



MICHAEL N. FEUER
CITY ATTORNEY

REPORT NO. R 15 - 0 1 4 6
MAY 2 9 2015

REPORT RE:

**DRAFT ORDINANCE APPROVING THE NAVAJO GENERATING STATION ASSET
PURCHASE AND SALE AGREEMENT, TERM ENERGY TRANSACTION
CONFIRMATION AGREEMENT, FIRM ENTITLEMENT AGREEMENT AND ENERGY
EXCHANGE AGREEMENT BY AND BETWEEN THE CITY OF LOS ANGELES
ACTING BY AND THROUGH THE DEPARTMENT OF WATER AND POWER AND
THE SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER
DISTRICT**

The Honorable City Council
of the City of Los Angeles
Room 395, City Hall
200 North Spring Street
Los Angeles, California 90012

Honorable Members:

This Office has prepared and now transmits for your consideration the enclosed draft ordinance, approved as to form and legality. This draft ordinance provides for the approval of: (1) Navajo Generating Station Asset Purchase and Sale Agreement (APSA); (2) Term Energy Transaction Confirmation Agreement (Energy Agreement); (3) Firm Entitlement Agreement, and (4) Energy Exchange Agreement, by and between the City of Los Angeles, acting by and through the Department of Water and Power (LADWP), and the Salt River Project Agricultural Improvement and Power District (SRP), and limited authority for the Board of Water and Power Commissioners (Board) to amend such agreements. The APSA provides for LADWP's divestiture of its ownership interests in the coal-fired Navajo Generating Station (NGS), and the associated agreements are in furtherance of that divestiture.

Background

NGS is a coal-fired generating station located near Page, Arizona. It is comprised of three units of 750 MWs each, a coal train transportation system from Kayenta Mine to the power plant, an ash landfill area, a water pumping station near Lake Powell, and a water pipeline system. NGS began operation in 1974 and has operated continuously ever since. LADWP's entitlement of the NGS generation capability is 21.2 percent which corresponds to 477 MWs of output. The other five co-owners of NGS are the United States Department of Interior Bureau of Reclamation (Bureau of Reclamation), Arizona Public Service Company, NV Energy, Tucson Electric Power Company and SRP.

In addition to existing and/or impending federal requirements to control Hazardous Air Pollutants, Regional Haze, Greenhouse Gases and Coal Combustion Residues, the State of California has already imposed restrictions (Senate Bill 1368 and Assembly Bill 32) that effectively prohibit the continued participation of LADWP in NGS from and after December 23, 2019. It is imperative for LADWP to divest its interests in NGS and focus on cleaner sources of generation.

There are two transmission systems connecting to NGS. The Western Transmission System connects NGS to McCullough Substation in Nevada via Crystal Substation allowing power delivery to Southern California. The Southern Transmission System connects NGS to Westwing Substation in Arizona via Moenkopi Substation allowing power delivery to the City of Phoenix and its vicinity. Each transmission system has different sets of co-owners with LADWP as partial owner of the Western Transmission System and the NGS-Moenkopi portion of the Southern Transmission System.

Despite the sale of the NGS Assets, LADWP will keep its ownership interests in the NGS transmission systems to retain its transmission diversification and accessibility in the Western region, and to provide a path for power transportation from new sources of renewable energy potentially developed in the Southwest.

As part of the divestiture transaction, LADWP will receive a payment of \$10,000,000 upon sale closing subject to a limited market price adjustment at the end of 2019 in accordance with an agreed upon methodology incorporated in the APSA. The adjustment could result in a lesser or greater final payment, but in no event will LADWP receive less than \$1,000,000 for the divestiture. Additionally, LADWP will receive all of SRP's ownership interests in the former Mohave Generating Station (Mohave Assets) and the Eldorado Transmission System. The Mohave Assets include a former coal-fired generating station located in Laughlin, Nevada. That station is now completely decommissioned with all generating facilities and equipment removed from the plant site. The plant site consists of approximately 2,500 acres of land with access to cooling water from the Colorado River and is a prime candidate for redevelopment as a

renewable energy plant. The Eldorado Transmission System connects the Mohave Assets to Mead Substation, which in turn connects to the LADWP transmission network. These two facilities are currently co-owned by LADWP, SRP, Southern California Edison and NV Energy.

Enabling Charter Sections

Charter Section 674(a)(1) provides that, subject to approval by ordinance, the Board shall have the power to contract with the United States, or any of its agencies, any state or state agency, and any corporation, public or private, located inside or outside of the City or State of California for the construction, ownership, operation and maintenance of facilities for the generation, transformation and transmission of electric energy. Charter Section 674(a)(2) provides that, subject to approval by ordinance, the Board shall have the power to approve contracts for the sale, purchase, exchange or pooling of electric energy or electric generating capacity. Los Angeles Administrative Code Section 7.71(b) provides that subject to approval by ordinance, the Board shall have the power to sell property valued at, or property anticipated to result in a sale in excess of \$1,000,000 and which is a sale on credit. Additionally, pursuant to Charter Section 101, the Council has the power to authorize the Board to amend the agreements without further Council approval.

CEQA Findings

In accordance with the California Environmental Quality Act (CEQA), it has been determined that the subject APSA and associated agreements are exempt pursuant to the General Exemption described in CEQA Guidelines Section 15061(b)(3). General Exemptions apply in situations where it can be seen with reasonable certainty that there is no possibility that the activity in question may have a significant effect on the environment.

Furthermore, this transaction involves facilities outside of California and within the jurisdiction of federal laws. An environmental assessment that is in compliance with the National Environmental Policy Act will be completed and approved by the Bureau of Reclamation prior to the conclusion of the sale.

Council Rule 38 Referral

This draft ordinance has been presented to the Board of Water and Power Commissioners pursuant to Council Rule 38 and its comments have been incorporated or resolved with LADWP.

If you have any questions regarding this matter, please contact Deputy City Attorney Vaughn Minassian at (213) 367-5297. He or another member of this Office will be present when you consider this matter to answer any questions you may have.

Very truly yours,

MICHAEL N. FEUER, City Attorney



By

DAVID MICHAELSON
Chief Assistant City Attorney

DM/VGM:me
Transmittal