



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Lori Mitchell

**SUBJECT:** SEE BELOW

**DATE:** October 3, 2022

Approved

Date

10/3/2022

**SUBJECT: CITY INITIATIVES ROADMAP - CLEAN ENERGY RESILIENCE:  
POWER PROCUREMENT AGREEMENTS.**

## **RECOMMENDATION**

Adopt a resolution increasing the authority granted to the Director of Community Energy or designee to negotiate and execute agreements five years and under for the procurement of power products by \$405,600,000 from \$1,536,900,000 to an amount not to exceed \$1,942,500,000 in aggregate in Calendar Years 2022 through 2027, to be paid solely from the San José Clean Energy Operating Fund, and subject to the Energy Risk Management Policy and Regulations, the appropriation of funds, and the following annual limits: \$380,200,000 in 2022; \$352,900,000 in 2023, \$337,300,000 in 2024, \$321,600,000 in 2025, \$280,700,000 in 2026, and \$269,800,000 in 2027.

## **OUTCOME**

Approving the request to increase the Director of Community Energy's (Director) procurement authority for 2022 through 2027 will allow the Community Energy Department (Department), as administrator of San José Clean Energy, to procure power supplies to meet recommended risk management coverage thresholds and regulatory requirements. The recommendation is consistent with the Energy Risk Management Policy and Energy Risk Management Regulations.

## **BACKGROUND**

On March 19, 2019, City Council authorized the Director or her designee to negotiate and execute power supply contracts for Energy, Renewable Energy, Renewable Energy Credits, Resource Adequacy (RA), and Low Carbon power and attributes using the Edison Electric Institute Agreement.

On June 4, 2019, City Council authorized the Director or her designee to negotiate and execute medium- to long-term contracts using the Edison Electric Institute Agreement for a term of up to twenty years to procure RA.

On March 8, 2022, City Council approved the increase of the authority granted to the Director or her designee to negotiate and execute agreements five years and under, subject to the Energy Risk Management Policy and the appropriation of funds, for the procurement of power supply products by \$291,000,000 from \$928,600,000, to an amount not to exceed \$1,219,600,000 in aggregate in Calendar Years 2022 through 2025, subject to the following annual not to exceed amounts: 2022: \$360,200,000; 2023: \$320,100,000; 2024: \$291,500,000; and 2025: \$247,800,000. An increase in procurement authority was not requested for Calendar Years 2026 and 2027 at the March 8, 2022 City Council meeting.

On June 15, 2021, City Council approved the increase in authority to \$159,300,000 for 2026 and to \$158,000,000 for 2027. Consequently, prior to the current requested action, the Director had authority to procure up to \$1,536,900,000 from 2022 through 2027.

The City Manager's Risk Oversight Committee during two separate meetings considered recommendations to the City Council to increase the authority granted to the Director or designee to enter contracts for procurement of power supply products for Calendar Years 2022 to 2027.

On September 6 and September 22, 2022, the City Manager's Risk Oversight Committee approved making a recommendation to the City Council to increase the authority granted to the Director or designee to negotiate and execute agreements, subject to the Energy Risk Management Policy and the appropriation of funds, for the procurement of power supply products by \$405,600,000 from \$1,536,900,000 to an amount not to exceed \$1,942,500,000 in aggregate in Calendar Years 2022 through 2027.

## **ANALYSIS**

On March 8, 2022, City Council increased the authority of the Director to negotiate and execute agreements for the procurement of power supply products in Calendar Years 2022 through 2025. The Department recommends an additional increase of the Director's authority to negotiate and execute agreements for the period 2022 through 2027 for the procurement of power products including energy, RA, and renewables. Attachment A details the request, the amounts previously authorized, and the amounts currently under contract.

The Department recommends this additional authority to:

- Continue to procure power to meet Energy Risk Management Regulations coverage ratio requirements for 2022 through 2027. The Department recommends meeting the upper range of coverage ratios in the Energy Risk Management Regulations for 2022 through 2027 due to high market prices.
- Continue to procure RA products.
- Continue to procure Renewable Portfolio Standard products.

