

SAN ELIJO JOINT POWERS AUTHORITY
MEMORANDUM

December 15, 2020

TO: Board of Directors
San Elijo Joint Powers Authority

FROM: General Manager

SUBJECT: APPROVAL OF SOLAR PHOTOVOLTAIC POWER PURCHASE AGREEMENT
AND CONSTRUCTION SUPPORT SERVICES AGREEMENT

RECOMMENDATION

It is recommended that the Board of Directors:

1. Approve Resolution 2021-02 of the Board of Directors of the San Elijo Joint Powers Authority authorizing execution of a solar Power Purchase Agreement with REC Solar Commercial Corporation pursuant to Government Code § 4217.12;
2. Authorize the General Manager to execute a solar Power Purchase Agreement with REC Solar Commercial Corporation in a form substantially similar to the draft attached to Resolution 2021-02, subject to final negotiations by the General Manager and final approval of terms by General Counsel;
3. Authorize the General Manager to execute a professional services agreement with Sage Energy Consulting, Inc. for design and construction support for \$53,600; and
4. Discuss and take action as appropriate.

BACKGROUND

San Elijo Joint Powers Authority (SEJPA) is considering the construction of a solar photovoltaic (PV) system to stabilize future energy costs, increase the use of renewable energy, and to improve climate change resiliency at the San Elijo Water Campus. The Water Campus uses a substantial quantity of electricity (approximately 3,300 megawatt-hours annually) to treat wastewater, produce and distribute recycled water, and for other onsite operational needs.

The solar PV project that staff is recommending will produce approximately 610 kilowatts (kW) of solar power, or approximately 25% of the average daily demand of the Campus. The project includes a combination of rooftop, carport, and ground-mounted solar arrays (Figure 1) for an

estimated capital cost of \$2.0 million. To fund the project, staff recommends a third-party construction and financing project delivery method known as a Power Purchase Agreement (PPA). This procurement method provides tax benefits to the financier and lowers costs to the agency to implement renewable energy technology. The solar PV project will be integrated into the ongoing Water Campus Improvements project in order to minimize plant disruptions and reduce construction costs.

