



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Lori Mitchell
Margaret McCahan

SUBJECT: SEE BELOW

DATE: June 6, 2018

Approved

D. DSYL

Date

6/6/18

**SUBJECT: PHASE I RATES AND ENERGY SUPPLY CONTRACTS FOR SAN JOSE
CLEAN ENERGY**

RECOMMENDATION

- (a) Adopt a resolution authorizing the Director of Community Energy to negotiate and execute energy supply contracts using the Western Systems Power Pool ("WSPP") Agreement in an amount not to exceed \$3,000,000 in aggregate and other related action;
- (b) Approve the initial electric generation rates for Phase I (City Accounts) as shown in Attachment 2; and
- (c) Adopt the following Fiscal Year 2017-2018 Appropriation Ordinance and Funding Sources Resolutions amendments in the San Jose Clean Energy Fund:
 - (1) Increase the estimate for Financing Proceeds in the amount of \$724,000;
 - (2) Decrease the Non-Personal/Equipment appropriation to the Community Energy Department in the amount of \$1,232,000;
 - (3) Decrease the Personal Services appropriation to the Community Energy Department in the amount of \$649,000;
 - (4) Decrease the Personal Services appropriation to the City Attorney's Office in the amount of \$344,000;
 - (5) Decrease Pacific Gas & Electric (PG&E) Security Deposit appropriation to the Community Energy Department in the amount of \$51,000; and
 - (6) Establish the Cost of Energy appropriation to the Community Energy Department in the amount of \$3,000,000.

OUTCOME

Approving the rates and the initial energy supply contracts will enable San José Clean Energy ("SJCE") to launch the program and provide the electric generation service to the Phase I City Accounts in September of 2018.

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 SJSE 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 January 30, 2018, the City Council approved September 1, 2018, as the date SJCE will launch electric generation service to Phase I customers, which includes City Accounts.

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 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, Optimization Service Agreement with Northern California Power Authority. On May 1, 2018, the City Council approved the Risk Management Policy. During the May 1, 2018 update to the City Council, staff noted that the next steps to successfully launch service in September included the approval of the initial electric generation rates and energy supply contracts for Phase I (City Accounts).

ANALYSIS

It is important that SJCE sets rates for Phase I customers and execute the initial energy supply contracts to support the launch in September of 2018. Staff recommends launching SJCE with a power supply mix that is 40% renewable and 100% carbon-free. The carbon-free power supply will be made up of electricity from large hydro-electric power plants. The 40% renewable power supply will be made up of wind, solar, geothermal, and small hydroelectric facilities. PG&E's current power mix is 33% renewable and almost 70% carbon-free.

Staff recommends executing short-term energy supply contracts using the WSPP form agreement and confirmations included in Attachment 1. ***The Director is also requesting authority to modify the attached agreements in consultation with the City Attorney whenever the parties deem it necessary, appropriate, and beneficial for the City for each transaction.***

The WSPP Agreement is the most commonly used standardized power sales contract in the electric industry. The agreement is approved by the Federal Energy Regulatory Commission ("FERC") and used by hundreds of market participants. Staff recommends delegating authority to the Director to execute these agreements in an amount not to exceed \$3.0 million dollars in aggregate. Table 1 shows the expected supply costs to serve Phase I in the first four months of operation, from September 2018 through December 2018. These costs include all power supply costs, including energy, resource adequacy, and environmental attributes. Staff will return to the City Council in the fall of 2018 with recommendations to approve and execute subsequent contracts to continue to serve in Phase I (City Accounts) and begin service for Phase II (residential and commercial accounts) scheduled for March 1, 2019.

Table 1. Projected Initial Power Supply Costs for Phase I

SJCE Power Supply Mix - 100% Carbon Free, 40% Renewable			
Year	Month	Total Power Supply Cost	Total Costs per MWh
2018	September	\$ 425,945	\$ 75.87
2018	October	\$ 736,190	\$ 61.04
2018	November	\$ 644,581	\$ 60.04
2018	December	\$ 717,818	\$ 64.61
Total 2018		\$ 2,524,534	\$ 63.88

Staff recommends setting rates 1% lower than PG&E's current generation rates. Attachment 2 details the recommended rates and provides a comparison to the current PG&E rates. Setting rates lower than PG&E will allow SJCE to remain competitive, yet still allows SJCE to cover all expenses and start to build a reserve and/or pay down debt in the first two years of operations. Table 2 shows a summary of SJCE's expected revenues and expenditures for 2018-2019 and 2019-2020.

