County of Los Angeles
INTERNAL SERVICES DEPARTMENT
1100 North Eastern Avenue
Los Angeles, California 90063

SCOTT MINNIX
Director

Telephone: (323) 267-2101
FAX: (323) 264-7135

"To enrich lives through effective and caring service"

ADOPTED
BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES

47 April 3, 2018

CELIA ZAVALA
ACTING EXECUTIVE OFFICER

March 27, 2018

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

PUBLIC HEARING ON PROPOSED POWER PURCHASE AGREEMENTS FOR INSTALLATION, OPERATION, AND MAINTENANCE OF SOLAR PANELS AT FOUR COUNTY FACILITIES (ALL DISTRICTS – 3 VOTES)

SUBJECT

Adopt a Resolution with a determination that the requirements of California Government Code section 4217.10 et seq. are duly met in the proposed Power Purchase Agreements (PPAs) for each of the four County of Los Angeles (County) facilities and delegate authority to the Director of Internal Services for the execution of PPAs.

IT IS RECOMMENDED THAT THE BOARD AFTER THE PUBLIC HEARING:

1. Public Hearing & Resolution. After the public hearing, adopt the attached Resolution (Attachment 1) with a finding that (i) the anticipated cost to the County for electrical energy under the proposed PPAs will be less than the anticipated marginal cost to the County of energy that would have been consumed by the County in the absence of those purchases, and (ii) the difference, if any, between the fair rental value for the real property subject to the facility license agreement and the agreed rent is anticipated to be offset by below-market energy purchases or other benefits provided under the PPA, pursuant to Government Code section 4217.12.

2. PPA Delegated Authority. Acting as the governing body of the County and the Los Angeles County Flood Control District (District), delegate authority to the Director of Internal Services Department (ISD) or his designee to (i) negotiate and execute PPAs for four County facilities, including applicable amendments, and (ii) assign PPAs including any ancillary

license agreement(s) and other documents necessary for the operation and maintenance of the solar panels at the County facilities, with a Special Purpose Entity (SPE) established by SunPower.

3. PPA Rate Adjustment Authority. Acting as the governing body of the County and the District, delegate authority to the Director of ISD or his designee to increase PPA rates in an amount County determines necessary to modify the design and installation of solar panels to uphold the viability of a County facility, these increases would be capped at 2.5% per site.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

On November 21, 2017, the Director of ISD notified the Board outlining potential installation of solar at three various County-owned facilities. Since then, ISD has identified an additional site for solar installations. The attached cost analysis (Attachment 2) further details the costs and benefits of installing solar, which could provide 13% to 41% of each facility's electrical needs. The report concludes that under the PPA model for the four sites, the County is expected to save approximately $277,909 in the first year of operation compared to the business-as-usual case, and $14,005,718 over 25 years.

1. Public Hearing & Resolution

The first recommended action is required to comply with California Government Code section 4217.10, et seq, which requires the Board to take the following actions:

- Hold a public hearing at a regularly scheduled meeting and public notice of which is given at least two weeks in advance;
- Find the anticipated cost to the County for electrical energy under the proposed PPAs will be less than the anticipated marginal cost to the County of energy that would have been consumed by the County in the absence of those purchases; and
- Find the difference, if any, between the fair rental value for the real property subject to the facility license agreement and the agreed rent is anticipated to be offset by below-market energy purchases or other benefits provided under the PPAs.

2. PPA Delegated Authority

The second recommendation is required to allow ISD to execute PPAs that comport to the industry-wide delivery model, which is designed to qualify for certain Federal tax credits. Under the industrywide PPA model, the system owner is an SPE established by a developer to own the system assets. The SPE limits the developer's liability in connection with a solar system to the developer's investment in the SPE, and permits the system to be financed on a "project" basis. An SPE will be required to obtain and maintain insurance at the same levels required in the PPAs, and the County will require that an Operations and Maintenance agreement between the developer and the SPE include the County as a party to the contract.

In effect, SunPower would create a wholly owned or controlled affiliate, and then assign the PPA to the affiliate. The affiliate would turn around and retain the SunPower under an ongoing Operations and Maintenance agreement to ensure that the County relishes the benefit of services from SunPower.

