Agenda Report

July 22, 2013

TO: Honorable Mayor and City Council

THROUGH: Municipal Services Committee (July 9, 2013)

FROM: Water and Power Department

SUBJECT: **PUBLIC HEARING: CONSIDERATION TO ADOPT A REVISED PROGRAM OF ENFORCEMENT AND ASSOCIATED PROCUREMENT PLAN FOR THE PASADENA WATER AND POWER DEPARTMENT ("PWP") IN ACCORDANCE THE CALIFORNIA RENEWABLE ENERGY RESOURCES ACT, SENATE BILL X1-2**

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the public hearing, and the adoption of the revised Enforcement Program and the Renewable Portfolio Standard ("RPS") Procurement Plan, pursuant to Section 399.30 of the Public Utilities Code ("PUC"), is exempt from the California Environmental Quality Act ("CEQA") per Section 15061(b)(3).

2. After a public hearing, adopt the proposed revised Enforcement Program for PWP pursuant to Section 399.30(e) of the PUC.

3. Adopt the proposed RPS Procurement Plan for PWP pursuant to Section 399.30(f) of the PUC.

MUNICIPAL SERVICES COMMITTEE RECOMMENDATION:

On July 9, 2013, the Municipal Services Committee recommended that the City Council adopt the proposed revised Enforcement Program and Procurement Plan.

ENVIRONMENTAL ADVISORY COMMITTEE RECOMMENDATION:

On June 18, 2013, the Environmental Advisory Committee recommended that the City Council adopt the proposed revised Enforcement Program and Procurement Plan.

EXECUTIVE SUMMARY:

SBX1-2 was chaptered on December 12, 2011, establishing RPS requirements for all electric utilities in the State, including publicly owned utilities ("municipal utilities") such as PWP. SBX1-2 included the following key provisions:

- Established minimum RPS procurement targets, expressed as a percent of a utility's retail electricity sales volume;
- Created three Portfolio Content Categories ("Category" or "Categories") to represent different types of resources, with a preference for those in-state;
- Established three Compliance Periods covering the calendar years 2011-2020; and,
- Provided authority to the CEC to develop requirements, guidelines, and monitor compliance.

SBX1-2 requirements specifically applicable to municipal utilities include:

1. Regulatory bodies, such as the Pasadena City Council, must adopt and implement a "Procurement Plan", to demonstrate how the regulated utility intends to comply with the goals and requirements of SBX1-2;
2. Regulatory bodies must conduct a public hearing to consider and adopt an "Enforcement Program" by which they would impose and regulate the specific criteria of the Procurement Plan to meet SBX1-2 goals as stated in Public Utilities Code ("PUC") Section 399.30; and,
3. The CEC must report non-compliance to the California Air Resources Board ("CARB") to determine penalties (note that CARB has yet to develop penalties[1]).

Adoption of the proposed Enforcement Program, Revision 1 is necessary to conform the original Enforcement Program adopted by the City Council on December 5, 2011 to new regulatory guidelines recently adopted by the CEC. The CEC has created a fourth resource Category that is applicable only to contracts executed prior to June 1, 2010 ("grandfathered" resources) and established interim RPS requirements within the Compliance Periods. The proposed revisions include other minor changes to conform to the statute and latest CEC guidelines.

At the same time, staff will recommend that the City Council adopt a proposed Procurement Plan to comply with the first requirement of SBX1-2 listed above. The Procurement Plan describes how PWP will procure appropriate amounts of each renewable resource Category during each Compliance Period to meet the requirements

[1] CARB is tasked with determining and assessing penalties for publicly-owned utilities which are "comparable to those adopted by the [California Public Utilities] commission for noncompliance by retail sellers." The penalty for RPS procurement deficits applicable to investor-owned utilities and other retail sellers under the jurisdiction of the California Public Utilities Commission is currently ***$0.05 per kilowatt-hour*** *($50/Megawatt-hour or $50,000/Gigawatt-hour)****, up to $25 million per year.*** It is important to note that this benchmark provides an estimate only. The comparability standard does not necessarily mean that the CARB and California Public Utilities Commission penalties must be identical.

of SBX1-2. It also describes how PWP will procure additional resources to meet the voluntary RPS goal established in the 2012 Integrated Resource Plan ("IRP").

Draft copies of the Enforcement Program, Revision 1 and Procurement Plan are available on the internet at www.PWPweb.com/RPS.

