



## City Council Agenda Item Staff Report

CITY OF SAN BRUNO

---

**DATE:** June 28, 2022

**TO:** Honorable Mayor and Members of the City Council

**FROM:** Jovan Grogan, City Manager

**PREPARED BY:** Matthew Lee, Director

**SUBJECT:** Adopt Resolution Authorizing the City Manager to Enter into a Power Purchase Agreement with Peninsula Clean Energy to Deploy a Solar Photovoltaic System on the San Bruno Recreation and Aquatics Center Should the City Manager Determine Adequate Cost Efficiency or Other Community Benefits Associated with the Agreement

**BACKGROUND:** The City's Recreation and Aquatic Center (RAC) is currently under construction to replace the existing Veterans Memorial Recreation Center located at 251 City Park Way in San Bruno, California. Once constructed, the RAC will be a new two-story, 49,500 square foot facility and will operate as the City's aquatic, recreation, and community center with maximum occupancy of 2,400 people. The new facility will be constructed with an indoor/outdoor pool, gym, indoor elevated track, community hall, conference rooms, multi-function rooms, classrooms, and staff offices.

On June 8, 2021, the project budget was approved without a Solar Photovoltaic (PV) system budget allocation but did include an estimated cost of \$1,298,000 for future PV consideration. The RAC building was designed to be "Solar Ready" and is estimated to generate 420, kWh of solar power each year, which is enough to offset approximately one-third of the projected load of 1,279 kWh per year.

On September 7, 2021, the RAC notice-to-proceed (NTP) was issued to Lathrop Construction to begin construction. The project is currently at the earlier phase of construction and expected ready to receive solar PV panels and related electrical and structural work to support the solar system by June 2023. The project completion for public use is expected in Fall of 2023.

On October 20, 2021, staff informed the RAC Advisory Committee that they were still exploring options to fund and install the Solar PV system. Staff explored options with various vendors to fund the system and found Peninsula Clean Energy (PCE) to be viable and economical for the RAC project. Peninsula Clean Energy is San Mateo County's not for profit locally led electricity provider, serving many agencies along the peninsula.

On March 21, 2022, City staff and PCE presented to the RAC Advisory Committee with the option to participate in a new program PCE is piloting for local governments to develop solar projects for city and county facilities. Through this program, PCE will design systems, run a competitive solicitation for equipment and manage installation, operations, and maintenance of the systems. The City would sign a Power Purchase Agreement (PPA) with a specified price for the energy generated by the solar systems. The equipment cost is amortized and paid for over

the term of the PPA out of a portion of the energy savings the solar system generates. RAC Advisory Committee Members asked about the option to fully purchase the system. PCE staff advised that purchase is not an option in its program. Furthermore, purchasing the system outright will require the city to install, maintain, fully fund the solar panels. The city currently does not have the funds to be able to do so. Furthermore, it was advised that the city would not be able to capture the federal tax benefits available for solar projects due to its tax-exempt status.

In the RAC Advisory Committee meeting, it was mentioned that the following agencies have passed a resolution for their respective projects to participate in PCE's program: Atherton, Belmont, Brisbane, Colma, Hillsborough, Millbrae, Pacifica, Redwood City, San Carlos, San Mateo, and San Mateo County. These projects are included in PCE's current portfolio and are scheduled to be solicited in this year's RFP for competitive pricing from various equipment suppliers and installers. The anticipated installation of those projects is in Summer 2023, coincides with the RAC's completion date and ready to accommodate the installation of the Solar PV system if approved.

In RAC Advisory Committee meeting, it was reiterated that there would be no obligation to move forward if PCE is unable to offer a PPA rate for the Solar PV system that will provide the City with acceptable net savings or other community benefits as determined by the City.

The RAC Advisory Committee Update concluded that City staff will return to the Council for approval to authorize the City Manager to execute the Power Purchase Agreement (PPA) with PCE and be added to PCE's current portfolio of projects to receive competitive prices from various equipment supplier and installers.

