



STAFF REPORT
February 11, 2026

TO: Honorable Mayor and City Council Members

FROM: William B. Pattison, Jr., City Manager
Ryan Baron & Glen Price, City Attorney's Office, BBK

SUBJECT: Approve Municipal Utility Development Agreement with Coachella Valley Power Services, LLC for Implementation of the City's Municipal Electric Utility

RECOMMENDATION

1. Staff recommends the City Council approve a Municipal Utility Development Agreement with Coachella Valley Power Services, LLC for implementation of the City's Municipal Electric Utility and authorize the City Manager to execute the agreement in substantially similar form as approved by the City Attorney.
2. Staff recommends the City Council find the Municipal Utility Development Agreement does not constitute a project within the meaning of the California Environmental Quality Act.

BACKGROUND

On July 31, 2019, the City Council adopted Resolution 2019-62 establishing a municipal utility to provide electric and gas service to certain new development and under-served development areas (Development Area) within the City's municipal boundaries, and authorizing the City Manager to take all necessary steps to create and establish the municipal utility and evaluate the areas and manner for providing service as a publicly-owned utility. The Development Area includes the Economic Development Zone, which consists of the Auto-Wrecking Zone and Industrial Zone, where initial load is projected to increase rapidly due to prospective cannabis, industrial, and data center interests. The Development Area and Economic Development Zone are in the eastern portion of the City. The City has subsequently been exploring options to ensure residents and businesses in this area receive cost-effective utility services that meet federal and state standards and can accommodate anticipated future load growth.

On June 12, 2024, the City Council received and filed a feasibility study for municipal electric service to the Development Area. The feasibility study was prepared by EES Consulting and concluded that service to the Development Area is feasible and beneficial to the City's electric customers when growth occurs in those areas. Concurrent with receiving this study, the City Council unanimously approved the issuance of a Request for Information and a Request for Proposals for a public-private partnership for implementation of the City's municipal electric utility within the Development Area.

On October 22, 2024, consistent with Government Code section 5956.5 *et seq.* provisions for infrastructure financing by third parties, the City issued a Request for Qualifications for Public-Private Partnership Development Team for Implementation of Energy Delivery System for Municipal Electric Utility (RFQ) to three potential proposers. The City received statements of qualifications from the three potential proposers on December 6, 2024 and thereafter determined based on its review of the statements that all potential proposers were qualified to proceed to the next stage of the solicitation process. On January 31, 2025, the City issued a Request for Proposals for Public-Private Partnership Development Team for Implementation of Energy Delivery System for Municipal Electric Utility (RFP) and on March 3, 2025 received three proposals from the qualified proposers. On May 7, 2025, the City Council approved the issuance of a Notice of Intent to Award and Agreement to Stronghold Power System, Inc. (SPSI) and authorized the City Manager to negotiate a public-private partnership agreement.

The City Manager and City Attorney's office have been actively refining the development plan for the Coachella Municipal Utility and negotiating a development agreement that would implement the initial phase of the City's utility.

DISCUSSION

The Master Utility Development Agreement (Agreement) provides a roadmap pursuant to which Coachella Valley Power Services, LLC (Provider), a subsidiary of SPSI, will act as the turnkey provider for the development and operation of the first phase of the Coachella Municipal Utility (CMU). Phase 1 of the CMU will include the permitting and infrastructure to provide electrical power to a data center based technology campus in the greenfield area of the eastern portion of the City. The area included within Phase 1 is referred to as the New Municipal Phase 1 Area or "NMU." An optional Phase 2 may be developed at the City's discretion to broaden electric service to the larger Development Area not currently served by the Imperial Irrigation District (IID).

Pursuant to the Agreement, the Provider will implement a Project Infrastructure Plan within the NMU that includes the design and construction of substations, electrical transmission, distribution facilities and local microgrids that will serve both base load and backup power for data center customers. The microgrids will cover approximately 20% of the anticipated load with battery storage and fuel cells, with the remainder of the energy being procured from regional sources of energy generation and imported through IID transmission in reliance on IID's federal Open Access Transmission Tariff as required by the Federal Energy Regulatory Commission (FERC). Once the Project Infrastructure Plan has been implemented and agreements have been signed by the CMU with data center customers for electrical service, Provider will through a potential lease structure operate and maintain the CMU infrastructure, take primary responsibility for the procurement of energy and other regulatory compliance products required under California law, such as renewable energy and resource adequacy, and manage energy regulatory matters in cooperation with CMU staff.

Provider is taking responsibility for arranging the equity capital and financing necessary for the development of the CMU as a private partner of the City and is solely at risk for this financing

during the development and construction of the project. Once the CMU becomes operational, then revenues received from the operation of the CMU will be placed in a lockbox to pay all expenses of the CMU, repay the Provider financing, provide a revenue share for the City in accordance with applicable law, and then any excess revenue will be distributed to the Provider as compensation for its services. The City and CMU will work with Provider for the City Council to set rates for electrical service within the CMU to cover all of the foregoing requirements in accordance with Proposition 26 and other laws. Ultimately, however, the Provider is responsible for any shortfall in revenue as the turnkey provider of utility services. The only liability of the City during the Development Period will be to cover its own costs with respect to staff, legal counsel and consultants who are involved in the permitting process and conducting oversight of Provider efforts.