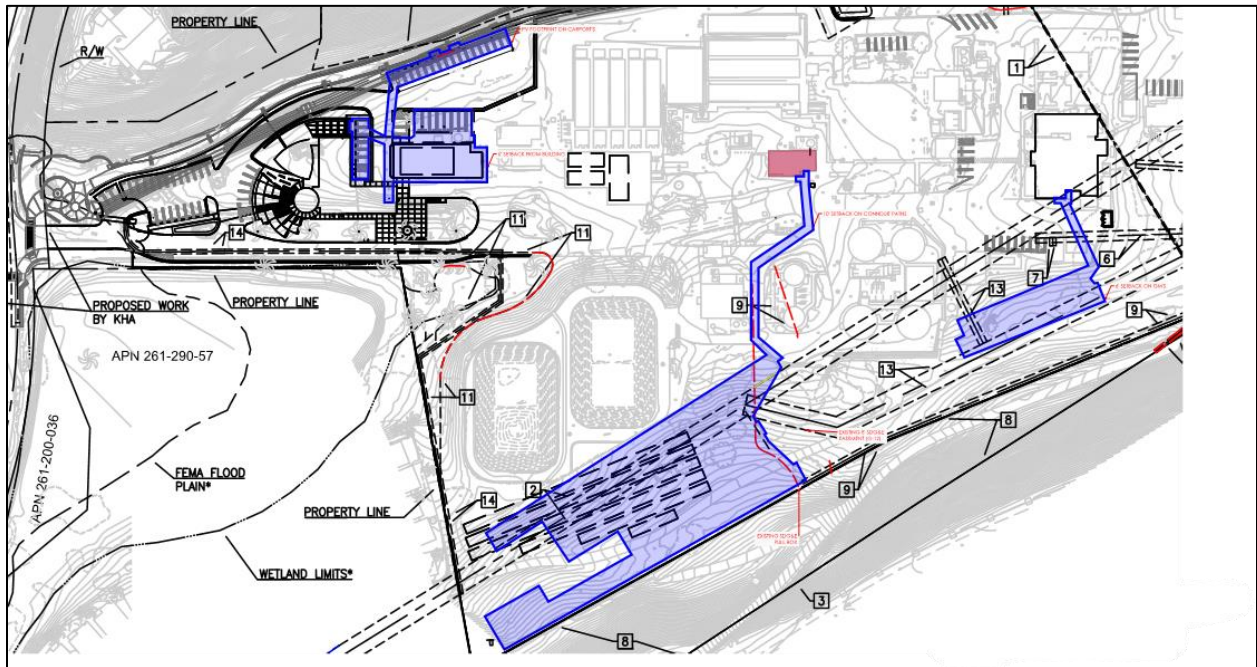


Figure 1. Proposed Solar PV Layout

According to the National Renewable Energy Laboratory, PPA is a financing mechanism that state and local government entities can use to acquire clean, renewable energy. The PPA financing model is a “third-party” ownership model, which requires a separate, taxable entity (“system owner”) to procure, install, and operate the solar PV system on a consumer’s premises (i.e., the government agency). The government agency enters into a long-term contract (typically referred to as the PPA) to purchase 100% of the electricity generated by the system from the system owner. The system owner is often a third-party investor (“tax investor”) who provides investment capital to the project in return for tax benefits. For our proposed project, PPA financing benefits include:

1. Lower up-front costs
2. Ability for the tax-exempt entity to benefit from federal tax incentives through lower rates
3. A predictable cost of electricity during the PPA term
4. Simplified design and permitting process
5. No maintenance responsibilities for the term of the PPA

This project would also further SEJPA, and its Member Agencies’ stated environmental and climate action goals. Like its Member Agencies, SEJPA is dedicated to protecting and enhancing the local environment and increasing sustainability efforts. SEJPA strives to be a leader in clean energy, energy recovery, energy efficiency, and energy reuse. The inclusion of solar carports on

new surface parking lots (among other areas throughout the campus) serves to mitigate heat absorption and increase shaded areas and provides greenhouse gas – reducing co-benefits by increasing distributed solar generation. Including a solar PV project into overall campus improvement efforts aligns SEJPA and its Member Agency’s environmental policy goals.

Government Code Section 4217.10 et seq. provides authority to public agencies to select and contract with qualified energy services companies, to develop and construct energy efficiency, conservation, and alternative energy projects under a single contract. Contracts may be awarded on the basis of the experience of the Contractor, the type of technology employed by the Contractor, the cost to the local agency, and any other relevant considerations, provided that the project delivers net cost savings to the public agency. This legislation was created to remove economic barriers to the adoption of energy conservation measures and alternative energy projects by public agencies.

DISCUSSION

Staff implemented a competitive solar PV provider selection process that considered the following factors:

- System design and flexibility
- Financing and procurement options
- Ability to meet SEJPA engineering, materials, and site requirements
- Quality and relevance of past work
- Local presence, coastal installation history, and references

As part of the selection process, staff hosted site walks, conducted team interviews, responded to information requests, and gathered proposals from interested firms. After consideration of qualifications and project approach, staff selected IGS Solar, LLC to finance and construct the PV project utilizing a PPA. However, after developing the final PPA documents with IGS Solar, the company elected not to pursue the project as it did not meet the company’s financial metrics.

Upon IGS Solar’s withdrawal, REC Solar offered to finance and build the project using the same contractor that had teamed with IGS Solar. Staff was able to reach initial agreement with REC Solar to provide a PPA for the project with the same scope and similar terms and conditions (Attachment 1). The parties have negotiated a near-final draft of the contract, which is the PPA attached to Resolution 2021-02 in draft form. This version of the contract has been reviewed and exchanged twice by both SEJPA and REC’s attorneys and is still currently being negotiated and finalized by the parties and their respective legal counsels. Insurance, indemnity, liquidated damages and change in law provisions are among the terms that are still being negotiated. Staff anticipates there will be minor revisions made to the draft PPA in the final exchanges between the parties, but no revision will cause the PPA to deviate substantially from the draft form currently before the Board. If the parties propose to revise any material terms, Staff will bring this contract back to the Board for an update and a second approval.

