



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: MARCH 26, 2019

FROM: PUBLIC UTILITIES DEPARTMENT WARDS: ALL

SUBJECT: TERMINATION OF THE RENEWAL POWER SALES CONTRACT BETWEEN INTERMOUNTAIN POWER AGENCY AND CITY OF RIVERSIDE EFFECTIVE NOVEMBER 1, 2019 AND EXIT FROM INTERMOUNTAIN POWER PROJECT REPOWER PROJECT UPON EXPIRATION DATE OF CURRENT POWER SALES CONTRACT ON JUNE 15, 2027

ISSUE:

Authorize the termination of the Renewal Power Sales Contract between the Intermountain Power Agency and the City of Riverside effective November 1, 2019 and the City of Riverside's exit from the Intermountain Power Project Repower Project upon the expiration date of the current Power Sales Contract on June 15, 2027.

RECOMMENDATIONS:

That the City Council:

1. Authorize termination of the Renewal Power Sales Contract between the Intermountain Power Agency and the City of Riverside effective November 1, 2019;
2. Authorize the City of Riverside's exit from the Intermountain Power Project Repower Project upon the expiration date of the current Power Sales Contract on June 15, 2027; and
3. Authorize the City Manager, or designee, to provide written notice to the Intermountain Power Agency to terminate the Renewal Power Sales Contract between the Intermountain Power Agency and the City of Riverside, and execute any other documents as necessary to effectuate the termination of the contract effective November 1, 2019 and exit from the Intermountain Power Project Repower Project upon the expiration date of the current Power Sales Contract on June 15, 2027.

BOARD RECOMMENDATIONS:

On March 11, 2019, the Board of Public Utilities voted unanimously, with six members present, to recommend that the City Council authorize termination of the Renewal Power Sales Contract between the Intermountain Power Agency and the City of Riverside effective November 1, 2019 and authorize the City Manager, or designee, to provide written notice to the Intermountain Power

Agency to terminate the Renewal Power Sales Contract, and execute any other documents as necessary to effectuate the termination and exit from the Intermountain Power Project after June 15, 2027.

BACKGROUND:

In 1980, the City of Riverside (Riverside) entered into the Intermountain Power Project (IPP) Power Sales Contract with the Intermountain Power Agency (IPA) for the purchase of baseload coal-fired electric power and the associated transmission services. IPP consists of 1,800 megawatts (MW) of coal generation located near Delta, Utah and two transmission lines, the Southern Transmission System and Northern Transmission System. Riverside's current entitlement share of IPP generation is 7.617%, or approximately 136 MW. Riverside's current entitlement in the Southern Transmission System is 10.164%, or approximately 244 MW. The Los Angeles Department of Water and Power (LADWP) is the Operating Agent for the generating and transmission facilities. The IPP Power Sales Contract terminates on June 15, 2027.

In 2015, the IPA Board issued the Second Amendatory Power Sales Contract, which amended the IPP Power Sales Contract, allowing the plant to replace the coal units with a 1,200 MW natural gas combined cycle facility that would be compliant with California's Emission Performance Standards under Senate Bill (SB) 1368. The proposed project is named the IPP Repower Project.

On June 16, 2015, the City Council approved the Second Amendatory Power Sales Contract, the Renewal Power Sales Contract and the Excess Renewal Power Sales Contract, and authorized Riverside's participation in the IPP Repower Project for up to 5% in generation capacity or 60 MW.

On January 5, 2017, the Renewal Power Sales Contract was executed and Riverside accepted an offer of 4.167% entitlement, or 50 MW generation capacity, in the IPP Repower Project based on a 1,200 MW design capacity. Riverside's corresponding Southern Transmission System allocation is 5.278%, or approximately 127 MW. The City Council received, reviewed and filed an update on Riverside's participation in the IPP Repower Project on March 28, 2017.

On September 11, 2018, the City Council approved "Alternative Repowering" of the IPP Repower Project, which reduced the design capacity of the future plant from 1,200 MW to 840 MW.

DISCUSSION:

Due to numerous uncertainties surrounding the IPP Repower Project, staff has maintained a focus on Riverside's option to terminate the Renewal Power Sales Contract throughout the repowering process. Specifically, pursuant to Section 42 of the Renewal Power Sales Contract, Riverside has the right to terminate its Renewal Power Sales Contract by providing a written notice to IPA at least 90 days prior to November 1, 2019.

Multiple recent developments have confirmed that the risks associated with the IPP Repower Project will remain prominent while the benefits continue to diminish. The following are key factors and areas of concern that pertain to Riverside's future participation in the IPP Repower Project:

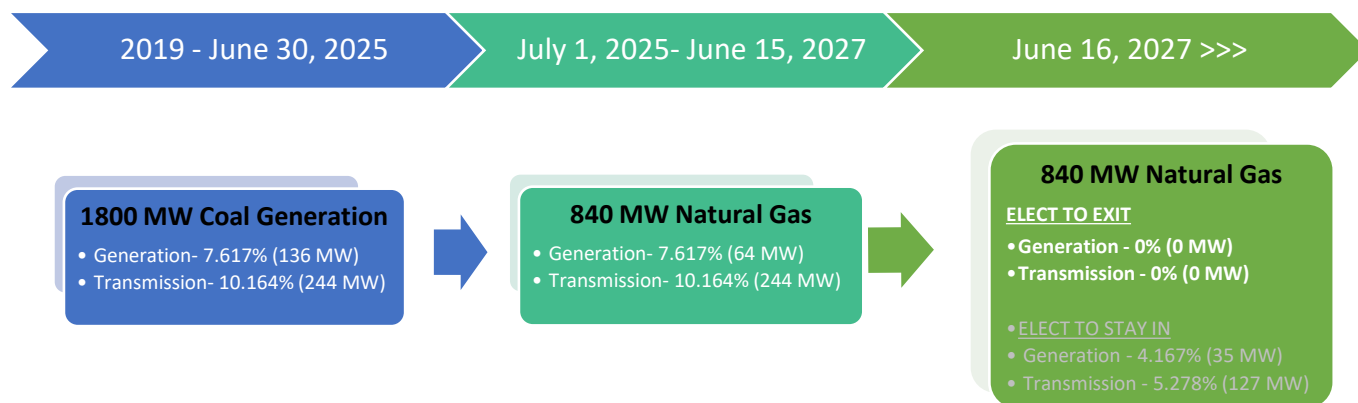
1. **Fifty-Year Contract Commitment:** A 50-year contract is twice as long as industry standards and imposes substantial risk on California participants, such as Riverside, due to constantly changing environmental regulations and energy policies in the State.

2. **Regulatory and Legislative Uncertainties:** SB 100 was signed into law on September 10, 2018, establishing a statewide policy goal to supply 100% of California's retail electricity demand with renewable and zero-carbon resources by December 31, 2045. This law is in direct conflict with IPP's use of a fossil fuel for power generation and a 50-year contract commitment.
3. **Generation Construction Cost Uncertainties:** The most recent estimate for the construction cost of the power block is approximately \$1 billion. Cost overruns are not unusual on such large-scale developments, and RPU does not have sufficient staff to maintain a high level of oversight on the various cost drivers.
4. **Natural Gas Transport and Source:** Costs for providing natural gas to IPP are currently estimated to be about \$45 million, with significant uncertainties on cost, schedule, contracting structure and, most importantly, natural gas source and balancing.
5. **Future STS Transmission Upgrade Costs:** The IPP Repower Project will require major infrastructure upgrades and improvements to the Southern Transmission System. The preliminary estimate for this work is \$1.1 to \$1.2 billion, but the final cost could be significantly higher.
6. **Unresolved Transmission Contracts:** Participating in the IPP Repower Project will require Riverside to renegotiate Transmission Service Agreements (TSA) with LADWP and Southern California Edison for the final transmission lines that bring IPP energy to the Vista Substation. It is highly unlikely that Riverside will be able to renew the TSAs under favorable terms and conditions. Recently, the TSA negotiation with LADWP has come to a halt.
7. **Conflicting Operational Goals of Participants:** IPP participants have expressed conflicting operational goals for the plant. Reaching consensus may lead to unanticipated contract disputes, further cost overruns and an overall delay in the proposed project timeline.
8. **Carbon Cost Uncertainties:** The single greatest risk associated with the IPP Repowering is the unknown future costs of carbon. Combined with the infrastructure costs on generation and transmission, the IPP Repower Project is quickly becoming a tremendously expensive resource.
9. **Decommissioning Costs:** If IPP Repowering is successful, participants remaining in the IPP Repower Project for 50 years will bear the majority of the decommissioning cost for the coal facilities. This decommissioning cost was recently estimated at approximately \$260 million.
10. **City of Pasadena Exit:** On October 29, 2018, the Pasadena City Council unanimously agreed to terminate Pasadena's Renewal Power Sales Contract. On November 29, 2018, Pasadena submitted termination notice to IPA, leaving Riverside as the only utility operating in the California Independent System Operator (CAISO) balancing authority still remaining in the IPP Repower Project.

Considering all the aforementioned factors that negatively impact the outlook of the IPP Repower Project, RPU staff recommends that Riverside exercise its option to terminate the Renewal Power Sales Contract with IPA immediately. RPU's 2018 Integrated Resource Plan, which was approved and adopted by the Board of Public Utilities on November 26, 2018 and the City Council

on December 11, 2018, provides additional details and justifications for exiting the IPP Repower Project, citing the diminishing financial viability of the project and the elevated regulatory risks under new and evolving California mandates.

The termination of the Renewal Power Sales Contract, if approved, will be effective on November 1, 2019. However, Riverside will remain a participant in IPP under the existing Power Sales Contract until June 15, 2027. Further, since IPP Alternative Repowering is anticipated to be in service on July 1, 2025, Riverside will be obligated to purchase power from the new gas plant and pay its share of the entitlement cost until June 15, 2027. The following figure shows Riverside's entitlement in IPP from present to the conclusion of the existing Power Sales Contract.



FISCAL IMPACT:

Sufficient funding is budgeted annually for the City's share of the entitlement cost.

Prepared by: Todd M Corbin, Utilities General Manager
 Certified as to
 availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer
 Approved by: Al Zelinka, FAICP, City Manager
 Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Renewal Power Sales Contract
2. 2018 IRP Section 10.2 – Justification for Exiting the IPP Repowering Project
3. Notice of Termination of the Renewal Power Sales Contract between IPA and Riverside
4. March 11, 2019 Board of Public Utilities unapproved meeting minutes
5. Presentation