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OAKLAND
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AGENDA REPORT

TO: DEANNA J. SANTANA
CITY ADMINISTRATOR

FROM: Vitaly B. Troyan, P.E.

SUBJECT: Regional Renewable Energy Procurement DATE: October 30, 2012

City Administrator
Approval

Date

11/30/12

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Report and recommendation from the City Administrator on City's effort to convert municipal electricity use to a solar source(s), to include information on solar companies able to perform such large scale municipal conversions in time to obtain federal and state financial incentives (due to expire next year) that would substantially offset the City's cost of conversion; and

A resolution authorizing the City Administrator or his or her designee to implement a solar power procurement project by signing a memorandum of understanding with Alameda County for the Regional Renewable Energy Procurement project; entering into solar power purchase agreements; and appropriating related incentives without returning to Council.

EXECUTIVE SUMMARY

Approval of the attached resolution will authorize the City Administrator to continue participating in an open, competitive solicitation led by the County of Alameda (County) to implement a project to purchase energy generated by solar panels equipment that will be installed on City facilities and owned by a contractor through a Power Purchase Agreement (PPA).

Two options are available: participating in a competitive regional procurement led by Alameda County (County), or considering an unsolicited proposal from the Oaktown Group and NRG Solar.

One option is for the City to continue participating in the Regional Renewable Energy Procurement (R-REP) program led by Alameda County, as it has since April 2011, joining with other local governments to issue a publicly-noticed Request for Qualifications (RFQ) that is expected to yield the best terms and pricing in proposals from approximately 20 companies. If the City Council approves the attached Resolution, staff will continue working on the County R-REP program. Currently, staff has identified up to 20 City owned sites, which would generate

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approximately 435,000 kilowatt-hours (kWh) of power per year, and estimated \$189,000 in rebates administered through the California Solar Initiative (CSI).

Alternately, the City could consider the Indicative Proposal for the City of Oakland from the Oaktown Group and NRG Solar. This team sent the unsolicited proposal to the City in October asking to enter into an “exclusive negotiating agreement”.

Staff recommends that the City continue participating in the County-led R-REP program to obtain the benefit of a large-scale, competitive process that allows the City to compare multiple proposals from numerous firms to select the best terms and pricing for the City.

OUTCOME

Approval of the attached resolution will authorize the City Administrator to:

- 1) Enter into a Memorandum of Understanding (MOU) with the County to participate in the R-REP program;
- 2) Allow appropriation of incentives to energy projects; and
- 3) Execute a Power Purchase Agreement with contractors selected by the R-REP.

BACKGROUND/LEGISLATIVE HISTORY

The City installed 1,000 kilowatts (kW) of solar power atop the Municipal Service Center (MSC) and the Oakland Ice Center (OIC) in 2005. The post-project maintenance effort has been significant. Cleaning panels and managing the warranty process to replace failed panels has been time-intensive.

Since 2005, Staff has continued to examine renewable energy projects that could increase the City’s renewable energy portfolio. Developing solar power projects is a prominent part of Oakland’s draft Energy and Climate Action Plan (ECAP) for reducing greenhouse gas (GHG) emissions. Using the experience of the 2005 solar power project, the Public Works Agency considered ways to construct more renewable energy projects at City facilities while recognizing that these systems require personnel with specialized training and capital for optimal maintenance. A PPA addresses these risks by placing operational and maintenance responsibilities on the owner of the renewable energy system.

What is a Power Purchase Agreement?

A Power Purchase Agreement, or PPA, allows the City to purchase renewable energy from a contractor that installs and maintains equipment to generate electricity and/or heat water on a customer’s property. The customer uses the electricity or heat at the property and pays the contractor at rates that are set forth in the PPA. The PPA includes all the terms for the sale of energy between the parties, including when the project will begin operation, pricing for the energy, responsibilities for maintenance, penalties for under-delivering power, payment terms, conditions for terminating the agreement, and options at the end of the agreement term.

