TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: UTILITIES

DATE: OCTOBER 20, 2008 CMR: 391:08

REPORT TYPE: CONSENT

SUBJECT: Adoption of a Resolution Approving the Amended and Restated Northern California Power Agency Pooling Agreement and Associated Schedules

RECOMMENDATION
Staff recommends that Council approve the Amended and Restated Northern California Power Agency (NCPA) Pooling Agreement and its associated schedules.

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 California Independent System Operator (CAISO) balancing authority area. 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.

The Palo Alto City Council, at its September 20, 1993 meeting, adopted a motion to approve the execution of the original NCPA Pooling Agreement. The Pooling Agreement established the rules for participation in the Pool, along with operational, billing and dispute resolution protocols.

DISCUSSION
The Pooling Agreement, which has not had a major update since it was established in 1993, is currently out of date and does not reflect the changes in market structure and interconnection agreements that have taken place since 1993, including formation of the CAISO. NCPA management and staff have made a concerted effort in the past twelve months to work with members to update the Agreement. The result of these efforts is the Amended and Restated

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NCPA Pooling Agreement (Attachment C), as approved by the NCPA Commission (Attachment B – NCPA Resolution No. 08-73 approved September 26, 2008).

Many of the modifications to the Pooling Agreement address the addition of new regulatory and legislative obligations, and deletion of obsolete definitions associated with old interconnection agreements that are no longer relevant to the pool’s operations. A summary of the key changes made to the Pooling Agreement is provided in Exhibit 1 of Attachment D: NCPA Commission Staff Report. The more significant modifications to the Agreement include the following:

1) The article on resource development has been deleted in the amended Pooling Agreement. This represents a change from the original pool emphasis on long-term joint planning activities, and instead reflects the pool member’s need to have flexibility in pursuing individual electric procurement activities that are more aligned with the individual member’s regulatory compliance requirements and resource preferences.

2) The section on resource planning has been amended to include a mechanism for evaluating compliance with resource adequacy requirements and for assessing cost allocation for non-compliance.

3) The Pooling Committee has been eliminated and replaced with ad-hoc committees that will meet from time to time for limited purposes and will be dissolved when the purpose has been met.

4) The article on settlement of disputes and arbitration has been updated to require informal resolution followed by mediation followed by binding arbitration for settlement of disputes.

5) The termination provision has been modified from a 6-month termination notice to a 2-year notice and requirement for termination to coincide with the end of a fiscal year.

**RESOURCE IMPACT**
The Pooling Agreement was originally established to provide a mechanism for members to share in the savings resulting from the reduced operating costs that could be realized from the pooling of resources and scheduling and dispatch activities. The amended Pooling Agreement continues the pooling of resources and activity and also addresses new resource adequacy obligations. These resource adequacy obligations are not a result of the amended Pooling Agreement, but are imposed on the City by the CAISO Tariff, and are already included in the City’s Electric Portfolio Budget at an estimated $3 to $4 million a year.

**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.

**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 Approving the Amended and Restated NCPA Pooling Agreement and its associated Schedules.
B. Resolution of the NCPA Commission Approving the Amended and Restated NCPA Pooling Agreement and its associated Schedules.
C. Amended And Restated NCPA Pooling Agreement
D. NCPA Commission Staff Report

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