

0150-10534-0000

**TRANSMITTAL**

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| TO<br>Eugene D. Seroka, Executive Director<br>Harbor Department | DATE<br>DEC 09 2015    | COUNCIL FILE NO. |
| FROM<br>The Mayor   | COUNCIL DISTRICT<br>15 |                  |

**PROPOSED OPERATING AGREEMENT WITH HECATE ENERGY HARBORSIDE LLC  
TO INSTALL, MAINTAIN, AND OPERATE UP TO TWELVE PHOTOVOLTAC  
SOLAR POWER SYSTEMS AT THE PORT OF LOS ANGELES**

Transmitted for further processing and Council consideration.  
See the City Administrative Officer report attached.

  
MAYOR

Ana Guerrero

MAS:ABN:101600331

REPORT FROM

## OFFICE OF THE CITY ADMINISTRATIVE OFFICER

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Date: December 4, 2015

CAO File No. 0150-10534-0000  
Council File No.  
Council District: 15

To: The Mayor

From: Miguel A. Santana, City Administrative Officer 

Reference: Correspondence from the Harbor Department dated October 22, 2015; referred by the Mayor for report dated October 26, 2015

Subject: **PROPOSED OPERATING AGREEMENT WITH HECATE ENERGY HARBORSIDE LLC TO INSTALL, MAINTAIN, AND OPERATE UP TO TWELVE PHOTOVOLTAIC SOLAR POWER SYSTEMS AT THE PORT OF LOS ANGELES**

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### SUMMARY

The Harbor Department (Port) Board of Harbor Commissioners (Board) requests approval of Resolution No. 15-7867 authorizing a proposed 20-year Operating Agreement (Agreement) with Hecate Energy Harborside LLC (Hecate) to procure, install, maintain and operate a photovoltaic (PV) solar power systems (PV systems) at up to 12 site locations within the Port of Los Angeles (POLA). A photovoltaic power system is a method of converting solar energy into direct current electricity. The system employs solar panels composed of a number of solar cells to supply usable solar power. The proposed solar power system will generate approximately 10 megawatts (MW) of electricity for sale to the City of Los Angeles Department of Water and Power (LADWP) and to fulfill the commitment to install 10 MW of PV systems in the POLA. According to the Port, the proposed PV Systems will be compatible with the POLA's Clean Air Action Plan (CAAP), which was established in 2006. The Port subsequently entered into an agreement with the State of California (State) Department of Justice, Office of the Attorney General (State AG) to install a minimum of 10 MW of PV systems in the POLA. The proposed Agreement supports the larger goals of the CAAP to expand the use of clean energy and related infrastructure while continuing to improve air quality in the region. The Port states that Hecate will pay the POLA approximately seven percent of the annual revenue from the sale of the electricity to LADWP or approximately \$141,090 per year.

### BACKGROUND

In 2006, the POLA and Port of Long Beach (POLB) adopted a joint action to improve air quality in the South Coast Air Basin by adopting the CAAP to reduce the health risks posed by air pollution from port-related operations such as ships, trains, trucks, terminal equipment and other activities. In 2010, they updated the joint action for the CAAP. The POLA and POLB developed the environmental plan in cooperation with the U.S. Environmental Protection Agency (EPA), California Air Resources Board (CARB) and South Coast Air Quality Management District (SCAQMD) to implement strategies which will meet shared air quality improvement goals in the region.

## DISCUSSION

The Port entered into an agreement with the State AG to support the CAAP by agreeing to install a minimum 10 MW of PV solar energy systems within the POLA to reduce greenhouse gas emissions and provide electricity at the Port that would otherwise come from the LADWP electrical grid. The PV systems will help spur the clean energy economy in the Port and City and meet renewable energy goals. The Port states that the 10 MW of solar energy produces enough electricity to power approximately 2,500 homes and represents about one-sixth of the current demand by the POLA. According to the Port, the increased use of electricity, instead of using diesel and gasoline, has contributed to a reduction in harmful pollution from port-related operations, such as ship-to-shore cranes, ships at berth, and use of terminal equipment.

In 2014, the Port released a Request for Proposal (RFP) to develop and operate the PV system within the POLA. The Port states that it received four proposals. The Port selected Hecate based on its experience, qualifications and revenue sharing proposals. Hecate Energy Harborside is a wholly owned subsidiary of Harbor Energy LLC, which was hired to generate electricity at multiple site locations in the POLA. Founded in 2012, Hecate is considered a global developer of solar, natural gas-fired and wind power plants and develops energy storage solutions that create social and economic impact. Hecate reports that it has power plants under development around the country. The Port states that Hecate will be responsible to finance, develop, construct, install, operate, manage, maintain and conduct any other related services for up to 12 PV solar power systems.

The Port states that the PV system was developed under a LADWP Feed-In-Tariff (FiT) Program that would set the standards and requirements to install, connect and operate energy from the PV systems to the LADWP electrical grid. Through the FiT Program, LADWP purchases energy from eligible renewable projects within its service territory and is generated close to where it is consumed. The PV systems provide LADWP customers the opportunity to sell energy to LADWP by using their property as the generation site. The PV system feeds clean energy from the Port into the electrical grid operated by LADWP. The Port will enter into a proposed operating Agreement with Hecate for a term of 20 years to install and operate the PV systems at 12 potential site locations throughout the POLA. The location sites for the PV systems are located on three building rooftops, four parking lots canopies, and five underutilized ground mount sites. Hecate would own the PV systems and be responsible to operate and maintain the PV systems during the term of the proposed Agreement.

