

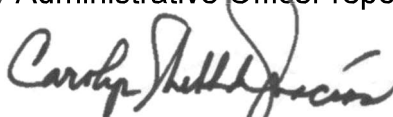
0150-12138-0001

T R A N S M I T T A L

TO Janisse Quinones, General Manager Los Angeles Department of Water and Power	DATE 10/11/2024	COUNCIL FILE
FROM The Mayor	COUNCIL DISTRICT ALL	

**PROPOSED RESOLUTION AND ORDINANCE AUTHORIZING THE EXECUTION OF THE
SECOND AMENDED AND RESTATED NAVAJO CO-TENANCY AGREEMENT NO. BP 22-
014; SECOND AMENDED AND RESTATED NAVAJO SOUTHERN TRANSMISSION
SYSTEM OPERATING AGREEMENT NO. BP 22-015; AND SECOND AMENDED AND
RESTATED NAVAJO WESTERN TRANSMISSION SYSTEM OPERATING AGREEMENT
NO. BP 22-016**

Transmitted for further processing and Council consideration.
See the City Administrative Officer report attached.



MAYOR

Attachment
MWS:PJH:JVW:IR:JFH:10250066t

(Carolyn Webb de Macias for)

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: October 2, 2024

CAO File No.: 0150-12138-0001

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 July 23, 2024; referred by the Mayor for report on July 25, 2024

Subject: **PROPOSED RESOLUTION AND ORDINANCE AUTHORIZING THE EXECUTION OF THE SECOND AMENDED AND RESTATED NAVAJO CO-TENANCY AGREEMENT NO. BP 22-014; SECOND AMENDED AND RESTATED NAVAJO SOUTHERN TRANSMISSION SYSTEM OPERATING AGREEMENT NO. BP 22-015; AND SECOND AMENDED AND RESTATED NAVAJO WESTERN TRANSMISSION SYSTEM OPERATING AGREEMENT NO. BP 22-016**

RECOMMENDATION

That the Mayor:

1. Approve the proposed Los Angeles Department of Water and Power (LADWP) Resolution and Ordinance authorizing the execution of the Second Amended and Restated Navajo Co-Tenancy Agreement No. BP 22-014; Second Amended and Restated Southern Transmission System Operating Agreement No. BP 22-015; and the Second Amended and Restated Navajo Western Transmission System Operating Agreement No. BP 22-016;
2. Delegate authority to the Los Angeles Department of Water and Power Commissioners (Board) by ordinance and authorize the Board to act on and approve all future amendments to said agreements, without approval by the City Council, provided that such amendments do not increase the cost or extend the terms of said agreements;
3. Authorize, upon proper certification, the Chief Accounting Employee to draw demands on the Power Revenue Fund, in accordance with the terms of these agreements; and
4. Return the proposed Resolution and Ordinance to LADWP for further processing, including Council consideration.

SUMMARY

The Los Angeles Department of Water and Power requests authority to execute the proposed Second Amended and Restated Navajo Co-Tenancy Agreement No. BP 22-014; Second Amended and Restated Southern Transmission System Operating Agreement No. BP 22-015; and the Second Amended and Restated Navajo Western Transmission System Operating Agreement No. BP 22-016.

The LADWP; the United States Department of Interior, Bureau of Reclamation; Arizona Public Service Company; the Nevada Power Company; the Salt River Project Agricultural Improvement and Power District; and the Tucson Electric Power Company are collectively known as the Navajo Participants in the Navajo Project. The Navajo Project is administered through the Amended and Restated Navajo Co-Tenancy Agreement (Navajo CTA), the Amended and Restated Navajo Southern Transmission System Operating Agreement (Navajo STSA), and the Amended and Restated Navajo Western Transmission System Operating Agreement (Navajo WTSA).

The three Second Amended and Restated Agreements proposed by the Navajo Participants, including the LADWP, update various terms and conditions for the period of January 1, 2020 through December 31, 2029, to reflect current agreed upon responsibility for Navajo Project ownership shares, operation and maintenance costs and project facilities as they currently exist. Changes that make the agreements mutually consistent are also included.

The LADWP's ownership interest in the Project will not be changed by execution of the amendments. The LADWP's \$5 million share of annual Project operating and maintenance cost is therefore not projected to change significantly. The terms of the agreements also remain unchanged.

In accordance with Charter Section 674, subject to City Council approval by ordinance, the Board shall have the power to contract with the United States, or any of its agencies; any state or state agency; and any corporation, public or private, located inside or outside of the City or State of California, for the construction, ownership, operation, and maintenance of facilities for the generation, transformation, and transmission of electric energy. This Office has reviewed the request and recommends approval.

BACKGROUND

The LADWP is a participant in the Navajo Project, which originally consisted of the Navajo Generating Station (NGS), Navajo Southern Transmission System, and Navajo Western Transmission System. In 2019, the NGS was decommissioned by the Navajo Participants, leaving the Navajo Southern Transmission System and the Navajo Western Transmission System as the only components of the Navajo Project.

On June 24, 2020, the City Council approved the Amended and Restated Navajo CTA, the Amended and Restated Navajo STSA, and the Amended and Restated Navajo WTSA, collectively known as the Amended and Restated Navajo Project Agreements (Agreement Nos. BP 19-006, BP 19-007 and BP 19-008 - C.F. 20-0661). The Amended and Restated Navajo Project Agreements were implemented to establish the terms and conditions of the Navajo Project following decommissioning of the NGS.

