



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Lori Mitchell

**SUBJECT:** SEE BELOW

**DATE:** February 5, 2020

Approved

Date

2/10/2020

## REPLACEMENT

**SUBJECT: FIRST AMENDMENT TO THE PROFESSIONAL SERVICES AGREEMENT FOR DATA MANAGEMENT AND CUSTOMER CALL CENTER SERVICES WITH CALPINE ENERGY SOLUTIONS.**

## REASON FOR REPLACEMENT

The purpose of this replacement memorandum is to correct the date of the agreement to February 27, 2025, to clarify the month period in the *Table 1. Expected Costs related to the Calpine agreement*, and to correct the Amount for the Agreement in the Budget Reference table.

## RECOMMENDATION

Approve a First Amendment to the Professional Services Agreement for Data Management and Customer Call Center Services with Calpine Energy Solutions, LLC, reducing rates and modifying service terms and increasing the maximum compensation from \$15,683,800 to \$22,000,000 through February 27, 2025, subject to the appropriation of funds.

## OUTCOME

Services under the Professional Services Agreement for Data Management and Customer Call Center Services include support of customer billing and data management functions, data exchange with PG&E, customer call center support, payment and settlement processing. Approving the First Amendment will allow the continuity of essential services to the Community Energy Department and customers and is estimated to save approximately \$800,000 per year.

## **BACKGROUND**

On August 8, 2017, staff released a Request for Proposals (RFP) for San José Clean Energy (SJCE) Data Management and Customer Call Center Services to begin the procurement process. The RFP included the following scope of work: data management and security, reporting functions, management of a customer information system and call center, billing administration, and coordination with Pacific Gas and Electric. Six firms responded to the RFP for SJCE Data Management and Customer Call Center Services and Calpine Energy Solutions, LLC (“Calpine”) scored significantly higher than any other firm.

On February 27, 2018, City Council approved the Professional Services Agreement for Data Management and Customer Call Center Services (“Agreement”) with Calpine. The Agreement was for two (2) years, with a City option to extend for two (2) additional one-year terms.

## **ANALYSIS**

Under the existing Agreement, SJCE currently pays Calpine \$1.10 per active meter per month. The Agreement also specifies that if the contract is rolled forward, this price shall escalate annually by the local Consumer Price Index for the San Francisco Bay Area (approximately 2.5% for last 12 months).

Calpine began serving the CCA market for data management services with Marin Clean Energy in 2011, and now serves most CCAs, including Silicon Valley Clean Energy, Peninsula Clean Energy, Sonoma Clean Power, Clean Power SF, Clean Power Alliance, Redwood Coast, and Lancaster Community Energy. Two other data management service providers have entered the CCA market more recently. East Bay Community Energy and Valley Clean Energy currently receive services from the Sacramento Municipal Utility District (SMUD), and Monterey Bay Community Power from GridX.

SJCE has had a positive experience with Calpine to date, receiving accurate and timely billing and customer call center services. Since the inception of Calpine’s billing service for SJCE, over 3 million SJCE invoices have been billed by Calpine through PG&E, and only 247 invoices have required re-billing due to a calculation error. This translates to an accuracy rate of greater than 99.99%. In addition, Calpine has consistently met its call center service level agreement (SLA) commitments for call answer times and abandonment rates. CCAs working with the other data management service providers have reported more operational and/or billing issues.

To date, no operating CCA has switched data management services providers. Switching from one provider to another would require a complex information technology (IT) conversion of software systems and historical SJCE customer data, training of personnel on new systems/processes, and hiring of new call center personnel. Such a conversion would require extensive planning and incremental costs, and involve significant risks to the timeliness and accuracy of customer transactions during and immediately after the transition.

In the interest of lowering future costs and limiting potential risks, SJCE and other CCAs are exploring establishment of a jointly-owned data management service. Ultimately pursuing such a course would require significant long-term organizational investment and timeframe commitments.

Peninsula Clean Energy (PCE) and Silicon Valley Clean Energy (SVCE) are under a contract with Calpine similar to SJCE's, and both had a contract end date in mid-2020. Rather than rolling the current contracts forward, SVCE, SJCE, and PCE met with Calpine to explore Calpine's willingness to offer improved contract economics if SVCE, SJCE and PCE were willing to commit to contract extensions longer than one year. However, the SJCE contract terms are not contingent upon SVCE and PCE executing their contract extensions with Calpine. Calpine has agreed to the terms in Table 1 located in the Cost Summary/Implications section for a five-year (5-year) contract update, with the option to terminate the contract after three or four years for an early termination fee of \$280,000 and \$140,000, respectively.

