TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DATE: OCTOBER 20, 2008

REPORT TYPE: CONSENT

SUBJECT: Adoption of a Resolution Approving the City of Palo Alto Electric Utility Resource Adequacy Program and Authorizing the City Manager to Amend the Program or Part Thereof that Conform to Changes in California Law and Policy that Implement Prudent Utility Practices

RECOMMENDATION
Staff and the Utilities Advisory Commission (UAC) recommend that the City Council adopt the resolution approving the City of Palo Alto Electric Utility Resource Adequacy Program described in Attachment B and delegating the authority to the City Manager or designee to make changes to the elements of the Electric Utility Resource Adequacy Program to conform to changes in state law and policy that implement prudent utility practices.

BACKGROUND
The City of Palo Alto is a member of Northern California Power Agency (NCPA). NCPA, acting on behalf of the City, schedules the City’s electric load and resources within the California Independent System Operator’s (CAISO) balancing authority area pursuant to the terms of the CAISO Tariff and the NCPA Metered Subsystem Aggregator Agreement.

The City has established and adopted an Interim Electric Utility Resource Adequacy Program, which has been in place since May 2006 (Resolution No. 8602, approved May 1, 2006). This Interim Program was intended to expire on the date that the CAISO’s Market Redesign and Technology Upgrade (MRTU) Tariff, which would introduce new resource adequacy responsibilities and reporting requirements, was implemented. However, because implementation of MRTU has been substantially delayed, the CAISO has incorporated resource adequacy compliance language in the currently effective CAISO Tariff.

To comply with current tariff requirements, and in anticipation of revised reporting requirements for 2009 under the CAISO’s MRTU Tariff, staff has been working with NCPA staff and member agencies to develop a replacement Electric Utility Resource Adequacy Program.
DISCUSSION
The attached Electric Utility Resource Adequacy Program has been developed to coordinate with the rules and requirements incorporated within the CAISO’s MRTU Tariff. In addition to regulatory compliance, the program is designed to achieve a high degree of reliability in the electric service supplied to the City’s customers and includes the following information and requirements:

- Applicability of the CAISO’s resource adequacy requirements to the City.
- The City’s requirement to provide resource adequacy demonstrations to the CAISO. As the City’s Scheduling Coordinator, NCPA will submit the information to the CAISO on behalf of the City.
- The use of the California Energy Commission’s monthly peak demand determination for calculating the City’s capacity requirements.
- Determination of the capacity reserve margin, which states that the City shall retain capacity equal to no less than 115% of the monthly peak demand.
- Clarification that the CAISO’s authority to dispatch generation facilities is governed by the terms of Metered Subsystem Agreement.
- A description of the generation resources and contracts that count towards meeting the City’s capacity requirements, and the rules and criteria for counting capacity.
- Procedures for compliance and enforcement of the resource adequacy requirements.

BOARD/COMMISSION REVIEW AND RECOMMENDATIONS
The Electric Utility Resource Adequacy Program was presented to the Utilities Advisory Commission (UAC) at its October 1, 2008 meeting. The Commission discussed local capacity issues such as how long the City had been subject to this requirement, how local capacity could be met or reduced through lowering peak demand and transmission investments, and sources for local capacity. The Commission also confirmed that the expected costs for local capacity are included in the current budget for the electric utility. The Commission requested further clarification that the proposed Electric Utility Resource Adequacy Program was the result of a collaborative effort with NCPA and member agencies. The UAC voted unanimously to recommend that the City Council approve the Electric Utility Resource Adequacy Program. Excerpted minutes from the UAC meeting are included as Attachment C.

RESOURCE IMPACT
The costs of meeting the reliability requirements specified in the Electric Utility Resource Adequacy Program are included in the current electric utility budget. A new component of this updated program relates to local area requirements that are assigned to the City. The CAISO requires all load serving entities, such as the City of Palo Alto, to procure a large portion of their required resources from generators in their local areas – for Palo Alto that means within the San Francisco Bay Area. Current assumptions indicate that these requirements may cost $3.4 million per year. These costs for local area requirements were anticipated and are included in the electric budget.
**POLICY IMPLICATIONS**
Adoption of the Electric Utility Resource Adequacy Program is consistent with the Council-approved policy to follow regulatory mandates, maintain local control over utility services and provide reliable electric power. Additionally, the Long-term Electric Acquisition Implementation Plan that was approved by Council on April 17, 2006, included a statement to, “Establish a policy to address mandatory resource adequacy requirements.”

**ENVIRONMENTAL REVIEW**
Adoption of this resolution does not require review under the California Environmental Quality Act because it does not meet the definition of a “project” pursuant to California Public Resources Code Section 21065.

**ATTACHMENTS**
A. Resolution Approving City of Palo Alto Electric Utility Resource Adequacy Program  
B. City of Palo Alto’s Electric Utility Resource Adequacy Program  
C. Excepted Minutes from the October 1, 2008 Utilities Advisory Commission Meeting

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