

Los Angeles



Department of Water & Power

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Mayor

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MARCIE L. EDWARDS  
*General Manager*

June 5, 2014

The Honorable City Council  
City of Los Angeles  
Room 395, City Hall  
Los Angeles, California 90012

Honorable Members:

Subject: Los Angeles Department of Water and Power 50 Megawatt Beacon Solar Project  
Power Purchase Agreement No. BP 14-012 with Hecate Energy, LLC.

Pursuant to Charter Section 674, enclosed for approval by your Honorable Body is Resolution No. 014 228, adopted by the Board of Water and Power Commissioners on June 3, 2014, approved as to form and legality by the City Attorney, which authorizes execution of Los Angeles Department of Water and Power 50 Megawatt Beacon Solar Project Power Purchase Agreement No. BP 14-012 with Hecate Energy, LLC.

If additional information is required, please contact Ms. Winifred Yancy, Director of Intergovernmental Affairs and Community Relations, at (213) 367-0025.

Sincerely,

A handwritten signature in cursive script that reads "Barbara E. Moschos".

Barbara E. Moschos  
Board Secretary

BEM:oja

Enclosures: LADWP Resolution  
Board Letter  
Ordinance  
Power Purchase Agreement between City of Los Angeles acting by and through the Department of Water and Power and Hecate Energy  
Beacon #4 LLC LADWP No. BP 14-012 (CD provided)

Los Angeles Aqueduct Centennial Celebrating 100 Years of Water 1913-2013

111 N. Hope Street, Los Angeles, California 90012-2607 Mailing address: Box 51111, Los Angeles, CA 90051-5700  
Telephone: (213) 367-4211 www.LADWP.com

c/enc: Mayor Eric Garcetti

Councilmember Felipe Fuentes, Chair, Energy and the Environment Committee

Gerry F. Miller, Chief Legislative Analyst

Miguel A. Santana, City Administrative Officer

Rafael Prieto, Legislative Analyst, CLA

William R. Koenig, Chief Administrative Analyst

Winifred Yancy

WHEREAS, the Los Angeles Department of Water and Power's (LADWP) Renewable Portfolio Standard Policy and Enforcement Program (RPS Policy) represents the continued commitment by LADWP to renewable energy, including the compliance targets for LADWP to supply 25 percent of its retail energy sales from eligible renewable energy resources by 2016 and 33 percent by 2020 in accordance with the California Renewable Energy Resources Act, also referred to as SB2(1X); and

WHEREAS, the strategies in LADWP's 2013 Integrated Resource Plan (IRP) include regulatory requirements, policy objectives, and increases in eligible renewable energy resources, while maintaining service reliability, using existing assets near eligible renewable energy resources, and minimizing the financial impact on ratepayers; and

WHEREAS, in 2012, via Board of Water and Power Commissioners Resolution Number 013-021, LADWP purchased from Beacon Solar, LLC, an indirect wholly-owned subsidiary of Nextera Energy Resources LLC, approximately 2,539 acres of unimproved property in Kern County, California (Beacon Property) and intellectual property, which included preliminary engineering designs, required technical and biological studies and a Conditional Use Permit; and

WHEREAS, on November 8, 2013, LADWP issued a Request for Proposal (RFP), a competitive process, for the development of a solar generating facility on Site 4 of the Beacon Property (Beacon Site 4); and

WHEREAS, LADWP received 12 responses to its RFP, one of which was selected to develop and provide renewable energy from a solar generating facility to LADWP for this Site; and

WHEREAS, Hecate Energy, LLC (Hecate) was selected for Beacon Site 4; and

WHEREAS, during construction of the solar facilities, all Mitigation Measures covering Aesthetics, Air Quality, Biological Resources, Cultural Resources, Geology and Soils, Hazards and Hazardous Materials, Hydrology and Water Quality, Land Use and Planning, Mineral Resources, Noise, Public Services, Traffic and Transportation, and Utilities and Service Systems listed in Exhibit C of the Beacon Conditional Use Permit must be followed; and

