



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL** **DATE: JANUARY 23, 2018**

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

**SUBJECT: FIVE-YEAR POWER SALES AGREEMENT BETWEEN SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY AND THE CITY OF RIVERSIDE FOR 0.8 MEGAWATTS FROM THE AMERICAN RENEWABLE POWER-LOYALTON BIOMASS PROJECT TO COMPLY WITH SENATE BILL 859 – ESTIMATED \$620,000 ANNUAL COST**

## **ISSUE:**

Approve a five-year Power Sales Agreement between Southern California Public Power Authority and the City of Riverside for 0.8 megawatts from the American Renewable Power-Loyalton Biomass Project to comply with Senate Bill 859 for the estimated annual cost of \$620,000.

## **RECOMMENDATIONS:**

That the City Council:

1. Approve the five-year Power Sales Agreement between Southern California Public Power Authority and the City of Riverside to provide renewable biomass energy and renewable energy credits from the American Renewable Power-Loyalton Biomass Project;
2. Authorize the City Manager or his designee to execute or terminate the Power Sales Agreement, as well as future amendments to the Power Sales Agreement, under terms and conditions substantially or superior to the Power Sales Agreement; and
3. Authorize the City Manager, or his designee, to execute any documents necessary to administer the Power Sales Agreement.
4. Request that staff report back to the Board of Public Utilities and City Council annually as to ARP-Loyalton Cogen LLC's performance under and compliance with the terms of the Power Purchase Agreement for this Project.

## **BOARD RECOMMENDATION:**

On January 8, 2018, the Board of Public Utilities with all eight members unanimously voted to recommend that the City Council approve the Power Sales Agreement between Southern Public Power Authority and the City of Riverside for 0.8 megawatts from the American Renewable Power-Loyalton Biomass Project. The Board further recommends that staff report back to the Board and City Council annually as to ARP-Loyalton Cogen LLC's performance under and compliance with the terms of the Power Purchase Agreement for this Project.

## **BACKGROUND:**

Effective September 14, 2016, California Senate Bill (SB) 859 mandated that all investor-owned utilities and publicly owned utilities (POUs) serving more than 100,000 customers procure a proportionate share of 125 megawatts (MW) of electric generation from biomass-fueled resources. SB 859 further required that the biomass-fueled resource be located in California and commence operations prior to June 1, 2013. The fuel source must also meet the following requirements:

1. At least 80% of the feedstock of an eligible facility, on an annual basis, shall be a byproduct of sustainable forestry management, which includes removal of dead and dying trees from Tier 1 and Tier 2 hazard zones that have not been clear cut.
2. At least 60% of the feedstock shall be sourced from designated Tier 1 and Tier 2 high hazard zones.

On October 13, 2016, the California Public Utilities Commission adopted Resolution E-4805, which established that the California POUs be allocated 29 MW of the 125 MW statewide mandate, with the remaining 96 MW allocated to the investor-owned utilities. Of the 29 MW allocation to the POUs, the City of Riverside is obligated to procure 1.3 MW to meet the SB 859 mandate.

The cities of Anaheim, Los Angeles, and Riverside, Imperial Irrigation District (IID), Modesto Irrigation District (MID), Sacramento Municipal Utility District (SMUD), and Turlock Irrigation District (TID) constitute the seven California POUs that serve more than 100,000 customers (collectively, the Participants). Four of these POUs – the cities of Anaheim, Los Angeles, and Riverside and IID – are members of Southern California Public Power Authority (SCPPA).

## **DISCUSSION:**

On March 13, 2017, SCPPA issued a Request for Proposal to identify potential biomass-fueled resources utilizing high hazard fuel sources to meet the requirements of SB 859. Through the Request for Proposal process, the Participants agreed to pursue the American Renewable Power (ARP)-Loyalton Biomass Project (Project) that would provide 18 MW of capacity, energy, and associated environmental attributes to the Participants. The Project is expected to provide approximately 141,912 megawatt hours (MWh) annually, of which Riverside will receive approximately 6,358 MWh annually in energy.

This Project will aid California POUs in partially meeting the SB 859 mandate through procuring 18 MW of the 29 MW requirement. The Participants are currently working through SCPPA to procure the additional 11 MW. Riverside's share of the remaining obligation is approximately 0.5 MW.

The following are the characteristics and deliverables of the Project:

***Economy of Scale of Joint SCPPA Project:*** The ARP Biomass Facility is a 20 MW biomass plant, of which 18 MW will be contracted jointly by SCPPA (representing the cities of Anaheim, Los Angeles, and Riverside and IID) and three non-SCPPA members (MID, SMUD, and TID). SCPPA will enter into a Power Purchase Agreement with ARP and subsequently enter into individual Power Sales Agreements with the participating SCPPA members. SCPPA will also

enter into a Buyers Joint Project Agreement with MID, SMUD, and TID. The following table shows the applicable MW share and capacity percentage for each Participant.