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Under a PPA maintenance responsibilities reside with the contractor; the customer only pays for electricity and water heating that is delivered. Therefore the contractor retains the primary interest in installing high-quality products and keeping the equipment fully operational.

Entering into a PPA provides the customer with pre-determined prices for electricity and water heating over the life of the agreement, typically up to 20 years. At the end of the agreement term, the customer usually has the option to purchase the system at fair market value, or to direct the PPA contractor to remove the renewable energy system. Under a PPA, contractors have more incentives to install high-quality equipment and keep the equipment fully operational in order to reduce their economic risks associated with equipment failure or under-performance.

A contractor who offers a PPA proposal is likely to comprise a team, relying on their complementary skills to create a complete proposal. The team may include subcontractors or joint venture partners, with financiers, engineering firms, installation contractors, and possibly manufacturers.

Rebates

The City is eligible for rebates for solar energy projects through the CSI estimated at \$189,000. These rebates are available through December 2016 and can be assigned to the contractors through a PPA. Contractors will also have access to tax incentives related to County R-REP projects that should reduce the pricing for energy that is purchased through a PPA. These incentives are available at a constant level through December 2016.

Tax Advantages

There are tax advantages available for owners of renewable energy projects. The City cannot access tax-based incentives, but they are available to owners of systems through a PPA. System owners may apply for the Federal Investment Tax Credit for Solar Energy, valued at approximately 30% of the approximately \$3,200,000 project implementation cost and may depreciate these systems under the Modified Accelerated Cost Recovery System (MACRS) available through December 2016. The City may benefit from these tax advantages within the PPA. Staff is researching the recently-passed Proposition 39 to understand how it may affect renewable energy projects on government facilities.

ANALYSIS

Developing the Proposed Project

The City began working with Alameda County's R-REP in Spring 2011, The County started the R-REP process based upon the success of the Silicon Valley Renewable Energy Procurement (SV-REP) project, which was the largest multi-agency collaborative procurement of renewable energy in the country at the time of completion. SV-REP participants benefited from volume pricing in a competitive solicitation, with energy prices that were 10%-14% lower than rates charged by their utility companies, as well as reliable electricity costs for a 20-year term.

This section compares two options for developing solar power projects: the County R-REP RFQ process and the Oaktown Group / NRG Solar proposal. Both options use a PPA to develop renewable energy projects on City-owned facilities and both retain incentives and tax advantages for the City.

Option A: Open Solicitation through County R-REP

The County, as the lead agency for R-REP, will solicit proposals for projects from the participating jurisdictions, combining similar projects into several sets of bundles that are expected to result in favorable terms for the participants. Proposals are expected from approximately 20 contractors that are capable of completing large-scale projects on local government sites. Under the County R-REP process, the City would enter into its own agreement with one or more contractors, depending on how the projects are bundled.

The County will also provide consulting services for contractor screening and proposal negotiations at no cost to participating jurisdictions. These County-provided services will continue until the start of construction.

Option B: Consider the Unsolicited Proposal from the Oaktown Group and NRG Solar

In summer 2012, the Oaktown Group inquired about the City's plans for developing solar energy projects and was advised of the opportunity to submit a proposal to the planned County R-REP solicitation. On October 1, 2012 the Oaktown Group submitted an unsolicited proposal by NRG Solar to the City Administrator, asking the City to enter into an "exclusive negotiating agreement" for a sole-source procurement of solar electricity through a PPA.

The Oaktown Group / NRG proposal may allow the City to start negotiations with the construction vendors earlier, which might speed up implementation and reduce risks associated with meeting construction deadlines for the CSI rebates.

Considering the Oaktown Group/NRG Solar proposal on its own merits would not allow the City to compare among multiple proposals, which the competitive process would provide. If this option is considered, then Staff would be required to return to the City Council for action.

The County R-REP program and the Oaktown Group's proposal both have similar access to the CSI rebates and tax incentives.