Table 2. Summary of Expected Revenues and Expenditures

	2018-2019	2019-2020
Electric Sales Revenues, net	\$ 97,477,123	\$ 332,961,985
Cost of energy	\$ (70,361,174)	\$ (277,878,124)
Operating Expenses	\$ (14,740,196)	\$ (16,024,336)
Debt Service	\$ (797,584)	\$ (559,025)
Reserves contribution	\$ 11,578,169	\$ 38,500,500
Outstanding debt	\$ 30,905,440	\$ 30,905,440
Cumulative reserves	\$ 11,578,169	\$ 50,078,669

EVALUATION AND FOLLOW-UP

Staff will continue to work on several items to support the launch in September, such as finalizing the energy supply contracts, launching the website, and issuing an RFP to support the power supply procurement for Phase II in March of 2019. Staff plans to return to City Council in the fall of 2018 to award the energy contracts for the Phase II launch scheduled for March 2019.

HONORABLE MAYOR AND CITY COUNCIL

June 6, 2018

Subject: Phase I Rates and Energy Supply Contracts for San Jose Clean Energy

Page 4

PUBLIC OUTREACH

This memorandum will be posted on the City's website for the June 12, 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 2017 Green Vision (Goals 2 and 3) and the Envision San José 2040 General Plan (Goal MS-2 and Appendix 8: GHG Reduction Strategy).

COST SUMMARY/IMPLICATIONS

City Council approved the establishment of the Community Energy Department and the SJCE Fund at the August 29, 2017 City Council meeting. Funding for the energy supply contract of \$3.0 million for the first four months of Phase I (September – December 2018) is recommended as part of this memorandum.

When the Clean Energy Fund budget was first approved in August 2017, a number of positions in the Attorney's Office and Community Energy Department were planned to be filled in 2017-2018. While recruitments got underway and several positions are filled, a number remained vacant throughout the fiscal year, thereby generating personal services savings in both departments. In addition, non-personal/equipment savings for contractual services result from a postponement of the launch date (from April 2018 to September 2018) for Phase I. As a result, a significant portion of the \$3.0 million for the Phase I energy contracts will come from expenditure savings (\$2,276,000). The remaining portion (\$724,000) will come from additional commercial paper proceeds previously authorized by the City Council on August 29, 2017.

June 6, 2018

Subject: Phase I Rates and Energy Supply Contracts for San Jose Clean Energy

Page 5

BUDGET REFERENCE

The table below identifies the appropriation adjustments recommended to fund the first four months of Phase I energy purchase contracts.

Fund #	Appn. #	Appn. Name	Current Year Appn	Recommended Budget Action	2017-2018 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
501	TBD	Cost of Energy	N/A	\$3,000,000	N/A	N/A
501	0441	City Attorney's Office Personal Service	\$444,000	(\$344,000)	N/A	8/29/2017, Ord. No. 29988
501	0781	Community Energy Department Personal Services	\$1,169,000	(\$649,000)	N/A	8/29/2017, Ord. No. 29988
501	0782	Community Energy Department Non-Personal	\$2,558,000	(\$1,232,000)	N/A	8/29/2017, Ord. No. 29988
501	201Q	Pacific Gas & Electric Security Deposit	\$315,000	(\$51,000)	N/A	8/29/2017 Ord No. 29988
501	R190	Financing Proceeds	\$5,376,000	\$724,000	N/A	8/29/2017 Ord. No. 29988

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


MARGARET McCAHAN
Budget Director

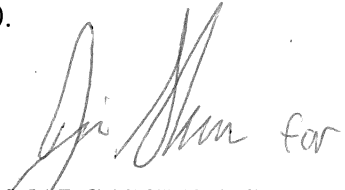
HONORABLE MAYOR AND CITY COUNCIL

June 6, 2018

Subject: Phase I Rates and Energy Supply Contracts for San Jose Clean Energy

Page 6

I hereby certify that there will be available for appropriation in the San Jose Clean Energy Operating Fund in the Fiscal Year 2017-2018 monies in excess of those heretofore appropriated therefrom, said excess at least \$724,000.



MARGARET McCAHAN
Budget Director

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

Attachment 1 – WSPP Agreement and Confirmations

Attachment 2 – Customer Rates – SJCE Baseline Product