Participants	Capacity (MW)	% of Total Capacity
Anaheim	0.806	4.48%
Imperial Irrigation District	1.490	8.28%
Los Angeles	8.876	49.31%
Modesto Irrigation District	0.994	5.52%
Riverside	0.806	4.48%
Sacramento Municipal Utility District	4.221	23.45%
Turlock Irrigation District	0.806	4.48%
<b>Total</b>	<b>18</b>	<b>100%</b>

***Seller Experience:*** ARP's management has funded, owned, and operated more than a dozen cogeneration, district energy, and biomass power plants throughout the United States.

***Project Site and Interconnection:*** The Project is located in Sierra County, California. The point of delivery is the Summit 120 Kilovolt Substation within the California Independent System Operator Balancing Authority.

***Term of the Power Sales Agreement:*** The Power Sales Agreement's term is for five years commencing on the date of commercial operation, anticipated within the first quarter of 2018.

***Pricing:*** The energy price under the Power Purchase Agreement is fixed at \$97.50/MWh for the term of the contract. Although the contract price is higher than most other renewable projects procured by Riverside in the past, the Project is actually the lowest-priced offer SCPPA received through its Request for Proposal solicitation. The number of biomass projects in California that could meet the SB 859 criteria is extremely limited, and the average levelized price offer that SCPPA received in its Request for Proposal was \$123.31/MWh. Due to this shortage in supply, the prices offered to SCPPA are substantially higher compared to other non-SB859 renewable project proposals.

***Environmental Attributes:*** Renewable energy delivered from the Project will qualify as Portfolio Content Category 1 product under the Renewable Portfolio Standard. Riverside will receive its pro-rated share of all associated environmental attributes, which will contribute to Riverside's 50% Renewable Portfolio Standard goal by 2030 under SB 350.

***Performance Security:*** ARP will provide a letter of credit in the total amount of \$1.8 million as performance security and will deliver to each Participant in an amount equal to such Participant's proportionate share of the facility output.

***SB 859 Non-Compliance Withholding:*** ARP will need to demonstrate to the Participants that the fuel used to generate the energy from the biomass facility complies with SB 859 fuel source requirements on a month-to-month and year-to-date basis. Participants will be entitled to withhold \$8,580 per month for each percentage point by which ARP falls short of meeting the SB 859 fuel requirement.

**Scheduling Coordinator Fee:** Riverside will provide scheduling coordination services to SCPPA for the Project and will receive approximately \$280,000 in revenue during the five-year contract term for performing such services for the other Participants.

**Exemption from SB 1368 Compliance Filing:** Enacted in 2006, SB 1368 limits investments in long-term resources to those meeting California's Emission Performance Standard. SB 1368 regulations require both a compliance filing and a public notice for all covered procurements; biomass contracts under SB 859 are considered covered procurements. However, the California Energy Commission has informed staff that for this particular procurement, SCPPA is the only party considered to be directly entering into a Power Purchase Agreement with the biomass facility. As a result, the SB 1368 compliance filing and notice requirements do not apply to each individual SCPPA member participating in this project, including Riverside. SCPPA, representing its participating members, has filed a public notice prior to its Board meeting on October 19, 2017 and will be submitting the compliance filing for this covered procurement to the California Energy Commission. Further, biomass projects are deemed Emission Performance Standard compliant pursuant to Section 2903(b) (2) of the Emission Performance Standard regulation.

### **FISCAL IMPACT:**

The annual cost of power under the Power Sales Agreement is estimated to be approximately \$620,000 annually. This annual cost is fixed for five years and has been incorporated into Riverside Public Utilities' ten-year financial pro forma. Sufficient funds will be included in Fiscal Years 2018-19 and 2019-20 proposed budgets in the Power Resources Energy Account No. 612000-422914. Subsequent years will be budgeted accordingly.

Prepared by: Girish Balachandran, Utilities General Manager  
Certified as to  
availability of funds: Adam Raymond, Chief Financial Officer/City Treasurer  
Approved by: John A. Russo, City Manager  
Approved as to form: Gary G. Geuss, City Attorney

### **Attachments:**

1. Minutes from January 8, 2018 Board of Public Utilities Meeting
2. Power Sales Agreement between SCPPA and Riverside
3. Power Purchase Agreement (attached to the Power Sales Agreement as Exhibit C)
4. Buyers Joint Project Agreement (attached to the Power Sales Agreement as Exhibit D)
5. Presentation