THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

BOARD ACTION

- Board of Directors
  *Engineering and Operations Committee*

11/10/2015 Board Meeting

**8-4**

## Subject

Authorize entering into a new agreement with the California Department of Water Resources for the sale of renewable energy from five Hydroelectric Power Plants

## Executive Summary

This action authorizes the General Manager to enter into a new, five-year renewable power sale agreement with the California Department of Water Resources (DWR) for energy deliveries from the Corona, Diamond Valley Lake, Red Mountain, Temescal and Venice Hydroelectric Power Plants (HEPs) to replace an existing contract which will terminate December 31, 2015.

## Details

In the 1970s, Metropolitan initiated a program to develop conduit HEPs on its water distribution system. The plants were developed in phases, and today Metropolitan has 16 HEPs located throughout its distribution system. Four of the five plants covered by this new agreement were completed between 1983 and 1986. The fifth plant, Wadsworth Pumping Plant (Diamond Valley Lake), was placed into service in the summer of 2001 following the energy crisis by making conversions to allow the pump-motors to operate in reverse in a turbine-generate mode. These plants are located near electrical load centers and generate electricity as water moves through Metropolitan's distribution system to meet member agency water demands. Generation from these five plants had previously been sold to Southern California Edison under prior contracts until October 31, 2013, and is currently sold to Energy America until December 31, 2015.

These five HEPs meet the definition of eligible renewable energy projects under state law, and their energy output is certified California renewable. This recognition is important as California retail electric utilities are required to utilize certified renewable energy in their portfolio of energy resources. By 2020, existing law requires all retail sellers of electricity in the state of California to meet 33 percent of their retail electric demand using renewable energy resources. A new law signed on October 7, 2015, the Clean Energy and Pollution Reduction Act of 2015 (Senate Bill 350), increases the 33 percent requirement to 50 percent by the end of 2030.

**Marketing Efforts**

In an effort to maximize the value of the renewable energy, staff has been monitoring the renewable energy market and prices and solicited a request for offers from over 60 potential bidders for either a two- or five-year sale of renewable energy.

Metropolitan received four offers. An evaluation committee selected DWR based on weighted evaluation criteria that included price, term, buyer's financial stability, and past contract performance. DWR also provided the highest price. A five-year term was selected for this new agreement as this would position Metropolitan to be able to offer renewable energy to those retail utilities that need additional energy due to the new Senate Bill 350 requirements starting in 2021.

**Key Terms and Conditions**

The key terms and conditions of the new agreement are as follows:

1. An electric industry standard contracting document, Western Systems Power Pool (WSPP), will be utilized. Both Metropolitan and DWR are parties to the WSPP and Metropolitan has used it on numerous Colorado River Aqueduct energy transactions.
2. The new agreement would have a term of five years. The delivery of energy would begin January 1, 2016 and end December 31, 2020.
3. DWR would purchase the energy generated from the designated units and can claim all associated environmental and renewable attributes.
4. Estimated total annual revenue varies depending on the generation achieved at each of the five plants which have a combined total nameplate capacity of 51.4 megawatts. Annual generation from these five plants has varied based on water deliveries in the past five years (2010-2014) between 67.2–131.3 thousand megawatt hours.
5. The energy pricing under the new contract is based on the daily market energy price plus a fixed adder that escalates each year. The fixed adder represents the premium for the environmental and renewable attributes.
6. Estimated revenues will be approximately 70 percent over the daily market energy prices.
7. Based on recent generation amounts and projected market energy prices, annual revenues are estimated to range from $3.8 million to $7.4 million.
8. There are no minimum generation requirements.

## Policy

Metropolitan Water District Administrative Code Section 8121(a): General Authority of the General Manager to Enter Contracts

## 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 HEP 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 is not 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 that the proposed action is categorically exempt and is not subject to CEQA, and

Authorize the General Manager to enter into a new agreement under the terms described herein for the sale of renewable energy from the five Metropolitan HEPs.

**Fiscal Impact:** Estimated total annual revenue would be between $3.8 million to $7.4 million, depending on water system demands and resulting generation. The revenues are expected to be 70 percent greater than if the energy was sold into the daily energy market which does not provide additional value for renewable attributes.

**Business Analysis:** Provides Metropolitan with a stream of revenue under a long-term agreement tied to the value of renewable energy that is greater than selling energy into a daily energy market

**Option #2**

Do not authorize the execution of an agreement with DWR and direct staff to initiate new negotiations with a second bidder or other parties.

**Fiscal Impact:** The fiscal impact of this option is unknown. If a new agreement is not in place by the time the existing contract expires on December 31, 2015, Metropolitan could sell the energy into the daily energy market. Under this condition, the value of the environmental and renewable attributes of the energy would not be obtained and revenues would be less than with the proposed agreement.

**Business Analysis:** It is unlikely that Metropolitan would be able to contract with a buyer offering a higher price. Metropolitan solicited offers from over 60 potential bidders and selected the best qualified buyer which also offered the highest price.

## Staff Recommendation

Option #1

10/27/2015

*James F. Green* *Date*
*Manager, Water System Operations*

10/28/2015

*Jeffrey Kightlinger* *Date*
*General Manager*

Ref# wso12639866