

Memorandum

TO: TRANSPORTATION AND
ENVIRONMENT COMMITTEE

FROM: Lori Mitchell

SUBJECT: SAN JOSE CLEAN ENERGY UPDATE **DATE:** May 15, 2019

Approved

Date

5-24-19

RECOMMENDATION

Accept the report on the status of San José Clean Energy, including the enrollment of residential and commercial customers, opt-out rates, 100% renewable product enrollment, and the financial status.

OUTCOME

Provide an update on the launch and initial operation of San José Clean Energy ("SJCE").

BACKGROUND

The following are key highlights related to the startup of operations for San José Clean Energy:

- On August 29, 2017, 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 May 1, 2018, the City Council approved the 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 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 September 25, 2018, the City 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, the City Council adopted a resolution authorizing SJCE to delay enrollment of certain customer classes, including small commercial accounts and 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; and approved rates and a power mix for SJCE’s 2019 GreenSource and TrueGreen products.
- On March 19th, 2019, the City Council adopted 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 attributes 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.
- On April 16, 2019, the City Council adopted a resolution authorizing SJCE to enroll small commercial customers in June 2019.
- On April 30, 2019, the City Council approved expanding the Revolving Credit Facility from \$50 million to \$80 million with Barclays Bank that provides both a line of credit and letters of credit that can be issued as collateral to electricity suppliers.

ANALYSIS

Below is a summary of SJCE’s activities and status in several key areas including:

1. Outreach
2. Program Participation
3. Energy Delivered

4. Financial Summary
5. Power Supply
6. Community Energy Programs Planning.

1) Outreach

In addition to the legally required four direct mail notices to each customer, staff has conducted an extensive outreach effort consisting of in-person meetings, social media, advertising (including online, newspaper, and billboards). Some statistics of these efforts are detailed below:

- 87 events (through 5.9.19), resulting in 4,500 attendees/participants/interactions
- 10 billboards (including Spanish language and Vietnamese language) resulting in 3,640,856 impressions
- Nextdoor:
 - 11 explanatory posts on topics like understanding bills, governance, rates, solar net energy metering program
 - 2,230,151 impressions
 - 104 questions answered
 - 14 staff and community volunteers on our “Nextdoor Supporters” team responding to misinformation in their neighborhoods
- Social media (Facebook, Twitter, and Instagram):
 - Started 3 platforms from scratch 6 months ago
 - 817 followers
 - 432 posts
 - 310,000 impressions
 - 7,500 engagements
- New brand, logo, and website: sanjosecleanenergy.org

2) Program Participation

Staff is proud that the efforts described above have resulted in a very high participation rate in SJCE. SJCE has had a low 1.3% opt out rate (3,957 customers as of 5.9.19). Staff believes that this is the lowest percentage of opt-outs at this stage of operation of a Community Choice Energy program. Most CCAs see spikes in opt-outs associated with mailing the enrollment notices and again when the first bills arrive. After the first few bills are sent out, typically opt-outs substantially decrease. SJCE is starting to see this trend as is detailed in the figure below.

