NOT YET APPROVED

RESOLUTION NO. ______
RESOLUTION OF THE COUNCIL OF THE CITY OF PALO ALTO
AUTHORIZING THE CITY MANAGER TO EXECUTE AGREEMENTS FOR SHORT-TERM LAYOFF (ASSIGNMENT) OF CITY’S SHARE OF ENTITLEMENTS ON THE CALIFORNIA-OREGON TRANSMISSION PROJECT TO OTHER MEMBERS OF THE TRANSMISSION AGENCY OF NORTHERN CALIFORNIA

WHEREAS, the City of Palo Alto (“City”), a municipal utility and a chartered city, became a founding member of the Transmission Agency of Northern California (“TANC”) in 1984 to facilitate construction and joint ownership of transmission projects; and

WHEREAS, in addition to the City of Palo Alto, the California cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Redding, Roseville, Santa Clara, and Ukiah; the Modesto Irrigation District (“MID”); the Turlock Irrigation District (“TID”); and the Sacramento Municipal Utility District (“SMUD”) are also members of TANC; and

WHEREAS, TANC currently owns approximately 87 percent of the California-Oregon Transmission Project (“COTP”), a 500-kV transmission line that interconnects with the Bonneville Power Administration at the Captain Jack Substation in Southern Oregon and with Pacific Gas & Electric Company in California at the Tesla Substation; and

WHEREAS, the City became a participant in the COTP in 1990, by executing Project Agreement No. 3 (PA3); and

WHEREAS, the City has a 3.6815%, or approximately 50 MW, share of TANC’s current entitlement to transfer capability on the COTP; and

WHEREAS, the recent and projected value of the COTP to the City’s electric portfolio is lower than the cost of ownership, which prompted City staff to explore temporary assignment options of the City’s COTP entitlement; and

WHEREAS, MID, TID, and SMUD have agreed to acquire the City’s COTP entitlements for a period of 15 years; and

WHEREAS, the 15-year contract will not be effective before November 2008; and

WHEREAS, prior to execution of the 15-year contract, TID and SMUD have agreed to acquire the City’s COTP entitlements on a short-term basis, consistent with TANC’s Short-Term Layoff Procedures; and

WHEREAS, bilateral transactions by TANC members are allowed under the TANC Commission approved Short-Term Layoff Procedures;

NOW, THEREFORE, the Council of the City of Palo Alto does RESOLVE as follows:

080701 jb 0073038
SECTION 1. The Council hereby authorizes the City Manager to execute Agreements for the short-term layoff (assignment) of City of Palo Alto’s share of entitlements on the California-Oregon Transmission Project (COTP) to the Turlock Irrigation District (TID) and the Sacramento Municipal Utility District (SMUD).

SECTION 2. The Council finds that the adoption of this resolution does not constitute a project under the California Environmental Quality Act and the CEQA Guidelines and, therefore, no environment assessment is required.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

________________________
City Clerk

________________________
Mayor

________________________
Approved as to form:

________________________
Senior Asst. City Attorney

________________________
Approved:

________________________
City Manager

________________________
Director of Utilities

________________________
Director of Administrative Services
TRANSACTION CONFIRMATION (WSPP)
Short-Term Assignment of COTP Entitlements
Transaction Date: July 29, 2008

The purpose of this Transaction Confirmation is to confirm the short-term layoff (assignment) between the City of Palo Alto (Palo Alto) and the Sacramento Municipal Utility District (SMUD) of Palo Alto’s scheduling interest in the California Oregon Transmission Project (COTP). Palo Alto and SMUD are collectively known as Parties. The Parties, along with other Transmission Agency of Northern California (TANC) members are in the process of negotiating a Long Term Layoff Agreement with a term of fifteen (15) years, under a process facilitated by TANC. This Transaction Confirmation is to facilitate a bilateral layoff (assignment) under the TANC Short-Term Layoff Process until the Long Term Layoff Agreement becomes effective.

The Transaction Confirmation shall be governed by the commercial terms of the WSPP (Western Systems Power Pool) Agreement. The Parties acknowledge that the WSPP Agreement is generally intended to address physical transactions in capacity and energy. The parties elect to utilize the WSPP Agreement, as modified herein, to govern this assignment of transmission capacity. If there is any conflict between this Transaction Confirmation and the WSPP Agreement, the provisions of this Transaction Confirmation shall control.

1.) Specific Terms and Conditions

(a) Seller: City of Palo Alto
250 Hamilton Avenue, 3rd Floor
Palo Alto, CA 94301
Phone: (650)329-2465, Fax: (650)-3261507

(b) Purchaser: Sacramento Municipal Utility District
6301 S. Street, PO Box 15830
Sacramento, CA 95852
Phone: (916) 732-5802, Fax: XX

(c) Period of Delivery: 8/1/2008 through Termination Date

(d) Schedule (Days and Hours): 7x24

(e) Delivery Rate: NA

(f) Delivery Point(s): NA

(g) Type of Service (Check as Applicable)
Service Schedule A
Service Schedule B
Service Schedule C
Physically-Settled Option Service Schedule B
Physically-Settled Option Service Schedule C
Other products per Section 32.8 X

X
(h) Contract Quantity: NA Total MWhrs.
(i) Contract or Strike Price: See Attachment A
(j) Transmission Path for the Transaction (If Applicable):
(k) Date of Agreement if different:
(l) Additional Information for Physically-Settled Options NA
   i) Option Type: Put Call
   ii) Option Style:
   iii) Exercise Date or Period:
   iv) Premium:
   v) Premium Payment Date:
   vi) Method for providing notice of exercise
   vii) Special Terms and Exceptions: See Attachment A

Authorized Signatures

SMUD

Cary Nethaway, Controller

Date

CITY OF PALO ALTO

Frank Benest, City Manager

Date
Attachment A
Special Terms and Conditions

1. **Definitions**: Unless otherwise defined herein, capitalized terms and conditions included in this Attachment A shall have the meaning defined in the TANC Project Agreement No. 3 to which both SMUD and Palo Alto are signatories.

