



City of Palo Alto

City Council Staff Report

(ID # 10659)

Report Type: Consent Calendar

Meeting Date: 11/4/2019

Summary Title: Approval of Resolution Approving PA6 with TANC

Title: Adoption of a Resolution Approving Project Agreement No. 6 with Transmission Agency of Northern California and its Participating Members For Regulatory Engagement in Participating Transmission Owner Cases Before the Federal Energy Regulatory Commission For an Initial 3 Year Term, and Granting the City Manager the Authority to Approve Future Operational Amendments to the Agreement

From: City Manager

Lead Department: Utilities

Recommendation

Staff recommends that City Council adopt the attached resolution (Attachment A) 1) approving Project Agreement No. 6 with the Transmission Agency of Northern California and its Participating Members for Regulatory Engagement in Participating Transmission Owner Cases Before the Federal Energy Regulatory Commission (Attachment B), in a Total Amount of 9% of TANC's Annual Budgeted Regulatory Engagement Costs, estimated at \$75,000 per year, for an initial three year term, and 2) granting the City Manager the authority to approve future operational amendments to the agreement.

Executive Summary

The Transmission Agency of Northern California (TANC), of which the City of Palo Alto is a member, represents the City in various electric transmission regulatory forums. Executing TANC's Project Agreement No. 6 (PA6) will enable TANC to represent the City and other participating members in transmission owner rate cases to ensure the City receives least cost electric transmission services.

Background

The City of Palo Alto is a member of TANC, a California joint powers agency that currently owns about 87 percent of the California-Oregon Transmission Project (COTP), a 1600 megawatt (MW), 340-mile long electric transmission line from the California-Oregon Border

to the 500 kilovolt Tracy Substation in Northern California. The City has an approximately 50 MW share of the COTP. TANC's membership includes 15 publicly owned utilities in the cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah, as well as the Sacramento Municipal Utility District, the Modesto Irrigation District and the Turlock Irrigation District. The Plumas-Sierra Rural Electric Cooperative is an Associate Member.

Discussion

TANC, acting on behalf of all TANC members participates and intervenes in transmission owner rate cases before FERC. TANC's engagement in rate cases has resulted in savings of approximately \$2.5 million in City's electric transmission service costs. Most of these benefits accrue to TANC members like the City who are in the California Independent System Operator's (CAISO's) electric transmission balancing area. However, currently most of the costs of transmission advocacy are borne by TANC members not located in CAISO area.

Currently TANC's cost to provide transmission advocacy services, including costs for legal expenses, subject matter experts and witnesses, is allocated according to ownership shares of the COTP. Since the City has laid off its ownership share to another TANC member agency through 2024¹, the City does not currently bear any cost related to TANC's transmission advocacy, even though such interventions will save the City multiple million dollars in transmission related costs. Other TANC members have similarly laid off their shares. Due to such layoffs, most of the agencies currently bearing the costs of transmission advocacy are not located in the CAISO balancing area, and for them, the cost to benefit ratio of continued transmission advocacy is not favorable. Without cost sharing by other TANC members TANC will not find it economically feasible to continue transmission advocacy.

To better align allocation of cost for these services with benefit accrued to members, on June 26, 2019 TANC's Commission approved PA6 to revise the cost allocation method for TANC's future engagement in transmission rates cases and other related transmission activities. Table 1 below illustrates the prior and proposed cost allocation percentages. The proposed allocation better reflects the level of transmission services members receive through the California Independent System Operator (CAISO) and associated value accrued through TANC's participation.

¹ Related Council approvals from 2009 and 2014 are linked here: [Staff Reports #100:09, 01/26/2009](#), [Staff Report # 4547, 4/7/2014](#)

Table 1: Comparison of Current and Proposed Allocation of Costs Under PA6

Member	Existing Allocation (%)	Proposed PA6 Allocation (%)
MID	34	23
Redding	10.333	8
SMUD	15.999	11
SVP	27	26
TID	7.455	8
Alameda	2.104	4
Healdsburg	0.237	1
Lodi	2.069	4
Lompoc	0.267	1
Palo Alto	0	9
Plumas	0.233	1
Roseville	0	3
Ukiah	0.303	1
Total	100	100

The term of PA6 is for three years, after which PA6 may be extended by an additional one to three years through unanimous vote of the TANC Commission, the TANC governing body in which Palo Alto is also represented. TANC will provide briefings to the Commission at its regular meetings, including an overview of relevant proceedings, an assessment of financial impacts to TANC and its members, the scope of TANC’s potential engagement, and identification of legal actions TANC is considering.

