



**DATE: SEPTEMBER 30, 2015**

**FROM: CARGO & INDUSTRIAL REAL ESTATE**

**SUBJECT: RESOLUTION NO. \_\_\_\_\_ - OPERATING AGREEMENT  
BETWEEN THE CITY OF LOS ANGELES HARBOR DEPARTMENT  
AND HECATE ENERGY HARBORSIDE LLC TO INSTALL, MAINTAIN,  
AND OPERATE UP TO TWELVE PHOTOVOLTAIC SOLAR POWER  
SYSTEMS AT THE PORT OF LOS ANGELES**

**SUMMARY:**

This City of Los Angeles Harbor Department (Harbor Department) is requesting approval of the Board of Harbor Commissioners (Board) to enter into a 20-year Operating Agreement with Hecate Energy Harborside LLC (Hecate). Under the proposed 20-year Operating Agreement, Hecate will procure, install, maintain, and operate photovoltaic (PV) solar power systems (PV Systems) at up to 12 site locations within the Port of Los Angeles (Port) to generate approximately ten megawatts (MW) of electricity for sale to the City of Los Angeles Department of Water & Power (LADWP). The installation of these PV Systems is in alignment with the Port's Clean Air Action Plan, instituted in 2006, and contributes to the ten MW of PV solar power wattage goal established in the agreement between the City of Los Angeles Harbor Department (Harbor Department) and the State of California Department of Justice, Office of the Attorney General. Hecate will pay the Harbor Department approximately 7 percent (7.02238 percent) of their annual revenue from electricity sales to LADWP. The expected annual revenue to the Harbor Department, based on Hecate's proposal, is \$141,090.

**RECOMMENDATION:**

It is recommended that the Board of Harbor Commissioners:

1. Find that the Director of Environmental Management has determined that the proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) under Article II Section 2 (f) of the Los Angeles City CEQA Guidelines;
2. Approve the proposed Operating Agreement with Hecate Energy Harborside LLC;
3. Direct the Board Secretary to transmit the Operating Agreement to the City Council for approval pursuant to Charter Section 606 of the City Charter;

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4. Authorize the Executive Director to execute and the Board Secretary to attest to the Operating Agreement upon approval by City Council; and
5. Adopt Resolution No. \_\_\_\_\_

**DISCUSSION:**

Background/Context - In November 2006, the ports of Long Beach and Los Angeles took an unprecedented joint action to improve air quality in the South Coast Air Basin by adopting the San Pedro Bay Ports Clean Air Action Plan (CAAP), a sweeping plan aimed at significantly reducing the health risks posed by air pollution from port-related ships, trains, trucks, terminal equipment, and harbor craft.

The CAAP was developed with the cooperation and participation of the South Coast Air Quality Management District, California Air Resources Board, and U.S. Environmental Protection Agency. The Harbor Department subsequently entered into an agreement with the State of California Department of Justice, Office of the Attorney General (AG) to support the CAAP. Under the agreement with the AG, the Harbor Department would install ten MW of PV solar power within the Port's boundary as a general greenhouse gas reduction measure to replace electricity at the Port that would otherwise be provided by the LADWP electrical grid.

In October 2014, the Harbor Department released a Request for Proposal (RFP) for the development and operation of PV Systems within the Port. The PV Systems would be developed under a LADWP Feed-In Tariff (FIT) Program that would set the standards and requirements for their installation and operation as the PV Systems will be connected to the LADWP electrical grid. The Harbor Department would enter into an Operating Agreement for a term of 20 years at 12 potential site locations composed of a mix of rooftop, parking lot canopy, and ground mount PV Systems throughout the Port. The selected operator would coordinate their development activities related to the PV Systems with Harbor Department Engineering staff and work with any tenants operating at the proposed site locations to minimize any possible disruption to tenant operations.

The operator would own the PV Systems and be responsible for their operation and maintenance for the term of the Operating Agreement and would be paid by LADWP under the terms of each site location's Power Purchase Agreement (PPA) with the LADWP. The Harbor Department in turn would receive a percentage of the developer's gross annual revenue from sales of electricity to LADWP. Upon termination of each site's PPA, the respective PV System would be removed by the developer at their cost.

In November 2014, the Harbor Department received proposals in response to the RFP from the following entities:

Borrego Solar Systems, Inc.  
Hecate Energy Port of Los Angeles FIT LLC  
Oakleaf Energy Partners  
Sun Edison

[www.borregosolar.com](http://www.borregosolar.com)  
[www.hecateenergy.com](http://www.hecateenergy.com)  
[www.oakleafep.com](http://www.oakleafep.com)  
[www.sunedison.com](http://www.sunedison.com)

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Subsequent to the comprehensive review and scoring of all submitted proposals, in February 2015, Hecate was selected to begin contract negotiations with the Harbor Department based upon their experience, qualifications, and revenue sharing proposal under which Hecate offered to pay the Harbor Department 7.02 percent of their gross annual revenue from sales of electricity to LADWP, which is estimated at approximately \$141,090 per year or approximately \$2,821,800 over the 20-year term of the Operating Agreement.

