



Los Angeles  
Department of  
Water & Power

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

BOARD LETTER APPROVAL

A handwritten signature in blue ink, appearing to read 'David H. Wright'.

**DAVID H. WRIGHT**  
Senior Assistant General Manager  
Power System

A handwritten signature in blue ink, appearing to read 'Marcie L. Edwards'.

**MARCIE L. EDWARDS**  
General Manager

**DATE:** May 13, 2015

**SUBJECT:** Los Angeles Department of Water and Power's (LADWP) Springbok 2 Solar Farm Power Sales Agreement (PSA) No. BP 15-003 and Springbok 2 Solar Farm Agency Agreement (AA) No. BP 15-004 with Southern California Public Authority (SCPPA), Real Estate License Agreement (License) No. BP 15-010 with 63SU 8ME, LLC (8ME), and Amended and Restated Real Estate License Agreement No. BP 14-016 with 62SK 8ME LLC for the Springbok 1 Solar Farm (Springbok 1 A&R License)

**SUMMARY**

PSA No. BP 15-003 is to authorize LADWP to purchase from SCPPA all of the solar energy, 150 Megawatts (MWs), it delivers, associated environmental attributes, and generating capacity rights of the Springbok 2 Solar Farm Project (Project) for 27 years, with an option by either party to extend to 30 years. AA No. BP 15-004 provides for the designation of LADWP as the Project Manager to administer the Project on behalf of SCPPA. The Project will be located in western Kern County, California and will connect directly to the LADWP transmission system at the Beacon Substation. The Project is the second phase of the Springbok Solar Project (Springbok 1 was approved by the Board of Water and Power Commissioners (Board) in September 2014).

The Resolution also authorizes LADWP to apply the energy and environmental attributes received under the PSA towards the compliance targets of LADWP's Renewables Portfolio Standard Policy and Enforcement Program (RPS Policy).

The Resolution authorizes LADWP to license real property on the Beacon site to 8ME for the Gen-Tie Line to connect Springbok 2 Solar Farm to the Beacon Substation. License No. BP 15-010 provides for the grant of this license.

Finally, the Resolution authorizes an Amended and Restated Real Estate License Agreement No. BP 14-016 for the Springbok 1 Solar Farm. LADWP required an amendment to Real Estate License No. BP 14-016 to make certain technical changes to account for the shared use between the Springbok 1 and Springbok 2 Solar Farms of the Gen-Tie Line connecting both facilities to the Beacon Substation.

City Council approval is required according to Charter Section Nos. 674, 606, and 607.

### **RECOMMENDATION**

It is recommended that your Honorable Board adopt the attached Resolution recommending City Council's approval, by Ordinance, of PSA No. BP 15-003 for solar capacity, and of AA No. BP 15-004 for project management services with SCPPA. Per Charter Section Nos. 674 (a)(1)(A) and (a)(2), City Council approval by Ordinance for the purchase of the electric energy in the PSA and the designation of LADWP as Project Manager for the term of the Project is required.

Additionally, per Charter Section 606, City Council approval is required by Resolution for License No. BP 15-010 and Amended and Restated License No. BP 14-016, both of which have total terms up to 35 years and are in the best interest for the City of Los Angeles in accordance with Charter Section No. 607. The License grants the use of 1,157,000 square feet of LADWP Property for 8ME (Seller) transmission of energy from the Project to LADWP's Beacon Substation.

### **ALTERNATIVES CONSIDERED**

Through the SCPPA Request for Proposal (RFP) process, the Project was selected as an addition to LADWP's generation portfolio because the Project:

- Utilizes existing transmission capacity at the Beacon Substation.
- Is high in LADWP's Open Access Same-Time Information System (OASIS), queue for interconnection requests.
- Has excellent solar insolation due to location.
- Is located in a region where LADWP has existing operation and maintenance crews.
- Has an offer of ownership opportunity after tax benefits are expired.

