


<b>TRANSMITTAL</b>		0150-12860-0000
TO Janisse Quinones, General Manager Los Angeles Department of Water and Power	DATE 01/15/2025	COUNCIL FILE NO.
FROM The Mayor		COUNCIL DISTRICT ALL
<p style="text-align: center;"><b>PROPOSED RESOLUTION AND ORDINANCE AUTHORIZING A FIRST AMENDMENT TO POWER SALES AGREEMENT NO. BP 13-033 BETWEEN THE LOS ANGELES DEPARTMENT OF WATER AND POWER AND THE SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY FOR THE PURCHASE OF RENEWABLE ENERGY PRODUCED FROM THE HEBER-1 GEOTHERMAL ENERGY PROJECT</b></p> <p style="text-align: center;">Transmitted for further processing, including Council consideration. See the City Administrative Officer report attached.</p> <p style="text-align: center;"> MAYOR (Carolyn Webb de Macias for)</p>		
<p>Attachment MWS/PJH/IVW/DLG-102501321 CAO 649-d</p>		

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: January 10, 2025

CAO File No. 0150-12860-0000

Council File No.

Council District: ALL

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer

Reference: Communication from the Department of Water and Power dated November 7, 2024; referred by the Mayor for a report on November 7, 2024

Subject: **PROPOSED RESOLUTION AND ORDINANCE AUTHORIZING A FIRST AMENDMENT TO POWER SALES AGREEMENT NO. BP 13-033 BETWEEN THE LOS ANGELES DEPARTMENT OF WATER AND POWER AND THE SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY FOR THE PURCHASE OF RENEWABLE ENERGY PRODUCED FROM THE HEBER-1 GEOTHERMAL ENERGY PROJECT**

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### RECOMMENDATION

That the Mayor:

1. Approve the proposed Los Angeles Department of Water and Power (LADWP) Resolution and Ordinance authorizing the execution of a First Amendment to Heber-1 Geothermal Energy Project Power Sales Agreement No. BP 13-033 with Southern California Public Power Authority for the purchase of 52 megawatts of renewable energy and extend the current power delivery term of February 2, 2016 through February 1, 2026, by 25 years, from February 2, 2026 through February 1, 2051, for a total term of 35 years, at an estimated annual cost of \$31,320,000 and \$783,000,000 over the 25-year term extension;
2. Delegate authority to the Board of Water and Power Commissioners (Board) by ordinance and authorize the Board to act on and approve all amendments to the Agreement pursuant to Charter Section 674(a);
3. Authorize, upon proper certification, the Chief Accounting Employee to draw demands on the Fuel and Purchased Energy Renewable Budget Revenue Fund, in accordance with the terms of this Amendment; and
4. Return the proposed Amendment, Resolution, and Ordinance to LADWP for further processing, including Council consideration.

## SUMMARY

The Los Angeles Department of Water and Power (LADWP, Department) requests approval of the First Amendment to Agreement No. BP 13-033 between the LADWP and Southern California Public Power Authority (SCPPA), a joint powers agency, for a 25-year extension to the current term of the Heber-1 Geothermal Energy Project (referred to as "HGE") Power Sales Agreement (PSA) from February 2, 2026 through February 1, 2051. The proposed Amendment will provide the Department with 305,214 megawatt hours (MWh) of energy annually and 7,630,000 MWh over the 25-year term extension at a cost of \$31,320,000 and \$783,000,000, respectively. The proposed Amendment to PSA No. BP 13-033 supports the Department's Strategic Long-Term Resource Plan (SLTRP) by facilitating ongoing advancements towards 100 percent carbon neutral energy by 2045 at the most economical cost. Additionally, it will also continue to provide Renewable Energy Credits (RECs) in support of LADWP's Renewable Portfolio Standard (RPS) requirements under California Senate Bill 100.

The proposed First Amendment allows LADWP to secure renewable energy from SCPPA through the HGE, for an additional 25 years, at \$86 per MWh, resulting in significant cost savings compared to future alternatives. The proposed price is \$5.47 lower than the 2026 contract cost of \$91.47 per MWh and it is \$12 below the estimated market rate of \$98 per MWh for replacement energy. By locking in this rate, LADWP ensures affordability for ratepayers while advancing its renewable energy goals.

Two agreements are necessary to authorize a continuation of power delivery from the HGE to the LADWP: 1) a First Amendment to PSA No. BP 13-033 between LADWP and SCPPA requiring Council approval, and 2) Project Agency Agreement No. BP 13-034 between SCPPA and Heber Geothermal Company, a subsidiary of Ormat Nevada, Inc. (Ormat), requiring Board but not Council approval. The proposed First Amendment to Agreement No. BP 13-033 between SCPPA and LADWP authorizes a Second Amendment to Project Agency Agreement No. BP 13-034 between SCPPA and Heber Geothermal Company. This Second Amendment is included as Exhibit 2 to Appendix D within Section 1.1 of the proposed First Amendment.

