ATTACHMENT A

VMUS RENEWABLE ENERGY RESOURCES PROCUREMENT PLAN

This Renewable Energy Resources Procurement Plan ("RPS Procurement Plan" or "Plan") shall apply to the City of Victorville ("City"), operating through its municipal electric utility ("Victorville Municipal Utility Services" or "VMUS").

Section 1: Background

The California Renewable Portfolio Standard Program ("RPS" or "RPS Program") was established by Senate Bill ("SB") 1078, and has been subsequently modified by SB 107, SB 1036, SB 2-1X, and SB 350 set forth new RPS requirements applicable to publicly owned utilities ("POU"). VMUS, as a POU, must comply with the RPS Program. The RPS program is codified at Public Utilities Code ("PUC") § 399.11-399.32. Under PUC § 399.30(a), each POU must adopt and implement a RPS Procurement Plan and revise it as necessary. The RPS Program requires California's electric utilities and other retail sellers to procure eligible renewable energy resources ("ERRs") so that the amount of electricity generated from eligible renewable resources equals or exceeds a specified percentage of the total electricity sold to retail customers in California. The California Energy Commission ("CEC") adopted the "Enforcement Procedures for the Renewable Portfolio Standard for Local Publicly Owned Electric Utilities," ("CEC Regulations"), that: (1) specifies RPS enforcement procedures for POUs; (2) sets the process for the CEC to certify and verify ERRs procured by POUs; and (3) refer any compliance failures of POUs to the California Air Resources Board ("CARB"), which may impose penalties. SB 350 increased the RPS procurement requirement to least 40% by December 31, 2024; at least 45% by December 31, 2027, and at least 50% by December 31, 2030 (and every multi-year compliance period thereafter).

Section 2: Definitions

The definitions set forth in Public Resources Code ("PRC") § 25741 and PUC § 399.12 are incorporated herein. Capitalized terms in this RPS Procurement Plan shall have the meaning given to such term in the body of this RPS Procurement Plan or in the PRC and PUC.

Section 3: Previous Adoption of RPS Enforcement Program

On December 6, 2011, via Resolution No. 11-051, the Victorville City Council ("City Council") adopted the Renewable Energy Resources Enforcement Program ("RPS Enforcement Program"). Through the RPS Enforcement Program, the City Council established three compliance periods consistent with SB 2-1X, adopted RPS-eligible procurement goals for each of the three compliance periods and described the framework for how VMUS would implement the requirements and measures in SB 2-1X with respect to the RPS Program. On November 5, 2013, the City Council conducted a public hearing and adopted Resolution 13-056 to establish a Renewable Energy Resources Procurement Plan, which plan was subsequently amended on October 26, 2015 by Resolution No. 15-065.

Section 4: Purpose

This document updates VMUS' RPS Procurement Plan beginning January 1, 2017. As required by its RPS Enforcement Program, this Plan describes how VMUS will comply with its RPS procurement requirements consistent with the optional compliance measures specified in the RPS Program.

Section 5: Eligible Renewable Energy Resources

Biodiesel	Fuel cells using renewable fuels	Ocean wave, ocean thermal, and tidal current
Biogas	Geothermal	Photovoltaic
Biomass	Hydroelectric incremental generation from efficiency improvements	Small hydroelectric (30 megawatts or less)
Conduit hydroelectric	Landfill gas	Solar thermal electric
Digester gas	Municipal solid waste	Wind

Section 6: RPS Requirements

The CEC Regulations impose four future multi-year compliance periods, followed by multi-year compliance periods:

Compliance Period	RPS Procurement Obligation (% of retail sales)
(3) January 1, 2017 – December 31, 2020	33% by December 31, 2020
(4)-January 1, 2021 – December 31, 2024	40% by December 31, 2024
(5)- January 1, 2025 – December 31, 2027	45% by December 31, 2027
(6)- January 1, 2028 – December 31, 2030	50% by December 31, 2030
All Subsequent Multi-Year Periods	50%

The CEC Regulations allow optional compliance measures, including banking (accumulating excess procurement in one compliance period to be applied in a subsequent compliance period); delayed compliance (inadequate transmission, insufficient eligible renewable resources, delays in permitting or interconnections or unanticipated curtailment for reliability needs) and cost limitations (cost limitations on expenditures for renewable energy resources).