The impact of not recommending this Project could cause LADWP to miss the California Energy Commission (CEC) requirements for 25 percent renewable energy in 2016 and 33 percent renewable energy in 2020. The only alternative available is for LADWP to start negotiations with another developer for renewable energy that may not meet the criteria mentioned above and could potentially be at less favorable terms, due to pending Investment Tax Credit expiration or modifications.

## FINANCIAL INFORMATION

The price of energy under this agreement is \$58.65 per Megawatt-hour (MWh). This result in total payments of \$699 million over the term and an average expected expenditure of \$23.3 million annually. 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 the City of Los Angeles by supplying them with renewable energy and reducing the consumption of fossil fuels and emissions.

By being in commercial operation by December 2016, this Project has the additional financial benefit of receiving from the Seller a discount in the cost of the renewable energy based on its ability to take advantage of Investment Tax Credit (ITC) not available to governmental entities such as LADWP.

Funding is budgeted in Power Revenue Fund's Power and Fuel Purchase Division's budget. There is expected to be no rate impact for this facility for the ratepayer over the term of the PSA.

The PSA and PPA allows for the option to purchase the Project at the end of the 15-, 20-, 27- or 30-year anniversary of the Commercial Operating Date (COD) for the entire Project, provided that LADWP exercises notice during the six month period commencing on the date that is eighteen months prior to the aforementioned time periods (Purchase Option).

The Purchase Option Price will be based on the Fair Market Value (FMV) of the facility at the time of purchase, with a price that will be within the range of the minimum and maximum purchase price, summarized below.

The Minimum Purchase Price and the Maximum Purchase Price shall be as follows, corresponding to the Purchase Option Opportunity arising in connection with the applicable anniversary of the COD.

COD Anniversary	Minimum Purchase Price (\$ millions)	Maximum Purchase Price (\$ millions)
15 <sup>th</sup> Anniversary	184.0	211.7
20 <sup>th</sup> Anniversary	137.0	157.5
27 <sup>th</sup> Anniversary	58.0	69.6
30 <sup>th</sup> Anniversary	49.2	59.1

The FMV for the Purchase Option will be determined by a qualified appraiser taking into account all facility assets and liabilities, lease obligations, disclosure schedules, and any remaining obligations. If the Purchase Option Price is less than the Minimum Purchase Price during that Purchase Option Opportunity, then the Seller is obligated to sell the Project to SCPA at the Minimum Purchase Price.

## BACKGROUND

### 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 (SB)2 (1X) (SB2 [1X]), which requires publicly owned utilities (POUs), such as the LADWP, to supply 25 percent of its energy from renewable resources by 2016 and 33 percent by 2020. The RPS Policy was amended in accordance with Section No. 399.30(e) of the Public Utilities Code (PUC).

### LADWP's Integrated Resource Plan (IRP)

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

The IRP establishes key selection principles for renewable projects, they 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 Beacon Substation 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.
- Maintain options/flexibility.

The LADWP rigorously evaluates each potential strategy to identify and recommend the best overall tactical plan to meet these key objectives.

### Selection Criteria

The Seller's project was chosen based on a detailed comparison of each of the project submittals with LADWP's selection criteria. These selection criteria include:

- Total Delivered Cost to Load Center
- Transmission Availability and Expected Losses
- Project Capacity and Expected Energy Delivery
- Clustering of Resources to Maximize Operational and Maintenance Efficiency
- Level of Existing Site Control
- Level of Environmental Review
- Use of Trained and Qualified Labor

- Expected COD
- Experience in Developing Utility-Scale Solar Projects
- Level of Financial Guarantee

By using a weighted average scoring matrix of these criteria, LADWP determined that the Seller's Project provided the best overall value to LADWP's ratepayers.

### SCPPA

SCPPA is a non-profit joint power agency formed in 1980 to facilitate joint power and transmission projects for the benefit of the Southern California municipal utilities. SCPPA's members include LADWP, the cities of Anaheim, Azusa, Banning, Burbank, Cerritos, Colton, Glendale, Pasadena, and Riverside and Imperial Irrigation District. On April 4, 2006, the Board approved the SCPPA Phase I Development Agreement No. 96125-76 under Resolution No. 006-157 (Phase I Agreement), subsequently superseded and replaced by the Phase II Renewable Development Project created by adoption of Resolution No. 2012-008, which authorized LADWP to participate with other members of SCPPA for the purpose of investigating and performing due diligence on potential new renewable resource options.