Recommended Procurement Process

Continuing a competitive solicitation with the County R-REP project allows many qualified vendors, capable of installing large-scale governmental renewable projects to participate. This competitive process should result in better pricing and terms for the City. Oaktown Group and NRG Solar have the opportunity to submit proposals through this process.

Furthermore, R-REP offers access to technical and financial consultants with valuable experience from many past projects.

Therefore, continuing with the R-REP process is recommended. This competitive process is advantageous for the City because it can achieve favorable pricing and terms while preserving access to rebates and tax incentives.

R-REP Process

The following is a description of the steps in the R-REP process:

- Step 1: Conduct feasibility studies
- Step 2: Apply for CSI rebates
- Step 3: Sign MOU with County
- Step 4: Issue RFQ to solicit contractors (County action)
- Step 5: Negotiate with County-solicited contractors
- Step 6: Construction

Step 1: Conduct Feasibility Studies

The first phase of the R-REP program was to conduct feasibility studies. Twenty potential sites were identified including recreation centers, fire stations, senior centers and general use buildings. Site selection criteria included: roof age and condition, shading at prospective rooftops, and roof orientation. These sites have the potential to generate approximately 200 kW of power, or 435,000 kWh of electricity annually. These estimates will be finalized in December 2012.

Generating 435,000 kWh of energy through solar power will reduce the City's annual GHG emissions by approximately 100 metric tons per year, the equivalent of driving approximately 700,000 fewer miles in a compact hybrid car.

Step 2: Apply for CSI Rebates

The CSI requires deposits ranging from \$1,250 to \$5,000 per site to reserve a rebate. The City will submit CSI applications and deposits for the viable sites.

The City's deposit to CSI is estimated at between \$27,000 and \$40,000 from funds in the existing solar power project. Once a project is complete, the CSI will refund the deposit and pay an estimated \$189,000 in rebates to the City. If a project becomes unviable, CSI deposits may be refunded if specific conditions are met. If a deposit is refunded, it will be returned to the renewable energy project.

These rebate applications will be submitted in December 2012 and should precede exhaustion of the remaining \$40,514,585 of CSI rebate funds.

Step 3: Sign MOU with County and Prepare RFQ

The County's MOU describes the roles and responsibilities of the County and the participating agencies; and is intended to provide stability to the project during the solicitation process. Participating agencies agree to forgo withdrawing sites from the project from thirty days prior to the solicitation issuance until vendors have been selected. No penalty or liability is imposed on

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participants as a result of any withdrawal. The withdrawal provision is included to protect the interests of all participants by reducing the risk of changes that could impact prospective contractor's cost models in the middle of the solicitation process.

There are no financial implications associated with signing the MOU. The City may terminate the MOU at any time up to thirty days prior to the issuance of the solicitation, or at any time after a Contractor is selected.

The County will provide services for technical and financial consultants for RFQ preparation at no cost to the R-REP participants. RFQ preparation is expected to conclude in spring 2013.

Step 4: Issue RFQ to Solicit Contractors (County action)

The County will issue an RFQ to solicit contractors. The County will also provide consulting services at no cost to R-REP participants until construction begins. The City may contract with the same consultants for technical and financial services until the end of the R-REP program if there is a need.

The County expects to release the R-REP RFQ for Contractors by the end of spring of 2013.

Step 5: Negotiate with County-solicited Contractors

The County, with R-REP partners and technical and financial consultants will review, analyze, and negotiate with the PPA proposers at no cost to R-REP participants. The County expects to complete negotiations with PPA Contractors by the end of summer 2013. If the negotiations result in a PPA with energy prices that are less than or equal to estimated energy prices over the life of the agreement, the City Administrator will enter into a PPA without returning to Council.

Step 6: Construction

The City expects to start construction of the solar power project by winter of 2013.

Participating in R-REP will help Oakland meet its greenhouse gas (GHG) emissions reduction goals by allowing the City to purchase energy from new renewable energy sources.

