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## STAFF REPORT

### LIGHT AND POWER DEPARTMENT

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**DATE:** December 3, 2013

**TO:** Honorable Mayor and City Council

**FROM:** Carlos Fandino Jr., Director of Light and Power *CF*

**RE:** Renewable Portfolio Standard Annual Status Report for Compliance Period No. 1

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#### Recommendation

It is recommended that the City Council:

1. Find that the approval requested in this staff report is exempt under the California Environmental Quality Act (CEQA) in accordance with Section 15061(b)(3), the general rule that CEQA only applies to projects that may have an effect on the environment; and
2. Receive and acknowledge the annual Renewable Portfolio Standard ("RPS") Report for Compliance Period No. 1 as presented by the Light and Power Department.

#### Background

On April 12, 2011, Governor Edmund G. Brown, Jr. signed into law the California Renewable Energy Resources Act, Senate Bill 2 of the First Extraordinary Session ("SBx1 2") requiring all load serving entities in California to achieve a 33% Renewable Portfolio Standard ("RPS") by 2020. Additionally, SBx1 2 required each publicly owned utility such as the City of Vernon ("Vernon") to develop a procurement plan and to adopt an enforcement program (by 1/1/2012). The legislation became law effective January 1, 2012. It was again amended effective January 1, 2013.

#### *City of Vernon Renewable Portfolio Standards*

##### **SB 1078**

In 2002, Senate Bill 1078 ("SB 1078") implemented a RPS with a goal of providing 20 percent of the energy sold to retail customers be generated using eligible renewable resources by 2017. Pursuant to SB 1078, the City Council adopted Resolution 8511 on August 4, 2004, which

established for Vernon a goal of serving 20 percent of Vernon's load with "eligible" renewable energy resources by 2017.

Under SB 1078, the governing board of a local publicly owned electric utility is responsible for implementing and enforcing a renewable portfolio standard for the utility that recognizes the intent of the Legislature to encourage utilization of renewable resources, while taking into consideration the effect of the standard on rates, reliability, and financial resources and the goal of environmental improvement.

### **SBx1 2**

In the ongoing effort to codify the 33 percent by 2020 goal, SBx1 2 was signed by Governor Edmund G. Brown, Jr., in April 2011. SBx1 2 revised the RPS Program to state the intent of the Legislature to increase the amount of electricity generated from eligible renewable energy resources per year, so that amount equals at least 33 percent of total retail sales of electricity in California per year by December 31, 2020.

This bill makes the requirements of the RPS program applicable to local publicly owned electric utilities, except that the utility's governing board is responsible for implementing those requirements. However, certain enforcement authority with respect to local publicly owned electric utilities was given to the Energy Commission and State Air Resources Board. Further, the bill required that the governing board of each local publicly owned electric utility adopt an enforcement program on or before January 1, 2012. The Light & Power Department formulated a plan to address all legal provisions and this proposed program was adopted by Council via Resolution 2012-02 on January 3, 2012, thereby implementing Vernon's SBx1 2 Compliance Plan.

### **Vernon's SBx1 2 Compliance Plan**

The existing SBx1 2 Compliance Plan represents Vernon's commitment to renewable energy procurement consistent with the legislative intent of SBx1 2 to ensure the development of a procurement plan and the adoption of an enforcement program. Some of the major provisions are as follows:

- **Procurement Targets** – SBx1 2 calls for interim targets that must be attained. There are three compliance periods ("CPs"). The first compliance period covers 2011 through 2013 ("CP1"). The second period covers 2014 through 2016 ("CP2"). The third period covers 2017 through 2020 ("CP3"). CP1 has a compliance target of 20% by December 31, 2013. CP2's target is 25% by the end of CP2. CP3's target is 33 percent by the end of CP3. After 2020, the procurement target is 33 percent. Consistent with the legislation, Vernon will increase procurement of electricity from eligible renewable resources, including renewable energy credits, to meet the target objectives.
- **Portfolio Categories** – SBx1 2 sets forth three broad categories (buckets) of eligible resources. The existing SBx1 2 Compliance Plan ensures that the portfolio of renewable energy procured is consistent with the three categories of eligible resources.
- **Enforcement Program** – The legislation required the City Council to adopt an enforcement program and, effective January 3, 2012, pursuant to Resolution 2012-02, City Council approved the implementation of Vernon's Compliance Plan.

## **Status for Compliance Period No. 1**

Pursuant to Vernon's RPS Procurement Plan and Enforcement Program, action has been taken to acquire renewable energy during Compliance Period No. 1.