Included in the updated contract are changes to call center staffing requirements that will allow some resources to be shared between PCE, SVCE, and SJCE. This allows for better resource utilization and reduces costs for Calpine, without any measurable impact to SJCE service. In addition, some Calpine-provided services such as support of electric rate changes are now 'bounded', meaning the costs of up to two annual rate changes are covered under the contract, and any additional major rate changes would involve a nominal, one-time fee as specified in the contract. Such a structure allows Calpine to reduce its month-to-month charges to SJCE. The updated contract continues to permit SJCE to bring call center functions in-house in exchange for a reduced monthly fee per customer meter.

In the updated contract, Calpine formalizes its commitment to SJCE to provide improved data management tools, and operational support for management of hourly and 15-minute interval customer usage data. These new capabilities will support significant advancements in California Independent System Operator (CAISO) settlement processes and help enable new SJCE customer demand management and rate structure offerings.

### **EVALUATION AND FOLLOW-UP**

No further follow-up with the City Council is anticipated at this time.

### **POLICY ALTERNATIVES**

**Alternative:** *Extend the current Calpine agreement for 12 months through February 26, 2021, at a cost of approximately \$1.13 per month per meter and issue an RFP for providers.*

**Pros:** This would reduce term of commitment to vendor and preserve flexibility to choose another vendor in 2021.

**Cons:** A one-year extension would result in approximately \$800,000 of additional costs in the next 12 months. SJCE may not realize the same cost savings or service quality from another vendor.

**Reason for not recommending:** The improved pricing from Calpine, combined with Calpine's continued excellent performance and the risk of disruption during a transition to a new vendor, outweighed the anticipated benefits of conducting an RFP.

### **CLIMATE SMART SAN JOSE**

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

### **PUBLIC OUTREACH**

This memorandum will be posted on the City's website for the February 11, 2020 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**

This item does not have any input from a board or commission.

### **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: GHD Reduction Strategy)

**COST SUMMARY/IMPLICATIONS**

The new contract cost represents a 15-18% reduction from the current agreement 2020 cost of \$1.13 per meter/month. Further, any future adjustments for inflation or cost increases over the next three to five years are included in the new (and reduced) blended per meter/month charge. The pricing structure offers SJCE the flexibility to exit the agreement after three years, should SJCE elect at that point to move to another data services provider.

Approving the Amendment will reduce SJCE’s data management and customer call center services expense by \$269,000, from a total Non-Personal/Equipment budget of \$9.0 million in 2019-2020. Approving the amendment will reduce costs by approximately \$800,000 annually through the term of the amended Agreement.

Table 1. Expected Costs related to the Calpine agreement

	FY 19-20 (4 months) Current Contract	FY 19-20 (4 months) Amendment	FY 19-20 New Projected Annual Total	Annually FY 20-21 through FY 23-24	FY 24-25 (8 months June 24 - Feb 25)
Cost/month/meter	\$1.13	\$0.85		\$0.85	\$0.85
Monthly fee	N/A	\$25,000		\$25,000	\$25,000
Expected Total Cost (Monthly fee + meter)	\$1,491,600	\$1,222,000	\$4,205,200	\$3,666,000	\$2,444,000
Estimated cost savings	N/A	\$269,600	\$269,600	\$808,800	\$539,200

Assumes 330,000 active meters per month

**BUDGET REFERENCE**

The table below identifies the fund and appropriations to fund the costs associated with the Agreement amendment recommended in this memorandum. The estimated 2019-2020 costs for the Agreement amendment will be provided from existing funds already budgeted within the Community Energy Department’s Non-Personal/Equipment appropriation. The estimated costs in 2020-2021 through 2024-2025 are subject to the appropriation of funds in each of those fiscal years.

Fund #	Appn #	Appn. Name	Total Appn	Amount For Agreement	2019-2020 Adopted Operating Budget Page	Last Budget Action (Date, Ord. No.)
501	0782	Non-Personal/ Equipment	\$8,987,801	\$1,222,000	X-79	11/19/2019 Ord. No. 30342

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

**Attachment**

First Amendment to the Professional Services Agreement for Data Management and Customer Call Center Services with Calpine Energy Solutions, LLC