



City Council Agenda Item

City Council Meeting Date: June 4, 2024

TO: Dean Albro, City Manager

FROM: Brad Wilkie, Utility Director
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SUBJECT: Adoption of Resolution No. 6662(24) Authorizing the City Manager or Designee to Execute a Third Phase Agreement for a Renewable Power Purchase Agreement with Grace Orchard Energy Center, LLC

Recommendation:

Staff recommends the City Council adopt Resolution No. 6662(24) (Attachment 1), authorizing the City Manager or designee to execute a Third Phase Power Purchase Agreement with Grace Orchard Energy Center, LLC (Grace Solar) (Attachment 2).

Background:

On March 25, 2020, Northern California Power Agency (NCPA), acting on behalf of its Members, including Lompoc, issued a Request for Proposals for Renewable Energy Resources, Carbon Free Energy Resources, and Energy Storage Solutions (RFP), as subsequently amended on April 1, 2022, to solicit competitive proposals for renewable energy projects and products consistent with the Renewable Energy Resources Program (Public Resources Code sec. 25740 et seq.) and the California Renewables Portfolio Standard Program (Public Utilities Code sec. 399.11 et seq.), including amendments enacted by passage of Senate Bill 100 (De Leon 2018), and carbon free energy resources.¹ Through the RFP, NCPA sought cost effective resources to support its Members' Renewable Portfolio Standard and carbon free objectives.

In response to the RFP, NCPA received multiple proposals for the supply of renewable energy sourced from different technologies, including a proposal from Grace Solar on June 6 2023, to sell output produced from a proposed 500 Megawatt (MW) variable energy resource (VAR) facility located in Riverside County, California. The proposal included the sale and delivery of 50MW of renewable energy and related products to NCPA for the benefit of its Members. Based on NCPA's review of the proposal details, and involving direct coordination with Members who expressed an interest in purchasing output from the facility offered in the Grace Solar proposal, NCPA determined that the

¹ The RFP was publicly noticed and made available to the public on NCPA's website.

offer was competitive and met the needs and requirements of the interested Members, which includes Lompoc.

As such, NCPA, acting on behalf of certain Members who expressed an interest in purchasing output from the geothermal power plants, including Lompoc (the Participants)², engaged in active negotiations with Grace Solar, to develop certain agreements through which NCPA could purchase the VAR output from Grace Solar, acting on behalf of the Participants. As a result of such effort, NCPA, in coordination with the Participants, has developed an agreement with Grace Solar, to purchase renewable energy products via a Renewable Power Purchase Agreement between NCPA and Grace Solar, to purchase renewable energy (Purchase Agreement). Pursuant to the Purchase Agreement, NCPA will purchase renewable energy products from Grace Solar, on behalf of the Participants, to be delivered to and received by the Participants.

As set forth in the Purchase Agreement, NCPA will purchase, on behalf of the Participants, renewable energy products from Grace Solar, produced and delivered from the facility located in Riverside County, California (the Project) upon the Commercial Operations Date projected to be December 2027, and continuing through approximately December 2046. During that period, the Purchase Agreement contract quantity is 50MW of VAR output. The Project is required to: (i) be certified by the California Energy Commission (CEC) as an Eligible Renewable Energy Resource, and (ii) satisfy the requirements of Section 399.16(b)(1)(A) of the California Public Utilities Code by having a first point of interconnection with the California Independent System Operations (CAISO) Balancing Authority.

Discussion:

To enable NCPA to enter into the Purchase Agreement on behalf of the Participants, including Lompoc, pursuant to the terms and conditions of the Amended and Restated Facilities Agreement, NCPA and the Participants shall enter into the Third Phase Agreement for the Renewable Power Purchase Agreement with Grace Solar (Third Phase Agreement) to provide all means necessary for NCPA to fulfill obligations incurred on behalf of NCPA and the Participants pursuant to the Purchase Agreement, and to enable and obligate the Participants to take delivery of and pay for such renewable energy products and to pay NCPA for all costs it incurs for undertaking the foregoing activities. Upon full execution of the Third Phase Agreement, NCPA will enter into the Purchase Agreement on behalf of the Participants, and such Purchase Agreement shall be deemed an NCPA Project by the CEC.

