

Lompoc City Council Agenda Item

City Council Meeting Date: November 4, 2008

TO: Gary P. Keefe, City Administrator

FROM: Larry Silva, Interim Electric Utility Manager
l_silva@ci.lompoc.ca.us



SUBJECT: AMENDMENT NO. 1 TO THE NCPA PHASE 2 AGREEMENT FOR FUNDING THE PLANNING AND DEVELOPMENT ACTIVITIES OF THE LODI ENERGY CENTER.

RECOMMENDATION:

It is recommended that the City Council approve Amendment No. 1 to the NCPA Phase 2 Agreement for Funding the Planning and Development Activities of the Lodi Energy Center; authorize an additional expenditure of up to \$300,000 for the scope expansion of Phase 2B activities as covered by Amendment No. 1; and authorize the Mayor to execute Amendment No. 1.

BACKGROUND:

On December 18, 2007, the City Council approved execution of the Lodi Energy Center (LEC) Phase 2 Agreement (Agreement) with NCPA, which provided for the City of Lompoc's (Lompoc) participation in the Phase 2 development process of a proposed 255 MW combined cycle natural gas power plant in Lodi, California. The Agreement contemplated two tiers of activities, Phase 2A and Phase 2B, at combined total authorized expenditures for all Project Participants of up to \$25 million (\$16 million for Phase 2A and \$9 million for Phase 2B, see Table A, which follows). City Council approved a 1.961% participation share (equivalent to 5 MW) in the Project resulting in a total authorized expenditure of up to \$500,000 for Lompoc.

The Project attained 100% subscription and all Project Participants executed the Agreement on or about March 1, 2008. Project Phase 2 activities formally began on March 6, 2008, when Project Participants met at NCPA headquarters and formed the Project Participant Committee (PPC). Subsequently, the PPC took actions, including authorizing the NCPA Project Manager to procure Project related Emission Reduction Credits (ERCs) and to contract with multiple consultants to assist with the California Energy Commission (CEC) AFC, air permit licensing, and transmission studies processes. On June 30, 2008, the PPC directed the NCPA Project Manager to commence Phase 2B activities effective August 1, 2008.

Recently, the PPC has reviewed the significant power plant construction cost escalation trends. The PPC, at its June 30, 2008 meeting, acknowledged that in order for the LEC Project to attain its targeted commercial operation date in early 2012, certain long lead time power island equipment may need to be ordered, or a production time secured, 24 to 33 months in advance of the projected commercial operation date. In order to investigate and possibly take action to secure critical equipment pricing and delivery schedules, the PPC directed the NCPA Project Manager to prepare critical equipment specifications to issue to market vendors in order to receive and evaluate options and proposals to provide more control over equipment delivery timing and pricing.

At its August 25, 2008 meeting, the PPC further directed the NCPA Project Manager to include in the proposed Amendment No.1 the ability to lease, as required, any warehouse and administration facilities for use at or near the proposed Project site to assure that adequate staff workspace and safe equipment and materials storage space is available. To attain the necessary authorizations for these activities, the PPC directed the NCPA Project Manager to amend the existing Agreement to incorporate selective equipment bidding to assure timely delivery and equipment cost certainty, and to lease any needed warehouse or administration space. These activities are to be included within the scope of Phase 2B activities. The PPC further directed the NCPA Project Manager to accordingly increase the Phase 2B budget amount by up to \$15 million for such purposes. All of these actions will be subject to the direction of the PPC. Lompoc's share of this budget increase would be \$294,118 (see Table A below). Staff is requesting approval in an amount rounded up to \$300,000.

CURRENT STATUS:

Project ERCs have been procured and the CEC process is underway, with formal air permit and CEC filings having taken place in August and September 2008, respectively. The NCPA Project Manager is preparing specifications for key Project power island equipment which will be reviewed by the PPC prior to the NCPA Project Manager's issuance of such specifications to potential vendors for purposes of receiving proposals to secure equipment delivery timing and price certainty. It is expected that responses from vendors will be received and evaluated by the November / December 2008 time frame.

It is anticipated that one or more of the received proposals will incorporate some form of advance or option payment, possibly in the \$5 million to \$13 million range (but possibly as much as \$15 million), depending on the equipment to be secured, to attain a defined delivery and equipment pricing schedule. The steam and gas turbines, and the heat recovery steam generator, together with ancillary equipment, are the likely critical power island components that will be considered under this equipment option bid proposal. Subject to the bids received and further direction from the PPC, the NCPA Project Manager and NCPA CFO will recommend an invoicing schedule to the PPC to provide needed funds for any approved actions. If funds are required, invoicing will likely take place in the December 2008 / January 2009 time frame with funds due to NCPA in early 2009.