The City Attorney has reviewed and approved the proposed Resolution and Amended Power Sales Agreement with the SCPPA as to form. Council approval is required for the First Amendment to the PSA under the following three provisions: 1) Charter Section 373 governing long-term contracts, 2) Charter Section 674 requiring an ordinance for power contracts, and 3) Administrative Code Section 10.5(e) requiring Council approval for agreements where the total term is greater than five years. Our Office has reviewed the request and recommends approval.

## BACKGROUND

The Heber-1 Geothermal Energy Project, located in Imperial County, California, is a renewable energy facility that generates 46 MW of geothermal power using steam turbo generators. Operating 24 hours per day, seven days per week, the facility sells 100 percent of its energy output to SCPPA under PSA No. BP 13-033. LADWP holds a 78 percent entitlement share of the metered output from the HGE, while the Imperial Irrigation District (IID) is allocated the remaining 22 percent

entitlement share. The two agencies are collectively referred to as the "Participants."

*Approval and Adoption of a Power Purchase Agreement (PPA) for the HGEP* - Originally, PSA No. BP 13-033 between the LADWP and SCPPA for the purchase of geothermal energy from the HGEP was approved by the Board on June 19, 2013 (Resolution No. 013-310) and adopted by the Council on August 28, 2013 (C.F. 13-0811, Ordinance 182707). The HGEP provided an initial power delivery term of 10 years, commencing from the project's commercial operation date of February 2, 2016 and expiring on February 1, 2026.

*HGEP Project Management* – On August 28, 2013, Council approved Agency Agreement No. BP 13-034 between LADWP and SCPPA, designating LADWP as the project manager to administer the affairs of the HGEP on behalf of and for the benefit of the project participants. This role includes overseeing fiscal matters and the allocation of reimbursements based on the respective shares of each participant in the HGEP.

*Extension of the LADWP-SCPPA PSA* – A proposed First Amendment to PSA No. 13-033 between LADWP and SCPPA would extend the existing contract by 25 years. The amendment would lengthen the total term from February 2, 2016 through February 1, 2051, for a total term of 35 years.

*Cost Benefits of Power Agreement Extension* – The proposed 25-year extension of LADWP's PPA will secure 305,214 MWh of annual energy at \$31,320,000, totaling 7,630,000 MWh for \$783,000,000 over the extended term. The energy cost will be \$86 per MWh beginning February 2, 2026, with annual escalations of one and one-half percent for each contract year thereafter. The proposed rate is \$12 below the market rate of \$98 per MWh for replacement energy contracts. By securing the terms now, LADWP projects annual savings of \$4,121,000 annually and \$103,030,000 over the 25-year delivery term.

*Amendments to Two Agreements are required* – Extending the LADWP's access to energy from the Project for 25-years requires the execution of amendments to two agreements: 1) a First Amendment to PSA No. BP 13-033 between LADWP and SCPPA to extend the term and increase the average generating energy capacity from 46 MW to 52 MW, with both actions requiring approval of the Council, and 2) a Second Amendment to Project Agency Agreement No. BP 13-034 between SCPPA and Heber Geothermal Company, to extend the term, establish a new reduced price, and increase the facility's capacity, with each of these actions requiring approval solely from the Board.

*Authorization for a Second Amendment to PPA* – The First Amendment to Agreement No. BP 13-033 between LADWP and SCPPA authorizes the execution of a Second Amendment to the Power Purchase Agreement between SCPPA and Heber Geothermal Company. Approval of the First Amendment is required for SCPPA and Heber Geothermal Company to proceed with the Second Amendment. This Amendment is included as Exhibit 2 to Appendix D within Section 1.1 of the proposed First Amendment.

*Alternatives Considered* – The Department evaluated two alternatives for the Second Amendment to the purchase power agreement (PPA): a "Short-term" option and a "Long-term" option, which are referred to individually as "Replacement Product" and collectively as "Replacement Products."

The “Short-Term” alternative replacement product combines separately purchased Renewable Energy Credits (RECs) and energy, with an estimated cost of \$129.48 per MWh. This cost is based on the United States (U.S.) Energy Information Administration’s (EIA), the primary authority on energy statistics and analysis for the U.S. federal government. In 2025, the EIA anticipates an average wholesale electricity price of \$60.48 per MWh and an average market price of \$69 per MWh for Portfolio Content Category 1 (PCC1) RECs. PCC1 energy is sourced from renewable energy resources interconnected with a California Balancing Authority, which includes LADWP. While comparable replacement products are currently limited, procuring a similar product through a short-term agreement after the existing PPA ends would cost the LADWP 51 percent more than the \$86 per MWh cost under the proposed Second Amendment to the PPA.

