City of Arts & Innovation

City Council Memorandum

TO: **HONORABLE MAYOR AND CITY COUNCIL** **DATE: MAY 14, 2013**

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

SUBJECT: **POWER PURCHASE AGREEMENTS FOR RENEWABLE GEOTHERMAL ENERGY BETWEEN CALENERGY LLC AND THE CITY OF RIVERSIDE**

ISSUES:

The items for City Council Consideration are: 1) approval of Amendment No. 2 to Power Sales Agreement between Salton Sea Power LLC, a CalEnergy subsidiary; and 2) approval of the new Power Purchase Agreement between CalEnergy LLC and the City of Riverside for renewable resources from CalEnergy's geothermal power projects located in Imperial Valley, California.

RECOMMENDATIONS:

That the City Council:

1. Approve the Amendment No. 2 to Power Sales Agreement between Salton Sea Power LLC and the City of Riverside to modify the pricing terms commencing July 1, 2013 through the remaining term of the existing agreement;

2. Approve the new Power Purchase Agreement between CalEnergy LLC and the City of Riverside to provide energy from CalEnergy's geothermal power projects commencing Calendar Year 2016;

3. Authorize the City Manager, or his designee, to execute said Agreements under the terms and conditions as set forth within the Agreements;

4. Authorize the Public Utilities General Manager, or his designee, to execute any documents necessary to administer the Agreements that are consistent with the established policies by the City Council; and

5. Authorize the City Manager, or his designee, to terminate the Agreements for circumstances provided in the Agreements (e.g., failure to meet operational performance standard).

BOARD RECOMMENDATION:

On May 3, 2013, the Board of Public Utilities unanimously approved this item.

BACKGROUND:

Riverside Public Utilities (RPU) has been very aggressive in pursuing the best priced renewable energy to serve the retail energy requirements and has historically adopted more stringent requirements than those imposed on Investor Owned Utilities (IOU). RPU's current Renewable Portfolio Standard ("RPS") requires that it supply 20%, 25% and 33% of retail energy needs using renewable resources by 2010, 2015 and 2020, respectively.

In 2012, California's Senate Bill (SB) X1-2, mandated that all electric utilities, including RPU, procure increasing amounts of renewable power (primarily from in-state resources) to serve its retail needs during specific compliance periods. Such targets must reach 33% renewable resources no later than Calendar Year (CY) 2020.

The existing agreement with CalEnergy LLC was entered into in 2003 for 20 MW of geothermal power from Salton Sea Generating Unit No. 5. The agreement was subsequently amended in 2005 to increase the purchase to 46 MW, or about 16% of Riverside's retail energy needs in CY 2012. The existing Agreement will terminate on June 1, 2020. In order to achieve the RPS goals, staff has actively negotiated to renew the existing agreement and to procure additional low cost geothermal power, if available. The negotiations with CalEnergy LLC in the past two years have resulted in the Agreements with the following desirable characteristics and favorable terms:

Extending the Current Purchase and Providing Additional Purchase: The new 25-year Power Purchase Agreement combined with the existing geothermal energy purchases provides an increasing amount of geothermal power to Riverside, from the current 46 MW to 66 MW commencing in CY 2016, and 86 MW in CY 2019. The gradual increase of geothermal energy purchases provides the best fit when Riverside needs the power to serve its projected increase in retail energy needs while significantly contributing towards achieving and maintaining the 33% RPS mandate with low cost base load power. It is anticipated that the new Power Purchase Agreement will provide 30% of energy toward the 33% RPS goal when fully stepped up.

Seller's Experience: CalEnergy is an experienced geothermal project operator and has operated these geothermal power plants for the past 20 years. Since the projects already exist and have been in operation for a number of years, there are no development risks. Furthermore, under the new Power Purchase Agreement, CalEnergy will deliver the power to Riverside from its entire portfolio of ten power plants instead of just from the Salton Sea Generating Unit No. 5 as designated under the existing agreement. As power will not be tied to a specific unit, operational risks are diversified.

Project Location: The project is located in Imperial Valley, California, a known area of geothermal resources.

Characteristics of Power: Up to 86 MW of base load renewable power will be available without intermittency to meet Riverside's future base load energy needs.

Term of the New Power Purchase Agreement: 25-year Power Sales Agreement commencing CY 2016 through CY 2039.

Pricing: The pricing under the existing agreement will be amended to $69.66/MWh commencing July 1, 2013, an increase of $7.57/MWh or an approximately $2.7 million annual increase. In exchange for the increased payment under the existing agreement, Riverside will receive a significantly discounted price under the new Power Purchase Agreement which starts at $72.85/MWh in CY 2016 and escalates at 1.5% thereafter. The pricing under the new Power Purchase Agreement (excluding the effect of an optional prepayment by Riverside) compares favorably to prices for comparable base load power seen in the recent Southern California Public Power Authority's (SCPPA) Request for Proposals, as well as publicly announced renewable power transactions by some large municipal utilities. The pricing is fixed and not subject to fluctuations in fuel prices, therefore, providing cost stability over the long term.

Contribution Toward RPU's RPS Goal: The purchase under the new Power Purchase Agreement will initially provide Riverside approximately 160,000 MWh of renewable energy in CY 2016, increasing to approximately 320,000 MWh by CY 2019, and 680,000 MWh by CY 2020 or approximately 30% of Riverside's retail energy needs in CY 2020. The power from the Agreement qualifies as an in-state renewable resource under SBX1-2 rules.

FISCAL IMPACT:

The additional annual cost of power under the Amendment No. 2 to Power Sales Agreement is estimated to be approximately $2.7 million beginning in Fiscal Year 2013/14. The estimated annual cost under the new Power Purchase Agreement is approximately $11.5 million in Fiscal Year 2016/17 and increases to approximately $52 million in Fiscal Year 2021/22. Staff will incorporate the costs of the Agreements in future power supply budgets.

Prepared by:	David H. Wright, Public Utilities General Manager
Certified as to availability of funds:	Brent A. Mason, Finance Director/Treasurer
Approved by:	Belinda J. Graham, Assistant City Manager for Scott C. Barber, City Manager
Approved as to form:	Gregory P. Priamos, City Attorney

Attachments:

1. Amendment No. 2 to Power Sales Agreement between Salton Sea LLC and City of Riverside
2. Power Purchase Agreement between CalEnergy LLC and City of Riverside
3. Board of Public Utilities Public Minutes of May 3, 2013