



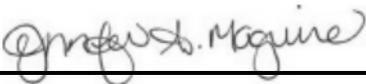
Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Lori Mitchell

SUBJECT: San Diego Community
Power Resource Adequacy
Trade

DATE: March 16, 2026

Approved	Date:
	3/17/2026

COUNCIL DISTRICT: Citywide

RECOMMENDATION

Adopt a resolution authorizing the Director of the Energy Department or their designee to negotiate and execute two agreements, one to purchase and one to sell resource adequacy, with any non-material modifications developed, as appropriate, in consultation with the City Attorney, and subject to the annual appropriation of funds:

- (a) Under the first agreement, the City of San José shall purchase resource adequacy from San Diego Community Power from a new solar plus battery storage facility for 10 years, beginning no later than January 1, 2029, with an annual not to exceed amount of \$4,320,000, and an aggregate not to exceed amount of \$43,200,000.
- (b) Under the second agreement, the City of San José shall sell resource adequacy to San Diego Community Power from a natural gas-fired combined cycle generating facility for 10 years, beginning no later than January 1, 2029, with an annual not to exceed amount of \$4,770,000, and an aggregate not to exceed amount of \$47,700,000.

SUMMARY AND OUTCOME

By executing these agreements, the City of San José (City) will purchase resource adequacy from San Diego Community Power (SDCP) to help San José Clean Energy (SJCE) comply with California Public Utilities Commission (CPUC) requirements. These CPUC orders require load serving entities to procure resource adequacy from new renewable resources or storage. Simultaneously, the City will sell resource adequacy from an existing natural-gas facility to SDCP to replace the capacity SDCP transfers to San José. This structure provides each agency with a cost-effective approach to comply

with CPUC requirements for new incremental renewable or storage resources while maintaining alignment with its portfolio objectives.

BACKGROUND

CPUC Resource Adequacy Slice-of-Day Requirements

On June 23, 2022, the CPUC released Decision 22-06-050 adopting a Resource Adequacy Reform Track Framework. In this decision, the CPUC adopted a new regulatory framework for resource adequacy, a program to ensure that there are sufficient power resources to reliably meet demand. The regulatory framework requires load serving entities to show they have contracted with sufficient resources to meet their demand every hour of the day, on the peak day of each month.

Under this framework, natural gas-fired generation is credited with the ability to meet the load 24 hours a day. In contrast, solar plus storage facilities are limited to credit during solar hours and/or for the discharge capabilities of the storage, depending on the interconnection arrangement of the facility.

CPUC Procurement Mandate and SJCE Integrated Resource Planning

On June 6, 2021, the CPUC issued Decision 21-06-035 Requiring Procurement to Address Mid-term Reliability (2023-2026) in the Integrated Resource Planning proceeding, due in part to the expected phased retirement of the Diablo Canyon Power Plant in 2024 and 2025.¹ That decision requires all load serving entities to procure their proportional share of 11,500 megawatts of Resource Adequacy from new, renewable or zero carbon emitting resources or energy storage. The resources procured must be from long-term agreements that come online over the period of calendar years 2023 through 2026. The CPUC assigned SJCE 247 megawatts of this procurement requirement. A subset of the 247 megawatts includes 21.5 megawatts that must be sourced from long-duration storage resources.

On February 2, 2023, the CPUC issued Decision 23-02-040 that extended the deadline for part of this requirement to 2028. That decision also added to the procurement requirements in Decision 21-06-035, that all load serving entities must procure their proportional share of 4,000 megawatts of resource adequacy. The CPUC assigned SJCE 80 megawatts of this additional procurement requirement. On February 20, 2024, the CPUC issued Decision 24-02-047, allowing an extension for long duration storage resources to come online no later than June 1, 2031.

¹ CPUC Decision 23-12-036 extended the continued operation of Diablo Canyon Power Plant beyond the originally planned closure. The incremental procurement requirement from Decision 21-06-035 was not modified.