The Port states that Hecate will be paid by LADWP under the terms a Power Purchase Agreement (PPA) with the LADWP for each of the 12 sites. A PPA is a financial agreement where a developer arranges for the design, permit, financing, and installation of a solar energy system on the property of a customer. The developer (Hecate) sells the power generated to the host customer at a rate that is typically lower than the retail rate of its local utility. The Port states that Hecate will be responsible to sell the solar power as defined in the FiT Program to the LADWP. In accordance with the terms and conditions of the proposed Agreement, Hecate has negotiated to pay the Port a percentage of the gross receipts of Hecate's annual revenue from its sale of electricity to LADWP. Hecate has agreed to pay the Port approximately 7.02 percent of its gross annual revenue, which equates to approximately \$141,090 per year and approximately \$2,281,800 over the 20-year term of the Agreement. Hecate estimates that its gross revenue will be approximately \$2,009,146 per year.

The Port states that annual revenue may fluctuate because solar energy is affected by seasonal and meteorological variations (weather conditions) that may impact its availability. The proposed Agreement includes milestones that must be achieved during the developmental stages and operation of the PV systems. Hecate will be responsible to procure, install, maintain and operate all the PV systems for the term of the proposed Agreement. The Port will not be responsible for providing any up front funding to Hecate during the term of the Agreement, but will repair any of the roofs in need of repair. The Port states that the percentage of compensation that it can expect from Hecate is estimated to remain at approximately the same level and anticipates no increases over the term the proposed Agreement.

The Port states that each of the 12 designated PV system sites and PPAs will be subject to California Environmental Quality Act (CEQA) and all the terms, conditions, and provisions of the proposed Agreement. The proposed Agreement would provide for each PV system to be in service for a contract term of 20 years. The proposed term for the 20-year Agreements will start when each of the 12 different sites are ready to start and become operational, since construction of all the PV systems will not occur simultaneously. According to the Port, the initial design and construction periods of the sites will not be counted towards the term of the proposed Agreements. Hecate will be paid by LADWP under the terms of the PPA for each of the 12 sites. As stated, the Port will receive a percentage of the annual revenue from the sales of electricity to LADWP. At the completion of the PPA term, Hecate has agreed to be responsible for any cost of removing or demolition of the solar facility along with any related environmental or other associated liabilities. The Port or Hecate can terminate the contract in accordance with the provision of the proposed Agreement.

The Port states that the City Attorney has reviewed and approved the proposed Agreement with Hecate as to form. The proposed Agreement will be in compliance with all applicable City requirements and ordinances including: Living Wage/Service Contractor Worker Retention Ordinances; Affirmative Action Program; Indemnification and Insurance requirements; the City's contract bidder campaign contribution and fundraising restrictions; and Small/Very Small Business Enterprises (SBE, VSBE) and Minority/Women, Disabled Veteran and all Other Business-Owned Enterprises (MBE/WBE/DVBE/OBE). The Port states that the State has recognized the environmental benefits of solar programs and has streamlined the CEQA review process by creating a statutory exemption for such solar projects, as ones for rooftops and parking lots. The Port states that an environmental review will be required for each of the PV solar sites by Hecate prior to their request for an implication application for each of the 12 proposed site locations at the POLA. The Port Director of Environmental Management has determined this is an administrative activity involving the approval of the proposed Agreement with Hecate and is exempt from the requirements of CEQA in accordance with Article II, Section 2(f) of the Los Angeles City CEQA Guidelines.

## **RECOMMENDATION**

That the Mayor approve the Harbor Department (Port) Board of Harbor Commissioners Resolution No. 15-7867 authorizing a proposed 20-year Operating Agreement with Hecate Energy Harborside LLC to procure, install, maintain and operate a photovoltaic solar power systems at up to 12 site locations within the Port of Los Angeles, and return the document to the Port for further processing, including Council consideration.

## **FISCAL IMPACT STATEMENT**

Approval of the proposed Agreement between the Harbor Department (Port) and Hecate Energy Harborside (Hecate) includes Hecate paying the Port approximately 7.02 percent of its gross annual revenue to the Port from sale of the electricity to LADWP, which includes approximately \$141,090 per year and approximately \$2,281,800 over the 20-year term of the Agreement. Hecate estimated that its revenue for the use of the Port property and installation of the photovoltaic (PV) solar power systems at up to 12 site locations within the Port of Los Angeles will be approximately \$2,009,146 per year, with 7.02 percent of the amount earmarked to the Port. The proposed Agreement will have no impact on the City General Fund. Any revenue will be deposited into the Harbor Revenue Fund.

## **TIME LIMIT FOR COUNCIL ACTION**

Pursuant to Charter Section 606, "Processing for Granting Franchise, Permits, Licenses and Entering into Lease," and the Los Angeles Administrative Code Section 10.5, "Limitation and Power to Make Contracts," unless the Council takes actions disapproving a contract that is longer than five years within 30 days after submission to Council, the contract will be deemed approved.

MAS:ABN:10160033