TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER                DEPARTMENT: UTILITIES

DATE: NOVEMBER 8, 2004                                     CMR:460:04

SUBJECT: ADOPTION OF A RESOLUTION APPROVING THE
ASSIGNMENT ADMINISTRATION AGREEMENT FOR
WESTERN AREA POWER ADMINISTRATION BASE
RESOURCE PERCENTAGE BETWEEN NORTHERN
CALIFORNIA POWER AGENCY AND CITY OF PALO ALTO

RECOMMENDATION
Staff requests Council’s approval of the attached resolution approving the assignment administration agreement for Western Area Power Administration (Western) base resource percentage between Northern California Power Agency and City of Palo Alto.

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. During this time, Palo Alto has been a signatory to the NCPA pooling agreement that governed the calculation and allocation of costs and benefits in a fair and equitable way. The changing nature of the Western power resource will make much of the pooling agreement obsolete with respect to the Western resource. In order to maintain resource pooling benefits, Council recently approved an agreement assigning Palo Alto’s Western Base Resource percentage to Northern California Power Agency (CMR 366:04).

DISCUSSION
Staff is recommending Council approval of a companion agreement to document the pooling principles that will be applied in determining and allocating the costs and
benefits created by pooling the resource. The attached agreement is a bilateral agreement between each participating member and NCPA. The body of the agreement outlines principles to be followed in determining benefit calculation and allocation to members. The schedules accompanying the agreement detail the formulas for the application of those principles in calculating and allocating costs and benefits to members. The schedules can only be changed by a unanimous vote of participating NCPA Commissioners.

At the current time it is expected that ten of the eleven NCPA pool members will participate in this assignment arrangement. Other non-pool members have expressed interest in this arrangement and may join at the inception or at a later date. The estimated savings depend on the mix of other members joining in to assign their Western resource to NCPA. Much of the savings depend on the actions of the City of Roseville and the Turlock Irrigation District. If they cannot be convinced to cooperate for a share of the savings, staff will consider terminating Palo Alto’s assignment as well.

The agreement will run from 1/1/2005 through 12/31/2024, and is revocable by Palo Alto upon 60 days prior written notice. The agreement cannot be changed without Council action. The agreement is for execution by Palo Alto and NCPA and will be made available to Western for its review. A final draft of the agreement is attached. Staff will receive a substantially identical executable original contract from NCPA.

**RESOURCE IMPACT**
Approval of the Agreement will maintain the status quo with respect to duties and responsibilities split between Palo Alto and NCPA. Approval has no impact on Palo Alto staff resources. Under current assumptions, staff estimates savings resulting from pooling to be approximately $650,000 per year for Palo Alto with Roseville participating and about $150,000 per year without Roseville or Turlock.

**POLICY IMPLICATIONS**
Executing the Agreement 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**
NCPA staff produced a first draft agreement on September 8, 2004. 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 November 15, 2004. The agreement is intended to be effective on January 1, 2005.

**ENVIRONMENTAL REVIEW**
Executing the Agreement contract does not constitute a project for the purpose of the California Environmental Quality Act. The Agreement 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.

**ATTACHMENTS**

A: Resolution Approving Assignment Administration Agreement For Western Area Power Administration Base Resource Percentage between Northern California Power Agency and City of Palo Alto

B: Assignment Administration Agreement For Western Area Power Administration Base Resource Percentage between Northern California Power Agency and City of Palo Alto

C: CMR 366:04 Approval of a Resolution Requesting Assignment of Palo Alto’s Base Resource Percentage to Northern California Power Agency 04-SNR-00XXX with the US Department of Energy, Western Area Power Administration

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