

RESOLUTION CC 11-85

A SHASTA LAKE CITY COUNCIL RESOLUTION ADOPTING AN AMENDED RENEWABLE PORTFOLIO STANDARD AND REPLACES IN ITS ENTIRETY THE PRIOR RENEWABLE PORTFOLIO STANDARDS SET FORTH IN RESOLUTIONS CC 05-53 AND CC 06-68.

WHEREAS, the City of Shasta Lake has an electric enterprise in the business of providing retail electric energy distribution and serving load of end-use customers; and

WHEREAS, the City of Shasta Lake provides reliable, low cost, environmentally responsible power to residents and businesses; and

WHEREAS, under prior law, a publicly owned utility was required to adopt its own Renewable Portfolio Standard (RPS) consistent with the state policy to encourage renewable resources, but was not subject to the same numerical goals as investor owned utilities; and

WHEREAS, on May 17, 2005, the City Council approved a RPS policy which encouraged the development of a diverse mix of energy supply, including renewable resources, while considering the effect of this supply on its utility rates, reliability and financial resources and included environmental stewardship, energy efficiency and conservation, and a definition of renewable energy sources; and

WHEREAS, on September 5, 2006, the City Council modified its RPS policy to include greenhouse gas emission reduction targets by including the California Municipal Utilities Association Principles addressing Greenhouse Gas Reduction Goals; and

WHEREAS, the City of Shasta Lake has attained, POU Qualifying RPS deliveries for 2008, 2009, and 2010 of 20.0%, 18.1%, and 22.8% respectively; and

WHEREAS, on April 12, 2011, Governor Brown signed the California Renewable Energy Resources Act {Senate Bill 2 (1st Ex. Session)(Simitian) (SBX1-2)} with an effective date of December 10, 2011, which increases the state's renewable portfolio standard by requiring California's investor-owned utilities as well as its publicly owned utilities to procure 33% of their energy from renewable sources by 2020; and

WHEREAS, SBX1-2 sets interim targets for RPS compliance, expands the roles of the California Energy Commission and the California Air Resources Board, and places requirements on the types of renewable resources eligible for compliance; and

WHEREAS, the City Council is the governing body of its local publicly owned electric utility with the authority to adopt and implement the requirements of state law.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Shasta Lake as follows:

- The City Council of the City of Shasta Lake hereby adopts the foregoing resolution, and replaces in its entirety, the City's existing RPS policy adopted by City Council Resolution CC 05-53 and amended by City Council Resolution CC 06-68 and any other policies or resolutions that supersede this topic.

- Consistent with its RPS Policy, the City of Shasta Lake will strive to achieve an interim RPS target of 20% for Compliance Period 1 which is January 1, 2011 through December 31, 2013.
- Consistent with its RPS Policy, the City of Shasta Lake will strive to achieve an interim RPS target of 20% with reasonable progress towards a RPS of 25% for Compliance Period 2, which is January 1, 2014 through December 31, 2016.
- Consistent with its RPS Policy, the City of Shasta Lake will strive to achieve an interim RPS target of 25% with reasonable progress towards a RPS of 33% for Compliance Period 3, which is January 1, 2017 through December 31, 2020.
- The City Manager, or designee, is hereby authorized to and directed to implement, administer, and carryout any such actions as are necessary or advisable in the furtherance of the City of Shasta Lake's RPS and RPS Policy.