WHEREAS, Kern County Conditional Use Permit (CUP) No. 11, Map No. 152 permits development of solar photovoltaic facilities on the Beacon Property, and requires that a contractual mechanism be established by and between the project owner-operator and Kern County to assure that all provisions of the zoning ordinance and project approval CEQA mitigation measures will be implemented, including fees listed in Mitigation Measure MM4.12-1; and

WHEREAS, the Kern County CUP was originally established with a private developer (Beacon LLC), and a Memorandum of Understanding and Agreement (MOU) for Performance of Zoning Ordinance and Mitigation Measures as Environmental Restrictions Between the County of Kern and the private developer was executed on October 30, 2012, who subsequently assigned the Beacon Property, documents, agreements and permits to LADWP; and

WHEREAS, on May 20, 2014, the Board authorized LADWP to exercise the rights and perform the obligations under the MOU, to the extent feasible; and further authorized the General Manager to amend or modify the MOU as necessary to account for the difference in obligations

to be undertaken by the private developer as contrasted with LADWP, a public entity, provided that such changes do not increase the cost to LADWP under the current MOU; and

WHEREAS, the Hecate Power Purchase Agreement (PPA) No. BP 14-012 sets forth mutual covenants and agreements between LADWP and Hecate Energy Beacon #4 LLC (Seller), a special purpose entity, for LADWP's acquisition of all the metered output, associated environmental attributes, and generating capacity rights associated with the facility on Beacon Site 4 with a guaranteed generation of 50 MW AC for a 25-year term, and together with other agreements and documents attached thereto, including a purchase option, ground lease, and interconnection agreement (collectively, Hecate PPA Site 4); and

WHEREAS, at any time during the term of the PPA that LADWP may find it desirable to increase the solar generation capacity, LADWP may propose, subject to Board approval, that additional capacity be added by issuing a "Proposed Capacity Increase Letter" (Letter) to the Seller, with neither LADWP nor Seller having any obligation whatsoever to propose or accept a Letter; and

WHEREAS, Seller provides LADWP an early purchase option to purchase the Beacon Site 4 facility during the six month period commencing on the date that is prior to the Seventh, Tenth, Fifteenth, or Twenty-fifth year anniversary of Commercial Operation Date, as set forth in the purchase option of the Hecate PPA Site 4, which is in Appendix J of the power purchase agreement, attached thereto.

NOW, THEREFORE, BE IT RESOLVED that the Hecate PPA Site 4, (including all agreements and other documents attached thereto as appendices) by and between LADWP and Seller, now on file with the Secretary of the Board and approved as to form and legality by the City Attorney, be and the same are hereby approved.

BE IT FURTHER RESOLVED that the Board requests that the Los Angeles City Council (City Council) approve, by ordinance, the Hecate PPA Site 4, including all agreements and other documents attached thereto as appendices, but excluding the ground lease.

BE IT FURTHER RESOLVED that the Board hereby approves and requests that the City Council approve, by order or resolution, the ground lease in the Hecate PPA Site 4 pursuant to City Charter Section 606, and further find that the term of the ground lease of 32 years is in the best interests of the City in accordance with City Charter Section 607.

BE IT FURTHER RESOLVED that the energy and environmental attributes acquired from the Hecate PPA Site 4 shall be credited towards LADWP's RPS Policy compliance targets.

BE IT FURTHER RESOLVED that LADWP will need further authorizations from the Board and City Council in order to exercise the purchase option in the future, which authorizations may be qualified.

BE IT FURTHER RESOLVED that the President or the Vice President of this Board, or General Manager, or such person as the General Manager shall designate in writing, and the Secretary, Assistant Secretary, or the Acting Secretary of the Board, are hereby authorized and directed to execute, for and on behalf of LADWP, (1) the ground lease for Hecate PPA Site 4 upon an order or resolution by the City Council finding that the ground lease of 32 years is in the best interests of the City, and (2) Hecate PPA Site 4, including all agreements and other documents attached thereto as appendices, upon approval by the City Council by ordinance pursuant to Section 674 of the Charter of the City of Los Angeles.

BE IT FURTHER RESOLVED that the Chief Accounting Employee of LADWP, upon proper certification, is authorized and directed to draw demands on the Power Revenue Fund, in payment of the obligations arising under the Hecate PPA Site 4.