3. PPA Rate Adjustment Authority

The third recommendation will give ISD delegated authority to increase PPA rates if unanticipated work and/or adjustments are required at a project site before the design phase is completed. Such PPA rate increase would cover costs that the County determines are a result of unforeseeable conditions, such as County-owned electrical equipment deficiencies, underground obstructions, or atypical soil conditions as well as the impact of higher steel or aluminum prices due to tariffs. These increases would be capped at 2.5% per site. In the unlikely scenario that unforeseen and unavoidable remediation work were needed at all four County facilities necessitating the full rate adjustment authority, there would still be an average annual cost savings across all sites over the term of the PPA of $546,223.

In addition, the purpose of the second and third recommended actions is to obtain approval from the Board, on behalf of the District, to delegate authority to ISD Director or his designee, to (i) negotiate and execute PPAs, including applicable amendments, (ii) assign PPAs including any ancillary license agreement(s) and other documents necessary, and (iii) increase PPA rates if unanticipated work is required at the Department of Public Works Headquarters project site before the design phase is completed.

Implementation of Strategic Plan Goals

The recommended actions support the County's Strategic Plan Strategy III.3 (Operational Effectiveness, Fiscal Responsibility, and Accountability) by developing and implementing a program that reduces the County's utilities budget through long term environmentally responsible projects.

The recommended actions also support Strategic Plan Strategy II.3 (Environmental Sustainability) by providing a program that promotes clean energy production, and enhances health and sustainable practices in the County.

FISCAL IMPACT/FINANCING

The proposed PPAs will reduce Southern California Edison (SCE) electricity costs for the subject facilities as soon as the solar panels begin generating electricity. These SCE electricity costs savings will be used to pay the PPA provider for the solar electricity generated. The solar PPA costs are fixed for 25 years and the County is expected to save approximately $277,909 in the first year of operation compared to the business-as-usual case, and $14,000,718 over 25 years. As the solar projects generate lower cost energy, ISD will reduce the Services & Supplies appropriation in future fiscal year budget submittals for the Utilities budget based upon actual cost information.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Required public hearing notice was given pursuant to the procedures and requirements set forth in California Government Code Sections 4217.10-4217.18.

In accordance with Board Policy 5.100, Sole Source Contracts (Sole Source Contracts), the Sole Source Checklist is attached as Attachment 3.

ENVIRONMENTAL DOCUMENTATION

The proposed projects is statutorily and categorically exempt from the provisions of the California Environmental Quality Act (CEQA), California Public Resources Code Section 21080.35, which exempts solar energy systems installed on existing rooftops or at existing parking lots.

ISD will file a Notice of Exemption with the County Clerk in accordance with Section 15062 of the CEQA Guidelines.

CONTRACTING PROCESS

In September 2013, SCE conducted a public bid process for its Local Capacity Resource (LCR) program. SCE awarded its ‘Renewable’ segment of the program to SunPower. Under the LCR program, no other vendor can install renewables for SCE, whereby customers would achieve the benefit of a discounted PPA rate.

Given that SunPower is the only vendor that can install renewables for SCE under the LCR Program, a sole source contract is necessary for the County to avail itself of the program. Participation in the LCR program would allow the County to significantly reduce the County’s current utility rates. On November 21, 2017, in accordance with Sole Source Contracts, ISD notified the Board of its intent to negotiate new sole source PPAs with SunPower.

To be eligible in the LCR program, the ideal sites must fit the following profile:

- Facility operations with a significant load, seven days a week
- Behind-the-meter (non-export). Energy can only offset current load
- Carport and large, newer roofs (>150,000 square feet) for >1MW system
- Roof, parking, and land combined installation if size is >1MW
- No permanent structures within perimeter of system to hinder energy generation
- Solar system must be installed and in operation no later than February 2019

ISD reviewed all potential County sites within SCE’s LCR-approved boundaries that met the criteria with the optimal solar installation configurations. The following County sites were identified to be viable candidates of the LCR program:

- Harry Hufford Registrar/Recorder Office
- Martin Luther King Jr. Community Hospital
- Internal Services Department Headquarters
- Department of Public Works Headquarters

The four County sites listed above are currently undergoing cost analysis to confirm their feasibility under Government Contract Code section 4217 (Gov. Code section 4217).

The CEO has approved the Sole Source Contract Checklist (Attachment 3) and recommendations.