Staff recommends increasing the Director’s authority to procure energy products to an amount not to exceed \$1,942,500,000 in aggregate for Calendar Years 2022 through 2027. This is an increase of \$405,600,000 from the previously authorized \$1,536,900,000 for this period.

Energy prices in 2022 are significantly higher than they have been historically and have risen an average of 27 percent from March 2022, the time of the Department’s last procurement authority request. This was caused by many factors including: 1. low natural gas storage in the U.S., 2. the war between Russia and Ukraine limiting European gas supply and increasing demand on North American gas exports, 3. low hydroelectric availability in California and severe drought conditions across the western United States, 4. the September heat wave across the Western US. In September 2022, California experienced a record-breaking heat wave which resulted in high electric consumption and extremely high power prices.

Market disruptions and limited power supplies in high-demand hours have caused electricity prices to continue to increase. The Department plans to reduce exposure to these market risks by procuring energy in the forward markets to approach the upper limit of the coverage range in its Energy Risk Management Regulations. Coverage ratios are the amount of power that the Department buys in the forward market to meet its load. When prices are high, it is recommended to purchase more energy in the forward market to ensure customers are not exposed to short-term market disruptions and even higher prices in the Day-Ahead and Real-Time markets.

RA is a power product created under existing federal and state regulations. A Load-Serving Entity such as a Community Choice Aggregation program like San José Clean Energy pays generators or demand response providers to make their power available during high demand hours to ensure there is adequate power supply. The RA product is the capacity to provide energy during peak load conditions. The California Public Utilities Commission and the California Independent System Operator require all utilities, including Community Choice Aggregations, to procure RA to meet their obligations.

California is currently experiencing a shortage of RA in the market due to new projects being delayed or failing to come online, resource retirements, and regulatory uncertainty. RA prices have risen to historic highs. The Department recommends an increase in procurement authority to align with current market conditions and ensure the City can comply with regulatory requirements.

Table 1. Recommended Power Contract Authority Increase

<b>Calendar Year</b>	<b>Existing Authority</b>	<b>Requested Additional Authority</b>	<b>Total Authority with Request</b>	<b>Expected Cost</b>	<b>Target Coverage Ratio</b>
<b>2022</b>	\$360,200,000	\$20,000,000	\$380,200,000	\$330,000,000	125%
<b>2023</b>	\$320,100,000	\$32,800,000	\$352,900,000	\$342,000,000	115%
<b>2024</b>	\$291,500,000	\$45,800,000	\$337,300,000	\$348,120,000	95%
<b>2025</b>	\$247,800,000	\$73,800,000	\$321,600,000	\$350,080,000	90%

<b>2026</b>	\$159,300,000	\$121,400,000	\$280,700,000	\$350,080,000	90%
<b>2027</b>	\$158,000,000	\$111,800,000	\$269,800,000	\$350,080,000	85%
<b>Total</b>	<b>\$1,536,900,000</b>	<b>\$405,600,000</b>	<b>\$1,942,500,000</b>	<b>\$2,070,360,000</b>	

### **CONCLUSION**

Staff recommends City Council adopt a resolution increasing the authority of the Director or designee to procure power supply products for 2022 through 2027, subject to the Energy Risk Management Policy and the appropriation of funds.

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

No further follow-up required at this time.

### **CLIMATE SMART SAN JOSÉ**

The recommendation in this memorandum 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 October 18, 2022 City Council meeting.

### **COORDINATION**

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

### **COMMISSION RECOMMENDATION/INPUT**

These recommendations were not considered by the Clean Energy Community Advisory Commission.

**FISCAL/POLICY ALIGNMENT**

The recommended actions support Climate Smart San José (action 1.1 Transition to a Renewable Energy Future) and the Envision San José 2040 General Plan (Goal MS-2 and Appendix 8: GHG Reduction Strategy).

