



CITY OF GLENDALE, CALIFORNIA SPECIAL CITY COUNCIL MEETING

AGENDA ITEM

Report: Renewal Agreement for the Acquisition of Capacity and a Renewal Transmission Service Contract with Southern California Public Power Authority (SCPPA) for Southern Transmission System (STS).

1. Motion authorizing the City Manager, or his designee, to execute the Renewal Agreement for the Acquisition of Capacity in STS; and any ancillary documents, including certificates, letters, and notices to administer and effectuate the implementation of the Agreement.
2. Motion authorizing the City Manager, or his designee, to execute the Renewal Transmission Service Contract for STS, and any ancillary documents, including certificates, letters, and notices to administer and effectuate the implementation of the Contract.

COUNCIL ACTION

Item Type: Action

Approved for October 11, 2022 calendar

EXECUTIVE SUMMARY

In 2015, the City Council approved a Resolution authorizing the execution of the Second Amendatory Power Sales Contract, the Renewal Power Sales Contract, and the Renewal Excess Power Sales Agreement with Intermountain Power Agency ("IPA") renewing Glendale's participation in Intermountain Power Project (IPP) through June 15, 2077. As a result, Glendale Water & Power (GWP) will maintain access to the STS transmission line which is 5.278% of the line capacity, or approximately 127 MW, which includes the additional 72 MW of transmission capacity that Glendale will acquire in 2027.

STS is a critical transmission asset for delivering IPP power and for the delivery of renewable energy from sources utilizing IPP's location as a renewable energy hub. Access to STS is critical to achieving the State's Senate Bill 100 Renewables Portfolio Standard (RPS) requirement to serve 60% of retail load by renewable energy, by 2030, as well as the City of Glendale's intent to achieve 100% clean, renewable, or non-carbon-emitting energy excluding renewable biofuels not already permitted or approved, by no later than 2035, as set forth in a Resolution adopted on August 16, 2022.

STS and its associated infrastructure facilities have reached the end of their useful life and present increasing reliability concerns. Therefore, capital improvements are necessary to extend the life of STS. Similar to the STS Original Agreements, California remaining purchasers, the Cities of Glendale, Burbank, and Los Angeles propose to finance the STS Renewal Project through SCPPA. The City of Burbank has approved the financing, and LADWP is expected to consider the financing at an upcoming LADWP Board meeting. In order to undertake the proposed financing of the STS Renewal Project, the City of Glendale has to approve the execution of Renewal Agreement for the Acquisition of Capacity in STS and Renewal Transmission Service Contract for STS (collectively the “STS Renewal Agreements”) to authorize the issuance of new bonds and other debt obligations by SCPPA for the STS Renewal Project. The improvements are necessary to provide for continued reliable transmission of such energy from IPP to Southern California during the term of the Renewal Power Sales Contract. Moreover, the STS Renewal Agreements will enable financing of the STS Renewal Project for the transmission of electric energy at a better cost for Glendale and its ratepayers.

COUNCIL PRIORITIES

Infrastructure: The STS is an important transmission asset for GWP, because it allows for transmission of power from IPP, which is an important source of generation included in Electric Utilities Integrated Resource Plan. Maintaining access to the STS is important in providing safe, efficient and reliable Electric Services to Glendale residents.

Environmental Stewardship: The region along the STS is home to many renewable resources; and because the City’s transmission capacity exceeds its share in IPP, the excess will allow GWP to secure additional renewable resources. Having access to STS will assist GWP in meeting the Renewables Portfolio Standard (RPS) set by Senate Bill (SB) 100, which mandates that GWP serve 60% of its retail load by renewable energy, by 2030.

RECOMMENDATION

Approve and authorize City Manager, or his designee, the General Manager of Glendale Water and Power, to execute Renewal Agreement for the Acquisition of Capacity and a Renewal Transmission Service Contract with SCPPA for STS, and any ancillary documents necessary, including certificates, letters, and notices to administer the above-referenced contracts, consistent with the policies established by the City Council to effectuate the implementation of the forgoing.

BACKGROUND

In 1980, the City of Glendale executed a long-term agreement with IPA, a municipal joint action agency in Utah, for the purchase of coal-fired generation from IPP and associated transmission rights from Delta, Utah to Southern California to ensure the delivery of such generation to Glendale. In the later years, in anticipation of changing California laws related to power generation sources, IPA and IPP Purchasers pursued environmentally viable options to replace the coal-fired generation.

