



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Lori Mitchell

SUBJECT: SEE BELOW

DATE: December 4, 2019

Approved

Date

12/5/19

REPLACEMENT

SUBJECT: 2020 POWER MIX, OPT-OUT FEE WAIVER, AND NET ENERGY METERING ENROLLMENT

REASON FOR REPLACEMENT

The reason for this replacement memorandum is to correct the renewable energy product term "TrueGreen" to "TotalGreen," when referring to San Jose Clean Energy's 100% renewable electricity service offering.

RECOMMENDATION

Adopt a resolution:

- A. Establishing a power mix of at least 86% greenhouse gas-free energy with at least 45% renewable energy for San José Clean Energy's GreenSource base product beginning January 1, 2020; provided that, notwithstanding the power mix, San José Clean Energy's GreenSource product will continue to be at one percent (1%) below Pacific Gas and Electric Company's generation rates after accounting for the franchise fee surcharge and the Power Charge Indifference Adjustment across all rate classes for 2020, and the 100% renewable energy TotalGreen product will continue to be 0.5-1 cent per kWh higher than GreenSource.
- B. Waiving opt-out fees of San José Clean Energy service for all customers.
- C. Approve the final phase of customer enrollments by San José Clean Energy to enroll residential and small commercial Net Energy Metering customers in four quarterly batches beginning in April 2020 and finishing in January 2021.

OUTCOME

Approving the power content of GreenSource will enable San José Clean Energy's ("SJCE") to continue to successfully compete with PG&E with a "cheaper, cleaner" product offering, comply with the Municipal Code mandate requiring a power mix consistent with the Renewables Portfolio Standard ("RPS"), and maintain the low opt-out rate that SJCE has experienced to date. As directed by City Council, SJCE will continue to set rates for the GreenSource product to be one percent below Pacific Gas and Electric Company's ("PG&E") generation rates, after accounting for the franchise fee surcharge and the Power Charge Indifference Adjustment ("PCIA") across all rate classes for 2020 and for the 100% renewable energy TotalGreen product to be 0.5-1 cent per kWh higher than GreenSource.

Waiving opt-out fees (currently \$5 per residential meter and \$25 per non-residential meter) will reduce dissatisfaction of customers who may perceive that they were unknowingly or unfairly enrolled in SJCE service and want to opt-out of SJCE service. While SJCE's revenue decrease depends on how many customers choose to opt-out per year, SJCE net revenues are not expected to be reduced by more than \$25,000 per year.

Completing SJCE's residential Net Energy Metering ("NEM") enrollment will result in approximately 21,530 additional San José residents and small businesses being offered enrollment in SJCE. In addition to lower electric generation rates, solar customers that are annual net exporters of electricity will receive more value for the excess generation because of SJCE's higher Net Surplus Compensation ("NSC") rate. Once completed in January 2021, SJCE will have offered service to all Community Choice Aggregation ("CCA")-eligible electricity customers in San José.

BACKGROUND

On August 8, 2017, City Council approved an ordinance establishing a CCA program to be named San José Clean Energy and amending Title 2 of the San José Municipal Code to create the Community Energy Department of the City of San José.

On August 29, 2017, City Council approved a resolution adopting SJCE's Implementation Plan and Statement of Intent and directed staff to submit this document to the California Public Utilities Commission ("CPUC"). On September 18, 2017, the Implementation Plan was submitted to the CPUC. The CPUC certified the plan on December 18, 2017.

On November 7, 2017, City Council approved an ordinance to add Title 26 to the San José Municipal Code that provides procedures for the operation and management of SJCE. Under Title 26, SJCE may provide any rate designs or programs as approved by the City Council.

On January 30, 2018, City Council approved revisions to the launch schedule, reducing the number of customer enrollments from three to two. Phase I enrollment (City accounts) began on September 1, 2018 and Phase II (residential & commercial accounts) began on February 1, 2019.

On November 6, 2018, the City Council approved delaying the enrollment of Phase II small commercial and residential NEM customers. City Council also approved SJCE to set rates for the GreenSource product to be one percent below PG&E generation rates, after accounting for the franchise fees and the Power Charge Indifference Adjustment across all rate classes for 2019.