Resource Impact

TANC’s Commission will set budgetary authorizations every fiscal year for TANC’s overall scope of engagement in transmission owner rate cases. In FY 2020, starting July 1, 2019, TANC’s Commission approved a budget of \$825,000 for service related to PA6. Palo Alto’s 9% share of this budgeted cost will be \$74,250. This cost is anticipated to be absorbed within the Council approved electric fund budget this year. These new cost allocations will be limited to prospective activities after PA6 is signed by the City. Annual budgets will be approved by the TANC Commission, with votes weighted by each member’s percentage.

The expenditures and regulatory interventions will be undertaken by TANC staff and attorneys under the direction of the TANC Commission, with regular reports on progress provided.

Policy Implications

This recommendation is consistent with the Council-approved Utilities Strategic Plan to manage finances optimally and use resources efficiently to meet customer service priorities.

Stakeholder Engagement

This is an administrative action related to legal and regulatory intervention; hence no public stakeholder process was undertaken. The TANC Commission unanimously approved this contract at its meeting held on June 26, 2019.

Environmental Review

Approval of this amendment does not meet the California Environmental Quality Act's definition of a "project" under Public Resources Code Section 21065, because it is an administrative governmental activity that will not result in any direct or indirect physical change to the environment (CEQA Guidelines section 15378(b)(5)), thus environmental review is not required.

Attachments:

- Attachment A: Resolution Approving TANC PA6
- Attachment B: Project Agreement 6

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- Attachment A: Resolution Approving TANC PA6
- Attachment B: Project Agreement 6

NOT YET APPROVED

Resolution No. _____

Resolution of the Council of the City of Palo Alto approving Project Agreement No. 6 between and among The Transmission Agency of Northern California and its participating members for regulatory engagement in participating transmission owner cases before The Federal Energy Regulatory Commission for an initial 3-year term

R E C I T A L S

A. The City of Palo Alto (“City”), a municipal utility and a chartered city, is a member of the Transmission Agency of Northern California (“TANC”), a joint powers agency engaged in interstate transmission of power; TANC currently owns about 87 percent of the California-Oregon Transmission Project (“COTP”), a 1600 megawatt (“MW”), 340-mile long electric transmission line from the California-Oregon Border to Northern California, of which the City has an approximately 50 MW share.

B. Along with the City, the cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Redding, Roseville, Santa Clara, and Ukiah; the Modesto Irrigation District; the Sacramento Municipal Utility District; and the Turlock Irrigation District are TANC members; the Plumas-Sierra Rural Electric Cooperative is an associate member.

C. In addition to operating the COTP transmission line, on behalf of its members, TANC has historically participated and when necessary litigated transmission owner rate cases before the Federal Energy Regulatory Commission (FERC) to ensure TANC members who transact in the CAISO markets receive low cost transmission services.

D. The City seeks to enter into Project Agreement No. 6 with TANC so that TANC can continue to represent the City in transmission owner rate cases under a revised cost allocation method, which sets the City’s cost allocation at 9%.

E. TANC’s Commission will set budgetary authorizations every fiscal year for TANC’s overall scope of engagement in transmission owner rate cases; TANC’s FY 2020 budget for service related to PA6 is \$825,000. The City’s 9% share of this budgeted cost will be \$74,250.

F. Future cost allocations will include TANC’s prospective activities after PA6 is signed by the City. Annual budgets will be approved by the TANC Commission, with votes weighted by each member’s allocation percentage.

G. The term of PA6 is for three years, after which PA6 may be extended by an additional one to three years through unanimous vote of the TANC Commission, the TANC governing body in which Palo Alto is also represented.

