

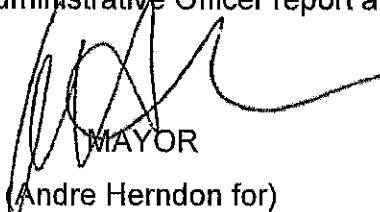
0150-11961-0000

TRANSMITTAL

TO Martin L. Adams, General Manager Los Angeles Department of Water and Power	DATE 06/07/2022	COUNCIL FILE NO.
FROM The Mayor	COUNCIL DISTRICT All	

**APPROVAL OF THREE SOUTHERN TRANSMISSION SYSTEM RENEWAL AGREEMENTS
BETWEEN THE LOS ANGELES DEPARTMENT OF WATER AND POWER
AND THE SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY
TO ALLOW BOND ISSUANCE FOR CAPITAL IMPROVEMENTS**

Approved and transmitted for further processing including Council consideration.
See the City Administrative Officer report attached.


MAYOR
(Andre Herndon for)

MWS:IR:10220046

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: June 3, 2022

CAO File No. 0150-11961-000

Council File No.

Council District:

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer

Reference: Communication from the Department of Water and Power dated August 30, 2021; referred by the Mayor for report on September 17, 2021

Subject: **APPROVAL OF THREE SOUTHERN TRANSMISSION SYSTEM RENEWAL AGREEMENTS BETWEEN THE LOS ANGELES DEPARTMENT OF WATER AND POWER AND THE SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY TO ALLOW BOND ISSUANCE FOR CAPITAL IMPROVEMENTS**

RECOMMENDATION

That the Mayor:

1. Approve the proposed Resolution and Ordinance authorizing the renewal of three agreements with the Southern California Public Power Authority (SCPPA) for fifty years from June 15, 2027 to June 15, 2077, to allow SCPPA the ability to issue bonds and or other debt obligations for capital improvements necessary for the Southern Transmission System (STS) as follows:
 - A. Renewal Agreement for the Acquisition of Capacity (Agreement No. BP 21-004);
 - B. Renewal Transmission Service Contract (Agreement No. BP 21-005);
 - C. Renewal Agency Agreement (Agreement No. BP 21-006).
2. Delegate authority to the Los Angeles Department Water and Power Board of Commissioners (Board) by ordinance and authorize the Board to act on and approve all future amendments to the Renewal Agreements pursuant to Charter 674;
3. Upon proper certification, the Chief Accounting Employee is authorized and directed to draw demands on the Power Revenue Fund over the term of the Agreements incurred by such agreements; and,
4. Return the proposed Resolution and Ordinance to the Department for further processing, including Council consideration.

SUMMARY

The Los Angeles Department of Water and Power (LADWP) requests approval to enter into three renewal agreements for the following: to assign its right to capacity in the STS in order for SCPPA to issue bonds or other debt obligations for capital improvements; renewal of the provision of transmission services between SCPPA and the California purchasers; and, renewal of the agency agreement authorizing certain activities to be performed by LADWP for SCPPA. Collectively these agreements are referred to as the STS Renewal Agreements. The STS is approximately 488 miles and provides power through 2,400 Megawatt (MW) high voltage circuit current overhead transmission lines from the Intermountain Power Project (IPP) in Utah to Southern California. This proposed project is independent of the IPP Alternative Repowering Project slated for the termination of coal fired generation by 2025 to natural gas.

Approval of the STS Renewal Agreements will allow the SCPPA the ability to issue up to \$2 billion in tax exempt municipal bonds and or other forms of indebtedness to provide the financing needed for current capital improvements, rather than financing through the Intermountain Power Agency (IPA), owner of IPP and the STS. LADWP, along with their independent municipal advisors, recommend that this strategy will result in overall debt savings of approximately \$28.9 million, \$16.1 million on a present value basis.

The terms and conditions of the STS Renewal Agreements are in alignment with the Second Amendatory Power Sales Contract, Renewal Power Sales Contract, and Agreement for Sales of Renewal Excess Power approved in June 2015, by the Board and the City Council (Council File No.13-0340) with the IPA to allow LADWP to continue participating in the IPP through June 15, 2077. The original STS Agreements expire on June 15, 2027. Upon termination, approval of these renewal agreements will effectuate a new contract term for fifty years from June 15, 2027 to June 15, 2077. LADWP reports SCPPA would not be able to successfully receive long-term financing under the original STS Agreements without a contractual mechanism that lasts at least until the end of the proposed debt service payments through 2056.