On January 24, 2012, SCPPA issued an RFP, a competitive selection process, for the purchase and/or acquisition of renewable energy resources. LADWP jointly participated with multiple municipal utilities for the purpose of acquiring renewable energy resources. Over 300 proposals were received from several firms having the capability to provide renewable energy from sources, such as solar, wind, biomass, landfill gas, and geothermal. This is an open RFP, which allows new proposals to be submitted on a continuous basis and existing proposals to be refreshed with current prices and terms. This Project was refreshed a number of times since its initial submittal, always with terms more favorable to LADWP.

8ME responded with a 150-MW solar project located in western Kern County, California. This project will have a COD of June 2016.

Through separate PSAs between SCPPA and each participant, SCPPA sells all of the renewable energy received from the Project and passes through to each participant in accordance with its respective output entitlement share, the rights, benefits, and obligations provided under the PPA. LADWP will be the only participant.

### PPA Between SCPPA and 8ME

Under the PPA, SCPPA will receive energy from the Project for the 27-year term and up to 30 years if the option is exercised. The option to extend the term to 30 years may be exercised by either party under the PPA, and the exercise of the option by Seller does not require SCPPA's consent. The PSA, however, requires Board approval before the option may be exercised by SCPPA. In addition, SCPPA has the option to purchase the Project:



- (i) during the fifteenth year after the COD
- (ii) during the twentieth year after the COD
- (iii) at the end of the twenty-seventh year after the COD
- (iv) at the end of the thirtieth year after the COD

SCPPA could choose to exercise the Early Buyout Option (EBO) at the end of the 15-, 20-, 27-, or 30-year anniversary of the COD, at the Purchase Option Price discussed above, at which point the PPA would terminate and SCPPA would enjoy ultimate ownership of the Project.

If SCPPA acquires ownership of the Project as provided under the PPA, SCPPA will transfer ownership of the Project to the LADWP as provided in the PSA.

In addition to the EBO rights, the PPA gives SCPPA a right of first offer and right of first refusal for any proposed sale of the Project or any proposed sale of additional energy that may be developed in the future that is in excess of, and separate from, the Springbok 1 and Springbok 2 Projects and that will deliver the energy through the Springbok collector substation or the Beacon substation.

Under the terms of the PPA, SCPPA contractually agrees to the following terms:

- The purchase of 150 MWs of renewable energy, for an average of 397,026 MWhs of generation per year. This will enable the LADWP to meet approximately 1.79 percent of LADWP's resource requirements.
- The renewable energy will be delivered through the Beacon Substation, which is directly connected to LADWP's balancing authority for its transmission system.
- LADWP will receive all of the renewable energy delivered, the associated environmental attributes, and the rights, benefits and obligations provided under the PPA.

According to SB2 (1X), eligible renewable energy resources procured June 1, 2010, or after, are placed into three Portfolio Content Categories (PCC). PCC 1 must represent an increasing proportion of renewable energy, until 75 percent of this energy is achieved by 2020. PCC 1 energy is achieved if the renewable energy resource is interconnected with a California Balancing Authority. LADWP is a California Balancing Authority under SB2 (1X). Here, the Project will be interconnected to LADWP's balancing authority via a five-mile transmission line and interconnects with LADWP's Beacon Substation.

During each contract year, the Project must deliver facility energy in an amount equal to 75 percent of the Annual Contract Quantity for such period. To the extent there is a shortfall of guaranteed energy delivered, that replacement energy will be made-up in the following contract year.

SCPPA is guaranteed an annual delivery of 297,770 MWh of energy, at a fixed rate of \$58.65 per MWh, including the green energy attributes, with no annual escalation factor.

