



COUNCIL AGENDA: 3/19/19
FILE: 19-084
ITEM: 7.2

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Lori Mitchell

**SUBJECT: POWER SUPPLY PROCUREMENT
FOR 2020, 2021, AND 2022**

DATE: March 6, 2019

Approved

D. D. S. L.

Date

3/7/19

RECOMMENDATION

Adopt a resolution authorizing the Director of Community Energy or her designee to negotiate and execute power supply contracts, with modifications, as appropriate, in consultation with the City Attorney, for Calendar Years 2020, 2021 and 2022 for Energy, Renewable Energy, Renewable Energy Credits ("RECs"), Resource Adequacy ("RA"), and Low Carbon power and attributes¹ using the Edison Electric Institute ("EEI") Agreement or the Western Systems Power Pool ("WSPP") Agreement in an amount not to exceed \$380,000,000 in aggregate from January 2020 through December 2022, subject to the Energy Risk Management Policy and the appropriation of funds. Funding for costs in fiscal years 2019-2020, 2020-2021, 2021-2022 and 2022-2023 is subject to the appropriation of funds in 2019-2020, 2020-2021, 2021-2022, and 2022-2023.

OUTCOME

Approving the recommended procurement authority will enable San José Clean Energy ("SJCE") to execute power contracts for future years. This will create a more diverse portfolio of resources with short (up to one year) and medium-term (through 2022) contracts and reduce SJCE's exposure to short-term market volatility to reduce its power supply costs. Adding medium-term contracts to SJCE's portfolio of power contracts is consistent with the Energy Risk Management Policy Adopted by City Council on May 1, 2018.

¹ Power that is generated without producing significant GHG emissions.

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BACKGROUND

On February 27, 2018, the City Council approved the Professional Services Agreement for Data Management and Customer Call Center Services with Calpine Energy Solutions, LLC (“Calpine”) for SJCE for a period of two years from the date of execution. On March 27, 2018, the City Council approved the Scheduling Coordinator, Portfolio Management, and Optimization Service Agreement with Northern California Power Authority.

On May 1, 2018, the City Council approved the Risk Management Policy and Energy Risk Management Policy and associated Energy Risk Management Regulations. The Energy Risk Management Policy created a Risk Oversight Committee (“ROC”) responsible for overseeing compliance with the policy and with authority to amend the regulations. The ROC has seven voting members including the City’s City Manager, the Director of Finance, the City’s Risk Manager, the Budget Director, the Director of Community Energy, the Community Energy Department’s Deputy Director of Power Resources and the Community Energy Department’s Division Manager for Administration and Finance. The Energy Risk Management Policy and associated Energy Risk Management Regulations set forth a risk control structure and procurement requirements that apply to SJCE procurement activities.

On June 12, 2018, the City Council adopted a resolution authorizing the Director of Community Energy to negotiate and execute energy supply contracts for Phase I using the WSPP Agreement in an amount not to exceed \$3.0 million in aggregate, approved initial electric generation rates for Phase I, and approved 2017-2018 budget adjustments to fund these energy supply contracts in the San José Clean Energy Fund. During the June 12, 2018 update to the City Council, staff noted that the next steps to successfully launch Phase II included the approval of energy supply contracts for Phase II (residential and commercial accounts).

On August 14, 2018, City Council authorized the Director of Community Energy or her designee to enter into Resource Adequacy (RA) contracts for November 2018 through December of 2019, using the WSPP and EEI agreements in an amount not to exceed \$35.0 million, subject to approval of the ROC for contracts over \$1.0 million. RA is a product that, by law, utilities, and Community Choice Aggregation (“CCA”) operators must build or purchase to ensure there are sufficient generators of electricity operating and available at all times to maintain the reliability of the electric system.

On September 18, 2018, City Council authorized the Director of Community Energy or her designee to negotiate and execute contracts for calendar year 2019 for Renewable Energy and Renewable Energy Credits (RECs), to meet San José Clean Energy’s minimum compliance obligations pursuant to the California Renewable Portfolio Standard (“RPS”) using the EEI Agreement or the WSPP Agreement in an amount not to exceed \$32.0 million in aggregate.

On September 25, 2018, Council approved a Revolving Credit Facility in the amount of \$50 million with Barclays Bank that provides both a line of credit and letters of credit that can be issued as collateral to electricity suppliers.

On November 6, 2018, City Council adopted a resolution authorizing the Director of Community Energy to negotiate and execute energy supply contracts for Phase II for Calendar Year 2019 using the WSPP Agreement or the EEI Agreement with a total not to exceed amount for 2019 of \$226 million; approved rates and a power mix for SJCE's 2019 GreenSource and TrueGreen products; approved adjustments to Phase II; and adopted 2018-2019 Appropriation Ordinance and Funding Sources Resolution amendments in the San José Clean Energy Fund.

