TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER DEPARTMENT: UTILITIES
DATE: MAY 1, 2006 CMR:222:06
SUBJECT: ADOPTION OF RESOLUTION APPROVING THE CITY OF PALO ALTO INTERIM ELECTRIC UTILITY RESOURCE ADEQUACY PROGRAM AND DELEGATING THE AUTHORITY TO THE CITY MANAGER TO MAKE CHANGES TO THE ELEMENTS OF THE PROGRAM TO CONFORM TO CHANGES IN STATE LAW AND POLICY THAT IMPLEMENT PRUDENT UTILITY PRACTICES

RECOMMENDATION
Staff recommends that City Council adopt the resolution approving the City of Palo Alto Interim Electric Utility Resource Adequacy Program described in Attachment 2 and delegating the authority to the City Manager to make changes to the elements of the Interim Electric Utility Resource Adequacy Program to conform to changes in state law and policy that implement prudent utility practices.

BACKGROUND
This CMR transmits the Utility Advisory Commission’s recommendation that Council approve the City of Palo Alto Interim Electric Utility Resource Adequacy Program described in Attachment 2 and delegate to the City Manager the authority to make changes to the elements of the Interim Electric Utility Resource Adequacy Program to conform to changing utility practices and State policy.

On March 13, 2006, the California Independent System Operator (CAISO) filed an Interim Reliability Requirements Program Amendment to the CAISO Tariff with the Federal Energy Regulatory Commission (FERC) that imposes certain resource adequacy requirements on Palo Alto and other Load Serving Entities (LSEs). This filing, if approved by FERC, will require the City to adopt a resource adequacy program prior to May 12, 2006 or be subject to a FERC-enforced backstop tariff. Resource adequacy is the term describing the quantitative requirement...
on LSEs to procure ample electric generation anywhere deliverable to load in its control area to meet the LSE’s peak load and reserve requirements. At its March 27, 2006 meeting of the Northern California Power Agency (NCPA) Commission, the NCPA Commission approved a resource adequacy program and recommended that each of its member governing boards or Councils adopt the same or similar reliability requirements program. Attachment B is the recommended Interim Electric Utility Resource Adequacy Program (ERAP) for the City of Palo Alto Electric Fund. It incorporates the approved NCPA resource adequacy program with modifications in italics as proposed by staff.

To avoid having FERC impose backstop tariffs, LSE’s are adopting their own well thought out locally developed resource adequacy plans to continue the tradition of maintaining reliability for their customer-owners.

**BOARD/COMMISSION REVIEW AND RECOMMENDATIONS**

The attached Interim ERAP was presented to the Utilities Advisory Commission (UAC) at its April 19, 2006 meeting. The full UAC packet on this topic is in Attachment 3. The UAC had some questions to clarify certain technical aspects of the program. Excerpts of the UAC meeting minutes approving this program is in Attachment 4. The UAC voted unanimously to approve staff request.

**RESOURCE IMPACT**

The cost of meeting reliability requirements is included in the proposed budget. Given current hydro conditions there is no incremental cost in the coming fiscal year associated with adopting this policy because the current load and resource balance forecast predicts a California system capacity surplus above the proposed planning reserve margin.

Though not the subject of this CMR, additional regulations related to resource adequacy calculated at the local level are also being developed right now. These regulations may require LSE’s to procure a large portion of their required resources from generators in their local levels – for Palo Alto within the Bay Area. Current assumptions indicate that these rules may cost the City $4.3 million per year in the long run and a portion of these costs could be imposed on the City this summer, depending on final regulations. The current and upcoming budget contains provisions to cover such a contingency.

**POLICY IMPLICATIONS**

Adoption of the Interim ERAP is consistent with Council approved policy to follow regulatory mandates, maintain local control over utility services and provide reliable electric power.

Not adopting an Interim ERAP before May 12, will result in the City being subject to a Federal Energy Regulatory Commission enforced tariff for resource adequacy.

Additionally, the LEAP Implementation Plan that was approved by Council on April 17, 2006, included a statement to, “Establish a policy to address mandatory resource adequacy requirements.”
ATTACHMENTS
1. Resolution Approving City of Palo Alto Interim Electric Utility Resource Adequacy Program
2. City of Palo Alto’s Interim Electric Utility Resource Adequacy Program
3. UAC Report of April 19, 2006 with Attachments B, C. and D
4. Excerpts of the UAC Meeting Minutes of April 19, 2006 - Draft

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CITY MANAGER APPROVAL: ________________
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