



Agenda Report

21-1286

Agenda Date: 2/9/2021

REPORT TO COUNCIL

SUBJECT

Adopt a Resolution Authorizing the City Manager to Execute the United States Department of Energy Western Area Power Administration Sierra Nevada Region Contract for Electric Service Base Resource Contract 20-SNR-02364 for Calendar Years 2025 through 2054

COUNCIL PILLAR

Promote Sustainability and Environmental Protection

BACKGROUND

The City of Santa Clara and its Electric Department, Silicon Valley Power (SVP) purchases power generated at federally owned facilities that make up the Central Valley Project (CVP Base Resource) through a contract with the United States Department of Energy's power market administrator, Western Area Power Administration (WAPA). The current Base Resource contract, which began in 2005, is scheduled to expire on December 31, 2024. In 2017, WAPA initiated a process for replacing the expiring contract. Over the last 3 years, WAPA and its customers, including SVP have been working towards the replacement contract covering the period January 1, 2025 through December 31, 2054. On September 16, 2020, WAPA sent out the final version of the replacement contract. It is substantially similar to the existing contract, with some notable changes discussed below.

The CVP Base Resource, during an average hydrological year, provides approximately 10% of the City's annual retail electricity sales. This energy comes from 100% carbon-free energy resources and helps maintain SVP's low carbon intensity of its energy supply portfolio.

DISCUSSION

The federal Department of Energy's power market administrator has completed all negotiations with the customer group that it intends to make on this agreement. All customers are signing the same form of the agreement. SVP's choice now is to approve the agreement as it is written now or to not sign the agreement. If SVP chooses not to sign, then SVP's portion of the hydro-electric resources will be allocated to other eligible customers in 2025 and SVP will not have rights to any future resources that become available. Also, SVP would then need to seek out other power purchases to replace the 10% of electricity sales currently served by the CVP Base Resource.

The final contract is similar to the contract the City approved in 2000. As mentioned above, all WAPA customers are signing the same form of agreement and therefore SVP had relatively little leverage in negotiating the terms. This notwithstanding, the proposed agreement does provide SVP with additional flexibility and clarity on how to administer its rights over the life of the agreement. Notable changes to the contract include:

- 30-year term

- In 2040, the customers' allocation of CVP Base Resource will be reduced by 2% to allow for new Western Customers. This is part of WAPA's marketing plan.
- SVP may opt out of contract at any time prior to June 30, 2024
- SVP may reduce the CVP Base Resource quantity or terminate the agreement when a new rate schedule is adopted or extended (at least every 5 years).
- Provision of 12-month rolling generation forecasts and five-years forecast updated annually.
- Addition of definition for Environmental Attributes and Capacity.
- Addition of requirement for WAPA to provide evidence of any environmental attribute.

The WAPA contract for CVP Base Resource is a take-or-pay resource. SVP pays its contractual base resource share of the annual revenue requirement to maintain and manage the CVP facilities that is determined by WAPA and the customers each year depending on particular capital project needs and maintenance requirements. The pricing of the CVP Base Resource is highly variable because the annual revenue requirement set by the federal government is not pre-determined or fixed, and because of the variability of energy produced by the project due to dependency on weather hydrology (wet versus drought).

The benefits of the CVP Base Resource are:

- Provides greenhouse gas free and schedulable energy to meet City's Climate Action Plan, and SVP's clean energy goals.
- Historically low average cost of energy compared to market price. In 2019, market prices to serve load averaged for the whole year at \$41 per MWh across all generation and all hours and the system grid operator has a hard energy bid cap of \$2000 per MWh. CVP Base Resource, which is shaped to serve demand, cost per MWh has ranged from as low as \$11 per MWh in 2006 and as high as over \$60 in 2015 (drought year) with historical annual average of \$30 per MWh since 2005.
- Customers have the ability to influence the cost of the power through its participation in various venues including Western customer meetings and congressional advocacy.

The risks of the CVP Base Resource are:

- Price and quantity are not fixed.
- Future costs are dependent on many factors including operation and maintenance, capital infrastructure projects, participation in wholesale energy imbalance market, and new environmental cost from changes to long-term operations.

The risks of the CVP Base Resource are managed through our coordinated efforts with the Northern California Power Agency (NCPA) and other customers receiving CVP Base Resource which has been successful at controlling cost increases and negotiating favorable terms in the contract.

Staff recommends authorizing the City Manager or her designee to execute the United States Department of Energy Western Area Power Administration Sierra Nevada Region Contract for Electric Service Base Resource with the City of Santa Clara for Calendar Year 2025 through 2054.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines Section 15378(a) as it has no

potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment.

FISCAL IMPACT

The cost of the CVP Base Resource varies from year to year depending annual revenue requirement of the Central Valley Project. Staff currently budgets the cost of Western power on an annual basis taking into account forecasted hydrological conditions. The costs are currently forecasted at approximately \$13.0 million a year. Funding in the out years is subject to budget appropriations and will be incorporated into the budget development process for those years.

COORDINATION

This WAPA Contract and report has been coordinated with the City Attorney's Office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <<mailto:clerk@santaclaraca.gov>>.

RECOMMENDATION

Adopt a Resolution authorizing the City Manager to execute the United States Department of Energy Western Area Power Administration Sierra Nevada Region Contract for Electric Service Base Resource Contract 20-SNR-02364 for Calendar Years 2025 through 2054.

Reviewed by: Manuel Pineda, Chief Electric Utility Officer
Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Resolution
2. Contract 20-SNR-02364 (WAPA)