On February 26, 2026, the CPUC issued Decision 26-02-057 Requiring 2029-2032 Electric Resource Procurement and Transmitting Portfolios for 2026-2027 Transmission Planning Process. This decision requires all load serving entities to procure their proportional share of 6,000 megawatts of new incremental resource adequacy. The resources procured must be pursuant to long-term agreements that come online over the period of calendar years 2030 through 2032. The CPUC assigned SJCE 129 megawatts of this procurement requirement and 32 of those megawatts must come from firm clean resources or long-duration storage.

Solicitation

SJCE has conducted annual competitive solicitations for new renewable and energy storage resources. Although SJCE originally contracted for sufficient resources to comply with CPUC Decision 21-06-035, two previously contracted projects will not proceed to construction. Due to the timing of SJCE's procurement cycle, project availability, affordability benefits, and CPUC filing deadlines, SJCE conducted bilateral outreach to address its remaining CPUC requirements. Pursuant to the exemption from the requirement of competitive solicitation dated October 21, 2024, and February 26, 2026, the agreements with SDCP were negotiated bilaterally. The pricing and terms of the SDCP agreements are competitive with offers submitted in SJCE's most recent solicitation and provide each agency with a least-cost means of meeting its respective CPUC compliance obligation.

Risk Oversight Committee Review

On March 25, 2026, the City Manager's Risk Oversight Committee recommended that the Energy Department submit to City Council for approval a resolution as described in the Recommendation section of this memorandum.

ANALYSIS

Benefits of the Agreement

The key benefits of these agreements are that they provide each agency with an affordable and timely way to comply with CPUC Decisions 21-06-035 and 23-02-040. The structure avoids overbuilding new storage resources while minimizing the need for additional natural gas resource adequacy.

Additionally, SJCE will realize modest net revenue because natural gas resource adequacy provides capacity across more hours than energy storage. Because natural gas resource adequacy receives credit across more hours than solar-plus-storage resource adequacy, the resource adequacy SJCE sells has greater hourly value than the resource adequacy it purchases. SDCP pays a premium reflecting this difference.

Moreover, SJCE has already procured sufficient resource adequacy to meet its needs through 2030. The reciprocal agreements, therefore, avoid excess resource adequacy in years 2027 through 2030.

San Diego Community Power

SDCP is the community choice aggregator serving the cities of San Diego, Chula Vista, Encinitas, Imperial Beach, La Mesa, and National City, and the unincorporated areas of San Diego County. SDCP is a financially strong counterparty with an A credit rating.

Agreement to buy resource adequacy from a solar plus battery storage facility

Project and Project Developer

SDCP has contracted with a subsidiary of SB Energy for the construction of the Pelican's Jaw solar plus storage project in Kern County. The resource adequacy SDCP will sell to the City is from this project. The project is under construction and is expected to be in service by June 1, 2027. SB Energy was founded in 2019 and is a SoftBank Group company. SB Energy has developed a 900-megawatt solar facility in Texas and has nearly 1,000-megawatts of new solar plus storage under construction in California, including Pelican's Jaw.

Project Terms

- Maximum annual cost to SJCE: up to \$4,320,000.
- Maximum total contract cost to SJCE: up to \$43,200,000.
- Delivery Term: 10 years.
- A failure to deliver resource adequacy results in no payment for the product and could result in penalties.
- Payment for the product after it is delivered.
- Buyer may terminate the agreement for certain performance failures.

See Attachment - Summary of Material Terms SDCP RA_MTR Trade for a summary of terms.

Workforce, Environment, and Community Engagement

The Department finalized the SJCE Power Workforce and Environmental Stewardship Project Selection Criteria in May of 2025.² The project:

- is being built using union labor via a project labor agreement;
- has a low likelihood of affecting sensitive habitats or species, and any impacts will be formally mitigated; and
- is in California and within the California Independent System Operator territory.

² <https://sanjose.legistar.com/View.ashx?M=F&ID=14145212&GUID=5C39D187-D67C-465B-A844-F1FF6ED29BD5>

Under SJCE's now adopted project selection criteria, the Pelican's Jaw project would score well in these important categories.