ANALYSIS

Staff recommends proceeding with power procurement for 2020 through 2022, provided that the total expenditures for January 2020 through December 2022 do not exceed \$380 million. Staff seeks authority to procure up to 90% of its 2020 power needs for a total expenditure of \$222 million, 50% of its 2021 power needs for a total expenditure of \$128 million, and needed Resource Adequacy, renewable and low carbon products for 2022 for a total expenditure of \$30 million. This is consistent with the Energy Risk Management Regulations which recommend that SJCE procure 60-90% of its projected power needs twelve months or more ahead of its projected need depending on market price volatility and other pricing risks. Allowing SJCE to procure power products through the end of 2022 will allow SJCE to take advantage of favorable forward prices when they are available and secure better and more predictable pricing in future years.

Procuring energy supply products for 2020 through 2022 will allow staff to enter into medium-term contracts that extend beyond one year. Prudent procurement of power products requires a reasonable mix of short-, medium- and long-term contracts. It is good utility practice to build a diversified portfolio that includes contracts with different durations to reduce operational costs and hedge against price fluctuation. For instance, forward energy prices for 2019 have been volatile and have increased and decreased by more than 10% during the period of October 2018 through the present. This volatility makes SJCE vulnerable to unforeseen price increases until it fixes its prices through forward contracts. In short, medium-term contracts help provide for stable rates for SJCE's customers, limit exposure to market changes, and create a more diverse energy portfolio consistent with the goals of the Energy Risk Management Policy adopted by City Council on May 1, 2018.

On February 21, 2019, the California Public Utilities Commission issued an order requiring SJCE and other load serving entities to procure local Resource Adequacy for a three year forward duration. Pursuant to this decision, by October 31, 2019, SJCE will be required to have procured at least 100% of its local Resource Adequacy requirements for 2020 and 2021 and 50% of its local Resource Adequacy requirements for 2022.

SJCE intends to use the industry standard WSPP and EEI agreements to procure the power products for 2020 through 2022. The Director is also requesting authority to modify these agreements in consultation with the City Attorney to include standard City terms if the parties deem it necessary, appropriate, and beneficial for the City.

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Section 26.50.020 of the Municipal Code states that the City may enter into contracts to procure power products for a term up to twenty-five (25) years through a competitive bidding process, among other alternatives. The Energy Risk Management Policy and associated Energy Risk Management Regulations establish a competitive bidding process and other requirements for the procurement of power products. SJCE procurement must be undertaken in accordance with the Energy Risk Management Policy and associated Energy Risk Management Regulations, and subject to the oversight of the ROC.

To further diversify SJCE's portfolio and lower the cost of renewable energy supplies, staff plans to seek Council consideration to enter long-term ten (10) to twenty-five (25) year contracts for new renewable projects in the summer of 2019. If approved, these new resources will need time to be constructed and could become part of SJCE's power portfolio in 2021. Therefore, we are only recommending council approve authority for 50% of SJCE's needs in 2021 and limited Resource Adequacy, renewable and low carbon products for 2022. Staff will continue to follow utility best practices to procure power including analyzing forward market price indices to negotiate contracts and will comply with the Risk Management Policies and Regulations.

EVALUATION AND FOLLOW-UP

Staff will continue to provide quarterly summaries of executed short-term power supply contracts.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the March 19, 2019 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.

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 following tables summarize the projected power supply costs through calendar year 2022. Funding for costs in fiscal years 2019-2020, 2020-2021, 2021-2022, and 2022-2023 is subject to the appropriation of funds in 2019-2020, 2020-2021, 2021-2022, and 2022-2023. The payments associated with these agreements will be made after the energy is delivered.

| Projected Power Supply Costs - through Calendar Year 2022 | | | |
|--|----------------------|----------------------|---------------------|
| | 2020 | 2021 | 2022 |
| *Projected Power Supply Costs | \$245,000,000 | \$255,000,000 | \$240,000,000 |
| Approved Procurement Authorization | | | |
| Recommended Procurement Authorization | \$222,000,000 | \$128,000,000 | \$30,000,000 |

**Based on current market price forecast*

| Projected Power Supply Costs by Fiscal Year | |
|--|---------------|
| 2018-2019 | \$82,000,000 |
| 2019-2020 | \$240,000,000 |
| 2020-2021 | \$247,000,000 |
| 2021-2022 | \$247,000,000 |
| First 6 months of 2022-2023 | \$138,000,000 |

Sufficient funding has been allocated to cover the projected power supply costs of \$82 million for 2018-2019. No budget adjustment actions are recommended at this time. Funding of \$240 million for 2019-2020, \$247 million for 2020-2021, \$247 million for 2021-2022, and \$138 million for the first six months of 2022-2023 are subject to the appropriation of funds in each of these years.

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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

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