The City Attorney has approved the proposed Resolution and Ordinance as to form and legality. The City Council approval is required pursuant to Charter Section 674, for power transmission contracts, subject to approval by ordinance.

Background

The STS is located in Adelanto, California and has been in operation since 1986. The STS was designed and built to transmit energy to Southern California and transmits energy from the IPP, along with other renewables. LADWP has no ownership rights in the IPP or the transmission lines. Rather, LADWP along with five other California agencies (Cities of Anaheim, Burbank, Glendale, Pasadena and Riverside) have long term power purchase agreements and authority to utilize the transmission lines through the SCPPA, a non-profit joint power agency. In May 1983, the Board entered LADWP into an original Agreement with SCPPA for the Acquisition of Capacity, a Transmission Service Contract and Agency Agreement for the construction of the STS. The SCPPA issued bonds for the original construction with debt service payments continuing through June 2027. The total original outstanding STS debt is \$273.8 million, with LADWP's portion at \$163

million. LADWP will continue to make these payments till June 2027. IPA has determined that capital improvements were needed for the STS to extend the life of the project, including the replacement, renewal, and expansion of converter stations, AC switchyards, reactive power equipment, and associated facilities of the STS which present increasing reliability concerns. These upgrades will ensure computability with the transmission of other renewable energy sources. The most recent STS construction cost estimate is \$1.199 billion as of March 2022. The IPA commenced preliminary engineering services in June 2017, and estimates that up to \$2 billion will be needed, which includes the par amount of the bonds, capitalized interest, and cost of issuance. SCPPA plans to issue more than one tranche, but no more than \$2 billion.

Proposed STS Renewal Agreements

Approval of the STS Renewal Agreements will allow SCPPA to continue to provide financing related to current STS capital improvements.

- **Renewal Agreement for the Acquisition of Capacity** – This renewal agreement contains the terms and conditions under which LADWP will assign to SCPPA its right to capacity in the STS in accordance with the approved Renewal Power Sales Contract. LADWP will retain the right to appoint a representative to participate in the Renewal Contract Coordinating Committee. SCPPA agrees to issue bonds or other debt obligations to provide funding for construction on behalf of LADWP.
- **Renewal Transmission Service Contract** – This renewal agreement contains the term and conditions related to transmission service and LADWP financial obligations relative to its 90.5 percent share of the STS capacity for service and operating expenses. Effective June 16, 2027, LADWP shall pay SCPPA for its share of Monthly Transmission Costs.
- **Renewal Agency Agreement** – This renewal agreement identifies LADWP as the project manager, operating agent and allows LADWP to continue to provide financial services for SCPPA, and the STS project. LADWP will be reimbursed for all costs incurred.

Proposed costs

The LADWP 2022-23 Adopted Budget includes \$62.04 million for SCPPA, which includes SCPPA debt service, SCPPA administration and general STS O&M costs. The STS Renewal Agreements do not contain language on fee amounts or annual obligatory amounts. Relative to the SCPPA bond issuance, the total cost of SCPPA's bond issuance is up to \$2 billion, including principal, capitalized interest, and debt service costs (\$5.3 million) over thirty years. The debt service payment is anticipated to be \$63.3 million annually. With SCPPA issuing tax exempt bonds at current market rates, LADWP estimates total net debt savings of approximately \$28.9 million. The savings are based on higher rates which IPA would have to incur, should they issue the bonds.

FISCAL IMPACT STATEMENT

There is no General Fund impact. Approval of the proposed Resolution and Ordinance authorizes the renewal of the STS Renewal Agreements for fifty years. This will allow SCPPA the ability to issue bonds on behalf of the STS project for needed capital improvements. The potential bond issuance is up to \$2 billion, with debt service payments of \$63.3 million annually over thirty years to be paid by the LADWP Power Revenue Fund. The proposed action complies with the LADWP Financial Policies in that funding is available to support this purpose.

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Attachments