



**AGENDA ITEM**

**PUBLIC HEARING**

CITY COUNCIL / BOARD OF DIRECTORS

MEETING OF: 10/06/2015

SUBMITTED BY: DOUGLAS B. ROBERTSON  
CITY MANAGER

DATE: 9/22/2015

ATTACHMENT: RESOLUTION NO. 15-065; PROPOSED VMUS RENEWABLE ENERGY RESOURCES PROCUREMENT PLAN (ATTACHMENT A THERETO)

SUBJECT: RESOLUTION NO. 15-065 ENTITLED, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF VICTORVILLE, CALIFORNIA, SUPERSEDING RESOLUTION 13-056, REVISING THE RENEWABLE ENERGY RESOURCES PROCUREMENT PLAN FOR VICTORVILLE MUNICIPAL UTILITY SERVICES AND AUTHORIZING THE TAKING OF CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH"

RECOMMENDATION:

That the Honorable City Council: 1) conduct the public hearing for Resolution No. 15-065; 2) adopt Resolution No. 15-065 to revise the Renewable Energy Resources Procurement Plan (Attachment A thereto), superseding Resolution 13-056 in its entirety; and 3) approve an additional appropriation in the amount of \$450,000.00 in Public Benefits funding for the procurement of eligible renewable energy products to meet VMUS' RPS Procurement Obligations for Compliance Period 2.

|                       |      |               |
|-----------------------|------|---------------|
| <u>FISCAL IMPACT:</u> |      | \$450,000.00  |
| PROJECT BUDGET:       | \$   | -             |
| PROJECT COST:         | - \$ | 450,000.00    |
| PROJECT BALANCE:      | \$   | (450,000.00)  |
| BUDGET ACCT NO:       |      | 4210200-53010 |

|                                     |                                    |
|-------------------------------------|------------------------------------|
| <b>— Finance Use Only —</b>         |                                    |
| Additional Expense:                 |                                    |
| <input type="checkbox"/>            | No                                 |
| <input checked="" type="checkbox"/> | Yes / Amount <sup>\$</sup> 450,000 |
| Additional Revenue:                 |                                    |
| <input type="checkbox"/>            | No                                 |
| <input type="checkbox"/>            | Yes / Amount                       |
| Finance Review                      |                                    |
|                                     |                                    |

DISCUSSION:

California Senate Bill 2, First Extraordinary Session ("SB 2-1X"), became effective December 10, 2011, and requires California's electric utilities and other retail sellers to purchase eligible renewable energy resources so that the amount of electricity generated from eligible renewable

resources equals or exceeds a specified percentage of the total electricity sold to retail customers in California ("California Renewable Portfolio Standard" or "RPS Program").

SB 2-1X directed the California Energy Commission ("CEC") to adopt regulations specifying RPS enforcement procedures for local publicly owned electric utilities ("POUs"); certify and verify eligible renewable energy resources procured by POU's; and refer any compliance failures of POU's to the California Air Resources Board ("CARB"), which may impose penalties. SB 2-1X further required each POU to adopt a program describing its plans to meet SB 2-1X requirements ("RPS Enforcement Program") by end of 2011, and thereafter adopt procurement plans following the CEC's adoption of regulations providing guidance for such plans.

On June 12, 2013, the CEC adopted the "Enforcement Procedures for the Renewable Portfolio Standard for Local Publicly Owned Electric Utilities" ("CEC Regulations"), which became effective as of October 1, 2013, following subsequent approval by the Office of Administrative Law. The CEC Regulations include, among other things:

1. RPS Procurement Targets

| <b>Compliance Period</b>               | <b>RPS Procurement Obligation<br/>(% of retail sales)</b> |
|--|---|
| 1. January 1, 2011 – December 31, 2013 | Average of 20%  |
| 2. January 1, 2014 – December 31, 2016 | 25% by December 31, 2016                                  |
| 3. January 1, 2017 – December 31, 2020 | 33% by December 31, 2020                                  |

2. Portfolio Content Categories ("PCC") – Specific guidelines establishing procurement percentages for each category of RPS-eligible resource within each Compliance Period.
3. Optional Compliance Measures – Various measures which the governing body of a POU may adopt, including a limitation on the procurement expenditures used to comply with its RPS requirements ("Cost Limitation") which is consistent with CEC Regulations and takes into consideration the factors set forth therein.
4. A requirement that each POU adopt a renewable energy resources procurement plan ("RPS Procurement Plan") no later than November 30, 2013.

