TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: UTILITIES

DATE: JULY 21, 2008

CMR: 302:08

SUBJECT: ADOPTION OF A RESOLUTION AUTHORIZING THE CITY MANAGER TO EXECUTE THE SECOND AMENDED AND RESTATED NORTHERN CALIFORNIA POWER AGENCY METERED SUBSYSTEM AGGREGATOR AGREEMENT AND TO EXECUTE SUBSEQUENT AMENDMENTS TO THE AGREEMENT AS NEEDED TO CONFORM TO CHANGES IN REGULATORY REQUIREMENTS

RECOMMENDATION
Staff recommends that Council authorize the City Manager or his designee to execute the Second Amended and Restated Northern California Power Agency (NCPA) Metered Subsystem Aggregator Agreement with the California Independent System Operator Corporation (CAISO). Staff also recommends that Council delegate the authority to the City Manager or designee to execute subsequent amendments to the agreement as needed to conform to changes in regulatory and CAISO Tariff requirements.

BACKGROUND
The City of Palo Alto is a member of NCPA. NCPA, acting on behalf of the City, schedules the City’s electric load and resources within the CAISO balancing authority area pursuant to the terms of the CAISO Tariff and the Amended and Restated NCPA Metered Subsystem Aggregator Agreement (MSSAA). NCPA and the City have been operating under the terms and conditions of the MSSAA since September 2002 (Resolution No. 8200, adopted July 15, 2002).

The City also participates in an aggregated pooling arrangement with other NCPA members, known as “Pool Members” (Cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, and Ukiah; Plumas-Sierra Rural Electric Cooperative; and Port of Oakland). Under this pooling arrangement, the City’s loads and resources are scheduled within an aggregated portfolio that is operated and managed by NCPA. In addition to the general terms and conditions encompassed within the CAISO Tariff, the MSSAA defines a number of specific terms and conditions under which NCPA coordinates the pool’s load-following operations, reliability requirements, scheduling, generation unit operations, and other functions within the CAISO.
**DISCUSSION**

The CAISO plans to implement a new market structure, which will change the environment in which the City and NCPA will transact in the CAISO markets, on November 1, 2008. The Market Redesign and Technology Upgrade (MRTU), which has been developed over the past six years and approved by the Federal Energy Regulatory Commission (FERC), is intended to increase the efficiency of the CAISO’s electric transmission grid operations and overcome flaws in the current market design that were exposed during the 2000-01 electricity market crisis. Some of the key elements of MRTU include: the implementation of a day-ahead market to trade energy and clear congestion on the electric transmission grid; the use of a network model that solves grid constraints before real-time operations; and the use of Locational Marginal Pricing (LMP) as the basis for valuing grid usage charges. MRTU has required significant revisions to the CAISO Tariff, and subsequently requires revisions to the MSSAA. The MRTU Tariff has been approved by FERC pending final testing of the new market software.

In order to bring the existing MSSAA into alignment with the new MRTU Tariff, NCPA has been actively working with the CAISO during the past year to revise and update the MSSAA. As a result of this process, a number of provisions of the MSSAA have been modified, deleted, and/or added to reflect the MRTU market design. The provisions changed include, but are not limited to, the following:

- Terminology, References, and Definitions
- Term and Termination Provisions
- New and Revised Access and Scheduling Provisions
- Reliability and Operational Provisions
- New and Updated Settlement Provisions

These changes will be incorporated into the Second Amended and Restated NCPA Metered Subsystem Aggregator Agreement that will be effective under MRTU, and will allow NCPA to continue to manage the NCPA Pool Member loads and resources under the MRTU market structure.

While the MSSAA amendments are close to final, the agreement is still subject to further modifications by the CAISO or NCPA. Additionally, the CAISO is still testing the software to run its MRTU market, and as a result certain elements of the MSSAA revisions, which have to be verified by the MRTU software, have not yet been finalized. However, once the revisions have been finalized, the City, the other NCPA Pool Members, NCPA, and the CAISO will be required to approve and execute the revised MSSAA in a timely manner so as to facilitate the filing of the MSSAA with FERC. In order to ensure the amended MSSAA is effective on MRTU startup, considering the FERC’s 60-day filing requirement and the current November 1, 2008 MRTU implementation date, the MSSAA should be filed with FERC on or before August 31, 2008.

**RESOURCE IMPACT**

Following the CAISO’s implementation of its MRTU market design, the costs for delivering the City’s resources to meet the load-serving obligation of the City are projected to increase by approximately $0.4 million per year, with an estimated upper limit of $1 million per year. Staff
has anticipated these increases and they have been incorporated in the FY 2008-09 Electric Fund budget and electric rates.

**POLICY IMPLICATIONS**
This recommendation is consistent with the Council-approved Utilities Strategic Plan with regard to managing supply portfolio risk to provide stable rates, and to manage business processes cost effectively. This recommendation does not represent a change in current City policies.

**ENVIRONMENTAL REVIEW**
The adoption of this resolution does not meet the California Environmental Quality Act’s definition of a project, pursuant to California Public Resources Code Section 21065, therefore no environmental assessment is required.

**ATTACHMENTS**
A. Resolution of the Council of the City of Palo Alto Authorizing the City Manager to Execute the Second Amended And Restated NCPA Metered Subsystem Aggregator Agreement and to Execute Subsequent Amendments to the Agreement as Needed to Conform to Changes in Regulatory Requirements
B. Second Amended And Restated NCPA MSS Aggregator Agreement – Draft

**PREPARED BY:**
DEBRA LLOYD
Senior Resource Planner

**REVIEWED BY:**
JANE O. RATCHYE
Utilities Assistant Director, Resource Management

**DEPARTMENT APPROVAL:**
VALERIE O. FONG
Director of Utilities

**CITY MANAGER APPROVAL:**
STEVE EMSLIE/KELLY MORARIU
Deputy City Managers