2. **Termination Date**: The earlier of (1) the Effective Date of the TANC “COTP Long-Term Layoff Agreement” between TANC, Palo Alto, Turlock Irrigation District (TID), Modesto Irrigation District (MID) and SMUD, as that term is defined therein; or (2) at the end of the day, January 31, 2009. In an Event of Default, as that term is defined in Section 22 of the WSPP Agreement and as modified herein, that remains uncured according to the provisions of 22.2 of the WSPP Agreement, the non-Defaulting Party has the right to terminate this Transaction Confirmation prior to the Termination Date set forth herein and that earlier termination date will be considered the Termination Date. For the purposes of this Transaction Confirmation, Palo Alto’s failure to provide the Product in accordance with this Transaction Confirmation shall constitute an Event of Default.

3. **Product**: Palo Alto’s interest (scheduling rights) in 1.84075% allocation (one-half of Palo Alto’s COTP participation) of TANC’s share of COTP transmission capacity under the ownership interest of TANC in both Directions (Allocated Participation Percentage).

4. **Direction**: North-to-South and South to North

5. **Layoff of Palo Alto’s COTP Scheduling Rights**: During the Period of Delivery, Palo Alto lays off (assignments) and relinquishes to SMUD Palo Alto’s scheduling rights to the Product, in the percentage referenced in Section 3, above, to the extent permissible under, and in accordance with, TANC Project Agreement No. 3; TANC Procedure for Allocation for COTP Transmission (One Year or less); and associated TANC Intertie Agreements. Palo Alto also relinquishes any and all rights to TANC revenues associated with the Product including but not limited to the OATT refunds from fiscal year ending June 2009 available for owner’s distribution. SMUD hereby accepts and assumes the use of Palo Alto’s scheduling rights to the Product, in the percentage referenced in Section 3, above, under the provisions of TANC Project Agreement No. 3 for the Period of Delivery.

6. **Return of Palo Alto’s Scheduling Rights**: Upon the Termination Date set forth above, all of Palo Alto’s COTP scheduling rights to the Product laid off (assigned) pursuant to the terms of this Transaction Confirmation, shall automatically and without any action of the Parties be relinquished from SMUD to Palo Alto, and Palo Alto hereby accepts those rights to the Product at that instant in the future except as those rights may be transferred subject to the provisions of the COTP Long-Term Layoff Agreement.

8. **Reimbursement of Palo Alto’s COTP Costs**: On a monthly basis, SMUD shall
reimburse Palo Alto for SMUD’s share, under this Transaction Confirmation, of Palo Alto’s COTP costs associated with Product, as billed by TANC to Palo Alto for each month for the Period of Delivery, and including any adjustments made to monthly billings within the TANC 2008/2009 fiscal year that occur within six (6) months of the end of that fiscal year. Palo Alto shall include with each invoice a copy of the monthly bill that it receives from TANC pursuant to Section 22 of TANC Project Agreement No. 3 for the purposes of verifying the invoice.

Palo Alto shall generate an invoice thirty (30) days or less prior to the beginning of the month. SMUD in turn shall pay the requisite amount to Palo Alto the later of 10 business days after the invoice is received or 10 days before the beginning of the month. For the month of August 2008, an invoice will be generated by Palo Alto immediately upon execution of this Transaction Confirmation, and payment for the month is due within ten (10) days after the receipt of invoice. A schedule of TANC Cash Call per member per month is provided in Attachment B as a reference only. This schedule (or modification to this schedule that may be implemented by TANC from time-to-time) will form the basis of Palo Alto’s monthly invoice.

Should TANC’s fiscal year actual COTP cost differ from budget and actual billings, one Party shall reimburse the other such that SMUD would have paid SMUD’s proportionate share based on the Period of the Delivery and rights allocated under this Transaction Confirmation.

9. Palo Alto Obligation to Reduce TANC OASIS Posting by Allocated Participation Percentage. Palo Alto’s COTP scheduling rights as purchased by SMUD will be aggregated with SMUD’s existing COTP share for SMUD’s use and posting on SMUD’s OASIS. Palo Alto will reduce its COTP share on the TANC OASIS to reflect the transfer to SMUD.

10. Integrated Agreement: This Transaction Confirmation does not amend TANC Project Agreement No. 3. In the event of a conflict between this Confirmation and TANC Project Agreement No. 3, TANC Project Agreement No. 3 shall control.

11. Severability: Any provision of this Transaction Confirmation determined by a court of competent jurisdiction to be invalid shall not be severed from this Transaction Confirmation if severance would materially adversely affect any Party, and if any Party in good faith concludes that severance would result in materially adverse consequences, such Party may give written notice under the notice provisions of Section 12 of the WSPP Agreement, that this Transaction Confirmation shall terminate on a date all of the Parties consider appropriate, and if no agreement is reached on an appropriate early termination date, then at the last hour of the day that is forty-five (45) days after the date written notice was first given.

13. Governing Law: Unless otherwise expressly agreed in writing by the Parties, this Transaction Confirmation shall be governed by and construed in accordance with the laws of the State of California, without giving effect to principles of conflicts of laws.
### Schedule of TANC Cash Call by Member per Month via ROR for FY 08-09

Transmission Agency of Northern California  
Calculation of Cash Call per member, per month via ROR  
Table 4-7

<table>
<thead>
<tr>
<th>TANC MEMBERS</th>
<th>Entitlement Share</th>
<th>Entitlement %</th>
<th>12 month coincident peak</th>
<th>2009 Monthly Cash Call</th>
<th>2009 Annual Cash Call</th>
</tr>
</thead>
<tbody>
<tr>
<td>MODESTO IRRIGATION DIST.</td>
<td>255,935.31</td>
<td>21.2906%</td>
<td>247,246</td>
<td>1,024,841</td>
<td>12,298,092</td>
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<tr>
<td>CITY OF REDDING</td>
<td>118,895.00</td>
<td>9.4119%</td>
<td>97,642</td>
<td>454,811</td>
<td>5,458,332</td>
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<td>SALINAS</td>
<td>353,025.22</td>
<td>27.5331%</td>
<td>320,007</td>
<td>1,339,436</td>
<td>15,417,232</td>
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<td>965,307</td>
<td>11,823,884</td>
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<td>TURLOCK IRRIGATION DIST.</td>
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<td>CITY OF ROSEVILLE</td>
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<td>24,519</td>
<td>101,032</td>
<td>1,219,684</td>
</tr>
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<td><strong>Subtotal</strong></td>
<td><strong>1,263,973.07</strong></td>
<td><strong>92.5967%</strong></td>
<td><strong>1,072,726</strong></td>
<td><strong>4,448,464</strong></td>
<td><strong>53,367,958</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CITY OF ALAMEDA</td>
<td>17,053.11</td>
<td>1.2272%</td>
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<td>59,057</td>
<td>708,684</td>
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<td>CITY OF HEALDSBURG</td>
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<td>1,168,624</td>
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<td>107,700</td>
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<td>CITY OF PALO ALTO</td>
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<td>42,742</td>
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<td>2,126,040</td>
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<td>PLUMAS-SIERRA REC</td>
<td>2,055.55</td>
<td>0.1479%</td>
<td>1,717</td>
<td>7,117</td>
<td>85,404</td>
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<td>CITY OF UTAH</td>
<td>2,702.65</td>
<td>0.1945%</td>
<td>2,256</td>
<td>9,380</td>
<td>112,320</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td><strong>105,656.56</strong></td>
<td><strong>7.0033%</strong></td>
<td><strong>88,274</strong></td>
<td><strong>396,897</strong></td>
<td><strong>4,390,764</strong></td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,388,630.63</strong></td>
<td><strong>100.0000%</strong></td>
<td><strong>1,161,060</strong></td>
<td><strong>4,812,361</strong></td>
<td><strong>57,748,332</strong></td>
</tr>
</tbody>
</table>
TRANSACTION CONFIRMATION (WSPP)
Short-Term Assignment of COTP Entitlements
Transaction Date: July 29, 2008