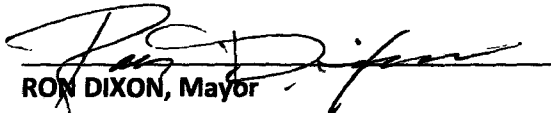
PASSED, APPROVED, AND ADOPTED this 20th day of December, 2011, by the following vote:

AYES: FARR, LINDSAY, WATKINS, DIXON
NOES: LUCERO
ABSENT: NONE

ATTEST:



TONI M. COATES, CMC, City Clerk



RON DIXON, Mayor



City of Shasta Lake Electric Enterprise Renewable Portfolio Standard Policy

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|-----------------------|---------------------------------------|
| Chapter Name | Renewable Portfolio Standard |
| Last Update | December 20, 2011 |
| Prepared By | Tom Miller, Electric Utility Director |
| Approved By | City Council |
| Resolution No. | Resolution CC11- |

1 Purpose

In 2002, California established its Renewable Portfolio Standard Program, with the goal of increasing the percentage of renewable energy in the state's electricity mix to 20% of retail sales by 2017. In 2006, Senate Bill 107 codified California's 20% by 2010 RPS goal. Publicly owned utilities (POU), like the City of Shasta Lake, set their own RPS goals recognizing the intent of the legislature is to achieve the 20% by 2010 target. In response to SB 107, the City of Shasta Lake adopted policies and practices in an effort to meet a 20% RPS goal.

In April 2011, new legislation Senate Bill X1-2 was signed by Governor Brown requiring all utilities to meet a 33% Renewable Portfolio Standard (RPS) goal by 2020. By legislative mandate, the City of Shasta Lake must adopt the new RPS goals of an average of 20% of retail sales from renewable resources for the period 2011-2013, 25% by the end of 2016, and 33% by the end of 2020. The City of Shasta Lake is required to provide both a plan for procurement to reach this RPS goal as well as an associated enforcement program, which must be approved by Council and submitted to the California Energy Commission (CEC).

2 Policy

The City Council is the governing board responsible for adopting, implementing, and enforcing the RPS. This enforcement program and procurement plan is intended to provide framework for the City's compliance with SBX1-2. While the City must comply with the terms of the statute, some terms are open to interpretation. As long as the POU acts in accordance with its governing board's reasonable interpretation of the statute, the CEC should hold the POU in compliance with the statute.

3 Resource Procurement Plan

RPS Minimum Targets

SBX1-2 through Public Utilities Code §399.30 requires the City to adopt and implement a renewable energy resources procurement plan to procure a minimum quantity of electricity products from eligible renewable energy resources, including renewable energy credits. The SBX1-2 compliance periods and targets are as follows:

- Compliance Period 1 (CP1): January 1, 2011 through December 31, 2013
 - 20 percent average for the 2011-2013 period
- Compliance Period 2 (CP2): January 1, 2014 through December 31, 2016
 - 25 percent by December 31, 2016
- Compliance Period 3 (CP3): January 1, 2017 through December 31, 2020
 - 33 percent by December 31, 2020

The City will attain at least 20% RPS, with reasonable progress towards 25% RPS, for the second compliance period (2014-2016), and at least 25% RPS with reasonable progress towards 33% RPS, for the third compliance period (2017-2020).

The City interprets reasonable progress as proactive steps in achieving and maintaining the RPS percentage targets required under SBX1-2. This includes a thorough analysis of renewable resources contracts and funding requirements.

Meeting the Targets

The City will contract for additional eligible renewable energy resources to meet the SBX1-2 target on a least cost, best fit basis that takes into account availability of resources, financial feasibility, transmission availability and all other relevant considerations. The City intends to use bucket 3 Renewable Energy Certificates (RECS) to comply with SBX1-2.

The City will be challenged to coordinate additional renewable energy deliveries into the City’s existing long-term purchase power contracts with Western Area Power Administration (Western) and the City of Redding (dba REU). The City’s Supplemental Energy and Scheduling Agreement with REU maximizes the City’s least cost resource which is the hydro-electricity provided by Western. Scheduling preference is given to the Western resource. Due to the variability of the Western and the existing renewable energy supply, the City already experiences times when the supply load curve exceeds the demand load curve. Increasing the renewable energy supply in the City’s resources will exacerbate the situation. This creates a scheduling problem and an unfavorable financial impact on the City.