I HEREBY CERTIFY that the foregoing is a full, true, and correct copy of a Resolution adopted by the Board at its meeting held on **JUN 03 2014**

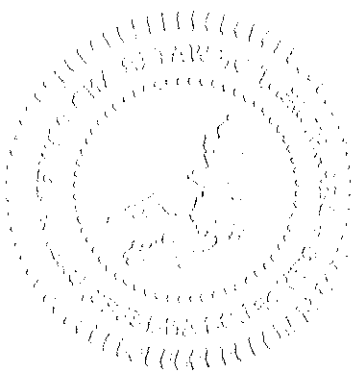
  
Secretary

APPROVED AS TO FORM AND LEGALITY  
MICHAEL N. FEUER, CITY ATTORNEY

**MAY 30 2014**

BY 

JEAN-CLAUDE BERTET  
DEPUTY CITY ATTORNEY





Los Angeles  
Department of  
Water & Power

RESOLUTION NO. \_\_\_\_\_

**BOARD LETTER APPROVAL**

Handwritten signature of Randy S. Howard in black ink.

**RANDY S. HOWARD**  
Senior Assistant General Manager  
Power System

Handwritten signature of Marcie L. Edwards in black ink.

**MARCIE L. EDWARDS**  
General Manager

**DATE:** May 30, 2014

**SUBJECT:** Los Angeles Department of Water and Power (LADWP) 50 MW Beacon Solar Project (Beacon50) Power Purchase Agreement (PPA)  
Nos. BP 14-012

**SUMMARY:**

Beacon50, which is one of the solar projects sited on the Beacon Property, supports LADWP's Renewable Portfolio Standard (RPS) Policy of attaining 25 percent of its energy from renewable resources by 2016 and 33 percent by 2020. The average expected annual output from Beacon50 is 112 Gigawatt-hours (GWh), about 0.4 percent of LADWP's retail sales to customers with a potential of powering about 17,000 homes.

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 recommending Los Angeles City Council's (City Council) approval of PPA No. BP 14-012 with Hecate Energy Beacon #4 LLC, a special purpose entity of Hecate Energy, LLC (Hecate), including the purchase option, ground lease, and interconnection agreement (collectively, Beacon50 Agreements). The PPA, purchase option, and interconnection agreements need City Council approval by ordinance pursuant to Charter Section 674, while the ground lease needs approval per Charter Section 373, although not by ordinance. In addition, for approval of the ground lease, the City Council will need to make a finding that the term of 32 years is in the best interest of the City of Los Angeles pursuant to Charter Section 607.

## **ALTERNATIVES CONSIDERED**

An alternative to Beacon50 was considered, and that would be to continue to negotiate PPAs with developers for large scale solar projects. However based on experience, PPA negotiations can be lengthy.

Given that the RPS requirement for 25 percent renewable energy in 2016 combined with the pending expiration of the Investment Tax Credits, the risk of settling on less favorable terms and/or not meeting the RPS target, which carries the potential for hefty financial penalties, may be unavoidable without considering other models.

After thorough analysis, LADWP staff determined that Beacon50 would best benefit ratepayers due to the fact that LADWP already owns the strategically-located Beacon Property. Specifically, these benefits include:

- Ability to utilize existing transmission capacity at the Barren Ridge Switching Station
- Excellent solar insolation due to location
- Located in a region where LADWP has existing operation and maintenance crews
- Ownership opportunities after tax benefits are expired

Staff also considered building a portion of the Beacon Solar Project using LADWP labor. However, further analysis revealed that due to the lack of experienced personnel for large scale development, this would not be feasible given the aggressive schedule. Moreover, the capital cost for a municipal agency like LADWP would be much higher than a private developer because LADWP would not be able to take advantage of Federal Investment Tax Credits. In addition, the upfront capital cost to undertake a project of this size would significantly strain LADWP's finances.

## **FINANCIAL INFORMATION**

The funds will be used to purchase renewable energy and environmental attributes as part of LADWP's RPS Policy. This will benefit the ratepayers of Los Angeles by supplying them with renewable energy and reducing the consumption of fossil fuels and emissions.

