

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: April 15, 2013

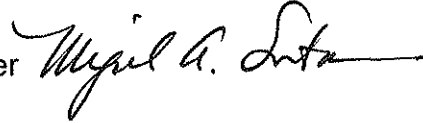
CAO File No. 0150-09963-0000

Council File No. --

Council Districts: Citywide

To: The Mayor
The City Council

From: Miguel A. Santana, City Administrative Officer



Reference: Transmittal from the Department of Water and Power dated March 20, 2013; referred by the Mayor for report

Subject: **SECOND AMENDATORY POWER SALES CONTRACT BETWEEN THE DEPARTMENT OF WATER AND POWER AND THE INTERMOUNTAIN POWER AGENCY - AGREEMENT NO. BP 10437**

SUMMARY

The Department of Water and Power (DWP; Department) requests approval of the Board of Water and Power Resolution No. 013225, which authorizes the execution the Second Amendatory Agreement No. BP 10437 between the DWP and the Intermountain Power Agency (IPA). This Second Amendment will modify the current IPP coal-fired Power Sales Contract (PSC) approved in August 6, 1980 by providing for the construction and use of natural gas-fired power generation units instead of the current coal fired power generation units at the Intermountain Power Project (IPP). The Second Amendatory Agreement is necessary for IPA to obtain the necessary commitment from all 36 IPA participants to participate in this change. Therefore, this request is not a final action; however, this Second Amendment is necessary to begin the process of initiating interest for a plan to meet a time-sensitive January 1, 2020 construction schedule commencement date. The termination date of the current PSC and the Second Amendment is June 15, 2027. The 36 participants in IPP include six California utilities and the remaining 30 are located in the State of Utah. The California utilities' generation entitlement share is 78.9 percent and the remaining 21.1 percent generation share belongs to the Utah utilities. In accordance with Charter Section 373 and Los Angeles Administrative Code Section 10.5, Council approval is required because the cumulative term exceeds three years. The City Attorney has approved the proposed resolution and Agreement as to form and legality.

Background

The Intermountain Power Project Corporation was formed as a non-profit corporation on January 18, 1974 under the laws of the State of Utah, to determine the feasibility of constructing and operating a thermal powered generating facility. After a project membership and study agreement was finalized in June 1977, a group of 23 Utah municipalities formed the IPP as a political subdivision of the State of Utah to finance, construct, operate and maintain the Project. On August 24, 1978, Power Sales Contracts were offered and accepted by the Utah municipalities, in

addition to six Utah cooperatives, the Utah Power and Light Company and six California municipalities. The six California agencies include the LADWP, and the Cities of Anaheim, Burbank, Glendale, Pasadena, and Riverside. The Power Sales Contracts, finalized on September 28, 1978, provided for a Construction Management and Operating Agreement with the Department and the IPA to oversee the IPP's proposed four 750-megawatt (MW) coal-fired power generation units. The number of IPP generating units was subsequently downsized to two units based upon revised system load requirements. The two units have a current 950 MW gross generating capacity. The present day IPP consists of three main components: the Generating Station located in Delta, Utah; the Northern Transmission System (NTS) located near Mona, Utah; and the Southern Transmission System (STS) located in Adelanto, California.

DWP has no ownership rights in the IPP generating station or the transmission lines. Rather, DWP has a long-term power purchase contract and authority to utilize transmission lines which expires in 2027 and which also includes renewal option rights. The owner of IPP is the IPA, a separate entity and a political subdivision of the State of Utah.

California Senate Bill 1368 (SB 1368), otherwise known as The Global Warming Solutions Act, which was signed into law on September 29, 2006, and effective January 1, 2007, prohibits any load-serving entity and any local publicly-owned electric utility from entering into a long-term financial commitment unless any baseload generation complies with the greenhouse gas emission performance standards established by the Public Utilities Commission, the California Energy Commission (CEC), and the State Air Resources Board for load-serving entities. The standard can be no higher than the rate of greenhouse gas emissions for a combined-cycle natural gas baseload generating plant. The new law applies the new CEC-created standard to all local load-serving entities, public and private sector, in the State. In effect, SB 1368 prohibits the DWP from extending the Power Sales Contracts with IPA, since the coal-fired IPP does not meet the emission performance standards.

