



# City of Palo Alto

## City Council Staff Report

(ID # 2710)

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**Report Type: Consent Calendar**

**Meeting Date: 4/16/2012**

**Summary Title: Modification of Renewable Portfolio Standard**

**Title: Finance Committee Recommendation to Adopt a Resolution Modifying the City of Palo Alto Utilities' Long-term Electric Acquisition Plan's Strategy Related to the Renewable Portfolio Standard**

**From: City Manager**

**Lead Department: Utilities**

### **Recommendation**

Staff and the Finance Committee recommend that the Council adopt a resolution approving the proposed modifications to the Long-term Electric Acquisition Plan (LEAP) strategy related to the Renewable Portfolio Standard (RPS), to read as follows:

Reduce the carbon intensity of the electric portfolio by acquiring renewable energy supplies by:

- a. Pursuing a minimum level of renewable purchases of at least 33% of retail sales by 2015 with the following attributes:
  - i. The contracts for investment in renewable resources shall not exceed 30 years in term.
  - ii. Pursue only renewable resources deemed to be eligible by the California Energy Commission (CEC).
  - iii. Evaluate use of Renewable Energy Certificates (RECs) to meet RPS.
- b. Ensuring that the retail rate impact for renewable purchases does not exceed 0.5 ¢/kWh on average; and
- c. Performing an ongoing evaluation of the Palo Alto Clean Local Energy Accessible Now (CLEAN) program.

The Utilities Advisory Commission (UAC) recommends that the Council approve the different version of paragraph a of the LEAP strategy related to RPS to read as follows:

Reduce the carbon intensity of the electric portfolio by acquiring renewable energy supplies by:

- a. Pursuing a minimum level of renewable purchases of at least 33%, with a target of 40%, of retail sales by 2015 with the following attributes:
  - i. The contracts for investment in renewable resources shall not exceed 30 years in term.
  - ii. Pursue only renewable resources deemed to be eligible by the California Energy Commission (CEC).

- iii. Evaluate use of Renewable Energy Certificates (RECs) to meet RPS.
- b. Ensuring that the retail rate impact for renewable purchases does not exceed 0.5 ¢/kWh on average; and
- c. Evaluating a Feed-In Tariff (FIT).

Additionally, the Finance Committee recommends that the Council adopt a goal to achieve a 100% Clean Electricity portfolio.

**Executive Summary**

The City’s Renewable Portfolio Standard (RPS) is to supply 33% of the City’s electric needs with renewable energy by 2015. However, the City’s RPS policy needs to be slightly modified to be consistent with State law and to clarify whether the 33% target is a minimum, or whether the City should pursue the maximum amount of RPS resources that can be procured within the 0.5 cents per kilowatt-hour (¢/kWh) rate impact limit. The changes recommended by staff and the Finance Committee are shown in ***bold italics*** in the table below.

**Comparison of Existing and Proposed LEAP Strategy Related to RPS**

| <b>Existing LEAP Strategy #3</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <b>Proposed LEAP Strategy #3</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Renewable Portfolio Standard (RPS)</b><br/>Reduce the carbon intensity of the electric portfolio by acquiring renewable energy supplies by:</p> <ul style="list-style-type: none"> <li>a) Pursuing a target level of renewable purchases of 33% by 2015 with the following attributes:               <ul style="list-style-type: none"> <li>i) The contracts for investment in renewable resources shall not exceed 30 years in term.</li> <li>ii) Pursue only renewable resources deemed to be eligible by the California Energy Commission (CEC).</li> <li>iii) Evaluate use of Renewable Energy Certificates (RECs) to meet RPS.</li> </ul> </li> <li>b) Ensuring that the retail rate impact for renewable purchases does not exceed 0.5 ¢/kWh on average; and</li> <li>c) Evaluating a Feed-In Tariff (FIT).</li> </ul> | <p><b>Renewable Portfolio Standard (RPS)</b><br/>Reduce the carbon intensity of the electric portfolio by acquiring renewable energy supplies by:</p> <ul style="list-style-type: none"> <li>a) Pursuing a <b><i>minimum</i></b> level of renewable purchases of <b><i>at least 33% of retail sales</i></b> by 2015 with the following attributes:               <ul style="list-style-type: none"> <li>i) The contracts for investment in renewable resources shall not exceed 30 years in term.</li> <li>ii) Pursue only renewable resources deemed to be eligible by the California Energy Commission (CEC).</li> <li>iii) Evaluate use of Renewable Energy Certificates (RECs) to meet RPS.</li> </ul> </li> <li>b) Ensuring that the retail rate impact for renewable purchases does not exceed 0.5 ¢/kWh on average; and</li> <li>c) <b><i>Performing an ongoing evaluation of the Palo Alto Clean Local Energy Accessible Now (CLEAN) program.</i></b></li> </ul> |