Pursuant to PUC § 399.16(b)-(c), three distinct Portfolio Content Categories ("PCCs") that may be used to satisfy the procurement obligations ("RPS Procurement Obligation").

A. PCC 1 refers to bundled procurement from qualified renewable energy generators located within the State or from out-of-State generators that can meet strict

scheduling requirements to ensure uninterrupted deliverability to California. The CEC Regulations set minimum procurement amounts for PCC 1, but impose no maximum limitation on the amount of RPS procurement that can come from PCC 1.

B. PCC 2 refers to "firmed and shaped" transactions where the bundled procurement from a renewable resource is "matched" with an equivalent amount of incremental energy, which is scheduled into a California Balancing Authority ("BA"). For purposes of PCC 1 and PCC 2, "bundled" procurement refers to a purchase of both the energy and the associated renewable energy attributes ("Renewable Energy Credits" or "RECs"), produced by the eligible renewable generator.

C. PCC 3 procurement refers to purchases of "unbundled" RECs with no physical delivery of associated or related energy.

PUC § 399.16(c) established the following portfolio balance requirements applicable to each PCC:

	Compliance Period 1	**Compliance Period 2**	**Compliance Period 3**	**All Subsequent Compliance Periods**
PCC1	≥ 50%	≥ 65%	≥ 75%	≥ 75%
PCC2	No Limitation	No Limitation	No Limitation	No Limitation
PCC3	≤ 25%	≤ 15%	≤ 10%	≤ 10%

Section 7: Specified RPS Procurement Targets

In the RPS Enforcement Program, the City Council adopted general RPS procurement targets for each of the initial three compliance periods. As further specified in the RPS Program and CEC Regulations, VMUS is not required to procure a specific quantity of RPS-eligible resources in any individual year during the second or third compliance period. Pursuant to PUC §399.30(b) and (c), the City Council adopts and further specifies the RPS procurement targets, as follows:

A. Compliance Period 3 (January 1, 2017 – December 31, 2020)

Subject to the Cost Limitation Guideline described in Section 9.A.4. of this Plan, the following table provides a forecast of the VMUS' Compliance Period 3 procurement targets with regard to the total RPS Procurement Obligation and each of the PCC products described in the RPS Program and CEC Regulations.

	2017	**2018**	**2019**	**2020**	**Total**
Forecasted Retail Sales (MWh)	88,361	88,361	88,361	88,361	**353,444**

RPS Procurement Obligation (% of Total)	27%	29%	31%	33%	
RPS Procurement Obligation (MWh)	23,858	25,625	27,392	29,159	**106,034**
Minimum Procurement of Portfolio Content Category 1 (MWh)	17,893	19,219	20,544	21,869	**79,525**
Maximum Procurement of Portfolio Content Category 3 (RECs)	2,386	2,562	2,739	2,916	**10,603**
Residual Procurement from Portfolio Content Category 2 (MWh)	3,579	3,844	4,109	4,374	**15,906**

Notes: (1) The retail sales figures listed above exclude electricity used by City facilities.
(2) The annual procurement targets are for planning purposes only.

B. Compliance Period 4 (January 1, 2021 – December 31, 2024)

Subject to the Cost Limitation Guideline described in Section 9.A.4. of this Plan, the following table provides a forecast of the VMUS' Compliance Period 4 procurement targets with regard to the total RPS Procurement Obligation and each of the PCC products described in the RPS Program and CEC Regulations.