Developing the project in accordance with Government Code Section 4217.10 et seq., requires the following steps, which are fulfilled upon staff report approval:

1. Provide a 2-week public notice in advance of a regularly scheduled meeting to inform the public that the Board is considering a PPA (posted on November 30, 2020)
2. Make a “best interests” and “cost benefit” finding in a Resolution (Attachment 1)
3. Authorize staff to execute a PPA, once final, and proceed with project implementation. (Attachment 1).

In order to ensure the solar PV system is constructed according to our agreement with REC Solar and coordinated with the overall Water Campus Improvements project, staff recommends a professional services agreement with Sage Energy Consulting, Inc. (Sage) to provide design review, construction support, and system commissioning.

FINANCIAL IMPACT

The project construction cost, valued at approximately \$2.0 million, will be borne by REC Solar and reimbursed through tax incentives and SEJPA energy purchases over the term of the PPA. Per the agreement, SEJPA’s fixed cost for solar electricity will be \$0.1399 per kwh for the first year of the agreement and then escalate 1.5% annually. Projected 30-year electrical energy savings are conservatively estimated at \$563,000 (see Figure 2). The PPA also provides an option to buy out the solar PV system at year 10 (purchase cost \$1,511,152), 20 (purchase cost \$1,156,641), and 25 (purchase cost \$767,653), providing flexibility should the agency choose to own the system in the future.

The proposed cost for Sage design and construction support services is \$53,600, or approximately 3% of construction costs, and funds are currently available in the SEJPA supplies and services budget.

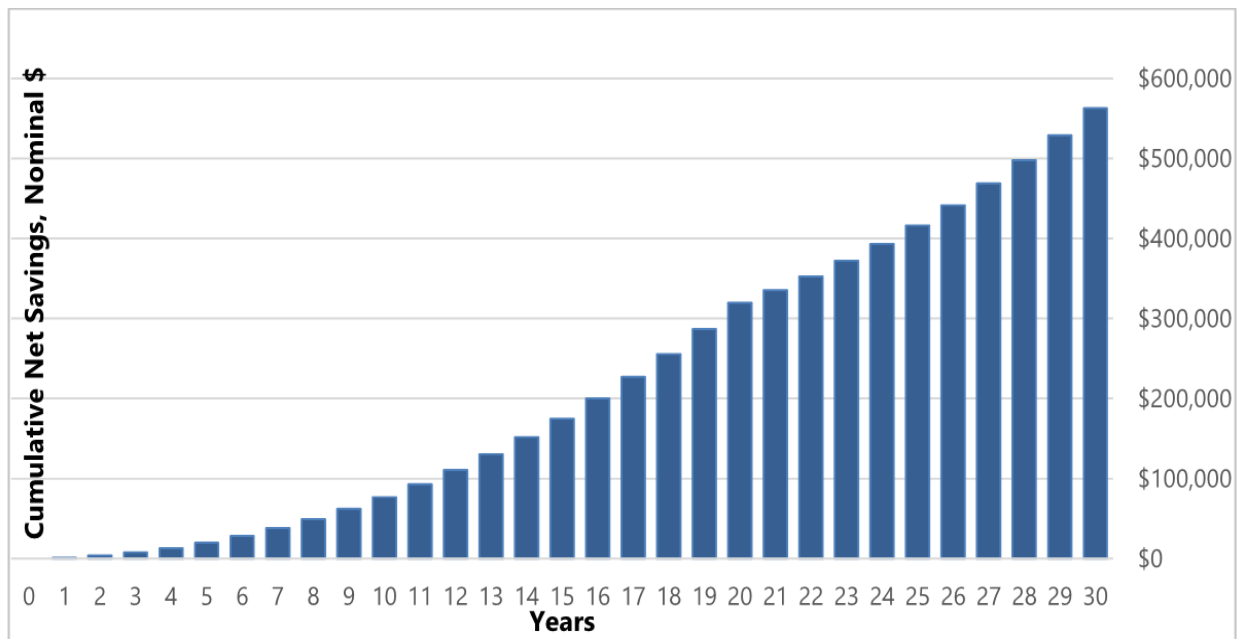


Figure 2. Projected electrical energy savings

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Respectfully submitted,



Michael T. Thornton, P.E.
General Manager

Attachment 1: Resolution 2021-02 with REC Power Purchase Agreement

Attachment 2: Sage Energy Consulting - Support Services Proposal