Proposed Operating Agreement Summary

Term: The proposed Operating Agreement would provide for each PV System to be in service for a term of 20 years. Since construction of all the PV Systems cannot be completed simultaneously, each PV System will be in service 20 years from its individual commercial operation date. Initial design and construction periods will not be counted towards the term of the Operating Agreement.

Solar Site Locations: The proposed site locations include warehouse roofs, parking lots, and under-utilized ground areas. The proposed sites are subject to CEQA review before obtaining necessary permits and approvals. The proposed site locations are set forth in the below table.

| PV SYSTEM TYPE   | SITE LOCATION   |
|--|---|
| Building Rooftop<br>Building Rooftop<br>Building Rooftop                             | Berths 54-55 Cargo Sheds<br>Berth 153 Cargo Shed<br>Berths 154-155 Cargo Sheds  |
| Parking Lot Canopy<br>Parking Lot Canopy<br>Parking Lot Canopy<br>Parking Lot Canopy | Parking Lot at 22 <sup>nd</sup> Street Park<br>Parking Lot at 22 <sup>nd</sup> Street and Miner Street<br>Parking Lot at Liberty Hill Plaza<br>Berth 161 C&M Employee's Parking Lot                             |
| Ground Mount<br>Ground Mount<br>Ground Mount<br>Ground Mount<br>Ground Mount         | Triangle North of Rail Loop<br>North Shore of Seaplane Lagoon<br>West Shore of Pier 400 Transportation Corridor - North<br>West Shore of Pier 400 Transportation Corridor - South<br>Pier 400 Face F Embankment |

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Compensation: Compensation under the Operating Agreement for the use of Harbor Department property is as follows:

| Estimated Gross Annual Revenue to Hecate                      | Percentage of Gross Annual Revenue to Hecate for Harbor Department | Proposed Total Annual Revenue to the Harbor Department* |
|---|--|---|
| \$2,009,146   | 7.02238%   | \$141,090   |
| * Annual Revenue may fluctuate based upon weather conditions. |  |   |

**ENVIRONMENTAL ASSESSMENT:**

The proposed action is approval of a 20-year Operating Agreement with Hecate for installation, maintenance, and operation of up to 12 photovoltaic solar power systems. This action is limited to approval of the Operating Agreement. In accordance with the requirements of the Operating Agreement, environmental review pursuant to the CEQA will be required for each of the PV solar sites at the time the Operator submits an Application for Port Project and prior to obtaining all necessary permits and approvals. Therefore, as an administrative activity involving the approval of an Operating Agreement, the Director of Environmental Management has determined that the proposed action is exempt from CEQA in accordance with Article II Section 2(f) of the Los Angeles City CEQA Guidelines.

It should be noted that the State legislature recognized the environmental benefits of solar programs and streamlined the CEQA review process by creating a statutory exemption for rooftop and parking lot solar canopy projects (California Public Resources Code Section 21080.35). It is likely that some of the PV solar sites identified in this Operating Agreement may qualify for the CEQA statutory exemption once the environmental review commences.

**ECONOMIC BENEFITS:**

The proposed construction associated with this Operating Agreement will have positive employment impacts for the five-county region. However the economic benefits cannot be quantified at present.

**FINANCIAL IMPACT:**

Percentage compensation over the term of the Operating Agreement is estimated to remain flat due to the PPAs with LADWP and does not include any compensation escalation over the term of the Operating Agreement. Total annual revenue to the Harbor Department will be approximately \$141,090, with total revenue over the term of the Operating Agreement being approximately \$2,307,022 on a present value basis.

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**CITY ATTORNEY:**

The Office of the City Attorney has prepared and approved the proposed Operating Agreement (Transmittal 1) as to form and legality.

**TRANSMITTAL:**


1. Operating Agreement with all Exhibits

  
JACK C. HEDGE  
Director of Cargo & Industrial Real Estate

APPROVED:

  
EUGENE D. SEROKA  
Executive Director

FIS Approval: MB (initials)  
CA Approval: MB (initials)

  
MICHAEL DiBERNARDO  
Deputy Executive Director

ES:MD:JH:PA:mnm  
Author: P. Andre  
BL543mnm Hecate Operating Agreement