City of Arts & Innovation

# City Council Memorandum

**TO:** HONORABLE MAYOR AND CITY COUNCIL **DATE: JUNE 16, 2015**

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

**SUBJECT:** INTERMOUNTAIN POWER PROJECT RENEWAL AGREEMENTS BETWEEN INTERMOUNTAIN POWER AGENCY (IPA) AND THE CITY OF RIVERSIDE (RIVERSIDE)

## ISSUE:

The issues for City Council consideration are the: 1) approval of the Intermountain Power Project (IPP) renewal agreements between IPA and Riverside; and 2) authorization to participate in the IPP renewal subscription process.

## RECOMMENDATIONS:

That the City Council:

1. Find that the approval of these agreements are categorically exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to Sections 15302 and 15061(b)(3) of the CEQA Guidelines;

2. Approve the Second Amendatory Power Sales Contract (2APSC) between IPA and Riverside;

3. Authorize the City Manager or his designee to execute the 2APSC under the terms and conditions specified in the 2APSC;

4. Authorize the City Manager or his designee to participate in the IPP Renewal Project (RP) subscription process administered by the IPA for a project participation up to 5% or approximately 60 MW (assuming cost effectiveness in comparison to other similar resources);

5. Authorize the City Manager or his designee to execute the Renewal Power Sales Contract (RPSC) and as applicable, the Renewal Excess Power Sales Agreement (REPSA), throughout the RP subscription process and upon the completion of IPP RP subscription process and report back to the City Council and the Board of Public Utilities the final subscription result of the Renewal Project; and

6. Authorize the City Manager or his designee to execute any documents necessary to administer the 2APSC, the RPSC and the REPSA, collectively the IPP Renewal

Agreements (Renewal Agreements) that are consistent with the policies established by the City Council.

**COMMITTEE RECOMMENDATION:**

On June 9, 2015, the Utility Services/Land Use/Energy Development Committee, with Chair Mac Arthur, Vice Chair Perry and Member Gardner present, unanimously recommended that the City Council approve the Intermountain Power Project renewal agreements between IPA and Riverside and the authorized participation in the IPP renewal subscription process.

**BOARD RECOMMENDATION:**

This item was unanimously approved by the Board of Public Utilities at their regularly scheduled meeting on May 15, 2015.

**BACKGROUND:**

In 1980 Riverside entered into the current IPP Power Sales Contract (PSC) with the Intermountain Power Agency (IPA) for the purchase of baseload coal generated electric power and the associated transmission services from the IPP. IPA is the Utah public entity which owns the IPP. The IPP consists of three project components:

- Two 900 megawatt (MW) coal generating units located in Delta, Utah with a combined 1,800 MW capacity. There are 36 participants in the IPP, six from California (Riverside, Los Angeles, Anaheim, Burbank, Glendale and Pasadena) and thirty from Utah. Riverside's current entitlement share of the IPP generation is 7.617% or approximately 136 MW;

- Southern Transmission System (STS), a 2,400 MW high voltage transmission line from the IPP switchyard to Adelanto, California. STS provides the transmission for California participants' share of IPP generation to Southern California. Riverside's current entitlement share on STS is 10.164% or approximately 244 MW; and

- Northern Transmission System (NTS), a high voltage transmission line extending from Mona, Utah through the IPP switchyard to Gonder, Northern Nevada. Riverside's current entitlement share is 18.2733% through a separate contract with the Los Angeles Department of Water and Power (LADWP). NTS provides the transmission for Utah participants' share of IPP generation to their respective load centers as well as transmission for California participants to access generating resources in central Utah and Northern Nevada. The capability of NTS is seasonally adjusted and Riverside's entitlement share varies between 9 MW to 110 MW depending on the NTS segment and seasonal variation.

To date, IPP generation provides approximately 24% of Riverside's summer peak capacity and up to 40% of Riverside's annual energy requirement. IPP is and will likely remain the single largest power resource in Riverside's power supply portfolio in the foreseeable future. The current IPP PSC will terminate on June 15, 2027.

Pursuant to the current IPP PSC, IPA must offer any renewal of IPP beyond the current term of the agreement to existing participants. However, due to California legislation (Senate Bill (SB) 1368) enacted in 2006, California participants, including Riverside, are prohibited from renewing participation in IPP beyond the current term if IPP remains a coal-fueled generation resource as this technology exceeds California's Emission Performance Standards (EPS) for base load power plants established under SB 1368.

In the past seven years participants have diligently investigated and considered alternatives that would enable IPP to be renewed beyond its current term. The Renewal Agreements enable the IPP to proceed and potentially continue to provide future economic benefits to our customers. The major features of the Renewal Agreements are as follows:

**A. Second Amendatory Power Sales Contract (2APSC):**

**A.1 – Unanimous Approval Required to Proceed with the RP:**

The IPA's authority to proceed with the RP requires **unanimous** approval of the 2APSC by all 36 current IPP participants. Thirty-one participants have previously approved the 2APSC. Approval of the 2APSC does not obligate any participant in the RP (See Section B below for the subscription and commitment process).

