TO:       HONORABLE CITY COUNCIL
FROM:     CITY MANAGER          DEPARTMENT: UTILITIES
DATE:     JULY 17, 2006           CMR:296:06

SUBJECT: ADOPTION OF RESOLUTION APPROVING THE NORTHERN CALIFORNIA POWER AGENCY GREEN POWER PROJECT (NGPP) THIRD PHASE AGREEMENT AND PARTICIPATION BY THE CITY OF PALO ALTO IN THE NGPP FOR THE PURCHASE OF RENEWABLE ELECTRICITY OF UP TO 15 AVERAGE MEGAWATTS OF ENERGY OVER 25 YEARS WITH AN ESTIMATED COST OF UP TO $230 MILLION (2006 DOLLARS)

RECOMMENDATION
Staff and the Utility Advisory Commission recommend that City Council adopt the resolution approving the Northern California Power Agency Green Power Project (NGPP) Third Phase Agreement (Agreement) and the City of Palo Alto’s participation in the NGPP for the purchase of renewable electricity of up to 15 average megawatts (aMW) of energy. Additionally, for this Agreement, staff recommends Council waive the investment-grade credit rating requirement under Section 2.30.340 (d) of the Palo Alto Municipal Code.

DISCUSSION
Participation in the NGPP program has the potential of supplying up to 13% of the City’s electrical energy needs with eligible renewable resources. This will increase the share of eligible renewable resources in the portfolio from 17% to 30%. Combined with the 50% of supply from large hydro resources and 3% voluntary PaloAltoGreen Program, the City’s mix of non-fossil fuel resources would increase to 83%.

The City’s participation in the NGPP Third Phase Agreement (Attachment 2) will occur within the following parameters:
1. The City’s participation will be at 15 average MW, resulting in 131 GWh/year of energy deliveries that would meet 13% of the City’s retail electric load.

2. The City’s share of participation in this Agreement is expected to be 18.5% as shown in Exhibit A of the agreement.

3. The average procurement price of energy shall not exceed $70/MWh (in 2006 dollars) and the maximum contract price for any single contract shall not exceed $250/MWh. (Note: The NCPA Commission on June 22, 2006 approved the average procurement price limit at $70/MWh in 2006 real dollar terms. The June 7, 2006 Utility Advisory Commission report had the $70/MWh average price limit in 2005 dollars, not the updated number.)

4. The total cost of renewable energy purchases under this agreement over 25 years could be up to $230 million (in 2006 dollars) or $310 million in nominal dollars over 25 years.

5. The term of any single contract shall not exceed 25 years.

6. Each resource shall be allocated to participating members according to the approved participation percentages of the agreement (Exhibit A).

7. Each participating member covenants and agrees to appropriate funds on an annual basis as part of its electric budget to pay for resources contracted under the agreement.

8. A pro forma Request for Proposals to solicit renewable electric power supply and a pro forma Renewable Energy Power Purchase Agreement are included as Exhibits G & F to the agreement.

9. Section 10.5 of the agreement provides the NCPA Commission discretion to modify Exhibit A to incorporate changing participating member percentages, Exhibit C to include resources as they are approved by the NCPA Commission and exclude resources once their term expires, Exhibit E to determine the contract price for individual supply contracts, and Exhibit G to update the pro-forma Power Purchase Agreement to accommodate changes specific to each renewable resource contract. Additionally, section 10.5 of the Agreement provides the NCPA General Manager discretion to modify the form of the Request for Proposal (Exhibit F) and to develop evaluation and analysis schedules for the proposed resource (Exhibit B). 

The NCPA Commission on June 22, 2006 created the NGPP program and approved the Third Phase Member Agreement for Participating Members within the parameters outlined above. The NCPA Commission approval packet is provided as Attachment 3.

