TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DATE: OCTOBER 25, 2004

DEPARTMENT: UTILITIES

SUBJECT: ADOPTION OF A RESOLUTION APPROVING THE TRANSMISSION AGENCY OF NORTHERN CALIFORNIA PROJECT AGREEMENT NO. 5 FOR THE PARTICIPATION IN AN OPEN ACCESS SAME TIME INFORMATION SYSTEM

RECOMMENDATION
Staff recommends that Council adopt a resolution approving the Transmission Agency of Northern California (TANC) Project Agreement No. 5 (P.A. No. 5) for the participation in the “wesTTrans” Open Access Same Time Information System (OASIS). P.A. 5 authorizes and directs TANC to act on behalf of its participating members to become a participant in the wesTTrans OASIS, and defines how the costs and revenues associated with the OASIS participation are to be allocated among participating members.

BACKGROUND
In 1996 the United States Federal Energy Regulatory Commission (FERC) issued two landmark orders, FERC Order 888 and FERC Order 889. These two orders played key roles in opening the national wholesale energy market to competition by ensuring that wholesale customers and suppliers had access to the largely monopoly-owned transmission grid. Order 888 required transmission owners to provide open access to transmission services. Soon afterward, Order 889 set standards regarding information that utilities must make available to the marketplace and established OASIS, a bulletin board system for sharing this information. OASIS allows energy customers on the wholesale market to schedule and reserve capacity on the national regional transmission grids to ensure that energy can be delivered to customers without competitive interference. As an active participant in the wholesale energy market, the City is supportive of efforts that result in open and transparent access to the transmission grid.
TANC, as project manager, constructed the California-Oregon Transmission Project (COTP) in the early 1990s. COTP is a high-capacity transmission line rated at 1,600 megawatts, which stretches 346 miles from Captain Jack Substation near Malin, Oregon through Northern California to PG&E’s Tesla Substation, east of San Francisco. TANC owns 75% of the transfer capability on COTP and, through participation in TANC, the City has rights to a 50 megawatts share, which translates to just over a 4% share of TANC’s COTP. The decision to participate in the COTP was made so the City would have access to low cost energy from the Northwest when energy was available.

**DISCUSSION**

On March 31, 2004, a voluntary coalition of transmission providing entities in the western United States began offering access to their transmission systems on a single OASIS site, known as the wesTTrans OASIS. The 18 original participants include the Sacramento Municipal Utility District (SMUD), the Western Area Power Administration (WAPA), and the Los Angeles Department of Water and Power (LADWP).

As an owner and operator of COTP, TANC desires to enhance transmission availability in California by making the participating members’ unused and unencumbered transfer capability available for use by other entities. The participating members for this endeavor are the cities of Alameda, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah; the Modesto Irrigation District; the Turlock Irrigation District; and the Plumas-Sierra Rural Electric Cooperative. (SMUD is participating in wesTTrans independently). TANC and its participating members have concluded that it is in their interest and in the interest of electricity customers in California for TANC to participate as a transmission provider on the wesTTrans OASIS. On August 23, 2004, the TANC Commission approved Resolution 2004-30 authorizing execution of TANC P.A. 5 and other agreements associated with TANC’s participation in the wesTTrans OASIS.

Although the City is not under FERC jurisdiction, participation in the wesTTrans OASIS will abide by the FERC Order 888 surplus transmission posting requirements. Surplus transmission is defined as transmission available after first meeting the City’s transmission needs. At present, value of this transmission asset is maximized by procuring lower cost supplies at the California-Oregon Border (COB) and delivering it to the City using the City’s share of the COTP and also using the PG&E/ISO grid. When the cost of supply is higher at COB compared to Northern California prices, any surplus power is wheeled out of California for sale to the utilities in the Northwest. When price
differentials are non-existent, neither Palo Alto nor the Northern California Power Agency (NCPA) on behalf of Palo Alto utilizes the line.

Participation in wesTTrans will provide another tool to capture the value of the City’s surplus COTP capacity. In addition to capturing value for the City, a centralized OASIS such as wesTTrans supports fair and open access to participating members’ surplus transmission to other entities in the market, thus meeting the requirements of the open access requirements of FERC Order 888.

PA No. 5 authorizes and directs TANC to act on behalf of its participating members to become a participant in the wesTTrans OASIS, including: 1) the negotiation and execution of a service agreement with Open Access Technologies, Inc.; and 2) the designation and execution of a service agreement with a TANC OASIS administrator. P.A. 5 further defines how the costs and revenues associated with the OASIS participation are to be allocated among participating members.

Following execution of this P.A. 5 and establishment of the required tools to undertake transactions via the OASIS bulletin board, staff will seek Council authorization for Palo Alto staff, in coordination with NCPA staff, to transact and post surplus COTP transfer capability through the TANC OASIS administrator.

**RESOURCE IMPACT**

The City of Palo Alto will be allocated 5.55% of the costs of the wesTTrans OASIS participation. This will include a one-time service initiation fee and a monthly service fee to wesTTrans OASIS, and a monthly fee for the TANC OASIS administrator. The minimum subscription term is 12 months from the date that TANC initiates service on the wesTTrans OASIS. Following the initial twelve-month period, a participating member may terminate its participation upon sixty days written notice to TANC. The following table specifies the fees for the wesTTrans OASIS. An additional fee for the TANC administrator will also be assessed.

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<tr>
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<th>One-Time Service Initiation Fee</th>
<th>Monthly Service Fee</th>
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<tbody>
<tr>
<td>WesTTrans OASIS Charge</td>
<td>$ 50,000</td>
<td>$ 5,000</td>
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<tr>
<td>City of Palo Alto Share</td>
<td>$ 2,775</td>
<td>$ 277.50</td>
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Revenue resulting from the sale of the participating members’ offered transfer capability is distributed by the TANC OASIS administrator in proportion to each participating
member’s binding offer of transfer capability posted on the OASIS for the given transaction period.

POLICY IMPLICATIONS
This recommendation is consistent with the Council-approved Utilities Strategic Plan to preserve a supply cost advantage compared to the market price and conforms to the RMD policies and guidelines.

ENVIRONMENTAL REVIEW
Execution of this project 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 the Transmission Agency of Northern California Project Agreement No.5 for the participation in an Open Access Same Time Information System
B: TANC Project Agreement No. 5

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