The Expected Average Annual Generation of the Project is 397,026 MWh. The price for the excess energy that is in excess of 120 percent of the Expected Annual Generation energy will be \$20.53 per MWh. This price includes environmental attributes.

The price for startup and test energy delivered before the commercial operation date will be \$52.79 per MWh. This price includes environmental attributes.

The estimated cost of the renewable energy and environmental attributes purchases over the 27-year term and 3-year option that results in a total PPA term up to 30 years is expected to be up to \$699M. This estimated cost assumes that the Early Buyout Option (EBO) was not exercised.

The expected COD of the facility is currently expected to occur prior to the expiration of the Federal Investment Tax Credits (December 31, 2016). If the Federal Investment Tax Credits expire prior to the Project COD, LADWP will pay the same cost for energy, whether or not the Federal Investment Tax Credits expire prior to the COD.

#### PSA between SCPPA and LADWP No. BP 15-003

Under the PSA, LADWP contractually agrees to mutual covenants and agreements in order to pay SCPPA for its costs of energy and capacity of the Project. The estimated cost of the renewable energy and environmental attributes purchases over the 30-year term of the PSA is expected to be up to \$699 million, if the EBO is not exercised. In addition, the PSA:

- Identifies the roles and obligations of SCPPA and LADWP including, but not limited to, project deliverables, project manager, setting up of an annual budget, and reporting requirements.
- Establishes LADWP as the Project Manager for the purpose of project control, communication, and coordination with SCPPA.
- Establishes payment mechanisms including, but not limited to, payment pledges, charges and billing procedures, and interest payments.
- Establishes the rights and obligations of SCPPA and LADWP under the PSA to deliver energy, capacity, environmental attributes, and exercise of purchase options.
- Encompasses other agreements and obligations including, but not limited to, nonperformance and payment defaults, and liability conditions to termination or amendments.
- Establishes the PSA term for a period to cover obligations of SCPPA during the 30-year term and the pass-through payments for the total 30-year term, and additional time required for SCPPA administrative and financial matters.

Under the terms of the PSA, LADWP contractually agrees:

- To purchase test energy from the Project (at a cost of \$52.50 per MWh) expected to begin in mid-2016, and an average of 150 MW of solar energy from the time the Project is completed for a period of 30 years. The Project is expected to have a measured initial generation capacity factor of up to 34 percent with a 0.7 percent annual degradation. LADWP expects to receive on average 397,026MWhs annually from this renewable energy resource.
- To pay for the average annual delivery of 397,026 MWh of energy, at a fixed rate of \$58.65 per MWh, with no annual escalation factor.
- To pay for the excess energy that is in excess of 120 percent of the Expected Annual Generation energy at a cost of \$20.53 per MWh. This price includes environmental attributes.
- The price for startup and test energy delivered before the commercial operation date will be \$52.79 per MWh. This price includes environmental attributes.

#### AA between SCPPA and LADWP No. BP 15-004

The AA provides for the designation of LADWP as the Project Manager to administer the Project on behalf of SCPPA. SCPPA maintains a very small staff to minimize administrative and general fees charged to the projects, and the largest Participant of each project typically acts as SCPPA's agent for project management and administration. In this case, LADWP would be SCPPA's agent for project management and administration.

Under the AA, LADWP contractually agrees to act as the Project Manager for SCPPA, in order for SCPPA to carry out activities necessary to place the Project in operation. The mutual covenants and agreements addressed by the AA include:

- Providing for the designation of LADWP as the Project Manager to administer all Project Agreements on behalf of SCPPA and for the benefit of LADWP and sets forth mutual covenants and agreements between SCPPA and LADWP in order to enable SCPPA to carry out activities necessary for the planning, development, acquisition, maintenance, improvement, administration, and operation of the Project on behalf of SCPPA.
- Identifying the roles and obligations of SCPPA and LADWP in connection with project reviews, monitoring, accounting, billing, reporting, and controls, including the setting up of an annual budget and reporting requirements.



