This is an informational report. No Council action is required.

BACKGROUND
The City of Palo Alto participates in the Northern California Power Agency (NCPA) electric power pool where loads and resources are pooled to achieve economies of scale. At present the pool consists of 11 members and operates under the terms of the September 1993 NCPA Pooling Agreement (CMR: 477:92). NCPA’s cost to operate the pool and provide related services in FY 05-06 is budgeted at $7.3 million of which the City’s share is $1.7 million. The City’s participation in the power pool has provided numerous benefits including achieving economies of scale of operation, pooling benefits associated with the City’s Western Area Power Administration contract, pooling of load to avoid peak demand based charges, and transacting within the pool and avoiding volatile real time prices.

The City also obtains services from NCPA under the August 2002 Scheduling Coordinator Program Agreement (CMR: 298:02) for dispatching and scheduling load and resources with the California Independent Systems Operator (ISO). The provision of this service costs NCPA $5.4 million, of which Palo Alto’s allocation is $1 million.

The City of Roseville, along with the City of Palo Alto, was one of the original ten NCPA members forming the NCPA power pool. Roseville now indicates that the benefits it obtains from the pool have decreased due to its move to the Western sub-Control Area in January 2005 and due to the restructuring of the long-term Western energy contract. Additionally, Roseville is rapidly growing and has a large power plant coming online within its boundaries in 2007. These seem to be the reasons that prompted Roseville to examine alternative arrangements, and have now resulted in its official notice of withdrawal from the NCPA Pooling Agreement. Roseville will continue to participate in NCPA’s legislative, regulatory and resource acquisition efforts.

DISCUSSION
The Roseville City Council voted to approve the staff recommendation to withdraw and Roseville has formally notified NCPA of this decision (Attachment A). Roseville’s pool
withdrawal is to be effective as of July 1, 2006. NCPA staff is now in a consultative process with members to accommodate and implement Roseville’s pool withdrawal (Attachment B).

Staff is studying the impact of Roseville’s withdrawal from the pool on the City. At a minimum, the withdrawal of the pool’s largest member will reduce the economies of scale associated with NCPA pool operations. Roseville’s withdrawal from NCPA is limited to NCPA pool operations. It will continue to participate fully in NCPA power plant operations and joint action efforts related to regulatory and legislative efforts.

Staff has been planning for this possibility for over six months, by constantly engaging NCPA staff to develop contingency plans in the event of such withdrawal and loss of financial contribution to NCPA’s fixed overheads. NCPA staff has undertaken numerous efforts to attract new members, expand service offerings, and contain costs. The results of such efforts include the decision by Bay Area Rapid Transit (BART) to join NCPA as a full member. The Port of Oakland became a pool member in August 2003 and the expansion of services to BART is anticipated starting 7/1/2006. Several other NCPA initiatives are in progress. The potential increased cost to the City will be included in the budget.

**RESOURCE IMPACT**
Allocation of NCPA fixed costs to a fewer number of members will likely increase Palo Alto’s cost allocation share within the pool and the ISO scheduling coordinator program. The extent of this increase is uncertain at this time. Very preliminary estimates are that the cost increase to the City could be between $500,000 and $700,000, but could be lower depending on other NCPA initiatives. The City’s FY 06-07 budget request will include a $700,000 increase to cover this potential contingency. Staff will be analyzing the cost competitiveness of NCPA service levels to the City in the coming months as NCPA restructures around Roseville’s withdrawal.

**NEXT STEPS**
Staff will continue to update the UAC and Council of new developments and potential economic impacts on NCPA generally and Palo Alto specifically.

**ATTACHMENTS**
A. City of Roseville Notice of withdrawal from NCPA Pooling Agreement dated 12/5/05
B. Letter from NCPA staff acknowledging notice of withdrawal dated 12/8/05

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