	2021	**2022**	**2023**	**2024**	**Total**
Forecasted Retail Sales (MWh)	88,361	88,361	88,361	88,361	**353,444**
RPS Procurement Obligation (% of Total)	34.8%	36.5%	38.3%	40%	
RPS Procurement Obligation (MWh)	30,750	32,252	33,842	35,344	**132,188**
Minimum Procurement of Portfolio Content Category 1 (MWh)	23,062	24,189	25,381	26,508	**99,140**
Maximum Procurement of Portfolio Content Category 3 (RECs)	3,075	3,225	3,384	3,534	**13,218**
Residual Procurement from Portfolio Content Category 2 (MWh)	4,613	4,838	5,077	5,302	**19,830**

Notes: (1) The retail sales figures listed above exclude electricity used by City facilities.
(2) The annual procurement targets are for planning purposes only.

C. Compliance Period 5 (January 1, 2025 – December 31, 2027)

Subject to the Cost Limitation Guideline described in Section 9.A.4. of this Plan, the following table provides a forecast of the VMUS' Compliance Period 5 procurement targets with regard to the total RPS Procurement Obligation and each of the PCC products described in the RPS Program and CEC Regulations.

	2025	**2026**	**2027**	**Total**
Forecasted Retail Sales (MWh)	88,361	88,361	88,361	**265,083**
RPS Procurement Obligation (% of Total)	41.7%	43.3%	45%	
RPS Procurement Obligation (MWh)	36,847	38,260	39,762	**114,869**
Minimum Procurement of Portfolio Content Category 1 (MWh)	27,635	28,695	29,822	**86,152**
Maximum Procurement of Portfolio Content Category 3 (RECs)	3,685	3,826	3,976	**11,487**
Residual Procurement from Portfolio Content Category 2 (MWh)	5,527	5,739	5,964	**17,230**

D. Compliance Period 6 (January 1, 2028 – December 31, 2030)

Subject to the Cost Limitation Guideline described in Section 9.A.4. of this Plan, the following table provides a forecast of the VMUS' Compliance Period 6 procurement targets with regard to the total RPS Procurement Obligation and each of the PCC products described in the RPS Program and CEC Regulations.

	2028	**2029**	**2030**	**Total**
Forecasted Retail Sales (MWh)	88,361	88,361	88,361	**265,083**
RPS Procurement Obligation (% of Total)	46.7%	48.3%	50%	
RPS Procurement Obligation (MWh)	41,265	42,678	44,181	**128,124**
Minimum Procurement of Portfolio Content Category 1 (MWh)	30,949	32,009	33,136	**96,094**
Maximum Procurement of Portfolio Content Category 3 (RECs)	4,127	4,268	4,418	**12,813**
Residual Procurement from Portfolio Content Category 2 (MWh)	6,189	6,401	6,627	**19,217**

E. Subsequent Multi-year Compliance Periods

For each subsequent multi-year compliance period, subject to modifications to the Cost Limitation Guidelines described in Sections 9.A.4. of this Plan, VMUS will act in good faith to procure sufficient ERRs to equal an average of 50 percent of retail sales.

Section 8: Status of RPS Procurement Efforts

A. Local Eligible Renewable Energy Projects/Investments

1. *Bio-fuel Generation.* In March 2007, the City purchased five 1.25 MW, two 1.50 MW, and three 2 MW Mitsubishi generators and related equipment to replace existing rental generators, reduce fuel costs, increase power generation reliability, and serve load growth. Several of the engines were installed and subsequently upgraded to operate with B100 (100% biodiesel) Methyl Esters Bio-Fuel to generate "green power" that would meet the RPS for VMUS and other load serving entities. However, the generators did not operate properly and some experienced catastrophic failure. The Bio-Fuel generating units were ultimately sold in March 2010.

