



- Board of Directors
Engineering and Operations Committee

2/12/2013 Board Meeting

8-4

Subject

Authorize new agreements with the Southern California Edison Company for the sale of renewable energy from the Red Mountain and Venice Hydroelectric Power Plants; and adopt resolution to authorize execution and performance of the agreements

Executive Summary

This action authorizes renewable power sale agreements with the Southern California Edison Company (Edison) for energy deliveries from the Red Mountain and Venice Hydroelectric Power Plants, on terms provided in Metropolitan's bid and other terms agreed to by the General Manager and approved by the General Counsel, and adoption of a resolution authorizing execution and performance of the agreements commencing on November 1, 2013.

Timing and Urgency

On October 19, 2012, Edison notified Metropolitan that it will terminate the existing contract for the purchase of renewable energy from five of Metropolitan's hydroelectric plants on October 31, 2013. On November 15, 2012, Edison started accepting bids for its purchase of renewable energy from small generators. Only Red Mountain and Venice qualified for this program. Metropolitan submitted a bid for the two plants on December 20, 2012. Edison stated that it will notify the selected bidders on February 28, 2013. Selected bidders will have only until March 7, 2013, to submit executed agreements. This authorization is requested to enable Metropolitan to enter into power purchase agreements as described in this board letter if its bid is selected.

Details

On May 13, 2008, the Board authorized entering into a contract for the sale of renewable energy from Metropolitan's hydroelectric plants to Edison. Metropolitan and Edison executed a contract for four hydroelectric plants (a fifth plant was added later) with the provision that each party had the right to terminate the contract beginning five years after deliveries commenced on November 1, 2008. Otherwise, the term of the contract was for 15 years (until November 1, 2023).

On December 18, 2010, the California Public Utility Commission (CPUC) approved a new renewable energy procurement mechanism for the investor-owned utilities called the Renewable Auction Mechanism (RAM). The CPUC adopted RAM as the primary procurement process for small, renewable generation to promote competition, encourage the development of resources that can utilize existing transmission and distribution infrastructure, and contribute to the state's Renewable Portfolio Standard goals. RAM streamlines the procurement process through the use of standard or pro forma agreements that can be submitted to the CPUC for an expedited regulatory review.

On October 19, 2012, Edison submitted a notice to terminate the existing contract for renewable energy from five of Metropolitan's hydroelectric plants. In its termination letter, Edison encouraged Metropolitan to submit offers into its upcoming RAM for hydroelectric plants that have a nameplate capacity between 3 and 20 Megawatts (MW). Only two of the five hydroelectric plants under the existing contract with Edison qualify for the RAM--

Red Mountain at 5.9 MW and Venice at 10.1 MW. A future program with Edison may include hydroelectric plants rated at less than 3 MW.

Metropolitan submitted a bid for the sale of renewable energy from Red Mountain and Venice into the RAM on December 20, 2012. The RAM timeline requires Edison to notify winning bidders by February 28, 2013, and also requires those bidders to submit executed pro forma agreements by March 7, 2013. Edison may select the bid Metropolitan submitted; however, Metropolitan is under no obligation to execute the pro forma agreements.

Key Terms and Conditions

The key terms and conditions of the pro forma agreements include the following:

1. The agreements would have a term of ten years. The delivery of renewable energy would begin November 1, 2013. Edison would receive all environmental, capacity, and renewable attributes for the energy sold.
2. The bid price submitted was the same for both plants. This price was based on the existing contract's base price and uses a time-of-day pricing methodology. If Metropolitan is selected and executes the agreements, the total annual revenue would be similar to what would have been obtained under the existing contract. In calendar years 2011 and 2012, Metropolitan received revenues of \$4.8 million and \$3.1 million, respectively, from both Red Mountain and Venice.
3. Edison would continue providing the scheduling and other services it currently provides under the existing contract; however, Metropolitan would be required to provide more detailed and longer term energy forecasts.
4. Metropolitan would be required to provide more real-time monitoring and telemetry services than is currently required.

If Edison selects Metropolitan's bid and Metropolitan executes the pro forma agreements by March 7, 2013, then the next steps would be for Edison to execute the agreements by March 22, 2013, and Edison would file for CPUC approval by May 1, 2013.

Edison has not clarified whether certain operational requirements in the pro forma agreement will apply to hydroelectric plants, and it is unlikely that Edison will do so before making its selection of successful bidders. These requirements include: letters of credit or deposits for performance guarantees; ability of Edison to curtail generation; performance requirements applicable to certain types of intermittent renewable energy, like solar and wind power; and potential penalties for not meeting energy forecasts. If selected, Metropolitan will address these issues as follows:

1. Ensure any requirements for letters of credit or deposits are acceptable;
2. Ensure that any ability of Edison to curtail generation at Metropolitan's plants does not unreasonably impact operations;
3. Clarify that performance requirements applicable to certain types of intermittent renewable energy, like solar and wind power, will not apply to hydroelectric power; and
4. Limit any penalties for not meeting energy forecasts.

Depending upon the resolution of the above issues and after further review by the General Manager and General Counsel, Metropolitan would decide whether to execute pro forma agreements if selected by Edison. Metropolitan is under no obligation to execute any agreement, if Metropolitan is unable to obtain acceptable terms.

