

glendale
california
CITY OF GLENDALE, CALIFORNIA
REPORT TO THE:

Joint City Council Housing Authority Successor Agency Oversight Board

October 24, 2017

AGENDA ITEM

Report: Proposed 21-Year Western Systems Power Pool (WSPP) Power Purchase Agreement (PPA) with Skylar Resources, L.P. ("Skylar") for the Purchase of Renewable and Carbon-Free Energy to Replace an Existing 21-Year WSPP PPA

1. Resolution terminating the existing 21-year PPA with Skylar for renewable energy; dispensing with competitive bidding and authorizing a replacement 21-year WSPP PPA for the procurement of renewable and carbon-free energy, for an amount not to exceed \$647 million over the 21-year term; authorizing the novation of the PPA to a credit-worthy counterparty without further City Council action; and finding that this project is exempt from the requirements of the California Environmental Quality Act

COUNCIL ACTION

Public Hearing Ordinance Consent Calendar Action Item Report Only

Approved for 10/24/17 calendar

ADMINISTRATIVE ACTION

Submitted by:
Stephen M. Zurn, General Manager - GWP

Signature


Prepared by:
Darrell Hahn, Integrated Resources Planning Administrator - GWP



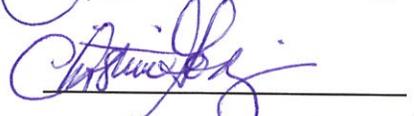
Approved by:
Scott Ochoa, City Manager



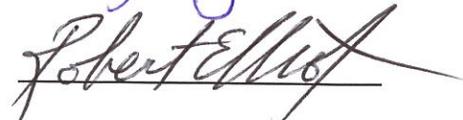
Reviewed by:
Yasmin K. Beers, Assistant City Manager



Michael J. Garcia, City Attorney



Robert P. Elliot, Director of Finance **AK**



RECOMMENDATION

It is recommended that the City Council adopt a resolution:

- Authorizing the City Manager, or his designee, to execute a Termination and Release Agreement to terminate an existing 21-year PPA with Skylar for the purchase of renewable energy. The terminated agreement is intended to be replaced with a new agreement at the same cost but with more renewable and carbon-free energy;
- Dispensing with competitive bidding, and authorizing the City Manager, or his designee, to execute a replacement WSPP PPA for the procurement of 292,000 MWh per year (50 MW per hour, 16 hours per day) of energy, including required firming services, to help meet GWP's Renewable Portfolio Standards (RPS) compliance requirement and to cover a portion of GWP's net short energy position. The PPA has a term of 21 years and is not to exceed \$647 million. This new agreement provides more renewable energy (55% vs. 50%) and more carbon-free energy (20% vs. 0%) at the same price as the original agreement, in exchange for flexibility in energy delivery points;
- Authorizing the City Manager, or his designee, to approve the novation of the new PPA to an approved, credit-worthy counterparty upon Skylar's request; and
- Finding that the project is exempt from the requirements of the California Environmental Quality Act.

BACKGROUND/ANALYSIS

In September 2014, the City Council authorized a 25-year agreement with Skylar for the purchase of firm solar-generated electric power. In May of 2015, the City Council authorized an amendment to the agreement to authorize the supply of renewable power from any renewable facility – including but not limited to solar, certified by the California Energy Commission as renewable under California law and regulatory requirements, in exchange for a reduction in price. In November 2015, City Council approved the bifurcation of the 25-year purchase of renewable energy into two separate agreements: the first agreement was a four-year contract with Morgan Stanley Capital Group, Inc. (MSCG) from December 1, 2015 through December 31, 2019. The second agreement was a 21-year contract with Skylar from January 1, 2020 through November 30, 2040.

These agreements committed MSCG and Skylar to deliver 292,000 MWh of energy to the City annually; MSCG must deliver at least 50 percent renewable and 20 percent zero-carbon, and Skylar must deliver at least 50 percent renewable. As described in the November 2015 staff report, the agreements were intended to facilitate GWP's compliance with environmental laws and regulations enacted by the California Legislature and the California Energy Commission.