BACKGROUND:

Revised CEC Guidebook
Many provisions of SBX1-2 are subject to interpretation and further definition by the CEC. Recently, the CEC developed new regulations in the seventh edition of its "Renewables Portfolio Standard Guidebook" ("CEC Guidebook"), and "Enforcement Procedures for the Renewables Portfolio Standard for Local Publicly Owned Electric Utilities" ("Enforcement Procedures") that were adopted on June 12, 2013. The major revisions in rules include:

1. Contracts executed prior to June 1, 2010 shall "count in full," but not be applied against any of the three resource Categories established in SBX1-2. The CEC established a new Category 0 for these contracts, and the energy from these resources will be deducted from PWP's total RPS requirement; and,

2. New interim RPS targets of 27% by 2017, 29% by 2018, 31% by 2019 and 33% by 2020 have been implemented for Compliance Period 3, whereas SBX1-2 only specified the final RPS target of 33% by 2020 for the same period.

The Revised Enforcement Program
The Enforcement Program includes provisions related to development, adoption, progress reporting, violation reporting, and contingency relief with respect to PWP's procurement of renewable resources. It directs PWP to develop a plan (the RPS Procurement Plan) to procure renewable resources to comply with RPS targets based on specific criteria stated in the statute and to provide timely notices and reports to the public and the CEC. The proposed revision to the Enforcement Program incorporates the latest CEC Guidebook provisions described above, and other conforming changes to reflect the new CEC requirements.

The CEC will use the City Council's adopted Enforcement Program to evaluate PWP's compliance with SBX1-2 requirements. The statute requires the CEC to report non-compliance to the California Air Resources Board ("CARB") to determine penalties. ***CARB has yet to develop the compliance penalties[2].***

Relief Mechanisms to Reduce RPS Targets
The statute provides for reduced RPS targets under certain conditions such as transmission limitations, project development delays, renewable resources procurement costs exceeding limits set by the City Council, or additional energy resources being not

[2] See footnote 1

needed because PWP already has sufficient energy resources to meet its projected retail sales. At this time, PWP expects to comply with RPS targets as provided in SBX1-2. In the future, if PWP expects to be unable to comply with RPS targets as set by SBX1-2 due to reasons allowed by the statute, PWP will propose a revised Procurement Plan indicating new RPS targets along with justifications for consideration by the City Council.

Pasadena's RPS Goal Pursuant To Energy IRP

The City has adopted an RPS goal of 40% by 2020 that exceeds the RPS targets established by SBX1-2. PWP's detailed description of its compliance strategies for achieving both the SBX1-2 state mandated 33% RPS target and the higher voluntary 40% goal adopted by the City is included in the Procurement Plan.

As a clarification, to the extent the City of Pasadena ("City")'s own energy IRP goal is in excess of statutory requirements, achieving the higher RPS goal is solely voluntary and not subject to any provisions of the CEC's Enforcement Program or any other legislative or regulatory compliance obligation.

The Procurement Plan

The Procurement Plan maps out PWP's progress to date in procuring renewable energy to meet the complex requirements of SBX1-2. It complies with the CEC's Guidebook and Enforcement Procedures, as well as the City of Pasadena's Enforcement Program. It also meets the more aggressive voluntary RPS goal in PWP's 2012 IRP. It provides a strategic document for procuring the right quantities of the right types (i.e., Categories) of renewables in the right Compliance Periods to ensure full conformity with applicable standards. The Procurement Plan includes the conditions under which PWP may be excused for delay of timely compliance, but no such conditions are anticipated at this time.

The RPS is broken down into three distinct Compliance Periods. Within each Compliance Period are mandatory compliance targets, specified as a percentage of retail electrical sales (load), ranging from 20% in 2011 through 33% in 2020 and beyond.

The compliance targets are further broken down into four Categories. The attributes of each Category are described below:

- Category 0: Applies to resources procured prior to June 1, 2010. Energy from these grandfathered resources will be subtracted from the total RPS requirement without being classified into any of the other three Categories). The RPS requirement, minus the grandfathered Category 0 resources, will result in a "Net Procurement Requirement", against which the other Category percentages apply.
- Category 1: Bundled in state, or out-of-state electricity products from renewable resources that are directly connected into California, or are scheduled into California without substituting electricity from another source.