LEAP was last updated in March 2012 when Council adopted a resolution to modify a LEAP strategy related to the City’s study of energy storage systems (Staff Report #2581). The revised LEAP, with the proposed changes included, is provided in Attachment B.

## Finance Committee Review and Recommendation

On March 20, 2012, the Finance Committee considered the recommendation from staff and the UAC to make a change to the RPS strategy in LEAP as highlighted below:

### LEAP Strategy #3 – Renewable Portfolio Standard (RPS)

Reduce the carbon intensity of the electric portfolio by acquiring renewable energy supplies by:

- a. Pursuing a **minimum** target level of renewable purchases of **at least 33%, with a target of 40%, of retail sales** by 2015 with the following attributes:
  - (1) The contracts for investment in renewable resources shall not exceed 30 years in term.
  - (2) Pursue only renewable resources deemed to be eligible by the California Energy Commission (CEC).
  - (3) Evaluate use of Renewable Energy Certificates (RECs) to meet RPS.
- b. Ensuring that the retail rate impact for renewable purchases does not exceed 0.5 ¢/kWh on average; and
- c. Evaluating a Feed-In Tariff (FIT).

The changes were recommended to clarify that RPS resources should be procured beyond the 33% RPS target level, but not more than can be procured with the rate impact limit of 0.5 ¢/kWh, and that the 33% RPS minimum target is based on retail sales.

The Finance Committee discussed the recommended changes and generally supported the recommendations, with a modification to remove the identification of a 40% RPS target and to update the reference to a Feed-in Tariff. The Finance Committee discussed each recommendation found in the Finance Committee report (Attachment C, Staff Report #2515):

1. The current LEAP strategy is unclear whether the RPS target is based on retail sales or purchase volume. Before the State's RPS law that applies to Palo Alto was adopted, Palo Alto's practice was to use purchase volume in calculating its RPS level, but the law stipulates retail sales as the basis. The Finance Committee agreed with staff and the UAC to use retail sales as the basis, consistent with State law.
2. The State's RPS law includes interim compliance periods, but staff recommends not complicating the City's RPS strategy with compliance periods and the Finance Committee agreed. Meeting the City's internal RPS target will ensure that it will not be out of compliance with the State law's interim compliance period targets.
3. Staff and the UAC recommend modifications to the RPS strategy to clarify that the goal is to procure at least 33%, but not to exceed the 0.5 ¢/kWh rate impact limitation. The Finance Committee agreed, but voted not to include a 40% RPS target level.
4. The City must comply with the State's RPS law's restrictions on the use of Renewable Energy Certificates (RECs), but staff does not recommend adding any additional

guidelines on the use of RECs. The Finance Committee agreed with staff's recommendation.

5. The City must comply with the restrictions on the types of renewable resources that can be used for compliance with the State's RPS law, but staff does not recommend establishing any additional local requirements on the use of renewable resources to meet its RPS targets. The Finance Committee agreed with staff's recommendation.

