TO: HONORABLE CITY COUNCIL

ATTN: FINANCE COMMITTEE

FROM: CITY MANAGER DEPARTMENT: UTILITIES

DATE: OCTOBER 21, 2008 CMR: 399:08

SUBJECT: Adoption of a Resolution Approving the Ameresco Butte County Landfill Gas Renewable Energy Power Purchase Agreement for the Acquisition of Up to Four Average Megawatts of Energy Over Twenty Years at an Estimated Cost Not to Exceed $71 Million

RECOMMENDATION
Staff recommends that the Finance Committee recommend the Council adopt a resolution approving the Power Purchase Agreement (PPA) with Ameresco Butte County LLC, a Delaware limited liability company. Additionally, for this agreement, staff recommends the Council waive the application of the investment-grade credit rating requirement of Section 2.30.340(d) of the Palo Alto Municipal Code to this transaction.

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, the 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 California’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 expects to meet the 20 percent renewable portfolio goal by 2009 (about a year later than targeted) with minimal impact on retail rates. The City is still seeking new renewable energy equal to approximately 13% of annual usage to meet the 33 percent renewable portfolio goal by 2015. The search is proceeding in four venues: 1) the City’s requests for proposal; 2) the Northern California Power Agency’s (NCPA) Green Power Project; 3) NCPA opportunities available to all members; and 4) new opportunities with current counterparties. The
recommended agreement under consideration in this report was found through a new opportunity with a current counterparty.

**DISCUSSION**

Ameresco owns and operates several landfill gas-fired plants in the greater Bay Area and is executing a landfill gas fuel agreement with the Butte County Landfill in Paradise, California. The project arose after the commencement of Palo Alto’s and NCPA’s separate 2007 RFP processes. In July 2008, Ameresco approached Palo Alto and Alameda, both of whom currently have PPAs with three other Ameresco landfill gas-fired power projects, to explore interest in purchasing the output of the Butte County Landfill Gas Power Project (Plant). As a result of negotiations, Ameresco would like to enter into a new PPA with the City to sell one-half of the output from the Plant to Palo Alto for a price starting at 8.7¢/kWh and escalating 1.5% per year 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 by Ameresco at the Butte County Landfill in Paradise, California. Under the terms of the PPA, Palo Alto would pay a series of predetermined rates over the term of the agreement for any energy delivered. If delivered volumes should decline, Palo Alto’s payments to Ameresco would be reduced proportionately, freeing up money to purchase replacement renewable energy from other sources.

Palo Alto and Alameda would each receive and pay for equal shares of output from the 4.3 Megawatt (MW) plant. At the expected Plant output, Palo Alto’s share would amount to about 2 average MWs, or roughly 1.7% of the City’s total electric load.

In light of the relative economic attractiveness of the Ameresco proposal compared to other renewable resource offerings, staff is seeking the Council’s authorization to participate in up to 4 average MW of the project even though it is estimated that Palo Alto’s nominal share is likely to be about 2 average MW. Palo Alto may get more output if Alameda chooses to decrease its share, thereby giving Palo Alto a chance to increase its share. If, in the future, Ameresco were to propose a plant expansion for additional generation at the site and City staff found this option attractive, staff would return to Council for an amendment to this agreement, addressing the plant expansion.

Ameresco is a relatively small company that does not have a credit rating by Moody’s or Standard and Poor’s. The credit analysis of the Risk Manager does indicate a relatively strong financial condition for the company. Since energy deliveries will be tied to a specific generator at a specific location, in contrast to market contracts whose deliveries are often backed by financial strength or collateral of a companies rather than a physical asset, staff recommends that the 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 with similar characteristics (CMR: 461:04). This waiver is intended to benefit only small but sound companies that do not have credit ratings. Palo Alto has had a positive experience to date with Ameresco in regards to its three existing landfill gas-to-energy agreements that provide 8 MW. The agreement between Palo Alto and Ameresco
(Attachment B) was revised by Palo Alto Utilities staff and the Energy Risk Manager to determine that the combination of value, price, terms, credit worthiness of provider, and credit assurances warrant Palo Alto’s participation.

**RESOURCE IMPACT**
The cost of renewable supplies under the PPA is expected to be $36 million over 20 years. The annual expected cost is $1.54 million in the first year and the cost escalates 1.5% per year over the 20-year term of the PPA. This assumes that Palo Alto’s participation level and the plant output would provide 2 average MW (about 1.7% 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 $90 million over the 20-year term. In either case, the incremental rate impact will remain within the 0.5¢/kWh limit adopted by Council. The PPA incremental cost of about $200,000/year more than the cost of non-renewable power is expected to use about 5% of the allowed limit adopted by Council.

**POLICY IMPLICATIONS**
Adoption of this resolution allows the City to participate in the agreement to purchase renewable energy and thereby is consistent with the Council’s 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 Long-term Electric Acquisition Plan Guideline (LEAP) #6;
5. The portfolio diversification goals in LEAP Guideline #3;
6. The City’s Sustainability Policy Statement, adopted April 2, 2001 (CMR 175:01) and revised June 18, 2007 (CMR 260:07);
7. The Green Government Pledge, adopted July 19, 1999 (CMR 284:99);
8. The US Mayors’ Climate Protection Agreement; and
9. 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 intends 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 Renewable Energy Power Purchase Agreement between Palo Alto and Ameresco
B: Renewable Energy Power Purchase Agreement between Palo Alto and Ameresco

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