These laws and regulations require GWP, and other electric utilities, to transition from traditional, carbon-based generation to renewable and carbon-free generation. Under current California law, GWP must obtain an increasing amount of its energy resources from renewable and carbon-free resources through a series of milestones. By 2020, GWP must obtain 33% of all energy necessary to serve its retail load from renewable resources, and this target increases to 50% by 2030. The City has complied with all renewable energy milestones to date, and consistent with its long-standing commitment to the environment and its Greener Glendale Plan, the City intends to continue to procure as much of its power as economically possible from renewable and carbon-free (zero carbon) sources.

These existing Renewable Portfolio Standard (RPS) requirements, coupled with the potential for the state legislature to adopt a requirement of 100% renewable energy by 2045, drive GWP to continually reevaluate its energy resource mix and to push for more renewable and carbon-free resources.

In 2016, the City's total load obligation was 1,114 GWh – this PPA would meet approximately 26% of the City's total energy obligation and at least 20% of the City's total load with renewable or zero-carbon energy. This comprises a significant portion of the energy required for the City to meet its RPS targets.

In July 2017, Skylar approached City staff with a request to approve additional energy delivery points for its 21-year commitment to deliver the contracted energy, and to provide a mechanism to approve novating the contract to a credit-worthy counterparty in the future. City staff and Skylar propose terminating the existing, 21-year agreement and replacing it with a new, 21-year agreement that will supply GWP with increased amounts of renewable and carbon free energy at the same pricing. The proposed new agreement requires:

1. Skylar to deliver a minimum of 55% renewable (versus 50% in the original agreement) energy and a minimum of 20% carbon-free energy (versus 0% in the original agreement), for a total of at least 75% renewable and carbon-free energy (versus 50% in the original agreement);
2. GWP to allow Skylar to deliver this energy to more locations. The original contract limited Skylar to deliver to Mead, whereas this replacement agreement allows delivery to Mead, Marketplace, or the Nevada-Oregon Border (NOB) within GWP's contractual transmission rights. This flexibility allows Skylar to meet its contractual requirements with no negative reliability or price impacts to GWP.
3. The City Manager, or his designee, to be authorized to novate of this contract in the future, upon Skylar's request and without further City Council authorization, provided that the new counterparty must have a credit rating equal to, or better than, Baa1 (Moody's), BBB+ (Standard & Poor's), or equivalent.

The new agreement also includes minor adjustments to account for energy deliveries in leap years (2020, 2024, 2028, 2032, 2036, and 2040) and to prorate the deliveries in the final, 11-month term of the contract.

Skylar anticipates that the deliveries will be made from its Townsite Solar Project currently under development in Boulder City, Nevada, which has a direct interconnection to the Mead substation. Skylar may designate additional resources in the future, as long as those resources qualify as renewable or zero-carbon and meet California regulatory requirements.

Dispensing with Competitive Bidding

Article VI, Section 9 of the Glendale City Charter authorizes the City Council to dispense with competitive bidding where it is in the City's best interest to do so. On June 6, 2017, the City Council adopted a resolution dispensing with competitive bidding and authorizing contracts for the purchase and sale of energy for terms not to exceed five years in duration. The proposed 21-year PPA does not fall within the scope of the June 6, 2017 resolution dispensing with competitive bidding.

It is in the City's best interest to dispense with competitive bidding and authorize the new 21-year proposed PPA, as well as to approve the future novation of the PPA to a credit-worthy counterparty. Electric power and renewable energy are sold via bilateral transactions between two entities, such as that proposed here, or via online exchanges. It is not industry practice to solicit bids for renewable energy using the City's standard bidding process. It is also industry practice – and a standard term of the WSPP Agreement, the terms of which are part of this PPA – to allow a counterparty to novate or assign the PPA to another party subject to reasonable credit-worthiness assurances.

As recommended by the City Director of Finance, the proposed PPA only permits such novation to a counterparty that has a credit rating that is two notches above investment grade. In addition, it should be noted that the alternative to authorizing a new, replacement PPA with Skylar would not be to issue competitive bids, but rather to keep the existing PPA with Skylar in place.