- Category 2: Bundled electricity products from renewable resources, which products may be delivered at times or locations other than when the energy is actually produced, and which must be matched with incremental electricity from another resource (also known as "firmed and shaped" electricity).
- Category 3: Unbundled Renewable Energy Credits ("RECs") and other electricity products from eligible renewable energy resources that do not meet the definitions for Category 1 or Category 2.

The following table and charts summarize the requirements of SBX1-2, the CEC Guidebook and Enforcement Procedures, and Pasadena's 2012 IRP.

Table 1

Pasadena Water & Power
CEC-Compliant Procurement Plan Requirements by Calendar Year

	Compliance Period 1			Compliance Period 2			Compliance Period 3			
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020+
SBX1-2 RPS Mandatory Procurement Requirement (% of Retail Load) [1]	**20%**			**20%**	**20%**	**25%**	**27%**	**29%**	**31%**	**33%**
Category 0:	No constraint									
Category 1 Minimum:	≥50% of Net Procurement Requirement			≥65% of Net Procurement Requirement			≥75% of Net Procurement Requirement			
Category 2: Maximum [2]**:**	≤50% of Net Procurement Requirement			≤35% of Net Procurement Requirement			≤25% of Net Procurement Requirement			
Category 3 Maximum:	≤25% of Net Procurement Requirement			≤15% of Net Procurement Requirement			≤10% of Net Procurement Requirement			

[1] As imposed by the CEC Guidebook, 7th Edition and proposed CEC Enforcement Procedures. SBX1-2 does not include specific interim targets in CP3, just obligation to make "reasonable progress."

[2] The Category 2 constraint is not specified by law, but is derived logically as the maximum residual given the Category 1 constraint.

On November 21, 2011, the City Council defined (grandfathered) all renewable energy contracts signed before June 10, 2010 as Category 1. The original Enforcement Program adopted by the City Council on December 5, 2011 deemed that these "grandfathered" contracts met the then current RPS requirements for Category 1[3]. The CEC has since determined in its latest Guidebook that grandfathered contracts will NOT qualify for Category 1. The CEC has instead created a new Category 0, and deemed that grandfathered contracts will "count in full" towards meeting RPS requirements. Thus, instead of satisfying a portion of PWP's Category 1 requirements, the energy produced by grandfathered contracts is deducted from the total RPS Procurement Requirement before the Category percentages are applied. The net effect for PWP is a slight shift in the types of resources needed to balance portfolio requirements from the lower cost Category 3 to the premium Category 1.

[3] Section F., and Exhibit 1

Based on the current editions of the CEC Guidebook and Enforcement Procedures, PWP has included its biogas contracts, which were executed after June 1, 2010, in Category 1. Should future rulings change this classification, PWP will adjust the Procurement Plan accordingly.

The chart in Figure 1 below, together with the details in Tables 2 and 3, provide a summary of the current status of PWP's RPS procurement activities and the amount of RPS purchases still required under the Procurement Plan. To the extent PWP's voluntary RPS goal exceeds California's RPS procurement requirements, the Procurement Plan calls for meeting this higher goal with the best-fit renewable sources available without regard to Category.