On April 4, 2022, City staff presented the two funding options to the San Bruno Community Foundation. PCE was present and answered questions regarding the options. On June 14<sup>th</sup>, 2022 City Council set a public hearing date to be held on June 28<sup>th</sup> 2022 for the proposed Power Purchase Agreement.

**DISCUSSION:** Peninsula Clean Energy (PCE) has collaborated with its Joint Power Authority (JPA) members, including the City, to identify candidate facilities to receive a Solar PV system and to develop designs for these sites. At PCE's expense, PCE engaged an established independent engineering firm via competitive solicitation and is working with City staff and design team to incorporate the designed Solar PV system.

#### Solar PV Design

The Solar PV design is a roof mounted system that will receive approximately 272 kWh of solar that will generate approximately 420 kWh each year. The anticipated solar power generation will offset 30% of the anticipated load when the building is fully operational.

City staff and G4's solar design team coordinated with PCE's engineering consultant to review the preliminary RAC solar PV design. Both the City and PCE staff thought that there was potential for a mutually beneficial partnership regarding solar installation at the RAC building. A follow-up meeting with PCE's staff and PCE's engineering partner, McCalmont Engineering, will be held if necessary, including site review walkthrough, plan review, and future load review to properly assess the City's options.

The Solar PV system will be constructed “battery ready” for future consideration. The RAC building will be constructed with a generator that will allow the facility to remain operational during an outage or in an event of emergency.

#### Competitive Solicitation for Vendors

Peninsula Clean Energy will run a competitive solicitation (RFP) utilizing County of San Mateo guidelines for procurement, including the requirement of prevailing wage. PCE will evaluate for “best value” based upon several substantive variables, including but not limited to: price (inclusive of potential impacts from change orders), vendor experience and qualifications, equipment and warranties, performance guarantee, schedule, local business participation, and overall thoroughness of proposal and responsiveness to this RFP.

Once pricing has been received, PCE will determine what PPA price it can offer to the City for the specified facility. Pricing will be specific to each facility in the portfolio based on the equipment to be deployed and facility-specific details. PCE will be transparent in its derivation of pricing with city officials, and if it is unable to offer a PPA price that would result in net financial savings, there would be no obligation to move forward.

#### Power Purchase Agreement (PPA) Overview

The PPA will be provided “at cost” by PCE to cover equipment and installation. PCE will also retain small \$/kWh fee to cover its administrative costs to support the program and will be fully transparent with the City about all the financial details of the project. The City Manager will only enter into the agreement if it is determined that the power purchase agreement rate is lower than the savings generated from the solar panel at the current energy market rate.

As part of the agreement, PCE will design, construct, own, and maintain the PV system. PCE will sell the electricity generated from the solar PV panels for an agreed fix rate per kilowatt hour (kWh) lower than PG&E’s rate that increases annually. The PPA rate per kilowatt hour (kWh) will be dependent on the solicited competitive prices from various supplier and installer.

At the end of the 20-year PPA term, the City will have the option to purchase the systems at the Fair Market Value (FMV) as independently appraised at that time. This is a requirement of federal tax rules related to the Investment Tax Credit. PCE has been advised the FMV would likely be approximately 10% of the procurement cost, however the actual cost will be determined by an appraiser. The City would also have the option to have PCE, at its expense, remove the solar system. The City would also have buyout options at outer years, but not before year 6.

#### BENEFITS TO THE CITY:

The benefits of this project include:

- No upfront cost
- Electricity costs for generated power will be fixed pursuant to the agreement terms
- The provider qualifies for various incentive programs that the City as a public agency does not, which will reduce installation costs when compared to contracting directly for

installation.