The original purchase with Skylar followed several years of analysis and evaluation of proposals for renewable energy projects submitted through a series of "rolling RFPs" issued by the Southern California Public Power Authority (SCPPA), of which Glendale is a member. As described in the November 2014 staff report, the original PPA with Skylar was less expensive and provided GWP with more certainty and a favorable delivery location compared to other SCPPA projects. Renewable energy is inherently unreliable and variable; there are significant costs associated with firming and shaping this renewable energy to ensure it is reliable and non-variable so that it can be used to meet load. The pricing in this PPA is commensurate with the replacement cost for the energy, firming and shaping services, renewable attributes, and potential for carbon costs associated with the renewable energy.

The proposed new PPA will provide GWP with an even higher percentage of renewable and zero-carbon energy at the same price as under the existing Agreement. The minimum 20% zero-carbon guarantee is a new term in the proposed PPA; the existing PPA does not have a zero-carbon source requirement. In addition, Skylar's guarantee of an additional minimum of 55% renewable sources is a much larger percentage of renewable energy than is required under current law, and more than Skylar is obligated to provide under the existing PPA. The new PPA will place the City in a more favorable position if the state legislature further increases the percentage of power that must be from renewable or zero-carbon sources. The added value to GWP from the increased level of renewable energy (from 50% to 55%) and carbon-free energy (from 0% to 20%) is estimated to be roughly \$30 million; this is based on the cost of purchasing 219,000 MWh (75% of 292,000 MWh) per year of Renewable Energy Credits (RECs) and carbon allowances for the duration of the 21-year agreement.

In addition, the energy delivery points (Mead and Marketplace) are preferred delivery locations for the City. The new PPA also provides an option for Skylar to utilize the Nevada Oregon Border (NOB) to deliver extensive zero-carbon energy supplies from the Pacific Northwest, within the City's contractual transmission rights.

For the foregoing reasons, it is in the City's best interest to dispense with competitive bidding and authorize the replacement of the existing PPA with a proposed new PPA that provides the City a higher percentage of renewable and zero-carbon energy.

Exemption from California Environmental Quality Act

Pursuant to Section 21080(a) of the California Public Resource Code, the proposed replacement of the existing PPA with a new PPA is exempt from the requirements of CEQA because it does not constitute a "project" as defined in section 21065 of the California Public Resource Code. The proposed PPA is not unit contingent, and resources for the energy deliveries may be designated from time to time as long as those resources meet all renewable, zero-carbon, and regulatory requirements as set forth in the PPA. To the extent the power will be derived from the Townsite Solar Project, CEQA does not apply to "any project or portion thereof located in another state which will be subject to environmental impact review pursuant to the National Environmental Policy Act of 1969 (42 U.S. C. Section 4231 *et seq.*) or similar state laws of that state." Cal. Pub. Resources Code section 21080(b) (14).

FISCAL IMPACT

No increase in the cost of energy per MWh versus the existing 21-year agreement with Skylar. The not-to-exceed price shall be \$647 million over the 21-year term, based upon an initial price in 2020 of \$86.2819/MWh and escalating by 1.95% each year.

The added value to GWP from the increased level of renewable energy (from 50% to 55%) and carbon-free energy (from 0% to 20%) cannot be precisely quantified, but is estimated to be roughly \$30 million based on the cost of purchasing 219,000 MWh (75% of 292,000 MWh) per year of Renewable Energy Credits (RECs) and carbon allowances for the next 21 years.

The supply of renewable and zero-carbon energy will displace purchases of non-renewable energy and natural gas, will avoid carbon costs, and will help preserve free carbon allowances for future compliance obligations.

Sufficient funds are available in the current fiscal year in Account No. 45510-582-468-1979-1500. Funds for future years will be included as part of the annual budgetary process.

ALTERNATIVES

Alternative 1: Council may approve the resolution authorizing cancellation of the existing confirmation agreement and execution of the new confirmation agreement.

