TO: HONORABLE CITY COUNCIL  
FROM: CITY MANAGER DEPARTMENT: UTILITIES  
DATE: FEBRUARY 19, 2008 CMR: 141:08  
SUBJECT: ADOPTION OF A RESOLUTION APPROVING THE NORTHERN CALIFORNIA POWER AGENCY THIRD PHASE AGREEMENT FOR WESTERN GEOPOWER INCORPORATED RENEWABLE ENERGY POWER PURCHASE AGREEMENT FOR THE ACQUISITION OF UP TO FIVE AVERAGE MEGAWATTS OF ENERGY OVER TWENTY YEARS AT AN ESTIMATED COST NOT TO EXCEED $86 MILLION

RECOMMENDATION
Staff recommends that the City Council adopt a resolution approving the Northern California Power Agency (NCPA) Third Phase Agreement for Western Geopower Incorporated renewable energy power purchase. 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.

BACKGROUND
In 2002, the Council adopted a renewable resource portfolio standard with the objective of meeting 20 percent of the City’s electrical load with renewable resources by 2015, while ensuring the retail rate impact does not exceed 0.5 cents per kilowatt-hour (¢/kWh) on average, or approximately 5 percent of the average retail rate premium (CMR:398:02).

In March 2007, Council advanced and increased the renewable portfolio standard with a target to meet 20 percent of City loads with renewable resources by 2008 and 33 percent by 2015. The new target was to be achieved while maintaining the retail rate impact measure of 0.5¢/kWh (CMR:158:07). It should be noted that the City’s renewable portfolio standard measure excludes large hydro-electric resources that account for approximately 50 percent of the City’s electric supply in an average hydro year.
The City made considerable renewable resource commitments in 2004 and 2005 at prices of 5 to 6 ¢/kWh, and should reach the 20 percent renewable portfolio goal by 2008 with minimal impact on retail rates. The City is still seeking new amounts of renewable energy equal to approximately 13% of annual usage to meet the 33 percent renewable portfolio goal by 2015. The search is proceeding in 3 venues: through City requests for proposals, through NCPA’s Green Power Project, and through NCPA’s full membership participation opportunities. The current recommendation is one of NCPA’s full membership opportunities.

**DISCUSSION**

NCPA owns and operates two geothermal plants in the Geysers area of Sonoma County and Lake County, California and was recently approached by a British Columbia corporation, Western GeoPower Incorporated (WGI), which has rights to develop a geothermal project roughly sized between 15 to 35 megawatts (MW) in the Geysers area not far from NCPA’s other facilities. WGI would like to enter into a Power Purchase Agreement (PPA) with NCPA to sell all output from the plant to NCPA for a fixed price of $98/MWh for a term of 20 years.

The plant, which qualifies as a renewable power project under state-adopted definitions, would be electrically connected to the California Independent System Operator-managed transmission system. The plant would be built on the site of a former Pacific Gas and Electric Company (PG&E) 62 MW plant that operated from 1979 to 1989 before being dismantled. As a power output purchaser rather than as an investor-owner, NCPA and its members would not be taking the risk that power production levels may decline, as happened with PG&E’s former 62 MW plant at this location. Under the terms of the PPA, NCPA members pay a fixed rate for any energy delivered. If delivered volumes decline, NCPA’s payments to WGI, and thus Palo Alto’s payments to NCPA, would be reduced proportionately, freeing up money to purchase replacement renewable energy from other sources.

Eleven members of NCPA, including Palo Alto, expressed interest in purchasing shares that totaled more than 400% of the PPA. NCPA allocated participation shares to the interested members in proportion to those members’ loads with the result that Palo Alto’s share would be 11.28% of the output if all other interested members receive their governing board approvals for their shares. At that participation level and expected plant output, Palo Alto’s share would amount to about 2.8 average megawatts equaling roughly 2% of its load. If one or more other participants do not receive approvals for their full shares, there may be additional shares available for consideration.