The purpose of this Transaction Confirmation is to confirm the short-term layoff (assignment) between the City of Palo Alto (Palo Alto) and the Turlock Irrigation District (TID) of Palo Alto's scheduling interest in the California Oregon Transmission Project (COTP). Palo Alto and TID are collectively known as Parties. The Parties, along with other Transmission Agency of Northern California (TANC) members are in the process of negotiating a Long Term Layoff Agreement with a term of fifteen (15) years, under a process facilitated by TANC. This Transaction Confirmation is to facilitate a bilateral layoff (assignment) under the TANC Short-Term Layoff Process until the Long Term Layoff Agreement becomes effective.

The Transaction Confirmation shall be governed by the commercial terms of the WSPP (Western Systems Power Pool) Agreement. The Parties acknowledge that the WSPP Agreement is generally intended to address physical transactions in capacity and energy. The parties elect to utilize the WSPP Agreement, as modified herein, to govern this assignment of transmission capacity. If there is any conflict between this Transaction Confirmation and the WSPP Agreement, the provisions of this Transaction Confirmation shall control.

1.) Specific Terms and Conditions

(a) Seller: City of Palo Alto
250 Hamilton Avenue. 3rd Floor
Palo Alto, CA 94301
Phone: (650)329-2465, Fax: (650)-3261507

(b) Purchaser: Turlock Irrigation District (TID)
333 East Canal Drive, (PO Box 0949)
Turlock, CA 95380 (95381-0949)
Phone: (209) 883 8216, Fax: (209) 632-3023

(c) Period of Delivery: 8/1/2008 through Termination Date
(d) Schedule (Days and Hours): 7x24
(e) Delivery Rate: NA
(f) Delivery Point(s): NA
(g) Type of Service (Check as Applicable)
Service Schedule A
Service Schedule B
Service Schedule C
Physically-Settled Option Service Schedule B
Physically-Settled Option Service Schedule C
Other products per Section 32.8 X
(h) Contract Quantity: \text{NA} \quad \text{Total MWhrs.}

(i) Contract or Strike Price: \text{See Attachment A}

(j) Transmission Path for the Transaction (If Applicable): 

(k) Date of Agreement if different: 

(l) Additional Information for Physically-Settled Options \text{NA}

\text{i)} Option Type: \text{Put} \quad \text{Call}

\text{ii)} Option Style: 

\text{iii)} Exercise Date or Period: 

\text{iv)} Premium: 

\text{v)} Premium Payment Date: 

\text{vi)} Method for providing notice of exercise: 

\text{vii)} Special Terms and Exceptions: \text{See Attachment A}

\text{Authorized Signatures}

\text{TURLOCK IRRIGATION DISTRICT} \quad \text{CITY OF PALO ALTO}

\text{James M. Farrar,} \\
\text{Director Energy Markets} \\
\text{Date}

\text{Frank Benest, City Manager} \\
\text{Date}
Attachment A
Special Terms and Conditions

1. **Definitions:** Unless otherwise defined herein, capitalized terms and conditions included in this Attachment A shall have the meaning defined in the TANC Project Agreement No. 3 to which both TID and Palo Alto are signatories.

2. **Termination Date:** The earlier of (1) the Effective Date of the TANC “COTP Long-Term Layoff Agreement” between TANC, Palo Alto, Sacramento Municipal Utility District (SMUD), Modesto Irrigation District (MID) and TID, as that term is defined therein; or (2) at the end of the day, January 31, 2009. In an Event of Default, as that term is defined in Section 22 of the WSPP Agreement and as modified herein, that remains uncured according to the provisions of 22.2 of the WSPP Agreement, the non-Defaulting Party has the right to terminate this Transaction Confirmation prior to the Termination Date set forth herein and that earlier termination date will be considered the Termination Date. For the purposes of this Transaction Confirmation, Palo Alto’s failure to provide the Product in accordance with this Transaction Confirmation shall constitute an Event of Default.

3. **Product:** Palo Alto’s interest (scheduling rights) in 1.84075% allocation (one-half of Palo Alto’s COTP participation) of TANC’s share of COTP transmission capacity under the ownership interest of TANC in both Directions (Allocated Participation Percentage).

4. **Direction:** North-to-South and South to North

5. **Layoff of Palo Alto’s COTP Scheduling Rights.** During the Period of Delivery, Palo Alto lays off (assigns) and relinquishes to TID Palo Alto’s scheduling rights to the Product, in the percentage referenced in Section 3, above, to the extent permissible under, and in accordance with, TANC Project Agreement No. 3; TANC Procedure for Allocation for COTP Transmission (One Year or less); and associated TANC Intertie Agreements. Palo Alto also relinquishes any and all rights to TANC revenues associated with the Product including but not limited to the OATT refunds from fiscal year ending June 2009 available for owner’s distribution. TID hereby accepts and assumes the use of Palo Alto’s scheduling rights to the Product, in the percentage referenced in Section 3, above, under the provisions of TANC Project Agreement No. 3 for the Period of Delivery.