Grandfathering of Resources and Category (Bucket) Requirements

The City has entered into various contracts prior to June 1, 2010, that are deemed renewable and are eligible for grandfathering, consistent with §366.16(d). Grandfathered resources count toward the City’s RPS targets, but do not need to be consistent with or fall within the three portfolio content categories or “buckets” that are defined in SBX1-2 §399.16(b) and they are not limited by the percentages set forth in §399.16(c). The City grandfathered contracts and SBX1-2 category (bucket) requirements are listed below:

| Counterparty | Project Name | Type | Capacity | Contract Date | Delivery | Contract Term | Location |
|--------------------------|--------------------------|------------------------------|------------|---------------|-------------|---------------|--------------------------|
| Western Area Power Admin | Central Valley Project | Hydro-Electric | 11,000 kW | Nov 14, 2000 | 2001 - 2025 | 25 years | Base Resource Allocation |
| City of Redding | Renewable Energy Product | Wind or Hydro-Electric | 2,000 kW | October 2007 | 2008 - 2017 | 10 years | Shasta County California |
| 3Degrees Group Inc | Confirm Letter #1 | Renewable Energy Certificate | 25,000 MWh | Nov 10, 2011 | 2011 | 1 year | CEC Certified Facilities |

Categories (Buckets) of Resources per SBX1-2 §399.16(b)

| Categories (Buckets) | Percentage of RPS Target |
|--|---|
| <p>A. Energy or RECs from eligible resources that: Have the first point of interconnection with a CA balancing authority or with distribution facilities used to serve end users within a CA balancing authority; or,</p> <p>B. Are scheduled into a CA balancing authority without substituting electricity from another source. If another source provides real-time ancillary services to maintain an hourly import schedule into CA, only the fraction of the schedule actually generated by the renewable resource will count; or,</p> <p>C. Have an agreement to dynamically transfer electricity to a CA balancing authority.</p> | <p>Compliance period 1 (CP1): Minimum of 50% of the energy that is counted towards RPS target CP2: Minimum of 65% CP3: Minimum of 75%</p> |
| <p>D. Firmed and shaped energy or RECs from eligible resources providing incremental electricity and scheduled into a CA balancing authority.</p> | <p>CP1: Maximum of 50% CP2: Maximum of 35% CP3: Maximum of 25%</p> |
| <p>E. Energy or RECs from resources that do not meet the requirements of categories A-D; including unbundled RECs.</p> | <p>CP1: Maximum of 25% CP2: Maximum of 15% CP3: Maximum of 10%</p> |

Process for Renewable Resource Procurement

To comply with §399.30, the City intends to demonstrate reasonable progress in attaining the goals of SBX1-2, through its process for renewable resource procurement. Below is a list of items to be completed as a part of the procurement process:

- Review of portfolio supply
- Review of projected loads
- Assessment of current resources
- Review of RPS requirements
 - Viable projects
 - Cost effectiveness
 - Enhance resource portfolio
 - Optimize the resource categories (buckets) to minimize overall costs

- Identify potential alternatives through the request for proposal process; complete appropriate due diligence
- Work with the REU in evaluating renewable projects for scheduling
- Review cost benefit analysis and impact on rate payers; City Council will implement cost limitations once the rules and regulations are clear
- Review renewable projects for implementation and coordination; analyze cost of project delay or failure
- Review renewable resources for deliverability; analyze transmission availability
- Review Resource Procurement Plan with City Council on a regular basis
- Recognize that the City is on a July to June fiscal calendar and the Compliance Periods are on a calendar year basis

Reporting Requirements

Per SBX1-2, the City will provide the CEC documentation and reports, as required in §399.30 (g) and §399.30 (l). Much of the reporting requirement information is already submitted to the CEC through their various reporting requirements.