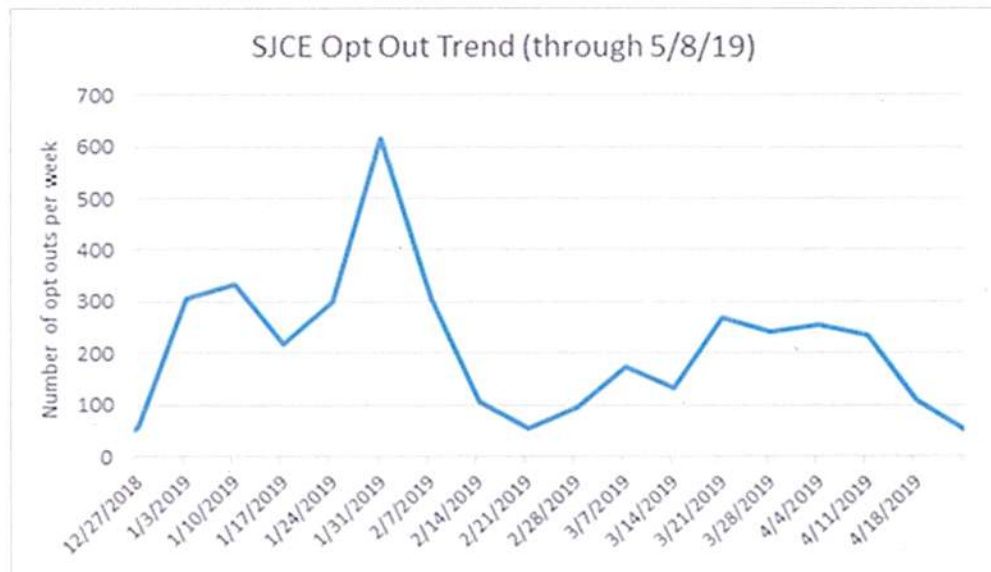


Figure 1. Opt-out weekly trend

Some customers have also chosen to upgrade to SJCE's 100% renewable electricity generation product called TotalGreen. A total of 850 customers as of 5.9.19 have enrolled in TotalGreen. Staff plans a marketing campaign focused on TotalGreen in early FY19-20. Figures 2 and 3 show the geographical distribution of the customer opt-outs and enrollments in the 100% renewable product, TotalGreen. SJCE has found that both opt-outs and enrollments in TotalGreen seem to be clustered in the same geographic locations which may mean that customers are more engaged in energy issues in these areas.

