TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: UTILITIES

DATE: OCTOBER 18, 2004 CMR:423:04

SUBJECT: ADOPTION OF A RESOLUTION OF THE CITY OF PALO ALTO AUTHORIZING THE APPROVAL OF AMENDMENT NO. 4 TO THE AGREEMENT FOR FUNDING OF OPERATION AND MAINTENANCE FOR THE CENTRAL VALLEY PROJECT POWER FACILITIES AND AUTHORIZATION TO THE CITY MANAGER TO EXECUTE AMENDMENT NO. 4 TO THE AGREEMENT

RECOMMENDATION

Staff recommends that the City Council adopt the attached resolution authorizing the City Manager to execute the attached Amendment No. 4 to the Agreement for Funding of Operation and Maintenance for the Central Valley Project Power Facilities (Amendment). Staff also request that the Council delegate to the City Manager the authority to sign the Amendment No. 4.

BACKGROUND

After 2004, Western Area Power Administration (Western) will continue to provide the City’s largest share of electricity. Most of the power marketed by Western is generated by the Central Valley Project (CVP) hydroelectric plants operated by the Department of Interior’s 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. However, reductions in federal budgets in past years put significant constraints on Western and Reclamation’s ability to pursue economic opportunities to maintain and improve the efficiency of the CVP. Therefore, the City,
along with several dozen other Western customers, entered into the Agreement for Funding of Operations and Maintenance (O&M) for the CVP Power Facilities (CMR: 138:97 on February 10, 1997) in order to take advantage of these opportunities (provided as Attachment A to this CMR and referred to as “Agreement” in this CMR). Amendment No. 1 to the Agreement was a minor amendment adopting Western’s standard general power contract provisions as applicable to the Agreement. Amendment No. 2 was another minor amendment binding parties’ successors to the terms of the Agreement and requiring Governance Board (the board formed among participants to the Agreement that approves the O&M plans that are funded through the Agreement) approval of assignment of the Agreement. Amendment No. 3 permitted the larger capital improvement projects to be funded without requiring a separate customer funding agreement.

**DISCUSSION**

The Agreement specifies several types of customers to be represented on the governing board. One of these types is the Small Customer. The Agreement currently defines small customer as one having a Contract Rate of Delivery less than 20 Megawatts. That definition will not be applicable after 2004 only because there will no longer be Contract Rates of Delivery. That term is being replaced by the term Base Resource percentage. Amendment 4 changes the definition of a Small Customer to be “A customer with a …Base Resource percentage of 1.328% or less under the 2004 Marketing Plan….”. Palo Alto will continue to retain a seat on the governance board.

Signing this Amendment facilitates Western’s and the Bureau’s continued inclusion of small customers in the governance of the Agreement. Failure to approve this Amendment may harm the goodwill enjoyed by the City and may cause minor harm to the City in the long-term. Failure to approve this amendment may lead to loss of small customer participation in the O&M funding program and a loss of funds to implement projects that benefit all customers including Palo Alto.

This Amendment can be enacted only after all of the original signatories to the Agreement approves the Amendment. Because the City is one of the 30 signatories to the original Agreement, the City’s execution of the Amendment is needed to enable the Amendment.

**RESOURCE IMPACT**

Approval of this Amendment has no impact on resources. Failure to approve this Amendment could have a minor, long-term adverse impact on staff workload and on the cost and amount of federal power available.
POLICY IMPLICATIONS

This recommendation is consistent with the City Council approved Utilities Strategic Plan to preserve a supply cost advantage compared to the market price (Strategy 2). The continued funding of Western and Reclamation O&M allows Reclamation to produce more electricity through efficiency improvements at its facilities for a given water release consistent with the City’s Green Government Pledge.

ENVIRONMENTAL REVIEW

Approving this Amendment to the O&M funding agreement does not constitute a project for the purpose of the California Environmental Quality Act.

ATTACHMENTS:

A. Resolution Of the City Of Palo Alto approving Amendment No. 4 to Agreement for Funding of Operation and Maintenance for the Central Valley Project Power Facilities
B. Agreement for Funding of Operation and Maintenance for the Central Valley Project Power Facilities
C. Amendment No. 4 to Agreement for Funding of Operation and Maintenance for the Central Valley Project Power Facilities

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