The Council of the City of Palo Alto does hereby RESOLVE as follows:

SECTION 1. The Council hereby adopts the resolution approving Project Agreement No. 6 for regulatory engagement in participating transmission owners cases before The Federal Energy Regulatory Commission between and among the Transmission Agency of Northern California and its participating members for an initial 3-year term, subject to a one to three year extension through unanimous TANC Commission vote. The City Manager is hereby authorized to sign the agreement on behalf of the City.

SECTION 2. The Council further grants the City Manager the authority to approve future operational amendments to PA6 that are necessary to carry out Council's intent that TANC continue its regulatory engagement on behalf of the City.

SECTION 3. The Council finds that the adoption of this resolution does not constitute a project under Section 21065 of the California Environmental Quality Act (CEQA) and CEQA Guidelines section 15378(b)(5), as it is an administrative governmental activity that will not result in any direct or indirect physical change to the environment, and therefore, no environmental assessment is required.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

City Clerk

Mayor

APPROVED AS TO FORM:

APPROVED:

Assistant City Attorney

City Manager

Director of Utilities

Director of Administrative Services

TRANSMISSION AGENCY OF NORTHERN CALIFORNIA
PROJECT AGREEMENT NO. 6 FOR REGULATORY ENGAGEMENT IN PARTICIPATING
TRANSMISSION OWNER CASES BEFORE THE FEDERAL ENERGY REGULATORY
COMMISSION

This Project Agreement No. 6 (Agreement) is entered into as of _____, 2019 by and among the Transmission Agency of Northern California, hereinafter referred to as TANC; and the Cities of Alameda, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, and Ukiah; the Modesto Irrigation District; the Sacramento Municipal Utility District; the Turlock Irrigation District; and the Plumas-Sierra Rural Electric Cooperative (hereinafter collectively referred to as the "Participating Members" and together with TANC are "Parties" to this Agreement) with regard to the following:

RECITALS

WHEREAS:

- A. TANC, acting on behalf of the Participating Members, has engaged in certain regulatory forums, including before the Federal Energy Regulatory Commission (FERC), to protect the value of TANC's transmission assets and to support the Participating Members by striving to limit the Participating Members' exposure to transmission costs when transacting in the California Independent System Operator (CAISO) markets, or as otherwise may be applicable.
- B. TANC has historically placed particular focus on the Pacific Gas and Electric Company's (PG&E) transmission owner (TO) rate cases due to the potential impact such rate cases may have on the transmission rates under TANC's South of Tesla Principles (SOTP) existing transmission contract on PG&E's transmission system.

- C. Prior to the effective date of this Agreement, costs associated with TANC's engagement in TO rate cases have been allocated to TANC Members based on their transmission capacity entitlements under the South of Tesla Agreement (SOT Allocation Percentages) due to the potential impact of PG&E's transmission costs on the SOTP transmission rate.
- D. TANC has also pursued engagement in FERC and other regulatory matters based on the potential impacts of TO rates or on industry matters generally and these costs have been shared based on either Project Agreement No. 3 (PA3) or Project Agreement No. 5 (PA5) allocation percentages.
- E. Certain SOT Members have entered into a settlement agreement with PG&E, and based on such are not subject to specific SOTP transmission rates for use of their SOTP transmission rights, but are rather subject to the CAISO's transmission rates.
- F. In addition to the potential impacts to the SOTP transmission rates, TANC Members may also be impacted by changes in the transmission rates charged by the CAISO for use of the CAISO controlled transmission system.
- G. The CAISO provides transmission service under a single statewide high-voltage transmission access charge (TAC) rate, where certain transmission investments made by the Participating Transmission Owners (PTOs) and other transmission rights holders, impact transmission costs for all users of the CAISO transmission system and therefore TANC has reviewed certain California and regional transmission projects for purposes of forecasting the high-voltage TAC.
- H. TANC Members are situated differently with respect to exposure to CAISO transmission rates, depending how a TANC Member receives transmission service

from the CAISO, or depending where they choose to procure their energy resources.