Agreement to sell resource adequacy from a natural gas-fired combustion turbine

The resource adequacy that the City will sell to SDCP will be from an existing agreement between the City and MRP Pacifica Marketing III LLC³ for resource adequacy from a natural gas-fired combustion turbine. The agreement allows the City to resell the resource adequacy to a third party. The City worked with SDCP to ensure that the terms of the underlying agreements are compatible with the proposed agreements and that the City will be able to meet its contractual obligations without undue risk.

Project Terms

- Maximum annual revenue to SJCE: up to \$4,770,000.
- Maximum total contract revenue to SJCE: up to \$47,700,000.
- Delivery Term: 10 years.
- A failure to deliver resource adequacy results in no payment for the product and could result in penalties.
- Payment for the product after it is delivered.
- Buyer may terminate the agreement for certain performance failures.

See *Attachment - Summary of Material Terms SDCP RA_MTR Trade* for a summary of terms.

Workforce, Environment, and Community Engagement

This is a pre-existing facility already online.

Climate Smart San José Analysis

Proceeding with the agreements will result in less natural gas-fired generation in SJCE's resource adequacy portfolio and more solar plus battery storage resources and promotes the City's ability to meet SJCE's regulatory obligations at a reasonable price.

EVALUATION AND FOLLOW-UP

No additional follow-up is expected at this time.

³ <https://sanjose.legistar.com/View.ashx?M=F&ID=13983533&GUID=D7FBD404-0CEB-46D8-A2D6-3B71A2629115>

FISCAL IMPACTS

Entering into these agreements will cost the City, as follows:

	Maximum Annual	Maximum Lifetime
SJCE Sells Resource Adequacy from Natural Gas	\$4,770,000	\$47,700,000
SJCE Purchases Resource Adequacy from Solar + Storage	\$4,320,000	\$43,200,000
Cost Delta	+\$450,000	+\$4,500,000

Funding for the agreements in the San José Clean Energy Operating Fund will be recommended as part of future budget processes beginning with the development of the 2027-2028 Proposed Operating Budget and will be subject to the appropriation of funds. The Department recommends SJCE customer rates to City Council on an annual basis, considering the Department’s costs, including power costs of all its agreements.

COORDINATION

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

PUBLIC OUTREACH

This memorandum will be posted on the City Council Agenda website for the April 7, 2026 City Council meeting.

BOARD, COMMISSION, COMMITTEE RECOMMENDATION AND INPUT

No board, commission, or committee recommendation or input is associated with this action.

CEQA

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

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PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/

Lori Mitchell
Director of Energy

For questions, please contact Paul Innamorato, Deputy Director of Power Resources, Energy Department, at Paul.Innamorato@sanjoseca.gov or 408-535-4891.

ATTACHMENT: Summary of Material Terms SDGP RA_MTR Trade

Attachment - Summary of Material Terms - SDCP RA_MTR Trade

	First Agreement	Second Agreement
Seller	San Diego Community Power	San Jose Clean Energy
Buyer	San Jose Clean Energy	San Diego Community Power
Technology	Solar + Storage	Natural Gas
Products	RA, MTR Generic attributes	RA, non-MTR
Annual Value	\$4,320,000	\$4,770,000
Total Value	\$43,200,000	\$47,700,000
COD	No later than 1/1/2029	
Term	10 Years	
Insurance	Consistent with the requirements approved by Risk Management.	
Events of Default and Termination Rights	In addition to industry standards, additional contractual provisions safeguard both parties in the event of under-delivery.	
Designated Fund and Appropriation of Funds	The agreement will include provisions that will limit the City's liability to the San José Clean Energy Operating Fund (Designated Fund). This fund is used solely for the City's costs and expenses associated with operating San José Clean Energy. The agreement will provide that payment obligations are special limited obligations of the City payable solely from the Designated Fund, and that those obligations shall not be a charge upon the revenues or General Fund of the City of San José or upon any non-San José Clean Energy moneys or other property of the Energy Department or the City of San José. The agreement will also not financially bind future governing bodies and will not constitute an obligation of future legislative bodies of the City to appropriate funds.	
Prevailing Wage	Each Seller is meeting the trade obligations of these agreements with upstream contracts for projects that must comply with applicable federal, state and local law, including labor laws.	