

TO: CLEAN ENERGY COMMUNITY
ADVISORY COMMISSION

FROM: Joe Flores
Deputy Director

SUBJECT: Responses to Commission
Recommendations for San José
Clean Energy

DATE: January 20, 2022

PURPOSE

The purpose of this memorandum is to reply to the Clean Energy Community Advisory Commission's (CECAC) request to review the Ad Hoc Committee Memo and Commissioner comments for review and provide staff comment on the memo's executive summary only.

RECOMMENDATIONS AND RESPONSES

The recommendations from the executive summary are listed below followed by the staff response.

CECAC Recommendation 1. Clarify and/or revise SJCE mission. Much has changed in the few years since establishing SJCE. The mission, priorities, and goals of SJCE should be reviewed and revised as needed to meet the City's needs and expectations. Progress toward these goals should be easily accessible for residents to review.

Staff Response

Since its launch, SJCE has been guided by the City's climate goals while offering competitive rates and community benefits.

Last fall, SJCE staff worked with Deloitte to develop a [Strategic Framework Plan](#) for 2023 to 2025 that identifies actions to accelerate clean energy goals as well as ensure SJCE's financial stability and improve organizational effectiveness.

The Strategic Framework Plan addresses three primary Tasks:

- **Task 1: SJCE Business Plan Review**, including a high-level discussion as to the conditions that may have changed, actual results and performance as compared to the original projections of the Business Plan developed in February 2017.

Responses to Commission Recommendations for SJCE

January 20, 2022

Page 2

- **Task 2: Industry Trends and Market Analysis** that assesses certain energy industry trends and the Community Energy Department's (CED) market analysis.
- **Task 3: Strategic Planning** that lays out an initial Strategic Plan Framework to help meet the CED objectives.

In the near term, Deloitte recommended that SJCE should align with the City's goal of being carbon neutral by 2030 as other potential strategies are evaluated. Through [Climate Smart San José](#), SJCE has a goal of offering 100% renewable energy by 2045. SJCE's current trajectory of renewable energy purchases and investments puts it ahead of schedule on both goals.

The City's climate goals and SJCE's value proposition and benefits are listed on the SJCE website and regularly incorporated into public communications including emails, letters, newsletters, collateral, social media posts, press releases, and speeches. The public can also view progress towards SJCE's Climate Smart goals on the [Climate Smart Data Dashboard](#).

CECAC Recommendation 2. Establish carbon-free goals. In light of the recent 2021 IPCC report and escalating climate crises, we encourage San José and SJCE to pursue reduction of greenhouse gas (GHG) emissions as aggressively as practical and affordable. SJCE has set higher goals for renewable energy than is mandated by the State. Consistent with San José's resolution Nov. 8, 2021 to be carbon neutral by 2030, SJCE should now be provided with achievable goals and methods specifically for greenhouse gas reduction.

Staff Response

In November 2021, the San José City Council voted to pledge that the City of San José will go carbon neutral by the end of the decade, the latest in a series of major initiatives by city leaders to address the worsening climate crisis. San José became the largest city in the United States to have set the ambitious goal of carbon neutrality by 2030.

The City continues to be a national leader for climate action:

- SJCE's Green Source product is 60% renewable and 95 % carbon-free. SJCE continues to offer one of the highest renewable content of any Community Choice Aggregator (CCA) or utility.
- SJCE has invested nearly \$1 billion in new renewable energy and battery storage resources. Two projects became operational this year:
 - A long-term agreement with Pattern Energy will provide 225 megawatts (MW) of wind energy, developed in New Mexico, that produces enough renewable electricity to power nearly 186,000 San José homes.
 - SJCE partnered with developer Terra-Gen on an innovative 12-year power purchase agreement to provide 62 MW of renewable energy generated from

solar. New battery storage allows the unique format of this agreement to guarantee the delivery of 62 MW of renewable energy between 6:00 a.m. and 10:00 p.m. every day.

