



Los Angeles
Department of
Water & Power

RESOLUTION NO. _____

BOARD LETTER APPROVAL

A handwritten signature in blue ink, reading 'Michael S. Webster', is positioned above the name and title of the Executive Director.

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

A handwritten signature in blue ink, reading 'Marcie L. Edwards', is positioned above the name and title of the General Manager.

MARCIE L. EDWARDS
General Manager

DATE: April 27, 2016

SUBJECT: Beacon Solar Project – First Amendments to the Power Purchase Agreements, Interconnection Agreements, Ground Lease, and Option Agreements which Amends the Terms of the Power Purchase Agreements, LADWP Nos. BP 14-008, BP 14-010, and BP 14-012

SUMMARY

The Beacon Solar Project is located 20 miles north of Mojave, CA. LADWP owns the 2500 acres and has divided it into 5 sites. In 2014, LADWP awarded power purchase agreements to develop these sites with solar.

The Developer for Beacon Sites 1, 3, and 4 requires limited revisions of the power purchase agreements, interconnection agreements, ground leases, and option agreements, collectively the “Beacon Agreements”, to facilitate financing for each of the project development entities. In exchange for the revisions, Los Angeles Department of Water and Power (LADWP) requested a reduction in the purchase price for solar energy. As a result, LADWP and its ratepayers will have a savings benefit of approximately \$20 million over the 25-year term of the power purchase agreements (PPAs).

The attached Resolution authorizes the first amendment to the Beacon Agreements between the project development entities, which are affiliates of Sustainable Power Group LLC (sPower, or the Developer), and LADWP, conditioned on approval by the Los Angeles City Council (City Council).

Los Angeles City Council approval is required according to City Charter 674(a).

RECOMMENDATION

It is requested that the Board of Water and Power Commissioners (Board) adopt the attached Resolution and request the City Council to approve, by Ordinance, the first amendments to the Beacon Agreements.

ALTERNATIVES CONSIDERED

The impact of not executing the first amendments to the Beacon Agreements increases the possibility of not acquiring financing for development of each of the sites, which increases the likelihood of default and subsequent termination of the Beacon Agreements.

FINANCIAL INFORMATION

The original fixed energy price for each site are as follows:

- For Site 1, it was \$52.61 per megawatt hour (MWh)
- For Site 3, it was \$51.97 per MWh
- For Site 4, it was \$52.61 per MWh

After negotiations with the Developer, the Contract Prices for each site was reduced by \$2.00 per MWh throughout the 25-year term of the power purchase agreements with new Contract Prices as follows:

- For Site 1, it is \$50.61 per MWh
- For Site 3, it is \$49.97 per MWh
- For Site 4, it is \$50.61 per MWh

The new Contract Prices will result in an estimated savings of \$782,000 per year and an estimated \$20 million savings over the term of the three PPAs.

The financial numbers for the respective Option Agreement, as set forth in Appendix J of each PPA, has been modified to accommodate a reduction in the minimum and maximum purchase prices in the event there is a reduction from the original capacity. Also the timing to acquire the solar generating facilities is delayed for the first seven years after commercial operation.

BACKGROUND

LADWP purchased over 2,500 acres of unimproved property in Kern County, California (Beacon Property) for the development of five solar generating facilities at different locations on the Beacon Property, called Beacon Sites 1, 2, 3, 4, and 5. In 2014 the Board, by Resolution Nos. 014-228 and 014-229, and the City Council, by Ordinance Nos. 183139 and 183140, approved the Beacon Agreements with five project development entities, one for each of the Beacon Sites, including selecting Hecate Energy Beacon #1 LLC under LADWP No. BP 14-008 for Site 1 (Beacon Site 1), Hecate Energy Beacon #3 LLC under LADWP No. BP 14-010 for Site 3 (Beacon Site 3), and Hecate Energy Beacon #4 LLC for Site 4 under LADWP No. BP 14-012 (Beacon Site 4).

The project development entities for Sites 1, 3, and 4 were affiliates of Hecate Energy LLC, who later sold ownership in the project development entities to affiliates of Sustainable Power Group LLC, for ease of reference "Seller."

The Developer requested limited amendments to the Beacon Agreements for Site 1, Beacon Site 3, and Beacon Site 4, to satisfy their tax equity investors, to secure financing from their lenders, and to take advantage of the extension of the federal Business Energy Investment Tax Credits. In return for the first amendments, LADWP requested a reduction in the Contract Prices, saving approximately \$20 million over the term of the PPAs.

The major amendments to the Beacon Agreements are:

- Extension of cure periods due to Seller's defaults;
- The Commercial Operation Date Default has been extended from December 31, 2016 to July 31, 2017;
- The option of either Letter of Credit or cash to satisfy the Performance Security provisions and the ability for LADWP to draw on the Letter of Credit if it is not renewed;
- A reduction in capacity (up to 50 percent of the original capacity) due to Force Majeure while not triggering a default and termination of the Beacon Agreements;
- In the event of a reduction in capacity, the expected generation, performance security, and the minimum and maximum option purchase prices are proportionately reduced;
- LADWP has deferred its option to purchase the Facility from after the 5th contract year to after the 7th contract year;
- Administrative information and Business Policies were added; and
- A price reduction of \$2 per MWh was applied to the original energy price.

The LADWP General Manager and staff will collaborate with the developer with approval of the lender's consent.

City Administrative Officer (CAO) Report

The CAO Report dated April 28, 2016, is attached.

ENVIRONMENTAL DETERMINATION

The Beacon Solar Project was originally proposed as a private development and required a Conditional Use Permit (CUP). The Lead Agency under the California Environmental Quality Act (CEQA) was Kern County. An Environmental Impact Report (EIR) was prepared for the project in accordance with the requirements of CEQA. On September 27, 2012, the Kern County Planning Commission certified the EIR and approved the CUP to allow construction and operation of the project. That decision was appealed to the Kern County Board of Supervisors, which denied the appeal and upheld the approval on October 30, 2012. In accordance with the CEQA, LADWP is a Responsible Agency for this project and as such, is required to adopt the Mitigation Measure Monitoring Program, Findings of Fact and Statement of Overriding Considerations. On May 20, 2014, the Board took these actions for the Beacon Solar Project and fulfilled its requirements as a Responsible Agency under CEQA. CEQA defines "project" as the whole of the action rather than each separate governmental

approval. Amending the PPA, interconnection, ground lease and option agreements for the project site are part of the Beacon Solar Project and are, therefore, covered under the project approval.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved the first amendments to the Beacon Agreements as to form and legality.

ATTACHMENTS

- Resolution
- Ordinance
- Amendment No.1 to Power Purchase Agreement, Interconnection Agreement, Ground Lease and Option Agreement for Beacon Site 1
- Amendment No.1 to Power Purchase Agreement, Interconnection Agreement, Ground Lease and Option Agreement for Beacon Site 3
- Amendment No.1 to Power Purchase Agreement, Interconnection Agreement, Ground Lease and Option Agreement for Beacon Site 4
- CAO Report