



# AGENDA REPORT

SAN CLEMENTE CITY COUNCIL MEETING  
Meeting Date: May 16, 2017

Agenda Item 6N

**Approvals:**

City Manager [Signature]

Dept. Head [Signature]

Attorney [Signature]

Finance [Signature]

**Department:** Finance & Administrative Services  
**Prepared By:** Thomas Rendina, Business Services Officer

**Subject:** *CONTRACT APPROVAL FOR THE PURCHASE OF ELECTRICITY FROM CALPINE ENERGY SOLUTIONS.*

**Fiscal Impact:** Yes. \$68,000 reduction in annual city-wide electricity costs.

**Summary:** The City is purchasing electricity through Calpine Energy Solutions on a two-year fixed contract at \$37.63 per Kilo-watt hour, which expires December 31, 2017. A new contract will be required for calendar year 2018 and beyond.

**Background:** The City has purchased energy under the Direct Access program, which allows large energy consumers to purchase electricity directly from Energy Service Providers (ESP's) authorized by the California Public Utilities Commission (CPUC) to market electricity in California, rather than from local utilities. The City has purchased electricity under one and two-year fixed rate contracts since January 1, 2011.

The current contract expires on December 31, 2017 and staff recommends that the City continue to purchase electricity through the Direct Access program. San Diego Gas & Electric rates are significantly higher than the rate the City pays through the Direct Access program.

**Discussion:** The market rates for one and two-year "futures" contracts fluctuate on a daily basis. Rates are seasonal in nature, typically spiking in the summer and again during peak winter demand periods. The City has historically executed contracts in the fall between the summer and winter demand peaks. Soft demand in recent months has resulting in an opportunity to potentially lock in favorable long term rates prior to this summer's peaking. Excess supply and generally lower natural gas and oil prices have influenced electricity prices this past year, putting downward pressure on long term electricity contracts. Calpine Energy Solutions staff projects that current rates will remain flat, or increase slightly until the beginning of the peak summer season. The rate for a one-year contract is currently \$32.45 per Kilo-watt hour, or 13% lower than the existing contract price of \$37.63.

The cost of electricity from San Diego Gas & Electric has gradually increased over time while Direct Access providers have decreased prices, which are now at near record lows, since the City entered the Direct Access marketplace. Electricity prices are likely to increase over the long term and the opportunity exists now to secure very favorable pricing to protect against these projected increases. The City's contract

strategy has been an effective tool in mitigating energy costs for the City, saving approximately \$308,000 when compared to SDG&E rates in calendar year 2016.

Staff is recommending that Council authorize the City Manager to execute an agreement to purchase electricity for a two year contract not to exceed \$34.00 per Kilo-watt hour. The longer term contract is recommended to take advantage of very favorable market rates and to stabilize electricity costs for the next two calendar years (2018 and 2019). Should the City be unable to execute an agreement for electricity at or below \$34.00 per Kilo-watt hour, staff will return to Council for further review and approval. The \$34.00 per Kilo-watt hour price is well below SDG&E's current rate structure, and below the price the City is currently paying for electricity through the end of calendar year 2017.

**Recommended**

**Action:** STAFF RECOMMENDS THAT the City Council approve and authorize the City Manager to execute a two-year contract for electricity with Calpine Energy Solutions for an amount not to exceed \$34 per Kilo-watt hour.

**Attachments:** None

**Notification:** None