Alternative 2: The City Council may disapprove cancellation of the existing contract and execution of the new confirmation agreement. In this case, the energy delivered under the current agreement shall contain less renewable and carbon-free energy than the proposed new agreement.

Alternative 3: The City Council may consider any other alternative not proposed by staff.

CAMPAIGN DISCLOSURE

In accordance with the City Campaign Finance Ordinance No. 5744, the following are the names and business addresses of the members of the board of directors, the chairperson, CEO, COO, CFO, subcontractors, and any other person or entity with more than ten percent interest in the company proposed for contract in this agenda item report.

Officers of Skylar Resources, L.P.:

Full Name	Title	Business Address	City	State	Zip
William O. Perkins III	President	East End Plaza, Suite 320 6115 Estate Smith Bay Rd.	St. Thomas	VI	00802
Kayla Bruzzese	CFO	East End Plaza, Suite 320 6115 Estate Smith Bay Rd.	St. Thomas	VI	00802
Gerardo ("Gerald") Balboa	COO	East End Plaza, Suite 320 6115 Estate Smith Bay Rd.	St. Thomas	VI	00802

Ownership Interest in more than ten percent of Skylar Resources, L.P.:

Full Name	Title	Business Address	City	State	Zip
William O. Perkins III	President	East End Plaza, Suite 320 6115 Estate Smith Bay Rd.	St. Thomas	VI	00802

EXHIBIT(S)

None.

RESOLUTION NO. _____

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GLENDALE,
CALIFORNIA TERMINATING AN EXISTING LONG-TERM POWER
PURCHASE CONTRACT, DISPENSING WITH COMPETITIVE BIDDING
AND AUTHORIZING A NEW POWER PURCHASE AGREEMENT
FOR A MINIMUM OF 55% RENEWABLE AND 20% CARBON FREE ENERGY
FOR A TERM OF TWENTY-ONE YEARS**

WHEREAS, the California Legislature and the California Energy Commission have adopted environmental laws and regulations which increasingly require Glendale Water & Power (“GWP”) and other public and private utilities to transition from conventional generation assets to renewable and carbon-free forms of energy generation; and

WHEREAS, existing law requires GWP to obtain 33% of all energy necessary to serve its retail load from renewable resources by 2020 and this target increases to 50% by 2030; and

WHEREAS, current requirements, coupled with the potential for the state legislature to adopt a requirement of 100% renewable energy by 2045, drive GWP to continually reevaluate its energy resource mix and to push for more renewable and carbon-free resources; and

WHEREAS, GWP has met or exceeded all renewable energy milestones to date, and, consistent with its long-standing commitment to the environment and its Greener Glendale Plan, intends to continue to procure as much of its power as economically possible from renewable and carbon-free (zero carbon) resources; and

WHEREAS, on November 24, 2015, pursuant to the authorization of the Glendale City Council, the City of Glendale entered into a renewable energy transaction confirmation pursuant to and in accordance with the terms of the Western Systems Power Pool (“WSPP”) Agreement with Skylar Resources LP (“Skylar”), for the purchase of renewable energy from January 1, 2020 through November 30, 2040 (the “Existing Confirmation”); and

WHEREAS, GWP and Skylar have negotiated the termination of the Existing Confirmation and its replacement with a new confirmation pursuant to and in accordance with the terms of the WSPP Agreement, with the same pricing for energy purchases, but with the added benefit to the City of Glendale of additional renewable and zero carbon energy, and the added benefit to Skylar of flexibility in delivery of the renewable and carbon energy as well as an assignment provision (the “New Confirmation”); and

WHEREAS, pursuant to the New Confirmation, Skylar would supply the same quantity of energy as under the Existing Confirmation (40 to 60 megawatts per hour, with an average of 50 megawatts each hour) for the same term (January 1, 2020 to November 30, 2040), at the same price as the Existing Confirmation, but would guarantee an increased percentage of firmed renewable energy (minimum of 55% percent renewable versus 50% renewable in the Existing Confirmation) and a minimum

of 20% carbon-free energy (versus 0% in the Existing Confirmation), for a total of at least 75% renewable and carbon-free energy; and