The PPA has a 25-year term with an option for LADWP to purchase the solar facility from the developers. Based on a cost of \$52.61/MWh, the estimated average annual cost is \$6.4 million, totaling \$159 million over a 25-year term. The test energy and excess energy price is the same as the PPA energy price.

The PPA allows LADWP the option to purchase the solar facility at the end of the 7, 10, 15 and 25 year anniversaries of the Full Commercial Operating Date (COD), provided that LADWP gives its exercise notice during the six month period prior to the aforementioned time periods (Purchase Option). Any exercise of the option to purchase



this facility will require LADWP to go to the Board and City Council for approval. The buyout price will be based on the Fair Market Value of the facility at the time of purchase, with a predetermined floor and ceiling price, summarized below.

<b>Purchase Opportunity:</b>	<b>Minimum Purchase Price</b>	<b>Maximum Purchase Price</b>
7 <sup>th</sup> Contract Year	\$46,664,517	\$55,697,421
10 <sup>th</sup> Contract Year	\$42,954,570	\$47,100,027
15 <sup>th</sup> Contract Year	\$41,285,266	\$45,263,793
End of Delivery Term	\$24,196,362	\$25,331,180

Funding is budgeted in the Power Revenue Fund's Fuel and Purchased Power Budget. Based on the full term of the PPA, assuming there is no exercise of any Purchase Option for the PPA, the estimated ratepayer impact is an increase of 0.004 cents per Kilowatt Hour (kWh), or \$0.018 per month for a typical residential customer.

## **BACKGROUND**

As LADWP is revamping its power generation portfolio to meet environmental, regulatory, and economic challenges, LADWP must continue to ensure reliable electricity service as it reduces greenhouse gas (GHG) emissions and transitions from energy sources based on fossil fuels to sustainable forms of renewable energy. The Integrated Resource Plan (IRP), which provides a future 20-year framework for forecasting energy supply and demand, along with the LADWP RPS, which requires LADWP to supply 25 percent of its energy from renewable resources by 2016 and 33 percent by 2020, together shape and guide LADWP's resource planning.

### **LADWP's RPS Policy**

The RPS Policy represents the guiding principles of the LADWP to implement renewable resources. The RPS Policy was amended in December 2013, to comply with regulatory requirements of the California Renewable Energy Resources Act, Senate Bill 2 (1X) (SB2 [1X]), which requires publicly owned utilities (POU's) such as the LADWP to supply 25 percent of its energy from renewable resources by 2016 and 33 percent by 2020.

### **LADWP's IRP**

The LADWP's IRP presents several potential strategies for meeting LADWP's regulatory mandates and policy objectives for increasing renewable energy generation, reducing GHG emissions, maintaining electric power service reliability, and minimizing the financial impact on ratepayers.

The IRP establishes key selection principles for renewable projects. Those are:

- Maintain a high level of electric service reliability by taking advantage of the geographic diversity of renewable projects
- Maximize the use of existing LADWP assets such as the Barren Ridge Switching Station and transmission lines

- Take advantage of the benefits of clustering resources to optimize efficiency for operations and maintenance of facilities
- Ownership or ownership options of projects using proven technology in strategic locations

Beacon50 meets all four IRP selection principles outlined above and will assist in LADWP meeting its RPS goals.

### Beacon50

Beacon50 is situated on the Beacon property, which LADWP acquired in December 2012, from a solar developer. Comprised of approximately 2,500 acres, Beacon is located 14 miles north of Mojave, CA along Highway 14. Included in the purchase were documents such as the Environmental Impact Report, CUP, including Mitigation Measures as Environmental Restrictions, geological, agricultural and biological studies, hydrology reports and preliminary engineering designs.

In order to expedite the completion of the project, LADWP will engineer, procure, construct, and maintain the Beacon infrastructure which includes the 230 kV Beacon Substation, a three-mile 230 kV transmission line connecting the Beacon Substation to LADWP's existing Barren Ridge Switching Station, a main access road, and a 34.5 kV collector system that connects the solar site to the Beacon Substation.

