TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DATE: JULY 28, 2008

DEPARTMENT: UTILITIES

CMR: 331:08

SUBJECT: FINANCE COMMITTEE RECOMMENDATION 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 and the Finance Committee recommend that the City 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 of 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 City of Palo Alto is a member of the Transmission Agency of Northern California (TANC), a California Joint Powers Agency, whose membership also includes: SMUD; TID; Modesto Irrigation District (MID); and the California cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, 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 has a share of approximately 50 MW of TANC’s entitlement on the COTP.

While the City has utilized the COTP to manage the cost of its electric supply portfolio, the value of this transmission right in recent years has been lower than the cost of ownership. 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 other members of TANC.

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 July or August 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 savings 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. The Contract will be based on industry standard Western System Power Pool Agreement.
3. Term of the Contract shall not extend beyond January 31, 2009, and shall terminate on the effective date of the 15-year Assignment Agreement.
4. Compensation for the assignment shall recover the full monthly cost the City incurs to own the asset (approximately $160,000/month).

FINANCE COMMITTEE REVIEW AND RECOMMENDATIONS
The Finance Committee reviewed and unanimously approved the staff recommendation on July 15, 2008 (CMR:307:08, Attachment C). The Committee discussed how savings from the assignment would be reflected in the budget and/or utilized. The Committee also discussed the possibility of increased price differentials between the Northern California and Pacific Northwest markets, and the difference in generation resource types sold in the two markets.

RESOURCE IMPACT
The net impact on the Electric Fund from the short-term assignment of the COTP is the difference between revenues from SMUD and TID (equal to the cost of owning the asset of approximately $160,000 per month), and the value to the City from the use of the COTP asset, expected to be between $16,000 and $24,000. Thus, the short-term assignment will result in a net savings of $128,000 to $144,000 per month.

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 of 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 Report that went to the Committee

C: CMR:307:08 – Recommendation to adopt a 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)

D: PowerPoint presentation made at the July 15, 2008 Finance Committee meeting

E: Excerpted minutes from the July 15, 2008 Finance Committee meeting

PREPARED BY: DEBRA LLOYD
Senior Resource Planner
SHIVA SWAMINATHAN
Senior Resource Planner

DEPARTMENT APPROVAL: VALERIE O. FONG
Director of Utilities

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