In late 2006, the IPA extended an advance renewal offer to the Department due to two main reasons. The primary concern related to a soon to be enacted State of California legislation (SB 1368), effective January 1, 2007, that would modify the Public Utilities Code to prohibit local publicly-owned electric utilities from entering into long-term (in excess of five years) financial commitments with power plants that do not comply with greenhouse gas emissions standards. The IPP Generating Station is a coal-fired facility which could not economically be modified to meet the standards. Secondly, by extending the Contracts as proposed in the advance renewal offer, it would have assured the Intermountain Power Project (IPP) participants' right to operate beyond the current 2027 expiration date.

The Department did not pursue the offer and on November 7, 2006, the DWP Board stated publicly that it decided to not renew and extend the existing operating agreements with IPA for the coal-fired electricity beyond 2027. The key reason for non-renewal was the recent passage of Senate Bill 1368.

To implement the conversion of IPP, certain legislative changes were needed in Utah to allow additional fuel options, including natural gas, to be used for generation, at the site. In March 2012, Utah Senate Bill 94 was approved by the Utah Legislature and Utah Governor to allow for the use of

other generation fuels at the site. Subsequently, in September 2012, the IPA Board also approved the Fourth Amendment to its existing IPA Organization Agreement to extend its life and allow for a fuel other than coal at IPP. The 23 Utah cities that comprise IPA are in the process of ratifying the Fourth Amendment to the IPA Organization Agreement.

Second Amendment to the Power Sales Agreement

The provisions of the Second Amendment to the PSC will substantially remain the same with regard to the current terms and conditions. The major change provides for the construction and use of combined cycle natural-gas fired generating units instead of the current coal-fired generation units that would begin when the current PSC expires on June 15, 2027. The Second Amendment is required to be approved by ordinance; however, the approval by the Mayor and Council is only a statement of interest on the part of the City and DWP. It does not commit the City to the next phase until all of the participants have committed to the conversion and detailed costs, funding requirements and schedules have been identified and presented by IPA and accepted by a majority of the participants. The other Second Amendment changes include:

- Requires the permitting and construction of the natural gas fired units to begin no later than January 1, 2020;
- Requires such replacement to be completed no later than July 1, 2025;
- Provides for IPA to make a renewal offer that extends the IPP participants' contractual rights to the new facility output and transmission lines until 2077;
- Provides for a decommissioning fund for the replaced coal fired units;
- Provides for the reduction of the combined cycle power if required;
- Provides the ability of the IPP Coordinating Committee (consisting of participants) and IPA to choose an alternative power generation technology should one be developed that complies with applicable laws and regulations, including SB 1368;
- Provides for IPA to make a renewal offer forty-five days after the Second Amendment is approved by all parties.

The IPA proposal provides for the construction of two combined-cycle natural gas turbines, each with a capacity not exceeding 600 MW (for a total capacity of 1200 MW) that will replace the current coal fired units which have a net capacity of 1800 MW capacity. The final capacity of the new facility will not be known until the total number of participants and demand has been identified. The natural gas units will utilize the existing infrastructure as much as possible, since there is enough land located at the site to accommodate both the coal fired units and the proposed new natural gas units at the commencement of service. The proposed new natural gas units will be designed and constructed using existing, standard technology which is currently in use. The Department currently operates generation units which utilize this technology in two primary generation facilities.

The termination date of the current PSC and the Second Amendment will remain June 15, 2027. The thirty-six participants in IPP include six California utilities and the remaining thirty are located in the

State of Utah. The California utilities' generation entitlement share is 78.9 percent and the remaining 21.1 percent generation share belongs to the Utah utilities. Attached is Appendix A of the Second Ammendatory PSC submitted by DWP which list the cities and their respective generation entitlement shares.

Integrated Resource Plan

The Department recently updated the Integrated Resource Plan (IRP), a framework to assure that ratepayer energy needs are met. The major objectives of the 2012 IRP include commitments to provide:

- Superior reliability and supply of electric service;
- Competitive electric rates consistent with sound business principles; and
- Responsible environmental stewardship exceeding all regulatory obligations.

The 2012 IRP incorporates different scenarios or cases for the early conversion, prior to the contract expiration in 2027, of IPP to gas-powered generation by 2020 or 2023 resulting in incremental fuel cost increases of approximately \$1.585 billion or \$775 million, respectively. DWP management advises that current debt obligations of the coal-fired power plant mature in 2023 and that conversion any earlier than 2023 would not be financially prudent. Furthermore, although the cases presented in the 2012 IRP do not include a scenario for early conversion by 2025, it is estimated by the Department that the incremental fuel cost will be approximately \$250 million annually.