- I. TANC has conducted outreach with the Members to provide transparency for TANC's past activities in the FERC regulatory TO proceedings, and to provide an initial estimate of the benefits and costs of TANC's recent engagement in TO rate cases before FERC.

- J. TANC and the Participating Members have determined that it is appropriate to implement a revised cost allocation mechanism to be used by TANC for allocating certain legal and subject matter expertise costs, that are associated with TANC's engagement in TO rate cases and other related transmission activities.

NOW, THEREFORE, in consideration of the mutual covenants and conditions set forth in this Agreement, TANC and the Participating Members hereby agree as follows:

AGREEMENT

1. SCOPE OF ACTIVITY

Pursuant to the terms and conditions of this Agreement, TANC may be directed by the Commission to act on behalf of the Participating Members to engage in certain activities, either directly, indirectly, or in conjunction with legal counsel and subject matter experts, pertaining to proceedings that effect the CAISO Transmission Access Charge (Scope of Activity). The Scope of Activity contemplated herein generally includes:

- Representing the interests of the Participating Members by monitoring, analyzing, and participating in TO rate cases before FERC and any related judicial appeals;
- Engaging in other related filings or industry developments that affect the cost or provision of transmission service under TO rate cases; and,

- Engaging in other activities as may be approved by the Participating Members.

The Scope of Activity shall be supported by legal services and other specialized services relevant to TANC's participation in proceedings that are performed by qualified subject matter experts and/or witnesses. It may also include TANC Management and staff as required, or as determined to be beneficial, to advance TANC's and the Participating Members' interests.

The Scope of Activity shall apply to the TO rate cases and new related transmission activity matters that are filed subsequent to the effective date of this Agreement, and shall include all future activities and costs associated with PG&E's TO 18, TO 19 and TO 20 rate cases, but only for costs incurred after the effective date of this Agreement.

2. COORDINATION WITH OTHER ENTITIES

As part of TANC's duties under this Agreement, TANC shall strive to work collaboratively with other intervenors and relevant parties, and where practicable, build alliances and find common interest in promoting TANC's and the Participating Members' interest in the Scope of Activity. Such efforts include building coalitions, where strategically and economically viable, to support the alignment with other intervenors or to form "joint intervenor" perspectives for engaging in the Scope of Activity. This may include coordinating and sharing responsibilities on areas of common interest to ensure the most efficient advancement of TANC's interest on behalf of the Participating Members, and to reduce redundancy in the Scope of Activity of TANC and other similarly situated parties on issues of importance to TANC and the Participating Members.

To the extent coordination with other entities, including direct coordination with a Participating Member, or subset of Participating Members, results in gained efficiencies and benefits for TANC, or directly or indirectly reduces TANC's costs for performing the Scope of Activity contemplated herein, the Commission shall evaluate and consider such joint benefits and the individual Participating Member's funding obligations when establishing annual funding amounts. The

evaluation of joint benefits will occur prior to the development of the annual funding under this Agreement and may reflect completed work activities and planned activities, by a Participating Member or subset of Participating Members.

3. ROLE OF THE COMMISSION

The Commission shall provide TANC management policy and strategic direction, and set budgetary authorizations for TANC's overall engagement in the Scope of Activity, taking into consideration recommendations from TANC management, which may be further informed by guidance from legal counsel, relevant subject matter experts, and recommendations from the Contracts Committee.

Upon receiving direction from the Commission, TANC management is responsible for implementing the direction of the Commission with respect to Scope of Activity under this Agreement. TANC management will coordinate the Scope of Activity through the Contracts Committee, where the Contracts Committee will be responsible for reviewing and providing feedback regarding TANC's Scope of Activity, and will advise TANC's management for advancing the policy and strategic direction provided by the Commission. Notwithstanding the responsibility of the Contracts Committee described herein, all activities and decisions considered by TANC's management related to the Scope of Activity that involves potential legal action, or that is of a legal strategy, shall be further coordinated with legal representatives of the Participating Members through the Contracts Committee and/or the Commission.

This coordination will include when reasonably practicable: (i) draft materials for filing in advance to the Contracts Committee for review and comment prior to submission to FERC; (ii) access to any relevant filings in connection with the Scope of Activity; and (iii) analysis from legal counsel and subject matter experts supporting the positions of TANC or other intervenors related to the Scope of Activity.

