

DOCKETED

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Project Title:	Appeal by Los Angeles Department of Water & Power re Renewables Portfolio Standard Certification Eligibility
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0150-07880-0000

TRANSMITTAL

TO Ronald F. Deaton, General Manager Department of Water and Power	DATE MAY 08 2006	COUNCIL FILE NO.
FROM The Mayor		COUNCIL DISTRICT

**Proposed Power Purchase Agreement for Hydroelectric Energy
With Powerex Corporation**

Transmitted for further processing. See the
City Administrative Officer report attached.


MAYOR

WTF:DHH:10060306t

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: May 5, 2006

CAO File No. 0150-07880-0000

Council File No.

Council District:

To: The Mayor

From: William T Fujioka, City Administrative Officer



Reference: Letter from General Manager, Department of Water and Power, dated April 19, 2006; referred for report May 4, 2006

Subject: **PROPOSED POWER PURCHASE AGREEMENT WITH POWEREX CORP. FOR HYDROELECTRICITY**

SUMMARY

The Department of Water and Power (DWP) requests authority to execute a proposed Power Purchase Agreement (PPA) with Powerex for renewable energy generated from hydroelectric facilities located in Canada. Significant terms of the PPA are as follows:

- The projected execution date is July 1, 2006 and the term is five years;
- The amount of power provided is 50 megawatts (MW) delivered 24 hours, seven days a week;
- Guaranteed generation is 438,000 Megawatt-hours (MWh) per year;
- The price will be set upon execution of the PPA and will be at least \$60 per MWh and will be no greater than \$90 per MWh. The price setting mechanism is based upon the price of natural gas. Once set, the price will be fixed throughout the life of the PPA;
- DWP projects total annual expenditures will not exceed \$39,420,000 for each year;
- Delivery will be made to the Nevada-Oregon border where the DWP and the Bonneville Power Administration's transmission systems meet on the Pacific DC Intertie; and,
- Termination is allowed:
 - on the fifth anniversary of the execution date;
 - upon default and termination;
 - by mutual agreement of the parties.

Compliance with City Policies

The Renewable Portfolio Standard

The City Council has approved a Renewable Portfolio Standard (RPS) that requires DWP to obtain 20 percent of the City's energy from renewable sources by 2017 and the Board of Water and Power Commissioners has adopted a goal of achieving the same 20 percent by 2010. The PPA will allow DWP to procure an additional 1.9 percent of the City's energy requirement from a renewable source, beginning July 1, 2006.

In addition, the RPS defines hydroelectricity as renewable only if the hydroelectric plant has a generation capacity of 30 MW or less. The PPA will require Powerex to deliver power only from small hydroelectric facilities with a capacity of 30 MW or less, thereby, allowing all of the hydroelectricity to count towards the City RPS goals.

The City Financial Policies

The PPA complies with the City Financial Policies. Though Powerex is not rated by the credit rating agencies, BC Hydro, its parent company and a Canadian governmental entity, has provided an unconditional guarantee. BC Hydro has AA ratings from both Moody's and Standard and Poor's rating agencies.

Proposed Council Policy Under Consideration

The cost of power under the proposed PPA will exceed the proposed threshold of seven (7) cents per kilowatt-hour for renewable energy procured from a third party as contained in a motion of the Council (Parks-Perry) introduced on March 18, 2005. That motion is still under consideration by the Energy and Environment Committee.

Council approval by Ordinance is required by the City Charter. The City Attorney has reviewed the Agreement.

Cost of the PPA

According to the California Energy Commission (CEC), hydro electricity is a moderately priced method of renewable energy generation (6.04 cents per kilowatt-hour or \$60.40 per megawatt-hour).¹ The projected price of the hydroelectricity obtained under this PPA (no lower than 6 cents per kwh and no higher than 9 cents per kwh) will likely be higher than both the CEC's estimated levelized cost and the cost contemplated by the Parks-Perry Council motion. DWP estimates the cost of the PPA over five years at \$177,390,000 with a maximum cost of \$197,100,000 (due to the price cap). Ideally, DWP would be able to obtain a PPA for hydroelectricity that is priced lower and whose term extends well beyond five years. Since the cost of the PPA will be higher than normally desired by the City, a five year term is appropriate.

¹ The California Energy Commission reports comparable levelized costs of other renewable generation as follows: wind is 4.93 c/kwh, geothermal is 4.52 to 7.37 c/kwh, solar thermal is 13.52 to 21.53 c/kwh, solar photovoltaic is 42.72 c/kwh.

Risk of the PPA

DWP has mitigated all significant risk under the terms of the PPA.

Credit Risk

BC Hydro, the AA rated parent company and a Canadian governmental entity, provides a financial guarantee. Additional financial guarantees are required if BC Hydro is downgraded.

Delivery of Renewable Power

BC Hydro provides a guarantee. The PPA contains provisions for the return of any power not from renewable sources and allows Powerex to substitute non-performing hydro assets, as required, with other hydro assets with generation capacity of 30 MW or less. Termination is allowed if too little renewable power is delivered. DWP will also be allowed to audit Powerex records to determine the renewable content of power provided. Renewable energy credits will also be transferred to DWP.

Transportation

Delivery will be made by Powerex to DWP owned transmission lines. DWP responsibility will not begin until the power enters DWP owned lines. DWP states that no further investment in the DWP owned transmission lines is required to accept and transmit the power to Los Angeles.

Contracting with a Sovereign Entity

BC Hydro and Powerex have contractually waived their sovereign rights. The delivery point is in the United States, outside the jurisdiction of Canada. Any disputes will be resolved in courts located in Los Angeles.

Price

Once the price is set and the PPA executed, the price will be fixed. DWP will have the right to not execute the PPA if the price is set above 9 cents per kwh (\$90 per MWh).

RECOMMENDATION

That the Mayor approve the proposed Power Purchase Agreement between the Department of Water and Power and Powerex Corporation and return it for further processing, including Council consideration.

FISCAL IMPACT STATEMENT

There is no impact on the City General Fund. The Power Revenue Fund will provide up to \$39,420,000 annually for five years for a total maximum of \$197,100,000. Actual costs could be less depending upon the actual price set upon execution of the Power Purchase Agreement (PPA). The PPA complies with the City Financial Policies.