The Finance Committee unanimously (4-0) recommended Council modify the LEAP Strategy related to RPS as shown in the following table:

| Existing LEAP Strategy #3                                                                                                                                                                                                                                               | Finance Committee Recommendation                                                                                                                                                                                                                                                                                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Renewable Portfolio Standard (RPS)</b><br/>Reduce the carbon intensity of the electric portfolio by acquiring renewable energy supplies by:</p> <p>a) Pursuing a target level of renewable purchases of 33% by 2015 with the following attributes:</p> <p>...</p> | <p><b>Renewable Portfolio Standard (RPS)</b><br/>Reduce the carbon intensity of the electric portfolio by acquiring renewable energy supplies by:</p> <p>a) Pursuing a <i>minimum</i> level of renewable purchases of <b>at least 33% of retail sales</b> by 2015 with the following attributes:</p> <p>...</p> |

The Finance Committee then discussed another aspect of the RPS strategy that referred to "evaluating a Feed-In Tariff (FIT)." The Finance Committee clarified that the Council had already approved the first year of the Palo Alto CLEAN program and that it was their understanding that the program would be reviewed and updated annually. Staff confirmed this understanding. Thus, the Finance Committee stated that the RPS strategy needed to be updated since the CLEAN program and rate had already been evaluated and that it should be evaluated on an ongoing basis. The Finance Committee unanimously (4-0) recommended Council modify the LEAP Strategy related to RPS further as shown in the following table:

| Existing LEAP Strategy #3                                                                                                                                                                                    | Finance Committee Recommendation                                                                                                                                                                                                                                                              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Renewable Portfolio Standard (RPS)</b><br/>Reduce the carbon intensity of the electric portfolio by acquiring renewable energy supplies by:</p> <p>...</p> <p>c) Evaluating a Feed-In Tariff (FIT)</p> | <p><b>Renewable Portfolio Standard (RPS)</b><br/>Reduce the carbon intensity of the electric portfolio by acquiring renewable energy supplies by:</p> <p>...</p> <p>c) <b><i>Performing an ongoing evaluation of the Palo Alto Clean Local Energy Accessible Now (CLEAN) program.</i></b></p> |

Additionally, the Finance Committee discussed how the RPS fits with a policy to achieve a carbon neutral electric portfolio and how the voluntary 100% renewable PaloAlto**Green** program could fit into a carbon neutral, or "Clean Electricity", portfolio. The Finance

Committee voted unanimously to recommend that the Council adopt a 100% Clean Electricity portfolio policy.

Attachment D contains the draft excerpted minutes from the March 20, 2012 Finance Committee meeting.

### **Resource Impact**

Adoption of the proposed modifications to LEAP would change the way staff calculates the City's Renewable Portfolio Standard level – shifting from the practice of using the City's total purchase volume in the calculation to using the City's total retail sales volume. This change in practice would result in the need to procure approximately 12,000 MWh less renewable energy per year, which staff estimates would save the City approximately \$0.25 million per year.

### **Policy Implications**

The proposed policy is compliant with state law and meets the minimum RPS requirements of Senate Bill (SB) X1 2 on an accelerated pace. The proposed RPS policy would modify the LEAP Strategy related to RPS by adding clarity, but would not change the general policy direction.

### **Environmental Review**

Support of staff's recommendation to approve the proposed modifications to the LEAP Strategy related to RPS does not constitute a project for the purposes of the California Environmental Quality Act.

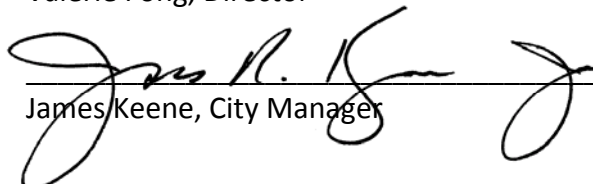
### **Attachments:**

- Attachment A: Resolution Approving RPS Policy Modifications (PDF)
- Attachment B: Modified Long-term Electric Acquisition Plan (PDF)
- Attachment C: March 20, 2012 Finance Committee Staff Report (ID#2515) (PDF)
- Attachment D: March 20, 2012 Finance Committee Meeting Draft Excerpt Minutes (PDF)

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City Manager Approval:

  
James Keene, City Manager