**A.2 – Renewal Project:**

The generation component of the IPP is envisioned to be a natural gas fueled combined cycle plant with two power blocks, each with a design capacity of approximately 600 MW for a total 1,200 MW maximum generating capacity.

The generation technology may be slightly modified to also include renewable and/or energy storage technologies. The participants in the RP will approve such modification(s) by an 80% affirmative vote.

**A.3 – Decommissioning of the Existing Generating Plant:**

The existing coal fueled generating plant will be retired and decommissioned upon commercial operation of the RP. The decommissioning of the existing generating plant is considered a component of the Renewal Project.

**A.4 – Transmission Service Agreements if Renewal Project Does Not Proceed:**

In the event the RP is fully subscribed but does not proceed due to unforeseen circumstances, IPA will offer STS and NTS transmission only agreements to all current IPP participants based on such participants' current STS and NTS entitlement shares. In exchange, the current participants will be responsible for the costs of decommissioning the existing coal plant. Current estimated costs to decommission the plant are $100 million, of which Riverside's share would be approximately $7.6 million.

**B. Renewal Power Sales Contract (RPSC):**

**B.1 – Term of RPSC:**

The term of RPSC is for fifty years beyond the current IPP PSC's expiration date of June 15, 2027, to June 15, 2077.

**B.2 – Renewal Project Subscription Process:**

Within 45 days of the approval of 2APSC, IPA will commence the RP subscription process. This is a three-stage process to ensure the RP is fully subscribed. In the first phase, existing participants may elect up to their current generation entitlement share percentage. In the subsequent phases, the subscribing participants in the first phase may make additional elections to the extent there are unsubscribed entitlement shares.

Each participant's percentage election during the subscription phase(s) are **binding** commitments to participate in the RP (subject to B.5 and C.3 below). At the end of each subscription phase the RPSC will be updated to reflect such binding commitments.

**B.3 – Anticipated Timeline for Renewal Project Development:**

Upon successful completion of the RP subscription process (see B.2 below), IPA will commence the engineering, design, procurement and relevant project development activities. Project development activities are expected to commence by 2020, with an anticipated RP commercial operation date no later than July 1, 2025.

**B.4 – STS and NTS Transmission Entitlements:**

The participants in the RP will be entitled to STS and NTS transmission similarly to the existing PSC (i.e., transmission service bundled with the generation).

**B.5 – Cost Responsibilities:**

The RPSC cost responsibilities are consistent with the existing PSA, and are based on the participants' entitlement shares for each of RP components (generation, STS and NTS);

**B.6 – Early Exit to the RPSC:**

California participants (except for LADWP) have the right – but not the obligation – to exit completely from the RP by providing a 90-day written notice to IPA prior to November 1, 2019. Under the RPSC, exiting participant(s) will no longer have any prospective cost responsibilities after their exit, including the decommissioning costs.

**C. Renewal Excess Power Sales Agreement (REPSA):**

**C.1 – Term of REPSA:**

The term of REPSA is for fifty years beyond the current IPP Power Sales Contract's expiration date of June 15, 2027, to June 15, 2077.

**C.2 – Utah Participant's Right to Lay off Entitlement Share to California Participants:**

At the completion of RP subscription process, each Utah participant has the right – but not the obligation – to lay off its RP entitlement to electing California participants. California participants (other than LADWP) have the right – but not the obligation – to take such lay off power from Utah participant(s). To the extent a California participant(s) takes a Utah participant's layoff power, the California participant(s) will be financially responsible for the

Utah participant's costs of the layoff power and the associated NTS transmission entitlement. The layoff permits the Utah participants to recall the power lay off under limited circumstances.

**C.3 - Early Exit to the REPSA:**

California participants (except for LADWP) have the right – but not the obligation – to exit completely from the REPSA by providing a 90-day written notice to IPA prior to November 1, 2019. Under the REPSA, such exiting participant will no longer have any prospective cost responsibilities after the exit (including the decommissioning costs).

**D. Riverside's Interest in the IPP Renewal Project:**

As previously mentioned, the IPP generation currently constitutes the single largest resource in Riverside's power supply portfolio. Therefore, Riverside must systematically and proactively plan for the replacement of IPP in the foreseeable future. Given the a) high degree of uncertainty associated with the federal and state energy and environmental policies; b) changing customer demand; c) impacts of distributed generation; and d) innovation in energy technologies with significant and anticipated advances in the renewable and energy storage technologies, it is prudent and advisable that Riverside keeps its IPP replacement options flexible at this time.