Potential suppliers of renewable resources under the Agreement could be small companies that may not have a credit rating from Moody’s or Standard and Poor’s. Since energy deliveries will be tied to specific generators and specific locations, as opposed to market contracts whose deliveries are often backed by financial strength or collateral rather than a physical asset, staff recommends that Council waive the investment-grade credit rating requirement for public agency contracts under Section 2.30.340 (d) of the Palo Alto Municipal Code. This conforms to Council action on prior renewable resource contracts (CMR: 461:04). This waiver will be evaluated on a case-by-case basis and will be provided only for small companies that do not have credit ratings.
BOARD/COMMISSION REVIEW AND RECOMMENDATIONS
The NGPP Third Phase Agreement parameters were presented to the Utilities Advisory Commission (UAC) at its June 7, 2006 meeting (Attachment 4). The Commissioners had several questions related to performance risks, retail rate impacts, contract start dates, limits on individual contracts, and cost of administering the program. These questions were answered by staff to the satisfaction of the Commissioners. Excerpts of the UAC meeting minutes is in Attachment 5. The UAC voted unanimously to approve the staff request.

RESOURCE IMPACT
The cost of renewable supply under this Agreement could be up to $230 million (in 2006 dollars) or $310 million in nominal dollars over 25 years. The incremental retail rate impact is estimated at less than 0.3 cents/kWh.

POLICY IMPLICATIONS
Participation in NGPP supports the Council-approved Utilities Strategic Plan to enhance customer satisfaction and utility infrastructure, employ balanced environmental solutions, and provide fair and reasonable returns to the City and competitive rates to customers through municipal ownership. Participation is also in accordance with the Utilities Energy Risk Management Policies. The rationale for the staff recommendation to waive the credit requirements for public agency contracts under Section 2.30.340 (d) of the Palo Alto Municipal Code is explained in the report and conforms to prior Council waivers in this regard. Participating in NGPP conforms to the rate impact limits in LEAP Guideline 6 and aims to purchase renewable energy supplies in excess of the target of 20% of expected portfolio load by 2015.

- LEAP Guideline #6: Renewable Portfolio Investments: The City shall continue to offer a renewable resource-based retail rate for all customers who want to voluntarily select an increased content of renewable energy. In addition to the voluntary program, the City shall invest in new renewable resources to meet the City’s sustainability goals while ensuring that the retail rate impact does not exceed 0.5¢/kWh on average. Pursue a target level of new renewable purchases of ten percent of the expected portfolio load by 2008 and move to a twenty percent target by 2015, contingent on economic viability. The contracts for investment in renewable resources are not to exceed 30 years in term.

LEAP Guideline # 3 limits the amount of fixed price energy purchases to 75% of expected load for 5 years or more out, assuming an average hydro year. This guideline was designed to maintain some exposure (25%) to shorter term market prices to mitigate the risks of owning high-priced resources if energy prices in the future reduce considerably. Entering into this Agreement has the potential to reduce shorter-term market price exposure to approximately 17% and commit up to 83% of expected supplies with long term fixed price contracts. This recommendation also results in an estimated retail rate impact of 0.3¢/kWh, under the 0.5¢/kWh

The Agreement also meets LEAP Guideline #2B which states: Manage hydro production risks by diversifying to renewable and/or fossil fuel generation technologies.
Implementing LEAP Renewable Portfolio Investments also supports the City’s Sustainability Policy Statement adopted April 2, 2001 (CMR 175:01); the Green Government Pledge adopted July 19, 1999 (CMR 284:99); the U.S. Mayors’ Climate Protection Agreement; and elements of the Comprehensive Plan, specifically:

1. **GOAL N-9**: A clean, efficient, competitively-priced energy supply that makes use of cost-effective renewable resources, and Policies
2. **POLICY N-44**: Maintain Palo Alto’s long-term supply of electricity and natural gas while addressing environmental and economic concerns.
3. **POLICY N-48**: Encourage the appropriate use of alternative energy technologies.

**ATTACHMENTS**
1. Resolution approving NGPP Third Phase Agreement and City’s participation at 15 MW.
2. NGPP Third Phase Agreement and associated exhibits A through G
5. UAC Meeting Minutes of June 7, 2006

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