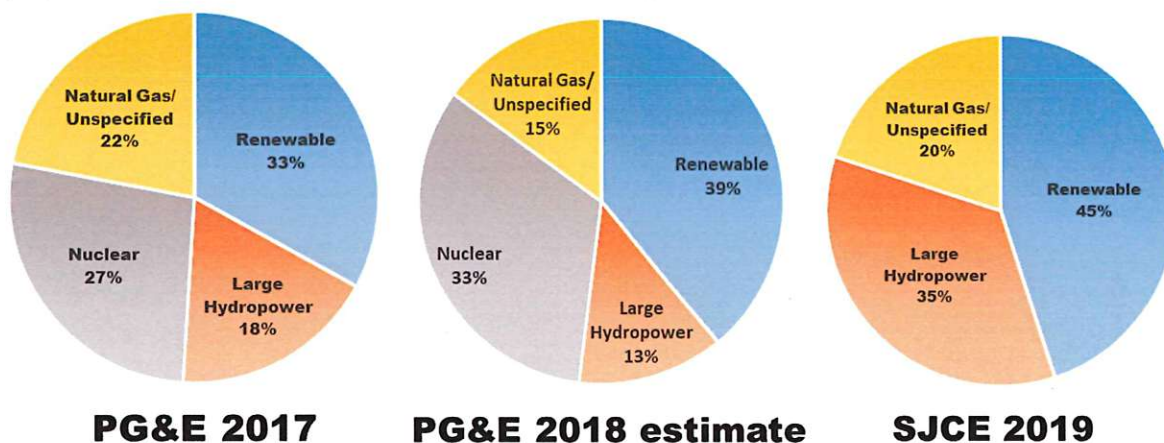
On April 16, 2019, the City Council approved enrolling small commercial customers in June 2019.

ANALYSIS

Establishment of GreenSource Power Content

The GreenSource product that is being provided to SJCE customers in 2019 has a planned minimum renewable content of 45% and total carbon-free content (renewable plus large hydropower) of 80%. SJCE's 2019 GreenSource offers 12% more renewable and 2% more total carbon-free compared with PG&E (2017).¹ PG&E's most recent Power Content Label filing with the California Energy Commission (CEC) was in 2017, as shown in Figure 1 below.

Figure 1 Comparison of energy content of PG&E and SJCE GreenSource



In 2018, PG&E is expected to increase their renewable content to 39% (from 33%) and carbon free to 85% (from 78%) in their regulatory filing to the CEC. Increasing SJCE's GreenSource to 86% carbon-free beginning January 1, 2020 allows SJCE to exceed PG&E's carbon-free and

¹ https://ww2.energy.ca.gov/pcl/labels/2017_labels/PG_and_E_2017_PCL.pdf

renewable content and to continue to market our standard service as “cheaper and cleaner” than PG&E, which is very important to maintain the high participation rate in the program.

Waiver of Customer Opt-Out Fees

SJCE, like all CCA programs in California, enrolls customers on an “opt-out” basis, whereby after notification each eligible customer is enrolled in SJCE generation service by default, and the customer becomes an SJCE customer unless they affirmatively opt-out of SJCE service. SJCE’s current terms and conditions state that there is no opt-out fee for the first 180 days after a customer begins SJCE service, but after that time the opt-out fee is \$5 per residential meter and \$25 per non-residential meter. Staff believes that the opt-out fees are an irritant to customers who would like to opt-out. Further, PG&E rules stipulate that customers who opt-out of SJCE service are not eligible to restart SJCE for at least one year. The intended function of the opt-out fees (i.e. to reduce incentive and administrative burden of customers opting in and out of SJCE service) is already being achieved by the PG&E rules.

Enrollment of NEM Customers

NEM is an electric utility program that addresses compensation for energy exported to the grid by customer-sited generation resources, most commonly rooftop solar. When customer-sited generators produce more energy than they utilize at any given moment, the electricity will flow back onto the grid. The customer will receive a “credit” for the exported power. These credits can then be applied towards future charges. Residential and small commercial NEM customers receive a monthly NEM statement, instead of an electric bill. Every year, these customers receive an annual “true-up” bill, and NEM credits and charges accumulated over the year are totaled. If a customer has net charges, customers are billed what is owed, and if a customer has net credits, they are reset to zero. The annual “true-up” billing system is identical to that offered through PG&E. SJCE already serves more than 2,200 NEM customers: large commercial and industrial NEM customers were enrolled as part of the Phase II enrollment in February 2019, and approximately 2,000 residential SJCE customers have installed solar systems and become NEM customers since enrolling in SJCE earlier this year.