After the current phase, the County R-REP may conduct more site assessments and solicitations, and the City will have the option to continue participating in the program.

PUBLIC OUTREACH/INTEREST

Participating in the R-REP program is consistent with the recommendations made by the public in meetings for developing the ECAP. Working with R-REP maximizes outreach for the solicitation for the City's solar projects.

COORDINATION

Public Works staff coordinated this effort with the Office of City Attorney, PWA Department of Facilities & Environment, and the R-REP program led by the Alameda County General Services Administration.

COST SUMMARY/IMPLICATIONS

Staff estimates the overall life cycle cost of a PPA should be equal to or less than the cost of purchasing the same amount of electricity and natural gas from the City's current energy providers. If the prospective contractor's proposed PPA prices are less than or equal to estimated energy prices over the life of the agreement, the City will enter into a PPA.

POLICY ALIGNMENT

Continuing to solicit solar projects through the County-led R-REP is consistent with the City's policies regarding competitive and open solicitations. Changing course to enter into an exclusive negotiating agreement with Oaktown Group and NRG Solar is inconsistent with adopted policies regarding open and competitive solicitation. Entering into an exclusive negotiating agreement requires returning to the City Council to consider a resolution that includes waivers of parts of the Purchasing Ordinance.

In addition, R-REP will help Oakland meet its goal of reducing community greenhouse gas emissions to 36% below 2005 levels by 2020, as described in the draft ECAP. R-REP contributes to Oakland's community-wide target of using 62 million kWh and 2.7 million therms of renewable energy in order to help achieve the ECAP's goals, including "Building Energy" Action 45 (using additional renewable energy at municipal facilities, including through a PPA).

SUSTAINABLE OPPORTUNITIES

Economic: Participating in R-REP will create jobs, save the City energy costs over the term of the PPA, and provide price stability for the City.

Environmental: Creating these solar power projects is equivalent to reducing GHG emissions from municipal operations by approximately 125 metric tons of GHG emissions per year.

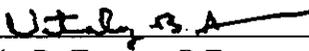
Social Equity: Creating these solar power projects results in social equity benefits, by creating green jobs, reducing local air pollutants in specific areas.

CEQA

Per Section 21080.35 of the Public Resources Code, rooftop solar projects are exempt from CEQA review.

For questions regarding this report, please contact Scott Wentworth, Energy Engineer, at (510) 238-3984.

Respectfully submitted,



Vitaly B. Troyan, P.E.
Director, Public Works Agency

Reviewed by:
Brooke A. Levin, Assistant Director

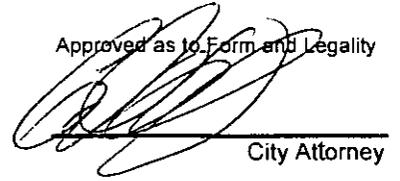
Reviewed by:
Susan Kattchee, Environmental Services Manager

Prepared by:
Scott Wentworth, Energy Engineer
Environmental Services Division

Attachment A: List of Current R-REP Sites

Attachment A: Regional Renewable Energy Procurement - Project List

Site	Address
Firehouse #8	462 - 51st St
Firehouse #18	1700 - 50th Ave
Firehouse #19	5776 Miles Ave
Firehouse #24	5900 Shepherd Canyon Rd
West Oakland Senior Center	1724 Adeline St
DeFremery Recreation Center	1651 Adeline St
Mosswood Recreation Center	3612 Webster St
Junior Center of Art and Science	558 Bellevue Ave
Wilson Building	150 Frank H. Ogawa Plaza
Dalziel Building	250 Frank H. Ogawa Plaza
Municipal Service Center	7101 Edgewater Drive
Studio One Art Center	365 - 45th St
Garden Center	666 Bellevue Ave
Tassafaronga Recreation Center	975 - 85th Ave
81st Avenue Library	1021 81st Ave
Dimond Branch Library	3565 Fruitvale Ave
Arroyo Viejo Recreation Center & Head Start	7701 Krause Ave
Melrose Branch Library	4805 Foothill Blvd
Charles Green Library	659 14th Street
Main Library	125 14th Street



City Attorney

OAKLAND CITY COUNCIL

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RESOLUTION No. _____ C.M.S.