2. *Victorville 2 Hybrid Power Project*. In July 2008, the CEC granted the City a certificate to construct and operate the Victorville 2 Hybrid Power Project (VV2). VV2 was designed as a cost effective base load hybrid natural gas-fired combined cycle and solar-thermal power plant. The City invested a substantial amount of resources, time, and effort to bring the project to a "build ready" state, including a contract to purchase the power island, which also included the steam turbine generator. The 250 acres of parabolic solar-thermal collectors with associated heat transfer equipment would have contributed up to 50 MW of the steam turbine-generator's output. The collapse in the credit markets, depressed electric demand, falling natural gas prices, revised RPS Program, and changes in power plant configurations requirements caused the project to be delayed. The City was able to stave off a default under its existing contract, but the contractor, which had commenced development of the power island, retained the City's $50 million deposit. In June 2013, the CEC acknowledged the important role that facilities such as VV2 play in furthering the development of renewable energy resources and granted the City's petition requesting that the deadline for the commencement of construction for VV2 be extended for an additional five (5) years, through July 2018. In April 2018, the City requested that the CEC terminate the certificate to construct and operate the VV2.

3. Victorville has entered into a Power Purchase Agreement ("PPA") with Hecate Energy Palo Alto LLC ("Hecate") for the acquisition of renewable

energy from the Wilsona solar project located in Los Angeles County. Hecate is required to obtain the CEC Certification that the plant is an ERR for purposes of the RPS Program and that all output produced by the plant qualifies as generation from an ERR. The scheduled "Commercial Operation Date" is June 1, 2021, and will interconnect to the California Independent System Operator ("CAISO") grid as a Full Capacity Deliverability Status resource. The PPA is structured with a 25-year initial term, followed by three separate five-year extension term options that can be exercised at the City's sole discretion. The PPA also provides for the option of battery storage at the site. As described in Section 9.A.4.(d), VMUS anticipates that the Net Fund Position may be positive in future compliance periods, which could result in VMUS no longer applying the Optional Compliance Measures described in Section 9.A.1. The forecasted first year generation of 14,423 megawatt-hours is 58% of the forecasted average annual PCC 1 requirements in Compliance Period 4. As with any solar photovoltaic plan, the annual output is expected to decline at rate of about 0.5% per year due to solar panel degradation effects.

4. On January 31, 2017, the City has entered into an exclusive negotiating agreement for development of solar energy at the former Victorville 2 Hybrid Power Project site described above. The Exclusive Negotiating Agreement is intended to facilitate the ultimate build out of a 50 to 100 Megawatts of solar power that could yield a PPA with the City for delivery in compliance period 4.

B. Request for Information – RPS Incremental Costs to Meet RPS Procurement Obligation

VMUS continues to monitor the offering prices for renewable energy products ("RPS Prices") for the purpose of gathering relevant information to develop renewable energy resources procurement plans pursuant to PUC §399.30(a), and to evaluate costs and options in connection with their respective obligations for Compliance Periods 3, 4, 5 and 6 pursuant to PUC §399.30(b). Based upon current market conditions, the forecasted "Incremental RPS Procurement Costs" (defined as the difference in the projected cost of non-renewable energy resources and the projected cost of ERRs) associated with meeting the total RPS Procurement Obligation are:

Compliance Period 3
January 1, 2017 – December 31, 2020

	Assumed Procurement (MWh)	**Forecasted Incremental Cost**
Portfolio Content Category 1	79,525	$1,350,000
Portfolio Content Category 2	15,906	105,000

Portfolio Content Category 3	10,603	10,000
Total Compliance Obligation	**106,034**	**$1,465,000**

Compliance Period 4
January 1, 2021 – December 31, 2024

	Assumed Procurement (MWh)	**Forecasted Incremental Cost**
Portfolio Content Category 1	99,140	$1,685,000
Portfolio Content Category 2	19,830	130,000
Portfolio Content Category 3	13,218	15,000
Total Compliance Obligation	**132,188**	**$1,830,000**

Compliance Period 5
January 1, 2025 – December 31, 2027

	Assumed Procurement (MWh)	**Forecasted Incremental Cost**
Portfolio Content Category 1	86,152	$1,465,000
Portfolio Content Category 2	17,230	110,000
Portfolio Content Category 3	11,487	10,000
Total Compliance Obligation	**114,869**	**$1,585,000**