6. **Return of Palo Alto’s Scheduling Rights.** Upon the Termination Date set forth above, all of Palo Alto’s COTP scheduling rights to the Product laid-off (assigned) pursuant to the terms of this Transaction Confirmation, shall automatically and without any action of the Parties be relinquished from TID to Palo Alto, and Palo Alto hereby accepts those rights to the Product at that instant in the future except as those rights may be transferred subject to the provisions of the COTP Long-Term Layoff Agreement

7. **Reimbursement of Palo Alto’s COTP Costs:** On a monthly basis, TID shall
reimburse Palo Alto for TID's share, under this Transaction Confirmation, of Palo Alto's COTP costs associated with Product, as billed by TANC to Palo Alto for each month for the Period of Delivery, and including any adjustments made to monthly billings within the TANC 2008/2009 fiscal year that occur within six (6) months of the end of that fiscal year. Palo Alto shall include with each invoice a copy of the monthly bill that it receives from TANC pursuant to Section 22 of TANC Project Agreement No. 3 for the purposes of verifying the invoice.

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Should TANC's fiscal year actual COTP cost differ from budget and actual billings, one Party shall reimburse the other such that TID would have paid TID's proportionate share based on the Period of the Delivery and rights allocated under this Transaction Confirmation.

9. **Palo Alto Obligation to Reduce TANC OASIS Posting by Allocated Participation Percentage.** Palo Alto's COTP scheduling rights as purchased by TID will be aggregated with TID's existing COTP share for TID's use and posting on the TANC OASIS. Palo Alto will reduce its COTP share on the TANC OASIS to reflect the transfer to TID.

10. **Integrated Agreement:** This Transaction Confirmation does not amend TANC Project Agreement No. 3. In the event of a conflict between this Confirmation and TANC Project Agreement No. 3, TANC Project Agreement No. 3 shall control.

11. **Severability:** Any provision of this Transaction Confirmation determined by a court of competent jurisdiction to be invalid shall not be severed from this Transaction Confirmation if severance would materially adversely affect any Party, and if any Party in good faith concludes that severance would result in materially adverse consequences, such Party may give written notice under the notice provisions of Section 12 of the WSPP Agreement, that this Transaction Confirmation shall terminate on a date all of the Parties consider appropriate, and if no agreement is reached on an appropriate early termination date, then at the last hour of the day that is forty-five (45) days after the date written notice was first given.

13. **Governing Law:** Unless otherwise expressly agreed in writing by the Parties, this Transaction Confirmation shall be governed by and construed in accordance with the laws of the State of California, without giving effect to principles of conflicts of laws.
## Attachment B

### Schedule of TANC Cash Call by Member per Month via ROR for FY 08-09

Transmission Agency of Northern California  
Calculation of Cash Call per member, per month via ROR  
Table 4-7

<table>
<thead>
<tr>
<th>TANC MEMBERS</th>
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<th>Entitlement %</th>
<th>12 month coincident peak</th>
<th>2009 Monthly Cash Call</th>
<th>2009 Annual Cash Call</th>
</tr>
</thead>
<tbody>
<tr>
<td>MODESTO IRRIGATION DIST.</td>
<td>295.9351</td>
<td>21.2800%</td>
<td>247.2456</td>
<td>1,024,841</td>
<td>12,298,032</td>
</tr>
<tr>
<td>CITY OF REDDING</td>
<td>116.8950</td>
<td>6.4119%</td>
<td>87.6822</td>
<td>404,811</td>
<td>4,857,732</td>
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<tr>
<td>SMUD</td>
<td>383.0262</td>
<td>27.5631%</td>
<td>330.0076</td>
<td>1,326,438</td>
<td>15,917,232</td>
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<tr>
<td>CITY OF SANTA CLARA</td>
<td>284.5201</td>
<td>19.4945%</td>
<td>237.7069</td>
<td>965,307</td>
<td>12,219,034</td>
</tr>
<tr>
<td>TURLOCK IRRIGATION DIST.</td>
<td>174.2501</td>
<td>12.5993%</td>
<td>145.5813</td>
<td>603,437</td>
<td>7,241,244</td>
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<tr>
<td>CITY OF ROSEVILLE</td>
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<td>2.1119%</td>
<td>24.5192</td>
<td>101,632</td>
<td>1,219,584</td>
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<tr>
<td>Subtotal</td>
<td>1,283.9737</td>
<td>92.8967%</td>
<td>982.7268</td>
<td>4,449,464</td>
<td>53,357,288</td>
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<td>NCPR</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>CITY OF ALAMEDA</td>
<td>17.0531</td>
<td>1.2272%</td>
<td>14.2478</td>
<td>59,057</td>
<td>708,684</td>
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<td>CITY OF HEALDSBURG</td>
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<td>42.7422</td>
<td>177,167</td>
<td>2,126,004</td>
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<tr>
<td>PLUMAS-SIERRA REC</td>
<td>2.6555</td>
<td>0.1470%</td>
<td>1.7171</td>
<td>7,117</td>
<td>85,404</td>
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<tr>
<td>CITY OF UKIAH</td>
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<td>68.2749</td>
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<td><strong>4,812,361</strong></td>
<td><strong>57,748,392</strong></td>
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TO: HONORABLE CITY COUNCIL
ATTN: FINANCE COMMITTEE
FROM: CITY MANAGER
DATE: JULY 15, 2008
DEPARTMENT: UTILITIES
CMR: 307:08

SUBJECT: RECOMMENDATION TO CITY COUNCIL TO ADOPT A RESOLUTION AUTHORIZING THE CITY MANAGER TO EXECUTE AGREEMENTS FOR THE SHORT TERM ASSIGNMENT OF THE CITY’S SHARE OF ENTITLEMENTS ON THE CALIFORNIA-OREGON TRANSMISSION PROJECT TO OTHER MEMBERS OF THE TRANSMISSION AGENCY OF NORTHERN CALIFORNIA

RECOMMENDATION

Staff recommends that the Finance Committee recommend that Council adopt the attached resolution authorizing the City Manager or his designee to execute Agreements for the short-term assignment of the City’s share on the electric high voltage California-Oregon Transmission Project (COTP) to the Turlock Irrigation District (TID) and the Sacramento Municipal Utility District (SMUD), thereby lowering the cost to serve the electric utility customers of the City.