In 2015, the City Council authorized Glendale to execute renewal contracts for IPP that will convert the existing 1800 MW coal plant into a 1200 MW natural gas generation facility, and to subscribe to up to a 50 MW share of the repowered IPP. Ultimately, GWP subscribed to a 4.166% share of the project through June 15, 2077. In 2018, the City Council authorized GWP to vote in favor of an Alternative Repowering proposal, which reduced the size of the proposed repowering from 1200 MW to 840 MW. With the Alternative Repowering, GWP retains its 4.166% share of IPP generation (35 MW).

GWP's access to the STS line is contractually contingent upon maintaining a share of the IPP Power Plant. Because Glendale has elected to participate in the IPP Repowering, GWP will maintain access to the STS transmission line. The STS is a 2,400 MW high-voltage transmission line from IPP near Delta Utah to Adelanto, California. STS transmits the California participant's entitlements from IPP. Through its participation in IPP Repower GWP's share of the line increased from 2.274% (approximately 55MW) to 5.278% of the line (approximately 127 MW). By virtue of its participation in the IPP, GWP also has transmission rights from Adelanto, CA to Airway Receiving Station in Glendale, CA under the IPP Transmission Service Agreement (TSA) with LADWP. Since the IPP TSA is concurrent with a renewal of the IPP Power Sales Contract, in August 2021, City Council approved the Second Amendment to the Los Angeles-Glendale IPP TSA extending it to through June 15, 2077.

Due to IPP Repowering, IPA determined that capital improvements are necessary to extend the life of STS. The STS Renewal Project includes the replacement, renewal, and expansion of converter stations, AC switchyards, reactive power equipment, and associated facilities of the STS which have reached the end of their useful lives and present reliability concerns. The STS and related STS Renewal Project will increasingly be utilized not only for the transmission of IPP generation but also to serve as an increasingly critical transmission asset for the delivery of renewable energy from sources utilizing IPP's location as a renewable energy hub.

Although IPA financed the construction of the majority of IPP, the California Purchasers of IPP, including Glendale, financed the original construction of the STS through SCPPA. In the 1980s, City of Glendale entered into an agreement for the Acquisition of Capacity and Transmission Service Contract (collectively "STS Original Agreements") with SCPPA to allow for the issuance of more economically favorable bonds and other debt obligations by SCPPA for the construction of STS. The STS Original Agreements are effective through June 15, 2027, the anticipated date when the last of the debt repayment for the original bond and other debt obligations issued by SCPPA will be satisfied by the original California purchasers of IPP.

ANALYSIS

Consistent with the original STS construction and financing, the California renewal purchasers of IPP Repowering, Cities of Glendale, Burbank and Los Angeles propose to finance the STS Renewal Project through SCPPA because they will be able to issue tax-exempt municipal bonds and incur other evidences of indebtedness at lower yields than issuing bonds through IPA. The City of Burbank has approved the financing, and

LADWP is expected to consider the financing at an upcoming LADWP Board meeting. In order to finance the project through SCPPA, Glendale is required to enter into the STS Renewal Agreements to authorize the issuance of new bonds and other debt obligations by SCPPA.

LADWP is the operating agency, and has 90.500% right to capacity in the STS line. As majority participant and operating agent for the STS Renewal Project, LADWP's Financial Service Organization, in coordination with its independent municipal advisors, conducted market research and financial analysis to ascertain the best option for funding the project. Based upon this research and analysis, they have determined that issuing bonds through a joint power agency, such as SCPPA, could result in total net debt service savings of approximately \$23.3 million, \$12.4 million on a present value basis, to the California Purchasers over the life of the project. The projected savings are based on higher credit ratings anticipated for a SCPPA STS Renewal Project issuance versus IPA and pricing advantage (lower yields) of tax-exempt California Municipal bonds compared to most other states, owing to California's relatively higher income tax rates.

The remaining California participant's election to finance STS Renewal project is a fiscally sound option to provide for continued reliable transmission of energy from IPP to Southern California during the term of the Renewal Power Sales Contract. The STS Renewal Agreements will be effective until June 15, 2077 or such later date as all bonds and other debt obligations and the interest thereon shall have been paid in full, or adequate provisions for such payment shall have been made by the California Purchasers of IPP.

