



Memorandum

TO: TRANSPORTATION AND ENVIRONMENT COMMITTEE

FROM: Lori Mitchell

SUBJECT: SJCE PROGRAMS ROADMAP UPDATE

DATE: March 16, 2022

Approved

Date

3/18/22

RECOMMENDATION

Accept the report on the status of San José Clean Energy (SJCE) Programs Roadmap Update.

OUTCOME

Provide an update on SJCE's Program Roadmap, including on initial programs offerings and priority near-term programs based on guiding principles.

BACKGROUND

On August 8, 2017, City Council approved an ordinance establishing a Community Choice Aggregation (CCA) program to be named San José Clean Energy (SJCE) and amending Title 26 of the San José Municipal Code (Code) to create the Community Energy Department (CED) of the City of San José to manage the CCA program. Under the adopted Title 26, sections 26.40.010 and 26.40.040 of the Code, SJCE may provide any energy efficiency, rate assistance, and other energy programs as approved by the City Council. In addition, under section 2.04.4620.E, the Director of the Community Energy Department (Director) shall "[d]evelop and implement local energy efficiency, renewable energy, and other energy programs."

In February 2018, the City of San José was one of the first U.S. cities to adopt a Paris Agreement-aligned climate action plan, named Climate Smart San José ("Climate Smart). This is a data-driven plan with goals and actions focused on three components: energy, mobility, and water. It details not only ways to reduce the city's carbon footprint but also to improve the quality of life for those who live and work in San José.

On May 15, 2019, SJCE provided an update to the Transportation and Environment Committee on the community energy programs planning process.

On October 22, 2019, the City Council approved the implementation of the California Electric Vehicle Infrastructure Project (CALeVIP) in San José and SJCE's participation in it. Council also authorized the Director of CED to execute an agreement with the Center for Sustainable Energy to administer up to \$4 million in SJCE funds for the implementation of CALeVIP through December 31, 2023.

On March 2, 2020, SJCE provided an update to the Transportation and Environment Committee on SJCE's preliminary program roadmap that detailed the initial programs SJCE recommends offering based upon guiding principles and objectives.

On October 5, 2020, SJCE provided an update to the Transportation and Environment Committee on SJCE's program roadmap.

On November 17, 2020, the City Council authorized the Director to prepare and submit an Advice Letter to the California Public Utilities Commission (CPUC) to administer the Disadvantaged Communities-Green Tariff program.

On March 9, 2021, the City Council accepted SJCE's Programs Roadmap, authorized the Director to prepare and submit an Advice Letter to the CPUC to Administer "Elect to Administer" Energy Efficiency Programs, and authorized the City Manager to accept funds from the CPUC for administering the energy efficiency programs.

ANALYSIS

California Electricity Markets & Financial Position

One of the key advantages of CCA agencies in California is the ability to reinvest operational financial surpluses into the community through programs and rate discounts along with a greater awareness of community needs than large investor-owned utilities (IOU). Prior to investing financial surpluses into programs, it is important for a CCA to build an operating reserve to allow the CCA to withstand sudden changes in market conditions that may have significant impacts on the CCA's financial solvency. As described in the November 17, 2021 Transportation and Environment Committee Memorandum, SJCE Operational Update and Strategic Plan Framework Memorandum¹, the consultant Deloitte & Touche, LLP recommends SJCE build and maintain a reserve of 180 days of operating expenses given the uncertainty of the Power Charge Indifference Adjustment (PCIA), power market conditions, and other regulatory changes that could negatively impact the CCA operation.

California's electricity markets continue to be complex and uncertain. Increases to the PCIA continue to be serious threats to CCAs' financial stability. The PCIA is a fee assessed by IOUs on all electric customers to cover above-market generation costs for legacy energy contracts and

¹ [November 17, 2021, Transportation and Environment Committee Memorandum, SJCE Operational Update and Strategic Framework Plan](#)

power plant operations. SJCE customers pay the PCIA fee for their share of above-market energy resource costs previously incurred by PG&E on their behalf. Due to a regulatory change on how the PCIA is calculated in 2018, forecasts of the PCIA will continue to be volatile and fluctuate annually as the calculation is now based on short-term power market prices. As of March 1, 2022, the PCIA decreased by approximately 59%, and the PG&E generation rate increased by approximately 33%, relative to 2021, for the average resident. Most analysts expect the PCIA to rise again in 2023, though the magnitude of the increase is uncertain. As directed by Council, SJCE factors in the cost of the PCIA and Franchise Fee Surcharge when setting rates.