The Agreement organizes the obligations of Provider into two phases of development. Phase 1 consists of three periods of development: (1) the design and permitting process (also referred to as the Development Period), (2) the construction process (also referred to as the Construction Period), and (3) the operation and maintenance of the CMU operations in the NMU following the commencement of operations. During each of these periods, the Provider has specific obligations to the City to provide services in furtherance of the CMU. During the Development Period, Provider will go through the permitting process and establish an interconnection to import power for CMU operations, which will require applications, discussions and cooperation with IID. There are a number of assumptions that represent the conditions precedent for the financial and operational viability of the project that must be met during this period in order for the CMU to proceed. A key factor will be sufficient commercial interest in a 240 acre technology campus serving a minimum load of 270 MW of energy.

Once the Development Period has been completed and the City has given a notice to proceed, the Provider will construct the project infrastructure necessary for the CMU in accordance with the Project Infrastructure Plan.

Upon completion of the Project Infrastructure Plan, the Provider will move forward with the operation of the CMU on a day to day basis under the direction of the City as the utility through CMU personnel. A working group will be created made up of Provider and City personnel that will meet regularly to discuss project development status, ratesetting, energy risk management and oversight, and other matters, with recommendations to the City Council as the governing and ratesetting body of the CMU.

Once Phase 1 of the technology campus has been completed and is operating successfully within the NMU, there is a process to expand the campus to Phase 2, at the City's discretion, depending on commercial interest and financial feasibility, which will include an approximate doubling of the CMU electrical load.

The term of the Agreement is 20 years following the commencement of operations of the CMU with the potential for a mutually agreed extension for two additional 5 year terms. This term is necessary to provide sufficient time for the Provider to recoup its investment in the CMU and earn a reasonable rate of return. Upon completion of the term, all infrastructure and other assets owned or leased by the Provider will revert to the City at no charge.

In anticipation of implementation, the City and SPSI have begun coordinating with IID. IID has an obligation under federal law as a transmission owner through its Open Access Transmission Tariff to provide non-discriminatory, comparable access to its grid facilities with the City as a publically owned utility being an “eligible customer.” The City has submitted an application for network integration transmission service that initiates a transmission study process and allows the CMU as a network customer and retail service provider to serve the data center customer load and anticipated future load. IID also has a duty under federal law as a Balancing Authority (BA) to ensure generation-load balance within its BA area and meet reliability standards that the CMU will need to comply with through schedule coordination.

The City has also notified the California Energy Commission of its formation as the agency regulates certain compliance aspects of publically owned utilities. The City will also notify other governing federal and state agencies and file required reports and meet compliance obligations, through Provider, when required and upon such time as it begins to serve load.

RECOMMENDATION

Staff recommends the City Council approve a Municipal Utility Development Agreement with Coachella Valley Power Services, LLC for implementation of the City’s Municipal Electric Utility and authorize the City Manager to execute the agreement in substantially similar form as approved by the City Attorney. Staff further recommends the City Council find the Development Agreement does not constitute a project within the meaning of the California Environmental Quality Act (CEQA).

NEXT STEPS

Upon approval by the City Council, the City Manager will finalize the Development Agreement and work with Coachella Valley Power Services, LLC on the financing and design of the project. Upon final design and other project details, the final CEQA documents will be brought to the City Council for consideration prior to further development moving forward. The City Council will be provided material updates and other agenda items, including ratesetting, as the CMU develops.

ENVIRONMENTAL ASSESSMENT

The approval of the Development Agreement does not constitute a project within the meaning of CEQA as it does not result in any direct or reasonably foreseeable indirect physical change in the environment. Coachella Valley Power Services, LLC will be responsible for performing all required CEQA analysis prior to the implementation of any project on behalf of the City. The City will be the lead agency under CEQA and will consider certification of the project. The Project Infrastructure Plan will be developed during the Development Period of Phase 1 and is not yet known in sufficient detail to allow for the completion of “meaningful environmental assessment” such that undertaking environmental review would be premature under CEQA Guidelines section 15004. Nothing in the Development Agreement constitutes a commitment by the City to issue further project approvals or otherwise restricts the City’s ability to impose feasible mitigation measures, or consider or adopt feasible alternatives as part of the CEQA

process. The City retains full discretion to consider the final environmental certification and then approve the project, disapprove it, or require additional mitigation measures.

FISCAL IMPACT

Coachella Valley Power Services, LLC as the turnkey Provider is responsible for all costs, financing, and equity capital associated with the Development Agreement. The City is responsible for its internal staff costs and legal and consultant review anticipated to be approximately \$500,000 over Phase 1 of the development.

ATTACHMENTS

1. Municipal Utility Development Agreement