

BEFORE THE PITTSBURG POWER COMPANY OF THE CITY OF PITTSBURG

In the Matter of:

Establishment of a Limitation on Island Energy)
Procurement Expenditures for RPS-Eligible)
Resources Used to Comply with the Pittsburg)
Power Company RPS Enforcement Plan)

RESOLUTION NO. 11-257

The Board of Directors of the Pittsburg Power Company, a Joint Powers Authority, DOES RESOLVE as follows:

WHEREAS, Pittsburg Power Company ("PPC") Board of Directors adopted the Pittsburg Power Company Renewable Portfolio Standard ("RPS") Enforcement Plan Applicable to Island Energy; and

WHEREAS, the Board has authority under that plan to establish cost a cost limitation for the procurement expenditures for all RPS-eligible resources used to comply with PPC RPS Enforcement Plan; and

WHEREAS, Island Energy has an oversized electrical distribution system requiring a larger maintenance staff than would normally be required for a utility with its load and revenues; and

WHEREAS, Island Energy's distribution system is aging and inefficient requiring significant continued investment to improve reliability and reduce system losses; and

WHEREAS, as Island Energy's service area is in an undeveloped portion of Vallejo, the utility has maintained a policy of setting electricity rates equivalent to those of PG&E to prevent any disincentives to development that might result from higher electricity costs; and

WHEREAS, the above factors have constrained Island Energy's ability to generate significant operating profits; and

WHEREAS, Island Energy's breakeven results on an operating basis do not incorporate depreciation, debt service or capital spending not funded by the rate base; and

WHEREAS, given Island Energy's current operating finances, the need for continued investment in the utility's infrastructure and the importance of shielding rate payers from any real electricity cost difference from PG&E, staff recommends the Board should adopt strict cost limitations for the procurement of renewable electrical energy products.

NOW, THEREFORE, the Board of Directors finds and determines as follows:

Section 1.

The above recitals are true and correct and have served as the basis, in part, for the findings and actions of the Board set forth below.

Section 2.

A Twenty Thousand Dollar (\$20,000) limitation on Island Energy procurement expenditures for all RPS-eligible resources used to comply with the PPC RPS Enforcement Plan is hereby established. This amount will be increased or decreased by \$0.0012 for every kilowatt/hour Island Energy's actual 2012 electricity sales are above or below 16,552,000 kWh.

Section 3.

The Executive Director of the Pittsburg Power Company is hereby authorized to modify the cost limitation by up to twenty-five percent (25%) should Island Energy encounter unexpected variability in energy costs.

Section 4.

This Resolution shall take effect immediately upon adoption.

APPROVED AND ADOPTED by the Pittsburg Power Company Board of Directors at a regular meeting on the 19th day of December 2011, by the following vote:

AYES: Casey, Evola, Longmire, Parent, Johnson

NOES: None

ABSTAINED: None

ABSENT: None

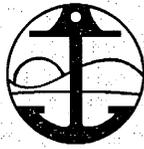


Ben Johnson, Chair

ATTEST:

for 

Joe Sbranti, Executive Secretary



**OFFICE OF THE CITY MANAGER/EXECUTIVE DIRECTOR
65 Civic Avenue
Pittsburg, CA 94565**

DATE: 12/6/2011

TO: Chair and Agency Members

FROM: Joe Sbranti, Executive Director

SUBJECT: Establishment of a Limitation on Island Energy Procurement Expenditures for RPS-Eligible Resources Used to Comply with the Pittsburg Power Company RPS Enforcement Plan

MEETING DATE: 12/19/2011

EXECUTIVE SUMMARY

The previously adopted Pittsburg Power Company Renewable Portfolio Standard ("RPS") Enforcement Plan permits the Pittsburg Power Company ("PPC") Board of Directors to establish cost limitations on the expenditures used to procure RPS-eligible resources. This action establishes a cost limitation that will allow Island Energy to continue modernizing while maintaining its financial integrity and shielding rate payers from disproportionate rate impacts.

