



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Lori Mitchell

**SUBJECT:** SEE BELOW

**DATE:** December 7, 2018

Approved

Date

12-7-18

**SUBJECT: AUTHORIZE THE DIRECTOR OF THE DEPARTMENT OF  
COMMUNITY ENERGY TO SELL EXCESS POWER PRODUCTS**

## RECOMMENDATION

Adopt a resolution authorizing the Director of Community Energy or her designee to sell excess power products in order to balance San José Clean Energy's portfolio of power resources.

## OUTCOME

Authorizing the Director of Community Energy to sell excess power products will enable San José Clean Energy (SJCE) to optimize its procurement by selling excess resources resulting from program changes (such as the change in the phase-in schedule), regulatory changes, load fluctuations and other routine factors that may result in SJCE having excess supply.

## 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 May 1, 2018, the City Council approved the Risk Management Policy for the supply contracts entered into by the City. The Risk Management Policy provides that SJCE's overall transacting objective is to meet the load requirements of its customers with an optimized resource supply portfolio.<sup>1</sup> In the course of undertaking transactions, SJCE may not engage in

<sup>1</sup> Risk Management Policies at 1.3.

activities that expose its customers to speculative transactional risks, and may only utilize approved transaction parameters as determined by the Risk Oversight Committee and outlined in the Energy Risk Management Regulations.<sup>2</sup> City Council has adopted additional resolutions providing for launching Phase I of the SJCE program in September of 2018, and launching a reduced Phase II in February of 2019, including resolutions authorizing procurement of necessary power products.

### **ANALYSIS**

Staff recommends authorizing the Director of Community Energy to sell excess power products to enable SJCE to optimize its procurement by selling excess resources, subject to the requirements of the Risk Management Policy and Energy Risk Management Regulations. SJCE staff seeks to procure only sufficient power supplies to meet the needs of SJCE's customers. Nonetheless, there will be times when procured supplies will exceed the resources ultimately needed to meet program needs.

Excess supplies may result from program changes such as the recent determination to postpone the phase-in of SJCE service to certain customer classes. Other factors that can result in excess supplies include regulatory changes, routine fluctuations in load due to changes in weather and economic forecasts, and changes in opt-out rates. SJCE has procured some excess Resource Adequacy supplies in preparation for launching SJCE service to all of San Jose's customer and businesses, and now has postponed enrollment for certain customers in response to regulatory changes. SJCE can sell some of this excess to mitigate the cost of procuring excess supply.

Modest sales to balance program resources to meet program needs is a routine activity necessary to optimize the SJCE resource portfolio. The Risk Management Policy and Energy Risk Management Regulations make references to such sales, while prohibiting speculative trading activities. Authorizing the Director of Community Energy to undertake such sales is necessary to ensure prudent and cost-effective procurement for SJCE.

### **EVALUATION AND FOLLOW-UP**

Community Energy Department is to submit quarterly reports to the City Council summarizing the number of Short Term Transactions and the total cost of those transactions during the previous quarter.

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<sup>2</sup> Risk Management Policies at 2.5.

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**PUBLIC OUTREACH**

This memorandum will be posted on the City's website for the December 18, 2018 City Council meeting.

**COORDINATION**

This memorandum has been coordinated with the City Attorney's 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 Climate Smart plan, and the Envision San Jose 2040 General Plan (Goal MS-2 and Appendix 8: GHG Reduction Strategy).

**COST SUMMARY/IMPLICATIONS**

Authorizing the Director of Community Energy to sell excess power products will allow SJCE to optimize its power supply portfolio and could save SJCE \$2-5 million in FY 2017-2018 by authorizing SJCE to sell excess RA supplies. It could also save the Department several million annually by allowing SJCE to optimize its portfolio and sell any excess supplies that result from routine fluctuation in load.

**CEQA**

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/

LORI MITCHELL

Director, Community Energy Department

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