The PPA has a 25-year term, while the ground lease allows for a 7-year extension beyond 25 years to permit the developers to claim certain tax credits and depreciation. The Ground Lease sets the base rent for each of the sites at \$1/year, and after year 5, can be potentially adjusted if the terms of the PPA and Lease have materially changed.

The PPA and Option Agreement require that Hecate Energy Beacon #4 LLC obtain the consent of LADWP prior to any transactions that result in a change in control. A change in control is defined to include (1) any transaction in which in excess of 50% of the equity ownership of the seller or parent entit(ies), or the holding companies that directly or indirectly control such entities is transferred to another person, (2) any merger or consolidation in which the members of any of such entities own less than 50% of the equity ownerships in the surviving entity, (3) a disposition of all or substantially all of the assets of any such entity, or (4) the dissolution or liquidation of any such entity. A change in control does not include a tax equity investment in which a tax equity investor obtains less than 100% of the equity interests.

The Beacon property is divided into five solar sites as shown in **Figure 1** with each site varying in acres and MW sizes. The MW size for each site is as follows:

Site 1 = 56 MW  
 Site 2 = 48 MW  
 Site 3 = 56 MW  
 Site 4 = 50 MW  
 Site 5 = 40 MW

The Beacon50 project is on Site 4. Hecate, the solar developer, will design, engineer, procure, construct, and maintain solar photovoltaic panels. Each site will generate and deliver renewable power by interconnecting to LADWP's 34.5 kV collection system.

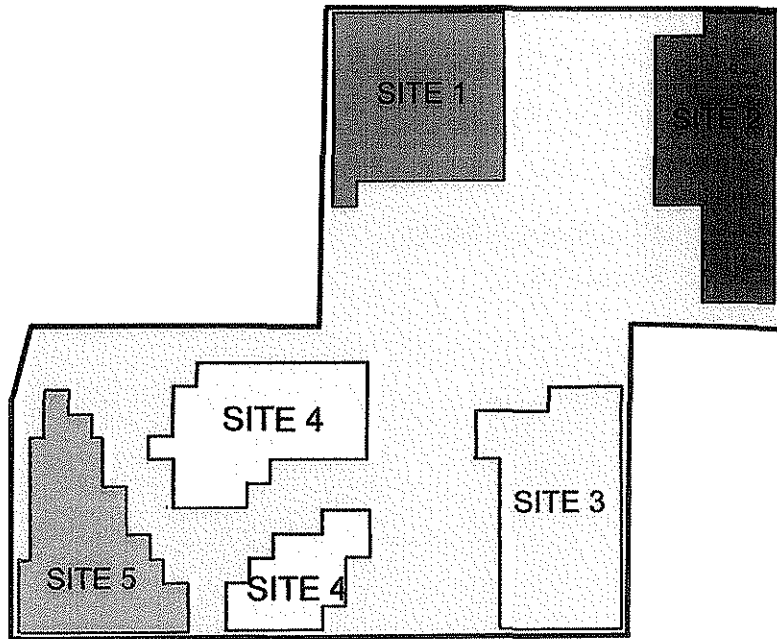


Figure 1

### **ENVIRONMENTAL DETERMINATION**

As the Beacon Solar Project was originally proposed as a private development and required a 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 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. Your Honorable Board previously satisfied its requirements as a Responsible Agency under CEQA.

### **CITY ATTORNEY**

The Office of the City Attorney reviewed and approved the Beacon50 Agreements and the Board Resolution as to form and legality.

## **ATTACHMENTS**

- Procurement Summary
- Resolution
- Ordinance
- Agreements
  - Power Purchase Agreements
  - Option Agreements
  - Ground Lease Agreements
  - Interconnection Agreements
  - Attachment A, Executed Kern-Beacon MOU
  - Attachment C, Mitigation Measures

## PROCUREMENT SUMMARY

1.	Recommended Vendors: Hecate
2.	Procurement Type: Request for Proposal
3.	Procurement Details: A. Contract Status: New B. Bid Advertisement Date: November 8, 2013 C. Pre-Bid Conference Date: November 18, 2013 D. Number of Downloads of Solicitation: 144 E. Number of Bids Submitted: 12 F. Number of Bids/Proposals Received: 12 G. Protest Received: No
4.	Buyer Assigned: Thuy Mauge
5.	Contract Administrator: Roberto Sarmiento
6.	LADWP System: Power
7.	Contact Person for Item: Roberto Sarmiento

### A. Evaluation of Proposals

Proposals that were submitted to RFP No. 90167 were evaluated based on compliance with the Los Angeles City and LADWP mandatory requirements, management approach, technical approach, energy output and price.