To understand the implications of PG&E rate changes, it is important to understand that SJCE's rates are based on PG&E generation rates. Consequently, PG&E 2022 rate changes triggered corresponding movement to SJCE rates. As described in the memorandum presented to City Council on December 14, 2021², the resulting estimated financial impacts of the SJCE rate changes starting on March 1, 2022 are that SJCE should be able to begin paying back Commercial Paper (CP) Notes in Fiscal Year 2022-2023 and attain ninety (90) days of operating expenses in reserve net of the CP notes in Fiscal Year 2022-2023. These projected financial results put SJCE on track to achieve one of its most significant financial goals: building an operating reserve equivalent to 180 days of operations within five years of the launch of SJCE, or by fiscal year 2024-2025.

To further improve financial stability and set the groundwork for future program success, SJCE will conduct a cost-of-service study in 2022 to ensure rates cover costs, help identify the most beneficial load reduction opportunities for future customer programs, reduce rate volatility, and improve competitiveness. The granular information developed through a cost-of-service study will further inform and guide SJCE staff to develop and evaluate customer programs that maximize customer benefits and meet program objectives.

CCA Program Landscape

All nine counties in the San Francisco Bay Area are now operating CCAs; therefore, there are numerous CCA programs for SJCE to learn from and benchmark against. In general, California CCAs have focused on programs that reduce greenhouse gas emissions, increase electrical load through increased electrification, and/or reduce energy procurement costs. Most programs have focused on vehicle electrification due to the large source of greenhouse gas emissions from the transportation sector and electrical load growth opportunities. The second priority of CCA programs in our region have focused on home and building electrification to accelerate the transition from natural gas to electrical appliances and equipment. Finally, Bay Area CCAs are increasingly focused on distributed energy resources and programs focused on resiliency.

SJCE Program Alignment with ClimateSmart

² [December 14, 2021, San José City Council, 2022 Power Mix and Rates Memorandum](#)

As a department of the City of San José, maintaining alignment between SJCE programs and Climate Smart San José is important. SJCE attends regular stakeholder meetings with the Climate Smart team to support the City’s goal of becoming carbon neutral by 2030 and provides energy-related data and analysis as needed to inform strategies.