Figure 1

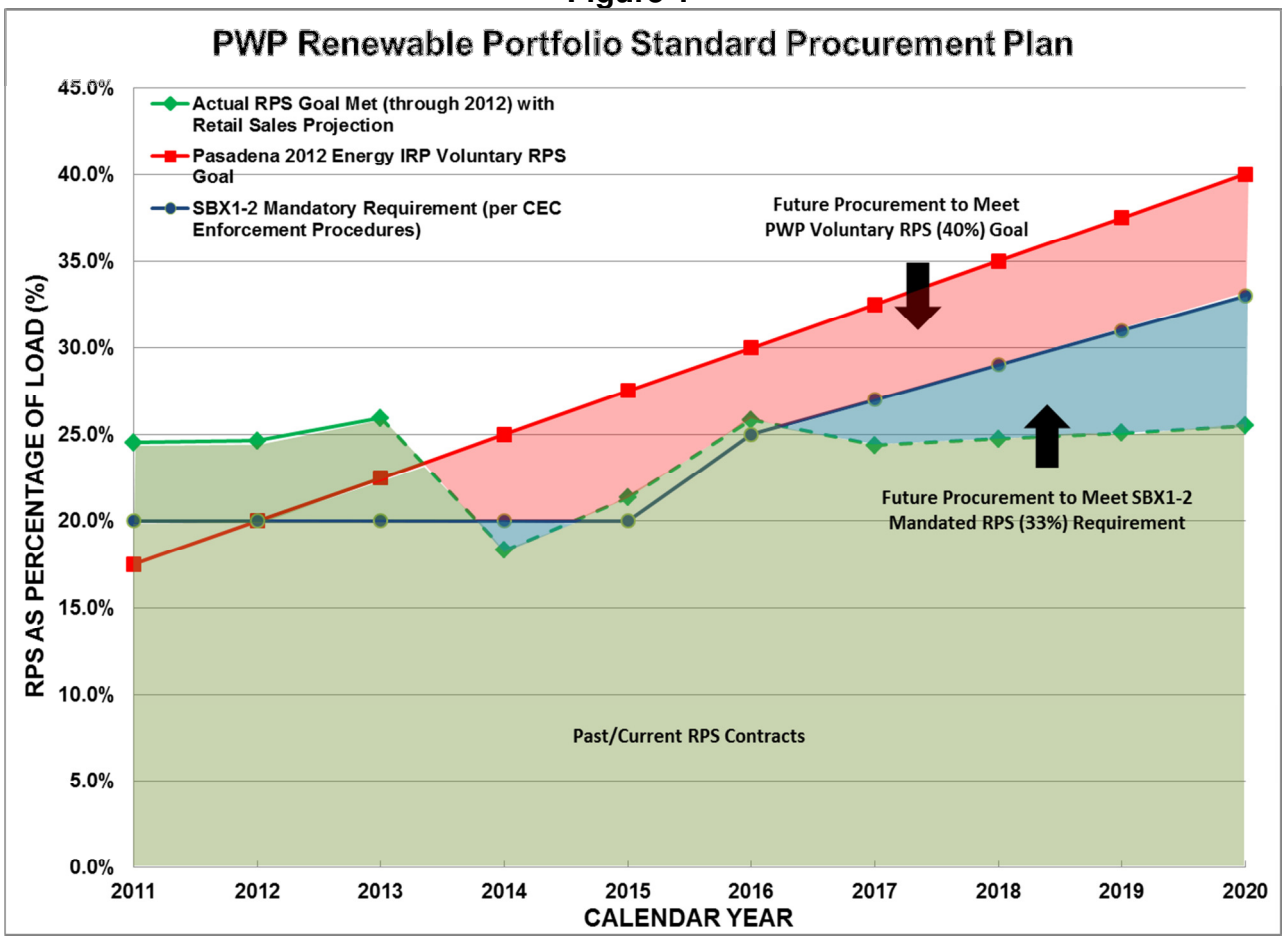

Table 2

Pasadena Water and Power
SBX1-2 Mandatory RPS Procurement Plan (by Calendar Year)

	Compliance Period 1			Compliance Period 2			Compliance Period 3			
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020+
	GWh	GWh	GWh	GWh	GWh	GWh	GWh	GWh	GWh	GWh
Estimated PWP Electric Sales (Load)	1,140.3	1,140.1	1,129.7	1,133.4	1,128.5	1,120.8	1,110.1	1,099.5	1,088.8	1,078.2
SBX1-2 Mandatory RPS Procurement Requirement (%)	20%			20%	20%	25%	27%	29%	31%	33%
SBX1-2 Mandatory RPS Requirement for PWP (GWh)	682.0			226.7	225.7	280.2	299.7	318.8	337.5	355.8
PWP SBX1-2 RPS Already Met w/Current Contracts (% of Load)	22.3%			18.3%	21.3%	21.7%	18.3%	18.6%	18.9%	19.3%
PWP SBX1-2 RPS Already Met w/Current Contracts (GWh)	761.5			207.5	240.8	243.7	202.7	204.2	205.7	207.8
Portfolio Content Category 0 (GWh)	169.1	125.9	126.1	126.1	126.1	126.3	83.9	83.9	83.9	84.1
Portfolio Content Category 1 (GWh)	33.3	99.9	167.0	81.4	114.8	117.4	118.9	120.4	121.9	123.7
Portfolio Content Category 2 (GWh)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portfolio Content Category 3 (GWh)	14.7	25.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Future SBX1-2 Purchases (GWh)	0.0			19.2	0.0	36.5	97.0	114.6	131.8	148.0
Portfolio Content Category 1 (GWh)	0.0			0.0	0.0	0.0	43.0	55.9	68.4	80.1
Portfolio Content Category 2 (GWh)	0.0			4.1	0.0	13.4	32.4	35.2	38.1	40.8
Portfolio Content Category 3 (GWh)	0.0			15.1	0.0	23.1	21.6	23.5	25.4	27.2
Total SBX1-2 RPS Procurement GWh	761.5			226.7	240.8	280.2	299.7	318.8	337.5	355.8
Portfolio Content Category 0 (GWh)	421.0			126.1	126.1	126.3	83.9	83.9	83.9	84.1
Portfolio Content Category 1 (GWh)	300.2			81.4	114.8	117.4	161.9	176.2	190.3	203.8
Portfolio Content Category 2 (GWh)	0.0			4.1	0.0	13.4	32.4	35.2	38.1	40.8
Portfolio Content Category 3 (GWh)	40.3			15.1	0.0	23.1	21.6	23.5	25.4	27.2
SBX1-2 RPS Procurement Limits										
Portfolio Content Category 1 Minimum (GWh) ≥	130.5			65.4	64.8	100.0	161.9	176.2	190.3	203.8
Portfolio Content Category 3 Maximum (GWh) ≤	14.7	25.5	25.0	15.1	14.9	23.1	21.6	23.5	25.4	27.2