ISD, in conjunction with County Counsel, is currently in negotiations with SunPower. Upon completion of negotiations, ISD will execute PPAs with Solar Star, an SPE established by SunPower. ISD will notify the Board upon execution of the four PPAs.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

Given the long term nature of the PPA, ISD has coordinated with the relevant departments as well as the County's CEO's office to ensure that there are no long term plans that would impair the County from completing the terms of the agreement. For example, the rooftop solar array on ISD Headquarters is being installed on a newer roof that is expected to last the duration of the 25 year PPA and no construction projects are currently planned on locations of the carports at the other Department sites.

ISD also recognizes that ISD may move out of the current facility on Eastern Avenue and the building may potentially be vacant during renovations for another County department. Analysis of the curtailment in-lieu-of energy payment terms has determined that even if the building is left dormant for 2 years, there is still expected to be a significant 25 year savings from the site.

Installation across County facilities is expected to take place during the second half of calendar year 2018 and will involve heavy equipment and construction/installation personnel. ISD will be working with SunPower and the affected Departments during construction to minimize disruption to County services.

CONCLUSION

The proposed projects for installing, operating, and maintaining solar panels on certain County facilities would reduce the County's utilities budget with no upfront capital expenditure.

Further, electricity produced by these projects would be at known and consistent prices or costs, which would serve as a financial hedge for the County against rising electricity prices in the future.

Further, these projects would decrease the production of greenhouse gases and air pollution in the region.

Finally, the financial risk to the County of not meeting the terms of the PPA over the 25 year period of the contract is small when compared to the anticipated savings for the County.

Please return an adopted copy of this letter and a signed original of the Resolution to the Director of the Internal Services Department.

Respectfully submitted,

Scott Minnix

SCOTT MINNIX
Director

SM:ML:JS:CC:ct

Enclosures

c: Executive Office, Board of Supervisors
Chief Executive Officer
County Counsel

ATTACHMENT 1

RESOLUTION ON PROPOSED POWER PURCHASE AGREEMENTS FOR INSTALLATION, OPERATION AND MAINTENANCE OF SOLAR PANELS AT FOUR COUNTY FACILITIES

WHEREAS, the California legislature seeks to encourage the implementation of energy projects at public facilities through legislation designed to provide the greatest possible flexibility to public agencies in structuring agreements for alternative energy projects (Government Code sections 4217.10, *et seq*.);

WHEREAS, Government Code section 4217.10, *et seq*., authorizes agencies such as the County of Los Angeles ("County") to develop energy conservation, cogeneration, and alternate energy sources at facilities owned by such public agencies;

WHEREAS, on November 21, 2017, Internal Services Department (ISD) notified the Board of Supervisors ("Board") of its intent to negotiate Power Purchase Agreements (PPAs) with SunPower Corporation, Systems (SunPower) for the installation, operation and maintenance of solar panels at four County facilities;

WHEREAS, Section 4217.12 of the California Government Code authorizes the County to enter into a contract for design and installation of solar facilities on terms the Board determines are in the best interests of the County; and

NOW THEREFORE, BE IT RESOLVED that based on staff reports, public comment, and the administrative record as a whole, and pursuant to Government Code section 4217.12, the Board finds that the anticipated cost to the County for electrical energy under the proposed Power Purchase Agreements will be less than the anticipated marginal cost to the County of energy that would have been consumed by the County in the absence of those purchases;

BE IT FURTHER RESOLVED that the Board finds the difference, if any, between the fair rental value for the real property subject to the facility license agreement and the agreed rent is anticipated to be offset by below-market energy purchases or other benefits provided under the Power Purchase Agreements;

BE IT FURTHER RESOLVED that the Board received public comment on the proposed project at its regularly scheduled meeting on March 27, 2018, prior to consideration of this resolution;

BE IT FURTHER RESOLVED that based on staff reports reviewed by the Board, public comment and the administrative record as a whole, the Board finds it is in the best interest of the County to enter into Power Purchase Agreements subsequent to adoption of this resolution; and

BE IT FINALLY RESOLVED that the Director of ISD or his designee is authorized to enter into Power Purchase Agreements for the installation, operation and maintenance of solar panels at four County facilities on behalf of the County and to take all steps necessary to execute and implement agreements and to take any actions deemed necessary to best protect the interest of the County.

ATTACHMENT 1

The foregoing resolution was adopted on the 3rd day of April, 2018 by the Board of Supervisors of the County of Los Angeles.