TANC management shall provide briefings and supporting material to the Commission and the Contracts Committee at each regularly scheduled meeting regarding the status of the Scope of Activity under this Agreement. Briefing materials may include the following:

- An overview of the relevant proceedings and known schedules;
- Assessment of the financial impact to TANC and, to the extent practicable, each of the Participating Members;
- The scope of TANC's potential initial engagement and each recommended change in scope;
- Identification of potential legal actions that TANC should consider and the likelihood of success (by argument if practicable);
- An estimate of the potential benefits and costs associated with engagement (periodically updated as may be necessary recognizing progress of proceedings under the Scope of Activity); and
- Scope of Activity progress reports identifying:
 - Status of the proceeding
 - Summary of TANC's issues and the position(s) of relevant intervenors
 - Costs incurred for engagement, tracking, and monitoring, as well as any changes to the estimated benefits and costs
 - Identification of key decision points in the proceeding

4. VOTING

The Commission shall direct all policy and legal action required in connection with this Agreement. The Contracts Committee will direct the implementation of the Commission's policy and legal direction. The Participation Percentages set forth in Appendix 1, as attached hereto and made part of this Agreement, shall govern voting rights for actions taken under this Agreement. In order for a formal action to be taken by the Commission or the Contracts Committee under this Agreement related to the Scope of Activity, a quorum of the Participating Members shall be

established, where the Participation Percentages of the Participating Members present must be at least 60%. An affirmative vote representing 60% of the Participation Percentages of the Participating Members under the Agreement is required to provide authorization.

The Participating Percentages as set forth in Appendix 1 may be modified by a unanimous vote of the Participating Members. The Participating Members may determine additional Participating Percentages for cost allocation and voting for specific regulatory or legal proceedings, based on unanimous approval of the Participating Members.

5. FUNDING AND OBLIGATIONS FOR ACTIVITIES

All costs attributed to the Scope of Activity performed in accordance with this Agreement shall be allocated to the Participating Members based on the Participation Percentages set forth in Appendix 1; provided, however, as described in Section 2 of this Agreement, the funding obligation of a Participating Member, or subset of Participating Members, shall be considered and may be adjusted by the Commission to account for any contributions or benefits associated with joint coordination and activities among the Participating Members. Any adjustments by the Commission of the funding obligation for Participating Members contemplated under this Section 5 shall be by the voting under Section 4..

All costs that are estimated to be incurred under this Agreement shall be included in the annual TANC Budget, and the total amount of expenses TANC is authorized to incur during any fiscal year for performing the Scope of Activity under this Agreement shall be subject to annual caps and not exceed the Budget or the annual funding caps unless additional funding is approved by the Commission. Costs shall be itemized by proceeding for the sole purpose of TANC's work under the Scope of Activity, including accounting for distinct legal costs, subject matter experts and witnesses. TANC management costs may be included upon approval of the Commission.

6. TERM AND TERMINATION.

This Agreement shall take effect as of the date hereof and shall remain in full force and effect for three years from the date that TANC and the Participating Members execute the Agreement. At least 120 days in advance of the initial three-year term of this Agreement, the Participating Members may extend the term for an additional one to three years by a unanimous vote. In accordance with Section 15.6 of PA3, the provisions of Section 15 of PA3 shall be incorporated by reference.

In the event that one or more Participating Members choose to terminate its participation in this Agreement, by providing written notice 100 days prior to the end of the initial three-year term or pursuant to the provisions of Section 15 of PA3, the remaining Participating Members may elect to adjust the cost allocation percentages shown in Appendix 1 and continue this Agreement. If by the end of the initial three-year term of this Agreement the remaining Participating Members have not agreed to adjust the allocation percentages shown in Appendix 1, TANC shall terminate this Agreement.

Upon termination of this Agreement, or termination of any individual Participating Member's participation in this Agreement pursuant to this Section 6, any costs and liabilities associated with the Scope of Activity approved in accordance with this Agreement shall remain the obligation of the Participating Members until such Scope of Activity is completed.

