



Agenda Report

20-224

Agenda Date: 3/17/2020

REPORT TO COUNCIL

SUBJECT

Action on a Resolution Delegating Authority to enter into Confirmation Agreements for Electric Industry Related Commodities [Council Pillar: Deliver and Enhance High Quality Efficient Services and Infrastructure]

BACKGROUND

The City of Santa Clara Electric Department, Silicon Valley Power (SVP) currently has a diverse generation supply portfolio. In addition to producing energy, SVP has determined that in order to meet its obligation to serve customers effectively and reliably, wholesale electric commodities such as Energy, Resource Adequacy Capacity, Renewable Energy Credits, Carbon Allowances, Carbon Offsets, Ancillary Services, Low Carbon Fuel Standard Credits, or other future commodities created, produced, or needed by the City's Electric Department will need to be purchased, sold, or exchanged.

The purchase, sale, or exchange of these wholesale electric commodities allow the Electric Department to align its Load Serving Obligation and other legal compliance requirements for these commodities to those provided from its supply portfolio.

A trigger event this past year was that the California Public Utility Commission (CPUC) defined the rules concerning Resource Adequacy (RA) procurement for jurisdictional Load Serving Entities in California and issued two decisions which have changed the procurement process, (D.19-02-022 and D.19-06-026). In particular, D.19-02-022 requires a minimum three-year forward duration to the program requiring Load Serving Entities to show procurement plans detailing which specific resources will be available to meet their demand obligations. These multi-year procurement plans require each jurisdictional Load Serving Entity to show a minimum procurement percentage of 100% in years 1 and 2, and 50% in year 3. While SVP is not subject to the CPUC requirements directly, SVP inhabits the same electric market as CPUC jurisdictional Load Serving Entities and is impacted by changes in procurement processes and rules.

In recent years, SVP had only purchased or sold these energy related commodities one year into the future under the current approved Market Risk Management Regulations trading guidelines. Any transactions in excess of one year has been brought individually for Council approval or multi-year transactions have been authorized and limited by previous Council Resolutions, such as ,for example, purchase of natural gas fuel for SVP's power plants.

However due to the CPUC procurement rule changes described above, SVP now has received several requests during this most recent planning cycle for Resource Adequacy (RA) commodity that extends into year 2 and 3 into the future. The trend to require regulatory showing many years into the future will extend to several energy related commodities. To align SVP's procurement needs and

offering ability to those of other procurement entities, and their newer procedures, SVP will need to be able to offer or bid at up to 5 years into the future. It is essential that SVP be capable of procuring energy and energy-related commodities during months it plans to schedule maintenance outages from several of its larger generation facilities, as well as, sell excess energy and energy-related commodities when these large units are fully available and in excess of SVP's load obligations.

DISCUSSION

SVP is projected to have surplus energy and energy-related commodities and has received several offers and inquiries during periods outside of the time frame currently allowed by the Council approved Market Risk Management Policy and related procedures to be offered by SVP.

For instance, SVP is expected to have excess RA capacity several months of the year and selling the excess would offset other SVP expenses, thus reducing the cost to meet the utility's obligation. Also, there will be months when SVP will need to procure RA capacity to accommodate the planned maintenance outage schedule for the larger power plant that take place in spring and fall of any calendar year. If market counterparties are finalizing trades three or more years beforehand, SVP would be at a disadvantage in procuring the needed RA capacity by waiting until only the year before.

This fall, once it was communicated to an interested counterparty that the agreement would need to be sent to City Council and the process would take several weeks to get approved, the counterparty backed out of the deal because they had an obligation to report to the CPUC, and could not do so without a mutually signed agreement.

Offers to sell or bids to purchase in response to RFPs or RFOs are generally made to the City allowing a very short period of time for City acceptance (normally less than 24 hours); it is therefore necessary for the City to be able to respond quickly to these offers or bids in order to efficiently manage variations in the City's need for electric related commodities at any given time, it will be necessary to dispose of or acquire quantities of various related commodities through the trading of these instruments.

SVP recommends that the City Council delegate the authority to the City Manager, or designee, to execute on behalf of the City any and all electric industry related commodity contracts (not to exceed 5 years in length from the beginning of the delivery date, or 6 years in length from the contract execution date) and is also authorized to execute all documents related to such transactions including, but not limited to, all credit enhancement documents and agreements, netting and set-off agreements, and confirmation agreements necessary to support and complete such transactions.

The existing Market Risk Management Regulations limit any individual transaction by the City Manager or designee to up to one hundred (100) MW and this limit would remain in place for these transactions.

ENVIRONMENTAL REVIEW

This action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(a) as it has no potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment.

FISCAL IMPACT

SVP estimates the revenue received from these sales of energy and energy-related commodities during periods of excess will offset purchases it will need to make at some later date to accommodate planned outages of its thermal resources, and that the net fiscal impact will be negligible, thus, no budget amendment is needed at this time.

COORDINATION

This report has been coordinated with the Finance Department and City Attorney's office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <<mailto:clerk@santaclaraca.gov>> or at the public information desk at any City of Santa Clara public library.

RECOMMENDATION

Adopt a Resolution authorizing the City Manager, or designee, to execute Confirmation Agreements and all related documents for Electric Industry Related Commodities for up to a 5 year term.

Reviewed by: Manuel Pineda, Chief Electric Utility Officer

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Resolution