



Los Angeles
Department of
Water & Power

RESOLUTION NO. _____

BOARD LETTER APPROVAL

Handwritten signature of Michael S. Webster in blue ink.

MICHAEL S. WEBSTER
Executive Director – Power System
Engineering and Technical Services

Handwritten signature of Marcie L. Edwards in blue ink.

MARCIE L. EDWARDS
General Manager

DATE: December 3, 2015

SUBJECT: Amendments to Power Purchase Agreement (PPA) No. BP 12-017 With K Road Moapa Solar, LLC (K Road) for Solar Capacity and the Purchase of the K Road Moapa Solar Generation Facility

SUMMARY

The attached Resolution recommends amendments to PPA No. BP 12-017 between K Road Moapa Solar, LLC and the City of Los Angeles acting by and through the Los Angeles Department of Water and Power (LADWP) for the purchase of renewable electric energy, originally approved by the Board of Water and Power Commissioners in September 2012, Resolution No. 013-073. The original PPA authorized LADWP to purchase from K Road, up to 250 megawatts (MW) of renewable solar energy, associated environmental attributes, and generating capacity rights of the K Road Moapa Solar Generation Facility (Solar Facility) for a period of 25 years.

The Developer requested an amendment in order to meet the requirements of the tax equity investors. The proposed amendment is to allow developer to reject the LADWP Purchase offer when the appraised Fair Market Value (FMV) of the Solar Facility is greater than the Maximum Purchase Price. In return for consideration of the Developer's request, LADWP will receive a discount in the original PPA price, and other PPA adjustments, which will result in approximately \$110 million in savings over the term 25 years of the PPA.

The Solar Facility will be on the Moapa tribal land, located 30 miles north of Las Vegas, Nevada. The Solar Facility will be connected directly to the LADWP transmission system at the Crystal Substation. The Solar Facility has since been acquired by First Solar Inc. (Developer) and is scheduled to be in service by June 30, 2016.

City Council approval by Ordinance is required according to Charter Sections 373 and 674.

RECOMMENDATION

It is recommended that the Board of Water and Power Commissioners adopt the attached Resolution recommending City Council's approval, by Ordinance, of the amendment of PPA No. BP 12-017 between the Developer and the City of Los Angeles, as required in Charter Sections 373 and 674.

ALTERNATIVES CONSIDERED

The impact of not executing the Amendment would be a missed opportunity to save \$110 million. The impact on the project is unknown if the vendor must find other forms of financing.

FINANCIAL INFORMATION

The original average annual cost for this energy was expected to be approximately \$64.8 million with fixed energy price of \$91.69 per megawatt hour (MWh). However, the Developer agrees to following amendments:

- The Developer agrees to waive its right to be reimbursed for project management and transmission administrative costs pursuant to Section 3.7, which it will save LADWP an additional \$1.5 million.
- Reduce the purchase price for Delivered Energy by \$4.00/MWh throughout the term of the PPA, therefore the new energy price becomes \$87.19/MWh, and as a result, LADWP will save \$66.4 million in saving over the term of the PPA.
- Provide LADWP(Buyer) 25,000 MWh of curtailment per year at a reduced level of compensation to Seller as follows:
 - I. The first 12,500 MWh of curtailment shall be uncompensated; and
 - II. The remaining 12,500 MWh of curtailment shall be compensated at 50 percent of the applicable purchase price for Delivered Energy.

As a result, LADWP can save \$43 million in saving over the term of the PPA.

In total, the amendments to the PPA could save \$110 million over the term of the PPA for LADWP.

The PPA, as set forth in Appendix J, allows for the option to purchase the Solar Facility at the end of the 10, 15, 20, or 25 year anniversary of the Full Commercial Operating Date (COD), provided that LADWP gives its exercise notice six months after the aforementioned time periods (Purchase Option). At the time of the closing, the PPA allows for the lease to be reassigned to LADWP from the Moapa Band of Paiutes, a federally recognized Indian Tribe.

Funding is budgeted in Power Revenue Fund's Fuel and Purchased Power Budget. Potential rate impact for this Amended PPA is expected to decrease system rates by 0.018 cents over a 25-year period, as compared to the original PPA.

The original average annual expenditures was approximately \$64.8 million per year for the term based on assuming an average capacity factor of 30 percent for a total cost over the life of the contract of \$1.6 billion. However, after negotiation the average annual expenditures become \$62.2 million per year for the term based on assuming an average capacity factor of 30 percent for a total savings of \$65 million. This will benefit the ratepayers of Los Angeles by supplying them with renewable energy and reducing the consumption of fossil fuels and emissions.

BACKGROUND

Southern California Public Power Authority's (SCPPA) Request for Proposal (RFP)

In January 2011, SCPPA issued an RFP, a competitive selection process, for the purchase and/or acquisition of renewable energy resources. SCPPA received 220 proposals from numerous firms having the capability to provide renewable energy from sources such as solar, wind, biomass, landfill gas, geothermal, hydroelectric, and other sources.

K Road Moapa Solar Generation Facility was shortlisted based on the key selection principles. The LADWP rigorously evaluates each potential strategy to identify and recommend the best overall tactical plan to meet key objectives. Finally K Road Moapa Solar Generation Facility was selected for LADWP's generation portfolio because the Solar Facility:

- Can use existing transmission capacity at the Crystal Substation;
- Has excellent solar resource due to location;
- Is located in a region where LADWP has existing operation and maintenance crews; and
- Has an offer of ownership opportunity after tax benefits are expired.

POWER PURCHASE AGREEMENT AND OPTION AGREEMENT AMENDMENT

Amendments to the PPA

PPA No. BP 12-017 between K Road Moapa Solar, LLC and the City of Los Angeles was originally approved by the Board of Water and Power Commissioners in September 2012, Resolution No. 013-073, and by the City Council under Council File No. 12-1614, at its meeting held November 20, 2012. This was codified in Ordinance 182333, effective December 11, 2012. The Developer requested an amendment to the Purchase Option section of the PPA, in order to meet the requirements of the tax equity investors. LADWP requested financial concessions in the PPA amendment in return for consideration of the Developer request.

These concessions will provide LADWP savings of approximately \$110 million over the 25-year term of the PPA.

Amendments to the Option Agreement

The Developer requested to have a right to reject the Purchase Option offer when LADWP has exercised its Purchase Option and the offered price is greater than the Maximum Purchase Price, in order to meet the requirements of the tax equity investors.

Risk Management Provisions

The Risk Management provisions have not been altered under this amendment.

Los Angeles City Council Approval

Per Charter Section §§ 373 and 674 (a)(1)(A) and (a)(2), Los Angeles City Council approval is required by Ordinance for the purchase of electric energy in the PPA, the Transmission Agreement, and potential ownership of the Solar Facility with the Purchase Option. Accordingly, attached is the City Administrative Officer (CAO) report dated November 24, 2015.

ENVIRONMENTAL DETERMINATION

The Solar Facility will be permitted and constructed outside of the state of California. Facilities located outside California which are subject to environmental impact review pursuant to the National Environmental Policy Act (NEPA) are statutorily exempt from the California Environmental Quality Act per the California Code of Regulations Title 14, Chapter 3, Article 18, Section 15277. The DOI, the Bureau of Indian Affairs and the BLM issued a Record of Decision pursuant to NEPA for the Solar Facility on June 21, 2012.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved the Agreement and Resolution as to form and legality.

ATTACHMENTS

- Resolution
- Draft Ordinance
- Amendment to Power Purchase Agreement and Option Agreement
- CAO Report