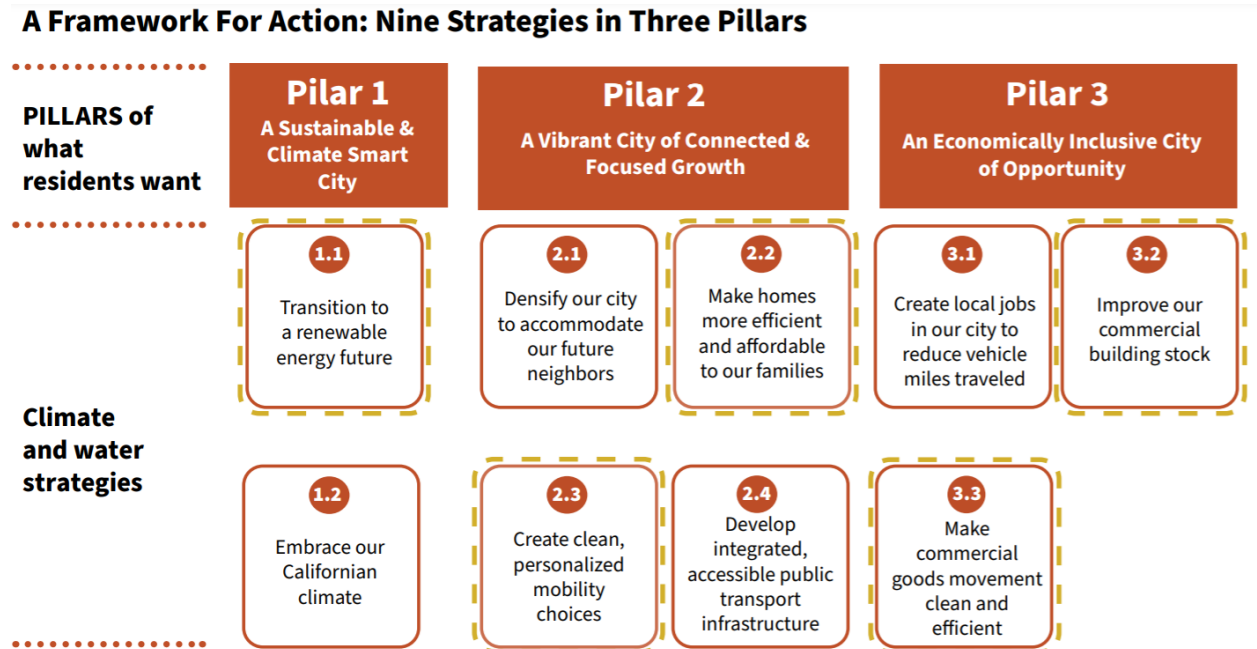


Figure 1. SJCE’s alignment with ClimateSmart San José as well as the related strategies (in yellow dashed boxes)

SJCE’s Programs Roadmap,³ which was accepted by the City Council on March 9, 2021, offers a vision of the types of customer programs SJCE will evaluate and choose over the next several years. Staff intends to provide a status update on the Programs Roadmap yearly. Staff developed the Programs Roadmap from 2019 to 2021 with input from various stakeholder groups: residential and commercial customers, the City’s Clean Energy Community Advisory Commission, the Transportation and Environment Committee, other CCAs, City departments, and energy and electrification industry experts. Stakeholders provided feedback on program areas, guiding principles, and strategies through multilingual surveys, focus groups, interviews, and workshops.

SJCE Program Categories

The six program categories were chosen through collaboration with the Clean Energy Community Advisory Commission and were based on other CCAs’ experience as well as the program categories’ connections to Climate Smart San José and SJCE’s program guiding

³ [SJCE Programs Roadmap](#)

principles approved by the Transportation and Environment Committee on June 3, 2019.

The six program areas serve as the primary focus for SJCE:

1. Building Electrification
2. Vehicle Electrification
3. Distributed Energy Resources
4. Energy Efficiency
5. Program-Specific Rates
6. Resiliency

Program Selection Framework

Overall, SJCE aims to design programs to increase equity and access to the benefits of renewable energy and electrification. The Programs Roadmap outlines five guiding principles for program selection:

1. Promote equity and affordability and support disadvantaged communities.
2. Maximize greenhouse gas reduction opportunities.
3. Align with Climate Smart San José, the city's climate action plan.
4. Produce customer and community benefits.
5. Maintain or improve the financial status of SJCE.

The program selection process involves verifying whether the program addresses most of the guiding principles, scoring the program, and analyzing the program's impact on equity considerations.

Customer Programs Status

Based on the process described above, in the 2020 Community Energy Programs Roadmap Update⁴ for the Transportation and Environment Committee, SJCE proposed a list of near-term programs to target: CPUC funded energy efficiency programs, the Disadvantaged Community Green Tariff program, and the California Electric Vehicle Infrastructure Project (CALeVIP) (Figure 2).

