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REPORT NO. R 22 - 0 4 0 9
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REPORT RE:

DRAFT ORDINANCE APPROVING THE RENEWAL AGREEMENT FOR THE ACQUISITION OF CAPACITY, NO. BP 21-00; RENEWAL TRANSMISSION SERVICE CONTRACT, NO. BP 21-005; AND RENEWAL AGENCY AGREEMENT, NO. BP 21-006, BY AND BETWEEN THE CITY OF LOS ANGELES, ACTING BY AND THROUGH THE DEPARTMENT OF WATER AND POWER, AND THE SOUTHERN CALIFORNIA PUBLIC POWER AUTHORITY; AND DELEGATING TO THE BOARD OF WATER AND POWER COMMISSIONERS AUTHORITY TO AMEND SUCH AGREEMENTS

The Honorable City Council
of the City of Los Angeles
Room 395, City Hall
200 North Spring Street
Los Angeles, California 90012

Council File No: 22-1403

Honorable Members:

This Office has prepared and now transmits for your consideration the enclosed draft ordinance, approved as to form and legality. This draft ordinance provides for the approval of the following agreements to facilitate more economically favorable financings of the Intermountain Power Project (IPP) Southern Transmission System (STS): (1) the Renewal Agreement for the Acquisition of Capacity, No. BP 21-004; (2) Renewal Transmission Service Contract, No. BP 21-005; and (3) Renewal Agency Agreement, No. BP 21-006 (collectively, the STS Renewal Agreements) each by and between the City of Los Angeles, acting by and through the Department of Water and Power (LADWP), and the Southern California Public Power Authority (SCPPA). The draft ordinance also would delegate to the Board of Water and Power Commissioners (Board) authority to amend such agreements.

Background

In 1977, 23 Utah municipalities organized the Intermountain Power Agency (IPA) to finance, construct, and operate IPP and STS to generate and transmit electricity. The original 23 Utah municipalities together with 6 Utah cooperatives and 6 California municipalities signed separate Power Sales Contracts to accept their respective percentages of the generation capacity. By Resolution No. 512 dated April 3, 1980, the Board authorized the General Manager to enter LADWP into a Power Sales Contract (LADWP Agreement No. 10437) with IPA to purchase generation from IPP and transmit that electricity from Utah to California via the STS. The project has been in operation since 1986. Though IPA financed the construction of the majority of IPP, the California Purchasers of IPP financed the original construction of the STS through SCPPA.

SCPPA is a joint powers authority formed in 1980 to facilitate joint power and transmission projects for the benefit of its Southern California municipal member utilities. By Resolution No. 344 dated May 12, 1983, the Board authorized LADWP to enter into an Agreement for the Acquisition of Capacity (LADWP Agreement No. 10016), a Transmission Service Contract (LADWP Agreement No. 10017), and an Agency Agreement (LADWP Agreement No. 10020) with SCPPA to allow for the issuance of more economically favorable bonds and other debt obligations by SCPPA for the construction of the STS (collectively, the STS Original Agreements). The STS Original Agreements are effective until June 15, 2027, the anticipated date when the last of the debt repayment for the original bonds and other debt obligations issued by SCPPA will be satisfied by the original California Purchasers of IPP.

In the early 2000s, IPA and the IPP Purchasers commenced discussions to assess the IPP assets and determine how the Project could be extended and stay compatible with the changing California laws related to power generation. By Resolution 015 232 dated June 2, 2015, the Board authorized the Second Amendatory Power Sales Contract (LADWP Agreement No. 10437) and Renewal Power Sales Contract (LADWP Agreement No. 10522) with IPA to allow LADWP to continue participating in IPP through June 15, 2077, and provide for the early termination of coal-fired generation by 2025 and repowering to technologies complying with California law.

IPA determined that capital improvements were necessary 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 (STS Renewal Project) which have reached the end of their useful lives and present increasing reliability concerns. The STS and related STS Renewal Project will be utilized not only for the transmission of IPP generation but also to serve as an increasingly critical transmission asset for the delivery of renewable energy from sources utilizing IPP's location as a renewable energy hub.

The California Purchasers of IPP have elected to finance the STS Renewal Project through SCPPA, and LADWP now desires to enter into the STS Renewal Agreements to authorize the issuance of new bonds and other debt obligations by SCPPA for the STS Renewal Project to provide for the continued reliable transmission of energy from IPP to Southern California during the term of the Renewal Power Sales Contract. The STS Renewal Agreements will similarly provide lower costs for LADWP and its ratepayers to enable financing of the STS Renewal Project for the transmission of electric energy.

The STS Renewal Agreements will be effective until June 15, 2077, or such later date as all bonds and other debt obligations and the interest thereon shall have been paid in full or adequate provision for such payment shall have been made by the California Purchasers of IPP.

The terms and provisions of the STS Renewal Agreements are similar or identical to the terms and provisions of the STS Original Agreements and serve the purpose of continuing the existing arrangement with SCPPA, allowing for more favorable financing.

Charter Enabling Provisions

Charter Section 674(a)(1) provides that, subject to approval by ordinance, the Board has the power to approve contracts with the United States, or any of its agencies, any state or any 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 that provides for a sharing of the use and benefits and of the capital charges and other obligations associated with the facilities. In addition, pursuant to Charter Section 101, the City Council has the power to authorize the Board to amend the STS Renewal Agreements without further City Council approval.

CEQA Findings

The STS Renewal Agreements are exempt pursuant to California Environmental Quality Act (CEQA) Guidelines 15060(c)(3). In accordance with this section, an activity is not subject to CEQA if it does not meet the definition of a project. Section 15378(b)(4) states that government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment do not meet the definition of a "project" under the CEQA Guidelines. Therefore, the execution of the STS Renewal Agreements is not subject to CEQA.

Council Rule 38 Referral

Pursuant to Council Rule 38, the draft ordinance has been presented to the Board of Water and Power Commissioners.

If you have any questions regarding this matter, please contact Deputy City Attorney Vaughn Minassian at (213) 367-5297. He or another member of this Office will be available when you consider this matter to answer questions you may have.

Sincerely,

MICHAEL N. FEUER, City Attorney

By 

DAVID MICHAELSON
Chief Assistant City Attorney

DM:VM:rb
Transmittal