City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JULY 28, 2015**

FROM: PUBLIC UTILITIES DEPARTMENT **WARDS: ALL**

SUBJECT: POWER PURCHASE AGREEMENT BETWEEN IBERDROLA RENEWABLES, LLC AND THE CITY OF RIVERSIDE

ISSUE:

The issue for City Council consideration is to approve a Power Purchase Agreement (**PPA**) between Iberdrola Renewables, LLC (**Iberdrola**) and the City of Riverside (**City**) for the delivery of seasonal (June through October) peaking renewable energy.

RECOMMENDATIONS:

That the City Council:

1. Approve the 11-year PPA between Iberdrola and the City to provide Portfolio Content Category 1 (**PCC-1**) and Portfolio Content Category 2 (**PCC-2**) project energy and associated renewable energy credits (**RECs**) from Iberdrola's pool of Pacific Northwest wind resources;

2. Authorize the City Manager or his designee to execute the PPA;

3. Authorize the City Manager or his designee to execute any documents necessary to administer the PPA; and

4. Authorize the City Manager or his designee to terminate the PPA for circumstances provided in the PPA.

COMMITTEE RECOMMENDATION:

On July 7, 2015 the Utility Services/Land Use/Energy Development Committee, with all members present, unanimously approved the Power Purchase Agreement between Iberdrola Renewables, LLC and the City of Riverside.

BOARD RECOMMENDATION:

On June 19, 2015 the Board of Public Utilities, with eight of nine Board Members present, unanimously approved the Power Purchase Agreement between Iberdrola Renewables, LLC and the City of Riverside.

<u>BACKGROUND</u>:

In 2012 California's Senate Bill (**SB**) X1-2 mandated that all electric utilities, including Riverside Public Utilities (**RPU**), procure increasing amounts of renewable power primarily from in-state resources, to serve its retail needs during specific compliance periods. RPU's current Renewable Portfolio Standard (**RPS**) requires that it supply at least 20%, 25% and 33% of retail energy needs using renewable resources by 2010, 2015 and 2020, respectively.

On April 29, 2015 the Governor of California issued Executive Order B-30-15 establishing a Greenhouse Gas (**GHG**) reduction target of 40% below 1990 levels by 2030, including among other things, increasing the RPS targets to 50% by 2030. Several bills are being considered by the state legislature to codify the increased RPS mandate.

The City has been very supportive of the existing renewable targets set by the State and is committed to serving its retail energy requirement using more renewable energy. In order to satisfy the current RPS targets, while anticipating more stringent RPS requirements in the future, RPU continues to explore additional cost-effective, renewable energy procurement opportunities.

Since 2012 the Board and City Council have approved 218 Megawatts (**MW**) of renewable resource contracts/extensions. The RE Columbia II Solar and Cabazon Wind project (combined 50 MW) achieved Commercial Operation Dates (**COD**) by 2014. Tequesquite, AP Northlake and Kingbird projects (combined 41 MW) are expected to come online in 2015, and the Salton Sea expansion (first phase) and Silverado projects (combined 40 MW) have expected CODs in 2016. Additionally, staff is currently working to replace one failed SCPPA solar PV project (20 MW Clearwater solar PV) with the more attractively priced and strategically advantageous sPower solar PV Antelope DSR (Project) located in the City of Lancaster. These projects qualify as PCC-1 renewable energy resources under California SB X1-2 RPS legislation.

Given the anticipated new 50% by 2030 RPS mandate, it will become even more critical to optimize the City's renewable energy procurement strategy in the most cost effective manner possible. California RPS legislation allows utilities to procure up to 25% of PCC-2 renewable resources to meet their non-grandfathered renewable mandates; note that PCC-2 RECs have historically been less than one half as expensive as PCC-1 RECs in the forward energy market (typical broker quotes were $20-$25 per megawatt hour (**MWh**) for PCC-1 RECs and $9-$12 per/MWh for PCC-2 RECs in 2014). Additionally, RPU has the ability to supplement our current portfolio of renewable energy resources with approximately 70,000 to 75,000 MWh/year of less expensive out-of-state PCC-2 resources while still adhering to all of our Portfolio procurement mandates. Ideally, as discussed in our 2014 Integrated Resource plan, this new PCC-2 resource should also be structured to primarily deliver firm summer peaking energy to concurrently and cost effectively hedge our summer load serving needs.