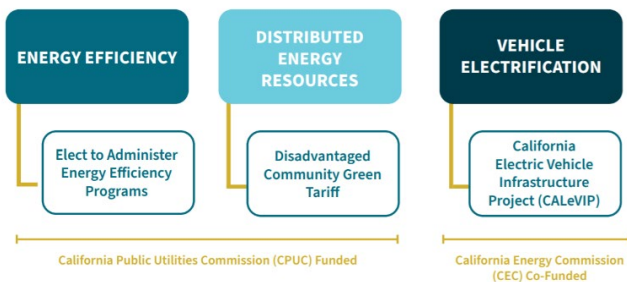


Figure 2. Current SJCE Programs

⁴ [February 21, 2020, Transportation and Environment Committee, Community Energy Programs Roadmap Update](#)

CPUC Funded Energy Efficiency Programs

In early 2021, SJCE submitted an Elect to Administer application to the CPUC to administer a commercial and a single-family residential energy efficiency program. The commercial program will target small and medium businesses and provide discounts on heating, ventilation, and air conditioning upgrades and equipment. The single-family residential program will provide high efficiency appliance discounts to middle-income residents and residents living in disadvantaged communities (DACs).

The CPUC approved SJCE's application in September 2021, and SJCE received approval for the full amount of funding (approximately \$5.1 million) for administering residential and commercial energy efficiency programs over three years. Allocation of the first year of funding, \$1.7 million, was approved by City Council on October 5, 2021. SJCE received authorization to expand the single-family residential energy efficiency program with \$500,000 from American Rescue Plan funds. This funding allows the program to service 35% more homes and provide an additional 20% discount for acquiring energy efficient appliances. SJCE held a competitive solicitation, selected a qualified implementer, and is executing the agreement with the successful implementer. The programs are projected to launch in spring 2022.

Solar Access Program

The Disadvantaged Community Green Tariff program, now named Solar Access for SJCE customers, is a CPUC-funded program that provides a 20% bill discount for low-income customers living in San José Disadvantaged Communities. The Solar Access discount is in addition to the California Alternative Rate for Energy or Family Electric Rate Assistance monthly discounts. Together, these discounts can provide up to a 55% discount on customer electricity bills.

SJCE's Solar Access Program was approved by the CPUC in April 2021, and SJCE was allotted a program capacity of 1.7 megawatts to serve program participants. The program capacity of 1.7 megawatts is currently procured from an interim energy resource. SJCE is currently working through a solicitation to procure a permanent renewable resource to serve program participants. SJCE began taking applications and enrolling customers for the Solar Access Program in November 2021. SJCE worked with local community-based organizations to ensure Spanish and Vietnamese-speaking residents were aware of the program. More than 40% of the 700 applicants speak Vietnamese or Spanish. More than 600 residents are enrolled in the program and receiving the discount, and SJCE is currently working to reach program capacity at approximately 800 customers.

CALeVIP

CALeVIP is funded by the California Energy Commission and SJCE. Implementation and administration of the program is handled by the Center for Sustainable Energy, who processes the applications and distributes incentives to program participants. SJCE's participation in

CALeVIP also aligns with the Department of Transportations’ Electric Mobility Roadmap and Climate Smart strategy 2.3. The program provides rebates for Level 2 and Direct Current Fast Chargers at public and shared charging sites with an emphasis on multi-unit dwellings and other sites located in Disadvantaged Communities.

CALeVIP launched in December 2020, and all incentive funds have been reserved. As of March 1, 2022, two electric vehicle (EV) charger projects in San José with a CALeVIP reservation have begun receiving the first of two rebate payments for projects underway. The program implementer announced an additional \$2.4 million for Level 2 chargers. Projects are to be completed throughout 2022 and 2023.

SJ Cares Program

Recognizing that San José’s lowest-income residential customers are disproportionately burdened by high energy bills, the City Council voted on December 14, 2021⁵ to offer a rate discount to SJ Cares program customers. As of March 1, 2022, SJ Cares customers receive a 5% rate discount on SJCE’s lowest generation rates. This means SJ Cares customers pay the lowest rates in San José, and their bills will be lower than those of California Alternative Rate for Energy and Family Electric Rate Assistance customers being serviced by the local investor-owned utility.

Near-Term Customer Program Recommendations

During calendar years 2022 and 2023, SJCE’s strategy for near-term programs will continue to be to leverage external funding, including new federal funding, and conduct further analysis to develop SJCE programs as SJCE builds adequate financial reserves. Examples of programs to be pursued in the near-term are depicted in Figure 3 below.