- Establishing payment mechanisms, and billing procedures including, but not limited to, payments between LADWP and SCPPA for costs, and charges, related to the Project.
- Establishing that LADWP will utilize its own procurement rules and policies unless other rules and policies are determined to be in the best interest of the Project.
- Establishing that the term of the AA is the same as the PSA, which is inclusive of the 30-year Springbok 2 Solar Farm PPA term, facility construction, and additional time required for SCPPA administrative and financial matters.

#### Springbok 1 A&R License No. BP 14-016

The Board and City Council previously approved Real Estate License Agreement No. BP 14-016 for the Springbok 1 Solar Farm. The Springbok 1 A&R License No. BP 14-016 contains technical amendments that account for the shared use of the Gen-Tie Line connecting the Springbok 1 and Springbok 2 Solar Farms to the Beacon Substation. For example, there are changes related to the timing for decommissioning and removing the Gen-Tie line and related facilities following the expiration or termination of the license, and changes related to the allocation of certain costs between the Springbok projects for the relocation of the Gen-Tie Line and related facilities if LADWP requests that that the Gen-Tie line and related facilities be moved for the benefit of LADWP. In addition, the amendment reflects the assignment of License Agreement No. BP 14-016 from 8minutenergy Beacon Solar, LLC to the Springbok 1 project entity, 62SK 8ME, LLC.

#### Risk Management Provisions

In the event that Seller defaults on its lease obligation at any time during the term of the PPA, the PPA allows SCPPA to step in and assume lessee's rights.

The PPA provides performance securities for various stages of construction and through the life of the facility, which SCPPA can draw upon if certain conditions are not met. From the effective date of the PPA to the Facility COD, the performance security required is \$6.93 million. After Facility COD, the performance security required increases to \$22.5 million, which is the level of security maintained until the end of the PPA term.

If there is a shortfall of energy that has not been made up by the following contract year, Seller shall, pay SCPPA, as liquidated damages, an amount equal to the time weighted average of the sum of (1) the Market Price at SP-15, plus (2) the Green Value.

There are four major milestones that the developer is required to meet; otherwise, liquidated damages (LDs) funded by the performance security will be collected.

- Seller must deliver meet the Environmental Compliance Milestone by September 1, 2015, and if that date is missed, SCPPA may collect LDs at the rate of \$17,104 per day.
- Seller must deliver a Notice to Proceed to its construction contractor allowing it to begin construction on the Project by November 30, 2015, and if that date is missed, SCPPA will collect LDs at the rate of \$17,104 per day.
- Seller has to have the first MW of solar capacity installed by October 31, 2016, and if that date is missed, SCPPA will collect LDs at the rate of \$17,104 per day.
- The last milestone date is the Guaranteed COD which is December 31, 2016, and if that date is missed SCPPA will collect LDs at the rate of \$17,104 per day.

Several provisions protect LADWP's participation in the Project. To ensure the Project is built according to design specifications, prior to the Project COD, LADWP has secured rights to review and inspect the design and construction of the facility, including:

- Review of designs
- Factory inspections
- Quality Assurance inspections

After the COD, SCPPA has priority step-in rights to the Project under the PPA. The Project includes such hard assets as:

- Solar panels
- Inverters
- Land
- Transmission Lines
- Structures
- Environmental Permits

#### City Administrative Officer (CAO) Report

The CAO Report dated May 12, 2015, is attached.

#### **ENVIRONMENTAL DETERMINATION**

In accordance with the California Environmental Quality Act (CEQA), it has been determined that the entering into agreements with SCPPA to purchase power and provide project management services is 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 certainty that there is no possibility that the activity in question may have a significant effect on the environment.

## **CITY ATTORNEY**

The Office of the City Attorney reviewed and approved the Resolution, PSA, AA, License, and Amended and Restated License as to form and legality.

## **ATTACHMENTS**

- Resolution
- Draft Ordinance
- Power Sales Agreement No. BP 15-003
- Agency Agreement No. BP 15-004
- Real Estate License Agreement No. BP 15-010
- Amended and Restated License Agreement No. BP 14-016
- City Administrative Officer Report