BACKGROUND

The Transmission Agency of Northern California (TANC) is a California Joint Powers Agency, whose membership comprises: SMUD; TID; Modesto Irrigation District (MID); and the California cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah. TANC currently owns approximately 87 percent of the COTP, a 1600 MW, 340 mile long electric transmission line from the California-Oregon Border (COB) to the 500 kilovolt Tracy Substation in Northern California. The City is a signatory to TANC’s 1990 Project Agreement No.3 (PA3) (Resolution No. 6877, adopted March 26, 1990). PA3 provides the City a share of approximately 50 MW of TANC’s entitlement on the COTP.
Since the COTP became operational in March 1993, the City has utilized this asset to access low-cost electricity resources from the Pacific Northwest to serve the electricity needs of the City. However, from time to time, the City has executed temporary assignment agreements with other TANC members when the City’s electric supply portfolio did not have the need to access resources from Oregon or when it was uneconomical to do so. The last assignment agreement (with the City of Roseville) ended in December 2004.

While the City and the Northern California Power Agency (NCPA), as the City’s electricity scheduling agent, have continued to utilize the COTP to meet the electrical loads of the City at the lowest cost, the value of this transmission right in recent years has been lower than the cost of ownership. This is particularly pronounced for Palo Alto; the City is located within the control area operated by the California Independent System Operator (CAISO), while the COTP line is in a separate control area jointly operated by SMUD and the Western Area Power Administration (Western). While the City continues to consider the COTP a strategic asset for future years when the cost of ownership can be offset by its market value, the projected short-term value of the asset has prompted staff to explore temporary assignment options to members of TANC located within the SMUD-Western transmission control area. These entities have the potential to garner greater value from the transmission asset.

**DISCUSSION**

The City’s electricity supply related budget for FY 2008-09 is approximately $78 million, of which approximately $1.85 million is related to the COTP Transmission asset ownership cost. However, the value the City derives from this asset is well below the cost of ownership and is described in detail below.

**Cost Drivers**

The City’s share of TANC’s budget for FY 2007-08 was $1.852 million and consisted of the following components, with debt service accounting for 70% of the cost.

- Debt Service: $1.284 M
- COTP O&M: $0.360 M
- TANC operations: $0.173 M
- Special projects: $0.027 M
- Open Access Same-Time Information System (OASIS): $0.006 M
- **Total**: $1.852 M (~$0.16M per month)

The debt service costs are expected to remain flat at $1.284 million/year until 2024 when the debt is fully paid-off. The other costs of $550,000 per year are expected to increase by 3% per year. In addition to these costs of ownership, COTP owners incur a number of usage-based
charges such as SMUD transaction fees, transmission line losses from the COB, and other CAISO charges. These additional costs, which are highly variable and dependent on utilization of the line, are estimated at between $100,000 and $400,000 per year. These costs could also change due to regulatory changes.

**Value Drivers**

The value of the COTP is derived in multiple ways, but falls into three major categories:

1. **Basis Value:** Basis is the difference between the market prices for electricity delivered to COB versus delivered into Northern California.

   Since taking ownership of COTP, the City has entered into a number of long-term transactions to capture this basis value. However, in the past 5 years, the basis value captured has varied between $500,000 and $1.3 million per year, considerably below the $2 million annual cost of owning and operating the asset.

   Based on forward market prices, the basis value of COB versus Northern California deliveries for the next 12 months is estimated at 40% to 70% of the cost of the COTP and declines even further in the outer years. Most of this annual value is derived during the spring months when low cost hydroelectric power from the Pacific Northwest is available to be imported into California. For the months of the short-term assignment – August 2008 through January 2009 – the basis value is on the low end, resulting in higher net costs to the portfolio. For this reason, regardless of any other transactions contemplated for this asset, this short-term lay-off proposal is in the best interests of City’s electric utility customers.

2. **Capacity Value:** Supplies imported from COB have capacity and ancillary service value.

   Imports of firm energy delivered at COB and scheduled over the COTP for the City’s load currently count towards meeting the City’s 15% planning reserve requirements (also referred to as system capacity requirements). Under current projections of the City’s load and purchases of capacity to meet local reliability requirements, the City’s electric portfolio has sufficient system capacity even when excluding contracts at COB. While there may exist the potential to sell the COTP capacity counting rights in the future, there is no market for this product at present. Also, the ability to apply imported energy towards system capacity requirements may change in future regulations.

   Staff estimates that the potential capacity and ancillary services value associated with COTP could be $350,000 to $600,000 per year, or 15% to 30% of the cost starting in 2010.
3. *Operation Value:* The COTP has value associated with access to resources and markets in the Pacific Northwest for non-economic reasons.

Operational value is derived by accessing the Pacific Northwest markets to meet fluctuations in electric demand in real-time (referred to as real-time load following) and for green (renewable) energy. With respect to the need to access the Pacific Northwest markets for green energy, the COTP transmission remains an option. However, staff’s assessment is that there are currently sufficient renewable resources within California that could be economically obtained for the City’s medium- and long-term renewable portfolio goals. In addition, if the opportunity arises to access Pacific Northwest resources to meet short-term renewable energy needs, then there are alternative methods for transporting energy from the Pacific Northwest to the City that may be obtained at lower cost than COTP ownership. Such alternatives include CAISO service and other private and public sector suppliers. As mentioned above, for the months of the short-term assignment – August 2008 through January 2009 – the price difference between the Pacific Northwest and Northern California is low. Hence, staff suggests that the possibility of accessing Pacific Northwest renewable energy is not sufficient reason to reserve COTP capacity over the short- and medium-term (next 15 years).

Staff’s assessment of operational value of the asset is $50,000 to a $100,000 per year, or less than 5% of the ownership cost.

In total, the value of COTP to the City is estimated to be about 60% to 75% of the annual cost of owning and operating the asset based on the factors identified above. Over the period proposed for the short-term assignment, the value of the COTP is estimated to be even lower at 10% to 20% of the cost, because the basis value is typically lower in the later part of the year, with most of the basis value captured during the spring and early summer.

**Agreement Terms**

The Utilities Advisory Commission in April conceptually approved staff’s recommendation to assign the City’s share of the COTP to interested parties. Since then, staff has been pursuing a 15-year assignment agreement with SMUD, TID, and MID. The effective date of this long-term assignment was projected for August or September 2008, but negotiations have taken longer than expected. When the negotiations are completed in the coming months, staff will bring the final 15-year assignment agreement to Council for approval.

