TO: HONORABLE CITY COUNCIL
ATTENTION: FINANCE COMMITTEE
FROM: CITY MANAGER DEPARTMENT: UTILITIES

SUBJECT: APPROVAL OF A RESOLUTION REQUESTING ASSIGNMENT OF PALO ALTO’S BASE RESOURCE PERCENTAGE TO NORTHERN CALIFORNIA POWER AGENCY 04-SNR-00XXX WITH THE UNITED STATES DEPARTMENT OF ENERGY, WESTERN AREA POWER ADMINISTRATION

REPORT IN BRIEF

For the past several years, staff has informed Council of significant changes occurring as the City’s Western Area Power Administration (Western) contract is renewed for 2005-2024. Palo Alto’s Western Base Resource will essentially be an 11.62% share of the Central Valley Project net output.

In order to maintain the status quo of being able to produce cost savings through Western resource pooling, Western requires customers to assign their Base Resource Percentage to their pooling entity, Northern California Power Agency (NCPA) in Palo Alto’s case. Staff estimates the preserved savings to be approximately $650,000 per year.
**RECOMMENDATION**
Staff requests Council’s approval of the attached resolution approving a request for assignment of Palo Alto’s base resource percentage to Northern California Power Agency 04-SNR-00XXX with the United States Department of Energy, Western Area Power Administration.

**BACKGROUND**
For about 20 years Western has allowed the NCPA pool members including Palo Alto to enjoy the benefits of cooperatively pooling their Western resource to achieve a variety of cost reductions compared to the costs of meeting loads separately with separate shares of Western resource. This has saved Palo Alto millions of dollars without exposure to risky positions.

Palo Alto has always conformed, and will continue to conform, to federal power marketing policies. Starting in 2005, Western is increasing its requirements for proof of adherence to its longstanding policy of prohibiting customer resale of federal power. Western’s post-2004 marketing program requires customers who seek to pool their Western resource to assign their Base Resource percentage shares (BR%) to the pooling aggregator in a revocable manner.

On July 7, 2004 the Palo Alto Utilities Advisory Commission voted 5-0 to recommend that Council approve staff’s recommendation to assign Palo Alto’s Western post 2004 Base Resource allocation percentage to NCPA for pooling purposes.

**DISCUSSION**
Analysis by staff and NCPA shows a Palo Alto share of savings of approximately $650,000 per year achievable in the post-2004 period from load diversity and power delivery arrangements to certain customers who are directly connected to the Western transmission system. This savings amount can fluctuate with a variety of factors, including load growth in Palo Alto, in other member cities, particularly in cities like Roseville which are directly connected to the Western transmission system. The risk to the volume of savings may be mitigated by working cooperatively with directly connected members who have loads exceeding their Western allocations and their internal generation. Those are NCPA members like Roseville, Redding and Turlock.

The savings would not be impacted by Palo Alto’s own generation acquisitions or operations. Pool principles have members avoid being economically harmed by pooling and allow members to share positive savings that result from pooling.
The assignment agreement maintains all of Palo Alto’s rights and obligations as they pertain to an active Base Resource contract with a 0% BR share. This allows Palo Alto to maintain an active relationship with Western and to participate independently in other Western products if approved by Council. The agreement assigns only the BR% share amount of 11.62% to NCPA to enable the continued realization of pooling savings. NCPA would continue to handle the daily scheduling of energy associated with Palo Alto’s 11.62% share of the Base Resource.

The assignment agreement allows NCPA to aggregate the assigned allocation percentages of all its participating members and to have a Base Resource contract of its own with an allocation equal to the sum of those assigned to it. To enable the orderly unwinding of agreements, the assigned allocations will be listed by city and percentage share in a table in NCPA’s Base Resource contract. At the current time it is expected that all ten NCPA pool members will participate in this assignment arrangement. Other non-pool members have expressed interest in this arrangement and may participate at a later date.

The assignment agreement is revocable by Palo Alto upon 90 days prior written notice. The assignment will run from 1/1/2005 through 12/31/2024. The assignment agreement is for execution by Palo Alto and NCPA with an acknowledgement by Western. In order to have time to develop and implement associated pooling benefit allocation algorithms and information management systems, NCPA requests that members interested in assignment secure needed Council approvals by September 30, 2004.

A final draft of the assignment contract prepared for Healdsburg is attached. Staff has requested and will receive a substantially identical executable original contract from Western.

**RESOURCE IMPACT**
Approval of the assignment contract will maintain the status quo with respect to duties and responsibilities split between Palo Alto and NCPA. Therefore approval has no impact on Palo Alto staff resources. Under current assumptions staff estimates savings to be approximately $650,000 per year.

**POLICY IMPLICATIONS**
Executing the assignment contract is consistent with Primary Portfolio Planning Objective 2: Provide superior financial performance to customers and the City by maintaining a supply portfolio cost advantage compared to market cost (CMR:425:01).
**TIMELINE**
UAC approval was secured on July 7, 2004. With Finance Committee approval, Staff will seek Council approval on September 13, 2004 and sign the agreement in October for an effective date of January 1, 2005.

**ENVIRONMENTAL REVIEW**
Executing the assignment contract does not constitute a project for the purpose of the California Environmental Quality Act. The assignment of Base Resource percentage allocation to NCPA does not impact the volume, timing or temperature of water flows in rivers. River flow is governed by other constraints and is managed through releases from regulating reservoirs just downstream of power generating reservoirs. The assignment of Base Resource percentages will on some days improve the release schedule of water from power generators into regulating reservoirs to be a societally more efficient timing of use of existing generators.

**ATTACHMENTS**
A: Model Contract 04-SNR-00XXX Request for Assignment of Member’s Base Resource Percentage to Northern California Power Agency
B: Minutes of July 7, 2004 Utilities Advisory Commission Meeting
C: Resolution Approving A Request for Assignment of Palo Alto’s Base Resource Percentage to Northern California Power Agency 04-SNR-00XXX with the United States Department of Energy, Western Area Power Administration

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