CELIA ZAVALA

Acting Executive Officer of the
Board of Supervisors of the
County of Los Angeles

By ______________________
Deputy

APPROVED AS TO FORM:

Mary C. Wickham
County Counsel

By ______________________
Deputy County Counsel

Attachment 2

Financial Analysis of Net Savings to the County of Los Angeles for Solar PPAs

Two tables and respective financial analysis are provided. At MLK Community Hospital, Option A will build 1.6 MW of solar on the old and the new parking garage structures and provides minimizes disruption to the hospital parking operations. Option B adds additional ground level parking lot canopies for a total of 2.6MW of solar and provides the highest level of savings over the lifetime of the system but will add additional burdens on the employee parking during construction. Option B is provided to provide the hospital flexibility to increase the size of the system should the impact to hospital operations be considered manageable. The other 3 sites, (ISD Headquarters, Registrar-Recorder, DPW Headquarters), are all the same in either scenarios.

Summary Analysis	Option A (MLK with 1.6 MW array on old and new parking garages)											
	2017 Annual Consumption (kWh)	Avoided Utility Rate ($/kWh)	Solar System Size (kW)	PPA Rate ($/kWh)	1st Year Savings	Total 25-year Savings	Energy Offset	Curtailment Cap at 15% (kWh)	Max Cost Curtailment (Yr 1-15)	Max Cost Curtailment (Yr 16-25)	2017 Annual Bill for Main Utility Meter	2019 Antipated Bill with PPA
MLK Community Hospital (Option A)	21,592,606	$0.0941	1629	$0.0970	$40,429	$3,058,061	13%	413,780	$66,122	$40,137	$2,322,461	$2,282,032
ISD Headquarters	8,089,193	$0.1136	2103	$0.0783	$115,871	$5,325,126	41%	492,277	$69,559	$38,545	$1,070,176	$954,305
Registrar-Recorder	7,046,137	$0.1351	1015	$0.0950	$62,035	$2,915,809	22%	232,322	$36,707	$22,071	$746,616	$684,581
DPW Headquarters	4,713,117	$0.1570	705	$0.1070	$59,573	$2,706,722	25%	178,670	$30,410	$19,118	$728,752	$669,179
					$277,909	**$14,005,718**					$4,868,005	**$4,590,097**
											1st Yr Savings %	6%

Summary Analysis	Option B (MLK with 2.6 MW on garages and ground level parking lots)											
	2017 Annual Consumption (kWh)	Avoided Utility Rate ($/kWh)	Solar System Size (kW)	PPA Rate ($/kWh)	1st Year Savings	Total 25-year Savings	Energy Offset	Curtailment Cap at 15% (kWh)	Max Cost Curtailment (Yr 1-15)	Max Cost Curtailment (Yr 16-25)	2017 Annual Bill for Main Utility Meter	2019 Antipated Bill with PPA
MLK Community Hospital (Option B)	21,592,606	$0.0941	2609	$0.0880	$26,581	$3,417,250	14%	413,780	$98,838	$57,677	$2,322,461	$2,295,879
ISD Headquarters	8,089,193	$0.1136	2103	$0.0783	$115,871	$5,325,126	41%	492,277	$69,559	$38,545	$1,070,176	$954,305
Registrar-Recorder	7,046,137	$0.1351	1015	$0.0950	$62,035	$2,915,809	22%	232,322	$36,707	$22,071	$746,616	$684,581
DPW Headquarters	4,713,117	$0.1570	705	$0.1070	$59,573	$2,706,722	25%	178,670	$30,410	$19,118	$728,752	$669,179
					$264,061	**$14,364,907**					$4,868,005	**$4,603,944**
											1st Yr Savings %	5%

Attachment 2

<u>Key financial parameters:</u>

PPA term: 25 years

PPA rate: fixed price for 25 years, no escalator to adjust for inflation (this means that the cost of energy to the County gets cheaper with time from the PPA)

Utility Escalation Rate: 2% (This is a conservative estimate provided by the County's Chief Sustainability Office expected from the Community Choice Aggregation. The industry typically assumes 3.5%.)