In the interim, until the 15-year assignment agreement is completed, SMUD and TID have requested a temporary assignment of the City’s rights in the COTP for the months of August
2008 through January 2009, or until the 15 year agreement becomes effective, whichever is earlier. MID is not interested in participating in the temporary assignment and is waiting for completion of the 15-year assignment: SMUD and TID will take MID’s share during the temporary assignment. Such a short-term assignment agreement is expected to have a value of $128,000 to $144,000 per month to the City and will be based on the following terms:

1. The Contract shall be negotiated with SMUD and TID, with each entity receiving one-half of the City’s share of COTP.

2. Contract to be based on industry standard Western System Power Pool (WSPP) Agreement.

3. Term of the Agreement shall not extend beyond January 31, 2009, and shall terminate on the effective date of the 15-year Assignment Agreement

4. The price of the sale shall recover the full monthly cost the City incurs to own the asset (approximately $160,000/month).

Should the Council approve execution of the long-term assignment of the City’s interest in the COTP transmission line, the City will no longer have long-term access to the Pacific Northwest markets. However, the overall electric portfolio could continue to benefit from having access to other regional markets during those times when the cost of taking delivery of imported energy is lower than the value of the imported energy: For example, there may be times when the market price of energy delivered to COB plus the cost of transmission from COB into Northern California is less than the market price for energy available in Northern California. Staff is exploring a number of other contractual mechanisms to achieve the objective of accessing other regional markets when it is economically beneficial to do so. One such mechanism could be to enter into enabling agreements with members of TANC that will provide the option to the City and interested TANC members to execute short-term bilateral transmission transactions for the use of COTP during periods of value. Such access to COTP transmission in certain periods might be obtained at a discount to full costs. When staff finalizes an evaluation of such opportunities, staff will return to Council to seek additional approvals.

Risk Assessment

Assessment of Short-Term Assignment Risks: The risks of this short-term assignment agreement are minimal. Under the terms and conditions of the short-term agreement, Palo Alto will be compensated prior to the month, with the exception of the first month, when payment will be
received within 10 days of contract execution. As a result of this provision in the contract, any default caused by SMUD or TID not paying the monthly bills will be remedied prior to the start of the month’s delivery. In the absence of such remedy, the assignment agreement will be terminated and the COTP asset then will revert to Palo Alto.

Summary

Based on a cost-benefit analysis, staff has recommended, and the UAC has approved in concept, a long-term assignment of the asset at full cost. As the negotiations for the long-term assignment have been slower than anticipated and are delaying the start of the long-term assignment to November or December 2008, staff is now recommending to Council a short-term assignment to recover the monthly cost of owning the asset during the interim. Staff will return to the Finance Committee and the Council with a request to authorize the execution of a long-term assignment of the COTP entitlements at a later date.

Due to the relative short time available to negotiate the agreement and seek Council approval, staff recommends that the City Manager or designee be authorized to enter into the Agreements for Short-Term Layoffs under the following terms:

1. The Contract(s) shall be with SMUD and TID, with each entity receiving one-half of the City’s COTP share.

2. Contract to be based on industry standard Western System Power Pool (WSPP) Agreement, and the final agreement shall be approved by the City Attorney’s Office.

3. Term of the Agreement shall not extend beyond January 31, 2009, and shall terminate upon the effective start date of the 15-year Assignment Agreement.

4. The price of the sale shall recover the full monthly cost the City incurs to own the asset (approximately $160,000/month).

BOARD/COMMISSION REVIEW AND RECOMMENDATIONS

The UAC reviewed the concept of a long-term assignment of the COTP at its April 2, 2008 meeting and voted unanimously to recommend conceptual approval of a long-term assignment of the COTP, for up to 20 years. The subject of the short-term layoff, the need for which was a result of delays experienced in the negotiations over the long-term layoff, was not included in the review by the UAC because the delays were not anticipated at the time of the UAC review.
RESOURCE IMPACT

The net impact on the Electric Fund from the short-term assignment of the COTP is the difference between sales revenues from SMUD and TID (equal to the cost of owning the asset of approximately $160,000 per month), and lost opportunity for the City to derive value from the use of the COTP asset. As illustrated in the following table, assuming that the monthly value of COTP during the period contemplated for the short-term assignment is 10% to 20% of the monthly cost of ownership, the short-term assignment will result in a net savings of $128,000 to $144,000 per month.

<table>
<thead>
<tr>
<th>Monthly Cost</th>
<th>Short-Term Value ($thousand/month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Value</td>
<td></td>
</tr>
<tr>
<td>1. Basis Value</td>
<td>$8 - $24 (5%-15%)</td>
</tr>
<tr>
<td>2. Capacity Value</td>
<td>$0</td>
</tr>
<tr>
<td>3. Operational Value</td>
<td>~$8 (~5%)</td>
</tr>
<tr>
<td>Range of Monthly Value</td>
<td>$16 to $32</td>
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<tr>
<td>Monthly Value as a fraction of fixed cost</td>
<td>10% to 20%</td>
</tr>
<tr>
<td>Net Savings</td>
<td>$128 - $144</td>
</tr>
</tbody>
</table>

POLICY IMPLICATIONS

This recommendation is consistent with the Council-approved Utilities Strategic Plan with regard to managing supply portfolio risk to preserve a supply cost advantage. These bilateral transactions by TANC members are also sanctioned under the TANC Commission-approved Procedures for Allocations for COTP Transmission (One Year or Less).

ENVIRONMENTAL REVIEW

Approval of this agreement does not require review under the California Environmental Quality Act (CEQA) because it does not meet the definition of a “project” pursuant to California Public Resources Code Section 21065.
ATTACHMENTS

A: Resolution of the Council of the City of Palo Alto Authorizing the City Manager to Execute Agreements for the Short-Term Assignment of the City’s Share of Entitlements on the California-Oregon Transmission Project to other TANC Members

B: Draft Transaction Confirmation (WSPP) Agreements for Short-Term Assignment of COTP Entitlements to TID and SMUD. The complete Western System Power Pool (WSPP) Master Agreement is available at: www.wspp.org

C: Minutes from the April 2, 2008 UAC meeting

PREPARED BY:

DEBRA LLOYD
Senior Resource Planner

SHIVA SWAMINATHAN
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 EMMSLIE/KELLY MORARIU
Deputy City Managers
Assignment of COTP Transmission Entitlements