In order to continue to work towards meeting more stringent future RPS mandates, decrease our GHG footprint and cost-effectively hedge our summer peak energy load serving needs staff recently conducted an RFP process for a seasonally shaped, blended PCC-1 and PCC-2 renewable energy product. Iberdrola Renewables, LLC responded with the most cost competitive offer: specifically, a $57.85/MWh bundled energy and REC price offer, fixed for 11 years ($48.15/MWh energy price and a $9.70/MWh blended REC price; 30% PCC-1 RECs at

$16/MWh, 70% PCC-2 RECs at $7.00/MWh). This product will supply firm (non-intermittent) heavy-load renewable energy and RECs during the months of June through October, and is designed to replace our expiring summer peaking Energy Exchange Agreement with the Bonneville Power Administration. This product is also designed to supply our maximum allowable amount of lower cost PCC-2 RECs that can be retired under the current SB X1-2 RPS paradigm, allowing the City to apply more of our higher valued PCC-1 RECs towards our excess procurement targets (which in turn can be used to meet a future 50% RPS mandate).

The Iberdrola PPA will aid RPU in meeting both current and future RPS goals by increasing the City's renewable energy procurement level by approximately 4% annually on/after 2016, and has the following desirable characteristics and favorable terms:

Provides a cost effective energy hedge for our Summer peaking energy needs: product consists of firm renewable energy deliveries from June through October in the following quantities: June [25 MW], July [60 MW], August [75 MW], September [60 MW], October [25 MW]; ~ 101,000 MWh per season; 30% PCC-1 / 70% PCC-2. The all-in price for the energy and environmental attributes is $57.85/MWh for critical summer heavy-load peaking energy fixed over the term of the contract.

Facilitates a cost effective RPS procurement strategy: PCC-2 RECs are less expensive and can be used to meet up to 25% of our RPS needs each year. PCC-2 RECs acquired under this contract can also qualify and be applied towards excess procurement credits, since this contract is more than 10 years in length.

Full liability for Regulatory Compliance: the City does not pay for any RECs if the renewable assets fall out of CEC RPS compliance; Iberdrola incurs all costs (up to a cap of $500,000) to bring the renewable assets back into compliance.

$3,000,000 Delivery Term Security: Iberdrola will post a $3 million delivery security deposit in the form of cash or a direct letter-of-credit, as a guarantee of performance.

Unilateral Termination rights for Seller's non-performance: the City can unilaterally cancel the contract if Iberdrola fails to deliver a material amount of energy or RECs in any one season (or over the life of the contract).

Full responsibility for all NERC e-Tagging activities: Iberdrola will assume full responsibility for creating and submitting all NERC e-Tags over the full term of the contract.

RPS Verification penalties for post CEC Compliance filings (if found to be in error): Iberdrola must pay an escalated negotiated REC penalty (more than REC price) for any RECs ultimately disqualified by CEC during the compliance review process.

Contribution toward RPU's RPS Goal: this blended PCC-1/PCC-2 energy product will deliver approximately 101,000 MWh of renewable energy, or 4% of the City's RPS requirements in 2016, and was conceptually proposed in the recently completed Integrated Resource Plan presented to the Board on February 20, 2015 and June 4, 2015. This also assists the City's GHG reduction efforts and the strategic replacement of other expiring contracts.

FISCAL IMPACT:

The annual cost of power under the PPA is estimated to be approximately $5.85 million in Fiscal Year 2016/17 and each Fiscal Year thereafter. This cost is fixed with no annual escalation for 11 years. Staff will incorporate the costs of the PSA in future power supply budgets.

Prepared by:	Girish Balachandran, Public Utilities General Manager
Certified as to availability of funds:	Brent A. Mason, Finance Director/Treasurer
Approved by:	John A. Russo, City Manager
Approved as to form:	Gary G. Geuss, City Attorney

Concurs with:

CHRIS MAC ARTHUR, Chair
Utility Services/Land Use/Energy
Development Committee

Attachments:
1. Power Sales Agreement between Iberdrola and the City of Riverside
2. Minutes from June 19, 2015 Board of Public Utilities meeting