Compliance Period 6
January 1, 2028 – December 31, 2030

	Assumed Procurement (MWh)	**Forecasted Incremental Cost**
Portfolio Content Category 1	96,094	$1,635,000
Portfolio Content Category 2	19,217	125,000
Portfolio Content Category 3	12,813	15,000
Total Compliance Obligation	**128,124**	**$1,775,000**

Section 9: Application of Optional Compliance Measures

A. Cost Limitation

1. *Cost Limitation Rule*. Pursuant to the authority granted to the City Council by PUC §399.30(d)(2)(B) to adopt conditions that allow for cost limitations for procurement expenditures used to comply with its RPS procurement requirements consistent with PUC §399.15, and consistent with section 3206(a)(3) of the CEC Regulations, the City Council adopts the following:

(a) The cost limitation rules shall ensure that:

i. The limitation is set at a level that prevents disproportionate rate impacts;
ii. The costs of all procurement credited toward achieving the RPS are counted toward the limitation; and
iii. Procurement expenditures do not include any indirect expenses including, without limitation, imbalance energy charges, sale of excess energy, and decreased generation from existing resources.

(b) In setting the limitation, the City Council shall rely on all the following:

i. The most recent renewable energy resources procurement plan for VMUS;
ii. Procurement expenditures that approximate the expected cost of building, owning, and operating ERRs; and
iii. The potential that some planned resource additions may be delayed or cancelled.

2. *Relevant Factors.* The following factors are relevant in the City Council's consideration of a cost limitation to determine the funding available to procure ERRs and meet VMUS' RPS Procurement Obligation.

(a) Victorville is a city of approximately 125,000 residents, located about 90 miles northeast of Los Angeles. Many residents travel long distances to their place of employment.
(b) VMUS began serving commercial customers in 2003 by offering competitive electric rates that would retain and attract businesses and jobs, and nineteen percent of sales to customers have contractual rate limitations. Potential rate increases for the purpose of RPS compliance would be applicable to the remaining eighty-one percent of sales to customers only, thereby creating an unfair burden and disproportionate rate impact for applicable VMUS customers.
(c) VMUS incurred significant start-up costs, including payment of exit fees to Southern California Edison Company.
(d) Through June 30, 2017, VMUS' cumulative electric operating deficit was $16.1 million. These losses have been funded through the outstanding indebtedness.
(e) The City's outside auditors issued a going-concern audit opinion on the City because of the unfunded pension liability and recurring losses and defaults on a number of bonds issued by the Southern California Logistics Airport Authority, a component unit of the City. One of the major credit rating agencies pulled its rating on the City's debt, inhibiting the City's capacity to either refinance existing or issue new debt.
(f) Significant capital expenditures are required by VMUS to improve electric service reliability and expand capacity to serve new businesses.

(g) Substantial outstanding indebtedness associated with the unanticipated failure of the Foxborough Cogeneration Facility remains to be paid.
(h) The forecasted Incremental RPS Procurement Costs would increase the cumulative electric operating deficit and restrict VMUS' ability to meet its financial obligations.

3. *Information Reviewed.* Pursuant to PUC §399.30(d)(2)(B), and consistent with Section 9 of this RPS Enforcement Program, the City Council relied on the following information to consider a limitation on the Incremental RPS Procurement Costs for all ERRs:

(a) The information on cost and availability of ERRs that is contained in this RPS Procurement Plan and was obtained through the RPS Prices to sell eligible renewable energy products.
(b) VMUS' cumulative electric operating deficit included in the City's audited financial records.
(c) The forecast of the VMUS' revenues less expenses (before the incremental cost of procuring electricity products to satisfy the RPS requirements and any associated indirect expenses).
(c) The forecasted Incremental RPS Procurement Costs for RPS-eligible resources to fully satisfy the RPS Procurement Obligation in Compliance Period 3, which, as described in Section 8.B, is $1,465,000 ("Full RPS Cost").
(d) The procurement expenditures associated with the offers received to build, own, and operate ERRs.
(e) Monitoring the offers received for planned resources that were delayed or cancelled.