- Short and Long Term Plans to Lower Electric Supply Costs

Finance Committee
July 15, 2008
Presentation Outline

- Description of COTP Transmission
- City's Electric Portfolio and COTP Transmission
- Rationale & Benefits for Assignment
- Outline of Assignment Agreement Terms
- Electric portfolio management – post COTP Assignment
- Next Steps
California-Oregon Transmission Project (COTP)

- COTP developed by a consortium of Municipal Utilities – Transmission Agency of Northern California (TANC)
- Palo Alto a founding member of TANC along with 12 others
- 500 kilo Volt, 1600 MW capacity line
- 340 mile line from the Oregon Border to Tracy Substation
- Operational in March 1993
- TANC members rights - 1360 MW (87% of line capacity)
- Palo Alto rights - 50 MW (3.1% of project or 3.7% of TANC)
Palo Alto Electric Supply Mix
- Liquid Regional Markets at COB and Northern California

COB Market Purchases 18%
Western Hydro 29%
Northern CA Market Purchases 32%
Calaveras Hydro 8%
Renewables 13%

Purchases at COB accounted for 18% of supply in FY 07-08
City's Electric Portfolio and COTP line

- Annual electric supply portfolio cost ~ $80M
- Annual Cost of COTP ownership ~ $2M (2.5% of supply cost)
- Imported 18% of City's energy over the line in FY 07-08
- Full cost of imported energy in FY 07-08 ~ $12 million
  - Value of $12M Oregon energy import in Northern California ~ $12.8M
  - Net value of import, $0.8M < $2M cost of ownership (40 to 50% of cost)
- City has temporarily assigned COTP to other TANC Members before
  - When value is lower than cost
  - Assigned one-third of COTP share to Roseville between 1993 and 2004
Electric Portfolio Supply Cost ($Million)

- CAISO: $8M
- Western: $10M
- Calaveras Debt: $10M
- Renewables: $9M
- NCPA Services: $4M
- COTP Debt Service + O&M: $2M
- COB Market Purchases: $12M
- Northern CA Market Purchases: $21M

Purchasing at COB saved the City ~$0.8 M in FY 07-08: ~40% of the Cost of COTP ownership.

Average Unit Cost: Western 3-4 ¢/kWh; Calaveras 8-13 ¢/kWh; Renewables ~6 ¢/kWh; Northern CA Market ~7 ¢/kWh; COB Market ~7 ¢/kWh (or ~8 ¢/kWh including COTP cost of ownership)
Assignment Rationale – Lower Cost

BACKGROUND

- COTP provided access to low cost Pacific NW resources
  - Built in early 1990s when there were no open markets for transmission to the Pacific NW
  - Access to transmission markets in recent times provides alternatives to owning transmission

- Today Pacific NW markets can be accessed when economical to do so, without holding long-term COTP
  - CAISO transmission
  - Private sector suppliers
  - Purchases from other TANC members
Assignment Rationale – Lower Cost

BENEFITS OF LONG-TERM ASSIGNMENT

- City's cost $2M/year (or ~$160k/month)
- Value of asset to Palo Alto lower than cost (stranded asset)
  - Annual Cost = $2M (until debt is paid-off in 2024)
  - Annual Value = $0.5 to 1M
  - Net Annual Cost = Annual Cost – Annual Value
  = $1 to 1.5M

NPV of 15-Year Net Cost = $10M to $15M

- COTP more valuable for entities within Western-SMUD control area
Elements of the 15-Year Assignment
(Agreement #1 – will seek Council approval in Oct 2008)

- Temporary assignment for 15 years
- Recipients: Sacramento, Modesto, Turlock
- Recipient to pay full cost during the 15 year term
- A multilateral agreement (2 Assignors, 3 Assignees, TANC)

TANC’s Role:
- As owner of the asset, plays an intermediary role
- Drafts agreement with input from members and bond counsel
- Billing agent – will take back Assignors’ shares and reallocate to Assignees for duration of assignment
Timeline for Agreements #1, #2

- Short-Term Bridging Assignment (#2)
- Long-Term COTP 15 Year Assignment (#1)


Nov/Dec 2023
Assignment Rationale – Lower Cost

**BENEFITS OF SHORT-TERM BRIDGING ASSIGNMENT**

- Illustration of Monthly Cost-Benefit for the August to January Period

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<tr>
<td><strong>Monthly Value</strong></td>
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<tr>
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<td>$128 k to $144 k</td>
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</table>
Elements of the Short-Term Assignment
(Agreement #2 – Approval sought today)

- 15-Year Assignment Agreement moving slower than anticipated

- Each month of delay will prevent the City from saving $120k to $140k

- SMUD and TID have expressed interest to have a short term agreement, until the beginning of 15 year agreement

- Elements of Agreement
  - Assignees will take on the scheduling rights on a monthly basis and will pay City ~$160,000/month
  - Term: August 2008 through January 2009
  - Termination: January 2009 or earlier if 15 year lay-off agreement becomes effective
Elements of the Short-Term Assignment
(Agreement #2 – Approval sought today)

- If Assignee defaults, asset rights and cost obligations revert back to Palo Alto
  - Such a default puts the City back to its present position
  - City is free to assign the capacity back to another TANC member

- Credit Protection Terms
  - Recipients investment grade (SMUD/A, Turlock/A+)
  - Payments received before beginning of month
    - Except for the month of August 08, for which payments are expected in mid-August (10 days after execution of Agreement)
Electric Portfolio Management: Post Assignment
- A case to have Master Agreement with Interested TANC Members
  (Agreement #3: Council approval in Fall 2008)

- Electric Portfolio Management: Post-Assignment
  - Electric portfolio will continue to benefit by having the option to access Pacific NW markets
  - Staff seeking Master Enabling Agreements with TANC members
    - Unrelated to assignment agreement
    - Similar to existing Master Agreements with private sector suppliers
    - Expected number of transactions likely to be low and sporadic
    - Actual transaction will be executed by staff if/when economical

- Description of Potential Transactions in the Pacific NW
  - Access to short-term Renewable Energy Supply
  - Market purchases to meet load: at times when NW energy is less expensive
  - Sell surplus energy in periods of high hydro supply: if NW prices are higher
Timeline for Agreements #1, #2, #3

- Short-Term Bridging Assignment (#2)
- Long-Term COTP 15 Year Assignment (#1)


Master Enabling Agreement with Interested TANC Members (#3)

- Potential Periodic Transaction (#3a)
- Potential Periodic Transaction (#3b)
- Potential Periodic Transaction (#3c)