The terms of the STS Renewal Agreements, summarized below, are similar or identical to the terms of the STS Original Agreements and will continue the existing arrangement with SCPPA, allowing for more favorable financing for the STS Renewal Project and the California Parties.

1. Renewal Agreement for the Acquisition of Capacity

Parties: Glendale and SCPPA.

Purpose: Glendale will assign to SCPPA its right to capacity in the STS in accordance with the Renewal Power Sales Contract. This enables SCPPA to incur indebtedness sufficient to generate funds for the payment-in-aid-of-construction of the STS Renewal Project.

Term and Termination: Effective upon execution. The assignment of Glendale's rights in the STS become effective on the "Transition Date" as defined in the Renewal Power Sales Contract. The agreement terminates concurrently with the termination of the Renewal Transmission Services Contracts between SCPPA and Glendale. Upon termination, the right to the STS capacity will revert back to Glendale.

Key provisions:

- Glendale assigns to SCPPA its right to the STS capacity and all of the contract rights under the Renewal Power Sales Contract related to the STS. Glendale retains its right to appoint a representative and participate in the Contract Coordinating Committee as defined in the Renewal Power Sales Contract.
- SCPPA agrees to issue bonds or other debt obligations to provide the funds to make payments-in-aid of construction for the STS Renewal Project, on behalf of Glendale.
- Glendale agrees that it will not consent to any amendment to the Renewal Power Sales Contract without prior written consent of SCPPA.
- Glendale agrees that all payment of Monthly Power Costs made to SCPPA, pursuant to the Renewal STS Agreement and received by IPA, shall be applied to Glendale's obligation to pay such Monthly Power Costs under the Renewal Power Sales Contract.
- SCPPA recognizes that Glendale has entered or may enter into agreements with other entities pursuant to which such entities will have the right to use capacity in the STS which may, from time to time, be in excess of the needs of Glendale.

2. Renewal Transmission Services Contract

Parties: Glendale and SCPPA.

Purpose: This contract specifies the contractual arrangement under which Glendale will make monthly payments for its 5.278% percent share of the STS capacity, as it pertains to the Renewal Power Sales Contract.

Term and Termination: Effective upon occurrence of the conditions specified in the contract, including: (i) execution by Glendale and SCPPA; (ii) Glendale's delivery of a legal opinion as described in Appendix B of the contract; (iii) execution of Renewal Transmission Service Contracts between SCPPA and the Renewal Transmission Service Purchasers listed in Appendix A of the contract amounting to 100% of shares, and such agreements are approved by all necessary regulatory agencies; (iv) execution of both the Second Amendment to the Original STS Agreement and the Renewal Southern Transmission System Agreement by all parties to such agreements, and each such agreement shall have been approved by all necessary regulatory agencies, and (v) issuance of the first series of bonds. The contract terminates on June 15, 2077, or such later date as all Bonds and other debt obligations have been paid in full, or adequate provision for such payment has been made.

Key provisions:

- This contract provides the contractual arrangement under which Glendale acquires transmission service on the STS.
- SCPPA will prepare a monthly budget which is the basis for the billing of Monthly Transmission Costs.
- Glendale's obligation to make payments under this agreement constitutes a cost of transmission service and an operating expense payable solely from its electric revenue funds.
- Glendale's obligation to begin payment for the Monthly Transmission Costs begins on June 16, 2027.
- SCPPA is obligated to issue bonds to finance and refinance the cost of acquiring SCPPA Capacity, subject to the terms of the contract and the Renewal Indenture of Trust.
- SCPPA is obligated to provide reporting to Glendale and the other purchasers, including status of the annual budget, financial and operating statements, and analysis of operations relating to the STS Renewal Project.