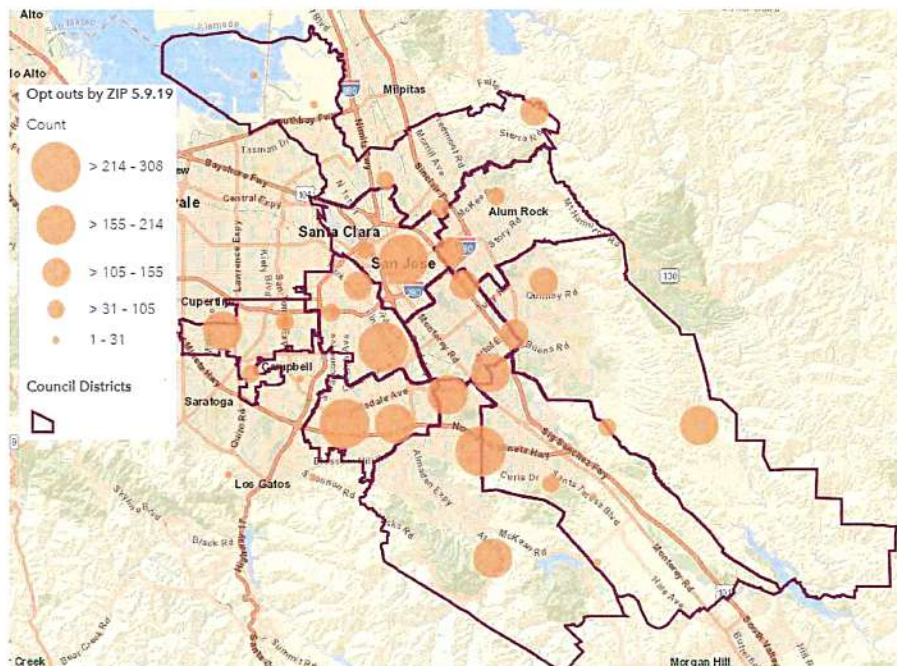


Figure 2. Opt-outs to PG&E

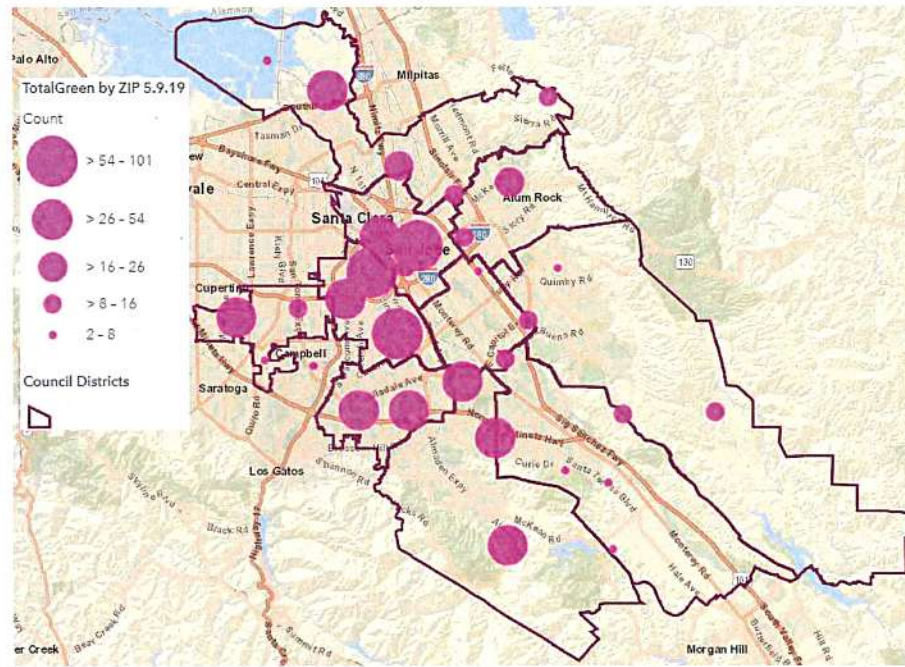


Figure 3. Enrollment in TotalGreen

3) Energy Delivered

Based on initial metering results, since the beginning of service in September 2018, the customer load served has been approximately 10% higher than projected (Table 1 below). This increase could be due to weather impacts, load growth, or inaccurate metering results that may be corrected when meter data is validated. Another factor is the timing of when accounts were enrolled in both September and February. It appears that more accounts were served earlier in the month than was anticipated. Staff continues to monitor the situation closely and may modify the forecast. On April 16, Council increased the appropriation for power supply costs so that SJCE will be able to procure sufficient energy through FY 18-19 to serve customer demand.

Table 1. Actual energy deliveries (load served) compared to estimated energy deliveries

Month	Actual Load Served (kWh)	Load Estimate (kWh)	% Load Served to Load Estimate
Sep 18	7,296,646	5,330,080	136.90%
Oct 18	10,836,762	11,451,575	94.63%
Nov 18	10,200,454	10,193,231	100.07%
Dec 18	10,053,295	10,547,488	95.31%
Jan 19	11,095,207	11,145,385	99.55%
Feb 19	141,114,912	113,968,735	123.82%
Mar 19	281,026,840	251,005,184	111.96%
Apr 19	279,926,516	262,812,620	106.51%
	751,550,631	676,454,298	111.10%

4) Financial Summary

Table 2 shows actual revenue and expenditures for July 2018- March 2019 as well as projected estimates for the end of FY 18-19. The SJCE implementation plan¹ projected SJCE to end FY18-19 with a deficit of \$12.8 million dollars due to the startup costs in FY18-19 and FY17-18. SJCE currently projects that FY18-19 will end with a \$6.3 million deficit. Attachment 1 shows the statement of revenues, expenses, and changes in fund net assets for the period July 1, 2018 - March 31, 2019.

Table 2. Actual and estimated revenue and expenditures

Category	Actual July 2018- March 2019	Estimated end of FY 18-19
Revenues and reimbursements	\$6,686,866	\$97,722,105
Other Operating Expenses	\$4,196,402	\$11,781,649
Power Supply	\$10,232,835	\$92,210,000
Net Revenue (loss)*	(\$7,742,371)	(\$6,269,544)

*Proceeds of \$10M from commercial paper financing have been used to fund this operating loss.