The “Long-Term” alternative replacement product would involve a new bundled PPA. Based on the 2024 Padilla Report by the California Public Utilities Commission, the weighted average cost for 50 to 200 MW geothermal resources in 2023 was \$98 per MWh. LADWP’s analysis of the three major investor-owned utilities in the report found that only Southern California Edison procured RPS contracts for geothermal resources of this size. The Department concluded that this replacement product would cost 14 percent more than the \$86 per MWh rate under the proposed Second Amendment to the PPA.

LADWP’s market analyses indicate that replacement products would be more expensive and less cost-effective for the Department’s ratepayers. As a result, LADWP seeks to amend the existing PPA, offering a more viable and affordable option for both the Department and Los Angeles ratepayers compared to pursuing a replacement agreement.

*Increased Capacity at HGEP* – The initial energy output capacity of the HGEP was 46 MW. Following a fire on February 26, 2022, which caused one of the generating units to become inoperative, the energy output of the project temporarily decreased. After repairs and repowering by Ormat between April 10, 2023 and May 18, 2023, the average generating capacity increased from 46 MW to 52 MW. This enhancement allowed the HGEP to meet its forecasted minimum generation requirements without increasing the maximum energy LADWP is obligated to purchase.

*Strategy for Meeting Renewable Energy Goals* – LADWP is addressing evolving state legislation and environmental mandates while navigating regulatory, reliability, and economic challenges to meet its RPS requirements. The Department’s SLTRP, a 30-year framework for forecasting energy supply and demand, and its RPS Policy provide the guiding principles to achieve these energy targets.

*California Clean Energy Mandate* - Senate Bill 100 (SB 100) set renewable energy targets for California’s utilities, mandating 60 percent renewable power by 2030 and complete carbon neutrality by 2045. The City has responded with its own Green New Deal initiative, establishing a progressive timeline to reach 55 percent renewable energy by 2025, 80 percent by 2036, and full renewable power by 2045, matching the state’s carbon neutrality deadline.

*Delay of LADWP's Renewable Energy Goals* – The LADWP currently operates 43 percent renewable energy capacity as of December 2024, falling short of its Green New Deal target of 55 percent by 2025. Current projections indicate this goal will not be met until early 2028, however, extending the term of the HGEP could accelerate achievement of the 55 percent benchmark to late 2026 or early 2027.

*LADWP Geothermal Energy Portfolio* - In 2023, geothermal facilities accounted for 21.6 percent of LADWP's RPS acquisitions, with the HGEP contributing 9.8 percent. Approval of the proposed amendment ensures a steady supply of renewable energy, supports LADWP's SLTRP to achieve 100 percent carbon-neutral energy by 2045 at the lowest cost, and provides RECs to meet RPS requirements mandated by California Senate Bill 100.

## **CITY COMPLIANCE**

*California Environmental Quality Act (CEQA)* – The LADWP has determined that this item is exempt from CEQA Guidelines pursuant to Section 15061(b)(3). In accordance with this section, entering into and renewing existing PSAs and Agency Agreements with SCPPA to purchase renewable geothermal power is exempt from CEQA pursuant to the General Exemptions described in Section 15061(b)(3). General Exemptions apply in situations where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment.

The City Attorney has reviewed and approved the proposed Resolution and Amended Power Sales Agreement with SCPPA as to form. In accordance with Charter Section 373, Charter Section 674, and Administrative Code Section 10.5(e), Council approval is required. This Office has reviewed the request and recommends approval.

## **FISCAL IMPACT STATEMENT**

There is no impact on the City's General Fund. The proposed First Amendment to Power Sales Agreement No. BP 13-033 between the Department of Water and Power and the Southern California Public Power Authority for the purchase of 52 megawatts of renewable geothermal energy from the Heber-1 Geothermal Energy Project is projected to cost \$31,320,000 annually and \$783,000,000 over the proposed 25-year extension of the Agreement's term from February 2, 2026 through February 1, 2051. The required funding will be budgeted annually by the LADWP and will be paid from the Power Revenue Fund. The proposed recommendations comply with LADWP's adopted Financial Policies.

**Attachments** – LADWP November 7, 2024 Letter, Board Letter, Resolution, and proposed Agreement No. BP 13-033 with Southern California Public Power Authority