

ENERGY AND ENVIRONMENT COMMITTEE REPORT and ORDINANCE FIRST CONSIDERATION relative to proposed Navajo Generating Station Purchase and Sale Agreement, Term Energy Transaction Confirmation Agreement, Firm Entitlement Agreement, and Energy Exchange Agreement.

Recommendations for Council action, SUBJECT TO THE APPROVAL OF THE MAYOR:

1. CONCUR with the Board of Water and Power Commissioners' action of May 19, 2015, Resolution No. 015-214, authorizing execution of the following agreements:
  - a. Navajo Generating Station Asset Purchase and Sale Agreement
  - b. Term Energy Transaction Confirmation Agreement
  - c. Firm Entitlement Agreement
  - d. Energy Exchange Agreement
2. PRESENT and ADOPT the accompanying ORDINANCE approving the sale of the Los Angeles Department of Water and Power's (LADWP) undivided ownership interests in all of the assets constituting the coal-fired generation of the Navajo Generating Station to the Salt River Project Agricultural Improvement and Power District.

Fiscal Impact Statement: The City Administrative Officer (CAO) reports that approval of Resolution No. 015-214 will provide revenue, an exchange of assets, and energy purchases. There is no impact to the City's General Fund. The proposed Agreement complies with the Department's adopted Financial Policies.

Community Impact Statement: None submitted.

Summary:

On June 3, 2015, your Committee considered a May 20, 2015 Board, May 1, 2015 CAO, May 29, 2015 City Attorney, and May 28, 2015 Office of Public Accountability (OPA) reports, Resolution 015-214, and Ordinance relative to proposed Navajo Generating Station Purchase and sale agreement, Term Energy Transaction Confirmation Agreement, Firm Entitlement Agreement, and Energy Exchange Agreement. According to the CAO, the LADWP is requesting approval of a proposed resolution authorizing the divestiture of the LADWP's 21.2 percent ownership interest in its coal fired Navajo Generating Station (NGS).

The NGS is a three unit, coal-fired generating plant located near Page, Arizona which the LADWP has had an ownership stake in since 1974. Pursuant to Charter Section 674, and the Los Angeles Administrative Code (LAAC) Section 7.71(b), Council approval by Ordinance is required. The proposed Resolution and Agreements have been reviewed by the City Attorney and approved as to form and legality.

The LADWP states that this action supports its coal reduction strategy as outlined in the Integrated Resource Plan (IRP). The divestiture of NGS also conforms to California legislative mandates

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including Senate Bill 1368 (SB 1368) - California Emission Performance Standards as well as Assembly Bill 32 (AB32) - California Global Warming Solutions Act of 2006. These legislative mandates essentially block the LADWP from utilizing coal generated energy from NGS beyond its current license term ending in 2019.

The purchaser of the NGS assets is the Salt River Project Agricultural Improvement and Power District (SRP), the operating agent and a co-owner of the NGS holding a 21.7 percent ownership interest. The SRP offer will provide the LADWP with an early divestment opportunity that includes a monetary payment, an exchange of assets, and a geothermal energy purchase agreement.

The OPA also reviewed the proposed agreements and The NGS exit agreements are reasonable in their terms and conditions, and constitute a fair deal for ratepayers given the unfavorable negotiation context unique to this facility. Over a range of assumptions, the implied cost of carbon emissions reduction falls between \$9 and \$12 per metric ton above the market price of carbon emissions, and is clearly reasonable. These implied carbon costs are less than those estimated at the time the City committed to an early exit strategy in 2013.

The risks associated with execution of these agreements are moderate, and mitigation of those risks has been sufficiently provided for in the proposed agreements. The sensitivity of rate impacts to carbon valuation assumptions is relatively low, posing little potential for forecast error in rates. The sensitivity of rate impacts to natural gas price estimate error is also low.

The LADWP has taken reasonable steps to maximize other asset values and made fair concessions to facilitate an over arching agreement. As such, the OPA reaches this conclusion on both a bundled and unbundled basis. In other words, OPA analyzed the coal-related terms on a stand-alone basis, and with other components like transmission agreements and geothermal facilities. The residual environmental liability the LADWP bears under these terms and conditions is reasonable, and consistent with industry practice.

Finally, the City Attorney stated that in regard to the proposed agreements, 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.

Furthermore, 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. Also, 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.

In regard to the California Environmental Quality Act (CEQA), it has been determined that the 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.

After further consideration, the Committee moved to recommend approval of Resolution No. 015-214 and associated Ordinance as detailed in the above recommendations. This matter is now submitted to Council for its consideration.

Respectfully Submitted,

ENERGY AND ENVIRONMENT COMMITTEE



<u>MEMBER</u>	<u>VOTE</u>
FUENTES:	YES
BLUMENFIELD:	YES
LABONGE:	ABSENT
HUIZAR:	YES
KORETZ:	YES

ARL  
6/3/15

**-NOT OFFICIAL UNTIL COUNCIL ACTS-**