- Guaranteed production and storage. The provider will be responsible for maintenance of the system over the term of the agreement to provide the guaranteed level of production and storage.
- Monthly payments may be less than estimated energy costs purchased from the grid through PG&E / PCE throughout the life cycle of the agreement
- PCE will execute all aspects of the procurement process.
- PCE will administer the construction and maintenance of the Solar PV system.
- The City will obtain financial and environmental benefits of a Solar PV system with no upfront cost and without incurring the cost of running its own solicitation.
- The City will generate local renewable energy to advance its sustainability objectives at its facilities.
- The City will hedge against variable utility rates over the course of a 20+ years.

It important to note, that the California Public Utilities Commission is currently engaged in rulemaking for changes to the Net Energy Metering (NEM) tariffs governing solar PV resources. It is expected that the next iteration of NEM (NEM 3) will be less advantageous for solar and may negatively affect project economics. PCE is keeping apprised of any associated impacts and may adjust their overall project accordingly.

California Government Code Section 4217.12 states a public agency may enter into an energy service contract and any necessarily related facility ground lease on terms that its governing body determines are in the best interests of the public agency if the determination is made at a regularly scheduled public hearing, public notice of which is given at least two weeks in advance, and if the governing body finds:

*(1) That the anticipated cost to the public agency for thermal or electrical energy or conservation services provided by the energy conservation facility under the contract will be less than the anticipated marginal cost to the public agency of thermal, electrical, or other energy that would have been consumed by the public agency in the absence of those purchases.*

*(2) That the difference, if any, between the fair rental value for the real property subject to the facility ground lease and the agreed rent, is anticipated to be offset by below-market energy purchases or other benefits provided under the energy service contract.*

California Government Code Section 4217.13 states a public agency may enter into a facility financing contract and a facility ground lease on terms that its governing body determines are in the best interest of the public agency if the determination is made at a regularly scheduled public hearing, public notice of which is given at least two weeks in advance, and if the governing body finds that funds for the repayment of the financing or the cost of design, construction, and operation of the energy conservation facility, or both, as required by the contract, are projected to be available from revenues resulting from sales of electricity or thermal energy from the facility or from funding that otherwise would have been used for purchase of electrical, thermal, or other energy required by the public agency in the absence of the energy conservation facility, or both. State agency heads may make these findings without holding a public hearing.

**FISCAL IMPACT:** Staff time for implementing the Solar PV System are included in the Project Management Budget.

There will be no upfront cost as noted above to the City. Peninsula Clean Energy (PCE) will manage the procurement process, financing, installation, operation, and maintenance and offer a long term-term Power Purchase Agreement to the City for a specified price (\$/kWh) that may be lower than the market price the City would pay for that same energy from a utility company.

The estimated solar power production of 420 kWh per year is about 30% of the projected power usage that will be billed at the PPA fixed rate, which may be lower than PG&E's rate, resulting in savings in the City's utility expenditures. The estimate of savings will be provided after PCE finalizes its program with all participating agencies.

If Peninsula Clean Energy is unable to offer a PPA rate for the Solar PV System that will provide the City with acceptable net savings or other community benefits as determined by the City, then there will be no obligation to move forward.

**ENVIRONMENTAL IMPACT:** There is no environmental impact

**RECOMMENDATION:** Adopt Resolution Authorizing the City Manager to Enter into a Power Purchase Agreement with Peninsula Clean Energy to Deploy a Solar Photovoltaic System on the San Bruno Recreation and Aquatics Center Should the City Manager Determine Adequate Cost Efficiency or Other Community Benefits Associated with the Agreement

**ALTERNATIVES:**

1. Do not authorize the City Manager to execute a Power Purchase Agreement with Peninsula Clean Energy and appropriate full funds to purchase, install, and maintain the solar PV system for the RAC.
2. Do not authorize the City Manager to execute a Power Purchase Agreement with Peninsula Clean Energy and do not install any solar PV system for the RAC.

**ATTACHMENTS:**

1. Resolution
2. Project Location Map
3. PCE's Draft Cost Benefit Analysis