**COST SUMMARY/IMPLICATIONS**

The recommended actions may impact San José Clean Energy Fund's revenue and expenditure estimates for 2022-2023. The Department will continue to refine revenue and expenditure projections, and if needed, budget adjustment actions will be brought forward for City Council consideration as part of a future budget process.

**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 Lori Mitchell, Director of Community Energy Department, at (408) 535-4880.

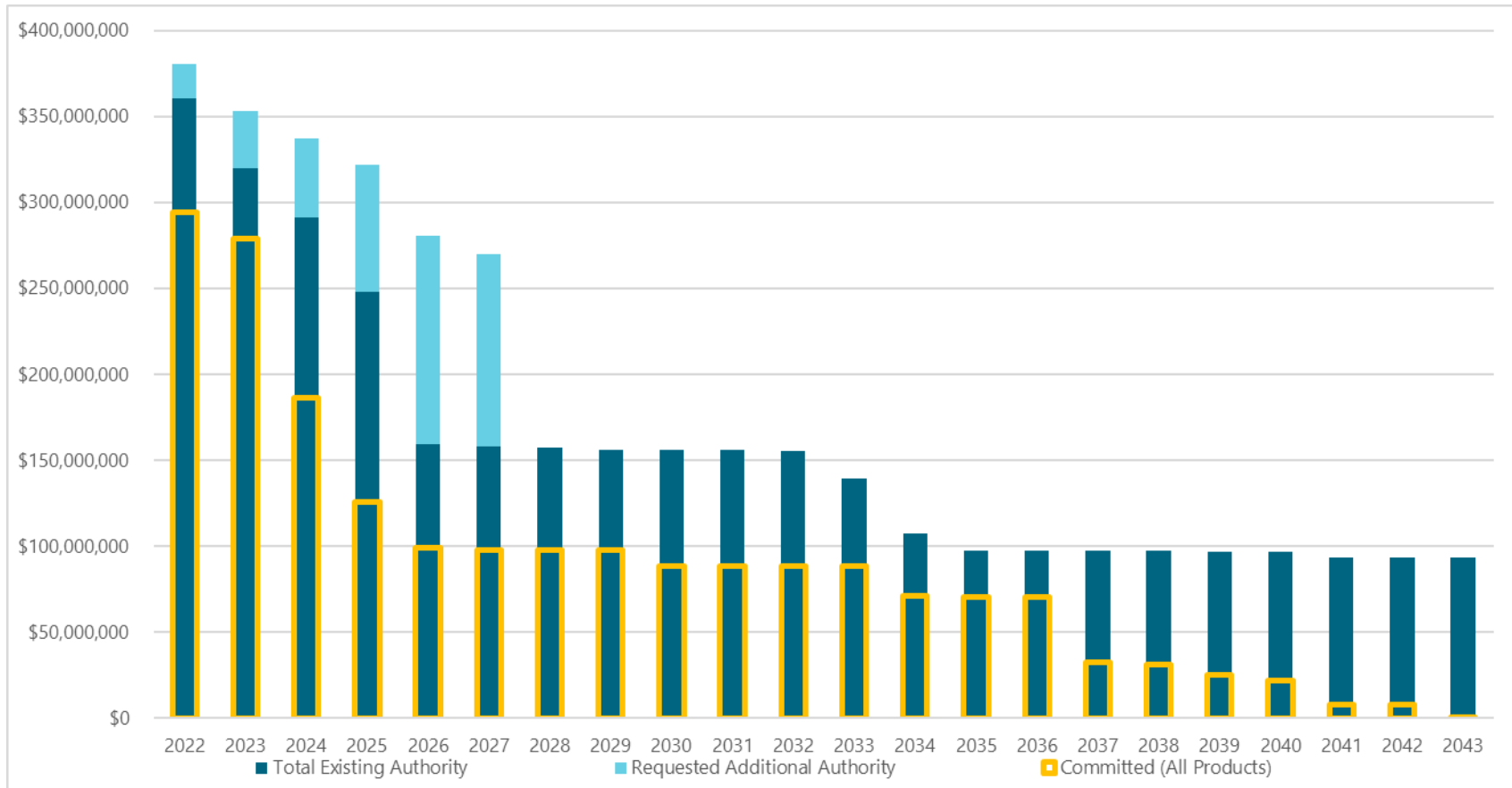
Attachment:

Attachment A – Procurement Authority Request for CY 2022-2027 and FY 2022/2023-2026/2027

Attachment AProcurement Authority Request for CY 2022 – 2027

<b>Calendar Year</b>	<b>Total Existing Authority</b>	<b>Requested Additional Authority</b>	<b>Total Authority with Request</b>	<b>Expected Cost</b>	<b>Target Coverage Ratio</b>
2022	\$360,200,000	\$20,000,000	\$380,200,000	\$330,000,000	125%
2023	\$320,100,000	\$32,800,000	\$352,900,000	\$342,000,000	115%
2024	\$291,500,000	\$45,800,000	\$337,300,000	\$348,120,000	95%
2025	\$247,800,000	\$73,800,000	\$321,600,000	\$350,080,000	90%
2026	\$159,300,000	\$121,400,000	\$280,700,000	\$350,080,000	90%
2027	\$158,000,000	\$111,800,000	\$269,800,000	\$350,080,000	85%
2028	\$157,300,000		\$157,300,000		
2029	\$156,300,000		\$156,300,000		
2030	\$156,300,000		\$156,300,000		
2031	\$155,800,000		\$155,800,000		
2032	\$155,300,000		\$155,300,000		
2033	\$139,600,000		\$139,600,000		
2034	\$107,500,000		\$107,500,000		
2035	\$97,500,000		\$97,500,000		
2036	\$97,500,000		\$97,500,000		
2037	\$97,500,000		\$97,500,000		
2038	\$97,500,000		\$97,500,000		
2039	\$96,500,000		\$96,500,000		
2040	\$96,500,000		\$96,500,000		
2041	\$93,200,000		\$93,200,000		
2042	\$93,200,000		\$93,200,000		
2043	\$93,200,000		\$93,200,000		

Calendar Year Existing and Committed Authority and Additional Requests



Procurement Authority Request for FY 2022/2023 – 2026/2027

<b>Fiscal Year</b>	<b>Total Existing Authority</b>	<b>Requested Additional Authority</b>	<b>Total Authority with Request</b>	<b>Expected Cost</b>
2022-2023	\$340,952,000	\$26,144,000	\$367,096,000	\$313,300,000
2023-2024	\$306,372,000	\$39,040,000	\$345,412,000	\$327,700,000
2024-2025	\$270,524,000	\$59,240,000	\$329,764,000	\$351,700,000
2025-2026	\$205,320,000	\$96,648,000	\$301,968,000	\$348,200,000
2026-2027	\$158,676,000	\$116,792,000	\$275,468,000	\$348,200,000
2027-2028	\$157,664,000		\$215,800,000	
2028-2029	\$156,820,000		\$156,820,000	
2029-2030	\$156,300,000		\$156,300,000	
2030-2031	\$156,060,000		\$156,060,000	
2031-2032	\$155,560,000		\$155,560,000	
2032-2033	\$147,764,000		\$147,764,000	
2033-2034	\$124,192,000		\$124,192,000	
2034-2035	\$102,700,000		\$102,700,000	
2035-2036	\$97,500,000		\$97,500,000	
2036-2037	\$97,500,000		\$97,500,000	
2037-2038	\$97,500,000		\$97,500,000	
2038-2039	\$97,020,000		\$97,020,000	
2039-2040	\$96,500,000		\$96,500,000	
2040-2041	\$94,916,000		\$94,916,000	
2041-2042	\$93,200,000		\$93,200,000	
2042-2043	\$93,200,000		\$93,200,000	



Fiscal Year Existing and Committed Authority and Additional Requests

