

## AGENDA REPORT

**Resolution:** Authorize the Executive Director to Execute an Agreement with Western Area Power Administration for a Base Resource Energy Contract Beginning January 1, 2025, Through December 31, 2054. **(Executive Office)**

**MEETING DATE:** 1/28/2021

**AMOUNT:** \$25.7 Million

**PARTIES INVOLVED:** Western Area Power Administration

**SUBMITTED BY:** Kristi McKenney, Chief Operating Officer

**APPROVED BY:** Danny Wan, Executive Director

**ACTION TYPE:** Resolution

### **EXECUTIVE SUMMARY**

Port Utilities is requesting authorization to enter into a new base resource contract from January 1, 2025, through December 31, 2054 with the Western Area Power Administration. This power will be generated by carbon-free and renewable hydroelectric generators to supply a portion of the Port Utilities customers.

### **BACKGROUND**

As a publicly owned utility (POU), the Port of Oakland Utilities Business (Port Utilities) purchases electricity from wholesale electricity markets to supply its own operational needs, and for resale at a retail rate to the Port's tenants at the Oakland International Airport, and the Seaport. The Port Board of Commissioners is the primary regulatory authority for the Port's POU and sets the Renewable Portfolio Standard (RPS) targets in compliance with State law. To meet the RPS targets and ensure power costs are comparable with other local utilities, Port Utilities uses a diversity of generation sources including from clean energy providers. Port Utilities current oldest power agreement is with the Western Area Power Administration (Western). Western was formed in 1977 when high gas prices and an emphasis on conservation led Congress to create the United States' Department of Energy (DOE), which created Western to sell and deliver hydropower across fifteen western and central states. Western uses 56 federally owned hydroelectric dams and 17,000-miles of high-voltage powerlines to serve more than 700 preference power customers, which in turn serve more than 40 million consumers of electricity. Preference power customers include state and federal agencies, water and irrigation districts, municipalities, Native American tribes, rural electric cooperatives, and POUs like the Port of Oakland.

The Port has approximately 200 substations within its distribution grid serving itself and Port Utility tenants, but only 4 substations are connected to the primary California distribution grid operated by the California Independent System Operator (CAISO). Of these 4 substations, the largest is the Davis substation, which receives a power allocation from Western.

Western power generators are carbon-free sources of power, some are also renewable sources of energy based on their power output. All hydroelectric generators are listed as carbon-free energy generators, but any hydroelectric generator less than 30 megawatts of capacity are eligible to be categorized as renewable generators applicable to meeting renewable portfolio standards. The specific hydroelectric generators Port Utilities contracts with Western, fluctuate between carbon-free and renewable based on the level of water prior to the dam. Therefore, a rainy year results in carbon-free generation, but a dry year often results in the power also being considered renewable generation. These renewable sources are one of the sources Port Utilities uses to meet its annual RPS. Due to the variable nature of hydroelectric power that can change based on annual rain and snowfall, Port Utilities receives between 8-15% of its power needs through its Western contracts, which accounts for approximately 2-5% of the Port RPS.

In 2000, by Resolution 20419, Port of Oakland's Board of Commissioners authorized an agreement with the Western Area Power Administration for delivery of power from hydroelectric sources. While the term of the agreement does not end until December 31, 2024, it requires a commitment to extend by March 2021. Failure to comply with the March 2021 deadline means the allocation from Western to the Port would end in 2024 requiring Port Utilities to look for new generation contracts.

## **ANALYSIS**

Port Utilities procures power through multiple sources including a mix of long-term, short-term, and real-time or "spot" market purchases. This diversity strategy allows the Port to manage complexities in power source variability, reduce risk and cost fluctuations while ensuring the Port has access to carbon free and renewable power meeting or exceeding regulatory requirements.

Over the past 5 years the average energy delivered to the Port from Western was 13,768 megawatt-hours (MWH), costing an average of \$650,000 per year, or \$47 per MWH. While the contract provides the Port access to an allocation of a given year's generation based on water flow, costs can fluctuate based on Western's costs. From 2025-2054 costs are forecasted to increase mostly due to infrastructure maintenance and expenses to restore impacts of dams to the Central Valley environment. Port Utilities forecasts the total expenses to be \$25.7 million, or an average of \$857,000 per year over the 30-year contract. However, during the next 5-years the average is forecast to be approximately \$700,000 per year.

An additional benefit from this agreement is to help meet one of the newest changes to the California Energy Commission's (CEC) RPS requirement that 65% of the renewable power requirements must come from contracts with a 10-year or greater term starting in 2021.

## **BUDGET & STAFFING**

There is no additional staffing impact. Port Utilities buys approximately \$9 million per year in energy commodities for the Port and its tenants including the cost for power from Western. These costs are submitted for approval each year to the Board as part of the Port's expense budget approval process. Revenue to pay for this commodity comes from the sale of energy to Port Utilities tenants. From 2025-2054 the estimated costs are \$857,000 per year over the 30-year contract life for an estimated total of \$25.7 million.

## **MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)**

The matters included in this Agenda Report do not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply.

## **STRATEGIC PLAN**

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Business Plan (2018-2022).

<https://www.portofoakland.com/wp-content/uploads/Port-of-Oakland-Strategic-Plan.pdf>

- Goal Care for Our Environment

## **LIVING WAGE**

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements, do not apply to this agreement.

## **SUSTAINABILITY**

Port Staff have reviewed the Port's Sustainability Policy and did not complete the Sustainability Opportunities Assessment Form. While this action does not involve a development project, purchasing of equipment, or operations that presents sustainable opportunities, the purchase of this power is considered carbon free and a portion of it will be considered renewable under State regulations.

## **ENVIRONMENTAL**

This contract was reviewed in accordance with the requirements of the California Environmental Quality Act (CEQA). The CEQA Guidelines, Section 15061(b)(3) ("common sense exemption") states that CEQA applies only to projects that have the potential for causing a significant effect on the environment. This energy contract does not have a significant effect on the environment and therefore is not a project under CEQA. No further environmental review is required.

## **GENERAL PLAN**

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City of Oakland Charter is not required.

## **OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)**

The Owner Controlled Insurance Program (OCIP) does not apply to the matters addressed by this Agenda Report as they are not capital improvement construction projects.

## **OPTIONS**

1. Approve and authorize the Executive Director to execute an agreement with the Western Area Power Administration for electric service base resource from January 1, 2025, through December 31, 2054. This is the recommended action.
2. Direct the Executive Director to inform the Western Area Power Administration that the Port will not be signing another contract for base resource power allowing them to allocate that power to other utilities.

## **RECOMMENDATION**

It is recommended that the Board approve and authorize the Executive Director to execute an agreement with the Western Area Power Administration for electric service base resource from January 1, 2025, through December 31, 2054.