WHEREAS, the New Confirmation would allow Skylar to deliver the energy to more locations and would permit Skylar to assign or transfer the New Confirmation in the future to a new counterparty without further City Council authorization, provided that the new counterparty has a credit rating equal to or better than Baa1 (Moody's), BBB+ (Standard & Poor's), or equivalent; and

WHEREAS, the proposed New Confirmation would provide reliable, cost-effective, renewable power that would help diversify GWP's resource portfolio, allow GWP to continue to meet RPS compliance requirements, add additional zero carbon energy to GWP's portfolio, and would provide for the energy to be delivered to a substations where GWP has ownership rights or from which GWP currently holds long-term transmission rights, thus avoiding the need to buy additional transmission capacity; and

WHEREAS, Article VI, Section 9 of the Glendale City Charter authorizes the City Council to dispense with competitive bidding where it finds that it is in the City's best interest to do so; and

WHEREAS, it is in the City's best interest to dispense with competitive bidding for the proposed 21-year New Confirmation, for the reasons stated herein and in the October 24, 2017 Report to the City Council.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF GLENDALE, CALIFORNIA:

SECTION 1. The recitals herein above are true and correct and incorporated herein.

SECTION 2. The City Council hereby authorizes the City Manager, or his designee, to execute a Termination and Release Agreement with Skylar Resources LP to terminate the November 24, 2015 renewable energy transaction confirmation pursuant to and in accordance with the terms of the WSPP Agreement (the Existing Confirmation).

SECTION 3. Pursuant to Article VI, Section 9, of the Glendale City Charter, the City Council does hereby dispense with competitive bidding and authorize the City of Glendale to:

(a) enter into a renewable energy transaction confirmation pursuant to and in accordance with the terms of the WSPP Agreement with Skylar Resources LP, for the purchase of 40 to 60 megawatts per hour of firming renewable solar power, for a term of 21 years, with deliveries to commence on January 1, 2020 and ending on November 30, 2040, for an initial cost not to exceed \$86.2819 per megawatt-hour, escalating at no more than 1.95% per year over the 21-year term, for a total amount not to exceed \$647,000,000 (the New Confirmation) and

(b) permit Skylar to assign or transfer such New Confirmation to another counterparty in the future without further City Council action, provided that such counterparty has a credit rating equal to or better than Baa1 (Moody's), BBB+ (Standard & Poor's), or equivalent.

SECTION 4: The City Manager is hereby authorized to execute (i) the New Confirmation and such other documentation as may be required to enter into said New Confirmation and (ii) such documentation as may be required to effectuate Skylar's assignment or transfer of the New Confirmation to a counterparty with a credit rating equal to or better than Baa1 (Moody's), BBB+ (Standard & Poor's), or equivalent. The form of such New Confirmation and any agreements or documents to effectuate such assignment or transfer shall be subject to the approval of the City Attorney.

SECTION 5: Payment for the energy purchased pursuant to the New Confirmation shall be payable solely from a special fund, to wit, the Electric Works Revenue Fund, and not from the general revenue of the City of Glendale.

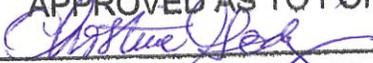
SECTION 6. The City Council hereby finds that said New Confirmation is exempt from the requirements of the California Environmental Quality Act pursuant to Sections 21065 and 21080(a) and 21080(b)(14) of the California Public Resource Code.

Adopted this _____ day of _____, 2017.

Mayor

Attest:

City Clerk

APPROVED AS TO FORM


Principal Assistant City Attorney
Date October 19, 2017

STATE OF CALIFORNIA)
)
COUNTY OF LOS ANGELES) SS

I, ARDASHES KASSAKHIAN, City Clerk of the City of Glendale, certify that the foregoing Resolution was adopted by the Council of the City of Glendale, California at a regular meeting held on the _____ day of _____, 2017, and that same was adopted by the following vote:

Ayes:

Noes:

Absent:

Abstain:

City Clerk