TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER
DATE: NOVEMBER 10, 2008
DEPARTMENT: UTILITIES
CMR: 437:08

REPORT TYPE: CONSENT

SUBJECT: Finance Committee Recommendation to Adopt 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 and the Finance Committee recommend the Council adopt the attached resolution approving the Power Purchase Agreement (PPA) with Ameresco Butte County LLC, a Delaware limited liability company. Additionally, for this agreement, staff and the Finance Committee recommend 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.

DISCUSSION
The Council has adopted a renewable portfolio standard with a target to meet 20 percent of City electricity loads with renewable resources by 2008 and 33 percent by 2015 within a retail rate impact measure of 0.5¢/kWh (CMR:158:07). This is in addition to Palo Alto’s large hydroelectric resources that account for approximately 50 percent of the City’s electric supply in average hydro production years.

In addition to arrangements made to date, the City is seeking new renewable energy equal to approximately 13% of annual usage to meet the 33 percent renewable portfolio goal by 2015. The recommended agreement under consideration in this report is for one half of the output from a new landfill gas-fired generator plant that would be built by Ameresco at the Butte County Landfill in Paradise, California. Palo Alto anticipates paying for and receiving one-half of the total output of four megawatts with the other one-half going to Alameda. In light of the relative economic attractiveness of the Ameresco proposal compared to other renewable resource offerings, the Council’s authorization is requested to participate in up to the full output of 4

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average megawatts of the project in case Alameda chooses to decrease its share, thereby giving Palo Alto a chance to increase its share. The one-half share of output amounts to two megawatts, or roughly 1.7% of the City’s total electric load. This is available at a price starting at 8.7¢/kWh and escalates at 1.5% per year for a term of 20 years.

Ameresco is a relatively small company that does not have a credit rating. The Power Purchase Agreement with Ameresco has provisions for Palo Alto to take over plant operation in the event of certain default conditions. As a result, staff and the Finance Committee recommend that the Council waive the investment-grade credit requirement for public agency contracts as required under Section 2.20.340 (d) of the Palo Alto Municipal Code. This conforms to the Council’s action on prior renewable resource contracts with similar characteristics (CMR: 461:04).

FINANCE COMMITTEE REVIEW AND RECOMMENDATIONS
The Finance Committee reviewed and unanimously approved the staff recommendation on October 21, 2008 (CMR:399:08, Attachment C). The Committee discussed keeping the Council apprised of progress toward acquiring the remaining 13% renewable energy within the 0.5¢/kWh maximum rate impact for renewable resources. The Committee also discussed particulars of the proposed agreement, but had no changes to the terms of the proposed agreement.

RESOURCE IMPACT
The cost of renewable supplies under this 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. There is a slight chance that Palo Alto’s participation could double if Alameda chooses to withdraw from the project. In either case, the incremental rate impact will remain within the 0.5¢/kWh limit adopted by Council, having an incremental cost of about $200,000/year more than the cost of non-renewable power.

POLICY IMPLICATIONS
Adoption of this resolution 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: the Council-approved Climate Protection Plan; Utilities Strategic Plan; Energy Risk Management Policies; Long-term Electric Acquisition Plan; the City’s Sustainability Policy Statement; and the Comprehensive Plan.

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
C: CMR:399:08 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
D: PowerPoint Presentation for the October 21, 2008 Finance Committee meeting
E: Excerpted minutes from the October 21, 2008 Finance Committee meeting

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