Project Costs

DWP commissioned a study in March 2010 (Sargent & Lundy, LLC) to estimate the conceptual project cost. While not for budgeting or planning purposes, a preliminary capital cost estimate provided for discussion purposes is \$750 – \$950 million. These costs may change subject to the number of participants that commit to the combined cycle natural gas facility, equipment costs, labor costs, interest on bond financing and unforeseen legislative mandates. The final proposal will be available for consideration when the Renewal Power Sales Contract (RPSC) is submitted to the Mayor and Council. The impact on customer bills as a result of early conversion by 2025 is estimated to be an increase in power rates of 5 percent annually beyond the level projected for 2025.

Future Council Action

Once a determination of the number of current participants that wish to participate in the construction and operation of the natural gas fired generation units has been made, IPA will submit a formal proposal to the participants for approval or abandon the proposal. If the proposal is approved, DWP will, after detailed review and analysis, submit a request to the Mayor and Council to approve by ordinance a Renewal Power Sales Contract (RPSC) which is attached to DWP's request as Exhibit A to the Second Amendment to the current PSC as a preview of the proposed terms and conditions. Other contracts that will also be submitted either simultaneously or soon after will be an 1) excess Power Sales Agreement (to purchase unclaimed generation by participants), 2) Construction and

Management Operating Agreement; and, 3) Amended Personal Services Contract with IPA (to designate DWP to operate the facility for all the participants).

The Renewal Power Sales Contract will be to offer purchasers the right to renew entitlements associated with the natural gas generation capacity and transmission capacity. Each Purchaser could subscribe for up to an equal portion of their current percentage capacity. California Purchasers are offered the option to exit or reduce their entitlement by twenty percent on or before April 1, 2015. If one or more of the California participants (Purchasers) should either exit or reduce their entitlements either the gas units would be reduced or DWP could take the excess shares available. DWP states that they would be interested in purchasing those entitlements.

RECOMMENDATION

That the Council, subject to the concurrence of the Mayor, approve the proposed Water and Power Resolution No. 013225 that authorizes the execution of the Second Amendatory Agreement No. BP 10437 between the DWP and the Intermountain Power Agency (IPA) modifying the current IPP Power Sales Contract by providing for the construction and use of natural gas-fired power generation units at the Intermountain Power Project (IPP).

FISCAL IMPACT STATEMENT

The approval of this request amends an existing Power Sales Agreement and does not increase the current financial obligation of the DWP. This Agreement is consistent with the DWP Financial Policies which are not applicable.

APPENDIX A

SCHEDULE OF ENTITLEMENT SHARES AND COST SHARES

Purchaser	Generation Entitlement Share and Generation Cost Share	Northern Transmission Cost Share	Southern Transmission Cost Share
Beaver	.413	1.961	.000
Bountiful	1.695	8.050	.000
Enterprise	.199	.945	.000
Ephraim	.503	2.389	.000
Fairview	.120	.570	.000
Fillmore	.512	2.431	.000
Holden	.048	.228	.000
Hurricane	.147	.698	.000
Hyrum	.551	2.617	.000
Kanosh	.040	.190	.000
Kaysville	.739	3.510	.000
Lehi	.430	2.042	.000
Logan	2.469	11.725	.000
Meadow	.045	.214	.000
Monroe	.130	.617	.000
Morgan	.190	.902	.000
Mt. Pleasant	.357	1.695	.000
Murray	4.000	18.996	.000
Oak City	.040	.190	.000
Parowan	.364	1.729	.000
Price	.361	1.714	.000
Spring City	.060	.285	.000
Heber	.627	2.978	.000
Bridger Valley REA	.230	1.092	.000
Dixie-Escalante REA	1.534	7.285	.000
Flowell Electric Assoc.	.200	.950	.000
Garkane Power Assoc.	1.267	6.017	.000
Moon Lake Elec. Assoc.	2.000	9.498	.000
Mt. Wheeler Power, Inc.	1.786	8.482	.000
Anaheim	13.225	.000	17.647
Burbank	3.371	.000	4.498
Glendale	1.704	.000	2.274
Pasadena	4.409	.000	5.883
Riverside	7.617	.000	10.164
Department of Water and Power of the City of Los Angeles	48.617	.000	59.534