In light of the relative economic attractiveness of the WGI proposal compared to other renewable resource offerings, staff is seeking Council authority to participate in up to 5 average MW of the project even though preliminary estimates are that Palo Alto’s nominal share is likely to be about 2.8 MW (11.28% times 25 MW). More output may materialize for Palo Alto in two ways: it is possible some members may decrease their share giving Palo Alto a chance to increase its share, and it is possible the steam field may be more productive than estimated. Even if Palo Alto were able to get 5 average MW from the WGI project, the City would still need 8 more average MW to reach its renewable energy procurement goals for 2015.
The Third Phase Agreement has been reviewed by staff and approved by the City Attorney’s Office (Attachment B). The Pro Forma Power Purchase Agreement between NCPA and WGP has also been reviewed (Attachment C).

Western GeoPower is a relatively small company that does not have a credit rating by Moody’s or Standard and Poor’s. Since energy deliveries will be tied to a specific generator at a specific location, 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 requirement for public agency contracts required under Section 2.20.340 (d) of the Palo Alto Municipal Code. This conforms to Council action on prior renewable resource contracts (CMR: 461:04). This waiver is intended only for small companies that do not have credit ratings. The PPA was reviewed by NCPA staff, Palo Alto Utilities staff, and Palo Alto’s Energy Risk Manager to determine that the combination of value, price, terms, credit worthiness of provider, and any credit assurances warrant Palo Alto’s participation.

**RESOURCE IMPACT**

The cost of renewable supplies under the Agreement is expected to be $46 million over 20 years. This assumes that Palo Alto’s participation level and the plant output would provide 2.8 aMW (about 2% of Palo Alto’s load). If, however, Palo Alto is able to get an increased allocation of the project up to a maximum of 5.0 average MW, then the cost is estimated to be $86 million. In either case, the incremental rate impact will remain within the 0.5¢/kWh limit adopted by Council.

**POLICY IMPLICATIONS**

Adoption of this resolution allows the City to participate in the NCPA Third Phase Agreement to purchase renewable energy and thereby is consistent with the Council Top Four Priority of Environmental Protection. Participating in the Agreement is also consistent with the following City policies and guidelines:

1. The Council-approved Climate Protection Plan adopted December 3, 2007 containing Utilities Goal 2: Reduce carbon intensity of energy supply provided by Utilities;
2. The Council-approved Utilities Strategic Plan with regard to employing balanced environmental solutions;
3. The energy risk management policies;
4. The rate impact limits and the renewable portfolio targets in LEAP Guideline #6;
5. The portfolio diversification goals in LEAP Guideline #3; and
6. The City’s Sustainability Policy Statement, adopted April 2, 2001 (CMR 175:01) and revised June 18, 2007 (CMR 260:07), the Green Government Pledge, adopted July 19, 1999 (CMR 284:99);
7. The US Mayors’ Climate Protection Agreement;
8. The Comprehensive Plan, specifically:
   a. GOAL N-9: A clean, efficient, competitively-priced energy supply that makes use of cost-effective renewable resources.
   b. POLICY N-44: Maintain Palo Alto’s long-term supply of electricity and natural gas while addressing environmental and economic concerns.
   c. POLICY N-48: Encourage the appropriate use of alternative energy technologies.
ENVIRONMENTAL REVIEW
Execution of the agreement does not meet the definition of a project, pursuant to section 21065 of the California Environmental Quality Act (CEQA). However, the City and other participating members intend to receive output from projects that will constitute a project for the purposes of CEQA. Project developers will be responsible for acquiring necessary environmental reviews and permits on projects to be developed.

ATTACHMENTS
A: Resolution approving NCPA Third Phase Agreement for Western GeoPower Power Purchase Agreement
B: NCPA Third Phase Agreement for Western GeoPower Power Purchase Agreement
C: Renewable Energy Power Purchase Agreement between Northern California Power Agency and Western GeoPower Incorporated
D: NCPA Staff Report and Resolution 08-07 Approving both the 3rd Phase Agreement between NCPA and members for Western GeoPower Power Purchase Agreement and the NCPA/Western GeoPower Power Purchase Agreement

PREPARED BY: TOM KABAT
Senior Resource Originator

DEPARTMENT APPROVAL: VALERIE O. FONG
Director of Utilities

CITY MANAGER APPROVAL: EMILY HARRISON
Assistant City Manager