Parties and Participants in the Navajo CTA, STSA, and WTSA – The parties to the agreements consist of the Navajo Participants. The Navajo Participants include:

- City of Los Angeles, acting by and through LADWP
- United States of America, Department of the Interior, Bureau of Reclamation
- Arizona Public Service Company

- Nevada Power Company d/b/a NV Energy, a Nevada Corporation
- Salt River Project Agricultural Improvement and Power District, an agricultural improvement district organized existing under the laws of the State of Arizona
- Tucson Electric Power Company formerly known as Tucson Gas and Electric Company, an Arizona Corporation

The Navajo Participants, including the LADWP, propose the update of various terms and conditions of the three Navajo Agreements identified above to reflect current agreed upon responsibility for Navajo Project operation and maintenance costs for the period of January 1, 2020 through December 31, 2029, including ownership shares, project facilities as they currently exist, as well as changes that make the agreements mutually consistent. The proposed amendment updates are as follows:

Second Amended and Restated Navajo CTA

- Update of specific terms and conditions relating to the operation and maintenance of the Navajo Project to make them consistent with current practices
- Revision of the language in Section 12 (Destruction) to allow the Navajo participants flexibility in deciding if and when facilities should be restored based on the cost of restoration
- Replacement of Exhibits B, G, and J with amended versions that accurately represent current Navajo Participants' ownership shares, cost responsibility, and current facilities
- Addition of a new Exhibit K outlining procedures for determining the minimum restoration level of the Navajo Project
- Changes to the Navajo CTA to make it consistent with the Second Amended and Restated Navajo STSA and Navajo WTSA

Second Amended and Restated Navajo STSA

- Update of the responsibility for the operation and maintenance costs found in Exhibit B for the period of January 1, 2020 through December 31, 2029
- Minor language changes throughout the Agreement
- Replacement of Exhibits A, B, K, and M-1 with amended versions that accurately represent current Navajo Participants' ownership shares, cost responsibility, and current facilities
- Changes to the Navajo STSA to make it consistent with the changes to the Second Amended and Restated Navajo CTA and Navajo WTSA

Second Amended and Restated Navajo WTSA

- Update of the responsibility for the operation and maintenance costs found in Exhibit B for the period of January 1, 2020 through December 31, 2029
- Minor language changes throughout the Agreement
- Replacement of Exhibits A, B, and K with amended versions that accurately represent current Navajo Participants' ownership shares, cost responsibility, and current facilities
- Changes to the Navajo WTSA to make it consistent with the changes to the Second Amended and Restated Navajo CTA and Navajo STSA

Ownership Share, Fiscal Impact and Terms of the Proposed Amendments – The proposed amendments do not change the LADWP's ownership share in the Project as provided in Amended and Restated Co-Tenancy Agreement No. BP 19-006 approved by the City Council in 2020. Based

on the LADWP's ownership share, the LADWP's current annual Project operating and maintenance cost of \$5 million is not projected to change significantly as a result of execution of the amendments. The terms of the amendments are not impacted and expire coterminous with the Navajo Lease on December 23, 2035.

As a joint owner of the Navajo Project, the City of Los Angeles, acting by and through LADWP, is required to execute the Second Amended and Restated Navajo Project Agreements as do all other Navajo Participants. Inasmuch as the Federal Energy Regulatory Commission (FERC) does not have jurisdiction over the LADWP, FERC acceptance of the Agreements is not applicable or required.

Alternatives Considered – There are no alternatives to the proposed Second Amended and Restated Navajo Project Agreements. Without the proposed Amended and Restated Agreements, LADWP will not be able to continue participating in the Navajo Project impacting cost, reliability and availability of electrical power to LADWP customers. The proposed Agreements are essential to execute since they establish the terms and conditions for continued participation and are the result of negotiations between the Navajo Participants.

CITY COMPLIANCE

California Environmental Quality Act (CEQA) – The LADWP has determined, subject to Board approval, that the proposed Second Amended and Restated Navajo Project Agreements are exempt from CEQA pursuant to Guidelines 15060(c)(3). In accordance with that section, an activity is not subject to CEQA if it does not meet the definition of a project. Section 15378(b)(5) states that organizational or administrative activities that will not result in direct or indirect physical changes in the environment do not meet that definition. Therefore, the Second Amended and Restated Navajo Project Agreements and amendments to such agreements to revise the language and update definitions, diagrams, and cost responsibility ratios are not subject to CEQA.

The City Attorney has reviewed and approved the Resolution and Second Amended and Restated Navajo Project Agreements as to form. In accordance with Charter Section 674, the Navajo LGIA requires City Council approval for power transmission contracts, which are subject to approval by ordinance. This Office has reviewed the request and recommends approval.

FISCAL IMPACT STATEMENT

The Second Amended and Restated Navajo Co-Tenancy Agreement, the Second Amended and Restated Navajo Southern Transmission System Operating Agreement and the Second Amended and Restated Western Transmission System Operating Agreement together identify the operation and maintenance cost responsibility for the Navajo Project. The LADWP's annual cost responsibility is estimated to be approximately \$5 million and is not projected to change significantly as a result of the proposed amendments. However, any potential costs resulting from the amendments will be paid from the Power Revenue Fund. The proposed recommendations comply with LADWP Financial Policies. There is no impact on the General Fund.