4. *Establishment of Cost Limitations for Compliance Period 3, Compliance Period 4, Compliance Period 5, Compliance Period 6, and Thereafter.* The City Council hereby establishes a cost limitation for Compliance Period 3, and thereafter as necessary:

(a) The "Net Fund Position" is defined as the cumulative operating surplus/deficit of the VMUS electric utility.
(b) During each annual budget approval process, VMUS will forecast the Net Fund Position for the next budget year.
(c) In the event that the forecasted Net Fund Position is negative, the Cost Limitation for that year within the multi-year compliance period shall be zero, and VMUS will have no obligation to expend funds on RPS procurement in excess of the Cost Limitation Guideline or RPS procurement targets.
(d) In the event that the forecasted Net Fund Position is positive, the Cost Limitation for that year within the multi-year compliance period shall equal the positive amount of the Net Fund Position. VMUS will seek contracts for ERRs on a least cost, best fit basis in an effort to achieve the

procurement targets specified in Sections 7.A, 7.B, 7.C. and 7.D. Procurement considerations will include availability of resources, financial feasibility, transmission availability and any other relevant factors to ensure procurement contracts fit VMUS' risk profile as a small POU.

(e) The Cost Limitation for a Compliance Period shall be equal to the sum of each individual year within the Compliance Period in accordance with Section 9.A.4.(b)-(d).

Section 10: Public Purpose Programs

VMUS bills and collects from customers a public purpose programs charge in accordance with the Electric Service Rate Schedules to fund programs that provide:

A. Cost-effective demand-side management services to promote energy-efficiency and energy conservation;
B. Research, development, and demonstration programs for the public interest to advance science or technology which is not adequately provided by competitive and regulated markets; and
C. New investment in renewable energy resources and technologies consistent with existing statutes and regulations, which promote those resources and technologies.

VMUS will determine if Public Purpose Programs funds are available for the procurement of ERRs to meet VMUS' RPS Procurement Obligations based on the following factors: (i) funding availability; (ii) planned commitments to promote customers' energy efficiency programs; and (iii) planned research, development and demonstration programs. If, after considering these factors, Public Purpose Programs funds are available, then VMUS may expend these funds to procure eligible renewable energy products despite a determination that VMUS will have no obligation to expend funds on RPS procurement pursuant to Section 9.A.4.

Section 11: Excess Procurement

A. <u>VMUS adopts the following rules for excess procurement for Compliance Period 2 and Compliance Period 3:</u>

1. VMUS may apply excess procurement in one compliance period to a subsequent compliance period, subject to the following limitations:

(a) Electricity products that exceed the maximum limit for PCC3, as specified in PUC § 399.16(c), must be subtracted from the calculation of excess procurement.

(b) Electricity products procured under contracts of less than 10 years in duration shall be subtracted from the calculation of excess

procurement, unless the electricity product meets the grandfathering requirements of PUC § 399.16(d).

2. VMUS may begin accruing excess procurement as of January 1, 2011.

3. Excess procurement meeting these requirements may be applied to any future compliance period and shall not expire.

B. VMUS adopts the following rules for excess procurement for Compliance Period 4 and all subsequent Compliance Periods:

1. VMUS may apply excess procurement in one compliance period to a subsequent compliance period, subject to the following limitations:

   (a) Electricity products that are classified as PCC2 or PCC3 may not be counted as excess procurement.

   (b) Electricity products that exceed the maximum limit for PCC3, as specified in PUC § 399.16(c), must be subtracted from the calculation of excess procurement.

2. Excess procurement meeting these requirements may be applied to any future compliance period and shall not expire.