



County of Monterey

Item No.

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: BC 24-091

July 31, 2024

Introduced: 7/25/2024

Current Status: Agenda Ready

Version: 1

Matter Type: Budget Committee

- a. Receive a presentation from staff on potential solar projects at Natividad Medical Center at 1441 Constitution Blvd., the ITD building at 1590 Moffett St., County Courthouse at 1200 Aguajito St., and the County Administrative buildings at 168 W. Alisal and 142 W. Alisal and options to move forward; and,
- b. Provide direction to staff to work with the County's financial advisors on evaluating options for County ownership or a potential power purchase agreement; and,
- c. Recommend that this item be considered by the Board of Supervisors.

RECOMMENDATION:

It is recommended that the Budget Committee:

- a. Receive a presentation from staff on potential solar projects at Natividad Medical Center at 1441 Constitution Blvd., the ITD building at 1590 Moffett St., County Courthouse at 1200 Aguajito St., and the County Administrative buildings at 168 W. Alisal and 142 W. Alisal and options to move forward; and,
- b. Provide direction to staff to work with the County's financial advisors on evaluating options for County ownership or a potential power purchase agreement; and,
- c. Recommend that this item be considered by the Board of Supervisors.

SUMMARY:

Solar energy projects in California must comply with the metering policy set by the California Public Utilities Commission. On April 14, 2023, the State transitioned from Net Energy Metering 2.0 (NEM 2.0) to the Net Billing Tariff (NEM 3.0). This shift meant that solar installations submitted to utilities after the April 14, 2023 deadline would have reduced financial benefits than solar projects submitted afterwards. Primarily, credits for energy returned to the grid under NEM 3.0 are reduced. To reserve the ability for the County to participate in NEM 2.0 under the more favorable credits, the County Administrative Office's Sustainability Program worked with ENGIE Inc. to submit interconnection applications to Pacific Gas & Electric in April of 2023 ahead of the NEM 2.0 cutoff period for four high energy use sites; Natividad Medical Center at 1441 Constitution Blvd., the ITD building at 1590 Moffett St., County Courthouse at 1200 Aguajito St., and the County Administrative buildings at 168 W. Alisal and 142 W. Alisal.

DISCUSSION:

Staff worked with Engie Inc. to submit interconnection agreements for Natividad Medical Center at 1441 Constitution Blvd., the ITD building at 1590 Moffett St., County Courthouse at 1200 Aguajito St., and the County Administrative buildings at 168 W. Alisal and 142 W. Alisal. These interconnection agreements were accepted by PG&E and will expire April 15, 2026, meaning that

these projects must be operational by this date or they will be enrolled in the NEM 3.0 tariff. Engie Inc. assisted the County with submitting the interconnection agreements knowing that they may not be awarded the project. The County is under no obligation to continue to work with ENGIE Inc. As such, the interconnection agreements are transferable and procurement for these projects is at the discretion of the Board of Supervisors and its committees. Staff is presenting this project to the Budget Committee for a recommended direction on how the County should consider the finances of this project. These options will be addressed in further detail below. Staff is seeking direction from the Alternative Energy and Environment Committee (AEEC) for a recommendation on how and if the County should approach the procurement process for these projects. If the AEEC recommends the project, Staff will take the project to the Capital Improvements committee to consider any impacts on County facilities on August 12, 2024 respectively. Permitting for this project will have to follow the process for registered historic buildings at 142 W. Alisal. Staff do not foresee this as a major complication because the solar array on the roof will not be visible from below or otherwise alter the appearance of the building.

Financial Considerations:

Regardless of whether the Board of Supervisors and its committees elect to select a specific contractor or select a contractor using a competitive process using the government Code Section 4217 process, the County will have the options to own the system outright or enter into a power purchase agreement. While a total cost for the system varies depending on the system, staff has worked with our third-party experts, ARC Alternatives, to provide estimates for each system based on average prices in the solar industry per watt and the sizes of the system. This information is summarized in the attachment Solar Economics Analysis.

According to this analysis, \$24,600,000 can serve as an initial estimate for the cost of this system should the County pursue ownership. Pursuing ownership offers multiple benefits including access to incentives provided by the Inflation Reduction Act Investment Tax Credit of 30-40%, which is directly paid back to the County. Generally, owning the system can provide the most dramatic financial returns for entities. However, a consideration of owning the system is that the County would be responsible for maintaining and operating the system. Additionally, capital and finance costs must be considered for owning the system.

Power purchase agreements allow the County to implement these projects without the upfront capital or financing costs. The County is currently implementing three power purchase agreements for solar and battery storage at the Sheriff's Public Safety Building, 1441 Schilling Pl., and the new Jail at 1410 Natividad Rd. Power purchase agreements work by leasing the space occupied by the energy system to an energy service company (ESCO). The ESCO then constructs the system and sells the County energy produced by the system at a rate lower than the utility rate available to the County but higher than the rate from PG&E if the system was purchased. These agreements can be beneficial by lowering utility costs without any upfront costs from the County. Additionally, under power purchase agreements, the systems are maintained by the ESCO, who is financially incentivized to maximize energy production as the sale of the energy produced is the revenue generating factor for the ESCO.

Given these options, staff would request that the Budget Committee provide the direction to work with the County's financial advisors to evaluate financial options for County ownership and power purchase price options and to bring this item to the Board of Supervisors for consideration.

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OTHER AGENCY INVOLVEMENT:

Staff have collaborated with Public Works, Facilities, and Parks, Natividad Medical Center, the District Attorney's Office, and Contracts Purchasing on this project. County Counsel has reviewed and approved to form. If approved, staff will proceed to the Capital Improvements Committee on August 12, 2024.

FINANCING:

This item has budgetary implications at this time.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

This item supports the County's municipal climate action goals.

Mark a check to the related Board of Supervisors Strategic Initiatives

- ☒ Economic Development
- ☐ Administration
- ☒ Health & Human Services
- ☒ Infrastructure
- ☒ Public Safety

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Attachments:

Solar Economics Analysis
Interconnection Agreement Natividad Medical Center
Interconnection Agreement Detailed Study ITD Building
Interconnection Agreement Monterey Courthouse
Interconnection Agreement Salinas Administrative Building
Government Code Section 4217