CECAC Recommendation 3. Re-evaluate energy programs. A cost/benefit analysis that measures programs based upon carbon-dioxide (CO₂) removed per program dollar is suggested. Energy efficiency and decarbonization programs can require significant funds and human resources. These programs are relatively new and have so far affected a modest number of residents. If it would significantly help SJCE efficiency and effectiveness in the near term, consider minimizing or temporarily suspending SJCE's goals for these programs pending improvement of its financial situation.

Staff Response

At the Tuesday, March 9, 2021, San José City Council Meeting, the Council adopted a resolution to accept a report on [San José Clean Energy Programs Roadmap](#). The Programs Roadmap provides a program selection framework including a list of guiding principles and program scoring. During the program scoring step, SJCE quantitatively evaluates a program based on a list of metrics including GHG cost effectiveness and program cost effectiveness. GHG cost effectiveness is determined by the lifetime amount spent per metric ton (MT) of carbon dioxide equivalent (CO₂e) reduced. Program cost effectiveness is determined by the program net present value (NPV). A Programs Roadmap update is listed on the CECAC workplan and the cost/benefit analysis and scoring based on CO₂ can be further discussed.

SJCE's near-term strategy for programs is to leverage external funding. Consequently, two fully funded programs will launch in 2022.

- The Solar Access program will provide a 20% discount to participating customers in Disadvantaged Communities receiving CARE or FERA state assistance and is funded by the California Public Utilities Commission (CPUC).
- The Residential and Commercial Efficiency programs will provide efficiency products and services to low-income residents and small businesses and is fully funded, including staff time, by CPUC and federal stimulus funds.

Federal funding will likely become available from recently passed legislation and SJCÉ is working collaboratively with other City departments to capture these funding opportunities to provide further customer program offerings. In addition, SJCÉ will continue to provide programmatic opportunities to customers by providing education, awareness, and referrals to existing programs offered by various local, state, and federal agencies.

It is the intent of staff that any new program offerings by SJCE will comply with the Programs Roadmap and be presented to the CECAC for discussion and potential recommendation to the City Council.

CECAC Recommendation 4. Consider expanding beyond current plans for electrical storage. It is understood that given the variability of solar and wind, and our current heavy reliance on natural gas, future emissions improvement will likely require dramatic increases in grid storage. Given the importance of this grid transformation, we suggest Li-Ion batteries, other pure storage technologies, and also hybrid systems. Assessments should include benefits, risks, costs, scalability, practicality, and timing. Investment is strongly encouraged here to stimulate the storage market, achieve pragmatic progress, and advance toward our clean energy goals.

Staff Response

The assessment of electrical storage in California is presented in the Strategic Plan Framework in Task 2, Section 2.3 Power Market Trends, starting on page 35. In Section 2.6 New Renewables and Storage Technologies, an assessment of new renewable and storage technologies both in front and behind the meter that SJCE should prepare for is listed. Lithium-Ion batteries is assessed and describes that SJCE may expect short and medium duration lithium-ion prices to fall over the next few years and the growth in this market is expected to surge over the next five years.

CCAs and SJCE are actively moving to incorporate these technologies into their portfolios and long-term resource planning.

- In Oct 2020, California Community Power (CC Power), a joint powers authority with ten CCAs, including SJCE, (more on CC Power is presented to address CECAC Recommendation 5) issued a request for offers (RFO) for long duration storage technologies. SJCE is planning to bring to City Council in the first half of 2022, an opportunity to invest in long duration storage.
- As described above in response to Recommendation 2, SJCE partnered with developer Terra-Gen on an innovative power purchase agreement that includes new battery storage that allows the unique format of this agreement to guarantee the delivery of 62 MW of renewable energy between 6:00 a.m. and 10:00 p.m. every day.