In FY19-20, SJCE expects to start to build an operating reserve. The Barclays credit agreement requires that SJCE maintain \$20 million in an operating reserve by December 31, 2019. It is important to note that SJCE has not yet needed to draw on the line of credit to manage cash-flow. SJCE has only used the credit facility to post letters of credit as collateral to energy suppliers. Over time, SJCE will need to pay back the \$10 million in commercial paper that funded initial startup operations and build an operating reserve that has 120 days of operating expenses which is approximately \$120 million. SJCE expects to do this over the next five years. It is important that SJCE build a healthy operating reserve to ensure stable operations and eventually obtain a credit rating which will lower SJCE's operating costs and offer more stability to energy suppliers.

5) Power Supply

For phase 1, SJCE procured 100% GHG-free and 40% renewable power. For phase 2, SJCE is procuring 80% GHG-free and 45% renewable power. SJCE intends to steadily increase

¹ SJCE 's adopted implementation plan that was approved August 29, 2017
[https://sanjose.granicus.com/MetaViewer.php?view_id=&event_id=2699&meta_id=650894]

the GHG-free and renewable power content of its supply consistent with State Law, and San José's aggressive clean energy goals set forth in Climate Smart San José.

SJCE entered into more than 100 contracts for power products for 2019. The power products include renewable energy, GHG-free energy, resource adequacy, and energy contracts. By procuring power in small increments with numerous suppliers, SJCE seeks to avoid undue concentration of business with one supplier, and to take advantage of favorable prices as they become available over time.

SJCE has procured the bulk of its power supply needs for 2019. In early June, SJCE will recommend several authorizations to start building a power supply portfolio that includes a mix of short, medium, and long term contracts for a variety of different products that SJCE must procure. It is good utility practice to build a diversified portfolio composed of contracts with different durations to reduce operational costs and hedge against price fluctuations. Over time, SJCE will periodically come back to City Council to request additional authority while leaving some of the power supply position open for the medium and long-term to prudently manage SJCE's risk.

6) Community Energy Programs Planning

SJCE's first priority in the next several years of operation is to build operating reserves, pay off debt, and demonstrate the ability to generate operating surpluses. In parallel, SJCE is planning for innovative community programs and developing a roadmap for their development and implementation when SJCE is financially stable. The first recommended step in the process is to establish a set of program guiding principles to pre-screen program ideas and ensure that they align with SJCE's operations, the City's ClimateSmart Plan, and the City's values and strategy. The current draft of these guiding principles include the following:

- maximizing greenhouse gas reduction opportunities
- aligning with Climate Smart San José
- promoting equity, affordability, and supporting disadvantaged communities
- producing customer and community benefits
- maintaining or improving the financial status of SJCE

The following sectors are expected to be the primary source of program development: vehicle electrification, building electrification, distributed energy resources, and rate design (including income-based discounted rates).

In 2020, SJCE will bring to Council recommendations for guiding principles and small scale pilot projects. Small scale pilots will allow SJCE to gain experience in key program areas, engage with the community, and set the stage for future programs. The recommendation will also include a focus on promoting existing federal, state, and regional programs that could benefit our customers and community.

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PUBLIC OUTREACH

This memorandum will be posted on the City's website for the June 3, 2019 T&E agenda.

COORDINATION

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

COMMISSION RECOMMENDATION/INPUT

The Clean Energy Community Advisory Commission ("Commission") voted on May 2, 2019 to include the following language regarding their recommendation on a preliminary energy programs roadmap:

"The Commission supports the San José Clean Energy (SJCE) draft program guiding principles, which include promoting equity and supporting disadvantaged communities, maximizing greenhouse gas reduction opportunities, aligning with Climate Smart San José, and producing customer and community benefits. In addition, the Commission supports promoting energy programs such as vehicle and building electrification, distributed energy resources, and rates. These programs will result in reduced greenhouse gas emissions. Furthermore, the Commission believes that community solar, which is included in the Climate Smart Plan, is a good energy program to include in the roadmap, especially if it is combined with storage. Finally, the Commission will continue to follow the progress of the energy programs roadmap."

/s/

LORI MITCHELL

Director, Community Energy

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

Attachment 1. Statement of Revenues, Expenses, and Changes in Fund Net Assets