FISCAL IMPACT

Establishment of a limitation for Island Energy procurement expenses of RPS-eligible resources by itself has no fiscal impact. It places limits on the costs Island Energy might encounter in acquiring RPS-eligible resources.

RECOMMENDATION

Adopt the recommended Twenty Thousand Dollars (\$20,000) limitation for annual procurement expenditures associated with Island Energy's acquisition of RPS-eligible resources.

BACKGROUND

Island Energy operates on the former Mare Island Naval Base in Vallejo. At its peak, the Base was a major ship building and repair center with over 20,000 workers. It was a significant industrial complex with an average electrical load of 20 to 30 megawatts and an electrical infrastructure capable of supporting that load. Today, Island Energy's average load is between 2 and 3 megawatts. Unfortunately, maintenance requirements are

determined by infrastructure size rather than load levels. Although some facilities have been decommissioned, there are limits to how much the infrastructure can be downsized. As a consequence, Island Energy must maintain an electrical maintenance staff that would normally be required for a utility with 5 times its electrical load (and revenues). Even with effective management and tight cost controls, this outsize requirement for electrical maintenance puts a significant strain on the utility's finances.

In addition to being oversized, Island Energy's infrastructure is aging and inefficient. Maintenance on the pilot wire protection system halted during Naval ownership, transformers tend to be oversized for the load they serve and most substations utilize older metal clad switch gear. As a result, Island Energy suffers from a 20% system loss and experiences an above average number of outages. In late 2008 PPC established a \$3,000,000 system improvement loan to provide funds to make needed improvements. Since 2009, Island Energy has been drawing from this loan at a rate of approximately \$500,000 per year.

Island Energy's service area is in an undeveloped portion of Vallejo. In recent years Vallejo has been plagued with high levels of unemployment and is challenged in attracting new employers. Given this environment, Island Energy has set its rates to be equivalent to those of PG&E. While Island Energy's costs would certainly justify higher rates the utility wants to encourage local development and does not want energy costs to be a negative factor in attracting new businesses.

For fiscal year 2010-2011 Island Energy had an operating profit of approximately \$50,000. The operating profit for fiscal year 2011-2012 is projected to be at the same level. These amounts do not include any depreciation, loan proceeds, debt service costs or capital spending not funded by the rate base. If these are included, Island Energy would have losses of several hundred thousand dollars per year. Furthermore, the total electrical costs for these years are lower than average due to plentiful hydro-electrical generation.

SUBCOMMITTEE FINDINGS

The subcommittee has been briefed on the action.

STAFF ANALYSIS

The Pittsburg Power Company RPS Enforcement Plan provides for the Board to set cost limitations for the procurement of RPS-eligible resources. Given Island Energy's current operating finances, the need for continued investment in the utility's infrastructure and the desire to shield rate payers from any real energy cost difference from PG&E, Island Energy should adopt strict cost limitations for the procurement of renewable electrical energy products. Staff recommends that additional costs for procuring renewable electricity be limited to Twenty Thousand Dollars (\$20,000) per year (approximately 1.5% of current electricity purchases). This cost limitation should be increased or decreased by \$0.0012 for every kilowatt/hour Island Energy's actual 2012 electricity sales are above or below 16,552,000 kWh. Staff further recommends the Executive Director be granted authority to modify the cost limitation by up to twenty-five percent (25%). This will provide flexibility should Island Energy encounter unexpected variability in the costs of its base electricity of RPS-eligible resources. These cost limitations should still let Island Energy comply with the overall RPS goals in future years by purchasing renewable energy credits (RECs). However, adherence to the cost limitations will require Island Energy to use its rate

stabilization fund to purchase enough renewable electricity product in 2012 to make up for goal shortfalls in 2011.

ATTACHMENTS: Resolution

Report Prepared By: Peter Guadagni
General Manager of Island Energy