TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER        DEPARTMENT: UTILITIES

DATE: NOVEMBER 8, 2004                           CMR:430:04

SUBJECT: ADOPTION OF A RESOLUTION AUTHORIZING EXECUTION OF
A LETTER OF AGREEMENT AND PAYMENT OF $300,000 TO
THE CITY OF ROSEVILLE IN COMPENSATION FOR
CALAVERAS HYDROELECTRIC PROJECT WATER STORAGE
TRANSFERS PERTAINING TO THE CULMINATION OF THE
AGREEMENT BETWEEN THE CITIES OF PALO ALTO AND
ROSEVILLE FOR THE ASSIGNMENT OF CAPACITY IN THE
NORTH FORK STANISLAUS RIVER HYDROELECTRIC
DEVELOPMENT PROJECT AND OTHER ELECTRIC
RESOURCES

RECOMMENDATION
Staff requests that Council approve a resolution authorizing the City Manager to execute
the attached letter of agreement and to make a payment of up to $300,000 to the City of
Roseville in compensation for Calaveras hydroelectric project water storage transfers

BACKGROUND
In 1991, the City assigned its energy and capacity rights to 6.52% of Northern California
Power Association (NCPA) Calaveras hydro-electric project share to the City of
Roseville (Roseville), for the period January 1, 1991 to December 31, 2004 (CMR
155:91). This reduced the City’s rights to the project from 22.92% to 16.4% during this
period.

With the expiration of this assignment agreement in December 2004 - the expiration was
designed to coincide with the ending of City’s original Western agreement - the City
expects to take on rights to all 22.92% of its original share of the project. In an average
hydro year from 2005 forward, the project is expected to meet approximately 12% of the
City’s annual energy needs.
**DISCUSSION**

The original assignment agreement ("Agreement Between the Cities of Palo Alto and Roseville for the Assignment of Capacity in the North Fork Stanislaus River Hydro Electric Development Project and other Electric Resources", approved by Council on March 28, 1991) contemplated a simple reversion – whereby Roseville would relinquish its rights to the 6.52% of assigned project share along with corresponding obligation to pay the corresponding debt and Operating and Maintenance costs. However, the original contract did not contemplate either a change in the amount of water behind the dam that NCPA carries over from one year to the next (and out of the contract period) or the associated compensation for the amount of water behind the dam at the time of reversion of rights on December 31, 2004.

In the past few years the amount of water behind the dam carried over each December 31 for the NCPA pool share of the project has been approximately 50,000 acre-feet. However, in anticipation of the loss of the flexibility of the Western Area Power Association (WAPA) contract in 2005, NCPA intends to carry over an additional quantity of water behind the dam in 2004 to help in real-time operations in 2005. This additional quantity of water carried over from 2004 to 2005 is expected to be 20,000 acre-feet. This additional carryover of water results in a loss of value for Roseville in this final year of the 1991-2004 assignment agreement. The value of this additional water is estimated at $300,000. Since the benefit of this value will accrue to Palo Alto in 2005, Palo Alto and Roseville staff, in coordination with NCPA staff, have determined that it appears fair for Palo Alto to pay this sum to Roseville in compensation for the loss of value Roseville will suffer as a result of lost electricity generation in year 2004.

Roseville staff has indicated that if Palo Alto does not compensate Roseville for the value foregone by Roseville in 2004, Roseville will sell the rights to the water to another NCPA member.

The attached letter of agreement is for Palo Alto to pay Roseville $300,000 for the rights to carryover water storage and for Roseville to waive its rights to otherwise act on or dispose of those rights.

**RESOURCE IMPACT**

There is no resource impact related to this payment with respect to power budgets. NCPA has withheld water that can generate about $300,000 worth of electricity in the coming year. The $300,000 payment to Roseville gives Palo Alto the rights to a greater amount...
of energy in year 2005, and will result in the City having to procure less energy in year 2005 to meet loads.

**POLICY IMPLICATIONS**
There are no policy implications to this recommendation. The recommendation conforms to the Utilities Strategic Plan and Energy Risk Management Policies and Guidelines.

**ATTACHMENT**
A. Resolution authorizing the City Manager to make a payment of $300,000 to the City of Roseville in compensation for Calaveras hydroelectric project water storage transfers pertaining to the culmination of the Roseville-Palo Alto Assignment Agreement of 1991
B. Letter Agreement between the Cities of Roseville and Palo Alto, regarding the disposition of Roseville’s Share of Calaveras Project Water per the June 14, 1991 Roseville - Palo Alto Assignment Agreement

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