On December 6, 2011, the City Council adopted Resolution 11-051 and the RPS Enforcement Program (Attachment A thereto), expressing Victorville Municipal Utility Services' ("VMUS") plan for meeting the requirements of SB 2-1X. Section 10 of the RPS Enforcement Program directed the City Manager or his/her designee to develop and present to the City Council its RPS Procurement Plan. On November 5, 2013, the City Council adopted the VMUS RPS Procurement Plan, contained in Attachment A to Resolution 13-056, which described the status of VMUS' RPS Program procurement efforts and the provisions for the application of optional compliance measures, including the Cost Limitation.

For Compliance Period 1, VMUS expenses were greater than revenues (before the incremental cost of procuring electricity products to satisfy the RPS requirements). Therefore, according to the methodology outlined in the RPS Procurement Plan, the Cost Limitation was set at zero for Compliance Period 1 ("Initial Cost Limitation"), meaning that VMUS was not obligated to expend any funds on RPS procurement for Compliance Period 1.

The proposed revisions to the RPS Procurement Plan, contained in Attachment A of Resolution 15-065, update procurement targets for Compliance Periods 2 and 3, as well as the estimated

incremental RPS procurement costs to comply with those targets. The revisions also clarify that the application of the Cost Limitation Guideline for Compliance Periods 2, 3 and beyond will be based on the forecasted Net Fund Position during the annual budget approval process to identify the funds available to satisfy the applicable RPS procurement requirement while maintaining prudent reserves. Additionally, while VMUS will have no obligation to expend funds on RPS procurement in excess of the Cost Limitation Guideline or RPS procurement targets, the proposed revision to the RPS Procurement Plan establishes a new Section 10 that discusses another potential funding source VMUS can consider for the purpose of meeting RPS requirements.

In the event that the application of the Cost Limitation Guideline results in an amount greater than zero available to purchase eligible renewable energy resources, or if VMUS determines Public Benefits Funds are available to deploy for meeting renewable resource procurement obligations, VMUS will seek contracts on a least cost, best fit basis according to the availability of resources, financial feasibility, transmission availability, and other relevant factors to ensure procurement contracts fit VMUS' risk profile as a small POU. For fiscal year 2015/2016, staff has determined that sufficient funds are available in the VMUS Public Benefits fund balance to purchase the majority of the RPS procurement target for Compliance Period 2 (calendar years 2014-2016), at an estimated incremental cost not to exceed \$450,000.00. Any remaining requirements necessary to meet the Compliance Period 2 obligation would be included in the fiscal year 2016/2017 budget, as may be appropriate. Meeting RPS obligations for Compliance Period 2 despite a determination that VMUS will have no obligation to expend funds on RPS procurement pursuant to the Cost Limitation Guideline mitigates the risk of imposed penalties and serves as a demonstration of good faith in pursuing the objectives of SB 2-1X and meeting the State's overall RPS goals.

Staff recommends that the City Council: 1) conduct the public hearing for Resolution No. 15-065; 2) adopt Resolution No. 15-065 to revise the Renewable Energy Resources Procurement Plan (Attachment A thereto), superseding Resolution 13-056 in its entirety; and 3) approve an additional appropriation in the amount of \$450,000.00 in Public Benefits funding for the procurement of eligible renewable energy products to meet VMUS' RPS Procurement Obligations for Compliance Period 2.

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