficial and vital projects if all 37 other participants in the O&M funding agreement are able to direct their assigned shares of their Western bills. Since there is a strong possibility of some other customers failing to affirm their commitments, and because there is no cost to maintain the City’s commitments, staff recommends Council affirm the prior commitments for 2005 and 2006. The amount requested for the new third year of the series (2007) is needed to
handle O&M and capital projects, including replacing the water wheels at Carr and New Melones power-plants with more efficient low maintenance models. All dollars provided to Western and Reclamation for the customer O&M funding program are returned in the form of credits on the next Western power bill paid by the City. This contract is not a commodity purchase agreement; it is a bill allocation agreement under the City of Palo Alto’s existing Western commodity purchase agreement.

**RESOURCE IMPACT**
There is no net resource impact associated with maintaining or increasing the amount of the City’s Western bill that is dedicated to the O&M funding program. Failure to maintain or increase the allocation of Western bill payments toward the O&M funding program will likely result in an increase in the cost of power to the City in the long-term. There is no impact to the Palo Alto 2004-05 Adopted Budget and 2005-06 Adopted-In-Concept Budget since those budgets appropriated resources to this project in the amount of $4,400,000 and $5,600,000; respectively. Funding for the Fiscal Year 2006-07 in the amount of $6,000,000 will be included in the Electric Fund budget in 2006-07.

**POLICY IMPLICATIONS**
This recommendation is consistent with the Council approved Utilities Strategic Plan to preserve a supply cost advantage compared to the market price (Strategy 2).

**ENVIRONMENTAL REVIEW**
Approving an increase in the O&M funding contract does not constitute a project for the purpose of the California Environmental Quality Act. The funding or spending of money on Western and Reclamation O&M does not impact the volume, timing or temperature of water flows in rivers. The economics of projects funded by the O&M program are attractive under the full range of river flows under consideration by the Department of Interior.

**ATTACHMENTS:**
A. Resolution of the Council of the City of Palo Alto Approving Palo Alto’s Contribution Commitment Levels For FY 2005, 2006, and 2007 To The Funding of Operation and Maintenance for the Central Valley Project Power Facilities and Authorizing the City Manager To Execute Exhibit C, Revision 6 To The Agreement
B. CMR:343:03 “Approving Increases In Palo Alto's Contribution Commitment Levels For FY 2004, 2005 And 2006 To The Funding Of Operation And Maintenance For
The Central Valley Project Power Facilities And Authorizing The City Manager To Execute Exhibit C, Revision 6 To The Agreement”

C. Exhibit C Revision 7 Individual Customer Commitment and Contribution

PREPARED BY: ______________________________  TOM KABAT
Sr. Resource Originator

DEPARTMENT HEAD:  ______________________________  JOHN ULRICH
Director of Utilities

CITY MANAGER APPROVAL: ______________________________  EMILY HARRISON
Assistant City Manager