Project Description:	<u>Renewal Agreement for the Acquisition of Capacity and a Renewal Transmission Service Contract with SCPPA for STS</u>
RFP Approved:	N/A
Advertisement Method:	N/A
RFP Issued:	N/A
RFP Due Date:	N/A
Company Name(s) and Proposal Amount(s):	N/A
Selection Criteria (If SS, list applicable Provision):	N/A
Recommended Consultant(s):	N/A
New / Existing Consultant(s):	N/A
Procurement Method (RFP / SS):	SCPPA

Contract Term:	50 years
Project Begins:	STS Original Agreements are effective through June 15, 2027 – Upon expiration of this Agreement the STS Renewal Agreements will go into effect.
Project Ends:	STS Renewal Agreements will be effective until June 15, 2077 or up to some later date as is necessary to meet all bonds and debt obligations, or to provide for adequate provisions for such payments by participants.
Change Orders (When Applicable)	
Company name:	N/A
Original Approved Contract Amount:	N/A
Approved Contingency:	N/A
Change Order History:	N/A
This Change Order (Increase):	N/A
New Contract Total (If Approved):	N/A

STAKEHOLDERS/OUTREACH

N/A

FISCAL IMPACT

The percentages breakdown of SCPPA's right to capacity in the STS is as follows:

<u>Transmission Service Purchasers</u>	<u>Transmission Service Share</u>
Glendale	5.278%
Burbank	4.222%
Los Angeles (LADWP)	90.500%

There is no fiscal impact associated with this report at this time. However; the total construction cost for the renewal of the STS Project is currently estimated at approximately \$1.2 billion. The total cost of bonds and other debt obligation to be issued to finance the payments-in-aid of construction to IPA is estimated at approximately \$2.3 billion, including principal and interest over a 30-year term. Based on Glendale's share of the STS Renewal project at 5.278%, the total financial obligation is estimated at \$121.4 million.

The average annual debt service over the term of the bonds and other debt obligations

is expected to be \$82.9 million, of which Glendale's share will be approximately \$4.4 million. The estimated all-in true interest cost is approximately 4.02 percent, based on current market interest rates for tax-exempt bonds issued by SCPPA.

The debt issuance costs are estimated at \$6.6 million, equivalent to 0.55 percent of the total bond issue, which includes underwriters' discount, bond counsel, disclosure counsel, financial advisor, rating agency, and other miscellaneous financing related fees. Any future costs associated with STS & STS Renewal Project through SCPPA will be incorporated into GWP's annual budget for the respective year for which cost will be incurred. The cost associated with these agreements will be funded through Electric Works Revenue Fund.

The principal provisions of the Renewal Transmission Agreement have incorporated default protection measures. For instance, if any Purchaser defaults in the performance of any of its obligation under the agreement, upon 90 days' notice, SCPPA may discontinue transmission service during the period of default, bring any action necessary to enforce the obligations of defaulting Purchaser, or take any action permitted by law to enforce its rights under the Renewal STS Agreement to recover damages for breach. In the event of default by the Purchaser, SCPPA shall transfer on a pro rata basis to all requesting Purchasers which are not in default the defaulting party's rights and obligations. If any of the defaulting Purchaser's rights are not transferred, SCPPA shall dispose of such remaining portion on the best terms available; provided, however, that in the opinion of SCPPA's Bond Counsel, such disposal will not adversely affect the Federal tax exemption of the related debt issued.

ENVIRONMENTAL REVIEW (CEQA/NEPA)

This item is exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15060(c)(3). In accordance with this section, an activity is not subject to CEQA if it does not meet the definition of a project. Section 15378(b)(4) states that government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment do not meet that definition. Therefore, the execution of the agreement between the City of Glendale and SCPPA for the Renewal Transmission Service Contract, Renewal Acquisition of Capacity, and Renewal Agency Agreement is not subject to CEQA.

CAMPAIGN DISCLOSURE

N/A

ALTERNATIVES

1. Approve the Renewal Agreement for the Acquisition of Capacity in STS, and Renewal Transmission Service Contract for STS, and any ancillary documents, including certificates, letters, and notices to effectuate the implementation of the forgoing. By doing so, SCPPA will be able to issue tax-exempt municipal bonds and incur other evidences of indebtedness at lower yields than issuing bonds through IPA, for financing and capital improvements of STS.

2. Do not approve the aforementioned agreements related to STS. If not approved IPA can issue the bonds to finance capital improvements instead of SCPPA issuing such bonds. However, it will be at a higher cost for the ratepayers of GWP and the other California Purchasers.

ADMINISTRATIVE ACTION

Prepared by:

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Alina C. Morshidian, Power Contracts Manager

Approved by:

Roubik R. Golanian, P.E., City Manager

EXHIBITS/ATTACHMENTS

Exhibit A: Renewal Agreement for the Acquisition of Capacity

Exhibit B: Renewal Transmission Service Contract