



Item No. 13 Town of Atherton

CITY COUNCIL STAFF REPORT – REGULAR AGENDA

**TO: HONORABLE MAYOR AND CITY COUNCIL
GEORGE RODERICKS, CITY MANAGER**

FROM: ROBERT OVADIA, PUBLIC WORKS DIRECTOR

DATE: JANUARY 16, 2019

**SUBJECT: REVIEW, DISCUSS AND PROVIDE DIRECTION ON
RENEWABLE ENERGY SYSTEMS AND POWER PURCHASE
AGREEMENT OPTIONS FOR THE ATHERTON CIVIC CENTER**

RECOMMENDATION

Discuss and provide direction regarding renewable energy systems and the pursuit of power purchase agreements for the Civic Center.

BACKGROUND

On October 3, 2018, the Council received a presentation from Sven Thesen of Peninsula Clean Energy regarding Power Purchase Agreements (PPA). Following the presentation, Council provided direction to staff to continue to investigate the potential for such agreements in relation to the Civic Center Project. The original construction drawings for the Civic Center Project included a net-zero solar system to offset the energy usage for the Library and an alternates for a net-zero for the Administration/Police Building and micro-grids for emergency energy back-up supplies for critical systems.

On November 14, 2018, the Council received a report, as part of the Civic Center Project agenda item, regarding the use of a PPA to fund and install the desired photovoltaic (PV) system for the project and as a cost savings measure. Pursuant to the Project's value engineering effort, the Council removed PV systems from the Civic Center Project. The Council directed staff to investigate the use of a PPA as a stand-alone project from the Civic Center and directed that staff report back to the Council on the options and process for pursuit of a PPA.

ANALYSIS

As outlined in previous reports, a power purchase agreement would allow the Town to contract with a third-party provider to procure, install and maintain a solar/micro-grid system, as well as provide a minimum guarantee on production and storage in exchange for monthly payments tied to the consumption of generated energy used.

The benefits of entering into a power purchase agreement include:

1. Low – no upfront costs (provider typically pays for installation)
2. Electricity costs for power generated would be fixed pursuant to the terms of the agreement.
3. Provider would qualify for various incentive programs that the Town, as a public agency, does not, resulting in reduced installation costs as compared to contracting directly for installation.
4. Guaranteed production/storage. The provider would be responsible for maintenance of the system over the term of the agreement to provide the guaranteed level of production and storage.
5. Monthly payments would be structured to be less than estimated energy costs through PG&E/PCE.

As the provider would be responsible for guaranteeing the production and storage capacity, they would select the type and manufacturer of the various system components. These systems could be different than those specified in the original project plans for the Civic Center project. Typically PPA providers optimize the size/production of the solar system such that the power generated is fully utilized (approximately 85% of anticipated loading) as over-generation does not result in much revenue from the utility service providers.

Tax credits and incentives reduce and phase out over time. Staff has been advised that the current tax credit incentive is approximately 30% and will reduce to approximately 26% in January 2020, 22% in 2021, and reduce to 10% in 2022. The credit calculated based on milestones in the procurement and installation process. It is important to note that tax credits cannot be claimed until construction of the system is complete.

California Government Code Section 4217.12 allows for public agencies to enter into energy service contracts and any necessarily related facility ground leases on terms that its governing body determines are in the best interests of the public agency if the determination is made at a regularly scheduled public hearing, public notice of which is given at least two weeks in advance, and if the governing body finds:

- (1) That the anticipated cost to the public agency for thermal or electrical energy or conservation services provided by the energy conservation facility under the contract will be less than the anticipated marginal cost to the public agency of thermal, electrical, or other energy that would have been consumed by the public agency in the absence of those purchases.*
- (2) That the difference, if any, between the fair rental value for the real property subject to the facility ground lease and the agreed rent, is anticipated to be offset by below-market energy purchases or other benefits provided under the energy service contract.*

California Government Code Section 4217.13 allows a public agency to enter into a facility financing contract and a facility ground lease on terms that its governing body determines are in the best interest of the public agency if the determination is made at a regularly scheduled public

hearing, public notice of which is given at least two weeks in advance, and if the governing body finds *that funds for the repayment of the financing or the cost of design, construction, and operation of the energy conservation facility, or both, as required by the contract, are projected to be available from revenues resulting from sales of electricity or thermal energy from the facility or from funding that otherwise would have been used for purchase of electrical, thermal, or other energy required by the public agency in the absence of the energy conservation facility, or both.*

As outlined in the November 14, 2018 staff report, staff has been coordinating with Gridscape, but have not yet received a formal proposal for a PPA. Data was provided to Gridscape in early December with respect to energy needs and solar sizing. However, Gridscape has recently advised that because the Town's project completion data is so far out in time, there are concerns related to how to value solar and battery incentives. As noted, both are likely to decrease and are a key part of establishing the basis for a PPA. They are continuing to investigate, but feel that timing of entering into a PPA is not quite ready.

Given that there is some time involved to allow a public bidding process, staff suggests that the Town use an RFP process to solicit proposals. To ensure that we enter into an agreement in the best interest of the Town, consistent with Town processes, it is recommended the PPA be made pursuant to a request for proposals from qualified firms. The RFP would outline the proposal requirements regarding the desired system outcomes including power needs and storage, and set an overall term for the agreement. Proposers would provide a pricing schedule for energy provided, indicate their annual production targets and guarantees. The RFP could also include early termination buy-out options at given points in the contract, for example at 5, 10, or 15 years.

Staff would need the assistance in developing the RFP and in reviewing proposals received as this is not an area of staff's expertise. Staff anticipates that this cost would be within the City Manager's approval authority. With Council direction, staff can begin soliciting proposals for the development of the RFP including the evaluation of proposals received and assistance in negotiation of the PPA.

POLICY FOCUS

The Council's policy discussion should focus on the desire to enter into a Power Purchase Agreement and the associated procurement process.

FISCAL IMPACT

None at this time.

PUBLIC NOTICE

Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting in print and electronically. Information about the project is also disseminated via the Town's electronic News Flash and Atherton Online. There are approximately 1,200 subscribers to the Town's electronic News Flash publications. Subscribers include residents

as well as stakeholders – to include, but be not limited to, media outlets, school districts, Menlo Park Fire District, service providers (water, power, and sewer), and regional elected officials.

COMMISSION/COMMITTEE FEEDBACK/REFERRAL

This item ___ has or X has not been before a Town Committee or Commission.

- Audit/Finance Committee (meets every other month)
- Bicycle/Pedestrian Committee (meets as needed)
- Civic Center Advisory Committee (meets as needed)
- Environmental Programs Committee (meets every other month)
- Park and Recreation Committee (meets each month)
- Planning Commission (meets each month)
- Rail Committee (meets every other month)
- Transportation Committee (meets every other month)

ATTACHMENTS

None