



COUNCIL AGENDA: 4/16/19
FILE: 19-227
ITEM: 7.1

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Lori Mitchell

SUBJECT: SEE BELOW

DATE: April 5, 2019

Approved

D. D. S. L.

Date

4/5/19

**SUBJECT: LAUNCH OF SERVICE TO SMALL COMMERCIAL CUSTOMERS BY
SAN JOSE CLEAN ENERGY IN JUNE 2019**

RECOMMENDATION

Adopt a resolution approving San José Clean Energy ("SJCE") to launch service to small commercial customers in June 2019.

OUTCOME

Launching service to small commercial customers beginning June 2019 will result in SJCE serving an additional 19,650 customer accounts with clean electricity at rates that are lower than those of Pacific Gas & Electric Company ("PG&E") and an estimated \$5 million in additional net program revenues between June 2019 and February 2020, the planned implementation date for small commercial customers.

BACKGROUND

At the August 29, 2017 City Council meeting, the City Council approved the SJCE Implementation Plan discussing the funding strategy to obtain power supply contracts, established the SJCE Operating Fund, and approved the establishment of various revenue estimates and expenditure appropriations for City departments, including the Community Energy Department, to facilitate the initial operations of SJCE. On November 7, 2017, the City Council approved an ordinance to add Title 26 to the San José Municipal Code to provide procedures for the operation and management of San José Clean Energy.

On January 30, 2018, the City Council approved revisions to the launch schedules, reducing the number of launches from three to two. Phase I launch (City accounts) began on September 1, 2018 and Phase II (residential and commercial accounts) began on February 1, 2019. On November 6, 2018, the City Council approved delaying the enrollment of Phase II small

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commercial and residential net energy metered customers until SJCE could cost-effectively serve these customers through rates that are lower than PG&E's rates.

ANALYSIS

In fall of 2018, the California Public Utilities Commission ("CPUC") approved a new methodology to calculate the Power Cost Indifference Adjustment ("PCIA") in Phase 1 of the proceeding. The initial forecasts of this new methodology indicated that the PCIA charge for small commercial customer accounts would be disproportionately higher than other customer classes. SJCE expected that it would be unable to cost-effectively serve those customers while maintaining a 1% discount over PG&E rate. Therefore, on November 6, 2018 SJCE recommended to City Council to delay enrollment for these customers. ***However, over the last few months the PCIA forecast has become more certain, and SJCE now expects that small commercial customers can be served cost-effectively.***

On February 21, 2019, the CPUC approved Decision 19-02-023 on PG&E's Energy Resource Recovery Account ("ERRA") proceeding, which establishes the PCIA charge for 2019. This decision includes a PCIA for small commercial customers, which is in line with that of other rate classes and lower than SJCE forecasted.

Based on this new CPUC ERRA decision on February 21, 2019, SJCE now expects that small commercial customers can be served cost effectively. Per City Council resolution, SJCE must ensure that its rates, inclusive of the PCIA, are 1% below the generation rates of PG&E. It has always been the intention for SJCE to offer service to all customers in the San José service territory; therefore, SJCE is now recommending to enroll these customers in June of 2019. If approved, SJCE would send out pre-enrollment customer notices in late April and May of 2019, as required by state law. SJCE would also send out two post enrollment notices in June and July of 2019.

EVALUATION AND FOLLOW-UP

This memorandum recommends the City Council to approve the adoption of a resolution approving San José Clean Energy to launch service to small commercial customers in June 2019 and requires no follow-up to the City Council.

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PUBLIC OUTREACH

This memorandum will be posted on the City's website for the April 16, 2019 City Council meeting.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office, the Finance Department, and the Budget Office.

COMMISSION RECOMMENDATION/INPUT

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

FISCAL/POLICY ALIGNMENT

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

COST SUMMARY/IMPLICATIONS

The table below shows the incremental financial benefits of enrolling small commercial customers in June of 2019 against waiting until February of 2020. SJCE projects that enrolling small commercial customers in June of 2019 instead of waiting until February of 2020 will result in approximately \$5 million of additional net revenue. SJCE recommends enrolling these customers in June so that SJCE can provide them with cleaner cheaper electricity options. SJCE will need to procure additional energy to serve the incremental load; however, there is sufficient time and supply available in the market to do so.

Estimated additional accounts served	19,650
Estimated additional total revenues (June 2019 – February 2020)	\$29,000,000
Estimated additional costs (June 2019 – February 2020)	(\$24,000,000)
Estimated additional net revenues (June 2019 – February 2020)	\$5,000,000

Given that small commercial customers will be added throughout the month of June, there is minimal financial impacts in the 2018-2019 fiscal year from this change. Budget adjustments to address these impacts as well as align with the revised pro forma for SJCE will be brought forward for City Council's review as part of a future Council memorandum before the end of the

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fiscal year. In addition, the revenue and cost impact for 2019-2020 will be included as part of the 2019-2020 Proposed Operating Budget that is scheduled for release on May 1, 2019.

CEQA

PP17-008 General Procedure & Policy Making resulting in no changes to the physical environment.

/s/

LORI MITCHELL

Director, Community Energy

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