Table 3

Pasadena Water and Power
Pasadena Voluntary RPS Procurement Plan (by Calendar Year)

	Compliance Period 1			Compliance Period 2			Compliance Period 3			
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020+
	GWh	GWh	GWh	GWh	GWh	GWh	GWh	GWh	GWh	GWh
Estimated PWP Electric Sales (Load)	1,140.3	1,140.1	1,129.7	1,133.4	1,128.5	1,120.8	1,110.1	1,099.5	1,088.8	1,078.2
Procurement Plan to Meet PWP Voluntary RPS Target (%)	24.5%	24.6%	25.9%	26.0%	27.5%	30.0%	32.5%	35.0%	37.5%	40.0%
Pasadena Voluntary RPS Target (GWh)	279.7	280.8	293.1	294.7	310.3	336.2	361.0	385.0	408.8	431.4
PWP Voluntary RPS Already Met w/Current Contracts (% of Load)	24.5%	24.6%	25.9%	18.3%	21.3%	21.7%	18.3%	18.6%	18.9%	19.3%
PWP Voluntary RPS Already Met w/Current Contracts (GWh)	279.7	280.8	293.1	207.5	240.8	243.7	202.7	204.2	205.7	207.8
Required Future SBX1-2 Procurement (GWh)	0.0	0.0	0.0	19.2	0.0	36.5	97.0	114.6	131.8	148.0
Additional Future Purchases for PWP Voluntary RPS (GWh)	0.0	0.0	0.0	68.0	69.5	56.0	61.3	66.2	71.3	75.5
Total Voluntary RPS Procurement GWh	279.7	280.8	293.1	294.7	310.3	336.2	361.0	385.0	408.8	431.4

CITY COUNCIL POLICY CONSIDERATION:

The proposed Enforcement Program and Procurement Plan are mandatory under State law (Public Utilities Code Sections 399.30(e) and (f), as enacted under SBX1-2), and are consistent with the City's Urban Environmental Accords Goals with respect to increasing renewable energy and reducing greenhouse gas emissions, the General Plan Energy Element, the City Council's Strategic Planning Goals, and the 2009 Energy IRP, as updated in 2012.

FISCAL IMPACT:
The adoption of the revised Enforcement Program and associated RPS Procurement Plan establishes the framework to procure additional renewable energy resources which may have substantial cost for PWP and its electric ratepayers. However, the actual cost implications will not be known until such time as PWP executes additional renewable energy contracts to meet mandated RPS requirements. Any costs associated with additional renewable energy contracts under the Procurement Plan will be recovered through the energy charge component of the electric rate. There is no anticipated impact to other operational programs or capital projects as a result of this action.

Respectfully submitted,

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Approved by:

For MICHAEL J. BECK
City Manager

REFERENCE DOCUMENTS:

In order to comply with CEC regulations, full copies of the following documents are available on the internet at www.PWPweb.com/RPS