The Grace Solar facility has not yet been completed. Section 8.5 of the Third Phase Agreement, pursuant to Section 2.5 of the Purchase Agreement authorizes the City Manager to execute an amendment to the Third Phase agreement in the following specific

² Subject to the completion of the Project Participation Percentage transfer process described in Exhibit A of the Third Phase Agreement, the Participants may include the following Members: Cities of Biggs, Gridley, Healdsburg, Lodi, Lompoc, Santa Clara, Shasta Lake, Ukiah, and Plumas-Sierra Rural Electric Cooperative and the Port of Oakland.

instance. Grace Solar reserves the right to submit a Proposed Contract Price Increase to NCPA for consideration in the event a New Photovoltaic (PV) Trade Measure Event results in an actual cost increase for Grace Solar. Per authority in Resolution No. 6662(24), the City Manager or designee is hereby authorized to execute an amendment to the Third Phase Agreement to further authorize NCPA to effectuate a Proposed Contract Price Increase if such is deemed acceptable by the City Manager when compared to current market conditions for similar products.

As further described in Exhibit A of the Third Phase Agreement, on the effective date the Initial Participants (the Cities of Healdsburg, Lodi, Lompoc, Santa Clara, and Ukiah) will hold the full Project Participation Percentage share of the Project. However, prior to the Transfer Completion Deadline, certain Members who are listed in Table 2 of Exhibit A may exercise a right to accept a transfer of a portion of the Initial Project Participation Percentage of the City of Santa Clara, an Initial Participant, in an amount no greater than the amount set forth in Table 2 of Exhibit A, by providing written notice of its intent to accept the transfer and by executing the Third Phase Agreement, and therefore becoming a Participant. After the Transfer Completion Deadline, NCPA shall prepare a Table 3 to be included in Exhibit A of the Third Phase Agreement, to account for the Final Project Participation Percentages of each Participant, including any amount of the Initial Project Participation Percentage that is retained by the Initial Participants due to a Member listed in Table 2 of Exhibit A not exercising its right to accept a transfer by the Transfer Completion Deadline. Once Lompoc executes the Third Phase Agreement, such execution will result in the City having a ten percent (10.0%) Project Participation Percentage in the Project.

A copy of the draft Third Phase Agreement (Attachment 2) is attached to this staff report.

Fiscal Impact:

There is no direct fiscal impact to the City's General Fund. Pursuant to the terms and conditions of the Third Phase Agreement, each Participant, including Lompoc, acknowledges and agrees to be bound by the terms and conditions of the Third Phase Agreement, and that the Third Phase Agreement is written as a "take-or-pay" agreement. Any renewable energy products delivered to NCPA under the Purchase Agreement will be delivered to each Participant in proportion to such Participant's Project Participation Percentage as set forth in Exhibit A of the Third Phase Agreement, and each Participant shall accept and pay for its respective percentage of such renewable energy products.

The City does have solar PV in its portfolio with power produced locally by solar PV installations (rooftop solar) installed via legislation passed in 2008 (SB1 – or more commonly know as 1 million solar roofs). However, due to the current residential and commercial rate structure, this energy is the most expensive of all of the City's owned energy resources and substantially more expensive than current market rates for merchant provided power contracts.

The City's share of NCPA owned projects and of long-term contracts is less than the City's overall load (its obligation to serve). To be able to serve its load on an hourly, monthly and annual basis, the City currently relies upon its diverse owned resources and when necessary procures energy, capacity, and other products to meet its obligations. By participating in this Third Phase Agreement for the long-term resources provided by Grace Solar, the City increases its ability to serve its customers. By adding a new resource to our portfolio, the City further reduces its exposure and risk associated with purchasing energy and other products "on the market" or by relying upon a limited set of owned resources. By supplanting a portion of that "market resource" with a cost certain and long-term resource, the City has mitigated its risk in the event of an energy price spike as occurred during November and December 2022.

Conclusion:

The adoption of Resolution No. 6662(24) will authorize the City Manager or designee to execute the Third Phase Agreement for the Renewable Power Purchase Agreement with Grace Solar.

Respectfully submitted,

Brad Wilkie, Utility Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Dean Albro, City Manager

Attachments: 1) Resolution No. 6662(24)
2) Third Phase Agreement for Purchase Agreements with Grace Orchard Energy Center, LLC.