Banking

The City is a member of WREGIS. The City has been accumulating RECs in their account beginning with REC's dated January 2008. The City may accumulate excess procurement of eligible renewable resources in one compliance period to be applied to any subsequent compliance period. The City intends to clarify banking, once the rules are regulations are clear. §399.13(a)(4)(B)

Cost Limitations

Once rules and regulations are clear, the City intends to implement cost limitations that include:

- Procurement expenditures that approximate the expected cost of building, owning, or operating eligible renewable resources
- The potential that some planned resource additions may be delayed or cancelled
- The City Council may also establish cost limitations for procurement expenditures consistent with §399.15(c); this cost limitation value may be updated on a periodic basis

Cost limitations will address the impact of the RPS legislation to rate payers.

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| 4 | Enforcement Program |
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Waiver for Noncompliance

The City intends to comply with the mandates of SBX1-2. The City will demonstrate reasonable progress towards achieving the SBX1-2 RPS targets, on an annual basis through the City's Resource Procurement Plan. The City Council will be responsible for enforcing the RPS Policy.

The legislation authorizes the City Council to waive its compliance requirements, consistent with §399.15(b)(5), if the City can demonstrate any of the following conditions are beyond the control of the City and will prevent compliance. The conditions for waiver or delaying compliance include, but are not limited to the following (which may delay or indefinitely postpone a project):

- **Inadequate Transmission Capacity:** City Council interprets this to mean the inability to bring eligible renewable resources into the control area due to transmission limitations. This includes instance where transmission outages may prevent renewable energy from entering into the market. This may cause the City to be out of compliance for a compliance period. The City Council has the authority to waive City compliance for the situation.
- **Permitting, interconnection, or other circumstances that delay procured renewable energy resource projects or insufficient supply of eligible renewable energy resources:** Examples include, but are not limited to the following:
 - **Development:** City Council interprets this to include the renewable resource developers' inability to obtain financing, permits, lack interconnection abilities, or rights to build the project. This also includes the utilities inability to provide financing for a project. This may cause the City to be short of compliance for a compliance period. The City Council has the authority to waive the City's compliance for these types of situations.
 - **Operation:** City Council interprets this to include any unforeseen circumstances preventing the renewable resource from being developed or delaying output. This includes outages at the renewable energy facility. For example, if there is a drought, transmission outages or facility outages will prevent resources from delivering energy into the control area. This may cause the City to be short of compliance for a compliance period. The City has the authority to waive the City's compliance for these types of situations.
 - **Regulatory Delays:** City Council interprets this to include instances where state agencies delay timely requests, by the City, for registering renewable resources, certifying renewable resources, and accepting renewable resources into its renewable portfolio. In addition, these also include changes to state mandates, which may lead to a delay in compliance. The City Council has the authority to waive the City's compliance for these types of situations.
 - **Unanticipated curtailment to address needs of a balancing authority:** City Council interprets this to include the Balancing Authority of Northern California (BANC) directing a renewable resource to modify their energy obligations, due to the needs of the balancing authority. This may cause the City to be short of compliance for a certain period. The City Council has the authority to waive the City's compliance for these types of situations.
 - **Uncontrollable market forces:** City Council interprets this to include market volatility in the procurement of bundled and unbundled renewable products. For example, the City may need to procurement a small amount of renewable resources that are not readily available in the market place. This may cause the City to be short of compliance for a certain period. The City Council has the authority to waive the City's compliance for these types of situations.

As mentioned throughout this document, the City will define cost limitations, once the rules and regulations are clear. Currently, the City has limited ability to raise rates. Before, raising rates, the City staff looks at the competitiveness of rates (by comparing to other utilities in the area), the rate impact on residents,

requires comprehensive analysis on the need for an increase and input from the public (sufficient public notice and rate workshops). Only the City Council is authorized to raise rates. Rate increases are not guaranteed and are not viewed as a consistent revenue source to comply with legislative mandates.

The City intends to comply with SBX1-2. However, as listed above, there may be circumstances that will prohibit the City from procuring renewable resources to meet the targets in SBX1-2. In such a situation, staff will request City Council authority to approve a waiver of compliance, consistent with §399.15(b)(5).