



# CITY OF SANTA BARBARA

## COUNCIL AGENDA REPORT

**AGENDA DATE:** September 23, 2014

**TO:** Mayor and Councilmembers

**FROM:** Facilities Division, Public Works Department

**SUBJECT:** Introduction Of Ordinance For Assignment And Amendment To Power Purchase Agreement For Cogeneration Project

### **RECOMMENDATION:**

That Council introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Authorizing the City Administrator to Execute a First Amendment to the Power Purchase Agreement (City Agreement No. 23,630) Between the City of Santa Barbara and California Power Partners, Inc., to Extend the Term of the Agreement to July 1, 2024, and Further Clarify Section 8.4 of the Agreement; and Authorize the City Administrator to Consent to the Assignment of Agreement No. 23,630, as Amended, from California Power Partners, Inc., to California Power Partners Santa Barbara, LLC.

### **DISCUSSION:**

#### Background

As a part of the wastewater treatment process, the El Estero Wastewater Treatment Plant (El Estero) operates two digesters that produce methane gas (digester gas). The digester gas is currently used by the Cogeneration System (System), installed by California Power Partners, Inc. (CalPwr), which began operating in December 2013, and provides up to 60% of El Estero's electrical needs. Previously, the digester gas was wasted and flared.

In order to make this capital-intensive Cogeneration Project (Project) possible, the City entered into a Power Purchase Agreement (PPA) with CalPwr in 2011. Pursuant to the terms of the PPA, CalPwr constructed the Cogeneration Plant (Plant) at its own cost, and now sells the energy generated from the Plant to the City at a flat rate of 8.49 cents per kWh until termination of the agreement on December 31, 2021. Presently, the City also receives all waste heat that is produced by the system at no additional charge. It is anticipated that the City will save an estimated average of \$60,000 per year on electricity through this PPA. Staff is currently investigating different options for applying the waste heat that will increase energy savings.

Requested Amendment and Assignment

City staff and CalPwr now wish to amend the PPA to address certain issues that arose after construction of the Plant and its initial operation. First, Staff and CalPwr are requesting an extension of the term of the PPA due to the delayed start of operation of the System. The System was initially forecast to launch in early 2012, but did not launch until December 2013, due to several regulatory hurdles. The original term of the PPA was from April 12, 2011 to December 31, 2021. However, due to the delay in the construction and operation of the Plant, staff and CalPwr would like to amend Section 3.1 to extend the term of the PPA. The new proposed date of the PPA will be from July 1, 2014 to July 1, 2024. This is a benefit to the City, as it will allow for the prolonged use of the favorable electrical rate agreed upon in the original PPA for the length of the extended term of the PPA.

Secondly, staff is requesting to amend Section 8.4 of the PPA, which states that the City will provide a backup of natural gas. Staff would like this section to include allowing CalPwr to supply the natural gas at the City's discretion. The original PPA anticipated that the City would provide a backup supply of natural gas during peak operational hours; however, during construction of the Plant, CalPwr invested in metering infrastructure that allows the City to easily monitor gas use and be billed by CalPwr accordingly. Since the metering infrastructure has already been installed for CalPwr's use, at no cost to the City, staff supports an amendment to the PPA to allow CalPwr to continue providing the gas at the City's convenience and discretion.

Further, CalPwr is requesting that the PPA be assigned to California Power Partners Santa Barbara, LLC (CalPwr SB), a California Limited Liability Company, in order to facilitate the refinance of the construction loan it obtained to construct the Plant. This refinance was contemplated during the initial contract negotiations and is permitted under Section 4 of the PPA through written consent of the City. CalPwr SB has provided documentation to the City reflecting that it is a limited liability company currently in good standing with the California Secretary of State. Upon assignment, CalPwr SB will be subject to the same insurance and indemnification provisions as CalPwr. The Plant, and the assets derived therefrom, are the only intended assets of CalPwr SB.

**BUDGET/FINANCIAL INFORMATION:**

The only budgetary impact from these contract amendments and subsequent assignment to CalPwr is the extension of the cost benefit from the lower electrical rates provided during the term of the Agreement. Over the term of the PPA, it is anticipated that Southern California Edison's electricity rates will increase by as much as 3 percent per year. CalPwr SB's rates are currently lower than Southern California Edison's present rates, and will remain stable and predictable over the course of the PPA.

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Additionally, the System provides an effective mechanism to lower electrical demand costs, which are set by the Plant's highest electrical demand from the utility. It is anticipated that the City will save as much as \$60,000 per year in electrical costs.

**SUSTAINABILITY IMPACT:**

Cogeneration uses the majority of the biogas produced by El Estero, providing electricity and heat for plant operations from a renewable resource. Previously, much of the existing biogas produced by the plant was disposed of through a flaring process.

**PREPARED BY:** Jim Dewey, Facilities & Energy Manager/AP/mh

**SUBMITTED BY:** Rebecca J. Bjork, Public Works Director

**APPROVED BY:** City Administrator's Office