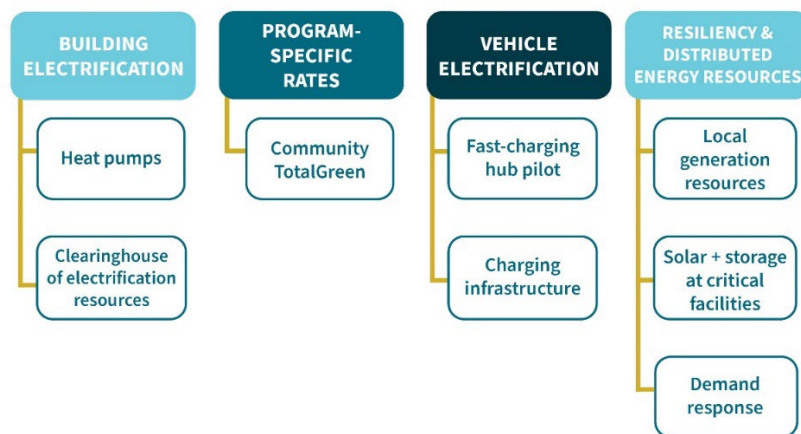


Figure 3. Recommended Near-Term Programs

⁵ [December 14,2021 City Council Resolution](#)

Building Electrification

The City of San José's bold goal to be carbon neutral by 2030 underscores the need to electrify appliances in homes and businesses. SJCE collaborates with the Environmental Services Department and the Climate Smart team and will coordinate seeking federal funding to support building electrification initiatives that are aligned with a San José building electrification plan.

Heat Pumps

Federal funds could be used to accelerate adoption of heat pump technologies for space and water heating, which are available, accessible, and proven and offer safety and indoor air quality benefits but could require more expensive electrical panel upgrades.

Clearinghouse of Existing Resources

There are many different local, state, and federal programs to make energy bills more affordable, spur adoption of EVs and solar systems, and electrify homes and businesses. Customers are often unaware of these programs or how to combine opportunities to receive even more support. SJCE recommends continuing to use existing resources such as the SJCE website and social media platforms to provide a clearinghouse to connect existing efficiency, distributed generation, or electrification program resources to SJCE customers to minimize costs to customers. SJCE would further support the integration of SJCE resources with a broader City of San José clearinghouse approach such as a potential Climate Smart San José's zero carbon hub.

Program Specific Rates: "Community TotalGreen"

SJCE recommends analyzing the possibility of adding an additional new product for customers called "Community Total Green." The concept is to provide customers an opportunity to voluntarily contribute an additional amount beyond their SJCE service charges to sponsor 100% renewable energy for customers on the SJ Cares program. The goal of the program would be to make renewable energy accessible to customers with lower economic resources, add renewable energy projects, and provide opportunities for local workforce development.

Vehicle Electrification

Adoption of EVs will be a major factor in reducing emissions. EVs are significantly less carbon intensive to operate and save drivers money through reduced fuel, operations, and maintenance costs. Market forces and state regulations are laying the foundation for increased EV adoption. Most major automobile manufacturers plan to offer full lines of EVs at competitive pricing by 2030 without subsidies. The California Governor's Zero-Emission by 2035 Executive Order (N-79-20) is expected to cause state agencies to develop regulations that mandate all in-state sales of new passenger cars and trucks to be zero-emission by 2035. Climate Smart San José established

goals to transition 60% of passenger vehicles to electric by 2030 and to reduce commute trips taken in single-occupancy vehicles to four out of ten trips by 2040.

Fast Charging Hub Pilot

SJCE recommends examining a pilot transportation electrification program model. This model develops EV fast-charging hubs in strategic locations primarily utilizing City-owned parking assets in disadvantaged communities that are not currently served by the private sector. An objective of the program is to scale EV charging in these neighborhoods to drive EV adoption and address equity issues as well as incentivize EV charging in the middle of the day when renewable power is abundant. SJCE would analyze the ability to own, operate, and maintain the EV fast chargers by using public-private partnerships, power purchase agreements or other low-cost financing that would be repaid through revenue from consumers utilizing the EV fast-charging hubs. If successful, the city could benefit from the collection of revenues from multiple streams such as increased electric utility user's tax and a portion of the EV charging proceeds.

