

Assessment of 3rd Party Power Purchase Agreements

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A brief background and update as it relates to Solar Power Purchase Agreements. It focuses on the issues surrounding this method of energy generation contracting and seeks consensus on how to proceed from here.

CITY COUNCIL WORK SESSION

**ASSESSMENT OF 3RD PARTY
POWER PURCHASE AGREEMENTS**

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What is a “Solar Power Purchase Agreement” ?

- Contract between
 - Electricity Generator (provider)
 - Power Purchaser (buyer)
 - Provider provides capital investment & maintenance
- Length
 - 15 – 25 years
 - Depends on size of installation, etc.
- Rates
 - Set (specific amount per kilowatt hour – kWh)
 - Tiered (varies during life of contract)



Economics of a “Solar Power Purchase Agreement”

- Federal Solar Investment Tax Credit (30%)
- New Mexico Solar Market Development Tax Credit
 - (10% up to \$9,000)
- New Mexico Solar Gross Receipts Tax Exemption
- Renewable Energy Certificates (REC's)
 - AKA Renewable Energy Credits
 - Valuable (can be bought or traded)
 - Proof that electricity is being generated from a renewable source
- Size of system (larger becomes more viable)



Benefits of a “Solar Power Purchase Agreement”

- Rates are established for the life of the contract
- No up-front investment to the buyer
- Provider handles capital investment and maintenance
- Renewable energy – “Green” approach



General Issues

- Length of contract
 - Typically 15 – 25 years
- Long term viability of provider
 - Availability of capital for continued investment/maintenance
 - Status if owner sells out?
 - Becomes insolvent?
- End of contract
 - Buy out?
 - Remove the equipment?

Local Issues

- Current Local Utility Regulations
 - Small systems (10 kW or less)
 - Medium systems (between 10 kW & 100 kW)
 - REC's
 - Payable at \$0.120/kWh for 12 years (small)
 - Payable at \$0.155/kWh for 12 years (medium)
 - Eligible systems must be connected to the grid
 - Net Metered
 - On medium systems, no payment for any generation that is in excess of that consumed
 - Go to the owner of the meter (does not recognize 3rd party owner)

Status

- RFP issued summer of 2010 for PPA services
 - Negotiations were initiated with highest ranked proposer
 - Subsequently, negotiations stalled
 - Issues: (PPA may not be viable unless below items addressed)
 - Restriction on size of system
 - 3rd Party Ownership as it pertains to the REC's (not available)
 - Petition Public Regulatory Commission for change in tariffs
- RFP ultimately withdrawn
 - After consultation with Purchasing, Legal, and Administration

City Council Considerations

- Continue pursuit of PPA via regulatory channels
 - Petition the PRC for a change in tariffs (El Paso Electric)
 - May involve costs for expert witnesses, legal representation, etc.
 - El Paso Electric currently meeting its renewable energy goals
 - No incentive to change tariffs
 - No guarantee on outcome of this process
- Continue pursuit of PPA process “as is”
 - Solicit a PPA under the existing tariffs
 - REC’s and system size would not be factored in
 - Most likely will pay higher per kWh cost to be “green” and to make the arrangement viable for the proposer
 - In effect, City gives up the REC’s



City Council Considerations

- Negotiate directly with El Paso Electric (EPE)
 - Explore partnership options relative to solar power generation
- Bid on large scale solar energy projects with EPE
 - Exercise the option of being an electric utility
 - Require potential up-front capital investment
- Engage in City contracted and managed systems
 - Similar to the Convention Center
 - City self-finances such systems
 - Allocate electrical savings and REC's as revenue stream for payback
 - NMFA Loan or Bonding options
 - Already have \$125,000 for the City Hall Parking Deck Solar



City Council Considerations

Staff is seeking consensus relative to one of
the above options,

OR

To pursue another approach