- In order to explore renewable energy resources, both solar and wind generated, the City purchased land in Kern County (Tehachapi Mountains) on October 8, 2008 and proceeded to commission studies to develop the land, with the intent to yield energy output by the year 2017.
- In March 2012, the City entered into biomethane contracts with two separate suppliers to bridge the gap between SBx1 2's early procurement targets and additional renewable energy sources expansion via projects such as the possible wind and solar development on the City's Tehachapi property.

### ***Summary of Outcome***

Various factors outside of the City's control significantly impacted the biomethane contracts that the City had in place. As a result, the City will not realize the specified target procurement for Compliance Period No. 1. Passage of legislation and regulatory guidelines caused a ripple effect throughout the industry, compounding the challenges facing the City of Vernon to meet RPS requirements. But for those changes, Vernon would have met the RPS requirements.

### ***Reasons for Failure to Meet RPS Requirements***

#### ***SBx1 2 Passage***

Senate Bill x1 2 revised the Renewable Energy Resource Program to state the intent of the Legislature to increase the amount of electricity generated from eligible renewable energy resources per year, so that the amount equals at least 33% of total retail sales of electricity in California per year by December 31, 2020. SBx1 2 also accelerated the effective date of the 20% RPS goal retroactive to January 1, 2011. Originally, 2017 was the legislative deadline to achieve the 20% threshold.

The altered date of the deadline to meet stringent RPS requirements impacted the City's original target objectives. No longer were the biomethane contracts an effective bridge toward the achievement of requirements by 2017, but instead the City needed to rely on the contracts as a matter of primary supply during CPI.

#### ***California Energy Commission Biomethane Suspension***

Another compounding factor was that on March 28, 2012, the California Energy Commission ("CEC") suspended the RPS eligibility guidelines for certification of power plants generating electricity using biomethane.

Biogas proponents argued that the suspension would be counterproductive to the goals of SBx1 2, hindering the construction of projects that capture and control the release of methane into the atmosphere. They pointed out that developers had entered into agreements in good faith with California publicly owned utilities for RPS eligible biomethane, and had invested millions of dollars into projects to produce in-state facilities that were designed to spawn new jobs and contribute to the possibility of cleaner air for residents. CEC's decision to suspend biomethane approvals halted the development of such facilities and impacted market accessibility to biomethane, thus

adversely affecting the biomethane portfolio contribution toward the fulfillment of the impending RPS requirements detailed within SBx1 2.

Effective April 30, 2013, the CEC lifted the suspension of the eligibility of electric generating facilities using biomethane in the Renewable Portfolio Standard Program. Consequently, the Malburg Generating Station received certification in July 2013. During the 17-month period from the point of the CEC suspension through the plant certification in July 2013, the City's biomethane suppliers delivered only minimum quantities of biomethane due to the uncertainties surrounding the plant certification.

#### ***Biomethane Supplier Challenges***

Due to restraints placed on the biomethane delivery by the CEC suspension of RPS eligibility guidelines, several source projects were decommissioned, thus affecting Vernon, as it affected the rest of the marketplace. Thus, brokered biomethane contracts were rendered undeliverable to the City. Further, a new project implemented by a supplier proved to be less successful in its production of biomethane than was initially projected. These circumstances adversely affected the City's ability to secure the required amount of renewable energy resources via its existing biomethane contracts.

### ***Vision for the Future***

#### **Summary of Plan to meet RPS Requirements in the Future**

The City of Vernon intends to meet all future procurement targets, barring any events and occurrences that are beyond the City's control. Diversity in a renewable portfolio is the ultimate vision. The City continues to work diligently toward this goal.

### **Prospects for RPS Contributions**

#### ***Wind***

Progress in the exploration of wind energy development in the Tehachapi Fee Lands has been substantial. Over the past two and a half years, promising meteorological data have been collected. As the City moves forward, additional discovery is anticipated. With the City having established a Letter of Intent non-binding agreement with Ogin Energy (originally known as "FloDesign"), a wind turbine design company, discussions and research continue. Ogin Energy will be pursuing data collection in Tahachapi and working with regulatory and governing agencies to ensure compliance and address pertinent issues that may impact the future development of this site. Optimistically, the City intends to move forward with project development, whether it is with Ogin Energy or another entity, assuming that alignment is achieved with the City's objectives, wind-harnessing technology proves successful, and taking into consideration any regulatory issues that may arise.

#### ***Solar/Third Party Purchase***

Currently, the City is pursuing solar energy opportunities and has been actively researching the feasibility of project implementation. Prospective solar projects are on the visible horizon, albeit in the infancy stage at this point. Additionally, the City has enlisted the assistance of SCPPA, a utility group, to optimize their exploration efforts.

There is a promising outlook for solar energy contributions and the City is determined to capitalize on this emerging technology.

**Fiscal Impact**

This report is for informational purposes only. There is no fiscal impact.