TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: UTILITIES

DATE: AUGUST 7, 2006

SUBJECT: ADOPTION OF A RESOLUTION APPROVING THE TRANSMISSION AGENCY OF NORTHERN CALIFORNIA'S AMENDED AND RESTATED PROJECT AGREEMENT NO. 5 FOR PARTICIPATION IN AN OPEN ACCESS SAME TIME INFORMATION SYSTEM AND DELEGATION OF AUTHORITY TO THE CITY MANAGER TO EXECUTE AMENDMENTS TO THE AGREEMENT

RECOMMENDATION
Staff recommends that City Council adopt the resolution approving the amendment to the Transmission Agency of Northern California (TANC) Project Agreement No. 5 (P.A. 5) for the participation in the “wesTTrans” Open Access Same Time Information System (OASIS), and authorize the City Manager to execute the attached contract amendment (Attachment B). Staff further recommends that Council delegate the authority to the City Manager to approve and execute amendments to the Agreement.

BACKGROUND
In 1996 the Federal Energy Regulatory Commission (FERC) issued two landmark orders, FERC Order 888 and FERC Order 889. Order 888 required transmission owners to provide open access to transmission services. Soon afterward, Order 889 set standards regarding information that utilities must make available to the marketplace and established OASIS, an electronic bulletin board system for sharing this information. OASIS allows energy customers on the wholesale market to schedule and reserve capacity on the national regional transmission grids to ensure that energy can be delivered to customers without competitive interference.
TANC, as project manager, constructed the California-Oregon Transmission Project (COTP) in the early 1990s. COTP is a high-capacity transmission line rated at 1,600 megawatts, which stretches 346 miles from Captain Jack Substation near Malin, Oregon through Northern California to PG&E’s Tesla Substation, east of San Francisco. TANC owns 75% of the transfer capability on COTP and, through participation in TANC, the City has rights to a 50 megawatts share, which translates to just over a 4% share of the COTP. The decision to participate in the COTP was made so the City would have access to low cost energy from the Northwest whenever energy is available.

On March 31, 2004, a voluntary coalition of transmission-providing entities in the western United States began offering access to their transmission systems on a single OASIS site, known as the westTTrans OASIS. The 18 original participants include the Sacramento Municipal Utility District (SMUD), the Western Area Power Administration (WAPA), and the Los Angeles Department of Water and Power (LADWP).

TANC and its participating members concluded that it was in their interest and in the interest of electricity customers in California for TANC to participate as a transmission provider on the westTTrans OASIS. On August 23, 2004, the TANC Commission approved Resolution 2004-30 authorizing execution of TANC P.A. 5 and other agreements associated with TANC’s participation in the westTTrans OASIS.

On October 25, 2004, the City Council adopted a resolution (No. 8467, CMR 429:04) approving the P.A. 5 for the participation in the “westTTrans” OASIS. P.A. 5 was entered into by and among TANC and the Cities of Alameda, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah; the Modesto Irrigation District; the Turlock Irrigation District; and the Plumas-Sierra Rural Electric Cooperative (TANC participating members). P.A. 5 authorizes and directs TANC to act on behalf of its participating members to become a participant in the westTTrans OASIS, and defines how the costs and revenues associated with the OASIS participation are to be allocated among participating members.

**DISCUSSION**

TANC’s participation in the westTTrans OASIS commenced December 1, 2005. Since the execution of the original contract, it has become apparent that the participating members’ use of the OASIS differs from the intended use at the time the original agreement was executed. Some TANC participating members are posting their surplus transmission on a month-ahead basis and at times buying back that transmission within the trading month (“buy back”). The allocation of revenues in the P.A. 5 was designed under the assumption that all sales would be to third parties and participating members that posted their surplus transmission would receive a share of the third party revenues in proportion to the amount of transmission they had posted for the period. This allocation of revenue does not allow a TANC participating member to buy back its own transmission and be assured that the costs and revenues are properly allocated. Whenever other TANC participating members have posted surplus transmission during the period that a “buy back” occurs, some members will receive a share of the revenue from the purchasing member.

In addressing this issue, the TANC Commission approved on May 17, 2006 additional language that allocates revenues such that should a participating member purchase transmission through
the wesTTrans OASIS site for any period, the revenue from such a purchase shall first be allocated to that purchasing member to the extent that the purchasing member has posted surplus transmission for the period. TANC Commission resolution 2006-14 approving the modification and related documents are shown in Attachment C.

Staff is also recommending that the City Council delegate authority to the City Manager to approve future amendments to P.A. 5. Amendments might include further changes to the cost and revenue allocations to reflect use of the OASIS by participating members.

**RESOURCE IMPACT**
Applying this amendment will ensure that costs and revenues associated with posting transmission are properly allocated. The cost of participating in the wesTTrans OASIS remains the same.

**POLICY IMPLICATIONS**
This recommendation is consistent with the Council-approved Utilities Strategic Plan.

**ENVIRONMENTAL REVIEW**
Execution of this project agreement does not constitute a project for the purpose of the California Environmental Quality Act.

**ATTACHMENTS**
A. Resolution approving amendment to P.A.5 and delegation of authority to City Manager to execute further amendments
B. TANC Amended and Restated Project Agreement No. 5
C. TANC Commission resolution approving amendment to P.A.5 and related documents

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