Nov/Dec 2023
Agreement(s) Approval Process & Next Steps

MARCH/APRIL 2008
- Solicited interest from all TANC members to receive assignment
- Three members indicate interest: SMUD, TID and MID
- UAC Conceptually Approves Long Term Assignment

MAY/JUNE 2008
- 15 Year Assignment Agreement Negotiation in Progress, facilitated by TANC
- Interim Short Term Assignment Agreement (through Jan 2009) Finalized

JULY 2008 and NEXT STEPS
- Short Term Bridging Assignment (Agreement #2) Approval - Finance – July 15, Council – July 28
- Complete negotiation of 15-Year Assignment (Agreement #1) and seek Council approval – October/November 08
- Complete negotiations on Master Enabling Agreement with TANC Members and Seek Council Approval (Agreement #3) – Fall 2008
Summary

- 20 years ago City of Palo Alto, along with other Northern California Municipal Utilities, made a decision to invest in transmission to gain access to low cost NW resources

- Today's markets and circumstances have changed the economics of COTP ownership and has prompted staff to pursue a temporary assignment of the City's interest in the COTP to other TANC members

- In the long term, the COTP has the potential to be a valuable asset to the City's electric portfolio, hence staff has not proposed an outright sale

- Over the next 15 years an assignment of the COTP is estimated to lower Palo Alto's electric supply cost by $1 to 1.5M annually or $10 to $15M over the assignment period

- The short-term bridging assignment for which staff is seeking approval today is expected to save the City $120k to $140k monthly

- This initiative will help mitigate some of the upcoming retail rate increases
Finance Committee Action Today

- Finance Committee recommend that Council adopt the resolution authorizing:
  - The City Manager to execute Agreements for the short-term assignment of the City’s share of COTP Entitlements to TID and SMUD, thereby lowering the cost to serve the electric utility customers of the City.
Excerpt Minutes – July 15, 2008 Finance Committee Meeting

Director of Utilities Valerie Fong noted that temporarily assigning Palo Alto’s interest in its transmission asset is being pursued to save costs for the electric portfolio. Fong also noted that staff will discuss three agreements that are part of the overall plan, but that only one agreement is presented for approval at this time.

Senior Resource Planner Shiva Swaminathan discussed the California-Oregon Transmission Project (COTP), which was developed by a group of municipal utilities, the Transmission Agency of Northern California (TANC).

- Palo Alto owns 50 MW of the 1600 MW transmission line, which was operational in 1993, to access energy supplies in the Pacific Northwest.
- Palo Alto originally decided to become one of the owners of COTP as the COTP transmission line was the only way to access Northwest energy supplies during a time when investor-owned utilities enjoyed a monopoly on transmission access. Now, under federal rules, transmission access must be open equally to all market participants, so that the need to own the transmission line is not required to gain access to the Northwest energy markets.
- In FY 07-08, 18% of Palo Alto’s annual supplies were from the northwest and utilized the COTP. This is higher than usual due to the dry hydro year.
- COTP costs about $2 million per year of the $80 million annual electric supply portfolio cost. However, the value received was only $800,000 in FY 07-08.

Swaminathan explained three agreements associated with the COTP assignment. Agreement #1 is a 15-year assignment of COTP to three other TANC members (Sacramento, Turlock, and Modesto). The City of Roseville is also assigning its share to these three entities. This agreement is expected to come before the Council in October 2008. Since Agreement #1 is taking longer than expected to finalize, staff is pursuing Agreement #2, which is a bridging agreement to take effect from August 1, 2008 until Agreement #1 is effective (expected to be November 2008).

Council Member Yeh asked whether it was possible that more flexibility could be needed beyond January 2009 resulting from delays in finalizing the 15-year assignment. Staff suggested that it did not anticipate delays beyond the January 2009 timeframe, but if it became apparent that there would be further delays, staff would return for approval of any extensions of the short-term assignment.

Council Member Yeh also asked how the savings from the assignments would be reflected in the budget. Administrative Services Director Lalo Perez explained that any savings would be reflected at the end of the year in the electric fund reserves.

Council Member Schmid asked where replacement supplies would come from if purchasing of the electric commodity is shifted from the northwest to northern California. Swaminathan and Senior Resource Planner Debra Llloyd explained that the purchases in the past 12 months reflected the dry hydro conditions, and that normally, purchases from the market would be much
less than experienced in the past 12 months. Swaminathan and Lloyd explained that market purchases are not tied to a specific generation source, and in response to a question from Council Member Schmid, indicated that some of the generation behind the generic market purchases could indeed be coal.

Council Member Schmid noted that on a net present value basis, the anticipated savings are substantial, and asked whether such economic advantage should be transferred to a capital investment. Fong concurred that the savings would provide some additional freedom to consider capital investments, and also noted that owning the COTP did not preclude consideration of capital investments.

Chair Morton asked whether it is possible for benefits provided by COTP to exceed COTP costs. He noted that having access to northwest electric supplies could prove valuable, especially in dry times. Lloyd explained that the value would only be there if there were basis (price) differential between northwest and northern California supplies. Swaminathan agreed that there are times when the benefits provided by the COTP are greater than the cost of ownership (particularly during the 2000-2001 energy crisis) but indicated staff's assessment that this is unlikely to occur again over a prolonged period of time because of new transmission access being proposed to the northwest by others.

Council Member Burt asked whether costs for Palo Alto increased in 2005 when the control of the COTP was moved from the California Independent System Operator (CAISO) control area to the SMUD control area. Swaminathan confirmed there was some cost increase for Palo Alto. Lloyd explained that the reason other entities such as the Sacramento Municipal Utilities District (SMUD) value the COTP differently and much more highly than Palo Alto is that SMUD is responsible for reliability in its own control area, that the COTP is one tool used to increase reliability in the SMUD control area, and that SMUD can avoid CAISO charges by buying and selling within its own control area.

Council Member Schmid moved that the Finance Committee recommend to the City Council adoption of a resolution authorizing the City Manager to execute agreements for the short-term assignment of the City's share of entitlements on the California-Oregon Transmission Project to other members of the Transmission Agency of Northern California. Council Member Burt seconded the motion. The motion passed unanimously (4-0).

Council Member Burt closed the item by indicating his appreciation for the presentation of a very involved and complicated set of transactions, and congratulated staff on finding ways to reduce costs in an environment of rising electricity costs and rates. Council Member Burt requested that staff add the PowerPoint presentation to the Council report.