If Edison rejects Metropolitan's bid, or Metropolitan decides not to execute any agreement if selected, then Metropolitan will resume marketing the renewable output for Red Mountain and Venice Hydroelectric Power Plants along with the three other hydroelectric plants to other interested parties and will request board authorization to execute any new agreements in the future.

Policy

Metropolitan Water District Administrative Code Section 8122(e): General Manager's Contracting Authority in Specified Circumstances

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is categorically exempt under the provisions of CEQA and the State CEQA Guidelines. The proposed action involves entering into agreements associated with the operation of existing hydroelectric power plant facilities and the sale of renewable energy with negligible or no expansion of use and no possibility of significantly impacting the physical environment. Accordingly, the proposed action qualifies for a Class 1 Categorical Exemption (Section 15301 of the State CEQA Guidelines).

In addition, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

The CEQA determination is: Determine that pursuant to CEQA, the proposed action qualifies under a Categorical Exemption (Class 1, Section 15301 of the State CEQA Guidelines) and would not be subject to CEQA pursuant to Section 15061(b)(3) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the CEQA determination and

- a. Adopt the attached resolution; and
- b. Authorize the General Manager to enter into Renewable Auction Mechanism 3 Pro Forma Renewable Power Purchase and Sale Agreements with Edison under the terms described herein, with changes approved by the General Manager and General Counsel, for the sale of renewable output from the Red Mountain and Venice Hydroelectric Power Plants, if the General Manager determines the operational and financial requirements are acceptable.

Fiscal Impact: Estimated total annual revenues for both hydroelectric plants would be between \$2.4 million and \$5 million, depending on system demands and resulting generation. The revenues are expected to be similar to the existing contract, and more than double the revenue received prior to 2008.

Business Analysis: Provides Metropolitan with a stream of revenue under long-term agreements tied to the value of renewable energy that is greater than selling energy in a day-to-day market

Option #2

Do not authorize the execution of the agreements and direct staff to initiate new negotiations or submit bids into other programs with Edison or other parties.

Fiscal Impact: The fiscal impact of this option is unknown. If new agreements are not in place by the time the existing contract expires on October 31, 2013, Metropolitan could sell the energy into the daily power marketplace. Under this condition, the value of the environmental attributes of the energy would not be obtained and revenues would be less than with the proposed agreements.

Business Analysis: Completing negotiations for the sale of renewable power under long-term agreements may require more time. Without long-term agreements, the energy could be sold into the daily power markets. This arrangement may create increased power scheduling, management, and accounting activities for Metropolitan.

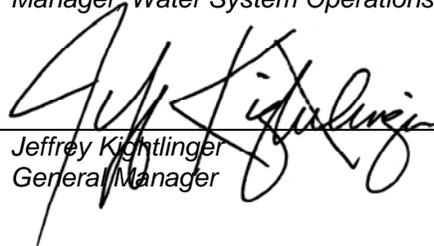
Staff Recommendation

Option #1


James F. Green
Manager, Water System Operations

2/1/2013

Date


Jeffrey Kightlinger
General Manager

2/4/2013

Date

Attachment 1 – Proposed Resolution Of The Board Of Directors Of The Metropolitan Water District Of Southern California Authorizing Execution And Performance Of Renewable Power Purchase And Sale Agreements With Southern California Edison Company

Ref# wso12623054

**RESOLUTION OF THE BOARD OF DIRECTORS OF
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
AUTHORIZING EXECUTION AND PERFORMANCE OF
RENEWABLE POWER PURCHASE AND SALE AGREEMENTS
WITH SOUTHERN CALIFORNIA EDISON COMPANY**

WHEREAS, The Metropolitan Water District Of Southern California (Metropolitan) desires to sell power from its Red Mountain and Venice Hydroelectric Power Plants to Southern California Edison Company (Edison);

WHEREAS, Edison's consideration of hydroelectric purchases is conducted via an auction process, known as the Renewable Auction Mechanism (RAM) and regulated by the California Public Utility Commission (CPUC);

WHEREAS, Metropolitan submitted a bid into Edison's RAM power auction for its Red Mountain and Venice Hydroelectric Power Plants on December 20, 2012; and

WHEREAS, if Metropolitan's bid is successful, Metropolitan may enter into power purchase agreements with Edison (Agreements), which will be based on Edison's pro forma, CPUC-approved "RAM 3 Pro Forma Renewable Power Purchase and Sale Agreement (Pro Forma Agreement)," a copy of which is available in the Executive Secretary's Office for review; the terms of the Pro Forma Agreement may be customized to Metropolitan's facilities, if Metropolitan is selected, subject to the agreement of the General Manager and approval of the General Counsel.

NOW THEREFORE, BE IT RESOLVED that Metropolitan is hereby authorized to enter into and perform one or more Agreements and to take any further actions required to execute and to deliver the Agreements pursuant to this Resolution, on the terms and subject to the conditions determined by the General Manager; and the General Manager is hereby authorized and empowered to execute, on behalf of The Metropolitan Water District of Southern California, the Agreements and such other documents or agreements and take such other actions as may be necessary to effect the provisions of this Resolution.

I HEREBY CERTIFY AND ATTEST that the foregoing is a full, true, and correct copy of a resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California at its meeting held February 12, 2013.

Secretary of the Board of Directors
of The Metropolitan Water District
of Southern California