EV Charging Infrastructure

SJCE recommends seeking federal funding to support transportation electrification initiatives with the City's Department of Transportation and Climate Smart team. The Federal Infrastructure Bill signed by President Biden in November 2021 creates \$14 billion for electric vehicle station acquisition. Federal funds could potentially be used to offer rebates for more publicly accessible chargers, explore vehicle-grid integration with car chargers, EV demand response strategies, and support fleet electrification in San José.

SJCE is also supporting the California Community Choice Association sponsored bill, AB 1814 (Grayson), which would authorize CCAs, like SJCE, to submit applications to the CPUC to receive incentive funding to administer transportation electrification programs in their service areas. The CPUC would regulate participating CCAs to meet all the same requirements that Investor-Owned Utilities (IOUs) are currently required to meet. With access to these funds CCAs can do more to help meet California air quality and climate change targets which include 5 million zero emission vehicles on the road by 2030 and 250,000 electric vehicle charging stations by 2025.

Resiliency & Distributed Energy Resources

Microgrids – Solar + Storage

SJCE recommends seeking federal funding to build local resiliency through development of local generating sources, such as solar and storage, with initial focus on critical facilities. The 2021 Federal Funding Bill creates \$9 billion in funding for smart grid implementation. This could include City of San José facilities or community-based organizations that provide critical social services.

SJCE also recommends evaluating utilizing purchase power agreements as a potential method enable more solar + storage at critical facilities. Under this model SJCE would partner with Public Works and other Departments to identify sites that would benefit from the resiliency of solar + storage. SJCE would prepare an RFP to obtain bids from developers that would install these projects and own and operate them. SJCE would purchase the power from these projects and incorporate supply into our portfolio. The site would obtain resiliency benefits in that the solar + storage would provide some power in the event of an outage with no additional cost to the Department to fund these projects.

Demand Response

SJCE elected to participate in the state's 2022 Emergency Load Reduction pilot program for residential customers, which is being operated by PG&E. The pilot program is a three-year program, and SJCE can elect to participate each year. The CPUC required investor-owned utilities, like PG&E, to establish Emergency Load Reduction Programs where customers are compensated for any energy savings made during critical hours to help avoid energy supply shortfalls. PG&E will automatically enroll approximately 150,000 SJCE customers into the Emergency Load Reduction Pilot starting on May 1, 2022. These customers include California Alternative Rate for Energy and Family Electric Rate Assistance customers as well as residential customers with annual bills totaling more than \$2,000. Participation is voluntary for customers that are automatically enrolled. All other residential customers can choose to opt into the program but cannot participate in other demand response programs at the same time. Participation in the pilot program can potentially help lower SJCE energy procurement needs during historical periods when market prices are typically high. These are typically hot summer and fall days when electricity demand increases. SJCE will evaluate the impacts from state's pilot program in 2022 to consider future participation in the following years as well as development of alternative residential demand response programs that are aligned with the Programs Roadmap, provide customer benefits, and contribute to grid resiliency.

Energy Efficiency

SJCE can build on the experience in administering its CPUC-funded energy efficiency programs by seeking federal funding to incentivize measures that are meaningful to San José residents and businesses. The 2021 Federal Infrastructure Bill creates \$1 billion in funding for energy efficiency.

Support Existing Programs Operated by Others

There are well-established energy service programs and providers that operate in the City of San José. Therefore, SJCE recommends continuing to participate and collaborate with existing program providers already serving San José to add value to customers and help reach SJCE Programs Roadmap objectives. SJCE refers customers to and has ongoing relationships with organizations such as: the Bay Area Regional Energy Network (BayREN), which administers energy efficiency programs; the Business Council on Climate Change, which administers the

SunShares Solar program; and Energy Solutions, the statewide implementer for the TECH Clean California electrification program.