Separate from the NEM credits, customers that export more electricity than they consume over the course of a year will receive compensation for the net surplus generation. The value of net surplus generation is set by the NSC value. PG&E’s NSC value for net surplus generation is calculated as the “rolling average of PG&E’s default load aggregation point price from 7 a.m. to 5 p.m., corresponding to the customer’s 12-month true-up period²,” or in other words, the wholesale cost of power. SJCE’s NEM program matches PG&E’s NSC value and adds a 25% premium, calculated as $(\text{PG\&E NSC} \times 1.25)^3$. The current NSC value being offered through SJCE’s program is \$0.03552/ kWh. In 2020 and each following year, SJCE will set its NSC value against the average of PG&E’s monthly NSC value for the previous calendar year.

² AB 920. http://docs.cpuc.ca.gov/PUBLISHED/FINAL_DECISION/137431-03.htm#P159_22774

³ https://www.pge.com/includes/docs/pdfs/shared/solar/AB920_RateTable.pdf

NEM customers' true-up date is set at the time their system is turned on and connected to the grid, therefore customers have different true-up dates throughout the year. To minimize disruption to customers' NEM schedule, SJCE will enroll residential NEM customers in quarterly phases throughout 2020-21, aligning their enrollment date as closely to their existing PG&E true-up date as possible. Almost all CCAs have enrolled their NEM customers in a similar manner with four to six enrollment batches throughout a twelve-month period. PG&E charges a fee of \$4,475 for each mass enrollment of customers.

Summary of SJCE's 2020 NEM Policy

Billing – Monthly NEM statement displaying YTD generation credits/ charges. Annual “True-Up” bill in May. Customers with net charges will be billed. Customers with net credits will be reset to zero. SJCE NEM statement for generation credits is separate from the PG&E NEM statement for distribution credits.

Enrollment – Quarterly enrollment of residential and small commercial customers throughout 2020-21, based on the existing PG&E True-Up date, as available through information supplied by PG&E. Customers will be included in the enrollment month that falls closest to their PG&E true-up date. The first enrollment will occur in April 2020 for customers with True-Up dates March – May. Subsequent enrollment months are scheduled for July 2020, October 2020, and January 2021. Customers will receive four total notifications of their transition to SJCE service via mail. The notices will arrive approximately two months prior to their enrollment date; approximately one month prior to enrollment; approximately one month after enrollment; and approximately two months after enrollment.

Rates – SJCE will continue to match all PG&E rate structures. Customers will remain on their existing rate under SJCE's NEM program. SJCE will continue to set rates for the GreenSource product to be one percent below PG&E's generation rates, after accounting for the franchise fee surcharge and the PCIA across all rate classes for 2020, and for the 100% renewable energy TotalGreen product to be 0.5-1 cent per kWh higher than GreenSource.

Export credit – Retail value based on customer's rate and selected service (GreenSource/ TotalGreen).

Net Surplus Compensation rate – 25% premium over PG&E's NSC rate, set annually. Customers that qualify for NSC can cash out surplus credits either by receiving a check or rolling over this cash value to be applied to future SJCE electric generation charges. By default, customers will receive a check for annual surplus credits.

CONCLUSION

SJCE sets the power content of its GreenSource product every year, and the recommendation for the power content for 2020 is an increase of 6% in its carbon-free content. The reduced carbon

emissions from SJCE-provided energy should allow SJCE to continue to market its offering as “cheaper and cleaner,” as GreenSource will continue to be priced at a 1% discount to PG&E. Waiving opt-out fees for SJCE customers should alleviate frustration of any customers who were enrolled unknowingly or for whom SJCE service is not a good fit, for whatever reason. The enrollment of the final group of customers, residential and small commercial NEM customers, in SJCE service will achieve the goal of providing universal service to all customer accounts in the SJCE service territory of San Jose. Enrolling remaining customers NEM in four quarterly groups according to their existing NEM true-up date with PG&E should be minimally disruptive to them. Customers will also likely appreciate that SJCE offers a premium to PG&E for the excess energy that customers produce each year.

EVALUATION AND FOLLOW-UP

No further follow-up with the City Council related to the NEM enrollment and change in power mix is anticipated at this time. Staff will return to Council in early 2021 to revisit the policy on opt-out fees.