Looking into the future, the Strategic Plan Framework report concurs with the CECAC recommendation that the application of lithium-ion and other storage technologies can facilitate renewable energy integration. The CECAC will have opportunities to further discuss the role of storage during the upcoming discussions of the Integrated Resource Plan (IRP) listed in the CECAC workplan. There are two IRP presentations remaining in the CECAC workplan before the IRP may be due to the City Council and the CPUC in July 2022.

CECAC Recommendation 5. Investigate the feasibility of a joint powers agreement, effectively combining with other Community Choice Aggregators (CCAs) to achieve scale and

Responses to Commission Recommendations for SJCE

January 20, 2022

Page 5

efficiency. This may offer an attractive alternative to the need, risk, and cost of maintaining a separate City department when compared to near or long term tangible benefits to the citizens and rate payers.

Staff Response

In Task 1, Section 1.1 Governance Operational Structure of the [Strategic Framework Plan](#), a review of the decision by the City to elect to operate as a single jurisdiction model versus a Joint Powers Authority (JPA) is provided.

Staff agrees that by combining with other CCAs, power purchases can be made at scale and efficiency that provide benefit to customers. At the Tuesday, January 5, 2021 San José City Council Meeting, authorization was given for SJCE to join [California Community Power](#) (CC Power), a new Joint Powers Authority. CC Power allows its member CCAs to combine their buying power to procure new, cost-effective clean energy and reliability resources to continue advancing local and state climate goals. CC Power members represent over 3 million customers across more than 145 municipalities spanning from Humboldt County to Santa Barbara County.

The informational [CC Power Fact Sheet](#) and [CC Power video](#) helps to illustrate how a JPA works and the benefits of joint procurement. Membership in CC Power provides the opportunity to realize the benefits and opportunities described by the CECAC recommendation.

SJCE is also evaluating the potential benefits of joining California Community Choice Financing Authority (CCCFA), which recently completed its initial two transactions for its members MCE Clean Energy, Silicon Valley Clean Energy, and East Bay Community Energy and thereby reducing the members' power procurement costs through prepayment structures.

CECAC Recommendation 6. Market/financial risks associated with the purchase of solar energy are an area of concern and should be investigated further. CCAs that go long on solar photovoltaic (PV) contracts to achieve carbon neutrality take on both buy-side and sell-side market risks. Excess solar that cannot be stored must be sold in the market, often at a loss, because most CCAs and municipal utilities are using the same carbon-neutral strategy.

Staff Response

The sourcing of energy is complex and integrates aspects that manages risk and ensures a load serving entity can provide reliable service. The Integrated Resource Plan (IRP) process integrates components of sourcing energy, such as solar, including:

- GHG emissions
- Cost and Rate Analysis
- System Reliability
- Reliability related to procurement activities
- Curtailment
- Transmission development
- Identification of generation resources such as solar

Responses to Commission Recommendations for SJCE

January 20, 2022

Page 6

- Potential Barriers
- Equity
- Capacity, Resource adequacy, and system reliability

Careful planning and analysis are performed to manage risk utilizing industry standard best practices and oversight including:

- 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) composed of representatives from the City Manager's Office, Finance, Budget Office, as well as Community Energy and is responsible for overseeing compliance with the policy including oversight on power purchases.
- A risk management audit was completed as part of the Strategic Framework Plan.

The CECAC plays an important role in providing community input to the San José City Council regarding SJCE matters. The Committee is the community's liaison to SJCE. The CECAC workplan for FY2021-22 includes a presentation on the Strategic Framework Plan and three IRP presentations to review and provide input to the San José City Council such as any concerns with risk management and sourcing energy from solar.

CONCLUSION

Staff appreciates the dedication and work put into developing the recommendations provided by the CECAC ad-hoc committee. Each of the recommendations touches upon critical issues that are squarely in the planning of staff to ensure that SJCE fulfills its responsibility to provide clean energy to the San José community. The work of the ad-hoc committee well positions the Commissioners of CECAC to provide important input for City Council as staff brings forward work done to the Strategic Framework Plan, the Integrated Resource Plan, and the Programs Roadmap.

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