Prior to the termination of this Agreement, the TANC Commission shall review TANC's role with respect to the Scope of Activity and take action regarding TANC's continued work and related cost allocation.

7. AMENDMENTS

This Agreement may be amended only by the written agreement of all the parties hereto.

8. DEFAULT

Upon the failure of any Participating Member to meet its obligations hereunder, TANC shall give written notice of the failure to such Participating Member and, if such failure has not been cured within forty-five (45) days after the date of such notice, it shall constitute a default at the expiration of such forty-five (45) day period. Upon such default, TANC may terminate this Agreement as to the defaulting Participating Member, and protect and enforce its rights hereunder by suit or suits in equity or at law, whether for the specific performance of any covenant herein or for damages or in aid of the execution of any power granted herein or any other remedy available under any provision of applicable law. The cost allocation percentages may be adjusted amongst the remaining Participating Members.

9. INDEMNIFICATION

Each Party and its officers, agents, employees, commissioners and board members, undertake no legal liability to the other Parties to this Agreement ("Indemnitees") and each Party releases, holds harmless, and covenants not to sue any Indemnitees for any cause, claim, injury, damage, or death arising from a negligent act or omission of any other Party in connection with this Agreement.

10. SEVERABILITY

If any provision of this Agreement is finally adjudicated by a court of competent jurisdiction to be invalid, the remainder of this Agreement shall remain in full force and effect as though the invalid provision had not been included herein.

11. MEMBERS' OBLIGATIONS SEVERAL

The obligation of each Participating Member to make payments under this Agreement is a several obligation and not a joint obligation with those of the other Participating Members.

12. WAIVER OF DEFAULT

Any waiver at any time by any party of its rights with respect to a default under this Agreement, or with respect to any other matters arising in connection with this Agreement, shall not be deemed a waiver with respect to any subsequent default or other matter.

13. COUNTERPARTS

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original and all of which, when taken together, shall constitute a single Agreement.

14. SIGNATURES

In witness whereof, the parties have caused this Agreement to be executed as of the date first above written. The signatories to this Agreement represent that they have been appropriately authorized to enter into this Agreement on behalf of the party for whom they sign.

PARTICIPATING MEMBERS

CITY OF ALAMEDA

By: _____

Name: _____

Title: _____

Date: _____

CITY OF HEALDSBURG

By: _____

Name: _____

Title: _____

Date: _____

CITY OF LODI

By: _____

Name: _____

Title: _____

Date: _____

CITY OF LOMPOC

By: _____

Name: _____

Title: _____

Date: _____

MODESTO IRRIGATION DISTRICT

By: _____

Name: _____

Title: _____

Date: _____

CITY OF PALO ALTO

By: _____

Name: _____

Title: _____

Date: _____

PLUMAS-SIERRA RURAL ELECTRIC COOPERATIVE

By: _____

Name: _____

Title: _____

Date: _____

CITY OF REDDING

By: _____

Name: _____

Title: _____

Date: _____

CITY OF ROSEVILLE

By: _____

Name: _____

Title: _____

Date: _____

SACRAMENTO MUNICIPAL UTILITY DISTRICT

By: _____

Name: _____

Title: _____

Date: _____

CITY OF SANTA CLARA

By: _____

Name: _____

Title: _____

Date: _____

TURLOCK IRRIGATION DISTRICT

By: _____

Name: _____

Title: _____

Date: _____

CITY OF UKIAH

By: _____

Name: _____

Title: _____

Date: _____

TRANSMISSION AGENCY OF NORTHERN
CALIFORNIA

By: _____

Name: _____

Title: _____

Date: _____

Appendix 1

Participating Percentages and Voting Rights

TANC Member	Percentage (%)
MID	23.0000
Redding	8.0000
SMUD	11.0000
SVP	26.0000
TID	8.0000
Alameda	4.0000
Healdsburg	1.0000
Lodi	4.0000
Lompoc	1.0000
Palo Alto	9.0000
Plumas	1.0000
Roseville	3.0000
Ukiah	1.0000
Total	100.0000