CLIMATE SMART SAN JOSE

The recommendation in this memo aligns with one or more Climate Smart San José energy, water, or mobility goals.

POLICY ALTERNATIVES

Establishment of GreenSource Power Content

Alternative 1: Maintain same power content as 2019 (45% renewable, 35% hydropower; 80% carbon-free)

Pros: This would reduce 2020 energy procurement costs by approximately \$1.6 million.

Cons: Offering a product with higher carbon content than PG&E could risk more customers opting out of SJCE service, leading to lower SJCE revenues. It would also result in approximately 25,145 additional tons of CO₂ produced to serve SJCE customers in 2020.

Reason for not recommending: Staff believes that the incremental energy procurement costs are outweighed by the expected benefits of maintaining high customer participation in SJCE and the reduced CO₂ emissions.

Alternative 2: Make GreenSource 100% carbon free (45% renewable, 55% hydropower; 100% carbon-free)

Pros: This alternative would reduce 2020 CO₂ production from SJCE service, relative to the Recommendation, by 58,670 tons.

Cons: Energy procurement costs would be approximately \$3.7 million higher under this alternative. Also, the additional hydropower resources may be unavailable, given the increasing interest in carbon-free power and its dependence on the annual rainfall.

Reason for not recommending: Given that SJCE is still in its first full year of service to the public, staff believes that it is prudent to defer the move to 100% carbon-free and continue to build its operating reserve. Staff will continue to evaluate and plan for moving GreenSource to 100% carbon-free in the near future.

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the December 10, 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

During the November 12, 2019 meeting, the Clean Energy Community Advisory Commission ("CECAC") recommended SJCE to proceed with the 2020 energy mix of 45% renewable and 86% carbon-free as proposed by staff, though the CECAC urged staff to continue to increase the renewable and carbon-free content of the power mix.

COST SUMMARY/IMPLICATIONS

Customers who qualify for NSC must be compensated for their net annual electrical export back to the grid. The cost to SJCE for purchasing this exported power from net generating NEM customers is summarized below. The first true-up will take place in April 2021:

	Residential	Commercial	Total
Net generating customers to be enrolled	4,477	58	4,535
Net annual exported energy (kWh)	6,025,531	540,674	6,566,205
NSC rate (\$/kWh)	0.04404	0.04404	-
Estimated Cost*	\$265,349	\$23,811	\$289,160

*Illustrative based on PG&E's March 2019 NSC rate.

Enrolling customers per the staff recommendation will have the following financial impacts.

	Residential	Commercial	Total
NEM Customers to be enrolled	21,530	474	22,004
Annual Net Load (kWh)	59,222,665	40,104,837	99,327,502
Annual Revenues	\$5,248,905	\$5,454,930	\$10,703,835
Annual Net Revenues	\$1,116,347	\$2,656,414	\$3,772,762

Moving GHG-free content to 86% beginning January 1, 2020 will increase fiscal year 2019-2020 power supply costs by approximately \$800,000, while reducing net revenues by the same amount. These financial impacts can be accommodated within already budgeted SJCE appropriations.

Maintaining the 1% discount to PG&E's generation rates will allow SJCE to stay on plan to build operating reserves to the target of 180 days of cash by the end of fiscal year 2025-2026.

BUDGET REFERENCE

The table below identifies the fund and appropriations to fund the costs associated with the NEM Enrollment recommended in this memorandum. The estimated costs in 2020-2021 are subject to the appropriation of funds in 2020-2021.

Fund #	Appn #	Appn. Name	Total Appn	Amount For Program Costs	2019-2020 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
501	202V	Cost of Energy	\$293,290,000	\$800,000	X-79	10/22/2019 Ord. No. 30325
501	0782	Non-Personal/ Equipment	\$8,787,801	\$24,500	X-79	10/22/2019 Ord. No. 30286

HONORABLE MAYOR AND CITY COUNCIL

December 4, 2019

Subject: 2020 Power Mix, Opt-Out Fee Waiver, and Net Energy Metering Enrollment

Page 9

CEQA

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

/s/

LORI MITCHELL
Director, Community Energy

For questions please contact Zach Struyk, Deputy Director of Account Management and Marketing in Community Energy, at (408) 535-4868.