Education and Awareness

SJCE is continually expanding its reach to customers and stakeholders through various communication channels including digital newsletters, direct mail, working with community-based organizations, social media, and the SJCE website. SJCE will continue to work collaboratively with community stakeholders to build awareness and provide education to SJCE customers on strategies, resources, funding, financing, and programs that can help the transition to a carbon neutral city by 2030.

Future Customer Program Recommendations

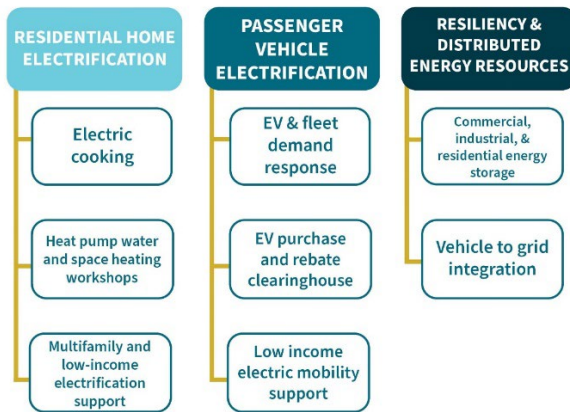


Figure 4. Recommendations for Future Programs

The recommended future programs shown in Figure 4 above are a mix of programs that effectively address each guiding principle. SJCE recommends continued collaboration with the Climate Smart team, surveying emerging innovative programs, completing additional analysis, conducting stakeholder engagement, and iterating on program design over the next few years. Consequently, additional programs could be added or removed from the program recommendations. In the long term SJCE recommends programs that focus on difficult-to-reach customers and communities to ensure they are benefiting from clean energy, as well as a focus on market segments still awaiting the transition to clean energy.

CONCLUSION

The Programs Roadmap continues to provide the structure and direction for future SJCE programs. In the near term, SJCE will continue to focus on programs leveraging external funding, provide education and outreach to make significant progress towards a clean energy

future, and set the groundwork for future program success. The Programs Roadmap will be continually refined through consultation with the Transportation and Environment Committee.

EVALUATION AND FOLLOW-UP

The SJCE Programs Roadmap is a living document that will go through formal revisions with the City Council every five years to allow for the time needed for program identification, analysis, authorization, and implementation. The next formal revision is scheduled to be completed by calendar year 2026. An update of the SJCE Programs Roadmap will be presented to the Transportation and Environment Committee annually to report on progress. The next update to the Transportation and Environment Committee to be completed in calendar year 2023.

CLIMATE SMART SAN JOSÉ

The recommendations in this memo positively impact one or more Climate Smart San José energy, water, or mobility goals.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the April 5, 2022, Transportation & Environment City Council Committee meeting.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

During the March 24, 2022 meeting, the Clean Energy Community Advisory Commission (CECAC) agreed with staff recommendations on the 2022 programs roadmap update. The CECAC agrees that SJCE should build resiliency by accumulating sufficient operating reserves to be in a position to use SJCE proceeds to sponsor customer programs. The CECAC further agrees with the recommendation that in the near term, SJCE will sustain its existing programs and continue to focus on other programs leveraging external funding, provide education and outreach to make significant progress towards a clean energy future, and continue to set the groundwork for future program success.

COST SUMMARY/IMPLICATIONS

Funding for the Disadvantaged Communities-Green Tariff (\$585,000) and the first year of the three-year Elect to Administer Energy (ETA) Efficiency (\$1.7 million) programs have been appropriated in the San José Clean Energy Fund in 2021-2022. The remaining funds (\$3.4 million) for the ETA Program will be allocated as part of future budget processes. Near term programs will leverage external funding to the maximum extent practical, and any additional costs associated with those programs will be subject to the appropriation of funds.

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

For questions, please contact Joe Flores, Deputy Director, Community Energy, at (408) 535-4868.

ATTACHMENT

Attachment A – SJCE Programs Roadmap accepted by City Council on March 9, 2021