In our recently concluded integrated resource planning (IRP) process, the option to participate in the IPP RP at reduced MW entitlement may continue to prove to be cost effective and a prudent option to consider. A reduced participation in the RP subscription process of up to 5% (instead of the existing 7.617%), or up to approximately 60 MW (instead of the current 136 MW) is recommended. The reduced participation and the early exit option provide flexibility to consider other power supply options, the cost effectiveness of the project and/or to incorporate new regulatory mandates while providing some certainty in case other power supply options do not materialize as planned.

The recommended reduced participation in the RP is not the final commitment by Riverside. Riverside will continue to have the right – but not the obligation – to exit from the RP and terminate the RPSC and/or REPSA by no later than November 1, 2019, if Riverside determines that the IPP RP is no longer beneficial to its customers.

**E. Other Ancillary Agreements:**

Related to the Renewal Agreements, Riverside still must negotiate certain transmission service agreements with LADWP primarily for the "last leg" of transmission service needed to deliver its RP power to serve Riverside's customers. In the absence of such transmission service with LADWP, Riverside will be unable to realize the economic value of IPP power.

Recently, Riverside and other similarly situated California IPP participants (Burbank, Glendale and Pasadena) reached an informal understanding with LADWP to commence and conclude the negotiation of such transmission arrangements by no later than November 1, 2018 – one year before the early exit date under the RPSC and REPSA. LADWP's Board of Commissioners has affirmed LADWP's commitment to the aforementioned negotiation process by adopting a resolution to that effect at their April 23, 2015 Board of Commissioners meeting.

Staff will endeavor to diligently pursue and conclude such negotiation in a timely manner.

**F. <u>California Energy Commission (CEC) SB 1368 Public Notice:</u>**

Pursuant to the California Code of Regulations (CCR) Title 20 Section 2908(b)(3), the approval of the Renewal Agreements constitutes a "covered procurement" (defined as a new contract commitment for the procurement of electricity with a term of five years or greater by a local publicly owned electric utility with a baseload generation powerplant). Under the CCR regulations, Riverside is required to provide a public notice at the time of approval by Riverside governing bodies. The form of the required public notice is in Attachment 4. The public notice will be forwarded to the California Energy Commission (CEC) and the interested public on the listserv maintained by CEC concurrent with the posting of the City Council meeting agenda whereby the IPP Renewal Agreements will be considered by the City Council, currently anticipated to take place on June 16, 2015.

**G. <u>CALIFORNIA ENVIRONMENTAL QUALITY ACT:</u>**

In accordance with the California Environmental Quality Act (CEQA), it has been determined that approval of these three agreements (2APSC, RPSC and REPSA) with the IPA is exempt from CEQA for the following reasons:

1. The approval of the agreements is categorically exempt pursuant to CEQA Guidelines Section 15302 as a minor alteration to an existing facility used to provide electric power.

2. The approval of the agreements is categorically exempt pursuant to CEQA Guidelines Section 15302 as a replacement or reconstruction of existing utility systems and/or facilities involving negligible or no expansion of capacity. Repowering pursuant to the Contracts would replace 1,800 megawatts of coal-fired electric generation units with not more than 1,200 megawatts of gas-fired electric generation units (Repowering).

3. The approval of the agreements would not have a significant effect on the environment and is therefore exempt from CEQA under the "common sense exemption" set forth in CEQA Guidelines section 15061(b)(3).

4. No unusual circumstances exist and thus the categorical exemptions are not subject to any applicable exception. IPA's existing Intermountain Power Project has been in operation since the 1980's, and Repowering pursuant to the agreements would reduce air emissions compared to baseline conditions. There is nothing unusual about the Contracts or the Repowering.

**H. <u>COMPLIANCE WITH CALIFORNIA RENEWABLES PORTFOLIO STANDARD (RPS)</u>:**

In the last three years, the Board of Public Utilities and the City Council have approved contracts for 218 MW of renewable energy. These contracts will result in Riverside's peak RPS in 2021 of 40% of Riverside's customer energy needs. Riverside will continue its historic practice of pursuing cost effective renewable resources that meet or exceed California and/or federal regulatory mandates to serve Riverside's electric customers. Riverside remains on track to meet Governor Brown's recently announced 50% RPS goal, as well as the Electric Utility's portion of his April 28, 2015, Executive Order to reduce GHG emissions to 40% of the 1990 emission levels.

**FISCAL IMPACT:**

There is no anticipated fiscal impact related to the IPP RP until the project is fully subscribed, and subsequently engineered, designed, procured and the relevant project development activities are undertaken; this is currently anticipated no sooner than calendar year 2017, although likely later. Costs associated with Riverside's participation in the Repower Project (if applicable) will be included 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. Guess, City Attorney |

Concurs with:

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

Attachments:

1. Second Amendatory Power Sales Contract between IPA and Riverside
2. Renewal Power Sales Contract between IPA and Riverside
3. Renewal Excess Power Sales Agreement among Utah Purchasers, California Purchasers, and IPA
4. Public Notice of Covered Procurement
5. Minutes from the Board of Public Utilities Meeting – May 15, 2015