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## CITY OF HERCULES

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City of Hercules  
Hercules Municipal Utility  
Renewal Energy Resources Procurement Plan  
Adopted by the City Council on November 26, 2013, by Resolution No. 13-\_\_

### Introduction

This Renewable Energy Resources Procurement Plan (“Plan”) for the Hercules Municipal Utility (“HMU”) is adopted by the City of Hercules (“City”) in compliance with the California Energy Commission’s Enforcement Procedures for the Renewables Portfolio Standard (“RPS”) for Local Publicly Owned Electric Utilities (California Code of Regulations, Title 20, Division 2, Sections 3200-3208 (the “Regulations”)).

The HMU is a department of the City, is solely owned and operated by the City, and provides electrical service to approximately 800 residential and commercial customers within a limited portion of the City limits (approximately 580 acres). In late 2010, it became evident that the City had a substantial structural budget deficit due to multiple factors. The HMU has been operating at a loss, further exacerbating the City’s financial condition. In 2012, the City initiated proceedings to sell the HMU. On May 28, 2013, the City and Pacific Gas and Electric Company (“PG&E”) entered into an Asset Purchase Agreement whereby PG&E agreed to purchase the HMU for \$9.5 million, subject to certain conditions. The sale is anticipated to close in 2014.

The City strongly supports the use of renewable energy. The City purchased renewable energy credits (“RECs”) covering 100% of HMU retail sales for the three years before the City’s distressed financial condition became evident in December 2010.

This Plan is intended to reflect the basic requirements of the Regulations regarding RPS targets (Section 3204), as well as to provide for the use of optional compliance measures (Section 3206) as may be appropriate. Optional compliance measures include excess procurement, delay of timely compliance, cost limitations, portfolio balance requirement reduction, and historic carryover. Consistent with Section 3204, the City will seek to procure the following quantities of electricity products from eligible renewable energy resources, including renewable energy credits, as a specified percentage of total kilowatt-hours sold to HMU retail end-use customers, in each compliance period set forth below, to achieve the following targets:

<b>CEC Compliance Period</b>	<b>Effective Dates</b>	<b>Requirements</b>
Period 1	January 1, 2011, to December 31, 2013	20 percent
Period 2	January 1, 2014, to December 31, 2016	25 percent by Dec 31, 2016
Period 3	January 1, 2017, to December 31, 2020	33 percent by Dec 31, 2020

The renewable energy resources procured to meet the above targets will also seek to meet the requirements of Section 3204 regarding the eligibility of the various types of renewable resources.

However, consistent with Section 3206(5) of the Regulations, the City's Procurement Plan relies on the use of historic carryover arising from the purchase of RECs under a five-year contract dated January 3, 2008 with Falls Creek H.P. Limited Partnership ("Falls Creek Contract"). Based on the City's analysis, this historic carryover is sufficient to meet the requirements of Section 3204 for the January 1, 2011 to December 31, 2013 compliance period, as well as for all of the next (2014-2016) compliance period.

#### HMU Procurement

Since 2008, the City has been purchasing market energy to meet 100% of the HMU requirements from Noble Americas Energy Solutions ("Noble") under long-term, fixed price terms through 2015. The amount of RECs purchased under the Falls Creek Contract was structured to cover 100% of HMU retail sales. The combination of market energy and REC purchases thus resulted in HMU providing "100% green" energy at that time. However, shortly after the City's distressed financial condition became evident in late 2010, REC purchases under the Falls Creek Contract were discontinued along with many other HMU-related capital and operating cost cutting measures. The HMU has continued to operate at a loss, and no renewable products have been purchased since December 2010.

Based on the foregoing, the City will continue to purchase market energy from Noble until the sale of HMU assets to PG&E has closed. If the sale does not close, this Plan will be revised as necessary.

#### Historic Carryover from the Falls Creek Contract

During the period 2008-2010 HMU purchased RECs equal to approximately 57,952 megawatt hours under the Falls Creek Contract. The City submits that this purchase qualifies as historic carryover under Section 3206(5) of the Regulations because it was entered into prior to June 1, 2010. The City estimates (subject to acceptance of such estimate by the CEC), based on Section 3206(5) (D), that the HMU historic REC carryover is equal to approximately 53,337 megawatt hours. Based on the RPS targets set forth above, HMU's historic carryover appears to meet the 20% RPS requirement for 2011-2013, as well as any requirement in 2014 prior to transferring HMU to PG&E.