- Board of Directors
  Engineering and Operations Committee

8/20/2019 Board Meeting

8-5

Subject

Authorize the General Manager to enter into an agreement with the State of California Department of Water Resources for the sale of the output from four hydroelectric power plants; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

This action authorizes the General Manager to enter into an agreement with the State of California Department of Water Resources (CDWR) for the sale of the output from four hydroelectric power plants over a three-year term. The sale of the output from these plants includes the value of the energy, capacity, and renewable and environmental attributes. For the sale of the output, Metropolitan will receive payments from CDWR that increase annually during the term of the agreement.

Details

Background

In the 1970s, Metropolitan initiated a program to develop conduit hydroelectric plants on its water distribution system. The plants were developed in phases, and four plants, including the Foothill Feeder, Lake Mathews, San Dimas, and Yorba Linda plants, were completed between 1980 and 1981 for a total nameplate capacity of approximately 29 megawatts. These plants, known as the Phase I hydroelectric power plants: (1) meet the definition of eligible renewable energy projects under state law; (2) are located near electrical load centers; and (3) generate electricity as water moves through Metropolitan's distribution system to meet member agency water demands. Generation from these plants was sold to the CDWR under a previous agreement that terminates on September 30, 2019.

The energy from these plants qualifies as renewable, and as such, these plants offer the buyer the ability to count the output toward its State of California Renewable Portfolio Standard (RPS) obligation. Although RPS requirements increase from 33 percent by 2020 to 60 percent by 2030, RPS contract prices have been decreasing due to: (1) falling prices for wind and solar technologies, which together make up 81 percent of the total renewable generating capacity in California; (2) surplus in RPS energy with investor-owned utilities' RPS requirements being met through 2025; and (3) the requirement that, beginning in 2021, 65 percent of RPS resources be contracted for ten or more years. RPS contract prices for short or intermediate terms are forecasted to remain relatively flat for the next several years. With new RPS obligated entities such as Community Choice Aggregators entering the market, RPS contract prices in the future may be volatile.

On March 27, 2019, Metropolitan issued a Request for Offers requesting proposals from approximately 100 entities for the 3-year, 5-year, or 10-year purchase of renewable output from the plants. In response to the solicitation, Metropolitan received seven responses. Staff conducted an assessment of the responses accounting for factors such as the proposed purchase price, credit quality of the counter-party, and contracting experience. Based on this assessment, staff recommends the proposal submitted by CDWR for the purchase of the output from the plants over a three-year term from October 1, 2019, through September 30, 2022, as providing the best value to Metropolitan.

Key Terms and Conditions

The key terms and conditions of the proposed agreement with CDWR are:

1. Term of the three-year agreement would be from October 1, 2019, through September 30, 2022.
2. Buyer would take possession of, and can claim, all environmental, capacity, and renewable attributes for the energy sold.
3. Metropolitan's contractor would act as the Scheduling Coordinator to interface with the California Independent System Operator (CAISO) for the sale of the generation into the CAISO energy market on behalf of CDWR.
4. CDWR would pay Metropolitan a fixed unit price for the energy generated; the fixed unit price will increase during the second and third years of the three-year agreement.
5. Estimated total annual revenue varies depending on the generation achieved at each of the four plants. Using the average generation from these plants for the last three calendar years, Metropolitan estimates for the term of the agreement that revenues would be $18.8 million.

After execution by Metropolitan, CDWR is expected to secure approval of the agreement.

Policy

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

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

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 an agreement associated with the operation of existing hydroelectric power plant facilities and the sale of renewable energy with negligible or no expansion of use. 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).

CEQA determination for Option #2:

None required

Board Options

Option #1

Authorize the General Manager to enter into the agreement with CDWR under the terms described herein for the sale of output from the Foothill Feeder, Lake Mathews, San Dimas, and Yorba Linda power plants.

Fiscal Impact: Estimated total annual revenues would be $6.3 million, depending on water delivery requirements and resulting generation.
Business Analysis: Provides Metropolitan with a stream of revenues tied to the renewable energy value that is greater than selling energy into the CAISO energy market. Also, the sale assists CDWR in meeting its renewable goals.

Option #2

Direct staff to issue a new Request for Offers.
Fiscal Impact: The fiscal impact of this option is unknown. If new agreements are not in place by the time the existing agreement expires on September 30, 2019, Metropolitan would sell the energy into the CAISO energy market. It is expected that the environmental attributes of the energy would have to be sold separately, and revenues would be substantially less than with the proposed agreement.

Business Analysis: Completing negotiations for the renewable energy under an alternative agreement will take more time and may not be completed before the existing agreement terminates. Without an agreement, the energy could be sold into the CAISO energy market, but the value of the environmental attributes would be significantly discounted.

Staff Recommendation

Option #1

8/8/2019

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8/15/2019

Jeffrey Kightlinger *Date*
General Manager

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