The rates for electricity from Southern California Edison is modeled from SCE's filing to the California Public Utilities Commission for their Phase 2 of the 2018 General Rate Case (GRC). This rate structure has not been voted on or adopted and represents a conservative bound on the estimated savings since the CPUC may not accept SCE's proposed rates in its entirety.

<u>Discussion of estimated savings</u>

ISD applied multiple financial payback models and chose a conservative approach to estimate 25 year savings for the 4 sites listed above. For the default Option A at the MLK Hospital site, with zero upfront capital cost to the County, the expected first year savings is about $277,909. Over 25 years, we expect to save about $14,005,718. The savings grows over time significantly for 2 very important factors. First, the PPA price is fixed for each site. This means that over time with inflation, since the cost to the County for the solar generated electricity is fixed, the real price that the County will pay for electricity generated by the solar array is cheaper in time. Second, utility rates have historically gone up in time. We assumed a 2% escalator in the financial model. Industry standard assumptions backed by historical data usually assume a 3.5% annual rate increase. This parameter does have a significant effect on net 25 year savings, so it is reasonable to assume that the savings to the County could be greater than estimated here. For example, adjusting the modeled utility escalation rate to 3.5% from our conservative 2% will nearly double the 25 year estimated savings.

<u>Risks to the County of Los Angeles</u>

Since the County would be signing a 25 year contract to purchase power from SunPower for the next 25 years, the County will assume some risks. There are risks associated with locking up real estate from further development for the duration of the contract, to risk that the County abandons a site sometime during the 25 years. ISD attempted to quantify those financial risk where possible. For example, there are plans for ISD to move out of it's current headquarters to new site once a new headquarters is built, perhaps 5-7 years into the future. If that happens, the net electrical load for the site will be reduced and potential financial in lieu of payment clauses would kick in. If we assume that another County Department will move into the site, but the building is left idle during renovation for 1 year, the in lieu of energy payment of about $69,559 would be imposed. This appears to be a manageable risk when compared to the net savings for the County.

There could also be rate changes to the utility rates that could impact the financial estimates above. The financial model above assumes that Southern California Edison’s 2018 General Rate Case Phase 2 proposal to the California Public Utility Commission is adopted in its entirety. This is the latest available potential rate structure and should represent a conservative estimate since the CPUC may not adopt SCE’s rate proposal in its entirety.

These risks should all be viewed in the context of expected savings for the County, that we do not need to provide upfront capital, and the carports will provide shade to our employees. Furthermore, these projects will help the County achieve even greater greenhouse gas emissions reductions.

SOLE SOURCE CHECKLIST

Department Name: Internal Services Department

☑ New Sole Source Contract

☐ Existing Sole Source Contract   Date Sole Source Contract Approved: ______

Check (✓)	JUSTIFICATION FOR SOLE SOURCE CONTRACTS **Identify applicable justification and provide documentation for each checked item.**
	➢ Only one bona fide source (monopoly) for the service exists; performance and price competition are not available. A monopoly is an "*Exclusive control of the supply of any service in a given market. If more than one source in a given market exists, a monopoly does not exist*."
	➢ Compliance with applicable statutory and/or regulatory provisions.
	➢ Compliance with State and/or federal programmatic requirements.
	➢ Services provided by other public or County-related entities.
	➢ Services are needed to address an emergent or related time-sensitive need.
	➢ The service provider(s) is required under the provisions of a grant or regulatory requirement.
	➢ Additional services are needed to complete an ongoing task and it would be prohibitively costly in time and money to seek a new service provider.
	➢ Services are needed during the time period required to complete a solicitation for replacement services; provided services are needed for no more than 12 months from the expiration of an existing contract which has no available option periods.
	➢ Maintenance and support services are needed for an existing solution/system during the time to complete a solicitation for a new replacement solution/ system; provided the services are needed for no more than 24 months from the expiration of an existing maintenance and support contract which has no available option periods.
	➢ Maintenance service agreements exist on equipment which must be serviced by the original equipment manufacturer or an authorized service representative.
	➢ It is more cost-effective to obtain services by exercising an option under an existing contract.
✓	➢ It is in the best economic interest of the County (e.g., significant costs to replace an existing system or infrastructure, administrative cost savings and excessive learning curve for a new service provider, etc.) In such cases, departments must demonstrate due diligence in qualifying the cost-savings or cost-avoidance associated with the best economic interest of the County.

Sheila Williams
Chief Executive Office

3/14/18
Date