Staff seeks City Council authorization to authorize the Mayor to execute LEC Amendment No. 1, which revises the scope of LEC Phase 2B to include activities related to securing a defined equipment production delivery schedule and known pricing structures for key power island components, along with the ability to lease any needed warehouse and administrative facilities at or proximate to the proposed Project site to provide staff workspace and safe equipment storage locations. In order to provide necessary funding for these actions, staff requests that the City Council approve up to a \$300,000 increase in Lompoc's share of the Phase 2B portion of the LEC Phase 2 budget (resulting in a total combined Phase 2A / Phase 2B budget of up to \$40 million for all participants and \$800,000 for Lompoc). In order to revise the Phase 2B scope of activities and provide additional Phase 2B funding, the NCPA staff prepared and the NCPA Commission approved the attached LEC Amendment No. 1 to the Agreement. Specific actions and expenditures undertaken pursuant to the LEC Amendment No. 1 will be subject to the approval and direction of the PPC, of which Lompoc is a voting participant.

ECONOMIC IMPACT:

Approval of LEC Amendment No. 1 authorizes up to a \$300,000 increase in Lompoc's share of the LEC Phase 2 budget. Considering the previous approval of up to \$500,000 under the original Agreement, and upon approval of Amendment No. 1, Lompoc's commitment will total an amount up to \$800,000. It should be noted that these numbers are "not to exceed" amounts. As previously stated in our December 18, 2007 City Council package recommending approval of the original Agreement, these funds are available from Lompoc's General Operating Reserves at NCPA, and will not impact the current Electric budget. Expenditures ultimately made are subject to the approval and direction of the PPC and will be allocated proportionately based on Project Participation Percentages. The purpose of such actions is to secure equipment delivery timing and price certainty, which should add stability to the ultimately incurred overall LEC construction cost. Thus, such costs incurred during Phase 2 will likely either offset or stabilize costs that otherwise would have been expended during the construction phase of the Project.

If the Project ultimately does not proceed to the financing and construction phase, any Project related assets acquired during the Phase 2 process, including the then value of equipment timing and pricing options which might have been attained, will be liquidated pursuant to PPC direction with any and all funds so collected returned proportionately to the Project Participants. If pricing and timing certainty is attained through some form of non-transferrable option arrangement, it is possible that the option premium paid will be lost if the delivery is not consummated. Additionally, if the Project is ultimately financed and constructed, all funds expended during the Phase 2 planning and development process of the LEC will be reimbursed to Lompoc.

ENVIRONMENTAL IMPACT ASSESSMENT

Proposed Amendment No. 1 adds two (2) Phase 2B activities to Exhibit A of the original Agreement.

1. Secure critical power island equipment delivery schedule and price certainty through advance ordering or other arrangements.
2. Lease needed warehouse and administrative facilities at or proximate to the Project site.

These activities are statutorily exempt from CEQA pursuant to 14 CCR § 15271, which states that "CEQA does not apply to actions undertaken by a public agency relating to any thermal power plant site or facility including the expenditure, obligation or encumbrance of funds by a public agency for planning, engineering, or design purposes, or for the conditional sale or purchase of equipment, fuel, water (except groundwater), steam, or power for such a thermal plant".

TABLE A

7/16/2008

Lodi Energy Center Participation Percentages, Capacity and Budget Allocation						
(Including the Proposed Amendment No. 1 Budget Increase)						
Project Member	Project Member Participation Percentage (%)	Project Member Capacity Share (MW)	Initially Approved Phase 2A Budget	Initially Approved Phase 2B Budget	Amend. No. 1 Phase 2B Budget Increase	Total Phase 2 Budget w/ Amendment No. 1
			\$ 16,000,000	\$ 9,000,000	\$ 15,000,000	\$ 40,000,000
Azusa	2.745%	7.0	\$ 439,216	\$ 247,059	\$ 411,765	\$ 1,098,039
BART	5.882%	15.0	941,176	529,412	882,353	2,352,941
Biggs	0.392%	1.0	62,745	35,294	58,824	156,863
CDWR	23.529%	60.0	3,764,706	2,117,647	3,529,412	9,411,765
Gridley	1.961%	5.0	313,725	176,471	294,118	784,314
Healdsburg	1.569%	4.0	250,980	141,176	235,294	627,451
Lodi	11.765%	30.0	1,882,353	1,058,824	1,764,706	4,705,882
Lompoc	1.961%	5.0	313,725	176,471	294,118	784,314
Modesto	23.529%	60.0	3,764,706	2,117,647	3,529,412	9,411,765
Plumas-Sierra	0.784%	2.0	125,490	70,588	117,647	313,725
Port of Oakland	1.176%	3.0	188,235	105,882	176,471	470,588
PWRPA	1.961%	5.0	313,725	176,471	294,118	784,314
Silicon Valley Power	19.608%	50.0	3,137,255	1,764,706	2,941,176	7,843,137
Ukiah	3.137%	8.0	501,961	282,353	470,588	1,254,902
Total	100.000%	255.0	\$ 16,000,000	\$ 9,000,000	\$ 15,000,000	\$ 40,000,000

Respectfully Submitted,

Larry Silva, Interim Electrical Utility Manager

APPROVED FOR SUBMITTAL TO THE CITY ADMINISTRATOR:

Ron Stassi, Utility Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Gary P. Keefe, City Administrator

Attachments: (1) [Amendment No. 1 to the Phase 2 Agreement for Funding the Planning and Development Activities of the Lodi Energy Center](#)