A RESOLUTION AUTHORIZING THE CITY ADMINISTRATOR OR HIS OR HER DESIGNEE TO IMPLEMENT A SOLAR POWER PROCUREMENT PROJECT BY SIGNING A MEMORANDUM OF UNDERSTANDING WITH ALAMEDA COUNTY FOR THE REGIONAL RENEWABLE ENERGY PROCUREMENT PROJECT; ENTERING INTO SOLAR POWER PURCHASE AGREEMENTS; AND APPROPRIATING RELATED INCENTIVES WITHOUT RETURNING TO COUNCIL

WHEREAS, the City’s Draft Energy and Climate Action Plan calls upon Oakland to use 62 million kilowatt-hours of electricity from renewable sources to help achieve the goal of reducing community-wide greenhouse gas emissions by 36% below 2005 levels by 2020; and

WHEREAS, the County of Alameda, in association with Joint Venture Silicon Valley and Contra Costa Economic Partnership, has established the Regional Renewable Energy Procurement (R-REP) project with the intention of installing solar panels at approximately 170 sites owned by public agencies throughout Alameda, Contra Costa, San Mateo, and Santa Clara Counties totaling up to 40 megawatts of solar energy; and

WHEREAS, the City has viable sites for renewable energy projects, capable of generating approximately 300 kilowatts of power and approximately 500,000 kilowatt-hours of electricity annually; and

WHEREAS, a Power Purchasing Agreement (PPA) will allow the City to purchase renewable energy from a contractor with maintenance provided by the contractor, and with the option for the City to purchase the associated generation systems at fair market value at the end of the agreement; and

WHEREAS, R-REP provides participants with access to many County-solicited contractors, reduced project management cost, free technical and financial consultant assistance through the contract negotiations, reduced PPA cost by bundling projects with other participants’ sites; and

WHEREAS, the Oakland Municipal Code (OMC), Section 2.04.080 – Cooperative Purchasing Agreements states, “Where advantageous for the city, the City Administrator may purchase supplies or services as defined in Section 2.04.010, through legal contracts of other governmental jurisdictions or public agencies without further contracting, solicitation, or formal bidding”; and

WHEREAS, the City will appropriate available rebates in the estimated amount of \$60,000 from the California Solar Initiative, PPA Contractors will have access to a Federal Tax incentive through December 31, 2016, and may depreciate these systems under the Modified Accelerated Cost Recovery System (MACRS) available through 2016; therefore, now be it

RESOLVED: That it is in the best interests of the City to enter into an MOU with the County to participate in the R-REP program; and be it

FURTHER RESOLVED: the City Administrator or his or her designee is authorized to sign the MOU with the County; and be it

FURTHER RESOLVED: That the City Administrator or his or her designee is authorized to enter into a PPA with Contractors selected through the R-REP process without returning to Council; and be it

FURTHER RESOLVED: That related incentives be appropriated to energy projects; and be it

FURTHER RESOLVED: That the City Administrator or his/her designee is hereby authorized and empowered to approve any subsequent amendments to or extensions of said agreement with the exception of those related to an increase in total compensation or the allocation of additional funds, provided that such amendments or extensions shall be reviewed by the City Attorney and filed with the City Clerk's Office; and be it

FURTHER RESOLVED: That a copy of the agreement will be on file in the City Clerk's Office and will be approved by the Office of the City Attorney.

IN COUNCIL, OAKLAND, CALIFORNIA, _____, 20____

PASSED BY THE FOLLOWING VOTE:

AYES -

NOES -

ABSENT -

ABSTENTION -

ATTEST: _____
LaTonda Simmons
City Clerk and Clerk of the Council
of the City of Oakland, California