



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Lori Mitchell
Julia H. Cooper

SUBJECT: SEE BELOW

DATE: April 17, 2018

Approved

D. DSYL

Date

4/20/18

SUBJECT: SAN JOSE CLEAN ENERGY RISK MANAGEMENT POLICY, LAUNCH UPDATE

RECOMMENDATION

- A. Adopt a resolution approving the Energy Risk Management Policy (ERMP) which details roles, responsibilities, strategies, controls, and authorities to manage risks for San José Clean Energy (SJCE).
- B. Approve March 1, 2019 as the Phase II (residential) & III (Commercial) launch date to serve these customers.

OUTCOME

Approval of the Energy Risk Management Policy will allow SJCE to prepare for the launch of the program in September of 2018 and to commence procuring electric power.

Approval of the Phase II & III launch dates will allow SJCE to comply with regulatory obligations and to prepare to serve these customers in 2019.

BACKGROUND

In October of 2017, City Council approved an ordinance to add Title 26 to the Municipal Code. This ordinance established the operational parameters for SJCE. The ordinance included the obligation to prepare a Risk Management (RM) Policy and established various reporting requirements. On January 30, 2018, staff provided City Council with program updates and adjusted the launch date of Phase 1 to September 1, 2018. To meet this launch date, SJCE has been working on a number for contracts and operational procedures.

On February 27, 2018 City Council approved the Professional Services Agreement for Data Management and Customer Call Center Services with Calpine Energy Solutions, LLC. At the March 27 meeting, City Council approved the Portfolio Management, Optimization, and Scheduling Coordinator (SC) Services contract. Approval of the RM Policy will allow SJCE to proceed with procurement of the energy supplies to meet the Phase 1 load. Staff plans to bring these contracts and rates to City Council for consideration this Spring. This will allow SJCE to provide the required rate comparison and prepare the required opt-out notices that must be sent out 60 days prior to SJCE serving customers. Staff plans to send out these notices to municipal customers in July of 2018.

ANALYSIS

Risk Management Policy

The overall goal of the policy is to:

- Serve SJCE's customers' needs subject to Council approved risk tolerance limits.
- Provide as much energy supply cost certainty as possible for SJCE's customers while maintaining a least-cost supply portfolio.
- Meet all the portfolio objectives such as renewable energy content and greenhouse gas-free supplies.

Under the policy, the City Manager will establish a Risk Oversight Committee (ROC) that will meet at least quarterly and is responsible for monitoring and controlling risks. ***The ROC has seven (7) voting members with the City Attorney providing legal advice:***

- City Manager
- Director of Community Energy
- Director of Finance
- City's Risk Manager
- City Manager's Office Budget Director
- Community Energy Department's Deputy Director of Power Resources
- Community Energy Department's Division Manager for Administration and Finance.

The Energy Risk Management Regulations (ERMR) document provides more details on the roles, strategies, controls, and authorities described in the Policy. The ERMR should be read in conjunction with the ERMP and provides a comprehensive energy risk management program.

The Policy complies with regulatory requirements and establishes a front, middle, and back office. These are required regulatory functions. They set limits for staff working on procurement and other functions. The front office staff work on procurement, the middle and back work on credit limits, approved counterparties, and verifying the contract terms. Staff defined as working in the front office (procurement) cannot work on middle and back office

functions and vice versa. These are Federal Energy Regulatory Commission (FERC) requirements.

The regulations document sets approved products and transaction limits. ***All contracts over \$1 Million and longer than six (6) months requires Council approval unless there are time constraints.*** It is important to note that Council approval will be for a delegation of authority under a Council approved enabling agreement with a not to exceed limit. Energy prices are only held for very short time periods; therefore, a delegation of authority is necessary. The policy will be reviewed annually and before launching Phase II and III.

As part of the annual budget proposal process, the Finance Department's Treasury Division is proposing to add a new Financial Analyst position to provide the appropriate support for the Clean Energy Department's Middle Office operations. The Middle Office requires sophisticated credit analysis and oversight of power providers and other counterparties of the Clean Energy Department. The position will reside in the Investments unit of the Treasury Division and will report directly to the Investment Officer. The work cannot be absorbed by current Investment staff as the incremental number of credits that will require ongoing analysis will more than double the current list of credits being reviewed, and the Clean Energy Department's credits are substantially more complex than those currently being evaluated. Advanced techniques will need to be developed.

Phase II & III Launch Date

Staff recommends offering service to both residential and commercial customers in March of 2019. This timeframe allows enough time to be operationally ready and an early Spring launch allows SJCE to avoid potential customer confusion related to higher winter energy bills. In the winter months, there is an increase in the consumption of natural gas related to heating uses which lead to higher energy bills. In addition, PG&E often implements rate change in January. Offering service to residential and commercial customers during these months could lead to customer confusion.

Staff also recommends combining the originally anticipated Phase 2 (residential) and Phase 3 (large commercial) into one phase starting in March of 2019. The large commercial customers typically have a higher gross margin than residential; therefore, most CCE's serve these customers as soon as possible. ***By combining these phases SJCE can serve both the residential and the commercial customers and roughly meet the originally planned schedule to be fully operational.*** The implementation plan originally contemplated serving Phase 1 municipal accounts in April of 2018, residential in September of 2018, and large commercial in February of 2019. Staff recommends serving Phase 1 in September of 2018 as was described in the [status update provided](#) to Council in January and serving both residential and commercial customers in March of 2019.

As described in the [Information Memorandum](#)¹ dated April 10, 2018; the *California Utilities Commission* (CPUC) adopted Resolution E-4907: Registration Process for Community Choice Aggregators on February 8, 2018. This resolution implements new deadlines for Community Energy programs to coordinate the timeline for mandatory filings related to the Resource Adequacy (RA) program.

In order to serve load in 2019, Resolution E-4907 requires that CCA's comply with two mandatory annual load forecast filings in April and August prior to the year that the CCA expects to serve load. The CPUC informed SJCE on March 14, 2018 that it must file the year-ahead historical data filing by March 19, 2018. This required SJCE to set a date to serve load for each Phase. The filings can be updated in the April and August annual load forecast filings. *SJCE submitted the March filing requirements to the Clean Energy Council (CEC) and CPUC as directed to preserve the option to serve load in 2019. The filings assumed a Phase 1 start date of September 1, 2018 and all other Phases starting in March of 2019.*

EVALUATION AND FOLLOW-UP

In May and June of 2018, staff plans to bring forward energy supply contracts and customer rates to the City Council for consideration.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the May 1, 2018 City Council meeting.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and the City Manager's Budget Office.

COMMISSION RECOMMENDATION/INPUT

There is no commission recommendation or input associated with this action.

¹ [Information Memorandum](#) dated April 10, 2018;

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FISCAL/POLICY ALIGNMENT

The recommended actions support the City's 2017 Green Vision (Goals 2 and 3) and the Envision San José 2040 General Plan (Goal MS-2 and Appendix 8: GHG Reduction Strategy).

CEQA

Not a Project, File No. PP17-008, General Procedure & Policy Making resulting in no changes to the physical environment.

/s/

LORI MITCHELL

Director, Community Energy Department

/s/

JULIA H. COOPER

Director, Finance

For questions, please contact Lori Mitchell, Director of Community Energy Department, at (408) 535-4880 or Julia Cooper, Director of Finance, at (408) 535-7011.

Attachment - Energy Risk Management Regulations