### B. Contract/Vendor History

The solar developer being recommended does not have prior work experience with LADWP.

### C. Local Business Preference Program (LBPP)

The Local Business Preference Program does not apply to this project.

### D. Additional Outreach Efforts Taken

In addition to the original bid list, the following outreach efforts were taken:

- The bid was posted on the LADWP website and the City of Los Angeles Business Assistance Virtual Network (LABAVN) website.
- The bid was electronically advertised on the Electronic Request-Solicit-Procure System (eRSP) for direct download.

**E. Small Business Enterprise (SBE)/Disabled Veterans Business Enterprise (DVBE)/Minority Business Enterprise (MBE)/Woman Business Enterprise (WBE)/Other Business Enterprise (OBE) Subcontracting Participation**

It is the policy of the Department to provide SBE's, DVBE's, Disadvantaged Business Enterprises (DBE's), Women Business Enterprises (WBE's), Minority Business Enterprises (MBE's), and all Other Business Enterprises (OBE's) an equal opportunity to participate in the performance of all Department contracts.

The Department's annual goals for SBE/DVBE participation in performance of its contracts are 20 percent for SBE's and 3 percent for DVBE's.

Each developer shall assist LADWP in implementing this policy by taking all reasonable steps to ensure that all available business enterprises, including SBE's and DVBE's, have an equal opportunity to compete for and participate in this Project.

**ORDINANCE NO. \_\_\_\_\_**

An Ordinance approving a power purchase agreement, purchase option for a solar powered generation facility, and an interconnection agreement for the purchase of electric energy between the City of Los Angeles, acting by and through the Department of Water and Power (LADWP), and Hecate Energy Beacon #4 LLC, (LADWP No. BP 14-012).

**THE PEOPLE OF THE CITY OF LOS ANGELES  
DO ORDAIN AS FOLLOWS:**

Section 1. Pursuant to Los Angeles City Charter Sections 674(a)(1) and (2), the City of Los Angeles hereby approves the agreement LADWP No. BP 14-012, which includes a power purchase agreement, purchase option for a solar powered generation facility, an interconnection agreement for the purchase of electric energy, and other agreements and documents attached thereto, all approved by the Board of Water and Power Commissioners by the adoption of Resolution No. \_\_\_\_\_, that is on file with the City Clerk.

Sec. 2. The Board of Water and Power Commissioners is authorized, without further approval by the City Council, to act on and approve all future amendments to the agreements for LADWP No. BP 14-012, provided that such amendments are ministerial and administrative in nature and do not increase the costs or extend the term of said agreements.

Sec. 3 The City Clerk shall certify to the passage of this Ordinance and have it published in accordance with Council policy, either in a daily newspaper circulated in the City of Los Angeles or by posting for ten days in three public places in the City of Los Angeles: one copy on the bulletin board located at the Main Street entrance to the Los Angeles City Hall; one copy on the bulletin board located at the Main Street entrance to the Los Angeles City Hall East; and one copy on the bulletin board located at the Temple Street entrance to the Los Angeles County Hall of Records.

I hereby certify that this ordinance was passed by the Council of the City of Los Angeles, at its meeting of \_\_\_\_\_.

HOLLY L. WOLCOTT, Interim City Clerk

By \_\_\_\_\_ Deputy

Approved \_\_\_\_\_

\_\_\_\_\_  
Mayor

Approved as to Form and Legality

MICHAEL N. FEUER, City Attorney

By \_\_\_\_\_  
JEAN-CLAUDE BERTET  
Deputy City Attorney

Date: \_\_\_\_\_

File No. \_\_\_\_\_